



Board of Executive Directors

For consideration

On or after 9 November 2016

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Simultaneous Disclosure

To: The Executive Directors
From: The Secretary
Subject: Uruguay. Proposal for a Conditional Credit Line for Investment Projects (CCLIP) for the "Productive Rural Road Improvement Program" and first individual loan under the line for the "Productive Rural Road Improvement Program"

Basic Information:

Loan type Conditional Credit Line for Investment Projects (CCLIP)
Borrower Eastern Republic of Uruguay

Line of Credit

Amount up to US\$300,000,000
Source Ordinary Capital

Individual Loan

Amount up to US\$75,000,000
Source Ordinary Capital

Inquiries to: Andrés Pereyra (telephone Country Office in Uruguay 598-2915-4309) or Emilio Pineda (telephone Country Office in Uruguay 598-2915-4204)

Remarks: This operation is included in Annex III of document GN-2849, "2016 Operational Program Report", approved by the Board of Executive Directors on 3 March 2016. However, the loan amount exceeds the ceiling established for Group C countries. Therefore, the operation does not qualify for approval by Simplified Procedure.

Reference: GN-1838-1(7/94), DR-398-17(1/15), GN-2805 (3/15), GN-2246-1(7/03), DE-58/03, GN-2246-4(12/06), DE-10/07, GN-2246-7(11/07), DE-164/07, GN-2564-3(12/11), DE-225/11

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

**CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE
PRODUCTIVE RURAL ROAD IMPROVEMENT PROGRAM
(UR-O1150)**

**FIRST INDIVIDUAL OPERATION UNDER THE CCLIP: PRODUCTIVE RURAL
ROAD IMPROVEMENT PROGRAM
(UR-L1114)**

LOAN PROPOSAL

This document was prepared by the project team consisting of: Andrés Pereyra (TSP/CUR), Project Team Leader; Emilio Pineda (FMM/CUR), Alternate Project Team Leader; Miroslava Nevo and Virginia Navas (INE/TSP); Elías Rubinstein (TSP/CUR); Rodolfo B. Graham (LEG/SGO); Nadia Rauschert and David Salazar (FMP/CUR); Melissa Barandiarán (VPS/ESG); Claudia Di Fabio and Adriana Torres (CSC/CUR); and Nicolás Rezzano and Diego Gagliardi (consultants).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

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ELECTRONIC LINKS
REQUIRED
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2. Monitoring and evaluation plan
3. Environmental and social management report
4. Procurement plan
OPTIONAL
1. Project economic analysis
2. Environmental and social management framework
3. Program Operating Regulations
4. Report on technological testing on rural roads
5. Approved technical-cooperation operation UR-T1140 (ATN/OC-15631-UR)
6. Review of eligibility criteria pursuant to document GN-2246-7
7. Safeguard policy filter report and safeguard screening form

ABBREVIATIONS

AADT	Average annual daily traffic
CCLIP	Conditional credit line for investment projects
DDIP	Dirección de Descentralización e Inversión Pública [Decentralization and Public Investment Department]
DEM	Development effectiveness matrix
EIRR	Economic internal rate of return
ESMR	Environmental and social management report
HDM-4	Highway Development and Maintenance Management Model 4
ICB	International competitive bidding
km	Kilometer(s)
LIBOR	London Interbank Offered Rate
MTOP	Ministry of Transportation and Public Works
OC	Ordinary Capital
OPP	Oficina de Planeamiento y Presupuesto [Office of Planning and Budget]
PCR	Project completion report
PNCRD	Programa Nacional de Caminería Rural Departmental [National Program for Departmental Rural Roads]
SINAE	Sistema Nacional de Emergencias [National Emergency System]
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]
Veh-km	Vehicle-kilometers

PROJECT SUMMARY

URUGUAY CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE PRODUCTIVE RURAL ROAD IMPROVEMENT PROGRAM (UR-O1150)

FIRST INDIVIDUAL OPERATION UNDER THE CCLIP: PRODUCTIVE RURAL ROAD IMPROVEMENT PROGRAM (UR-L1114)

Financial Terms and Conditions							
Borrower: Eastern Republic of Uruguay			Flexible Financing Facility^(a)				
			Amortization period:		25 years		
Executing agency: Oficina del Planeamiento y Presupuesto [Office of Planning and Budget] (OPP), under the Office of the President			Original weighted average life (WAL):		15.25 years ^(b)		
			Disbursement period:		5 years		
			Grace period:		5.5 years		
Source	CCLIP (US\$)	First program under the CCLIP (US\$)	Inspection and supervision fee:		(c)		
IDB (OC)	300 million	75 million	Interest rate:		LIBOR-based		
Local	150 million	55 million	Credit fee:		(c)		
Total	450 million	130 million	Currency of approval: United States dollars chargeable to the Ordinary Capital (OC)				
Project at a Glance							
<p>Objective of the CCLIP: The CCLIP's objective is to help raise productivity through rural road system construction, improvement, rehabilitation, and maintenance, as well as to improve mobility and freight and passenger transportation services under the jurisdiction of the departmental governments.</p> <p>Objective of the first program under the CCLIP: The general objective is to help raise productivity in rural areas by improving rural road infrastructure. The specific objective is to help improve accessibility and lower overall transportation costs through rural road rehabilitation and maintenance. The program will also serve to enhance the ability of public agencies, both national and departmental, to make public expenditure on delivery of rural road infrastructure services more efficient.</p> <p>Special contractual condition precedent to the first disbursement of the loan proceeds: As a special contractual condition precedent to the first disbursement of the loan proceeds, the core staff of the coordination unit under the Dirección de Descentralización e Inversión Pública [Decentralization and Public Investment Department] will be assigned, and the program Operating Regulations, which are to include the program's Environmental and Social Management Framework, will be in effect (paragraph 3.2).</p> <p>Special contractual conditions for execution: As a special contractual condition for execution of the component I works to be carried out by each departmental government, the framework participation agreement between the respective departmental government and the national government (paragraph 3.5) will be signed.</p> <p>As an environmental and social condition, the borrower will verify, through the executing agency, that each contractor has obtained prior environmental authorization for the corresponding quarry (paragraph 2.8) before the material start of the works under component I.</p>							
Exceptions to Bank policies: None							
Strategic Alignment							
Challenges:^(c)		SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI	<input type="checkbox"/>
Crosscutting themes:^(d)		GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC	<input checked="" type="checkbox"/>

^(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) The WAL will be recalculated at the time the contract is signed and may not exceed 15.25 years.

^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 **Rural roads.**¹ The departmental rural road system comprises approximately 40,000 kilometers of roads, 12,000 kilometers of which are particularly important economically because they serve as routes for moving agricultural goods to national highways and because they provide connectivity for the departments' smaller towns and rural communities.² The remaining 28,000 kilometers are country roads. Most of this road network is made of granular material, is prone to flooding during extreme events, and in many cases has limited load capacity. The entire network (40,000 kilometers) falls under the jurisdiction of the departmental governments,³ which are responsible for its management and upkeep, usually performed on force account, for which they rely on funding and technical support from the national government.⁴
- 1.2 **Robust growth of forestry and agricultural production.** Over the last decade, Uruguay's agriculture sector has undergone significant economic and technological transformations, which have driven its development and, to a great extent, the development of the country.⁵ These transformations—underpinned by the introduction of cellulose pulp industries and the flow of foreign investment and technology into the agriculture sector—led to a 38% expansion of agricultural and forest areas from 2007 to 2014, from 2.3 million to 3.2 million hectares. Meanwhile, increased yields (122% in agriculture and 63% in the forestry sector over the same period) have led to output levels of 7.7 million tons and 12.4 million cubic meters, respectively.⁶
- 1.3 This economic growth has placed greater demands on roads. From 2005 to 2013, truck traffic on national highways increased by an average of 13% annually, ultimately hauling a little over 30 million tons, more than 60% of which were agricultural goods and roundwood. This increase in traffic also extended into the departmental rural road network, where nearly 800 kilometers saw intensive traffic (more than 30 trucks with freight per day) associated primarily with the transport of

¹ Uruguay has a dense road network—approximately 1 kilometer of road for each 3.5 km² of land. The network comprises approximately 9,000 kilometers of national highways managed by the national Ministry of Transportation and Public Works and 40,000 kilometers of departmental rural roads.

² According to the 2011 census, 16% of Uruguay's population lives in rural areas and in towns with fewer than 5,000 residents. The rural population is 175,613, while 340,537 people live in small towns. Source: National Statistics Institute, www.ine.gub.uy.

³ The country is organized into 19 departments—also known as *intendencias*—pursuant to Law 18 of December 1908 and Law 9,515 of 1935 (Municipal Act). The departments are autonomous as regards the executive management of services in their territory in all areas not exclusively placed under national jurisdiction by the law.

