

**NONREIMBURSABLE TECHNICAL-COOPERATION FUNDING
INSTITUTION-STRENGTHENING FOR HIGHWAY CONCESSIONS**

(TC-97-05-27-1)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Ministry of Public Works (MOP)

BENEFICIARY: Republic of Ecuador

OBJECTIVES: To support the Government of Ecuador in the development of its system of private concessions for highway works.

The specific purpose of the program is to increase the technical and institutional capacity of the MOP's Unidad de Concesiones [Concessions Unit] (UC), to improve the program of highway concessions that the government is carrying out and to expand the main highway system covered by concessions. This will improve the management, maintenance and operation of the highway infrastructure and expand the private sector's sphere of activity.

DESCRIPTION: The program will promote the private sector's participation in the provision and operation of highway infrastructure by means of the concession system. To this end, it will: (i) review the applicable legal, regulatory and institutional framework; (ii) prepare the pro forma bidding and concession documents; (iii) develop the system regulatory agency from the legal, functional and operating standpoints; (iv) prepare economic and financial evaluation models for concessions; (v) promote the concession program; and (vi) assist in the training of the personnel who will implement the concession program.

The operation is intended to support the government's policy of ensuring the expansion of needed infrastructure without any increase in public spending. This policy has become a matter of urgency owing to the increase in population and economic activity and the growing economic infrastructure needs, which could hamper expansion of the economy in the medium term and impede productivity gains. The government has assigned priority to this policy in general and to the proposed operation in particular,

for which purpose it has set up a Concessions Unit within the MOP.

FINANCING:	Modality:	Grant – Window I
	Beneficiary:	US\$ 770,000
	MIF:	<u>US\$1,150,000</u>
	Total:	US\$1,920,000

BENEFITS AND RISKS: The project will develop a permanent organization for the expansion and administration of the private system of highway concessions; it will also strengthen the government agencies with responsibilities in this area and train their staff and will create and implement the regulatory agency for the transport sector.

The risks concerning political and financial support and institutional coordination analyzed during the preparation of the project will be mitigated by the commitment represented by the establishment of the UC and the active role that the MOP will play in it, plus the collaboration of the National Council for Modernization of the State (CONAM) in this process.

EXCEPTIONS TO BANK POLICY: None

CONTRACTUAL CONDITIONS: The disbursements of the MIF funds will be made in accordance with the Bank's procedures. The first disbursement will be subject to the executing agency submitting evidence that it has met the following conditions: (i) that it has approved and published the highway concessions policy; (ii) that the UC reports directly to the minister, that the officials making up the unit have been designated and that the unit has been provided with sufficient budget funds for its operation; and (iii) that an action plan has been submitted which includes: (a) the schedule of activities; (b) preliminary terms of reference for the main consultants and studies that would be contracted with project funds; and (c) terms of reference for the officials who would be contracted with local counterpart funds, the schedule for their incorporation into the unit's staff and the training plan for them.

SOCIAL AND ENVIRONMENTAL CLASSIFICATION: The technical-assistance profile was submitted to the Bank's Committee on Environment and Social Impact at its meeting of November 21, 1997, and the committee's comments were incorporated into this document.

POVERTY-TARGETING: This operation being based on institutional and policy objectives, it is not considered to be poverty-targeted.

I. COUNTRY ELIGIBILITY

- 1.1 The MIF Donors Committee declared Ecuador eligible for all MIF financing modalities on September 7, 1994.

II. BACKGROUND

A. Introduction

- 2.1 As part of its modernization and decentralization strategy, the Ecuadorian government has launched a concession program in the highway sector. The legal basis for this program is provided by the *Law on Modernization of the State, Privatization and Provision of Services by Private Enterprise* (the Modernization Law). This law defines, among other things, the roles and responsibilities of the government and of the private sector as regards design, implementation and supervision of infrastructure concessions. It permits the government to decentralize public services to the provinces and municipalities and creates the Consejo Nacional de Modernización del Estado [National Council for Modernization of the State] (CONAM), which has responsibility for the modernization strategy. CONAM has oversight powers over the ministries responsible for implementing the privatization and decentralization strategy. The executing agency for the granting of highway concessions in the Ministry of Public Works (MOP).

