Board of Executive Directors
For consideration
On or after 14 December 2016

PR-4470
29 November 2016
Original: Spanish
Public
Simultaneous Disclosure

To: The Executive Directors

From: The Secretary

Subject: Peru. Proposal for a loan for the "Project for Improvement of the Huánuco – Conococha, Highway Huánuco – La Unión – Huallanca Segment (Route PE-3N) (North-South Mountain Highway)"

Basic Information:

Loan type ..... Specific Investment Operation (ESP)
Borrower ..... Republic of Peru
Amount ..... up to US$80,000,000
Source ..... Ordinary Capital

Inquiries to: Rafael Capristan (telephone Country Office in Peru 511-215-1855) or
René Cortés (extension 2466)

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

Reference: GN-1838-1(7/94), DR-398-17(1/15), GN-2849(3/16)

PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

PROJECT FOR IMPROVEMENT OF THE HUÁNUCO–CONOCOCHA HIGHWAY HUÁNUCO–LA UNIÓN–HUALLANCA SEGMENT (ROUTE PE-3N) (NORTH-SOUTH MOUNTAIN HIGHWAY)

(PE-L1151)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Rafael Capristan (TSP/CPE), Project Team Leader; René Cortés (INE/TSP), Alternate Project Team Leader; Miroslava Nevo, Eduardo Café, Caterina Vecco, and Agustina Cocha (INE/TSP); Wendy Moreano (TSP/CPE); Renaud Tahon and Michael Kent (VSP/ESG); Taos Aliouat (LEG/SGO); Ariel Rodríguez and Fernando Glasman (FMP/CPE).

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ELECTRONIC LINKS

REQUIRED

1. Multiyear execution plan (MEP)
2. Annual work plan (AWP)
3. Monitoring and evaluation plan
4. Environmental and social management report (ESMR)
5. Procurement plan

OPTIONAL

1. Procurement plan
2. Technical Annex on Integration
3. Comprehensive analysis of logistics in Peru (5 export chains)
4. Investment program, 2011-2016, Development Plan for Transportation Logistics Services, Ministry of Transportation and Communications (MTC)
5. Development Plan for Transportation Logistics Services, MTC
6. Maps
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ABBREVIATIONS

CGR	Contraloría General de la República [Comptroller General of the Republic]
DGASA	Dirección General de Asuntos Socio Ambientales [Office of Social and Environmental Affairs]
EIA	Environmental impact assessment
ESMR	Environmental and social management report
IAF	Independent audit firm
MEF	Ministry of Economics and Finance
MTC	Ministry of Transportation and Communications
OCI	Órgano de Control Institucional [Institutional Control Unit]
PACRI	Plan de Compensación y Reasentamiento Involuntario [Compensation and Involuntary Resettlement Plan]
PESEM	Plan Estratégico Sectorial Multianual [Multiyear Strategic Sector Plan]
POM	Program Operations Manual
PVN	PROVIAS Nacional
RVN	Red Vial Nacional [National Road System]
SEACE	Sistema Electrónico de Adquisiciones y Contrataciones del Estado [Government Electronic Procurement and Contracting System]
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Administration System]
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]

PROJECT SUMMARY

PERU

PROJECT FOR IMPROVEMENT OF THE HUÁNUCO–CONOCOCHA HIGHWAY
HUÁNUCO–LA UNIÓN–HUALLANCA SEGMENT (ROUTE PE-3N)
(NORTH-SOUTH MOUNTAIN HIGHWAY)
Project for Improvement of the Huánuco–Conococha Highway
Huánuco–La Unión–Huallanca Segment (Route PE-3N)
(North-South Mountain Highway)
(PE-L1151)

<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3" rowspan="2">Borrower: Republic of Peru</td><td colspan="2">Flexible Financing Facility[a]</td></tr>
<tr><td>Amortization period:</td><td>Bullet payment on 15 April 2027</td></tr>
<tr><td colspan="3" rowspan="3">Executing agency: Ministry of Transportation and Communications, acting through PROVIAS Nacional</td><td>Original WAL:</td><td>10.25 years</td></tr>
<tr><td>Disbursement period:</td><td>5 years</td></tr>
<tr><td>Grace period:</td><td>Bullet payment on 15 April 2027</td></tr>
<tr><td>Source</td><td>Amount (US$)</td><td>%</td><td>Inspection and supervision fee:</td><td>[b]</td></tr>
<tr><td>IDB (OC):</td><td>80,000,000</td><td>16.2</td><td>Interest rate:</td><td>LIBOR-based</td></tr>
<tr><td>Local:</td><td>495,070,000</td><td>83.8</td><td>Credit fee:</td><td>[b]</td></tr>
<tr><td>Total:</td><td></td><td>100</td><td rowspan="2">Currency of approval:</td><td rowspan="2">U.S. dollars from the Bank’s Ordinary Capital</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><th colspan="5">Project at a Glance</th></tr>
<tr><td colspan="5">Project objective/description:
The project objective is to contribute to the productivity and regional and national integration of Peru through the improvement of the road infrastructure connecting the markets and production areas in highland and forest regions with the country’s international trade hubs.

The project’s specific objective is to contribute to improve the level of service of the Huánuco–La Unión–Huallanca highway segment through its rehabilitation, upgrading, and maintenance, resulting in lower vehicle operating costs and shorter travel times for users (see paragraph 1.20).</td></tr>
<tr><td colspan="5">Special contractual conditions precedent to the first disbursement of the loan, to be fulfilled by the borrower, acting through the executing agency: (i) provide evidence that the program Operations Manual has been approved and has entered into force, including a chapter covering the project’s environmental and social requirements and procedures, on the terms previously agreed upon with the Bank; (ii) provide the duly approved statement of the general assembly of the Campesino Community of Santa Rosa de Yarowilca, stating, among other things, the community’s agreement with the land purchases, resettlement process, and compensation measures contained in the Compensation and Involuntary Resettlement Plan (PACRI), including the executing agency’s commitment to adjust the right-of-way as agreed with the community; and (iii) provide evidence that the executing agency has given clearance for the PACRI previously agreed upon with the Bank, including all of the necessary agreements with the affected communities, and formally submitted this version to the Office of Social and Environmental Affairs (DGASA) (see paragraph 3.5).

Special environmental and social execution conditions: The borrower will ensure compliance with all environmental and social requirements set in the economic and social management report, particularly Section VI, which establishes the special contractual execution conditions (see paragraph 3.6).</td></tr>
<tr><td colspan="5">Exceptions to Bank policies: Partial, temporary waiver of the time limit stipulated in paragraph (V)(6) of Operational Policy OP-710 as it applies to indigenous communities (paragraph (IV)(4)), to defer finalization of the PACRI so that the required agreements with the Campesino Community of Santa Rosa de Yarowilca can be formalized prior to first disbursement (paragraph 2.10).</td></tr>
</table>

Strategic Alignment						
Challenges:[c]	SI	☐	PI	☑	EI	☑
Crosscutting themes:[d]	GD	☐	CC	☐	IC	☐

[a] Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes in 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 credit fee and the 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 the applicable policies.

[c] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).).

[d] 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 The country has undergone sustained expansion over the last 10 years, achieving average GDP growth rates of 6.2%[1] and average inflation of around 3%. Growth has exceeded the regional average (3%),[2] and is projected at approximately 4.5% over the next few years.[3] Despite these positive results, the country generated trade deficits of US$1.406 billion in 2014 and US$3.207 billion in 2015, due mainly to declining prices for minerals (copper, gold, lead, and zinc), which accounted for almost 50% of the country's export basket.[4] The Government of Peru is seeking to implement a strategy of economic diversification, with the objective of increasing the production and export of nontraditional (mainly agricultural)[5] goods and reducing the dependence on minerals within the country's production structure.

1.2 **Peru's productivity challenges.** One of the country's challenges in achieving its economic diversification strategy is stepping up productivity in the agricultural sector. One of the factors that has driven sustained growth in Peru has been the growth in productivity, which accounted for almost half of national economic growth in the period 2000-2010.[6] However, there are sectors in Peru that suffer from low levels of productivity, such as agriculture. Agricultural value added per worker in the country is US$3,010, trailing a number of countries of the region such as Argentina (US$24,600), Uruguay (US$18,200), Brazil (US$10,400), Ecuador (US$6,650), Chile (US$7,760), and Paraguay (US$5,760).[7] Galarza and Díaz (2016) explain that productivity levels in the sector are related to the poor condition of road infrastructure, among other things.[8]

1.3 **Regional context.** Road infrastructure is also essential for Peru's regional integration with its neighbors, connecting areas of production in the country's hinterland with ports, airports, waterways, and border crossings.[9] The country is strategically located for multimodal transportation integration in the western part of South America, connected with countries of the region along four axes of integration and development: Amazon, Andean, Central Inter-Oceanic, and Peru–Brazil-Bolivia.

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1 Real GDP growth in the period 2005-2014. Source: Central Reserve Bank of Peru.