⁴ Funding for the departments comes primarily from two sources: (i) Departments' own revenues from land-based taxes (urban and rural property taxes) and automobile taxes; and (ii) transfers from the national government. Articles 297 and 298 of Uruguay's Constitution stipulate the funding the national government is to provide to the departments. The former sets aside a percentage of the national budget, while the latter allocates a share of national revenues generated outside Montevideo.

⁵ Gross domestic product grew at an annual rate of 5.4% from 2004 to 2014, doubling the historical average of the previous three decades. Source: <http://data.worldbank.org>. During that same period, exports climbed from US\$3 billion to US\$9.2 billion, driven by growth in agriculture, which rose from 50% to more than 75% of exports. Source: Uruguay XXI. <http://www.uruguayxxi.gub.uy>.

⁶ See [Documento de Procesos Logísticos en las Principales Cadenas Agropecuarias, December 2012](#).

- timber. Another 13,000 kilometers are seeing moderate traffic (more than 10 trucks with freight per day) that is equal parts timber and agricultural transport.⁷
- 1.4 **Insufficient investment and deterioration of road infrastructure.** The growth of the agriculture sector has put more pressure on upkeep and traffic conditions on departmental rural roads and highways that were never designed for the current demand. At the same time, spending on road infrastructure maintenance has not been adjusted to the new reality and as a result, efforts made by the national government and the departments have not been enough to keep departmental rural roads and highways maintained.⁸ Several technical reports, among them the [Sector Note](#)⁹ prepared by the Bank, estimate that more than US\$2 billion will be needed during the current five-year administration to recover and maintain Uruguay's road infrastructure, including the national highway system and the productive rural roads network under departmental jurisdiction.
- 1.5 Since 2011, for purposes of addressing demand and making up for lagging investment, the national government has been increasing transfers to the departments for maintenance of departmental rural roads, with transfers climbing from US\$14 million in 2006 to US\$26 million in 2011 and US\$39 million in 2014. Despite the spending increases, however, departmental rural roads are in a substandard state of repair. According to the Ministry of Transportation and Public Works (MTO), in 2011 just 43% of the departmental road network was in good condition, with conditions having reportedly worsened since then due to the impact of flooding in the past year.
- 1.6 **Climate change and extreme events.** In recent years, Uruguay has experienced extreme climate phenomena more commonly than in the past. Specifically, there have been greater volumes and concentrations of precipitation in short periods, triggering larger and more frequent floods and temporary collapses of departmental rural roads. This has placed greater demands on hydraulic works (culverts and

⁷ Three million tons of timber, 525,000 tons of agricultural products, 141,000 tons of livestock, and 15,000 liters of fresh milk are transported over the heavily trafficked rural roads (800 kilometers), while 8.6 million tons of timber, 6.9 million tons of agricultural products, 2.8 tons of livestock, and 1.4 million tons of fresh milk are hauled on the 13,000 kilometers of roads with moderate traffic. See [Documento de Estimación de Uso de la Red de Caminería Rural](#).

⁸ The roads in the sample have narrow carriageways (normally five to six meters), no shoulders, granular surfaces, poor drainage, are generally in a poor state of repair, and have poor drainage. These roads are maintained, but maintenance largely depends on resource availability, rather than following an efficient schedule (hardpan roads require very strict scheduled maintenance). The condition of a road's wearing course is measured based on the International Roughness Index (IRI), which for the roads in the sample is between 11 mm/m and 16 mm/m, with an average of about 14 mm/m. The poor condition of those roads, with their high levels of surface roughness, normally accompanied by rutting, potholes, etc., translates into relatively low traffic speeds (notwithstanding the effects on speed caused by the roads' geometry), which for light vehicles is estimated to be between 38 km/h and 48 km/h, as well as into vehicle operation costs for heavy trucks on the order of US\$1.71-US\$1.83/vehicle-kilometer.

⁹ See [Nota Sectorial sobre Transporte de Cargas y Movilidad Urbana](#).

- bridges) and pavement maintenance and has led to longer periods during which these roads cannot be used for the transit of people and goods.¹⁰
- 1.7 **Decentralization of public expenditure.** Like the majority of Latin American and Caribbean countries,¹¹ Uruguay has gradually decentralized public spending by means of increases in transfers from the national government to the departments. With the Fondo de Desarrollo del Interior [Fund for Development of the Interior]—established as part of the constitutional reform in place since 1997—and more recently, with the creation in the national budget of a fund for Municipal Budget Programs,¹² transfers from the national government to the departments have risen from 0.6% of GDP in 2000 to 1.1% in 2014.
- 1.8 **Weak departmental investment planning.** Despite increased transfers from the national government, the departmental governments continue to show weaknesses in management, particularly where infrastructure investments and public services delivery are concerned, which in turn undermines local and regional development potential. The main factors that adversely affect departments' ability to execute infrastructure investments are: (i) reduced revenues due to decreased property tax receipts resulting from weaknesses in managing tax collection and in updating property registries; and (ii) insufficient availability of departmental financial data for use in planning investments and operating costs.¹³ Specifically, the departmental governments have experienced difficulties in efficiently managing investments in the rural road network under their jurisdiction,¹⁴ especially when it comes to prioritizing roads, selecting the most efficient technical standard, and planning investments.
- 1.9 Additionally, owing to the increase in extreme climate events, available resources have had to be redirected to address emergencies in order to enable vehicles to use the roads. It is worth noting in this regard that departmental governments have failed to factor risk management criteria relating to natural threats and climate change adaptation into investment project planning.¹⁵
- 1.10 **The national government's strategy.** The national government intends to improve and adapt Uruguay's road infrastructure, national highways, and departmental rural roads to meet new demand requirements, and to that end is planning to: (i) significantly increase the budget; (ii) develop new financing mechanisms by increasing private sector participation; (iii) enhance management tools; and

¹⁰ [News article: Rutas y caminos cortados por inundación en Florida durante las lluvias extraordinarias de abril de 2016.](#) According to data collected by Office of Planning and Budget (OPP) technical staff, during this extreme event, 106 points on the departmental rural road network were flooded or damaged by water, preventing transit for approximately 12 hours, while another 66 points remained impassable for approximately 8 hours.

¹¹ See [Decentralization and Subnational Governments Sector Framework Document.](#)

¹² See [Nota Técnica sobre Descentralización.](#)

¹³ See [Nota Técnica sobre Descentralización.](#)

¹⁴ As a result, for example, departmental governments have been unable to execute all available resources by the close of the year. In 2014, 93% of committed funds were executed, while 96% were executed in 2015.

¹⁵ A model ordinance and a land management tools guide were developed under the Subnational Development and Management Program (loan 2668/OC-UR); they include criteria for adaptation to climate change risk, but have not been implemented effectively by any departmental government.

- (iv) make innovative changes to the road maintenance strategy and introduce new pavement technologies.
- 1.11 In the specific case of the departmental rural road network, the National Budget Act¹⁶ provides for a 90% increase in transfers during the current five-year cycle, which, together with the departmental governments' contributions, would amount to US\$150 million during the period. In order to enhance the quality of investment management, a commitment has been made to distribute 48% of this figure for the five years instead of annually. This outside-the-box approach aims to prioritize comprehensive road rehabilitation projects, including maintenance, rather than specific works.
- 1.12 The national government, for its part, plans to implement a new management strategy that will make it possible to repair the infrastructure and ensure its maintenance. In addition to increasing spending on rehabilitation and maintenance, it will: (i) incorporate new technical and financial management tools, including investment planning and programming tools; (ii) support greater technical capacity-building; and (iii) promote technological innovation in the construction and maintenance of rural roads.
- 1.13 **Decentralization and institution-strengthening.** For the current period, the national government intends to continue to pursue its decentralization policy and give a greater push to capacity-building within the national government and the departments, to facilitate the implementation of investments and make services accessible to citizens. The current National Budget Act guarantees financing for existing decentralization programs and includes additional financing for municipal management development.¹⁷ This has also resulted in the strengthening of the Dirección de Descentralización e Inversión Pública [Decentralization and Public Investment Department] (DDIP) of the President's Office of Planning and Budget (OPP),¹⁸ whose role it is to help the departmental governments to improve expenditure efficiency and quality. This will be accomplished by introducing tools to improve the departments' fiscal management and investment planning, and by making management improvements sustainable.
- 1.14 In the National Budget Act, the national government shifted the responsibility for technical advisory services and for administration of financial support provided to the departments for the management of their rural roads from MTOP to the OPP. This brings all programs implemented by the departments with national government funding contributions under the DDIP.¹⁹ The national government hopes that with the DDIP's specialization, improvements in departmental government management resulting from other decentralization programs will also have an impact on the

¹⁶ Law 18,719 of 2015.