B. The highway sector

- 2.2 The national highway system is made up of approximately 9,400 km of roadways, 5,623 km of which belong to the primary system while the rest are secondary; all of these highways are under the direct responsibility of the MOP. The total system of highways and roads consists of around 43,250 km, the difference being made up of the network of rural roads for which the provincial and municipal governments and the Ministries of Agriculture and Social Welfare are responsible.
- 2.3 In terms of condition, the highway system is mostly in fair or poor shape. As regards the system administered by the MOP, 58.5% of it is in bad condition, 33.6% is in fair condition and 4.8% is in good shape, while the rest is in various stages of execution.

C. Institutional framework

- 2.4 The agency in charge of the sector is the MOP. Its primary responsibility is the administration of the main and secondary roads system, although because of the rural municipalities' lack of resources it also handles a part of the maintenance of the tertiary network. The MOP also administers the railway system, through the

Empresa de Ferrocarriles del Estado [State Railway Corporation] (ENFE). The Ministry has an Undersecretariat of Public Works and a Directorate General of Public Works, the latter being responsible for highway works.

- 2.5 The MOP has signed agreements for partial decentralization of the main highway system with the Province of Guayas, to which it has assigned responsibility for the maintenance and eventual turning over to the private sector on a concession basis of the network transferred. This transfer is not the fruit of a clearly defined and consistently applied roads policy, but a response to political demands and budgetary constraints.
- 2.6 If highway management is to be improved, the MOP will have to make appreciable progress toward development of a satisfactory highway policy, setting priorities and spheres of jurisdiction and transferring responsibilities in respect of the secondary and tertiary networks to the provinces and municipalities and developing appropriate financing mechanisms.

D. Infrastructure concessions

- 2.7 The privatization and concession program was launched in 1993, with the establishment of a suitable legal and regulatory framework by the approval of the Modernization Law. The creation of CONAM has given momentum and political support to this effort.
- 2.8 The concession system in the transport sector is characterized by the private financing of highway, port and airport infrastructure and the provision of connected services. The concession may be without cost to the state or subsidized. In the latter case, the financing will be provided by a mix of private and public sources. In both cases, contractual relations are established between the company obtaining the concession and the state, based on a set of common interests and objectives.
- 2.9 The chief objectives are: (a) to make up the shortfall in public infrastructure, and (b) to promote private participation in the financing, maintenance and operation of the transport infrastructure. The intention is to accomplish the second objective through the creation of mechanisms for charging the direct users, who would thus pay for the development, expansion and use of the infrastructure. It is also hoped that the efficiency of investment will be enhanced as a result of the responsibility the private sector will bear for the construction and maintenance of the works, together with its participation in the identification of priorities and the application of innovative construction techniques in projects proposed by the state.

E. Participation of the private sector in the highway sector

- 2.10 The highway concession program was started in 1995, and in April 1996 two concessions were awarded to Ecuadorian and foreign consortia formed specially for the purpose. However, due to problems caused by political changes and, fundamentally, by changes in the designs of the bidding processes and constraints in the concession contracts, the winning consortia have not yet begun to operate the concessions granted to them. ^{1/} Despite this initial hitch, the government has already identified five sets of highways as likely candidates for concessions.
- 2.11 The government's policies are ambitious and involve private sector participation in the operation, maintenance and expansion of the country's main highways. The MOP is preparing a policy document that will set out its position on highway concessions. This policy implies recognition of the concessions as a management system and not just a means of financing, and will appreciably modernize the country's highway management in the medium term.
- 2.12 Governmental financial assistance is accordingly envisaged for those projects which, while offering an economic return, are not potentially profitable for private financing, so that a measure of public investment would be required to make them financially attractive. In addition, in projects where traffic volumes are low, with the result that toll collection would not be justified because of its operating costs, the concession-holder would receive its payment directly from the state, an arrangement by which many highways could be added to the number administered by private interests.

