DEPARTMENTAL ROAD PROGRAM

(CO-0058)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR:	The Republic of Colombia	
EXECUTING AGENCY:	FINDETER – Fondo de Cofinanciación de Vías	
AMOUNT AND SOURCE:	IDB (OC): Local contribution: Total:	US$100 million US$ 67 million US$167 million
FINANCIAL TERMS AND CONDITIONS:	Amortization period: Disbursement period: Interest rate: Inspection and supervision: Credit fee: Currency:	20 years 4 years variable 1% 0.75% single currency facility, United States dollars

OBJECTIVES:

The purpose of this operation is to improve the efficiency of the departmental road system by reducing the costs of transportation and developing the capabilities of the departments for road planning and management. The specific purposes are (i) the financing and execution of road rehabilitation, improvement and maintenance works on the principal roads, (ii) the institutional strengthening and modernization of road management, (iii) the promotion of participation by the private sector, and (iv) strengthening of the management capacity of the Road Cofinancing Fund (FCV).

DESCRIPTION:

The Program aims to develop the planning, administrative, technical and managerial capabilities of the departmental administrations to manage their road systems. As defined by Law 105 of 1993, these systems include roads under departmental jurisdiction and those transferred by the National Highway Institute (INV) and the National Fund for Local Roads (FNCV). All the departments are participating in the Program.

The Program will finance the improvement, rehabilitation and maintenance of the main roads (the departmental primary road system) for which there is

economic justification, in accordance with the priorities set yearly in the transportation and infrastructure plans (PTIs) and with the participation of the community. The counterpart resources of the Program and future financing for the activity will be supplied by the central government through the FCV.

The Program has the following components: (i) rehabilitation, improvement and maintenance of the departmental road system, including supervision (*interventoría*) (US$136.1 million); (ii) preinvestment studies (US$11.3 million), (iii) institutional strengthening of the FCV and the departments (US$2.7 million, and (iv) administration of the Program (US$900,000).

ENVIRONMENTAL/ SOCIAL REVIEW: The Environment Committee, at its meeting of March 15, 1994, classified this as a Category III operation. The environmental, legal, and institutional context and the proposed activities are described in chapter II of this document. The EIA was published in Bogotá on August 20, 1997, and sent to the PIC on September 17; the Environmental Summary was submitted on October 6.

IMPACT ON POVERTY: Not applicable.

EXCEPTIONS TO BANK POLICY: Not applicable.

PROCUREMENT: Procurements under the program exceeding US$5 million in value in the case of goods and US$350,000 in the case of services will be subject to international public bidding. It is recommended that compliance with the procedures for selecting and hiring consulting services when the amounts are less than US$100,000 equivalent, in the case of consulting firms, or US$50,000 equivalent, in the case of individual consultants, be verified by the Bank after selection and hiring. In the case of civil works, a review will be conducted prior to the first national tender proceedings conducted by each department. Subsequent national bidding processes will be reviewed ex post.

SPECIAL CONTRACTUAL CONDITIONS: Before the first disbursement:
The borrower, acting through FINDETER-FCV, must present evidence that (i) the agreement for transfer of the loan resources and the local counterpart contribution to FINDETER-FCV has been signed, and FINDETER-FCV has undertaken to fulfill all its obligations as executing agency for the Program;

(ii) At least four professionals have been hired, in accordance with the agreed profiles and terms of reference (TORs), for execution of the program, one of whom must have had environmental training (paragraph 5.7); (iii) the TORs for the firm overseeing the technical management of the Program have been prepared (3.19); (iv) the documents on environmental evaluation and management (DEAMs) for projects in the first year sample have been revised and provided to the respective regional autonomous corporations (CARs), and (v) the environmental management guide for the first year and the TORs for supervision of the works (2.41).

Contractual conditions during execution:
Within 6 months following signature of the loan contract, FINDETER-FCV will present: (i) the TORs, previously agreed upon with the Transportation and Environment Ministries, respectively, for (a) updating and improvement of the transportation and infrastructure plans (PTIs) (2.18), and (b) the methodology for evaluation of environmental liabilities on roads under the Program (2.42); (ii) A report on the FCV's environmental management, coordination between environmental institutions, and the results of the local agency (ET) training component (2.42).

Within 12 months following signature of the loan contract, FINDETER-FCV will present (i) evidence that contracts have been signed for the studies, by department, for updating and improving the PTIs (2.18); (ii) the final environmental management manual, including a review and adaptation of the environmental specifications and practices of the INV and the methodology for the study on environmental liabilities (2.43); and (iii) the first semiannual report on technical management of the Program (3.19).

Other conditions: (i) establishment of the following ceilings on use of the Bank's financing for routine maintenance: 50% during the first two years of execution, 40% the third, and 30% the fourth (2.12); (ii) replenishment of the revolving fund, in the case of financing agreements, demonstrated by FCV's presentation of evidence that the transfers have been made from the financing (3.36), and (iii) the holding of yearly monitoring meetings based on the progress reports of the program (3.23 and 3.24).

THE BANK'S COUNTRY AND SECTOR STRATEGY:

The proposed Program is in line with the Bank's strategy for the country, which supports decentralization and modernization of the public economic

infrastructure and an increase in productivity through greater participation by the private sector. The program consolidates the decentralization process in the road sector and contributes to a more technical and professional role for the departments in road administration. During execution, FCV's role will be scaled back and increasingly limited to resource transfers and procedural facilitation.

BENEFITS: Improving the capability for management of the departmental road system and increased participation by the private sector in its rehabilitation and maintenance will improve the conditions for travel on the system, reduce travel costs and enhance safety, which will have a considerable impact on the regional economies.

The adoption of strict road planning criteria and their review by the community through advertising and dissemination of the PTIs will give road management the stability and transparency it now lacks. These measures, along with strict technical criteria for the scale, design and evaluation of projects in the manual of operating procedures (MOP) will gradually raise the quality of road management to a professional level.

Decentralization is giving more responsibility for road management to the departmental governments, and greater continuity in resource allocation will make it possible to plan works of larger scope. Finally, the incentives for routine maintenance work will help to preserve the country's road network.

RISKS: The risks of the Program relate to (i) access for the departments to FCV resources; (ii) the execution capacity of beneficiary entities, and (iii) departmental financing. These risks are mitigated for the first year projects by the fact that the FCV and the 1998 budget law have restricted investment to departments possessing the technical, institutional and financial capacity to carry out the Program.

Regarding the first risk, the procedures for gaining access to cofinancing resources are clear but complex, which hampers and delays the use of such resources. The experience acquired by the departments since the FCV was established mitigates this risk somewhat and places more emphasis on the importance of planning to avoid difficulties.

The second risk will be controlled by specific consultancies in areas where departments require them

to adhere to Program conditions. Once the need for technical assistance has been identified, the beneficiary must come to an agreement with the FCV on its scope, objectives, and content.

As for the case of the third risk the Program is flexible enough so that support can be provided for those departmental works where budgetary restrictions would not preclude the coparticipation required by the FCV. The Program will identify the financial needs of projects and the available sources of financing. With the pluriannual PTIs it will be possible to make financial forecasts that will mitigate this risk.

I. FRAME OF REFERENCE

A. Recent economic performance

1.1 The year 1996 was marked by a restrictive monetary policy and uncertainty generated by the political crisis, which made themselves felt in a deceleration of economic activity. Though economic indicators have improved, 1997 has brought difficulties on the economic front. According to official projections, growth should exceed 2.5%, inflation should be near the official target of 18%, the balance-of payments deficit on current account should be below 5% of GDP, foreign investment should continue on the rise, interest rates should experience a decline favorable to investment, and the appreciation of the real exchange rate in 1996 should be checked. However, this gradual recovery should not yet be reflected in a reduction of unemployment, which in June 1997 stood at 13.6%, the highest in this decade. Despite the economic recovery, the outlook for the medium term and the maintenance of economic equilibrium will depend on the fiscal situation, which in 1997 has deteriorated.

1.2 In January 1997 the Government decreed a state of economic and social emergency in order to avert a continued appreciation of the currency – especially after the extraordinary influx of capital in December 1996 (US$1,500 million) – and to reverse the upward trend in fiscal deficits. In March the Constitutional Court pronounced the state of emergency unenforceable, suspending the measures taken and requiring the government to make budget cuts to balance fiscal accounts. As a result, tariffs were raised slightly (an average of 2.5%), and in May the Banco de la República imposed an 18-month reserve deposit requirement on disbursements from foreign loans amounting to 30% of the loan in order to discourage influxes of capital and brake the revaluation of the peso.

B. Principal challenges

1.3 The fiscal sector remains the most vulnerable part of the Colombian economy. The institutional agreements in effect favor increases in public expenditure. In particular, the increased expenditures of local agencies (ETs) financed by transfers from the central government have not been accompanied by a commensurate reduction in expenditures at the central level. Restoration of the social security administration to financial soundness has also imposed considerable burdens on the public sector. Moreover, tax revenues are virtually stagnant despite successive "tax reforms."

1.4 In this setting the central government will post a deficit in 1997 of 4.6% of GDP (up from the 3.8% in 1996), which will be only partially offset by the rest of the public sector. This will generate a nonfinancial public-sector deficit in the neighborhood

of 3.8% of GDP, which is reduced to 2.2% by the privatization and capitalization of public enterprises.