¹⁷ This third level of government was established by Law 19,272 of 2009.

¹⁸ Execution unit of the Office of the President (Article 230 of the 1967 Constitution); its responsibilities include developing national and departmental plans, programs, and policies, as well as planning the decentralization policy to be pursued by the national government and the departments.

¹⁹ Article 230 of Uruguay's Constitution sets forth that the OPP will assist the Executive Branch with decentralization policy planning. The DDIP is already implementing the street lighting programs, the Fund for Development of the Interior, the Subnational Development and Management Program, the Uruguay Integra and Uruguay Más Cerca programs, the National Vehicle Tax Unification Fund, and the Municipal Management Incentives Fund, to which the Rural Roads Program would now be added.

management of rural road investments. To this end, the DDIP has created a Rural Roads Program that will administer national government and departmental counterpart funds, based on investment planning and execution oversight, as in all other programs.

- 1.15 The national government's intention is for the departments to improve planning of investment in departmental rural roads, in order to properly prioritize spending and to ensure investments are maintained.²⁰ It therefore plans to work with the departments on: (i) development of road programs; (ii) identification of appropriate technical and economic solutions; (iii) systematized documentation of quality data relating to physical and financial execution; and (iv) human resource training for management, design, direction, and inspection of rural road works.
- 1.16 **Strategy of the departmental governments.** Midway through the first half of 2016, the national government and the departments agreed to work on developing a long-term strategic plan for departmental rural roads that reflects new demand conditions, the needs of each department, and climate change adaptation.²¹ They also identified the need to incorporate new construction technologies and to more strongly emphasize the quality of execution and materials, as well as to bring in machinery and possibly involve the private sector in infrastructure financing.
- 1.17 **National Public Investment System (SNIP).** It is important to highlight that the budget act requires investments made by the departments to be analyzed in the framework of the SNIP, the purpose of which is to optimize public investment for economic and social development. This will help improve the quality of investments based on previously determined technical criteria and ensure that the options implemented have a positive socioeconomic and environmental return.
- 1.18 **Contracting of construction companies.** In order to be able to implement larger-scale, more complex works, and to address the expected higher level of rural road rehabilitation and maintenance activity, the national government and the departments intend to promote the development of medium-sized construction companies in order to increase the supply and competition in the particular type of works financed by the program. Some departments are already using private contractors to carry out certain types of rural road works, such as engineering works, asphalt concrete paving, and drainage encasement. The works managed under the Subnational Development and Management Program²² are implemented exclusively through contracts with private contractors.
- 1.19 **Technological innovation.** With the infrastructure investment strategy and MTOP's openness to introducing new paving technologies, new materials for stabilizing granular pavements are now available in the country, and works contractors have been able to purchase equipment for pavement recycling. Also, some departments have been able to begin to incorporate these technologies into pavement improvement projects using onsite recycling and stabilization techniques, which are more economical than traditional reconstruction. The OPP, along with several

²⁰ Pinstrup-Andersen and Shimokawa (2006) point out that despite high economic returns, developing countries have invested little in recent decades, identifying as one reason that decentralization policies have resulted in a mismatch between resources and needs.

²¹ [Press release: GN y GD proponen Plan Estratégico Nacional de Caminería Rural.](#)

²² Loan 2668/OC-UR (operation UR-L1038).

departmental governments, has begun testing to try out different technologies and assess the viability of incorporating them into the designs of departmental rural roads ([optional electronic link 4](#)).

- 1.20 **Gender in the roads sector.**²³ While the percentage of women in the road construction subsector (6%) is slightly higher than in the construction sector as a whole (4%), this figure is far below the average for the broader economy (44%). There is also inequity in the distribution of tasks, where just 43.3% of women perform operational tasks, as opposed to 88.1% of men; there are almost no women in management and director positions in the subsector, compared to 15% in the construction sector as a whole.
- 1.21 **Technical cooperation.** The Bank has approved a nonreimbursable technical-cooperation operation (ATN/OC-15631-UR) to support the studies that need to be conducted in order to begin program implementation and to strengthen the technical execution capabilities of the OPP and the departments. It includes design of the management strategy for the departmental rural road system and development of the National Departmental Rural Roads Program (PNCDR), as well as training plans and the PNCDR's technical and financial management tools. It also aims to strengthen the program already under way for technological innovation in road maintenance. The operation should deliver the first findings needed for execution by the start of the program. The DDIP is the executing agency for the operation.
- 1.22 **Conditional credit line for investment projects (CCLIP) UR-O1150 and program UR-L1114.** Uruguay has requested a 15-year CCLIP from the Bank, to gradually rehabilitate rural roads through management programs, and to enhance the planning and management capabilities of the departmental governments. Each of the individual operations will finance projects involving two types of activities: (i) specific works on rural roads identified in road management programs; and (ii) institutional strengthening of the departments for purposes of improving planning and management of spending on departmental rural roads.
- 1.23 **Coordination with CCLIP UR-O1148 and program UR-L1111.** This CCLIP and program are part of a broader effort by Uruguay to develop departmental infrastructure and to build departmental government capacity. Accordingly, this operation is being coordinated with CCLIP UR-O1148 and its first operation, UR-L1111, the objective of which is to improve fiscal management and public investment by the departmental governments. Both operations have built synergies into their design, among them a shared execution unit and harmonized execution procedures, such as the program Operating Regulations and the Environmental and Social Management Framework.
- 1.24 **Rationale for the CCLIP and the first program.** The national government wants to rehabilitate the road infrastructure and adapt it to the new demand conditions, with

²³ See [Estudio de Género en la Industria de la Construcción, subsector vial](#).

the hope of boosting forest and agriculture sector productivity.²⁴ To do so, it plans to increase investment above historical levels and introduce changes to traditional management and financing tools. The CCLIP will enable it to progressively and flexibly address the departments' financing and technical assistance needs and provide for solid, continuous institution-strengthening over the medium and long term while also providing assurances to the private sector that the strategy of using private contracting for rural road maintenance will continue.

- 1.25 Against this backdrop, the Bank's participation in the proposed CCLIP is justified because: (i) the Bank is collaborating with Uruguay in other road infrastructure rehabilitation programs, specifically for highways (loans 2677/OC-UR and 3578/OC-UR); and (ii) the CCLIP would continue the Bank's collaboration with the country for purposes of building departmental capacities (loans 2668/OC-UR, 1489/OC-UR, and 993/OC-UR).²⁵ Understanding that decentralization is a long-term process, the alignment with program UR-O1148/UR-L1111 will serve to ensure a comprehensive, long-term vision for the strengthening of departmental governments.²⁶
- 1.26 **Experience and lessons learned.** The following lessons have been drawn from previous subnational management operations (paragraph 1.25): (i) incentives need to be established for departmental governments to improve their management and investment efficiency, by linking the management strengthening component with investments; (ii) efforts should focus on improving management through targeted, viable actions that tackle key problems; and (iii) management improvements should be part of a process that has continuity. Accordingly, execution of the technical cooperation operation has begun and a link was established between it and component II, the program's institution-strengthening component.

²⁴ The literature recognizes the positive relationship between transportation infrastructure investment, competitiveness, and economic development. One study that analyzed the infrastructure development level of the countries of Latin America and the Caribbean (Calderón and Servén: "Infrastructure in Latin America" (2010)) found that if each of the countries were to raise its level to the average level seen in non-Latin American middle-income countries, economic growth in the region would rise by about 2 percentage points per year, of which 1.5 would be attributable to the expanded infrastructure network. The Andean countries would stand to benefit the most, gaining up to 3.1 percentage points of growth, on average, of which 2.4 would be due to the improvement in infrastructure quality that effort would entail. A number of studies have been able to evaluate and validate the link between productivity and rural transportation connectivity and accessibility. An impact evaluation in Nepal (Jacoby, H. "Access to markets and the benefits of rural roads" (2001)) found that the expansion of road access to all the rural households in the sample raises real income, against a population-weighted baseline, by an average of 10%, and that a 10% increase in travel time lowers agricultural earnings by 0.5% and land values by 2.2%. A study conducted in India (Fan, Hazell, and Thorat, "Government Spending, Growth and Poverty in Rural India" (2000)) concluded that for each 1% of additional investment in increasing rural road density, total agriculture sector productivity rose by 5.7%.

²⁵ The current operation would continue the institution-strengthening effort financed with loan 2668/OC-UR.