F. Legal and regulatory framework

- 2.13 The concession system is presently in the application and expansion phase. Although Ecuador does not have a law governing highway concessions, there is a legal framework (the Modernization Law) which, in general, has been accepted by the different economic agents involved in the process. The legislation has been modernized on the basis of experience gained, locally and internationally, and of the actual functioning, albeit limited (see paragraph 2.10), of the concession system.
- 2.14 In the context of modernization of the State, a legal framework has been established by the Modernization Law and its regulatory decree. This framework enables the participation of private capital in areas traditionally reserved for the public sector.

^{1/} The concessions concerned are those relating to the Rumichaca-Guayllabamba and Alóag-Riobamba highways, awarded to the PANAVIAL consortium, and the Santo Domingo-Juján and Naranjal-Peaje del Guabo highways, awarded to DHM.

- 2.15 This legal and regulatory framework is adequate for the granting of concessions and privatization of the transport infrastructure, even though specific activities have been identified that will need additional development for the highway sector and will be refined during the execution of this operation. The regulatory framework in particular will need fine-tuning, especially as regards the system for administering and supervising highway concession contracts.

G. Administration of concessions

- 2.16 Highway concession contracts are being administered by a specialized unit in the MOP, the Unidad de Concesiones [Concessions Unit] (UC). This institutional arrangement is considered satisfactory for this early stage in the development of the highway concessions system. As part of the technical assistance proposed here, support will be provided for the establishment of an autonomous regulatory agency. 2/

H. Executing agency

- 2.17 The executing agency for the concession program is the MOP, through its Concessions Unit, which is responsible for conducting the concession process from project identification to proposing contract awards.
- 2.18 The UC has two clearly defined areas. The first of them, its initial *raison d'être*, is oversight of the existing concession contracts. For this the UC receives income from the tolls and charges collected by the concession-holders. The second area, currently in process of formation, is for the development of new concession processes, and its establishment is being supported by CONAM. This combination of responsibilities is only feasible during the present early stage of the highway concession program; the proposed technical cooperation will promote the separation of the two, maintaining the responsibility for setting highway concession policies and developing the program in the MOP.
- 2.19 The MOP-UC will work with CONAM in order to ensure close coordination of sector policies with national policies, while at the same time drawing on the experience gained in the privatization of the port and airport sectors controlled by CONAM.

2/ The surge expected in highway concessions makes it necessary that an autonomous regulatory agency be established within one year. However, given the size of the transport sector in Ecuador, a single regulatory agency for all transportation infrastructure concessions (land, air and water transport) would appear to be warranted.

I. Bank experience

- 2.20 Bank operations now in process (loans 723/OC and 842/OC), with mixed interim results, include important institutional strengthening components which have not, however, resulted in the gradual modernization of the administration of the highway sector and of its supervisory agency, the MOP. The Bank's actions will nevertheless be continued during the execution of this technical cooperation with a view to improving the existing institutional framework (see paragraph 2.23).
- 2.21 The transport sector loan (842/OC-EC) has posted promising results as regards port modernization and privatization; however, the same cannot be said of the railways, where progress has been virtually nonexistent.
- 2.22 For its part, the MIF has approved ATN/MT-4908-EC, 3/ currently in execution, through which the concession and privatization process is being supported in ports and airports and, marginally, in the highway sector. 4/ This technical cooperation has enabled significant advances to be made in the modernization and privatization of the country's chief port, Guayaquil, together with extension of these actions to the other ports. 5/ CONAM, as executing agency, is initiating studies on operation of the Quito and Guayaquil airports on a concession basis. 6/ Regarding highways, professionals have been retained who are assisting the MOP in the identification and development of its concession program.
- 2.23 The intention is also to start the Second National Road Program (EC-0132) in 1998. A condition precedent to disbursement of funding for this program, which will continue supporting the rehabilitation and improvement of the main highway system, is implementation of the reorganization of the MOP with a view to improving and modernizing the administration of the system, thereby

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- 3/ The execution of this technical cooperation recently received new momentum with the hiring of various consultants; a total of US\$410,000, i.e. 25.3%, has been disbursed.
- 4/ The component assigned to supporting highway concessions allocates a total of US\$98,600, which is being used for retaining local experts who are assisting the UC in preparing the highway concession program.
- 5/ The port of Guayaquil has rationalized its staffing, sold off the equipment it used to administer and privatized freight and ship-servicing operations. Bids will soon be invited for concessions for the container and general cargo terminals.
- 6/ Arrangements have been completed for contracting the International Civil Aviation Organization (ICAO) to help CONAM in developing a plan of action and a strategy for the construction and private operation of the new airports for Quito and Guayaquil.