1.5 As a result of the political crisis of the present administration, the country's governance has been seriously impaired. Serious problems of urban violence in the principal cities have been joined in recent months by an escalation of guerrilla activity in rural areas, which is jeopardizing the country's development.

1.6 While the economy is expected to revert to its growth trend in 1998, to which oil production will undoubtedly make a pronounced contribution, the expectations for the medium term are still uncertain. The presidential elections of 1998 could affect economic development, particularly in regard to entrepreneurial expectations. Even though economic policy is not expected to undergo substantive changes in a new administration, the election of a new administration could influence economic events and investment expectations. However, solving the problem of the fiscal deficit and of the outlaw groups will pose the greatest challenge to the new authorities because of their great complexity and the fact that they are deeply rooted in society.

C. The cofinancing system

1.7 The recently (1994) established national cofinancing system (SNC) consists of four funds 1/ and is the mechanism through which the government finances programs and projects of national interest but under local responsibility. This leverages local expenditure and strengthens the local governments by supporting the formulation, design, execution, and operation of development projects. The resources are drawn from the general national budget, and the amount to be distributed is decided by the central government. These moneys are not reimbursable and are on a matching funds basis nature 2/ in that they are provided only if the ETs allocate funds to the same purpose.

1.8 In its budget law the Congress decides on the preallocation of resources among the different funds; the ministries determine the basic guidelines of the cofinancing policy and set the technical, financial, and institutional conditions for project selection. Meanwhile, the departmental and municipal governments identify, formulate, and undertake projects, and the departments plan,

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1/ The Fondo de Desarrollo Rural (Rural Development Fund, DRI), Fondo de Inversión Social (Social Investment Fund, FIS), and Fondo de Cofinanciación de Vias (Road Cofinancing Fund, FCV). FINDETER administers the FCV, which will be the executing agency for the proposed program.

2/ This matching is relative in the sense that local funds are needed for the central government to transfer funds of its own, but the latter are in larger amounts than those put up by local agencies.

promote, coordinate, support, advise, and evaluate municipal projects. The National Planning Department (DNP) sets a time limit for the ETs to present their projects and for the appropriate units to approve them. If by the deadline the allotment of projects has not been filled, the DNP redistributes the unused resources among the other departments. 3/

1.9 In departments and districts projects are reviewed and evaluated by a specialized departmental cofinancing unit (UDECO). In municipalities projects are reviewed by a cofinancing committee. The UDECO receives the projects presented by the ETs and issues a feasibility rating on each within 30 days. If the rating of a project is favorable, the UDECO forwards it to the departmental cofinancing committee (CODECO) (which allocates the allotment within the department) or to the respective fund. The cofinancing fund (CF) concerned then sets up a trust, which makes the disbursements to the project in pace with progress in its execution.

1.10 In 1995, cofinancing amounted to 6.3% of the financing received by local entities, up from 5.1% in 1994 and 2.2% in 1993. Cofinancing resources came to 0.52% of GDP in 1993, 0.76% in 1994, 0.88% in 1995, and 0.84% in 1996. Following the cuts made at the beginning of the year, cofinancing is expected to amount to 0.60% of GDP in 1997. In 1995 about 95% of the resources of the system were committed, while only 61.3% of the commitments were executed. 4/ The appropriation for 1996 was 44.5% larger than that for 1995.

D. Difficulties facing the current cofinancing regime

1.11 The system suffers from internal defects 5/ that impair its efficiency: (i) use of political criteria in the selection of municipal projects by the local CODECO; (ii) the UDECOs' operational weaknesses and delays in clearing projects; (iii) limited operating capacity and excessive formalities and procedures at the central level of the funds; (iv) delays on the part of local governments in placing cofinancing resources on their budgets; (v) lack of institutional capacity to prepare and carry out projects; (vi) diversion of resources from the cofinancing system to specific projects through the budget act; (vii) lack of coordination among funds, reflected in separate operating regulations; and (viii) lack of resources owing to budgetary restrictions. The SNC has gradually succeeded in introducing

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3/ This situation has not yet arisen for the FCV.

4/ The resources committed but not utilized are transferred in the following year and are not subject to the ceilings imposed on the Plan Annual de Caja. The FCV's experience is that practically all resources so transferred are used in projects.

5/ These comments, though valid for the SNC as whole, are not strictly applicable to the FCV. The present document examines the influence of these matters on the FCV and the Program.

improvements and solutions to some of these problems. An abbreviated description of the difficulties facing the regime follows.

1.12 **Implementation and execution**: There are different criteria for the determination of departmental allotments (for the FCV, the percentages set in Law 188 are applied 6/) and sectoral policies. In addition, the mechanisms for access to the FCs are complex and involve many decision-making levels and evaluation methods. Finally, the UDECOs and CODECOs supplant the municipal authorities and reduce local autonomy.

1.13 **Counterpart contribution**: The effectiveness of the SNC is impaired by the scarcity of resources usable as the local counterpart contributions of some entities; in relation to the program this problem arises in very few departments.

1.14 **Distribution criteria**: Resources were allocated to the different funds and the departmental allotments within them were determined in a process subject to political pressures and conflicts among congressmen, governors, mayors and the DNP. 7/

1.15 **Efficiency and equity**: The purposes of the SNC (to develop the national investment priorities, improve the quality of local investment, etc.) are easier to accomplish when the resources are used to finance specific projects. 8/

1.16 **Levels of authority**: Many authorities have a hand in the process of project identification, evaluation, approval and execution, compounding their complexity. 9/

1.17 **Execution**: In general, the departments lack the capacity to monitor the projects they undertake; the stages of the project cycle are not coordinated; measures identified in the preinvestment

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6/ The Law established the departmental allotments in light of the following variables: (i) unmet basic needs, (ii) length of the transferred road network, (iii) road density, and (iv) productivity.

7/ This situation has practically ended for the FCV, and the budget is presented in departmental items and not in items for projects.

8/ This holds for the projects under the Program, which justifies the expectation of sustained support from the government for it.

9/ In the case of the FCV those involved are the community, the works secretariats, the UDECO, the CODECO, the technical and administrative committees of the FCV, and the regional autonomous corporation in environmental matters.

stage are discarded in execution of the work; and supervision is weak. 10/

1.18 **Budgetary aspects**: these aspects are subject to the budget law, which restricts the use of cofinancing funds. Such restrictions result from: the budget format, which shows the source of the funds (the public treasury or external debt); the allocation of resources by activity (in the case of the FCV: preinvestment, investment, maintenance, and institutional strengthening), which does not correspond to the departmental requests; inflexibility as regards the transfer of resources from one activity to another; and the difficulty of entering into contracts running for more than one fiscal period (the FCV must process every department request for future continuance of a project individually with the National Planning Department (DNP) and the Ministry of the Treasury and Public Credit (MHCP)).

E. Pending matters of the SNC

1.19 A sizable group of projects is in execution through the SNC. These are the programs of Integrated Rural Development (DRI) III and Development of the Pacific Coast, the Social Solidarity Network and PLANTE Alternative Development, which account for 20% of the portfolio of approved loans (US$455 million). Because of their slow performance, following the portfolio review and programming missions at the end of 1996 the Bank and the country agreed that corrective measures were essential.

1.20 The matters under discussion between the government and the Bank include: (i) coordination in the use of cofinancing resources among the different programs that use the system; (ii) redefinition of the cofinancing matrix (for example, how will the targeting be defined, what poverty indicators will be used, etc.); (iii) definition of the new mechanism for implementation of the annual cash program (PAC) in order to minimize interferences with the execution of projects, and (iv) the role of the UDECOs and CODECOs, which often interfere with the rapid approval of projects. Some of the problems stem from the centralized design of these programs, which have been drawn up by and are controlled from the central government but whose execution is now to be decentralized.

F. Road transport

1.21 The road system is 118,691 km long, of which 12,398 km is under central government responsibility. Road density is relatively low,

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10/ These aspects are specifically addressed by the Program. Application of a strict MOP and the monitoring and control systems provided will reduce this problem.

and the technical specifications of the system as to design speed, travel time and safety are unsatisfactory.

1.22 These characteristics generate cost overruns and operating inefficiencies for automotive transport, which accounts for 79% of the freight and 82% of the passengers carried in the country. These deficiencies have a great impact on regional economies, quality of life, production volumes, and general development.

1.23 The main defects of the system are: (i) an insufficient number of national and regional roads; (ii) obsolete, deficient design; (iii) deterioration of roads owing to inadequate maintenance; (iv) excessive delay in the completion of works; (v) noncompliance with operating rules by carriers and drivers (maximum weight, driving speeds, etc.); (vi) a high accident rate; and (vii) a disjointed institutional structure.

G. Road policy

1.24 The purpose of the road infrastructure investment program is to improve the capacity and quality of roads in the national system, which carries high volumes of traffic and links the production centers with the major consumer markets and foreign trade ports. To step up the pace of investment, an ambitious program of road concessions is being developed to transfer to the private sector part of the responsibility for the extension, improvement, maintenance, and operation of the road infrastructure.

1.25 Toward the end of 1993 the Congress approved Law 105 on the National Road System, which defines the responsibilities of the central government and local entities in road matters. As a result of this law, in 1994 and 1995 the National Road Institute (INV) transferred 13,408 km of secondary roads to the departments. The government spurred this process with additional resource allocations to the INV and FCV budgets.