2 Source: World Bank database of economic indicators.

3 Ministry of Economics and Finance. Multiyear Macroeconomic Framework 2017-2019.

4 Peruvian Ministry of International Trade and Tourism, 2016.

5 Exports of agricultural produce grew by around 100% in the period 2010-2015 (from US$2.203 billion to US$4.387 billion). Source: Peruvian Ministry of International Trade and Tourism, 2016.

6 Vera Tudela, Rafael. Productividad en el Perú: Evolución histórica y la tarea pendiente [Productivity in Peru: Historical trends and pending action]. Central Reserve Bank of Peru.

7 Source: World Bank database of economic indicators, 2016.

8 The authors concluded that "fostering access to infrastructure that improves connectivity and the use of electricity would play a very important role in enhancing farm productivity." The use of highways is correlated with productivity levels that are between 9% and 20% higher in the agricultural regions studied. Galarza, Francisco B. and Díaz, J. Guillermo. Infraestructura y productividad de la agricultura a pequeña escala en el Perú [Infrastructure and productivity in small-scale agriculture in Peru]. In: Productividad en el Perú: medición, determinantes e implicancias [Productivity in Peru: Measurement, determinants, and implications]. Universidad del Pacífico, 2016.

9 Around 25% of the country's exports are sold to the neighboring countries of Ecuador, Colombia, Brazil, Bolivia, and Chile (2015 data from Peru's Ministry of International Trade and Tourism).

In the case of the Amazon axis, for example, Peru is responsible for 18% of intra-axis exports, with emphasis on exports of minerals and fuels (optional electronic link 2). The country's logistics corridors are the main freight transportation routes for these axes, connecting the north of the country to the south via the Pan American Highway, and the hinterland (highlands and forest) to the Port of Callao[10] via the Central Corridor (optional electronic link 5).

1.4 **Institutional framework in the transportation sector.** The lead agency for the transportation sector is the Ministry of Transportation and Communications (MTC). Planning, execution, management, and maintenance of the National Road System is performed by an execution unit known as the Special Project for National Transportation Infrastructure (known as PROVIAS Nacional, or PVN). PVN's actions are based on investment plans that respond to the Government of Peru's priorities (optional electronic link 4).

1.5 **Condition of road infrastructure.** Peru's National Road System, known by its Spanish-language acronym RVN, comprises 20 logistics corridors and two backbones forming part of the Pan American Highway,[11] along which most of the country's freight and passengers are transported.[12] The road network totals 156,792 kilometers in length, comprising the RVN (25,005 km), the departmental road network (24,992 km), and the local road network (106,794 km). As of 2014, 75% of the RVN was paved, with 60% in good condition.[13]

1.6 Although there have been significant improvements in the state of the RVN, there are still roads in poor condition that limit the flow of goods and people in certain areas of the country, mainly the highland and forest regions (see paragraph 1.7). The poor condition of these roads has implications for the country's productivity and exports, and a direct impact on freight transportation costs (see paragraph 1.9). Transportation costs in Peru are US$0.47 per ton-kilometer, the most expensive in a sample of 20 countries of the region and higher than the average cost for the Andean countries (0.091).[14]

1.7 **Description of the Huánuco–La Unión–Huallanca segment.** The Huánuco–La Unión–Huallanca segment is a winding, undulating road 150.4 km in length.[15] It connects the Lima–Pucallpa logistic corridor (IIRSA Central Amazon axis) to the Pativilca–Carhuaz corridor (one of the main access routes for the Pan American Highway) via the city of Huánuco. Eighty-six percent of the Huánuco–La Unión–Huallanca segment is in subpar condition, with 6% in poor condition and only 8% in good condition.[16] The segment is part of the Carretera Longitudinal de la Sierra

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10 The Port of Callao is the sixth largest in the Latin American and Caribbean region, moving around 2 million TEUs (twenty-foot equivalent units) per year (2015).

11 The logistics corridor is comprised of main roads responsible for the transportation of 80% of the freight generated by the 57 logistics chains studied. Backbones connect the country with the main international trade hubs.

12 Eighty percent of all freight movements in the country are by road (optional electronic link 5).

13 Source: PROVIAS Nacional, 2015.

14 Source: Freight Transport and Logistics Statistics Yearbook.

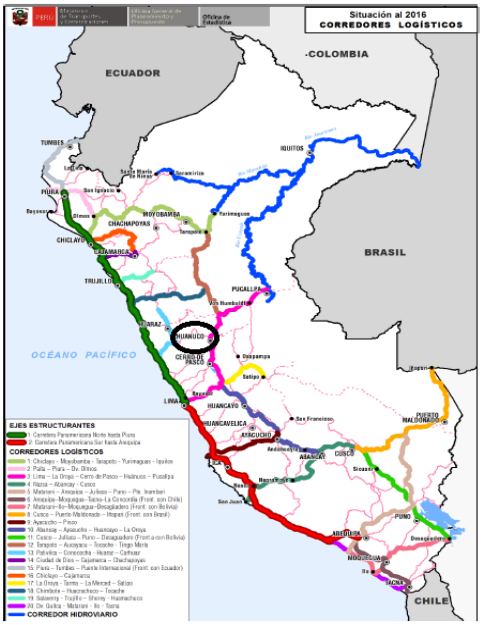
15 The current length of the road is 152.82 km. Upon completion of the definitive study and improvement of the road alignment, the length will be 150.40 km.

16 Sixty-six percent of the road has basic paving and the rest is graveled.

[North-South Mountain Highway] (3,463 km),[17] which crosses 12 departments and links the border with Ecuador (at Vado Grande) to the southern border with Bolivia (at Puente Desaguadero in Puno). It is an important arterial route for the flow of goods, mainly agricultural produce (cocoa, potatoes, rice, sugar, coffee, etc.) and minerals (tin, zinc, lead, gold, copper, etc.). Thirty percent of traffic along the segment targeted under this project comprises freight vehicles, demonstrating the importance of this road to local and regional trade (optional electronic link 1).

Figure 1. Map (optional electronic link 6)

Figure 2. Logistics corridors



Source: Ministry of Transportation and Communications (MTC).

1.8 **The problem and its consequences.** The main problem targeted under this operation is the low level of infrastructure service in certain sections of the Huánuco–La Unión–Huallanca corridor, which makes travel along this route difficult, principally by freight vehicles.[18] This low level of service leads to high vehicle operating costs and long travel times for users,[19] and therefore high freight transportation costs. This affects economic and productive development in departments along the highway, which are mainly engaged in agricultural production and mining.[20] The subpar condition of the road also hinders the efficient access of these goods to the Port of

[17] Approximately 66% of the North-South Mountain Highway is paved and in good condition. At least 1,190 km need to be paved and upgraded, including the Huánuco–La Unión–Huallanca segment targeted by this project.

[18] Due to the poor quality of this road, vehicles use highways that are in better condition, such as the Central Highway, contributing to traffic congestion (the average speed is between 20 and 25 km/h with traffic of more than 5,000 vehicles/day).

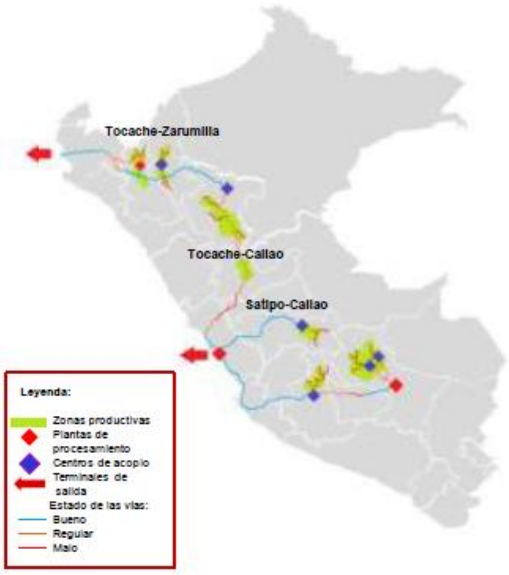
[19] The 150.4 km segment takes approximately six hours to travel at an average speed of 25 km/h.

[20] The highland departments are the least productive, according to a study by Galarza and Díaz (2016).

Callao and the Pucallpa waterway in the region (Lima–Pucallpa logistics corridor), as well as to the border crossings with Ecuador and Bolivia.

1.9 One of the agricultural chains affected by the condition of this road is cocoa, national production of which is concentrated in the northern region (58%) and Huánuco and Junín (18%). The main export channel for cocoa is maritime, which accounts for 99% of the total, transported via the Central Highway to the Port of Callao.[21] Producers in the provinces of Tocache (northern region) and Huánuco use highland corridors and roads, including the Huánuco–La Unión–Huallanca segment, to export their goods to the capital, Lima. The condition of roads in the highlands affects logistics costs for cocoa exports, with 30% of total costs attributable to road transportation of the product. Approximately 2% of shipped produce is also lost due to lengthy travel times.[22] High logistics costs and produce losses affect productivity in these agricultural areas.

Figure 3. Identified routes for cocoa exports



Source: World Bank, 2015.