providing a stable framework for the present operation. Moreover, a technical-cooperation loan to support private investment in infrastructure (EC-0180) is being prepared that will provide sufficient resources to be able to develop specific projects in the highway concessions area and in other areas of economic infrastructure. This loan will make it possible to place complete projects on the market, since the legal and institutional framework will have been established with the operation proposed here. 7/

III. THE CONCESSION PROGRAM

A. Scope and background

- 3.1 The concession program comprises five sets of highways aggregating 1,075 km and an investment of US\$413 million. These are stretches of existing and already rehabilitated primary highways, together with others that need work. The authorities and the public have made known their wish to see progress in this area, and the process is expected to move forward quickly.
- 3.2 However, to be able to continue with this concession process, the difficulties that have arisen with the concessions already granted will have to be examined and resolved to enable the program to achieve its objectives. The concession process is complex and involves various interconnected areas. It is also a slow process that requires a period of exhaustive preparation needing considerable financial and technical resources together with firm support and political and financial commitment on the part of the authorities.

B. Institutional strengthening and contracting of consulting services

- 3.3 For this process to be able to move ahead there needs to be a qualified team which works on it full-time, is fully and properly trained for the purpose and is provided with adequate facilities and equipment. The MOP has accordingly undertaken to ensure that the UC will report directly to the minister, will be provided with appropriate financial and technical resources and will have experienced professionals assigned to it who can then be put through specific training, a point that will be reaffirmed by the project.
- 3.4 However, the UC does not have enough experience to design and carry out the concession process. Moreover, some important topics have been identified concerning which the unit's staff will have to be

7/ Particular care has been taken to have the two operations dovetail, without duplicating efforts.

reinforced by consultants for a period of 12 to 24 months, in order to organize and systematize work that will subsequently become relatively routine. These topics include the legal and regulatory framework, bid documents, demand studies and studies of the impact of the toll charges, the administration of the concession contract, financing and management of new works, and environmental matters.

- 3.5 A satisfactory resolution of these problems is crucial for the success of the concession program, 8/ so the consulting firms should be formally engaged without delay. The proposed MIF operation will enable this to be done quickly and competently and will place the Bank's experience in the matter at the authorities' disposal.
- 3.6 As a result of the institutional strengthening work, by the end of the present technical cooperation the UC will be duly trained, staffed with experienced professional personnel and equipped with technical, legal and financial instruments for moving ahead with the highway concession program. Moreover, an autonomous regulatory agency will have been designed and set up that will serve to assure investors that the concession contracts will be administered in a professional manner without political interference.

C. Monitoring and control of environmental quality

- 3.7 The highway concession program will pay special attention to the socioenvironmental aspects of the projects. To this end: (i) the MOP will remain responsible for the issuance of environmental standards for the highway sector, 9/ including the content of environmental impact assessments (EIAs), environmental audits and management plans; (ii) the UC will include in the bidding documents the environment-related obligations the concession-holder will have to comply with throughout the life of the concession; and (iii) the regulatory agency 10/ will ensure observance of the environmental provisions contained in the concession contract, will levy the relevant penalties in the event of noncompliance and will specify remedial actions to be taken by the concession-holder.

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- 8/ This program will not finance activities connected with specific projects. Once significant progress has been made with its execution, it would be possible to access funding from the Line of Activity to assist the MOP in developing its concession program.
- 9/ These requirements will be independent of the execution responsibility for the highway projects, which may be handled by the public sector (MOP agencies) or by private concession-holders.
- 10/ The design of the regulatory agency must specify its responsibility in environmental matters, ensuring that it has the required professional, financial and technical resources for supervising adherence to the environmental commitments assumed by the concession-holders.