1.26 The institutional framework for implementing this strategy consisted of establishment of the INV, elimination of the National Local Roads Fund (FNCV) and of the Works Districts of the Ministry of Public Works and Transport, and transfer of the secondary and tertiary roads to the departments. These processes have been proceeding steadily, except for liquidation of the FNCV, which has been reorganized. 11/

11/ The FNCV had been responsible for the administration of 22,977 km. When its liquidation was ordered, it was able to transfer 7,027 km of tertiary roads to the departments. Today in 13 departments all of the tertiary roads previously in the charge of the central government have been transferred to those departments, in 3 departments part of them have been transferred, and in 15 they have not been transferred at all.

1.27 To support the decentralization of regional systems, the FCV was set up as a financial and technical mechanism of the central government to transfer resources to local entities and support them in their new responsibilities.

H. The Bank's strategy

1.28 In August 1995 the Bank's Board of Executive Directors approved the country paper for Colombia (document GN-1886), which defines the strategy for the period 1995-97. This strategy addresses the following challenges that the country will face in the coming years: (i) maintaining macroeconomic stability; (ii) consolidating the decentralization process; and (iii) providing support for the social sectors. Accordingly, the document proposes a strategy at three levels: (i) promoting direct investment in the social sectors to mitigate poverty and raise living standards; (ii) strengthening the management capacity of public institutions in order to improve the efficiency of public expenditure; and (iii) encouraging private sector participation through several initiatives to raise the productivity of the economy. A new country paper is planned for the first half of 1998.

I. Operational program for 1997-1999

1.29 The operational program for 1997-1999, agreed upon during the program review mission of April 1997, has taken into account the limitations stemming from fiscal policy. While the capacity to contract new loans has not been impaired, the restrictions of the PAC limit the amount of resources that can be allocated to operations. Hence the operational program for 1997 has been reduced to US$290 million, consisting of five operations in category A totaling US$215 million and one category B operation for the equivalent of US$75 million. In addition, two operations totaling US$41.25 million were approved in 1997 through the private sector window. Ten operations totalling US$546.7 million have been approved for 1998 and two operations for US$250 million have been approved for 1999. Operations totaling US$372 million are expected to be approved through the private sector window in 1997 and 1998. This makes a total amount for the 1997-1999 period of US$1,623.7 million, in addition to 5 technical cooperation operations and 2 small projects totaling US$1.55 million and 7 Multilateral Investment Fund (MIF) operations for US$6.6 million.

J. Experience of the Bank and other donors in the transportation sector

1.30 The Bank has granted Colombia 13 loans for the transportation sector totaling US$594.9 million, which is 9.7% of all lending approved by the Bank and executed between the opening of its doors and 1996. The Bank has focussed largely on the road subsector, with 9 loans totaling US$517.3 million specifically for national roads (includes US$60 million for railways) and one loan of

US$19.6 million for rural roads, executed by the FNCV. Other loans include US$47 million for the improvement of navigability on the Magdalena river, and US$11 million for the improvement of port infrastructure. It has also contributed US$128.6 million to the financing of nine road subprograms developed by diverse regional and national institutions.

1.31 The IBRD has played an important part in the development of the Colombian road system. Its support for the system began in 1951, and since then it has approved 10 operations totaling US$824.1 million. Starting in 1981 it has also financed 3 rural road programs totaling US$150.5 million, seven railroad programs totaling US$196.6 million, one airport project for US$61 million, and one port project for US$42.8 million.

1.32 The Bank's more recent experiences of participation in the financing of projects in the road subsector – in programs for the construction and improvement of the country's arterial highway system – are the result of a restructuring of the transportation sector that began in 1992. That restructuring redistributed responsibility and resources between the central government and the ETs, set up the FCV, established regulations for road planning and concession works, and defined the resources to finance the construction, rehabilitation, and maintenance of the regional system.

1.33 The implementation of new governing provisions brought administrative and contractual difficulties relating to the transfer of responsibilities to the ETs and the adjustment of contracts for works in progress, which had been governed differently under the earlier provisions. At this writing the transfer of the secondary system to the departments and districts has been completed, which has enabled the INV to target its resources and efforts at the system for which it is responsible.

1.34 The most salient current problems in the subsector are as follows: (i) budgetary restrictions owing to the country's fiscal situation, which leaves the country with insufficient local counterpart resources and in turn affects the treatment of foreign credit resources; (ii) the belated availability of needed resources is hampering the execution of projects, prolonging completion times and thereby increasing costs; (iii) the designs have not been the best, and have frequently required substantial adjustments in the course of construction, which has generated cost overruns on the works. This aspect highlights the importance of selecting the right consulting firms with the needed experience in designing works of this kind; (iv) There has been little progress in expediting formalities for the purchase of land, and the management of environmental issues has remained somewhat primitive, out of ignorance of the current environmental legislation, and (v) the INV's institutional structure is weak, which will likely become

increasingly apparent at the departmental level. The treatment of these aspects under the program is analyzed in the chapters that follow.

II. THE PROGRAM

A. Purposes

2.1 The purpose of the Departmental Roads Program (hereinafter called the "program") is to improve the efficiency of the departmental road transport system by reducing its operating costs and the travel times of users and increasing the number of roads; it is also designed to develop the institutional, technical, planning and managerial capacity of the departmental governments in road matters.

2.2 The specific purposes of the program are: (i) the financing and execution of works to rehabilitate, improve and maintain the principal departmental roads; (ii) the institutional strengthening and modernization of road management, including the development and execution of pluriannual plans for road maintenance and investment (transportation and infrastructure plans, or PTIs); (iii) promotion of the participation of the private sector in road management; and (iv) to strengthen the administrative capacity of the FCV.

2.3 The program will promote the development of a solid and professional departmental road management, which can only be accomplished by capable departmental administrations and the participation of the community and the private sector in the management and maintenance of the secondary road system. Annex 4 provides the logical framework for the program, together with the main objective indicators, by component.

B. Description

2.4 The purpose of the program is to develop the capabilities and technical qualifications of the departmental administrations for the planning, administration and management of their road systems, which are defined by Law 105 of 1993 as the roads that were under the departmental jurisdictions before the enactment of that law and those that the INV and the FNCV transferred to them in compliance with it.

2.5 Within this system the program will finance the improvement, rehabilitation and maintenance of the main roads of (the primary departmental systems) that present a good economic justification, in keeping with the priorities assigned yearly by the respective PTI and with the participation of the community. The counterpart resources for the program and the future financing of the activity will be provided by the central government through the FCV.

2.6 All departments may participate in the program provided they present an up-to-date PTI and comply with the operating procedures of the FCV.

2.7 The components of the program are as follows:

1. <u>Rehabilitation and improvement of the departmental road system</u> (US$116.4 million)

2.8 The program will finance the improvement, rehabilitation, and periodic maintenance of about 1,280 km of the departmental road system selected as having the highest importance and priority on the basis of their use and function. It will also finance supervision of the works. Roads will be rehabilitated up to technical standards compatible with that use and function, giving particular importance to such aspects as travel safety and low-cost technical solutions. To reap benefits in the medium term, every rehabilitated road will immediately be made part of an effective routine maintenance program.

2.9 It has been estimated that 30% of the amounts allocated for physical investments would go for improvement works, with an average cost of US$160,000/km, 40% for rehabilitation works (US$100,000), and the remaining 30% for periodic maintenance (US$50,000/km). 12/ This yields a representative average cost of work of US$84,000/km for the works of the first-year sample. The program also provides financing for supervision (*interventoría*) of the works.

2. <u>Maintenance of the departmental road system</u> (US$19.7 million)

2.10 One of the program's objectives is to set up a system of continuing, sustainable routine maintenance. Innovative, effective procedures will be introduced as costs permit, based on the contracting of local cooperatives and microenterprises for labor-intensive activities, and of small and medium-scale contractors for those requiring more use of equipment (paragraphs 2.19 and 2.20). The present maintenance capabilities are limited, and it is expected that community participation in identifying projects and setting priorities, as well as developing the market for local contractors, will spur the governments to ongoing road maintenance.

2.11 The routine maintenance will consist of simple works to maintain the drainage systems (irrigation ditches, canals and sewers) and road surfaces, and to control vegetation. The program will finance contracting for routine maintenance on roads rehabilitated during program execution, but others may be added if the departmental governments include them in their PTIs, apply procedures approved by the program, and undertake to continue the activity.

12/ These percentages are indicative. The costs of the activities are based on the projects in the sample of the first year and the experience of the FCV.

2.12 Bank resources will be applied in decreasing proportions as the program progresses. The Bank will provide 50% during the first two years of execution, 40% the third, and 30% the fourth. This timetable allows for the fact that starting in the second year roads worked on during the first year will begin to receive routine maintenance and that execution of the microenterprise routine maintenance program (MEMR) will be in full swing.

2.13 The program will maintain an increasing number of roads, from 330 km in the first year to almost 2,400 km in the fourth and last year of execution. During that period more than 6,000 km of road per year will have received routine maintenance. The program will also finance supervision (*interventoría*) of the works.