²⁶ Given the long-term nature of strengthening actions, it is worth having an instrument that allows for streamlined processing of subsequent operations, to reduce the discontinuities that cause delays in implementing the initial stage of operations. Past experience with the use of CCLIPs in the region shows the advantages of a long-term relationship for actions to strengthen subnational management. The programs "Support for the Management and Integration of Finance Administrations in Brazil" (PROFISCO) (operation BR-X1005); "Subnational Credit Line for Infrastructure, Public Services, and Institution-strengthening" in Mexico (operation ME-X1002); and "Fiscal and Public Expenditure Strengthening in Subnational Entities" in Colombia (operation CO-X1018) highlight the positive results of this strategy.

- 1.27 Given that this would be the first operation involving departmental rural roads in Uruguay, attention was paid to the Bank’s previous experience with other similar operations, among them operations PR-L1092 (loan 3600/OC-PR), Rural Road Improvement Program II, and PE-L1135 (loan 3587/OC-PE), Subnational Transportation Support Program. Also considered was the experience gained by the Bank around environmental issues and in managing procurement for highway programs in Uruguay (loans 3578/OC-UR and 2677/OC-UR, in execution, and loans 2041/OC-UR and 1582/OC-UR, programs which have been completed).²⁷

Table 1. Lessons learned in similar projects

Main lessons learned	Reflection in the program’s design
Participatory road planning is essential to ensuring that investments are prioritized in accordance with local needs.	Program interventions will be prioritized via the departmental road programs, which will together make up the national program.
Delays in preparing works designs lead to delayed start of execution.	The designs for the works to be carried out in the first years of the program are already complete.
Project technical specifications need to be tailored to needs.	The economic evaluation of the projects in the first stage has been done. The technical cooperation operation envisages road programs developed with economic evaluations and prior identification of types of works geared to the characteristics of the roads, available materials, and demand. All projects are evaluated by the SNIP.
Optimization of the service life of infrastructure and sustainability of road investments necessitate routine, periodic maintenance.	The road programs being designed involve integrated road management, including maintenance.
Programs need to include tools and procedures to prevent and mitigate cost overruns for works.	The DDIP already has a technical project design team and procurement execution capabilities, enabling it to assist the departments in two areas that typically lead to cost overruns. The technical cooperation operation (paragraph 1.21) envisages the development of financial management tools for the road programs being designed. ²⁸ This program will continue that effort by developing technical documents on rural road investment planning and management and holding workshops on the subject.
For high-service roads and/or areas with significant road density, introducing private contractors is justified.	The program calls for private contractors to execute the works.

²⁷ Corporación Vial de Uruguay (CVU) Program II (loan 3578/OC-UR, operation UR-L1107), in its first year of execution, is financing maintenance of the national primary road network, continuing the already completed CVU Highway Program (loan 2041/OC-UR, operation UR-L1022). The Road Infrastructure Program II (loan 2677/OC-UR, operation UR-L1067), in its fourth year of execution, is completing maintenance of the national highway system on the segments not included under the previous program and is strengthening the MTOP; it is a continuation of completed program UR-L1001 (loan 1582/OC-UR). All of these, except loan 2041/OC-UR, which was a performance-driven loan instrument, are multiple works loan instruments.

²⁸ The Bank has developed a methodology for estimating and monitoring the final cost of infrastructure programs (<https://publications.iadb.org/handle/11319/7682>). DDIP technical staff attended a training workshop on this methodology.

Main lessons learned	Reflection in the program's design
It is important to have a management system to coordinate and effectively schedule the different program components.	The DDIP is an executing agency with experience in subnational management. The program includes resources for strengthening the departmental governments.
The departments need to pay closer attention to environmental issues relating to quarries.	The executing agency will include specialized staff devoted exclusively to environmental matters, and there will be collaboration with the National Environment Department (DINAMA) for proper quarry management as part of the technical cooperation operation.
Private contractors cannot carry out a large number of works.	Outside of Montevideo, there are a significant number of private contractors capable of carrying out the works envisaged by the program; they mainly work on internal roads in production areas in the forest, dairy, and rice sectors. Most are not listed in the National Business and Public Works Register, since most departments have not contracted out these works in the past. The technical cooperation operation and the program's strengthening component will create mechanisms to promote the participation of these companies.

- 1.28 **Strategic alignment.** The CCLIP and the program are aligned with the IDB Country Strategy with Uruguay 2016-2020 (document GN-2836), in that they specifically contribute to the strategic objectives of: (i) improving transportation infrastructure, under the priority area of improvement of the productive infrastructure; and (ii) strengthening the decentralization process, under the priority area of strengthening of urban and departmental management. The CCLIP and the program are also consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and are strategically aligned with the development challenge of “low productivity and innovation” by providing appropriate, reliable, and accessible infrastructure and public services, since road infrastructure improvements will increase accessibility and facilitate connectivity, thereby reducing transportation costs and travel times. The operation is also aligned with the following crosscutting issues: (i) institutional capacity and the rule of law, under institutional capacity, as it contributes to raising the quality of public services, of public administration, and of its planning and public expenditure efficiency, making completion of the PNCDR possible; and (ii) climate change, because it envisages the design and construction of infrastructure adapted to more frequent flooding, reducing the time that the roads included in the PNCDR are impassable. It also provides additionality in the area of gender, since the national government will, as part of the program, be seeking to implement mechanisms to promote women’s integration into the sector, particularly in operational activities.
- 1.29 Additionally, the program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) via the country development result indicator “Roads built or upgraded,” and aligns with the result “Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery.” Lastly, the program is included in the 2016 Operational Program Report approved on 30 March 2016 (document GN-2849).
- 1.30 The program is aligned with the IDB Infrastructure Strategy: Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5) in

that it: (i) promotes access to the rural road network to increase the region's productivity and expand market access opportunities; and (ii) promotes ongoing improvements in infrastructure governance. The program is consistent with the Transportation Sector Framework Document (document GN-2740-3), whose lines of action include rehabilitation of road systems ensuring full utilization of existing assets, use of new technologies, and strengthening of institutions responsible for maintenance of assets.

B. Objectives, components, and cost

- 1.31 **Objective of the CCLIP.** The CCLIP's objective is to help raise productivity through rural road system construction, improvement, rehabilitation, and maintenance, as well as to improve mobility and the freight and passenger transportation services under the jurisdiction of the departmental governments.
- 1.32 **Objective of the first program.** The general objective is to help raise productivity in rural areas by improving rural road infrastructure. The specific objective is to help improve accessibility²⁹ and lower overall transportation costs through rural road rehabilitation and maintenance. The program will also serve to enhance the ability of public agencies, both national and departmental, to make public expenditure on delivery of rural road infrastructure services more efficient. The program will achieve these objectives through the following components.
- 1.33 **Component I. Rural road rehabilitation and maintenance (US\$71.25 million).** This component will finance: (i) geometric and structural upgrading of roads and engineering works;³⁰ (ii) structural rehabilitation and routine maintenance of roads and engineering works; (iii) commissioning of studies and works projects; and (iv) contracting of works supervision and audits.
- 1.34 **Component II. Institution-strengthening (US\$2.5 million).** This component will finance: (i) technological innovation in road maintenance; (ii) capacity-building within OPP and the departmental governments (including environmental and social management) for planning and management of the departmental rural road system; (iii) a study on the implications of climate change for the rural road maintenance strategy, which will gradually be factored into the program; (iv) actions to update and maintain the road inventory; (v) activities to develop the market of medium-sized road construction companies that could carry out works such as those financed by the program; and (vi) activities to promote gender equity in the roads sector.
- 1.35 **Works eligibility criteria.** To be eligible, works must: (i) fall within the National Departmental Rural Roads Program (PNCRD) being developed with technical-cooperation funds; (ii) be for roads under departmental jurisdiction with 70% of their length outside of urban or potential urban development areas; (iii) be intended to change or improve the geometric or structural standard of the road or engineering works; and (iv) involve technical solutions resulting from a technical and economic

²⁹ Accessibility can be defined in general terms, as the ease with which an individual or group of individuals able to travel can consistently, safely, and affordably access a place or services via existing means of transportation.

³⁰ Here "engineering works" are all lesser structures, formerly made of masonry, involving drainage, watercourses, and grade separation: small bridges, culverts, lined ditches, and pipes. Not included in the definition are large bridges, viaducts, paving of any type, signage, or lighting.

evaluation that assessed the specific project and the maintenance plans based on previously determined criteria.

- 1.36 The works will essentially involve existing structures, and any geometric modifications will always be carried out within the right-of-way. The program will also include signage and road safety works in projects involving high-traffic roads, or where upgrading the pavement would lead to a higher risk of accidents, or in urban thoroughfares. The departments will carry out maintenance on the rehabilitated infrastructure following the maintenance strategy designed for each road under the PNCDR. Projects will be executed by force account, using the departments' own equipment and human resources, or by contracting with the private sector, for which they will receive technical support from the OPP's professional engineering team.