IV. THE PROJECT

A. Objectives

- 4.1 The proposed project is designed to support the Ecuadorian government in the strengthening of the highway concession system and the incorporation of the private sector into the provision and operation of this transport infrastructure.
- 4.2 The specific purpose of the project is to provide technical assistance to strengthen the capacity of the MOP's Concessions Unit (UC) to carry out all the stages of the concession program and to expand the main highway network let on a concession basis and establish the transport regulatory agency. This will pave the way for expansion of the supply of highway infrastructure and improve its administration, operation and maintenance, and increase private-sector business opportunities.

B. Activities

- 4.3 The project will promote the institutional strengthening of the MOP-UC in the establishment of policies and strategies, training in concessions and transport regulation, design of the highway concession program, management and promotion of concession deals, concession financing criteria, a legal and regulatory framework for concessions, and development of bidding mechanisms, institutional aspects of the administration of concession contracts, and creation and start-up of the concession oversight agency.
- 4.4 The project comprises the implementation of four interrelated components:

Component 1. Institutional strengthening and review and development of the legal and regulatory framework (US\$390,000)

- (i) review of the present legal and regulatory framework, including environmental aspects;
- (ii) development of the bidding conditions and of the pro forma concession contract;
- (iii) legal and institutional design of the regulatory agency; the alternatives to be considered will include creation of an autonomous regulatory agency exclusively for the highway sector, which could later be expanded to include other transport infrastructure;
- (iv) functional and organizational development of the regulatory agency and action plan for its implementation in coordination with the progress of the

program and the appearance of the first concessionaires; and

- (v) training of the personnel of the MOP-UC and of the regulatory agency.

Component 2. Development of the concession program (US\$273,000)

- (i) development of a policy guide to the concession program, on the basis of the progress achieved during the execution of the technical assistance;
- (ii) development of an economic and financial evaluation model for the highway systems to be let on a concession basis; design of such systems so as to ensure that they will be large enough to attract international investors;
- (iii) development of financial models to calculate the private financial return obtainable from the projects;
- (iv) development of financing modalities (risk analysis, limited guarantee systems) that will enable access for these systems to the national and international financial markets; and
- (v) development of technical and environmental standards for the quality of service to be provided by the highway and methodologies for quality measurement, monitoring and control, to be included in the concession contract.

Component 3. Demand studies (US\$510,000)

- (i) producing studies of demand and the resultant service levels in the highway networks to be let on a concession basis; origin and destination studies, traffic mix, cost of vehicle operation, nature of the growth of traffic (induced, generated); applicable methodologies; projections, and
- (ii) studies of impact and of sensitivity to the toll rates charged, users' ability and willingness to pay, products for which the tariffs would be affordable, income projections by tariff level, tariff structure by type of vehicle, location of toll barriers, recommendations as to applicable tariff ranges.

Component 4. Promotion of the concession program 11/
(US\$215,000)

- (i) holding of workshops to publicize the program and to inform and bring in potential investors, financiers, users and other sectors with a legitimate interest in it;
- (ii) development of a public information program to explain the concession program, its impact on the community and users and how the latter will have input into the program and the decisions that are made; and
- (iii) preparation of the data room (database), its content and operating methodology, including environmental aspects, to give access and facilitate the participation of third parties interested in the concession process.

C. Environmental aspects

- 4.5 The MOP's Department of Environmental Impacts (DIA) is responsible for the review and control of the environmental quality of highway works. Its task is to make environmental studies and to supervise the environmental aspects of highway projects. It develops and prepares environmental standards and specifications for the country's highways and coordinates with other institutions on activities connected with this component. The rules for the concession and maintenance of existing highways and for assigning responsibilities in respect of their environmental implications will be developed within Component 1 of the present technical cooperation.

D. Cost and financing of the project

- 4.6 The project budget is US\$1.92 million. The government's contribution will be 40% and this counterpart funding will be used not only for hiring local personnel and provision of offices, but also for financing studies and investment promotion.
- 4.7 The project includes the hiring of a full-time coordinator with international experience, who would be financed with MIF funds, and administration expenses that cover the hiring of local professional personnel. The contingency allowance (10% of the total) is intended to fill any gap in funding of the consultancy services. The proposed budget is summarized below.

11/ This component does not include the financing, by the MIF, of promotion trips ("road shows") which, should occasion arise, will be defrayed with government funds.