3. <u>Preinvestment studies</u> (US$11.3 million)

2.14 The program will finance the technical, economic and financial feasibility studies, the environmental and social impact studies and the final designs of roads to be financed with program resources. It will also finance the identification and design of routine maintenance activities as required. This work is to be executed by the departments requesting financial support from the FCV in accordance with the terms of reference contained in the Manual of Operating Procedures.

4. <u>Institutional strengthening</u> (US$2.5 million)

2.15 The program will support instruction and training for the FCV and the departments and contracting for various consultancies. The principal aspects to be covered are as follows:

4.1 Improvement of departmental road management

2.16 The transfer of road management responsibilities to the departments has significantly increased the size of the systems they administer, with repercussions for their economic and financial situations and institutional and management capacity. The present program takes up this challenge and will provide institutional strengthening activities in which the national-level agencies involved (the Ministry of Transportation (MT), the Ministry of the Environment (MMA), the DNP, INV, etc.) will participate.

2.17 The program will also provide resources for consultancies to help the departments and the FCV identify institutional weaknesses in greatest need of support. These consultancies were designed on the basis of the analysis of pilot cases in the departments of Arauca, Caquetá, Bolívar and Boyacá, which have provided the FCV with information on needs and possible solutions, the TORs for the consultancies, and recommendations on the selection of computer equipment to monitor and control projects financed under the program.

4.2 **Updating and improvement of the PTIs**

2.18 The review, updating, and continuous improvement of the PTIs will make them a better technical and financial planning and transportation policy tool, helping the departments develop their road management capacity. Dissemination of the PTI and community participation in preparing it and monitoring its execution will also be promoted. **The program provides financing for review of the PTIs during the first year of execution.**

4.3 **Development of small and medium-scale road enterprises**

2.19 The FCV has the legally mandated obligation to transfer resources to the departments for works to be executed by third parties; in other words, it does not finance works on force account. In addition, many departments are in the process of reducing the structure and size of their public administrations, where roads have generally been a leading responsibility. In order for the transfer to be possible, local markets for contractors and consultants must be developed so that departments can avail themselves of firms qualified to perform the tasks under their responsibility.

2.20 The program provides that the consultancies for institutional strengthening of the departments will work with them on the design of policies and strategies to develop this market, facilitate the transition of staff in the public works administrations withdrawing from the road sector so that they can continue to perform their services from the private sector, thus averting the loss of valuable and needed experience and qualifications while enhancing their efficiency and productivity. The development of the MEMR, which Colombia pioneered, is an essential step in that process. This activity will be carried on by the departments.

4.4 **Support for environmental management**

2.21 Colombian environmental legislation has undergone extensive change in recent times. It has become an ambitious and comprehensive set of laws, but is difficult to apply, suffering from complex procedures and too many participants. The departments do not have the experience needed to cope with the situation, and clear, uniform procedures have to be established in the national (MT, FCV and MMA) and regional (the regional autonomous corporations, (CARs)) agencies responsible for applying environmental legislation to the projects covered by this operation.

2.22 Through the FCV, the program will support the establishment of precise environmental standards for the departmental road systems, develop them, promote their adoption by the aforementioned national agencies, and coordinate their implementation with the CARs. This will simplify technical approval of the projects and provide

uniformity of criteria and training for the agencies participating in application of the standards.

5. Administration of the program (US$1.1 million)

2.23 The program will assist the FCV with its functions as program administrator. Financing will be provided to hire professional personnel to strengthen its management capacity during the execution period (paragraph 5.7) and, to a lesser extent, to purchase equipment needed for FCV and department operations.

2.24 In regard to consulting services, a technical auditing firm will be engaged to monitor FCV's technical operations (paragraph 3.19) and conduct an ex post evaluation of the program.

2.25 Resource allocation for the first year of execution (1998) is low, with adjustments for the years thereafter.

C. The first year of the program

2.26 Regarding the investment plan, the program will operate in 24 of the country's 32 departments. This limitation was imposed in light of the institutional, technical and financial capacity of those departments and the characteristics of their road systems (see paragraph 3.6). In these 24 departments the program will finance improvement, rehabilitation, and maintenance works. Institutional support will be available for all 32 departments, in spite of the budgetary limitations for the first year.

2.27 A sample of eight roads in seven departments, totaling 124.6 km in length and representing an investment of US$19.4 million, has been reviewed. The roads in this sample satisfy the criteria for eligibility, have appropriate final designs, environmental management plans (paragraph 2.40), and enough budgetary funds to start execution.

D. Distribution of resources by component

2.28 The investment component, totaling US$126 million constitutes 75% of total program resources and 74% of the financing. The consulting services are for preinvestment studies and supervision, and come to US$21.4 million, or 13% of program resources. Institutional development, with US$3.5 million, accounts for 2% of the program resources and 3% of the external resources. An additional US$15.1 million, or 9% of total resources, has been allocated for physical and price contingencies. Lastly, US$1 million is allocated for loan inspection and supervision costs.

E. Distribution of resources by department

2.29 Distribution of the FCV's resources follows the allocations established by the law on the National Development Plan (currently Law 188 of 1995) and complies with the conditions for cofinancing by departmental category. Proceeds from the financing are not strictly subject to the distribution percentages, although the FCV as a whole must adhere to them.

F. The departmental counterpart contribution

2.30 The departmental counterpart is the sum of the resources a department must contribute to qualify for cofinancing (treasury funds and external borrowings). The counterpart varies with the level of each department's socioeconomic development as set by Law 188, which establishes the following cofinancing matrix: 13/

COFINANCING MATRIX contributions of the department (in percentages)	DEPARTMENTAL CATEGORY		
	No. 1	No. 2	No. 3
Construction	20	40	60
Improvement	10	20	30
Rehabilitation	10	20	30
Maintenance	5	10	15
Studies	5	10	15

2.31 The categories classify departments according to their degree of development, ranging from lowest (Category 1) to highest (Category 3). The departments in each category are as follows: Category 1: Amazonas, Bolívar, Caquetá, Casanare, Chocó, Córdova, Guainía, Guaviare, Magdalena, Nariño, Putumayo, Sucre, Vaupés and Vichada; Category 2: Arauca, Atlántico, Boyacá, Cauca, César, Cundinamarca, Huila, La Guajira, Meta, Norte de Santander, San Andrés and Tolima; and Category 3: Antioquia, Caldas, Quindío, Risaralda, Santander and Valle. This categorization is subject to change.

2.32 In view of the leverage to be provided by the SNC, the departmental counterparts required are small relative to disposable revenue, so this aspect should not impose any additional constraint on the execution of this loan.

13/ This matrix is valid until August 7, 1998, and may be amended by the next law on the National Development Plan.

G. Environmental aspects

1. Legal and institutional framework

2.33 Law 99 of 1993 created the National Environmental System (SINA), of which the Ministry of the Environment is the keystone, with responsibility for defining the policies and guidelines to be applied by other institutions and sectors. This law restructures the CARs and creates mechanisms for citizen participation. The MMA does not participate directly as an environmental authority over the projects under the program. This function is performed by the CARs, owing to their regional character.

2.34 The CARs have several responsibilities in respect of road projects, including (i) issuing environmental permits; (ii) issuing environmentally related permits, authorizations, and concessions; (iii) Inspecting the works and verifying completion of measures called for in the environmental management plans (PMAs), and (iv) monitoring compliance with environmental regulations.

2. Environmental management

2.35 The environmental management of the projects covered by the program is one of the categories defined by MMA Decree 883/97, which unifies standards and provides guidelines for the CARs. According to the decree, projects for improvement, rehabilitation and periodic maintenance require no environmental permit (EP). An environmental evaluation and management document (DEAM) suffices, but must be presented to the CAR concerned before the works are commenced. According to the MOP, routine maintenance work requires only a PMA.

2.36 Apart from its environmental category, a project must have a PMA to ensure that tasks are performed properly; the program has incorporated this "sound practice" in the TORs for the commissioning of designs, supervision, and execution of works and has written them into the MOP.

3. Environmental implications of the program

2.37 The environmental implications are (i) the demand for natural resources required for execution of the projects, and (ii) identification and evaluation of their impact. These implications are effectively covered by the minimum content of the required PMAs.

4. Environmental plan of action

2.38 The environmental plan of action calls for institutional activities to (i) ensure inclusion of the environmental procedures in projects, (ii) establish processes for coordinating with the environmental authorities, (iii) define mechanisms for evaluating

environmental management capacities, and (iv) train all institutions (the FCV, CARs, UDECOs and departments) involved in the program.

2.39 The plan of action calls for the holding of training workshops and seminars, environmental training for the FCV's professional staff, and the institutionalization of environmental management procedures and guidelines by incorporating them into the MOP and discussing them with the environmental authorities so that they will be included in the policy of those authorities.

5. Projects of the first year

2.40 The projects of the first year do not require EPs; they all have PMAs in the form of DEAMs. The designs meet the specifications stipulated in the terms of reference and pose no unusual environmental difficulties. However, the FCV will have to ensure that the works budgets for projects not in the sample include the costs of the PMA, for in some cases they have been presented separately from the total cost of the works.