Table 2. Program financing (US\$000)

Component	IDB	Local	Total
I. Rural road rehabilitation and maintenance	71,250	55,000	126,250
Rehabilitation works	71,250	0	71,250
Road maintenance	0	55,000	55,000
II. Institution-strengthening	2,500	0	2,500
Studies and actions to introduce technological innovation and construction techniques; good practices in project design and execution of road works	1,000	0	1,000
Capacity-building and tools for planning and management, to support the OPP and the departmental governments; mechanisms to promote development of medium-sized road construction companies; and activities to promote gender equity in the roads sector	1,500	0	1,500
Audits, monitoring, and evaluation	1,250	0	1,250
Total	75,000	55,000	130,000

C. Key results indicators

- 1.37 **Results and indicators.** The main program outcomes relate to: (i) improved accessibility and quality of the departmental rural road system (vehicle operating costs on different pavement types and amount of time roads are impassable); and (ii) improved capacity of national and departmental public agencies to make public expenditure on delivery of departmental rural road infrastructure services more efficient (summed up as the extent to which road programs have been completed) (Annex II. Results Matrix).
- 1.38 **Representative sample and economic evaluation.** For program evaluation and implementation purposes, an analysis was undertaken of a representative sample totaling 30% of the amount of financing for component I (US\$22 million),³¹ consisting of 164 kilometers of departmental rural roads for which pre-project engineering

³¹ The maintenance activities entail a set of executive tasks laid out in the road programs, but by their very nature do not involve engineering designs or require economic evaluation.

studies, economic studies, and environmental and social assessments were available.

- 1.39 The economic evaluation (cost-benefit analysis) of the works in the sample used the Highway Development and Maintenance Management Model 4 (HDM-4),³² the standard methodology in the sector. The with-program scenario, in which the program's proposed rehabilitation and maintenance strategy is implemented, was compared with the counterfactual, in which only very basic maintenance tasks are performed as long as the route remains serviceable. The transportation cost differentials, which represent the benefits of each intervention, were estimated, as were the implicit costs. The economic internal rate of return (EIRR) exceeded the indicative value of 12% in all cases, a result robust to potential 20% cost increases or benefit reductions³³ (see [optional electronic link 1](#)).

Table 3. Results of cost-benefit and sensitivity analyses

Project number or segment identifier	Length (km)	Financial cost (US\$)	EIRR			
			Base	Cost +20%	AADT -20%	Cost +10% AADT -10%
Granular pavement						
Sections 5.1 and 7.1	9.0	203,939	17.7%	12.5%	14.6%	13.2%
Section 8	4.0	108,356				
Stabilized granular						
Section 197	30.1	716,770	22.9%	16.5%	17.9%	18.8%
Bituminous surface treatment						
Arco del Sol	18.0	1,738,975	17.7%	15.2%	12.8%	14.2%
Section 114	16.0	2,225,400	21.7%	18.1%	15.7%	17.0%
Sections 161 and 162	21.0	2,951,333	22.2%	18.7%	16.5%	17.6%
Sections 329 and 335 (San José)	15.0	1,471,310	28.7%	24.3%	21.6%	23.0%
Asphalt surface						
Sections 150, 170, and 171	31.0	7,741,195	17.4%	14.6%	12.6%	13.6%
Section 194	20.6	5,085,471	20.7%	17.5%	15.4%	16.6%

³² The HDM-4 project analysis tool can be used to estimate the economic value and engineering viability of a road investment project by performing life-cycle analysis of pavement performance, including the related maintenance strategy and costs, and identify benefits in terms of road user costs and the environmental effects of improvements introduced by the project. The model can be used to perform a sensitivity analysis to investigate the impact of key variables on the analysis results.

³³ Based on the experience gained by the Corporación Nacional para el Desarrollo [National Development Corporation] in structuring public-private partnership projects, the final cost of road works ends up being an estimated 17% higher than the initially planned cost. Based on sensitivity analysis of the projects in the sample, this is the uncertainty variable that has the most significant impact on their economic indicators.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Financing.** The total amount of the CCLIP is US\$450 million, of which the Bank will finance US\$300 million. The program will cost US\$130 million, with US\$75 million financed by the Bank, drawn in U.S. dollars from the Ordinary Capital, and US\$55 million financed with local counterpart contributions.
- 2.2 The Bank's financing for the program will take the form of a sovereign-guaranteed multiple-works investment loan,³⁴ with five-year execution and disbursement periods. According to Operations Processing Policy PR-202, this type of operation requires a representative sample of specific works totaling approximately 30% of the total program financing amount (paragraphs 1.38 and 1.39).
- 2.3 **CCLIP eligibility.** The eligibility criteria for the CCLIP³⁵ as laid out in document GN-2246-7 have been met, since: (i) the OPP has ample experience implementing investment and management-strengthening operations at the subnational level, including transportation infrastructure works similar to those to be financed under this program, the most recent of which are financed under loan 2668/OC-UR, which is being executed satisfactorily, and loan 1489/OC-UR, which was completed satisfactorily in 2013 (paragraph 1.25); (ii) the CCLIP is aligned with the country strategy with Uruguay (2016-2020) (document GN-2836); (iii) the first operation's objective is to help raise productivity in rural areas by improving departmental rural road infrastructure and strengthening the sector's institutions, which is an objective of the CCLIP; (iv) the first operation is also included in the Country Program (document GN-2849) (paragraph 1.28); and (v) the OPP has a solid institutional structure built up over more than 10 years of execution experience with the Bank, and its staff has remained stable over this period; it is also part of the Central Government Administration and therefore uses established administrative and financial procedures. The project team has verified that in the abovementioned projects: (i) the OPP promptly met the conditions of the respective loan contracts in all matters relating to disbursements, procurement of goods and services, and other substantive areas; (ii) the OPP properly and promptly prepared and submitted financial and operational reports (audited financial statements and accounting, budget execution, and operational management reports) consistent with IDB policies; and (iii) the investments financed and completed are in operation. The institutional assessment classified the fiduciary risks as low, owing to the executing agency's broad experience in projects with the Bank and its institutional capacity to coordinate with the departmental governments, indicating that it would foreseeably maintain its track record of satisfactory performance in the areas addressed by the CCLIP.

³⁴ The program will finance works that are physically similar but independent of one another; whose feasibility does not depend on the execution of a particular number of works; and whose size, taken individually, would not justify execution by the Bank. Works must meet the agreed eligibility criteria for inclusion in the program (paragraph 1.35).

³⁵ For further details on meeting the eligibility criteria, see [optional electronic link 6](#).

B. Environmental and social risks

- 2.4 Under the Environment and Safeguards Compliance Policy (Operational Policy OP-703), the first program under the CCLIP³⁶ was classified as a Category “B” operation, as it may cause local, short-term negative environmental impacts for which effective mitigation measures are available. The adverse environmental impacts are associated specifically with construction during the works execution period. An environmental and social management framework will need to be developed for this first operation (paragraph 3.2).
- 2.5 The environmental and social impacts are expected to be positive, in that they will improve quality of life for the residents of the beneficiary departments. The Environmental and Social Management Report ([ESMR](#)) provides a summary of the environmental and social analysis performed for this operation, along with the measures to mitigate identified risks.
- 2.6 Environmental and social management plans will spell out the environmental management measures to be incorporated into bidding documents and the respective contracts for execution of program works. The departmental governments will be responsible for supervision of the works.
- 2.7 Because the works will be completed within the existing right-of-way, no adverse effects are anticipated on properties or homes, environmentally or socially sensitive areas, or indigenous areas. In the event of any adverse impact on environmentally or socially sensitive areas, the Environment and Safeguards Compliance Policy (Operational Policy OP-703) would be applied.
- 2.8 Pursuant to Article 2 of Decree 349 of 2005, which regulates the Environmental Impact Assessment Act (Law 16,466 of 1994), the components of the program works that require prior environmental authorization³⁷ are the quarries from which materials will be extracted. As an environmental and social condition, the borrower will verify, through the executing agency, that each contractor has obtained prior environmental authorization for the corresponding quarry before the material start of the works under component I.

C. Fiduciary risks

- 2.9 The OPP has a coordination unit³⁸ to manage programs with Bank financing, and its rules, procedures, and controls have proven to be adequate. Its technical staff has remained relatively stable over the execution of various Bank-financed operations

³⁶ Pursuant to Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), ex ante classification is not required for CCLIPs.

³⁷ Under Decree 349/2005 and Amending Decree 178/2009, all activities, construction, or works set forth in Article 2 of the Regulations on Environmental Impact Assessment and Environmental Authorizations, including quarrying, will require prior environmental authorization.