Budget (US\$ thousands)	MIF	Local contribution	Total
Component 1	290	100	390
Component 2	200	73	273
Component 3	380	130	510
Component 4	45	170	215
Project coordinator	120		120
Administration		220	220
Contingency allowance	115	77	192
Project total	1,150	770	1,920

E. Administration and execution

- 4.8 The executing agency for the project will be the MOP, through its UC. The MOP will have the lead role in the definition, characteristics and scope of the concession program and its implementation. The ministry will be empowered to transfer some funds to CONAM if this will facilitate the execution of the project, subject to the Bank first declaring that it has no objection to such transfer. 12/
- 4.9 In view of the nature of the activities to be carried out, the work will have to be done by consulting firms possessing recognized international experience, especially in the areas connected with the legal and regulatory framework, institutional organization of the concession control agency (Component 1), financial analysis of the concessions (Component 2) and demand studies (Component 3), since these will be the points of reference used by Ecuadorian and international bidders for assessing the soundness of the projects.
- 4.10 The MOP-UC will be responsible for everything connected with the programming, organization, coordination, administration, monitoring and control of the project. These responsibilities include:

12/ It is expected that, in all cases, the MOP will be the agency with technical and administrative responsibility for the technical cooperation; however, should CONAM prove to be better placed to contract a given activity, it would be advisable for the MOP to be empowered to request that agency to assume the role of administrative authority. CONAM is the agency best placed to handle the implementation and functional development of the regulatory agency, in view of the possible broadening of the latter's responsibilities to include other transport infrastructure.

(i) preparation of terms of reference; 13/ (ii) invitations to bid, preparation of shortlists and calls for bids; (iii) consultant selection and award of consultancy contracts; (iv) verification of progress of works; (v) authorization of payments; (vi) preparation of all documentation that the executing agency has to submit to the Bank pursuant to the agreement in respect of this operation; (vii) coordination of consultants, government officials and other agencies and organizations directly or indirectly connected with the project; and (viii) executing agency-Bank liaison throughout the project execution period.

- 4.11 To carry out the tasks detailed in the preceding paragraph, the UC will need the following minimum professional capacity, in the form of either in-house or contracted staff: one coordinator; 14/ two economists specialized in finance; two transport and traffic engineers; two lawyers; and administrative support staff. The coordinator will be the technical manager of the personnel and of the consultants retained with project funds. The personnel may be fully or partially made up of MOP staff, provided they are transferred on a permanent basis. The government has undertaken to ensure continuity of the personnel trained by the program.

F. Disbursements, procurement of goods and contracting of consulting services

- 4.12 The disbursements of the MIF funds will be effected in accordance with the Bank's procedures, the first disbursement being subject to the executing agency having submitted evidence that the following conditions have been met: 15/ (i) that the highway concession policy has been approved and published; (ii) that the UC is reporting directly to the minister, the staff required for its operation have been designated and it has sufficient budget funds to operate properly; and (iii) that an action plan 16/ has been submitted which includes: (a) the schedule of activities; (b) preliminary terms of reference for the main consultants to be engaged and studies to be commissioned with project funds; and (c) terms of reference for the staff who would be hired with local counterpart funds, the schedule for bringing these staff in and the training plan for them.

13/ The Bank has given the UC a preliminary version of the environmental terms of reference applicable to the program.

14/ This coordinator will be hired for 24 months, the duration of the operation.

15/ The UC has professional staff now engaged in seeing these conditions fulfilled. The Bank has hired consultants who are assisting the UC in specific areas of highway concession policy.

16/ This technical cooperation will set aside up to US\$20,000 that will be exempted from the conditions precedent, for the purpose of hiring the coordinator who will assist the UC in preparing this action plan.

- 4.13 The project execution period will be 24 months and the disbursement period 30 months, both periods counting from the effective date of the agreement. The MOP-UC will be able to request the Bank to make direct payments in respect of goods and services for the project and for the contracting of consultancy services.
- 4.14 The procurement of goods and contracting of consultancy services will be effected in accordance with Bank procedures.
- 4.15 The Bank funds are to be used exclusively for percentage-wise financing of the items shown in the table of costs of this operation.