6. Recommendations

2.41 The following should be completed before the first disbursement: **(i) the environmental management guide for the first year as part of the MOP; (ii) the TORs for project supervision (*interventoria*); and (iii) adjustment of the DEAMs for projects in the first year sample and delivery of each document to the CAR concerned.**

2.42 The following should be completed within 6 months after signature of the loan contract: **(i) the TORs previously agreed upon with the MMA for development of a methodology for evaluation of the environmental liabilities of the roads in the program; (ii) a report on FCV's environmental management; and (iii) a report showing progress in environmental institutional coordination and the results of the ET training component.**

2.43 Within 12 months after signature of the loan contract **the final environmental management manual, providing for the review and adaptation of the environmental specifications and practices of the INV, and the methodology for the study of the environmental liabilities of program roads, should be completed.**

H. Costs and financing

1. Costs of the program

2.44 The total cost of the program is estimated at US$167 million. The basic costs are stated in June 1997 prices. The physical contingencies have been calculated at 10% of the basic costs.

2.45 The assumptions used in the cost estimate for the civil works are based on the activities, quantities of work, unit prices and other conventional aspects of typical designs and models proposed by consultants in the program preparation stage, particularly the first year projects.

2. Financing of the program

2.46 The proposed IDB loan of US$100 million will finance 60% of the total cost of the program. The national government will finance US$67 million with treasury funds. To complement the cofinancing resources (from the public treasury plus external debt) the departmental governments will have to make contributions of about 20% of the amounts received from the FCV. This departmental contribution supplements the one to be made by the national government, and brings the total financing of the program to about US$200 million.

2.47 The SNC's administrative procedures make it impossible to set up the departmental counterpart resources in advance. The process for approval of the departmental budgetary law is completely dependent on resource transfers from the central government, and for that reason the departmental budget act is approved after the national budget act. Counterpart resources are then allocated in the departmental budget act and the department can sign the cofinancing agreement. The matching resources to be provided under the agreement must then be incorporated into the departmental budget as well by means of an amendment to the budget act adopted earlier. Only then can the department take possession of the resources, so contribution of the departmental counterpart contributions can only be verified ex post.

3. Financing plan

2.48 The financing plan, by investment category and source of funds, is as follows:

tal roads program CO-0058
plan
e program (in US$thousands)

Component	YEAR 1998			YEAR 1999			YEAR 2000			YEAR 2001			PROGRAM T	
	IDB	FCV	TOTAL	IDB	FCV	TOTAL	IDB	FCV	TOTAL	IDB	FCV	TOTAL	IDB	FCV
ent and rehabilitation	5,182	3,448	8,630	20,262	13,595	33,857	28,715	17,778	46,492	13,123	5,467	18,770	67,281	40,468
intenance	500	500	1,000	1,608	1,608	3,216	2,739	4,108	6,846	2,149	5,014	7,162	6,995	11,229
rks subtotal	5,682	3,948	9,630	21,869	15,203	37,072	31,453	21,886	53,339	15,272	10,661	25,933	74,276	51,697
services														
ent studies	1,713	1,142	2,854	2,324	1,549	3,874	1,194	796	1,989	1,560	1,040	2,600	6,790	4,527
n (*interventoría*) of works	462	308	770	1,779	1,186	2,966	2,560	1,707	4,267	1,245	830	2,075	6,047	4,031
ent consulting subtotal	2,175	1,450	3,625	4,104	2,736	6,839	3,754	2,503	6,257	2,805	1,870	4,675	12,837	8,558
l development														
rative and management support	128	32	160	160	40	200	160	40	200	240	60	300	688	172
on and training	8	2	10	60	15	75	48	12	60	40	10	50	156	39
ncies of the departments	64	16	80	156	39	195	72	18	90	136	34	170	428	107
ent	0	0	0	200	50	250	160	40	200	120	30	150	480	120
on and training	16	4	20	120	30	150	80	20	100	40	10	50	256	64
ncies	24	6	30	320	80	400	240	60	300	240	60	300	824	206
utional development subtotal	240	60	300	1,016	254	1,270	760	190	950	816	204	1,020	2,832	708
s (1+2+3)	8,097	5,458	13,555	26,989	18,193	45,182	35,967	24,578	60,545	18,892	12,735	31,627	89,945	60,964
cies	813	542	1,355	2,711	1,807	4,518	3,633	2,422	6,055	1,898	1,265	3,163	9,055	6,036
and supervision	90		90	300		300	400		400	210		210	1,000	0
of the program	9,000	6,000	15,000	30,000	20,000	50,000	40,000	27,000	67,000	21,000	14,000	35,000	100,000	67,000

III. EXECUTION OF THE PROGRAM

A. Organization and management

1. Operating framework

3.1 Financiera de Desarrollo Territorial S.A. (FINDETER) bears primary responsibility for execution of the program, defined as the administration and transfer of resources, the approval of project financing, and the provision of institutional development assistance to local agencies (ETs). The departments are responsible for execution of the works. The direction and setting of FCV policy guidelines is entrusted to its Administrative Board, whose members are the MT, the DNP, INV and FINDETER.

3.2 The FCV was created by Law 105 of 1993 as a special account administered by FINDETER. 14/ From 1994 to 1997 it has financed projects and works of the departmental road system with the transfer mandated by that law. Within that framework, the FCV committed resources totaling US$29.2 million, US$76.6 million and US$117.4 million in 1994, 1995, and 1996, respectively, of which US$12.4 million, US$10.9 million, and US$81.8 million, again respectively, were assigned to the departmental road system.

2. Other participating agencies

3.3 Other participating domestic agencies will have a variety of responsibilities. The INV provides technical assistance to the departments, and the DNP exercises general supervision over the operation in its role of setting policies and preparing the preliminary draft budget. The MHCP provides the resources in budgetary allocations. The UDECOs receive the projects and evaluate their quality but do not judge whether or not they should be included in the program. The CARs approve the environmental management plans (the EP or DEAM), issue the permits required for natural resource use, and establish the compensation measures.

3. Manual of operating procedure

3.4 To assure coherence among the participating departments in execution of the program, the FCV will use a manual of operating procedure (MOP), which will clearly spell out the guidelines and

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14/ This special account marks the essential difference between the roles of FINDETER and FCV. While FINDETER maintains its role as second-tier financing entity for governments at the subnational level, it only acts as administrator of FCV, providing it with administrative and legal services, but maintaining a clean distinction between the two activities.

procedures to be followed by the departments in processing and executing their projects. They will be enforced and adjusted by the FCV in periodic, at least semiannual, evaluations by means of the management control and monitoring scheme provided by the program. The MOP will include environmental protection measures, 15/ which are described in the TORs used in the biddings for the commissioning of designs and the supervision and execution of works.

B. Selection and scheduling of investments

1. Project generation and selection

3.5 The program will finance activities with respect to roads in the departmental system - those already under departmental jurisdiction or transferred under Law 105. In any case, the program is directed to the most important roads and those given priority by the PTI. The importance of a road is determined by its use and function in the road system and by the intensity of its use in terms of average daily traffic and vehicular composition.

3.6 Under the applicable eligibility criteria, eight departments have no roads that qualify for program investment resources during the first year of execution. These departments are Amazonas, Chocó, Guainía, Guaviare, Putumayo, Vaupés, Vichada and San Andrés, which will receive institutional strengthening and preinvestment resources. These departments will retain their quotas of ordinary national resources for their road works as set by Law 188.

2. Eligibility criteria

3.7 Four basic criteria are applied in the selection of projects: institutional, social, technical-environmental, and economic, all of them closely interrelated. The institutional criteria favor roads indicated, in the PTI as, the most important from the standpoint of use (traffic levels) and function (the role played by the road), and hence having priority.

3.8 The social criterion relates to the validation of the PTI by representative social groups in the department through public circulation to ratify the priorities established in it and the technical solutions adopted. The technical criteria relate to adoption of the best technical solution so as to avert overinvestment and the use of technologies out of proportion with the immediate and medium-term needs, which can generate needless stresses on the limited financial capacity of the department.

15/ In the first year of execution of the Program the environmental standards will be organized and presented in the form of an environmental management guide.

3.9 Lastly, the economic criterion for the selection of projects is a rate of return above 12%. If a project falls short of this mark, a new design will be prepared based on standards that are less exacting and hence less costly, though still responsive in terms of function and demand. A new economic analysis is then conducted, and if the project still falls short of the 12%, the road is disqualified from program financing and its inclusion in the program and PTI will be reviewed.

3.10 To summarize, the eligibility criteria applicable to roads under the program are as follows: (i) they must be included in the departmental transportation and infrastructure plan prepared by the departments of public works (SOP); (ii) they must be among the priorities identified for that plan; (iii) they must carry a mean daily traffic of 100 vehicles/day or more; (iv) the proposed technical solutions must lie within the scope of the program (improvement, rehabilitation, and periodic routine maintenance); (v) they must have adequate technical and environmental designs; 16/ (vi) their economic and financial feasibility must have been measured by appropriate methods (using, in general, the HDM III-1995 model); (vii) they must have been found environmentally feasible; (viii) their economic benefits must take the form of cost savings in vehicle operation and, secondarily, reduced travel times for users; and (ix) their internal rate of return (IRR) must be 12% or higher.

3. Nature of the operation

3.11 The content of the program depends on the demands of multiple executing authorities (the departments) that review their priorities every year, and so not all the works to be financed during its life have been identified. Hence this is a pluriannual (time-slice) loan in which the investments of the subsequent periods will be examined and agreed upon in the course of the administration missions as proposed by the entities that are to execute them.