³⁸ The coordination unit consists of the following main sections: general coordinator, finance and accounting, procurement execution and support, and monitoring and evaluation.

(loans 2668/OC-UR, 1489/OC-UR, and 993/OC-UR),³⁹ leading the identified fiduciary risks to be classified as low and therefore not requiring mitigation actions.

D. Other program risks

- 2.10 A risk management workshop was held following the Bank's methodology. During the program identification and analysis process three medium risks were identified, having mainly to do with: (i) weaknesses in the management capacity of the departmental governments with respect to design and execution of works; potential delays in the execution schedule due to a change in priorities resulting from the 2018 elections; (ii) lack of legitimacy of the road programs; and (iii) use of unauthorized quarries. The following mitigation measures were identified: (i) creation of a project development team within the execution unit to make up for management weaknesses in the departmental governments that need assistance; (ii) presence of facilitators in stakeholder mediation processes and use of a participatory methodology in road program development; and (iii) fulfillment of the execution condition requiring prior environmental authorization before works can begin, and environmental training workshops for the departmental governments.
- 2.11 The risk of potential investment sustainability problems was considered to be low. The PNCRD calls for comprehensive road management, i.e., the initial investment in the geometric upgrade or structural rehabilitation plus the corresponding maintenance program, with the program's local counterpart resources committed to financing the latter. Being included in the PNCRD is an eligibility condition (paragraph 1.35), thus ensuring that rehabilitation or improvement works will have a maintenance program. Resources for both works and maintenance will be transferred to the departmental governments upon certification of physical execution; the DDIP will see that execution meets the requirements of the PNCRD (paragraph 2.12).
- 2.12 **Works certification and transfer of resources to the departments.** The departmental governments, through their respective works agencies, will draw up a document to certify physical progress and request the corresponding financial settlement for each works project. The coordination unit will transfer to the departments the resources for monthly payments for procurement items certified and reviewed by the DDIP.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Eastern Republic of Uruguay. The Office of Planning and Budget (OPP) will serve as the executing agency, through its Decentralization and Public Investment Department (DDIP). For program execution, the OPP will be assisted by a coordination unit within the DDIP.

³⁹ Moreover, the OPP is part of the Central Administration, meaning that its procedures are consistent with the Consolidated Code of Accounting and Financial Management (TOCAF) and use the Integrated Financial Information System (SIIF), with preliminary audits by a delegated accountant and by the National Audit Office for all its expenditures. It is audited by the National Audit Office, which has always given it clean audit reports.

- 3.2 The coordination unit will coordinate and manage the program, performing the following main tasks: (i) coordinate overall execution of the program and its components; (ii) prepare multiyear execution plans, annual work plans, procurement plans, and semiannual progress reports; (iii) manage program resources, prepare financial statements, and submit disbursement requests, justification of expenditures, and other reports as required by the Bank; (iv) verify that the criteria set out in the program documents for execution of the various activities have been met and issue reports for the Bank's subsequent no objection; (v) assist the departmental governments with project feasibility studies and provide guidance as to good practices, offering support and training on specific issues; (vi) evaluate and monitor all program actions and commission external midterm and final evaluations; (vii) supervise procurement and financial operating procedures carried out by the departmental governments as part of program execution; (viii) prepare guidelines, forms, general bidding documents, and other tools for program execution and monitoring; and (ix) oversee environmental and social procedures as spelled out in the program Operating Regulations ([optional electronic link 3](#)). In order to perform its duties, the coordination unit will maintain effective contract management, accounting/financial management, and internal control systems and maintain separate bank accounts exclusively for managing the loan proceeds and local counterpart funds. **As a special contractual condition precedent to the first disbursement of the loan proceeds, the core staff of the coordination unit under the DDIP (paragraph 2.9) will be assigned, and the program Operating Regulations, which are to include the program's Environmental and Social Management Framework, will be in effect.**
- 3.3 The departmental governments will be subexecuting agencies for the program. Their responsibilities include: (i) developing and commissioning the preinvestment studies and completing the project designs; (ii) carrying out bidding processes; (iii) contracting the works and providing technical direction; (iv) making the respective payments, submitting reports to the coordination unit accounting for resources received, and preparing financial reports as requested; and (v) upholding proper maintenance standards for programs investments. In addition, the departmental governments will participate in the actions planned for implementation of component II, to strengthen departmental management. The departments' participation in the program will be formalized when they and the OPP sign framework participation agreements in which the departmental governments state that they are aware of the loan contract under which the program is being financed and that they pledge to adhere to the conditions set out in the various program documents, including the program Operating Regulations.
- 3.4 The agreements entered into by the OPP and the departmental governments will include the following obligations: (i) submit reports to the executing agency accounting for the resources received and prepare financial reports as requested; (ii) maintain proper accounting and financial records; (iii) keep supporting documentation for contracts and expenditures made with the loan proceeds and counterpart resources properly filed; and (iv) maintain separate accounts exclusively for managing program resources and the departmental contribution.
- 3.5 As a special contractual condition for execution of the component I works to be carried out by each departmental government, the framework participation

agreement between the respective departmental government and the national government will be signed.

- 3.6 Component I will be executed mainly by the departments, under the supervision of the coordination unit. The departments will engage consultants for project design and works supervision, where necessary. They will also issue calls for bids and pay contractors based on procedures agreed with the coordination unit, which will be included in the program Operating Regulations.
- 3.7 The term for the material start of the works under the program will be four years as of the effective date of the loan contract, and the financing for the program works will be committed up to six months prior to the expected date of the last disbursement.
- 3.8 **Works certification and transfer of resources to the departments.** The departmental governments, through their respective works agencies, will draw up a document to certify physical progress and request the corresponding financial settlement for each works project. The coordination unit will transfer to the departments the resources for monthly payments for procurement items certified and reviewed by the DDIP.
- 3.9 **Audits.** Each year during the execution period, the coordination unit will submit audited program financial statements, under the terms required by the Bank. It was agreed with the executing agency that Uruguay's National Audit Office would perform the audits, as it audited loan 2668/OC-UR satisfactorily. The audited financial statements will be submitted within 120 days after the end of the fiscal year, with the closing statement submitted within 120 days after the last disbursement.
- 3.10 **Disbursements.** Disbursements will be made in the form of advances, based on actual liquidity needs. Preferably, these advances will be provided semiannually, once at least 70% of the previous advance⁴⁰ has been accounted for, and accounting report and financial planning forms have been submitted. This documentation will be reviewed on an ex post basis.
- 3.11 **Procurement.** Works, goods, and consulting services will be procured in accordance with the "Policies for the procurement of works and goods financed by the IDB" (document GN-2349-9) and "Policies for the selection and contracting of consultants financed by the IDB" (document GN-2350-9). In view of the fact that the OPP and the departmental governments have prior experience executing operations similar to this one with the Bank,⁴¹ procurement will be subject to ex post review for all processes below the thresholds for international competitive bidding and for international shortlists. No exceptions to Bank policies are anticipated.

B. Summary of arrangements for monitoring results

- 3.12 The aim of the monitoring and evaluation plan ([required electronic link 2](#)) is to track program implementation, proposed activities, and physical and financial execution

⁴⁰ Considering that this operation will be executed in a decentralized manner through 19 departmental governments (subexecuting agencies), in order to avoid potential delays in the program, it was agreed with the executing agency that 70% would be the percentage of the advanced balance to be justified.

⁴¹ Programs financed with loans 2668/OC-UR, 1489/OC-UR y 993/OC-UR, for which the departmental governments are handling contracting with OPP support and oversight.

of outputs. The plan includes monitoring of three main elements: (i) program administration and controls; (ii) activities and outputs; and (iii) outcomes.