1.10 **Causes of the problem.** The main cause of the problem is the lack of an adequate program for improvement and maintenance of the segment due to a lack of resources, which has contributed to physical deterioration of the corridor. The low level of service provided by the road is due mainly to: (i) poor design and limited width of the road platform,[23] inadequate drainage and signage; and (ii) traffic

[21] Source: Análisis integral de la logística en el Perú [Comprehensive analysis of logistics in Peru], World Bank, April 2016.

[22] In a World Bank comparative study of logistics costs in the chains for cocoa, grapes, quinoa, and onions, logistics costs in the cocoa chain were higher than for other products (an average of US$2.6 per kg compared to between US$1 and US$2 per kg), with a higher percentage of costs attributable to transportation (between 5% and 20% of costs for grapes, coffee, and onions were attributable to transportation).

[23] Between 3.3 and 4.2 meters wide for two-lane highways. The current standard is 6.6 meters.

interruptions during the critical rainy season.[24] There are also problems of road safety along the segment, such as more than 100 curves with limited visibility; more than 30 curves with alignment inconsistencies; limited road width for freight vehicle traffic; a lack of adequate signage; and collisions involving public transportation vehicles.

1.11 **Proposed intervention.** The project relates principally to the implementation of a comprehensive improvement, operation, and maintenance contract, as well as contract supervision. The comprehensive contract will have a total term of 10 years and includes improvement of the Huánuco–La Unión–Huallanca segment in the form of a hot mix asphalt pavement 7.5 cm thick, a 6.6-meter-wide roadway, and hard shoulders, supplemented by construction of a drainage system and engineering works, road safety interventions, construction of a 580-meter tunnel; construction and operation of a weigh station, a toll plaza, and support services; and road upkeep along the corridor. This type of contract is relatively new in Peru and the region and offers many benefits, especially ensuring road upkeep and preventing any gap between the completion of construction and the start of maintenance, as described in paragraph 3.4. Maintenance activities will also include two segments (86 km in length) outside the corridor,[25] for which only maintenance will be performed. This project will facilitate improvements in the segment's level of service as an alternative to a saturated Central Highway, contributing to a reduction in vehicle operating costs and travel times for users (see paragraph 1.22).

1.12 **Empirical evidence.** An array of studies link the impact of infrastructure to growth and productivity. Diechmann et al. (2002) found that a 10% improvement in market access can increase worker productivity by 6%.[26] In another evaluation, Kiprono and Matsumoto estimate a difference-in-differences model for road infrastructure (new roads, rehabilitation, and maintenance) in Kenya. They conclude that for each 1% reduction in travel time between production areas and the largest towns, there is a 1.5% increase in crop yields (measured in kilograms produced per hectare). Henderson, Shalizin, and Venables (2001) indicate that a doubling of transportation costs can reduce trade volumes by 80%.[27] Similarly, using a gravity model of trade with transportation costs and the CIF/FOB ratio, Limao and Venables (2001) demonstrate that improving infrastructure from the 50th percentile to the 25th percentile is equivalent to reducing a country's distance from its trading partners by 2,358 km.

1.13 Reductions in times and vehicle operating costs create a greater incentive for increased traffic and expansion of regional trade. For example, after a project was implemented to improve the East-West economic corridor in Laos, an ex post

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[24] Interruptions in route access are estimated at 15 days per year, with limited traffic for 60 days.

[25] Maintenance of the Huallanca–Antamina Bypass and Junction PE-3N (Tingo Chico)–Nuevas Flores–Llata–Antamina segments will be included. The Huallanca–Antamina Bypass segment is a continuation of the segment targeted for investment. The inclusion of maintenance activities for both these segments will allow road conditions to be improved throughout a wider area of influence than just the segment targeted for investment.

[26] Diechmann, Uwe, Fay, Marianne, Jun, Koo, Lall, and Somik, V. (2002), "Economic structure, productivity, and infrastructure quality in Southern Mexico," Policy Research Working Paper WPS 2900.

[27] Henderson J.V., Shalizi, Z., and Venables, A. (2001), "Geography and Development," Journal of Economic Geography, 1, 81-106.

evaluation found that the number of freight operators doubled over a period of five years. Similarly, traffic volumes grew by 25% after a road rehabilitation project linking Kazakhstan and Kyrgyzstan. The evaluation found that Kyrgyzstan's exports to Kazakhstan grew by 160% between 1998 and 2007 (Asian Development Bank, 2008).

1.14 **The Bank's sector knowledge and lessons learned.** The IDB has invested in highway improvement and rehabilitation projects in Latin American countries, with satisfactory results in terms of reducing vehicle operating costs and travel times. In countries such as Brazil (BR-L1051), Bolivia (BO-0098), and Nicaragua (NI-0170), vehicle operating costs were reduced by 13% to 50%, and travel times by 12% to 84%, following the implementation of Bank-financed projects to rehabilitate and improve key highway corridors. Although this project will be implemented using a relatively new approach in the region (comprehensive improvement, operation, and maintenance contracts), good practices from other projects in the region are built into the design. For example, a road safety audit has been performed for the first time in Peru. The executing agency is expected to adopt this road safety audit as good practice for the implementation of all of its new projects. Similarly, impact assessments are commonly used in local roads projects but are rarely applied to national highways, as will be the case in this project.[28] Additionally, since 2012, funding has been provided under operation PE-L1058 in Peru for the first rehabilitation, improvement, and maintenance contract, which is expected to improve road management in the sector. Although loan PE-1058 is still in execution, this operation incorporates lessons learned from it and reflects a number of specific features to be included in the bidding documents and the works contract, for example, the possibility of setting limits on work variations, and more stringent specifications with respect to delays in work execution and their impact on maintenance costs, the availability of materials, etc.

1.15 **Project rationale.** Developing road infrastructure is an important factor for fostering productive activities and integrating the country into regional and international logistics chains, to boost exports. Improving the condition of road corridors for integration is also consistent with the Government of Peru's investment efforts to enhance the country's economic and productive development and improve national, regional, and international integration through its Multiyear Strategic Sector Plan (PESEM) (see paragraph 1.16). One of the highways not yet targeted is the Huánuco–La Unión–Huallanca segment in the Department of Huánuco. The project is also listed as a priority in the Government Plan for 2016-2021. The Bank has been providing ongoing support to PVN[29] in its efforts to build a quality national road system. This program will support the government's target of paving 98% of roads by 2018. In this project, although the Bank's financial contribution is small in relation to the total cost (16%), this shows that the government's requirements are related mainly to the Bank's value added in terms of both design of the operation and its monitoring and evaluation, rather than to financial needs. In the project design, the

[28] An impact assessment for national highways will be very important in validating information on highway impacts in terms of lower freight transportation costs, as well as the impact on traffic.

[29] Since 1990, the Bank has delivered five loan operations to the MTC for improvement of the National Road System, executed by PVN. It has also provided loans for the departmental network and another three operations for the local road network.

Bank's support has put greater emphasis on design of the comprehensive works contract and the comprehensive supervision contract, with which the country has only had one prior experience. Value-added in the socioenvironmental area has been reflected in a substantial improvement in the country's socioenvironmental toolkit. The Bank's technical assistance during the implementation phase, ensuring that outputs and outcomes are achieved as planned, is another aspect that has proved valuable to the executing agency.

1.16 **The government's strategy.** Peru's Multiyear Strategic Sector Plan for 2012-2016 establishes the main lines of action for improvement of the country's road network, as follows: (i) expand, preserve, and modernize a high-quality, competitive infrastructure that promotes social inclusion, the country's internal and external integration, and environmental protection; and (ii) foster competitiveness and safety in transportation services by using transportation-related logistics services and modern technologies, and preserving the environment. Since 2012, PVN has succeeded in reducing the proportion of roads in poor or fair condition from 20% to 10%. The Government of Peru has been spearheading measures to improve economic competitiveness through the Competitiveness Agenda for 2014-2018[30] and strengthening of the National Competitiveness Council. The latter coordinates and monitors implementation of the agenda, in which logistics and transportation infrastructure is a priority focus area.

1.17 **The Bank's country strategy.** The program is aligned with the Bank's country strategy with Peru 2012-2016 (document GN-2668), which prioritizes Bank participation in supporting increased investment in national highways in the country's hinterland, as well as strengthening road management capacity and introducing innovative road maintenance mechanisms, thus contributing to the strategic objective of improving transportation infrastructure.[31] The project is also included in the 2016 Operational Program Report (document GN-2849).

1.18 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008), aligned with the development challenges of: (i) economic integration, as it offers infrastructure to facilitate improved connectivity between production areas in the highland and forest regions (including Huánuco) and the main domestic and regional/international export markets[32] (see paragraph 1.3); and (ii) productivity and innovation, as the project supports the criterion of providing adequate infrastructure and affordable public services by promoting access to the country's logistics corridors in Peru's production areas, and by reducing travel times and transportation costs, all of which stimulates productivity. In terms of the Corporate Results Framework 2016-2019 (document GN-2727-6), the program also contributes to the output indicator relating to the number of kilometers built or rehabilitated. Consistent with the Sector Strategy to Support Competitive Global and Regional Integration (document GN-2565-4), the operation meets the criterion of multinational targeting by supporting regional and international

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30 Competitiveness Agenda 2014-2018, National Competitiveness Council, Ministry of Economics and Finance.