G. Supervision

- 4.16 The execution of each of the project components will require close coordination among the MOP-UC, CONAM and the Bank. The Bank's supervision will be performed by means of periodic meetings of the responsible sector specialist in the Country Office in Ecuador with the executing agency and the coordinator of the UC, annual administration missions and the six-monthly reports that are to be prepared and submitted to the Bank by the UC within 30 days of the end of each six-month period.
- 4.17 These reports must include at least the following information:
 - (i) summary of activities during the period just concluded;
 - (ii) degree of accomplishment of the objectives set in the project in accordance with the expected outcomes set out in the logical framework (see Annex 1); (iii) difficulties encountered during the execution of the project and steps taken to resolve them;
 - (iv) recommendations regarding any reallocation of funds among budget items, without changing the modality or increasing the financing, and possible reprogramming of activities because of difficulties encountered, all such recommendations requiring approval by the Bank; and (v) a short-term action plan for the next period. In addition, the consultants' reports and the preliminary and final reports on the specific studies are to be sent to the Bank for review when each one is submitted.
- 4.18 Within six months of the completion of the project, the executing agency is to submit a final report with a summary of the activities carried out, details of expenditures made with the MIF and counterpart funds, decisions adopted, and outcomes obtained and to be obtained as a consequence of the project. The technical cooperation agreement will further specify the executing agency's obligation to submit the project financial statements examined by independent auditors acceptable to the Bank and in accordance with generally accepted audit standards.
- 4.19 The estimated costs of the operation of the UC are put at US\$300,000 and will be financed out of the local counterpart

funding. All these counterpart expenditures are specific to the MIF project and represent costs of the Government of Ecuador.

H. Benefits of the program

- 4.20 As a result of the implementation of the program, the government will have a framework of legal, institutional and technical policies that will enable it to develop concessions in highway infrastructure, through which investment in the main highway system will be increased and the quality of its maintenance upgraded.
- 4.21 This experience can be transferred to other jurisdictions (provinces and municipalities wishing to bid out highway concessions within their territories) or sectors (ports and airports, among others), which will be able to benefit from the experience gained by the MOP-UC in this operation.
- 4.22 This experience, built up over the next few years, will make it possible to develop a new system of highway administration that will be increasingly dependent on the private sector for delivery of this service, thus enabling the state to devote itself to developing the social sectors.

I. Risks

- 4.23 The main risk of the program would be a lack of government resolve to support the concession program and its continuation over the years ahead. Any such risk will be lessened by the institutional framework to be created and the adjustments that will be made in it. This risk of inadequate institutional coordination will be mitigated by the active collaboration between the MOP and CONAM.
- 4.24 Another possible risk is that the program might not arouse the interest of foreign investors. One of the program components will be aimed specifically at lessening this risk through the designing of concessions that are large enough to be attractive to foreign investors, and also at providing such investors with detailed and fully reliable information. Moreover, an institutional and regulatory framework will be established that will offer assurances to investors, with inclusion in the concession contracts of clauses designed to allay political risks.

V. PROJECT ELIGIBILITY CRITERIA

- 5.1 The MIF financing for the institutional strengthening project for highway concessions is compatible with the MIF's general objective of increasing private sector investment and participation with the aim of stimulating socioeconomic growth and development. The proposal is also compatible with the MIF guidelines for the

Technical Cooperation Facility which afford priority to the expansion of private investment in infrastructure.

VI. COMPATIBILITY WITH THE BANK'S COUNTRY PROGRAM

- 6.1 The proposed technical cooperation is consistent with the Bank's priorities as expressed in the Ecuador country paper (in preparation). The Bank's strategy detailed in paragraphs 6.2 and 6.10 of the paper stresses support for the creation of an enabling environment for private sector participation in the provision of infrastructure services.

VII. EVALUATION

- 7.1 To ensure adequate monitoring of the project, the monitoring and supervision system described in section G of chapter IV of this document will be followed, which provides for the holding of regular meetings and submission of reports on all activities.