- 3.13 The proposed before-and-after evaluation methodology will consist of measuring baseline indicators before the project and outcome indicators after the interventions have been implemented in each department, and comparing the measurements to determine whether targets have been met. Additionally, there will be an ex post economic evaluation of the expected program benefits and the HDM-4 model will be used. The ex post cost-benefit analysis of each of the program-financed works will be conducted as laid out in the monitoring and evaluation plan. The evaluation report will be included in the project completion report (PCR), which analyzes core and noncore criteria. In a PCR, project performance is rated according to four core criteria, determined objectively based on the project's outcomes and outputs: (i) effectiveness; (ii) efficiency; (iii) relevance; and (iv) sustainability. Noncore criteria in a PCR are evaluable, but do not rate the effectiveness of the intervention.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law		
Regional Context Indicators			
Country Development Results Indicators	-Roads built or upgraded (km)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2836	To improve the transportation infrastructure.	
Country Program Results Matrix	GN-2849	The intervention is included in the 2016 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Evaluable	Weight	Maximum Score
	8.5		10
3. Evidence-based Assessment & Solution	9.0	33.33%	10
3.1 Program Diagnosis	2.4		
3.2 Proposed Interventions or Solutions	3.6		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
5. Monitoring and Evaluation	6.6	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	4.1		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Low		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B		
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, External control. Procurement: Shopping Method.	
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	The program offers activities - through the institutional strengthening component - which aim to promote gender integration in the sector, particularly in relation to operating activities. This will increase the departmental governments knowledge about the gender gap in the sector.	
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			
Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.			
The agricultural sector growth in Uruguay, which has boosted economic development and agricultural expansion in the country, has presented significant productive and technological transformations that have led to increasing the efficiency of its production. This growth has resulted in a substantial rise in demand for road transport infrastructure and associated institutions, which have difficulties to respond to this evolution. Credit line UR-O1150, which presents UR-L1114 as its first program, seeks to resolve the situation by: improving the accessibility to the road network by reducing generalized transport costs to ensure mobility; and improving the capacity of public, national and departmental institutions, by increasing the efficiency of public spending to provide infrastructure services in departmental roads.			
The program has two components: (i) rehabilitation and maintenance of rural roads; and (ii) institutional strengthening. Both components respond to the diagnosis presented and attack the main determinants that cause the specific problems. Both the diagnosis and the vertical logic of the program are effectively addressed and quantified. The results matrix, reflecting the diagnosis and proposed interventions, is adequate.			
The economic evaluation is based on a cost-benefit assessment. The economic indicators are positive in all cases. The sensitivity analysis demonstrates the robustness of the results and identifies the variables with some degree of uncertainty which could affect the project's benefits. An increase in the cost of the works variable has been identified as the main risk factor.			
The monitoring and evaluation annex is appropriate and correctly identifies the steps, responsibilities, budgets and time. The ex-post evaluation plan proposes a before and after methodology and an ex-post cost benefit economic evaluation that will validate the economic benefits.			
The overall risk assessed for the operation is low. All medium risks present mitigation measures.			

RESULTS MATRIX

Program objective:	The general objective is to help raise productivity in rural areas by improving the rural road infrastructure. The specific objective is to improve accessibility and lower overall transportation costs through rural road rehabilitation and maintenance. The program will also serve to enhance the ability of public agencies, both national and departmental, to make public expenditure on delivery of rural road infrastructure services more efficient.
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EXPECTED OUTCOMES

Expected outcomes	Unit	Baseline (2015)	Midterm (2019)	Target (2021)	Means of verification / comments	
Improve accessibility¹ and lower overall transportation costs						
Average vehicle operating cost on asphalt-paved roads	US\$/veh-km	Cars and light trucks	0.303	---	0.200	Highway Development and Maintenance Management Model 4 (HDM-4), ex ante and ex post program evaluation report. The baseline and target values come from the economic evaluation of the projects in the sample, using HDM-4.
		Medium-duty trucks	1.739	---	1.006	
		Heavy-duty trucks	1.685	---	0.952	
Average vehicle operating cost on roads with granular pavement	US\$/veh-km	Cars and light trucks	0.296	---	0.227	
		Medium-duty trucks	1.794	---	1.273	
		Heavy-duty trucks	2.267	---	1.582	
Average cost of travel time on asphalt-paved roads	US\$/veh-km	Cars and light trucks	0.380	---	0.179	HDM-4, ex ante and ex post program evaluation report. The baseline and target values come from the economic appraisal of the projects in the sample, using HDM-4.
		Medium-duty trucks	0.010	---	0.006	
		Heavy-duty trucks	0.008	---	0.004	
Average cost of travel time on roads with granular pavement	US\$/veh-km	Cars and light trucks	0.397	---	0.216	
		Medium-duty trucks	0.010	---	0.006	
		Heavy-duty trucks	0.011	---	0.006	

¹ Accessibility can be defined in general terms, as the ease with which an individual or group of individuals able to travel can consistently, safely, and affordably access a place or services via existing means of transportation.

Expected outcomes	Unit	Baseline (2015)	Midterm (2019)	Target (2021)	Means of verification / comments
Time roads included in the National Program for Departmental Rural Roads (PNCDR) ² are impassable	Total hours impassable during extreme events	1,800	1,650	1,500	Midterm and final report, according to calculations by the Decentralization and Public Investment Department (DDIP) based on data collected through the National Emergency System (SINAE) and from departmental police headquarters
Enhance the ability of public agencies, both national and departmental, to make public expenditure on delivery of rural road infrastructure services more efficient					
Completion of the PNCDR	km executed / km planned ³	0	40%	80%	Midterm and final report, based on certification of execution of roads in the national plan
Number of departmental governments that have implemented over 70% of their portion of the PNCDR ⁴	Number of departmental governments with km executed / km planned > 70%	0	10	15	Midterm and final report, based on certification of execution of roads in the national plan

² The current baseline reflects the benchmark value recorded during the extreme event of April 2016 in 172 critical locations. When the PNCDR is developed, critical locations on the program's road system where roads are repeatedly cut off to traffic during extreme flooding events (as defined by SINAE) will be identified. Once the PNCDR sets the criteria for action on those roads, the baseline and target will be re-estimated.

³ Length completed versus length planned, in terms of both rehabilitation and maintenance, on the PNCDR roads.

⁴ The number of departmental governments that implemented more than 70% of the PNCDR reflects the Corporate Results Framework indicator "Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery."

EXPECTED OUTPUTS

Outputs	Cost (US\$)	Unit	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification
1. Rural road rehabilitation and maintenance										
Length of PNCDR roads rehabilitated ⁵	n/c	km	0	80	80	80	80	80	400	Semiannual report with works certification information. Supervision visit.
Length of PNCDR roads maintained	n/c	km	0	8,000	8,000	8,000	8,000	8,000	40,000	Semiannual report with works certification information. Supervision visit.
2. Institution-strengthening										
Number of documents approved by the Office of Planning and Budget (OPP) ⁶ containing technical and administrative procedures for evaluating and validating new construction techniques and materials	500,000	Unit	0			1		1	2	Copy of documents submitted as annex to semiannual reports
Number of OPP-approved documents containing recommendations for project design and good practices in road works execution ⁷	500,000	Unit	0	1	2	2	2	2	7	Copy of documents submitted as annex to semiannual reports
Number of OPP-approved training courses given to departmental governments on rural road planning and management	400,000	Unit	0	1	2	2	2	2	7	Semiannual report containing course information and attendance records

⁵ The sum of the length, in kilometers, of rehabilitated or maintained roads reflects the CRF indicator “Roads built or upgraded.”

⁶ Technical cooperation project UR-T1140, which is in execution, is financing development of the technical documents to be used when this program begins execution. The program will update these documents based on experiences during execution and any technological developments.

⁷ Includes good practices relating to road planning, management, and maintenance (that factor in the climate change implications); design criteria for projects involving roads and engineering works; environmental management; and road and occupational safety.

Outputs	Cost (US\$)	Unit	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification
Update of and adaptation to the PNCDR of the information platform for road inventory management, approved by the OPP	800,000	Unit		1					1	Semiannual report containing technical description of system and user's manual
Number of activities to promote medium-sized companies for inclusion in the public works register ⁸	150,000	Unit	0			2	2		4	Documents and information on workshops annexed to semiannual reports
Number of activities implemented or co-implemented by the OPP to promote gender equity in the roads sector ⁹	150,000	Unit	0		1	1			2	Semiannual report containing documents and information from courses and workshops

⁸ Includes studies to identify companies, introductory workshops on the PNCDR, and a study to identify actions and changes to mechanisms to promote the inclusion of these companies in the register of public works companies.

⁹ Includes awareness seminars and workshops and specific training courses aimed at integrating women into works planning, management, execution, and inspection activities.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Uruguay
Project number:	UR-L1114
Name:	Conditional Credit Line for Investment Projects (CCLIP) and First Productive Rural Roads Improvement Program
Executing agency:	Oficina de Planeamiento y Presupuesto [Office of Planning and Budget] (OPP)
Prepared by:	Nadia Rauschert and David Salazar (FMP/CUR)

I. EXECUTIVE SUMMARY

- 1.1 The cost of this first individual operation under the CCLIP (UR-O1150) is US\$130 million, of which US\$75 million will come from the proceeds of the Bank loan. The borrower is the Eastern Republic of Uruguay and the program's executing agency will be the Office of Planning and Budget (OPP). The 18 departmental governments outside Montevideo are potential subexecuting agencies for this operation. The OPP is an agency under the Office of the President whose organizational and administrative structure will be responsible for executing the operation's resources and for managing the timely financing of local counterpart contributions.
- 1.2 The fiduciary agreements and requirements established for this program are based on the OPP's record as executing agency for loans 1489/OC-UR, Municipal Development and Management Program, which is closed, and 2668/OC-UR, Subnational Development and Management Program, which is in the final stage of execution.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY AND SUBEXECUTING AGENCIES

- 2.1 The OPP has experience in executing projects with the Bank. The execution unit for the proposed loan is substantially the same as the one executing loan 2268/OC-UR, the fiduciary context of which is satisfactory. This unit, tasked with executing this operation, UR-L1114, in the design phase, together with the coordinators of each component, the general coordinator, and the support areas, will report to the Decentralization and Public Investment Department.
- 2.2 Its processes and general internal control environment are reasonable overall.
- 2.3 The country systems, or their equivalents, that will be used for this operation are as follows:
 - (i) **Budget:** Budgetary resources for this operation have been taken into account in the new Five-year Budget Act 2015-2019.