31 The project contributes to the outcomes of improving the condition of the National Road System and lowering transportation costs.

32 As measured by the reduction in average transportation costs for cocoa exported via the Tocache–Callao corridor.

integration of Peru's supply chains through national investment in corridors that support regional integration. It also meets the criterion of regional additionality, as the proposed interventions constitute part of a supranational plan supported by the Bank (the IIRSA integration and development hubs), thus linking national efforts to a strategic regional vision (optional electronic link 2).

1.19 The program is consistent with the IDB Infrastructure Strategy: Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), as it supports road infrastructure for regional and global integration in Peru. It is also consistent with the Transportation Sector Framework Document (document GN-2740-3), as rehabilitation of the country's logistics corridors (with the consequent reduction in transportation costs and travel times for users) contributes to the dimension of success relating to improvements in the quality of road infrastructure. The program is aligned with the strategic area of road safety, as it will seek to improve road safety conditions by addressing the recommendations of a road safety audit, including activities to disseminate road safety measures to road users (see paragraph 1.22).

B. Objectives, components, and cost

1.20 **Objectives.** The project objective is to contribute to the productivity and regional and national integration of Peru through the improvement of the road infrastructure connecting the markets and production areas in highland and forest regions with the country's international trade hubs. The project's specific objective is to contribute to improve the level of service[33] of the Huánuco–La Unión–Huallanca highway segment through its rehabilitation, upgrading, and maintenance, resulting in lower vehicle operating costs and shorter travel times for users.

1.21 The project has a single component, as follows:

1.22 **Component 1. Road improvement, upkeep, and operation (US$492.2 million).** Two contracts will be financed under this component: a comprehensive works and maintenance contract, and a comprehensive supervision contract for both works and maintenance. The comprehensive works and maintenance contract will encompass the following elements:

(i) **Road improvement works on the Huánuco–La Unión–Huallanca segment.** These include upgrading and paving of the 150.4 km segment of highway, including a 6.6-meter-wide roadway and hard shoulders measuring 1.2 meters. Works will include the necessary road safety measures, addressing the recommendations of the road safety audit. Implementation of the environmental management plan will also be included, as well as the compensation and involuntary resettlement plans.

(ii) **Service- and operational level maintenance of the Huánuco–La Unión–Huallanca–Antamina Bypass and Junction PE-3N (Tingo Chico)–Nuevas Flores–Llata–Antamina segments.** This includes regular and routine maintenance, emergency assistance, and management and level of service maintenance activities for a length of 239.02 km of the corridor for a ten-year

[33] Level of service is a measure of the quality offered to users of the road, with reference to factors such as speed, travel time, comfort, safety, and operating costs.

period. Operating costs will also be financed for towing and ambulance services on the corridor.[34]

(iii) **Construction of a weigh station and toll plaza.** Includes the construction of a toll plaza and a weigh station. The toll plaza will generate revenue to partially finance operation and maintenance, while the weigh station will prevent trucks with overweight loads from using the highway. Given that the contractor will also be responsible for operation and maintenance, a weigh station is needed to avoid early deterioration of the road that would result in additional cost to the contractor.

1.23 The comprehensive supervision contract will include supervision of the improvement works and the service- and operational level maintenance of the highway.

1.24 **Other expenditures (US$2.8 million).** Financing is also envisaged for the following project implementation activities: (i) PVN operational and administrative expenses; (ii) studies and activities to improve project technical and financial management and monitoring and evaluation; and (iii) financial audit.

1.25 **Beneficiaries.** The project will improve access to 243 population centers, with a total surface area of 7,188.68 square kilometers. This is the project's area of direct influence. The total number of beneficiaries will be 272,183, with 51% located in rural areas. Of the total number of beneficiaries, 131,380 are low-income. The project will also benefit 1,042 vehicles that use the highway on a daily basis, 30% of which are freight vehicles.

1.26 **Financing amount and mechanism.** The estimated total amount of project is US$495.07 million, US$80 million of which will be drawn from the Bank's Ordinary Capital.[35] The borrower will provide a local counterpart contribution of US$415.07 million for the project. Table 1 provides details of estimated project cost and financing.

[34] The contractor will be responsible for providing these services, and may outsource them.

[35] The operation will be supplemented by technical cooperation operation PE-T1352, which is pending approval and will facilitate the completion of a number of analyses while providing support and monitoring in the socioenvironmental area.

Table 1. Cost table (US$000s)

Components			IDB	Local	Total
1	**Road improvement, upkeep, and operation**		**79,544**	**412,702**	**492,245**
	1.1	Upgrading of the Huánuco–La Unión–Huallanca highway segment	**73,370**	**312,960**	**386,330**
	1.1.1	Upgrading works	69,123	266,935	336,059
	1.1.2	Road safety	952	3,675	4,626
	1.1.3	Environmental management plan	3,295	12,723	16,018
	1.1.4	Compensation and involuntary resettlement plans	-	29,627	29,627
	1.2	Service- and operational level maintenance, Huánuco–La Unión–Huallanca–Antamina Bypass / Junction PE-3N (Tingo Chico)–Llata–Antamina	**-**	**55,978**	**55,978**
	1.3	Construction of weigh station and toll plaza	**789**	**3,049**	**3,838**
	1.4	Supervision of comprehensive contract	**5,385**	**20,793**	**26,178**
	1.5	Cost escalation		**19,921**	**19,921**
Other expenditures			**456**	**2,368**	**2,824**
	2.1	Execution unit, operational and administrative expenses	-	606	606
	2.2	Studies to improve project technical and financial management and monitoring and evaluation	374	1,444	1,818
	2.3	Financial audit	82	318	400
Total			**80,000**	**415,070**	**495,070**
%			**16.2**	**83.8**	**100**

1.27 **Crosscutting issues: gender and climate change.** Technical cooperation resources under operation RG-T2618 (ATN/OC-15006-RG) will be used to explore sector opportunities for including women in nontraditional sector employment. Although the project has not set aside financing for specific gender equality actions, the environmental impact assessment (EIA) identified the potential adverse impacts of the project on women and included the relevant mitigation measures, as well as a gender focus for labor hiring processes. The PACRI includes measures to increase the inclusion of women among the project beneficiaries (see paragraphs 4.24 and 4.25 of the environmental and social management report (ESMR).

1.28 In terms of climate change, the engineering design already incorporates adaptation measures to make the highway less susceptible to climate change, so no additional measures were built into the project during preparation. For example, even though the highway is already in operation, the project design includes the construction of a tunnel on one segment, to make it landslide-proof and ensure serviceability. In addition, all of the highway's masonry and drainage structures have been reinforced.

C. Key results indicators

1.29 The program is designed to achieve the following key results, which will be evaluated based on the proposed indicators in the Results Matrix (Annex II): (i) reduction in travel times; (ii) reduction in annual vehicle operating costs; and (iii) the daily average index reflecting traffic levels on the highway. Output and outcome indicators will be verified directly and compared to the values given in the Results Matrix. The

project also provides for the preparation of an impact evaluation (see paragraph 3.12).

1.30 **Technical and economic viability.** An economic evaluation was performed for the project (optional electronic link 1), yielding an estimated economic net present value is US$33.4 million and economic internal rate of return of 10.3%. The social discount rate of 9% is regulated by Peru's National Public Investment System (SNIP),[36] and projects with an economic internal rate of return that exceeds this rate are regarded as viable or yielding social returns. The project has already been declared viable by Peru's Ministry of Economics and Finance (MEF). The economic evaluation performed by the execution unit is considered conservative given the parameters used to estimate benefits, but even under this scenario the project yields good returns (though very sensitive to variations in costs and benefits). Under this conservative scenario, the project could weather cost increases of 15% or a reduction in benefits of 10%, but not a combination of both. However, given that this is a conservative scenario, the benefits are expected to be higher than projected.[37]

II. Financing Structure and Main Risks

A. Financing instruments

2.1 **Financing amount and modality.** This operation is designed as a specific investment loan with a disbursement period of five years. It will be executed using a comprehensive improvement, operation, and service-level maintenance contract (see paragraph 1.26) with a total term of approximately 10 years.[38] The loan operation will finance part of the investment to improve the highway. After project completion, the government will continue to allocate counterpart funds for maintenance of the road. A similar approach is being used under the Lima–Canta–La Viuda–Unish Highway Rehabilitation and Improvement Project (PE-L1058, 2769/OC-PE).

B. Environmental and social safeguard risks

2.2 In accordance with the Environment and Safeguards Compliance Policy (Operational Policy OP-703), the project has been classified as category "A." In addition to Operational Policy OP-703, the following policies are triggered: (i) Access to Information (OP-102); (ii) Disaster Risk Management Policy (OP-704); (iii) Involuntary Resettlement (OP-710), given the need for involuntary resettlement of populations close to the highway; (iv) Gender Equality in Development (OP-761), to support the equitable participation of women in activities associated with the operation; and (v) Indigenous Peoples Policy (OP-765), as a large part of the

[36] The social discount rate is governed by Board Resolution 006-2012-EF/68.01. The study on which this rate is based can be found here.