3.12 The program's targets or benchmarks are bound up with its character as a pluriannual operation. The overall physical targets have been established, and the monitoring indicators will show the progress being made in departmental institutional matters. The monitoring reports and the annual administration meetings will determine the extent to which these benchmarks are being reached.

16/ In 1997 the FCV has approved new TRs for the preparation of final designs, which have been cleared by the Bank and included in the MOP.

C. Strategy for execution

3.13 The program for the first year calls for the rehabilitation and improvement of 102 km of road in the departmental primary system and for the routine maintenance of 333 km. The latter activity will employ preferentially local labor and encourage the establishment of microenterprises and the development of a market of local contractors.

3.14 Under the general execution agreement, the FCV will provide the Bank with its proposed investment plan for the coming year for consideration and approval at the yearly administration meetings. The plan will show the operations of each department, the timetable for their execution, justification, and other information.

3.15 The MOP will set forth the procedures for access to the resources and the guidelines, technical specifications and TORs for the design, execution and supervision of the different preinvestment and investment activities financed by the program. Use of the MOP will assure coherence among the proposed solutions and their sustainability.

3.16 Technical assistance in the planning and management of departmental roads will be provided by consulting firms and individual experts hired when the need for them has been identified by the FCV or they have been requested by the department. The institutional capacity of the departments and the need for, and characteristics of, institutional strengthening will be determined in periodic performance evaluations to be carried out by the FCV itself or by the technical management control firm.

D. Monitoring and supervision

1. Monitoring

3.17 The FCV will develop its own systems for monitoring administration, execution, and impact of the projects (road improvement, rehabilitation, and maintenance), technical and institutional assistance for the departments, and compliance with operating procedures.

3.18 Execution of the program will be monitored simultaneously on two planes: first, ongoing evaluation of results and the annual plans by the FCV and MT; and second semiannual evaluations by an independent firm. The indicators for monitoring results have been agreed upon with the FCV. They will be included in the MOP and used to quantify the efficiency of the FCV and the departments in executing the program.

2. Control of technical management

3.19 While the program is in operation, the FCV will commission a firm to conduct semiannual technical evaluations of program procedures and projects. These evaluations, based on samples will supplement complement the FCV's customary actions in this area, and their recommendations will identify areas in which the departments require institutional assistance or the FCV's administrative or technical procedures need to be revised. The firm must begin its first evaluation within twelve months after signature of the loan contract; the TORs for hiring the firm must have been agreed upon before the first disbursement. The firm's reports will be sent to the Bank upon presentation and will complement those referred to in paragraph 3.22.

3. Information system

3.20 The SNC has a system for monitoring and evaluating investment projects (SSEPI) consisting of methods and procedures for controlling the project cycle within the SNC. These methods cover the processes of identification, formulation, feasibility, approval, contracting, trust management, and project operation and monitoring; they also cover the performance of the FCV and the UDECOs as an integrated system by consolidating the information on the individual projects.

3.21 The principal functions of the SSEPI are to support the FCV in the administration, monitoring and evaluation of its investment projects and serving as a data base supplying management information on the performance of investment plans and programs.

4. Reports

3.22 **The FCV will present semiannual reports on all components of the project**. These reports will be presented to the Bank within sixty (60) days following the end of each calendar semester, and will describe the following aspects: (i) progress in relation to the execution indicators and the agreed disbursement timetable; (ii) revised execution and disbursement timetables for the rest of the program; (iii) fulfillment of contractual clauses, and (iv) the program of work and plans of action for the next two semesters. The first semiannual report of each year will include an annual report on maintenance.

5. Yearly reviews

3.23 **In July every year the Bank and the FCV will conduct a joint review of the progress made in executing the program and accomplishing its purposes**. The meetings will be attended by other agencies involved (the MT, INV, DNP and MHCP), and consultants and departments that have been parties to the investment and institutional strengthening

programs; beneficiary communities will be invited to participate with respect to works of particular interest.

3.24 The evaluations will provide an opportunity for a review of the following aspects: (i) progress in execution of the physical components of the project; (ii) behavior and performance of the FCV, departments, UDECOs, etc.; (iii) participation of the communities and departmental governments in the selection and management control of projects; (iv) revision and improvement of the PTIs; (v) suitability of the procedures set forth in the MOP; (vii) application of the environmental protection criteria; (viii) progress in restructuring and strengthening the departmental road administration; (ix) the financing and sustainability of routine maintenance; (x) justification of the investment, institutional proposals, and the plan of action and budget for the next period; and (xi) the timetable for execution of the program and the performance indicators.

3.25 If execution is found unsatisfactory, the government will draw up remedial action plans and present them to the Bank for clearance within the two months following the end of the mission. If these actions prove insufficient, the Bank will take remedial action, which may go as far as suspension of commitments

6. Ex post evaluation

3.26 The FCV, in consultation with the DNP and MHCP, has decided to conduct an ex post evaluation of the main components of the program within 12 months of completion. The cost of this evaluation will be met from counterpart resources, which have been provided for in the institutional development component. The agreement concerning the TORs to be used in this evaluation will limit the risk of duplicating the efforts of the project completion report.

E. Procurement

1. Civil works

3.27 For every contract over US$5 million an international public bidding operation (IPB) must be conducted. Works contracts exceeding US$250,000 in value will be awarded through domestic public bidding (LPB) in accordance with national legislation. Because of the size of the works and the resulting amount, there is little likelihood that foreign contractors will submit tenders in the IPBs and LPBs. Nevertheless, the bidding documents and procurement announcements will state clearly that enterprises in countries members of the Bank may participate and that the financing is partly assured by the loan to be granted.

3.28 Contracts for works whose costs are estimated at the equivalent of US$250,000 or less will be awarded by means of fixed price competitive bidding after considering quotes from at least three

qualified local contractors in response to a written invitation to tender in accordance with national legislation.

3.29 Contracts for small works projects with an estimated cost of US$50,000 or less may be let directly to microenterprises or small local contractors. The MOP will clearly state that in this situation no single contractor may accept more than three contracts at the same time in the same department, and that the combined total of these contracts shall not exceed US$3 million throughout the program.

3.30 Contracts for the construction of works and procurement of goods in values above US$5 million and US$350,000, respectively, shall be subject to Bank procedures.

2. Consulting services

3.31 Consultants will be engaged following the established procedures. The purposes for which they may be hired include the performance of economic, financial, and environmental studies, the preparation of engineering designs and supervision of works, technical assistance, training courses, auditing and management control services, and institutional strengthening. All contracts above US$200,000 shall be awarded on a competitive basis according to merit, and Bank procedures will apply.

3. Review of procurements

3.32 All IPBs and the first LPB for civil works prepared by each department shall be subject to prior review of the advertising, bidding documents, evaluation of tenders and award of contracts. The subsequent LPBs of each department shall be reviewed ex post. All documentation shall be processed by the FCV itself. Consideration of the documentation for the LPBs may be waived, at the Bank's discretion, in favor of a report from the FCV giving its opinion concerning the completeness and quality of technical documentation and compliance by the subproject with the requirements set forth in the MOP.

3.33 Bank procedures will apply to consulting firms and individual consultants whose services are estimated at US$100,000 and US$50,000 or more, respectively. In the case of consulting services costing less than these two amounts, only the TORs shall be subject to prior review.

F. Financial aspects

1. Revolving fund

3.34 A revolving fund will be opened with an authorization of 5% of the loan amount (US$5 million). The Bank will replenish this fund when it has received duly justified disbursement requests from the

borrower. The FCV will control the use of the fund and prepare the disbursement requests.

3.35 The stated figure is considered appropriate for the disbursements expected in the first year of program execution (US$9 million), but may become a constraint in the second and third years, when the use of funds will reach US$30 million and US$40 million, respectively. The operation of this revolving account will be examined during the course of the operation, and, if necessary, an increase to up to 10% of the operation may be recommended.

2. Replenishment of the revolving fund

3.36 To facilitate execution of the program in the case of financing agreements with departments, the revolving fund may be replenished through presentation, by the FCV, of evidence that it has transferred the resources specified in the agreements. In such cases, the supporting documentation for the expenses to be financed must be retained on file in the offices of the FCV or the department for consultation by the Bank during the ex post review. Expenses unsupported by any agreement must be justified by presentation of the corresponding payment vouchers. The request for replenishment of the revolving fund will be presented by the FCV through the MHCP. The supporting documents will be kept in the FCV and be available for inspection by a Bank mission or Country Office. Technical and economic information on the projects included in every disbursement request must be obtainable from the program's data base.

3. Audits

3.37 Audits will be carried out for the government by a private firm or through the Office of the Comptroller General of the Republic following principles and procedures acceptable to the Bank. These audits will oversee the expenditures of the program and the special account, the transfers and statements of expenditure, starting with the audit for 1998, in accordance with TORs approved by the Bank. While the project is in progress audited copies of the loan reports will be presented yearly to the Bank within four months following the close of the fiscal year.