ECUADOR - MIF
INSTITUTION-STRENGTHENING FOR HIGHWAY CONCESSIONS
TC-97-05-27-1
ACTIVITIES AND OUTPUTS

General objective: To support the Ecuadorian government in the development of a system of private concessions for highway works. The specific purpose is to increase the technical and institutional capacity of the MOP's Concessions Unit (UC), improve the highway concession program that the government is executing and expand the main highway system let on a concession basis. This will improve the management, maintenance and operation of the country's highway infrastructure by expanding the scope of private sector activity.

Components	Activities	Expected outputs ¹
Institutional strengthening and review and development of the legal and regulatory framework	<p>Review of the existing legal and regulatory framework, including environmental aspects.</p> <p>Development of the bidding conditions and of the pro forma concession contract.</p> <p>Legal and institutional design of the autonomous regulatory agency exclusively for the highway sector, which could later be expanded to cover other transport infrastructure.</p> <p>Functional and organizational development of the regulatory agency and action plan for its implementation in coordination with the progress of the program and the appearance of the first concessionaires.</p> <p>Training of the MOP-UC and regulatory agency personnel.</p>	<p>Proposal for modification of the regulatory framework. Time: 5 months.</p> <p>Documents prepared. Time: 8 months.</p> <p>Analysis of alternatives and proposal. Time: 12 months.</p> <p>Approval of the new structure, and its implementation: 15 and 24 months, respectively.</p> <p>Throughout the entire operation.</p>

¹ Times counting from the commencement of execution of the program.

Components	Activities	Expected outputs
Development of the concession program	<p>Development of a policy guide to the concession program, on the basis of the progress made during the execution of the technical assistance.</p> <p>Development of a model for economic and financial evaluation of the highway systems to be let as concessions; design of such systems so they are large enough to attract international investors.</p> <p>Development of financial models to calculate the private financial return of the projects.</p> <p>Development of financing modalities (risk analysis, limited guarantee systems) that enable these highways systems to access the national and international capital markets.</p> <p>Development of technical and environmental service quality standards to be met by the highway and methodologies for their measurement, monitoring and control, to be included in the concession contract.</p>	<p>Review of document and annual updating of same.</p> <p>Highway concession program completed and evaluated. Time: 8 months.</p> <p>Models tested and available for application. Time 8 months.</p> <p>Analysis completed and recommendations included in the policy. Time: 8 months.</p> <p>Analysis completed and recommendations included in the policy. Time: 8 months.</p>
Demand studies	<p>Making of demand studies and setting of the resulting service levels for highway systems to be offered for concession; origin and destination studies, traffic mix, vehicle operating costs, nature of traffic growth (induced, generated), applicable methodologies; projections.</p> <p>Studies of impact and of sensitivity to the tolls; user ability and willingness to pay; products for which the tariffs would be affordable; income projection by tariff level; tariff structure by type of vehicle; location of toll barriers; recommendation as to tariff ranges to be applied.</p>	<p>Completed studies for the first systems to be offered for concession. Time: 12-15 months.</p> <p>Completed studies for the first systems to be offered for concession. Time: 12-15 months</p>
Promotion of the concession program	<p>Workshops to publicize the program and to inform and bring in potential investors, financiers, users and other sectors with a legitimate interest in it.</p> <p>Public information campaign that explains the concession program, its impact on the community and users and how they will have input into the program and the decisions adopted.</p> <p>Preparation of the data room (database), its content and operating methodology, to provide access for and facilitate participation by third parties interested in the concession process.</p>	<p>Throughout the operation, with special emphasis in the first year.</p> <p>After the operation has been under way for 6 months. This activity will continue throughout the entire project.</p> <p>After the operation has been under way for 15 months, once the concession program is operational and the findings of the demand studies are in.</p>

PROPOSED RESOLUTION

**ECUADOR. NON-REIMBURSABLE TECHNICAL COOPERATION. ROAD CONCESSION
INSTITUTIONAL STRENGTHENING PROGRAM**

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of Multilateral Investment Fund, to enter into such agreements as may be necessary with the Republic of Ecuador and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT-_____, with respect to a technical cooperation in support of a Road Concession Institutional Strengthening Program.

2. That up to the amount of US\$1,150,000 is authorized for the purpose of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above mentioned sum is to be provided on a non-reimbursable basis.