[37] In the case of this project, a scenario involving 5% annual growth in traffic and generated traffic of 20% is regarded as quite conservative. Previous work on this highway consisting only of basic paving of the wearing course increased traffic levels in the first year between 50% and 100%. Accordingly, generated traffic is projected at 35%, meaning that the benefits will be greater.

[38] The total contract term will be 10 years, including approximately 4 years to complete the works and 6 years of maintenance.

population in the area of intervention belong to campesino communities of Quechua origin.

2.3 An environmental impact assessment (EIA)[39] has been prepared that identifies the environmental and social risks and impacts of the project. The main adverse environmental impacts are associated with the high volume of earthmoving required to build the road. The EIA includes management plans with effective measures to avoid, mitigate, and compensate the identified environmental and social impacts. The EIA has also been available on the Bank website since 22 December 2015 and supplemented with a study of indirect and cumulative impacts.

2.4 The main social impact of the project relates to involuntary resettlement as part of the process of clearing the right-of-way, which mostly affects Quechua families belonging to campesino communities. A Compensation and Involuntary Resettlement Plan (PACRI)[40] has been prepared to guide this process. The initial version of the PACRI prepared by the executing agency has been supplemented with assistance from the Bank, to ensure compliance with the Bank's safeguard policies. Additional measures have been introduced, to significantly reduce the number of people affected and avoid the resettlement of affected populations outside their immediate area of residence. It also contains measures to ensure that resettlement yields benefits for the affected population. The PACRI has been cleared by the executing agency and published on the websites of the Bank and the executing agency.

2.5 A study of alternative routes will also be conducted with the objective of significantly reducing the number of required resettlements.[41] The final PACRI for execution will be prepared once the study with the definitive road design is completed. The supervision firm for the project will conduct the study to analyze alternative routes within the first three months after commencing its activities.

2.6 The program has carried out a process of broad public consultation. Five rounds of consultation have been held with community authorities and communities affected by the EIA and the PACRI. Statements of consent to the project and to the resettlement process were obtained from the affected campesino communities and population centers during the last round of consultations regarding the PACRI. (A statement is pending in the case of just one campesino community, out of a required total of 25 statements, paragraph 2.10). These agreements will be updated in the

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[39] Successive versions of the EIA have been available on the Bank's external website since 22 December 2015.

[40] The following definitions apply to the PACRI: (i) initial PACRI: the version of the PACRI prepared by the firm Consorcio Vial Huallanca at the request of PVN; (ii) supplemented PACRI: the version of the PACRI prepared by the consulting firm LOHV, to be agreed upon between PVN and the Bank prior to submitting the operation to the Bank's Board of Executive Directors; (iii) PACRI: the version incorporating (a) the supplemented PACRI and initial PACRI and (b) elements pertaining to the initial PACRI that do not run counter to the Bank's safeguard polities or the supplemented PACRI, covering 100% of the affected communities; and (iv) final PACRI for execution: the updated PACRI agreed upon between PROVIAS and the Bank, to be produced once compensation actions have been determined for each social unit (community, individual, business, family, entity) based on the findings of the study of alternatives, as applicable.

[41] The additional measures are expected to reduce the need for resettlement from an initial number of 1,300 families to approximately 400.

communities and population centers subject to the study of alternative routes, once the final PACRI for execution has been prepared.

2.7 The environmental and social management report (ESMR) (required electronic link 4) summarizes the main impacts and risks of the program, as well as the associated mitigation and compensation measures. It also summarizes the consultation process and provides a detailed description of compliance with safeguard policies.

2.8 Although all of the measures indicated above have been included to ensure compliance with environmental and social safeguards, additional measures are also being considered to avoid delays in securing the clearing of premises that may affect normal progress of the works. These measures include the following: (i) formation of the PACRI implementation team by the executing agency prior to launching the bidding process for the works; (ii) hiring a supervision firm that includes social and environmental specialists; and (iii) continuing with the project dissemination workshops with local authorities and the community to ensure satisfactory management of right-of-way issues.

2.9 The project has also incorporated lessons learned in the social and environmental areas, based on the Bank's experience in managing projects of high social and environmental complexity. Measures have been designed to significantly reduce the number of people resettled and to ensure that people are relocated within their immediate area of residence (by rebuilding homes and providing equivalent lots), thus avoiding rupture of the social and economic fabric. An extensive consultation process of has been carried out, resulting in agreements with the affected communities. Lastly, indirect and cumulative impacts are often the most complex to manage, but a specific study of these impacts has been conducted to ensure that they are effectively identified and managed.

2.10 **Partial, temporary waiver of the time limit established under Operational Policy OP-710 to allow submission of the PACRI with the consent required under OP-710.** Operational Policy OP-710, paragraph (V)(6), requires the borrower to submit a final resettlement plan acceptable to the Bank prior to distributing the loan proposal to the Bank's Board of Executive Directors. In the case of indigenous communities, this requires the consent of those affected in accordance with Operational Policy OP-710, paragraph (IV)(4). In preparing this operation, and specifically the PACRI, the project team designed a consultation strategy to comply with the aforementioned requirements, and indicated to the Quality and Risk Review (QRR) committee that 100% of the statements of agreement with the affected indigenous communities would be obtained before distributing the loan proposal to the Board of Executive Directors. Thanks to the efforts of the team and PVN, 24 agreements have been reached with campesino communities and three population centers. Only the Campesino Community of Santa Rosa de Yarowilca has not yet signed a statement of agreement with the project and the resettlement process, for the reasons stated in paragraph 3.17 of the ESMR. These relate to leadership changes and the need to make the right-of-way compatible with the community's land use plans. PVN and the community have reached an agreement in principle to reduce the right-of-way in the area concerned from 20 m—the current design width of the highway—to approximately 13 m (or other width as agreed upon with the community), to avoid interfering with plans for dividing the land into lots. This

resolves the community's main demand. However, it has not yet been possible to hold a meeting with this community to conclude and formalize the agreements. In addition, the community has stated that no general assembly can be held before the end of this year due to a process of transition following a change in community leadership. An alternative that ensures that project implementation will not affect planned lot divisions, and that also the community will be able to enjoy the benefits of the highway while continuing to move forward with their land use plans, involves securing a statement prior to first disbursement under the loan, expressing the agreement of the general assembly of the Campesino Community of Santa Rosa de Yarowilca. As an additional safeguard, a formal commitment has been obtained from PVN to narrow the right-of-way as mentioned above (see ESMR (VI)(A)(c)). These prior conditions minimize the risks to the community and the project, and put the necessary pieces in place to complete the agreements regarding the transfer of all lands necessary for project implementation, as well as for finalization of the PACRI with details of the processes for acquiring and transferring the land and compensating affected individuals and communities. In light of the foregoing, it is requested that the Board of Executive Directors approve a partial, temporary waiver of the time limit stipulated in paragraph (V)(6) of Operational Policy OP-710 as it applies to indigenous communities (paragraph (IV)(4)), to defer finalization of the PACRI so that the required agreements with the Campesino Community of Santa Rosa de Yarowilca can be formalized prior to first disbursement. In the project team's opinion, the grounds for requesting a partial, temporary waiver are as follows: (i) consent agreements have been obtained form 24 campesino communities and population centers meeting the most stringent requirements of the Bank's safeguard policies; the only pending agreement is with the Campesino Community of Santa Rosa de Yarowilca, which is one of the communities least affected by the resettlement process in the entire project; (ii) the process of obtaining the community's consent is under way, and the risk of not reaching agreement is regarded as low, given the executing agency's commitment to narrow the right-of-way, which is the main issue raised by the community; (iii) and the waiver is partial and temporary. **The consent agreement with this community is a condition precedent to the first disbursement, i.e., the project will be ineligible until such condition is met.**

C. Fiduciary risks

2.11 All current procurement policies for works, goods, and consulting services will apply. The execution unit has broad knowledge and experience in the implementation of Bank-financed projects, so no significant fiduciary risks are envisaged. Moreover, the bidding documents for the main procurement under the operation will be very similar to those used for works contracting under project PE-L1058, 2769/OC-PE, now in execution.

D. Other project risks

2.12 **Political or community opposition.** No political opposition to the project is expected. The project is considered to be high priority at the national level, and it is included as a top priority in the new administration's government program. At the community level, there is a medium risk of community opposition given the impact of the project. However, as mentioned in the Results Matrix, the project has conducted a process of broad public consultation: several rounds of consultations

and awareness-building have taken place, in which most residents and affected individuals have made formal statements of support for the project. To mitigate the risk of community opposition, an analysis of alternative routes will also be carried out to reduce the number of properties and people affected, and project dissemination workshops will be held with local authorities and the community.

2.13 **Execution and monitoring risks.** Although this project is large, PVN has extensive experience in executing major projects, and no execution risks are envisaged in relation to the works. There is also a large market of construction and supervision firms trained for the type of works to be financed.