4. Disbursement timetable

3.38 The disbursement period is four years.

IV. INSTITUTIONAL AND FINANCIAL ANALYSIS

A. The borrower and executing agency

4.1 The borrower will be the Republic of Colombia. The executing agency will be the Financiera de Desarrollo Territorial S.A. (FINDETER) acting through the Road Cofinancing Fund. FINDETER was created by Law 57 of 1989 to support local agencies (entidades territoriales, or Ets) for the promotion of regional and urban development, by providing financing and advisory services in the design, execution and administration of investment projects and programs. Later, by Decree 2132/92, the government broadened the scope of FINDETER's operations by authorizing it to administer a Cofinancing Fund for Road and Urban Infrastructures (FCIVU), which it was to handle as a special set of accounts.

4.2 Law 105 of 1993 created the Road Cofinancing Fund (Fondo de Cofinanciación de Vías) and amended the designations and purposes of the resources previously in the FCIVU.

4.3 The resources of this Fund are administered in trust and used to cofinance investment projects presented by ETs. FINDETER's mandate is clear in expressly forbidding it to participate in the execution of cofinanced projects.

B. Institutional framework

4.4 The administration of roads has undergone far-reaching changes in the last five years under the decentralization ordered by the Constitution of 1991. This process, which is still far from complete, has repeatedly changed directions in relation to a clear-cut transfer of roads to ETs. Not only has the departmental road system grown remarkably, having doubled since 1993, but a good many of the departmental governments are of low financial and institutional capacity. A still unconsolidated institutional base, an unclear delineation of responsibilities, and heavy dependence on budgetary allocations from the central government have prevented the departmental governments from meeting service needs and coordinating development programs.

4.5 Since 1993 the government has undertaken long-term measures to restructure and increase the efficiency of road administration. The process began with the creation of the MT and a restructuring of the road sector. The INV was established and given strict responsibilities for the national road system, which was clearly identified. It was decided that all roads not in this main road system were to be transferred to the ETs and the FNCV shut down. Though the latter measure has been reversed, the general outlines remain intact:

a. reorientation of the MT's mission to policy formulation, investment planning, coordination between modes of transport, regulation of road use, and supervision of the transportation system;

b. definition of the road management functions and responsibilities at the various levels of government, within the framework of the government's decentralization program. The responsibility for secondary roads devolves upon the departments, with financial support provided through the SNC;

c. establishment of a road agency (INV) with the technical, administrative and financial autonomy to administer the national road system. The principal functions of this agency include private-sector contracting for most of the works, with the broad use of construction-operation-transfer concessions and plans operating under the private sector labor regime;

d. a guarantee of continuous financing for road maintenance by central institutions and the establishment of mechanisms to finance the maintenance of roads for which local agencies become responsible as the government's decentralization program progresses.

C. Organic structure of the FCV

4.6 FINDETER has a Directorate of Cofinancing Funds, which reports directly to the Office of the President of FINDETER. The FCV operates as a special account administered by FINDETER, which provides general and specific support in administrative, financial, legal, human resource, information processing, and systems matters.

4.7 Under the Directorate of Cofinancing Funds is the Subdirectorate for Roads (FCV), with a staff of eight professionals and two auxiliaries who handle the technical, economic, budgetary and operational areas. In each of these areas, particularly the technical and economic, the professionals evaluate road projects within the purview of the FCV, provide technical assistance, and monitor agreements and projects executed by ETs. For aspects of general coordination of the program, its formulation and the special consultancies that are part of preparation of the operation (preparatory management, environmental consultancy, and regional consultancies), the FCV had and has a permanent adviser.

4.8 The FCV hires staff with resources allocated from the national budget. Owing to staff limitations, some activities, tasks, and responsibilities will be turned over to consulting firms and individual consultants, as in the case of the quality control and project management schemes and advisory services for departments on specific aspects of the program's institutional strengthening component.

D. Institutional structure at the department level.

4.9 The institutional structure is diverse at the subdirectorate level. Many subdirectorates have SOPs while others are evolving into secretariats of transportation. In almost all cases they are in the process of adapting to the responsibilities assumed since the transfer of the road system.

4.10 The challenge facing the directorates, and hence the program, is to develop a flexible and professional road administration, with great capacity for works planning and private sector contracting. The initial outlook is encouraging, for most of the administrations are adopting this orientation, favored by the requirements of Law 105 and of the FCV, which does not finance works on force account.

E. Other departmental institutions

4.11 There are two institutions that play a primary role in the departments: the UDECOs and CODECOs. The former are technical bureaus that enroll, register, and comment on the feasibility of projects, and control and monitor cofinanced projects. They are housed in the departmental planning offices and are supported by their respective sectoral secretariats. The FCV provides them with instruction and training as well as equipment.

4.12 The CODECO is a policy and technical decision-making committee that is chaired by the governor and composed of mayors and community and FCV representatives. It approves the allocations of resources to the different projects and, in cases of works and institutional support for which the department is responsible, its agreement is required for the Administrative Board of the FCV to consider approving requests for those resources.

F. Financial analysis of the program

4.13 In 1996 the FCV asked for 10.3% of the national budget resources for transportation. This percentage has risen steadily since its creation (5.0% in 1994, 6.3% in 1995). The investment in the program will entail a perceptible increase above the present investment level, and stands at levels that are budgetarily and fiscally feasible. While the DNP and MHCP have no financial projections for the FCV for future years, the preliminary draft budget for 1998 and the forecasts for allocations to the program (for the years 1998-2001) confirms this.

G. Recent history of road investment

4.14 The investment resources available and allocated have increased steadily since 1993, the year in which the FCV was established. Since then, and with the decision to transfer the secondary and tertiary roads to the departments, the volume of resources administered by the FCV has risen significantly. In 1994 and 1995

these resources were used to meet the rehabilitation commitments assumed by the national government before the transfer, but these commitments have been gradually fulfilled, largely freeing up the increased resources for allocation to departmental priorities.

4.15 In the period 1993-1997, fiscal resources rose from US$20.6 million to US$67.4 million after peaking at US$117.8 million in 1996, reflecting the government's fiscal effort and political will to meet the commitments undertaken as justification for the transfer. These figures will rise in 1998 and the years thereafter according to the National Development Plan and document CONPES 2940. 17/

4.16 The national agencies involved in financing the road system, irrespective of jurisdiction, are three: the INV, FCV and the former FNCV, which was reorganized by Law 188 but whose future role has not been clearly defined. The operations of the central government in the road sector have increased considerably owing in part to loans made by several multilateral lending agencies, notably the IDB and the World Bank, and above all the effort made by the National Treasury, which considerably increased its disbursements. Additional investments are being made through the departmental governments, but it has not been possible to determine their amounts.

4.17 The increase in resources allocated by the national government to the road sector in recent years and its commitment to maintain the present amount in the coming years express a political will to respond to the needs of the sector. The government will have to confirm its commitment every year by appropriating on the budget the fiscal resources needed to carry out the investment program in the sector.

17/ Document CONPES 2940. Authorization to the national government to contract an external loan for the partial financing of the Departmental Roads Program, July 30, 1997.

V. JUSTIFICATION OF THE PROJECT

A. General remarks

5.1 The program is in line with the general administrative decentralization policy of the Government of Colombia, transferring increasing responsibilities and resources to local entities. In executing the program the government has several purposes: (i) to consolidate the road transfer process by strengthening the departments institutionally and financially; (ii) to develop road planning and management capacity; (iii) to promote rehabilitation, improvement, and routine maintenance of the departmental road system; (iv) to reduce transportation costs; and (v) to develop the market of small and medium-scale enterprises of road-building contractors and consulting firms.

5.2 This project is also in line with the Bank's road sector strategy of reducing transportation costs, and thereby promoting mobility and facilitating access for the population, while improving maintenance and thus stimulating economic activity and enhancing the quality of life.

B. Technical feasibility

5.3 Analysis of the roads to be rehabilitated and maintained in the first year of the program and the results obtained in the course of its preparation show that the envisaged rehabilitation and maintenance operations embody valid technical solutions. There are technical designs, including general environmental specifications (DEAM environmental management plans), for roads covered by the first year of program execution, and those designs are appropriate for the present condition and expected use of those roads. Technical quality will improve with execution of the program as the departments, consulting firms, contractors, and supervisors become familiar with the requirements specified in the TORs contained in the MOP.

5.4 Preparation of the program is complete; in 1996 the FCV funded road rehabilitation, improvement, and maintenance with an investment of US$81.8 million; while the investment envisaged for 1997 is smaller (US$36.6 million), these figures confirm the technical feasibility of the program and the management capacity and institutional development of the executing agency.

5.5 The funds are provided in a blanket appropriation without identifying the specific roads concerned in the FCV's budget. Though the 1998 investment plan has already been established, the yearly administration meeting will monitor its implementation and review the list of roads to be improved, rehabilitated, and maintained.

5.6 The FCV has selected the departments to be participating in the first year investment plan (paragraph 3.6), excluding those lacking the technical, institutional, or financial capabilities required. All departments, however, are eligible for the institutional development resources.

C. Institutional feasibility

5.7 The FCV's organizational and operating structure is up to the task of executing the program. The professional and technical staff have participated actively in its formulation and preparation and have enough experience to administer it once the financing is approved. **As a condition precedent to the first disbursement, the FCV will hire four professionals to complement its present staff.**

5.8 The FCV will engage external consultants to complement its own capabilities in technical, administrative, and financial aspects and to provide timely evaluations of execution and results. It also has TORs approved by the Bank for the commissioning of any specific technical assistances that prove necessary (engineering, economic feasibility and environmental studies, institutional assistance to local governments, procurement procedures, MEMRs).