- (ii) **Treasury:** In order to manage program resources, a special account will be opened in the name of the OPP at the Central Bank of Uruguay, as part of the Unified National Account. Transfers will be made from this account to each departmental government based on its monthly cash needs.
- (iii) **External control:** Audits will be performed by the National Audit Office, which has Tier 1 eligibility on the Uruguay Country Office's list of eligible auditors.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 During the risk workshop held in June 2016, two fiduciary risks—both rated low—were identified using the project risk management methodology.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 **Exchange rate.** To convert expenditures in local currency into U.S. dollars (currency of the operation) for reporting purposes, the exchange rate on the date of conversion of U.S. dollars transferred by the Bank will be used. For expenditures made with counterpart funds and for recognition of expenditures, if any, the exchange rate on the last day of the month prior to the effective date of payment will be used.
- 4.2 **Justification of expenditures.** Given the implementation arrangements for this operation, which involve the transfer of resources to the departmental governments, each with its own reporting times and processes, and the country's budgetary rules, by which the Bank's resources are committed to commitments in the Integrated Financial Information System (SIIF, code SIR), and further considering the transaction volume, it was agreed that justification of 70% of advances would be used, in order to minimize the risk of slowing down execution of any of the components and ensure that the execution unit has no liquidity problems.
- 4.3 **Audited financial statements.** Annual financial statements will be submitted within 120 days following the close of each fiscal year, with a final statement submitted within 120 days following the effective date of the last disbursement.
- 4.4 **Subexecution by the departmental governments.** For execution of the works envisaged under component II, the participating departmental governments will handle works execution, contracting, supervision, and payments, with close advisory assistance from the coordination unit, which will ensure that the procurement plan and applicable procedures are followed.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The procurement policies applicable to this loan are the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9).

5.2 Procurement execution:

- (i) For contracting of the works envisaged under component II, the Bank has agreed to specific specifications to be used for contracting those works below the threshold for international competitive bidding (ICB).
- (ii) Given the existence of effective country laws and regulations on procedures for the bidders to examine the bidding files and the possibility for them to access the bidding documents, and as this practice is regulated (Articles 65 and 67 of the Consolidated Code of Accounting and Financial Administration (TOCAF) and Law 18,381) and has been evaluated by the Bank in the operations now in execution, the executing agency may make use of such laws and regulations in this operation, adapting the relevant parts of the bidding documents to be used, subject to the Bank's prior no objection.¹
- (iii) Before conducting any procurement process, the executing agency will present the procurement plan to the Bank for approval, with details indicating: (i) the contracts for goods and services necessary to carry out the program; (ii) the proposed methods for the contracting of goods and for the selection of consultants; and (iii) the Bank's contract supervision procedures. The borrower will update the procurement plan at least once every 12 months, according to program needs. Any proposed change to the procurement plan must be submitted to the Bank for its approval.

5.3 The following provisions are applicable to procurement execution:

- (i) **Procurement of works, goods, and nonconsulting services:**² Contracts generated and subject to ICB will be executed using the Standard Bidding Documents issued by the Bank, with the possible addition of the provision indicated in paragraph 5.2.i. Procurement subject to national competitive bidding (NCB) will be executed using bidding documents satisfactory to the Bank.
- (ii) **Consulting firms:** These will be selected and contracted in accordance with IDB policies. Calls for bids involving international publicity (for amounts above US\$200,000) will be subject to ex ante review.
- (iii) **Selection of individual consultants:** Pursuant to Bank policy document GN-2350-9, section V, use of a shortlist or the Standard Request for Proposals is not required. The executing agency will follow national procedures, which are complementary to those required by the Bank's policy and do not conflict with the provisions thereof. However, the executing agency must ensure that timeframes are adhered to and that publicity for the calls for bids is valid.

¹ The procedure described is part of a national practice that promotes transparency in procurement, and does not conflict with the Bank's policies. In order to ensure that, in practice, the procedure is implemented in line with the Bank's policies, the bidding documents will require the Bank's no objection.

² Based on the "Policies for the procurement of goods and works financed by the Inter-American Development Bank" (document [GN-2349-9](#)), paragraph 1.1, services other than consulting are treated as goods.

- 5.4 **Advance procurement/Retroactive financing.** Use of this modality is not anticipated.

Table 1. Threshold amounts for Uruguay (US\$000)

Works			Goods ³			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity	Shortlist 100% national
≥ 3,000	250-3,000	≤ 250	≥ 250	50-250	≤ 50 ⁴	> 200	≤ 200

- 5.5 **Main procurement processes:** See procurement plan.
- 5.6 **Procurement supervision.** The ex post review method will be used initially, subject to modification by agreement, with any changes to be reflected in the procurement plan. ICB processes and the contracting of consulting services for amounts above US\$200,000 will be reviewed on an ex ante basis.

VI. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** Proper budgetary allocation within the 2015-2019 five-year budget will be verified and execution will be monitored to ensure that the operation is executed on schedule, as established in the annual work plan.
- 6.2 **Accounting and information systems.** The program's financial statements will be issued in accordance with International Financial Reporting Standards. The OPP will use the same accounting system it has used for recording previous Bank-financed operations—Gestión Contable Integral [Integrated Accounting Management] (GCI)—a bi-currency system that meets the accounting requirements for this operation. The executing agency has a complex chart of accounts, with an added cost-center breakout associated with the outputs in the Results Matrix (broken down by departmental government). This breakout makes it possible to generate data by accounting line item, output, and departmental government.
- 6.3 **Disbursements and cash flow.** In order to use the loan proceeds, the OPP will open a special account with the Central Bank of Uruguay, in the program's name. The funds will be disbursed in the form of advances, based on cash programming for a maximum of six months, according to its financing needs and those of the departmental governments.
- 6.4 **Internal control and external audit.** The program's external audit reports and the reviews of procedures and disbursement requests are to be submitted for each fiscal year during the disbursement period, within 120 days following the end of that period. International auditing standards and the guidelines issued by the Bank for those purposes will be taken into consideration.

³ Includes nonconsulting services.

⁴ For technically simple goods, the shopping method may be used up to the NCB threshold amount.

VII. FINANCIAL SUPERVISION PLAN

- 7.1 The supervision plan will take the following factors into account:
- (i) A financial visit planned for the first year of execution will emphasize points including strengthening and training for departmental governments on Bank reporting processes and requirements.
 - (ii) Disbursement requests will be reviewed on an ex post basis, and verified by the external auditor in conjunction with the submittal of the program's annual reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/16

Uruguay. Conditional Credit Line for Investment Projects (CCLIP) UR-O1150
Productive Rural Road Improvement Program

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with the Eastern Republic of Uruguay to establish the Conditional Credit Line for Investment Projects (CCLIP) UR-O1150, for an amount of up to US\$300,000,000 chargeable to the resources of the Ordinary Capital of the Bank, to cooperate in the execution of the Productive Rural Road Improvement Program.

2. To determine that the resources allocated to the above-mentioned Conditional Credit Line (CCLIP) UR-O1150 shall be used to finance individual loan operations in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07 and DE 164/07; (b) the provisions set forth in documents GN-2246-4, GN-2246-7, and GN-2564-3; and (c) the terms and conditions included in the Loan Proposal for the corresponding individual operation.

(Adopted on ____ 2016)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/16

Uruguay. Loan ___/OC-UR to the Eastern Republic of Uruguay. Productive Rural Road Improvement Program. First Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) UR-O1150

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 Eastern Republic of Uruguay, as Borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Productive Rural Road Improvement Program, which constitutes the first individual operation under the Conditional Credit Line for Investment Projects (CCLIP) UR-O1150 approved on ___ 2016 by Resolution DE-___/16. Such financing will be in the amount of up to US\$75,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ 2016)

LEG/SGO/CSC/IDBDOCS: 40680864
Pipeline No.: UR-L1114