2.14 **Project implementation risks.** Although a draft of the final detailed engineering designs for the project is available, the Bank is requesting a supplemental study of alternative routes in a number of population centers and other areas with high resettlement population density, with the aim of reducing the numbers affected and, accordingly, the socioenvironmental impact of the project.[42] The supervision firm for the project will conduct the study to analyze alternative routes within the first three months after commencement of its activities. These additional analyses may introduce an element of uncertainty into the final cost of the project, given that alternative routes would entail additional costs; however, they would also entail lower costs associated with impacts on properties.[43] To mitigate this risk, the executing agency has been asked to conduct these analyses before beginning works in population centers and other areas of high resettlement population density, so as to reduce the level of uncertainty regarding costs.

2.15 **Risk of cost overruns/insufficient budget.** Possible sources of additional costs were analyzed with the aim of identifying the highest costs that may occur during project implementation. The analysis takes into account the historical performance of the most representative variables under road projects in Peru (optional electronic link 7). The results indicate that additional costs of approximately 12% may be expected, as well as cost increases of approximately 6% (both with respect to the baseline budget for the project). Mechanisms to mitigate these higher costs are as follows: (i) the budget for the works includes an allowance for cost escalation; (ii) for works supervision, the executing agency will form a comprehensive team of professionals to support cost control and design optimization; (iii) prior to the bidding process for works, meetings will be held with likely bidders to solicit the opinion of the private sector; (iv) the supervision firm for the project will be hired sufficiently in advance of the launch of works to allow it to review the engineering study in the field and propose any improvements.

2.16 **Sustainability of investments.** Financing of project operation and maintenance is assured since the improvement, operation, and service-level maintenance contract includes funding for these activities. Once the contract has been completed, the executing agency will include maintenance of the road in its regular service-level

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[42] To ensure implementation of the analysis of alternative routes, a contractual clause has been added that, prior to the start of competitive bidding for works supervision, the analysis of alternative routes has been included in the terms of reference for the supervision. The findings of the study will be subject to the Bank's no objection.

[43] If there are higher costs for the project, such costs will be financed with counterpart resources, as established in the loan contract.

maintenance contracts, which have a term of approximately five years and are implemented by private firms.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower will be the Republic of Peru. The executing agency will be the Ministry of Transportation and Communications (MTC), acting through PROVIAS Nacional (PVN). PVN is a line executing agency of the MTC and is responsible for the execution of construction, improvement, rehabilitation, and maintenance projects for the National Road System (RVN). The project will be implemented in the setting of the different PVN management units for the execution of projects, and no institutional adjustments will be required.

3.2 The roles of PVN include: (i) planning, coordinating, directing, and evaluating the execution of works; (ii) formulating the work plan and preparing the annual budget; (iii) coordinating with the MEF on the administrative procedures for the allocation of local counterpart funds and disbursements; (iv) verifying the works budgets; (v) reviewing and giving clearance for studies and records; and (vi) preparing and proposing the bidding documents for competitive bidding processes and solicitations.

3.3 The project execution responsibilities of PVN include: (i) contracting works construction and supervision; (ii) scheduling and monitoring the physical and financial execution of the contracts; (iii) implementing and conducting monitoring and supervision activities for the project; (iv) maintaining effective accounting and financial controls and records for verification by the Bank and external auditors; (v) preparing and submitting disbursement requests to the Bank; and (vi) preparing and submitting financial and project execution reports and audited financial statements to the Bank.

3.4 **Project implementation mechanism.** The highway will be executed using a comprehensive improvement, operation, and service-level maintenance contract, under which a single contractor will be responsible for a cluster of civil works, specifically, improvement of the Huánuco–La Unión–Huallanca segment and the subsequent operation and maintenance of the Huánuco–La Unión–Huallanca–Antamina Bypass and Junction PE-3N (Tingo Chico)–Llata–Antamina segments. There will also be a comprehensive supervision contract. The advantage of these types of contracts is that they prevent any gaps between the improvement works and subsequent maintenance, reducing the likelihood that budget variations will affect road maintenance and creating incentives for contractors to make sufficient investments, since they will be responsible for subsequent maintenance activities.

3.5 **Program Operations Manual.** The program Operations Manual will include at least: (i) the technical and fiduciary procedures required to implement the project; and (ii) the environmental and social requirements for the program. **The following will be special contractual conditions precedent to the first disbursement of the loan, to be fulfilled by the borrower, acting through the executing agency: (i) provide evidence that the program Operations Manual has been approved and has entered into force, including a chapter covering the project's environmental and social requirements and procedures, on the terms**

previously agreed upon with the Bank; (ii) provide the duly approved statement of the general assembly of the Campesino Community of Santa Rosa de Yarowilca, stating, among other things, the community's agreement with the land purchases, resettlement process, and compensation measures contained in the Compensation and Involuntary Resettlement Plan (PACRI), including the executing agency's commitment to adjust the right-of-way as agreed with the community; and (iii) provide evidence that the executing agency has given clearance for the PACRI previously agreed upon with the Bank, including all of the necessary agreements with the affected communities, and formally submitted this version to the Office of Social and Environmental Affairs (DGASA).

3.6 **Environmental and social execution conditions.** The borrower will ensure compliance with all of the environmental and social requirements described in the ESMR (required electronic link 4), particularly Section VI, which establishes the special contractual execution conditions.

3.7 **Procurement.** Procurement will be governed by the conditions set in the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and Policies for the Selection and Contracting of Consultants (document GN-2350-9). The stipulations of the procurement plan will be followed, as will those contained in the Fiduciary Agreements and Requirements (Annex III), which establishes the method of review, processes, and monitoring for program procurement, and the cases where country procurement systems may be used.

3.8 **Disbursements.** The loan will be disbursed through advances of funds. The frequency of advances will be determined as a function of the project's financial programming, which will be updated periodically by the executing agency. The Bank may make a new advance of funds once at least 80% of the funds previously disbursed as advances have been accounted for. The financial review of disbursement requests will be on an ex post basis.

3.9 **Audit.** The borrower, acting through the executing agency, commits to select and hire an independent Tier I or II audit firm, in accordance with Bank policies, for the entire project execution period (including extensions to the final disbursement period). Final and annual audited financial statements will be delivered as stipulated in Annex III (Fiduciary Agreements and Requirements).

B. Summary of arrangements for monitoring results

3.10 The monitoring and evaluation plan (required electronic link 3) will be used to monitor execution of the operation in accordance with the indicators and targets set in the Results Matrix (Annex II). The following instruments will be used for monitoring: (i) six-monthly status reports on overall project performance (based on the indicators in the Results Matrix), monitoring of physical and financial execution (based on the annual work plan, the project execution plan, the procurement plan, and disbursement projections), and compliance with external audit recommendations; (ii) environmental and social compliance reports every 40 days; (iii) audited financial statements; and (iv) project completion report. The Bank will monitor program implementation through inspection visits and administrative missions.

3.11 **Evaluation mechanism.** To evaluate the expected project outcomes, an impact evaluation will be carried out comparing trends in specific indicators in both the target area and the control area (required electronic link 3). An ex post economic evaluation will also be prepared based on the model developed for the ex ante economic evaluation; this will be executed in the final six months of the original disbursement period (or as extended).

3.12 **Impact evaluation.** An impact evaluation of the project will be conducted to quantify the causal effects of the intervention on the following variables: (i) number of vehicles on the road; (ii) travel times; (iii) cost of freight transportation; and (iv) cost of fares. The evaluation will use quasi-experimental methodologies. The synthetic control method will be used to calculate the number of vehicles (average daily index). This allows the number of vehicles on the targeted road to be compared with the number of vehicles using the country's main highways. The difference-in-differences methodology will be used to evaluate the impact of the program on reductions in freight and fare costs. Accordingly, the variation in variables for the targeted road over time will be compared to those for the control roads.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration		
Regional Context Indicators			
Country Development Results Indicators	-Roads built or upgraded (km)*		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2668	Improve transportation infrastructure, and improve the logistics sector.	
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	Highly Evaluable	Weight	Maximum Score
	9.7		10
3. Evidence-based Assessment & Solution	9.6	33.33%	10
3.1 Program Diagnosis	3.0		
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	9.5	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	7.0		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
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	A		
IV. IDB´s Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External control. Procurement: Information System, Shopping Method.	
Non-Fiduciary	Yes	Monitoring and Evaluation National System.	
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
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	Yes	Consultancies were hired for the following topics: i) socio-environmental aspects, ii) technical aspects, iii) road safety auditing, and iv) impact evaluation design.	
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	Yes	The proposed evaluation will use the synthetic control methodology to estimate impacts in traffic congestion levels, and the differences in differences methodology to estimate impacts in freight rates.	

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The main objective of the project is to contribute to the productivity and the regional and national integration of Peru, by improving road infrastructure that links markets and production areas located in the mountain range and jungle with nodes of foreign trade in the country. The specific objective of the project is to improve the level of service in the road segment Huanuco - La Union - Huallanca, through rehabilitation, improvement and conservation, which will result in the reduction of vehicle operating costs and reduced travel times for users.