5.9 While the SNC's procedures are bureaucratic and complex, and the budget act imposes additional hindrances, the program can be executed in the present circumstances. The departments are acquainted with these difficulties and will takes steps to increase procedural flexibility as more technically demanding projects are presented. During preparation of the operation, the country's various national bodies (the FCV, DNP, MHCP and the Congress) showed a willingness to gradually make those standards and procedures more flexible.

D. Financial feasibility

5.10 As explained in the preceding chapter, the program's financial feasibility rests on the priority the government has assigned to it, the government's commitment to finance the departmental road sector, and the availability of budgeted funds. Under this program the counterpart resources, throughout the period 1998-2001, will total US$67 million, to be drawn in yearly appropriations from the FCV's budget in accordance with the investment calendar. This yearly appropriation will be equivalent to the FCV's budget for the last three years.

5.11 The government is not expected to have any difficulty in fulfilling its financial commitments to the program, given the limited impact on the FCV's finances. And in any case, the program allows for adjustments in the investment plan and in the availability of local funds for subsequent years as well as possible recognition of the departmental contribution as a counterpart to the loan.

5.12 Finally, the government attaches high priority to this program, as confirmed by the Ministries of Transport and of the Treasury and Public Credit. This priority is not expected to change in the near future.

5.13 Regarding the reserve deposit requirement imposed by the Banco de la República for foreign loans, the fiscal arrangements set up by the MHCP should mitigate any significant impact on program. disbursements and execution. Under these arrangements the MHCP will: (i) deposit the 30% withholding from each disbursement in the Banco de la República for the 18 months required by the latter institution, or (ii) deposit an amount equivalent to the cost of immobilizing the resources.

5.14 The MHCP asserts that these measures, though adding further administrative formalities, will not delay the financial execution of the program; it has confirmed that the deposit in the Banco de la República will be available to the PAC, and the FCV will present the disbursement plan in order to anticipate the treasury requirements that apply to that deposit.

E. Economic feasibility

5.15 According to the eligibility criteria described in paragraphs 3.7 to 3.10, the works included during the preparation and those in the first year of the project have demonstrated their economic feasibility with an economic return above the threshold rate of 12%.

F. Environmental feasibility

5.16 The Environmental Committee has placed this project in category III; in consequence, the project includes several measures designed to assure the validity of the program from the environmental standpoint. The FCV has included in its technical procedures measures for preservation of the environment and has acted in conjunction with the MT, MMA and the CARs to have these procedures adopted by the environmental enforcement authority and the department. The EIA was published on August 20, 1997 and sent to the PIC on September 17. The Environmental Summary was submitted on October 6.

G. Contribution to the war on poverty

5.17 Though the project is not specifically designed for the alleviation of poverty, its execution will redound to the benefit of many rural communities that, though located in the environs of the major cities and production consumption centers, are not served by proper road links with them. The project is not specifically designed to solve women's problems, except that its execution will improve access to social services such as hospitals and schools, which is a proportionately greater benefit.

H. Benefits

5.18 The general benefit of the program stems from the improved capacity to manage the departmental road system. Greater participation by the private sector in its rehabilitation and maintenance will improve the conditions of travel in that system, which will reduce travel costs, enhance safety, and have a considerable impact on the regional economies.

5.19 In particular, the adoption of strict road planning criteria and their yearly review by competent agencies (the FCV, MT and DNP) and especially by the community as they are publicized and circulated, will endow road management with a stability and transparency it has heretofore lacked. All this, supported by strict technical criteria for the sizing, evaluation and design of projects based on the MOP, will gradually make road management increasingly professional.

5.20 In addition, the decentralization of road management, which the program supports, is giving more faculties to the departmental governments, while continuity in the allocation of resources will make it possible to plan works of larger scope. In turn, the program will support the departments in the transfer of the tertiary road system under their responsibility to municipal governments. Lastly, routine maintenance is encouraged as the sole way to preserve the irreplaceable resource of the road system.

I. Risks

5.21 The risks of the program relate to (i) access for the departments to FCV resources; (ii) the execution capacity of beneficiary entities, and (iii) departmental financing. These risks are mitigated for the first year projects by the fact that the FCV and the 1998 budget law have restricted investment to departments possessing the technical, institutional and financial capacity to carry out the program. In subsequent years the program will collaborate with the other departments so that they may participate in the investment components.

5.22 Regarding the first risk, the procedures for gaining access to cofinancing resources are clear but complex, which hampers and delays the use of such resources. The experience acquired by the departments since the FCV was established mitigates this risk somewhat and places more emphasis on the importance of planning to avoid difficulties.

5.23 The second risk will be controlled by specific consultancies in areas where departments require them to adhere to program conditions. Once the need for technical assistance has been identified, the beneficiary must come to an agreement with the FCV on its scope, objectives, and context.

5.24 As for the case of the third risk the program is flexible enough so that support can be provided for those departmental works where budgetary restrictions would not preclude the coparticipation required by the FCV. The program will identify the financial needs of projects and the available sources of financing. With the pluriannual PTIs it will be possible to make financial forecasts that will mitigate this risk.

COLOMBIA

Departmental roads program (CO-0058)
Logical framework and indicators

CRIPTIVE SUMMARY	QUANTIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
e departmental road transport re efficient by reducing its costs and travel times and the road supply the institutional, technical, nd departmental management road matters	At the close of the project: 1. the principal roads of the departmental road system (RVPD) have been rehabilitated 2. all the roads of the departmental RVPD are under a routine maintenance program 3. the departments are drawing up their PTIs	1. Road inventories and departmental infrastructure and transportation plans	1. ongoing government support of decentralization and financi RVPD 2. continuation of and improvem cofinancing system; developm income sources
of works for improvement, on and maintenance of principal l strengthening and tion of road management and execution of pluriannual enance and investment plans. of participation in road nt by private sector	At end of the Program 1. the participating departments have a reliable and sustainable road management system 2. 75% of the RVPD roads are in good condition and undergoing sustainable routine maintenance 3. the departments are allocating sufficient resources for these functions	1. statistics of the FCV and local governments 2. FCV's data base and departmental road inventories 3. performance audits done by independent auditors 4. contractual information and supervision reports prepared by consultants 5. departmental and FCV budgets	1. existence of departmental cou resources to meet cofinancing requirements 2. simplification of procedures fo FCV resources

ent, rehabilitation and routine ce of the main RVPD roads	1. 1,280 km of the RVPD have been rehabilitated and improved and are in good condition for service 2. 2,400 km of roads are regularly maintained and remain in an adequate state of repair	1. road inventories and PTIs of departments and FCV data base 2. surveys of condition of roads, as part of performance audits 3. evaluation of FCV and departments by the Bank as part of administration of the Program	1. departments and FCV operati executing the Program in acc agreed performance indicator 2. departments have adopted a culture" 3. execution of works on schedu possible by internal safety 4. successful establishment of M 5. departmental participation in assistance program 6. successful coordination with agencies
evelopment component			
ent of departmental capacity for ning and management transfer of departmental tertiary ent of microenterprises and small rprises for maintenance	1. FCV, monitors road investments and performance of participating departments 2. The PTIs have implemented the functional classification of the roads and the inventory 3. at close of Program, 50 microenterprises and small enterprises have routine maintenance contracts	1. satisfactory evaluation of FCV by the Bank 2. data base for monitoring the project administered by FCV 3. performance audit of institutional development components	1. departments identify their inst weaknesses and express inter remedying them 2. there is community interest in MEMRs
our professionals by FCV	US$750,000	1. administration of operation by COF/CCO	1. availability of local and intern consultants with the necessar qualifications and experience
ent of technical auditing firm	US$270,000		
rms for technical assistance to nts	US$1,030,000		
ent of CyE workshops	US$515,000		
t for FCV and departments	US$710,000		
ecentralization of tertiary system	US$30,000		
nd environmental studies	US$185,000		

COLOMBIA

Departmental roads Program
CO-0058

Procurement plan

Main areas of procurement under the Program	Financing %		Method	Prequalification (yes/no)
	IDB	Local		
1. Civil works				
1.1 Rehabilitation, improvement and periodic maintenance 80 lots US$107.7 million	62	38	LPB	NO
1.2 Routine maintenance 180 lots US$18.2 million	38	62	LPB	NO
2. Consulting services				
2.1 Engineering designs 80 lots US$7.5 million	60	40	LPB	(1)
2.2 Supervision of works 100 lots US$13.9 million	60	40	LPB	(1)
2.3 Institutional strengthening 30 lots US$3.5 million	80	20	LPB	(1)

(1) Prequalification will depend on the amount of the contract. Estimated date of publication of the AGA: first quarter 1998.

PROPOSED RESOLUTION

COLOMBIA. LOAN ___/OC-CO TO THE REPUBLICA DE COLOMBIA
(Departmental Road Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republica de Colombia, of Colombia, as Borrower, for the purpose of granting a financing to cooperate in the execution of the Departamental Road Program. Such financing will be for the amount of up to one hundred million dollars of the United States of America (US$100,000,000) from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" set forth in the Executive Summary of the Loan Proposal.