The POD presents a solid diagnosis of the problems to be addressed by the project and its dimensions. The interventions proposed are linked to the problems identified and the beneficiaries of the project are specified. The POD also refers to a set of impact evaluation studies that quantify the impacts and results of similar projects. These studies have been conducted in contexts that might not be similar to Peru, therefore it is considered that they don´t have sufficient external validity.

The results matrix has a clear vertical logic, indicators presented are SMART, have baselines, targets, and means of verification. The impact indicator does not have a target defined yet, as this will be determined as part of the proposed impact evaluation.

The project presents a solid cost-benefit analysis. The main economic benefits quantified are savings in vehicle operating costs and savings in travel times. A discount rate of 9% was used and it is indicated that this rate is regulated by the national public investment system. The results show a positive net present value and an internal rate of return of 10.3%. The analysis demonstrates that the assumptions used are conservative and that the economic profits may be higher.

The monitoring plan is solid, details all monitoring instruments that will be used, and presents the total and annual costs for all outputs identified in the results matrix. The evaluation plan is based on an ex-post economic analysis and an impact evaluation that will use a difference in differences method to assess impacts on transportation costs and a synthetic control method to assess impacts on traffic. Given that historical traffic data is not available to the project yet, it is not possible to determine if it has a good control group. Also, while counterpart funds have been already committed for the impact evaluation it will be necessary to ensure that IDB funds are available to be able to conduct the entire analysis proposed.

The risk matrix of the operation presents reasonable risks and mitigation measures as well as monitoring indicators.

RESULTS MATRIX

Objective: The project objective is to contribute to the productivity and regional and national integration of Peru through the improvement of the road infrastructure connecting the markets and production areas in highland and forest regions with the country's international trade hubs. The project's specific objective is to contribute to improve the level of service of the Huánuco–La Unión–Huallanca highway segment through its rehabilitation, upgrading, and maintenance, resulting in lower vehicle operating costs and shorter travel times for users

EXPECTED IMPACT

Indicators	Unit of measure	Baseline[1]		Targets		Means of verification	Comments
		Value	Year	Value	Year		
Impact. Reduction in average transportation costs for cocoa exported via the Tocache–Callao corridor							
Transportation cost for cocoa exported via the Tocache–Callao corridor	US$/kg	0.7	2016	*	2022	Impact evaluation study Responsibility: PROVIAS Nacional and IDB	Baseline: values established in the study "Análisis integral de la logística en el Perú" [Comprehensive analysis of logistics in Peru], 2016. The baseline for the impact indicator will be updated as part of the impact evaluation. Target value (*): the target will be set based on the baseline report of the impact evaluation.

EXPECTED OUTCOMES

Expected outcomes	Unit of measure	Baseline			Targets			Means of verification
		Value		Year	Value		Year	
Outcome 1. Reduction in overall transportation costs for the targeted segment: Huánuco–La Unión–Huallanca[2]								
Average vehicle operating costs for the targeted highway segment: Huánuco–La Unión–Huallanca	US$/vehicle-km	Cars Buses Trucks Fleet average	0.247 0.908 1.025 0.339	2016	Cars Buses Trucks Fleet average	0.164 0.645 0.819 0.241	2022	Program ex post evaluation report (HDM4).

1 The baseline for the impact indicator will be updated during preparation of the impact evaluation, so that the baseline and target measurements are uniform.

2 The outcome indicators will measure service improvements, understood as time saved and the reduction in vehicle operating costs.

EXPECTED OUTCOMES

Expected outcomes	Unit of measure	Baseline		Targets		Means of verification
		Value	Year	Value	Year	
Average travel times for the targeted segment: Huánuco–La Unión–Huallanca	Minutes	379.7	2016	165.7	2022	Program ex post evaluation report.
Outcome 2. Increase in vehicle traffic on the Huánuco-La Unión- Huallanca segment						
Average daily index[3] for the Huánuco–La Unión–Huallanca segment	Vehicles	781	2016	1042	2022	Supervision and ex post evaluation reports.

OUTPUTS

Outputs	Estimated cost (US$000)	Unit of measure	Baseline 2016	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Final target	Means of verification
Component 1. Road works											
Km of highway improved[4] in the Huánuco–La Unión–Huallanca segment.	407,732[5]	Km	0	0	0	0	0	150.40	0	150.40[6]	Supervision reports Works acceptance report. Responsibility: PROVIAS Nacional.

[3] This index measures average daily traffic along a road, including all types of vehicles. The data is obtained by means of traffic counts.

[4] Construction or improvement includes the construction of new lanes, upgrading of the pavement structure, deep patching, sealing of the existing asphalt layer, adjustment of embankments to critical hydrological conditions, culverts and drains, rehabilitation and upgrading of longitudinal and transversal drainage systems, bridges, engineering works, signs and pavement markings, and other works necessary for the road safety and functionality of the targeted segments. It also includes activities to improve the horizontal or vertical standards of the roads, width, alignment, curvature or longitudinal slope, with the aim of increasing road capacity and travel speeds, and improving road safety in population centers, including introducing pedestrian crossings and bridges, improving intersections, overpasses, as well as the use of road safety devices such as mechanisms to dissipate energy and reduce speeds.

[5] Includes the costs of road improvements to the Huánuco–La Unión–Huallanca segment (item 1.1 of the cost table), plus the fraction of supervision costs relating to supervision of these works (US$21.402 million, included in item 1.5 of the cost table).

[6] The current length of the road is 152.82 km; however, as a result of the final study and the changes in layout, the length of road to be targeted under the project will be 150.40 km.

OUTPUTS

Outputs	Estimated cost (US$000)	Unit of measure	Baseline 2016	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Final target	Means of verification
Km of road subject to service-level maintenance[7] [8]	50,960[9]	Km	0	0	0	69.52	117.20	183.70	236.60	236.60	Supervision reports Works acceptance report. Responsibility: PROVIAS Nacional.
Number of toll plazas built and operating on the Huánuco–La Unión–Huallanca segment	10,247[10]	Unit	0	0	0	0	0	1	0	1	Supervision reports Works acceptance report. Responsibility: PROVIAS Nacional.
Number of toll plazas built and operating on the Huánuco–La Unión–Huallanca segment	3,384	Unit	0	0	0	0	0	1	0	1	Supervision reports Works acceptance report. Responsibility: PROVIAS Nacional.

7 The overall target represents the total length of road subject to this type of maintenance. Annual values are the kilometers to be maintained in that year, and do not therefore add up.

8 Maintenance includes the following segments: (i) Huánuco–La Unión–Huallanca (150.4 km); (ii) Huallanca–Antamina Bypass (16.6 km); and (iii) Junction PE-3N (Tingo Chico) Nuevas Flores–Llata–Antamina (69.6 km).

9 Includes project maintenance costs (item 1.2 of the cost table), plus the fraction of supervision costs relating to maintenance supervision (US$4.546 million, included in item 1.5 of the cost table).

10 The costs of the weigh station and toll plaza includes construction costs (item 1.4 of the cost table), plus their operating costs (item 1.5 of the cost table), plus the fraction of supervision costs relating to supervision of the weigh station and toll plaza (US$230,000, included in item 1.5 of the cost table).

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Republic of Peru
Project number:	PE-L1151
Name:	Project for Improvement of the Huánuco–Conococha Highway, Huánuco–La Unión–Huallanca Segment (Route PE-3N)
Executing agency:	Ministry of Transportation and Communications (MTC), acting through PROVIAS Nacional (PVN)
Fiduciary team:	Fernando Glasman and Ariel Rodríguez (FMP/CPE)

I. EXECUTIVE SUMMARY

1.1 A fiduciary assessment was performed on PROVIAS Nacional (PVN), which reports to the Ministry of Transportation and Communications (MTC), based on an institutional analysis, a risk analysis exercise, meetings with key staff and the project team, and, above all, the team's experience and knowledge, as PVN has executed Bank projects for many years and the staff have vast experience in execution and supervision. In summary, the entity has sufficient capacity to carry out fiduciary management and funds administration activities for the loan, and project execution does not therefore present any significant risks.

II. FIDUCIARY CONTEXT OF THE COUNTRY

2.1 The executing agency will be PVN, which is responsible for preparing and executing national-level investment projects within the MTC. Within its structure, PVN has a section responsible for fiduciary execution, with updated manuals and policies. Bank supervision of earlier projects (loans 1827/OC-PE and 2769/OC-PE) and other operations shows that PVN has acquired great experience in supervising projects, and has robust information and control mechanisms and systems.

2.2 The executing agency uses the Government Electronic Procurement and Contracting System (SEACE) to register the procurement plan and disseminate procurement processes, and the Procurement Plan Execution System (SEPA) to plan and monitor procurement processes. Its website provides information regarding bid solicitations, which are also published in national newspapers where necessary. The last ex post procurement review conducted by the Bank (for project 1827/OC-PE) indicates that the level of procurement risk associated with the executing agency is low.

2.3 The executing agency uses the Integrated Financial Administration System (SIAF) as the operating system for financial management, and supplements its use with administrative and budget management systems. The 2015 audited financial statements for loans 1827/OC-PE and 2769/OC-PE (administered by the same

executing agency) yielded an unqualified opinion. With respect to internal control, with the exception of several situations not regarded as significant, no other issue has been observed that might affect the internal control structure for the operations.

2.4 The country's financial administration systems are satisfactory and reliable. In terms of the country procurement system, the SEACE system is currently being used to publicize procurement processes. Document GN-2538-11 approved the use of the reverse auction and electronic framework agreement subsystems of Peru's public procurement system.

III. Fiduciary Risk Evaluation and Mitigation Measures

3.1 The risk evaluation determined that the level of fiduciary risk associated with the executing agency is low.

3.2 The executing agency will be required to execute the project in accordance with a program Operations Manual satisfactory to the Bank that includes the main internal control processes, to ensure that the controls are working in a satisfactory manner. The main objective of the program Operations Manual will be to (i) clearly identify the roles, duties, and responsibilities of stakeholders involved in project execution, with a view to facilitating coordination among them; and (ii) identify fiduciary process flows for financial management and procurement.

3.3 A project launch workshop is also planned with PVN, as well as training in Bank policies for PVN's technical and administrative user sections. In the area of financial management, the concepts of financial planning and the monitoring of execution will be strengthened to support attainment of the project objectives.

IV. Considerations for the Special Provisions of the Loan Contract

4.1 As a special contractual clause precedent to the first loan disbursement, the borrower, acting through the executing agency, will provide evidence that the program Operations Manual has been approved and has entered into force, including a chapter covering the project's environmental and social requirements and procedures, in accordance with the terms previously agreed upon with the Bank. The operation will include other special execution conditions related to the compliance of socioenvironmental aspects of the project; no special clauses are required in the fiduciary area.

4.2 The final audited annual financial statements for the program, with specific terms of reference acceptable to the Bank, will be delivered by the executing agency within 120 days after the close of each of its fiscal periods, for the duration of the original disbursement period (or as extended). The final audit report will be delivered within 120 days after the end of the original disbursement period (or as extended).

4.3 For the purposes of accountability and justification of eligible expenditures, the exchange rate used to determine the equivalent value (in either the currency of disbursement or currency of approval) of an eligible expenditure in the borrower's local currency will be the rate in effect on the date of the conversion of the currency of approval or disbursement into the local currency of the borrowing member country (Article 4.10, subparagraph (b)(i) of the General Conditions of the loan contract). For

the purposes of determining the equivalent value of expenditures incurred in local currency as part of local contribution, or for the reimbursement of expenditures chargeable to the loan, the agreed exchange rate will be the rate prevailing on the last business day of the month prior to the month in which the borrower, the executing agency, or any other person or corporation delegated with the authority to incur expenditures, makes the respective payments to a contractor, vendor, or beneficiary.

V. Agreements and Requirements for Procurement Execution

5.1 **Procurement execution.** Procurement will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) of March 2011, and the Policies for the Selection and Contracting of Consultants (document GN-2350-9). Procurements conducted by public entities financed under this project will be executed in accordance with these policies. Where beneficiary entities belong to the private sector, procurements conducted under projects financed with the loan proceeds may be executed in accordance with Appendix 4 of the aforementioned policies.

5.2 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services[1] generated under the project and subject to international competitive bidding (ICB) will be conducted using the standard bidding documents issued by the Bank. Contracts subject to national competitive bidding (NCB) will be conducted using country bidding documents agreed upon with the Bank (or satisfactory to the Bank, if not yet agreed). The review of technical specifications is the responsibility of the Project Team Leader.

5.3 **Selection and contracting of consultants.** Regardless of the contract amount, contracts for consulting services generated under the project will be executed using the standard request for proposals issued or agreed upon with the Bank (or satisfactory to the Bank, if not yet agreed). The review of terms of reference is the responsibility of the Project Team Leader.

5.4 **Selection of individual consultants.** Individual consultants will be selected on the basis of their qualifications to perform the work, based on a comparison of qualifications of at least three candidates. Where warranted, notices may be published in the local or international press. The threshold for ICB will be made available to the borrower, through the executing agency, on the website www.iadb.org/procurement. Below this threshold, the selection method will be determined according to the complexity and characteristics of each procurement transaction or contract, as reflected in the procurement plan approved by the Bank.

5.5 **Ex ante review of procurements.** The Bank will review the selection, contracting, and procurement processes as established in the procurement plan. At any point during project execution, the Bank may modify the type of review for these processes, upon prior notice to the borrower or executing agency. Changes approved by the Bank will be reflected in the procurement plan.

5.6 **Domestic preference.** No margins of domestic preference will be applied.

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[1] Under the Bank's procurement policies, nonconsulting services are treated as goods.

5.7 **Use of the country procurement system.** In light of the Board of Director's approval of the subsystems for auction procedures and framework agreements in Peru, these subsystems will be used once the corresponding implementation agreement has been signed, along with the conditions described therein, and the procurement plan has been modified accordingly.

5.8 **Procurement plan.** The executing agency will publish the procurement plan in the SEPA system and update it at least every six months, or as required by the Bank, to reflect the actual execution needs of the project and progress achieved.

5.9 **Procurement supervision.** The Bank's ex post evaluations will involve a sample of contracts based on technical and professional criteria, and will be conducted by consultants or external auditors. Once the use of country procurement systems has been implemented, the approach may be updated as a function of fiduciary risk.[2]

5.10 **Records and files.** Files must be located in the executing agency's offices and stored in conditions that ensure the integrity and security of the documentation.

VI. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

6.1 **Programming and budget.** Expenditures related to the activities planned under the project must have been declared eligible by Peru's National Public Investment System (SNIP). Preparation of the annual program and budget will be based on the guidelines from the Budget Department of the Ministry of Economics and Finance (MEF). The Department of Investment Policy, in coordination with the Office of Planning, Investment, and Budget, will prepare the annual budget based on the disbursement schedule for the project, and will also determine and agree on priorities for external financing under the project in question. The budget allocation for the project will be approved by the MEF and Congress, and reported to the Bank each year. The project execution plan will be prepared, and the annual budget will on that basis. The SIAF will be used to manage the budget.

6.2 **Accounting and information systems.** The SIAF will be used for project accounting and reporting. The system offers transparency and specific controls for the purposes of budget execution. Financial reports can be generated by the accounting system, including disbursement requests, exchange rate control, project financial statements, and other reports as required by the Bank. Program accounts will be prepared on a cash basis, based on International Accounting Standards and in compliance with the guidelines issued by the Public Accounting Office.

6.3 **Disbursements and cash flow.** The country's treasury system will be used for this purpose, in compliance with the guidelines issued by the National Borrowing and Treasury Office. Expenditures will be subject to budgetary and financial execution processes, and the data relating to its formalization under the legal framework applicable to each stage (commitment, obligation, warrant, and disbursement) must be recorded in the execution unit's accounting system linked to the SIAF. The executing agency will maintain a specific bank account for the management of the loan funds. Disbursements will be made in accordance with the project's actual

[2] Once use of the reverse auction and framework agreement systems in operations has commenced as part of the strategy for the use of country systems, procurement processes executed will be monitored and supervised in a systematic manner, through the monitoring and verification of the stability of Peru's country system.

liquidity needs (financial planning). The executing agency will submit the disbursement request to the Bank, together with a financial plan setting out the disbursement schedule for the entire program over the next 180 days. At least 80% of the value of disbursements must be accounted for in the next disbursement request, using the Bank formats.

6.4 The ex post review of records and supporting documentation for activities and transactions performed will be carried out by the external auditors. All documents and records will be maintained for a period of at least three years following the date of final disbursement. Any expenses found to be ineligible for Bank funding will be reimbursed using local counterpart funding.

6.5 **Internal control and audit.** The executing agency's control environment, control activities, communication and information, and monitoring of activities will be governed by the country's regulations, which are based on the Act Establishing the National Control System and Comptroller General of the Republic.

6.6 The executing agency has an Institutional Control Unit (OCI), whose staff report to the Comptroller General of the Republic (CGR). The scope of the OCI's work does not generally include projects, but the OCI will receive a copy of the external audit reports through the Government Audit System (designed by the CGR), which allows it to conduct inspections.

6.7 **External control and reports.** As part of the role of the CGR (lead agency for the National Control System) and its regulations, the external audit of projects is outsourced to independent audit firms (IAFs) eligible for Bank-financed programs. The IAFs are periodically evaluated by the Bank. The CGR authorizes the executing agency to select and engage an IAF, consistent with Bank policies, for the entire duration of the project execution period, including extensions to the final disbursement period.

6.8 The project financial statements include a cash flow statement, a statement of cumulative investment, the notes to the financial statements, and certification by the project manager (executing agency). The audit report will include an evaluation of the internal control system.

6.9 The project will require the selection of a Tier I or II independent audit firm.

6.10 External audits will be financed with the loan proceeds, estimated at US$400,000 over the anticipated five-year loan execution period.

6.11 **Financial supervision plan.** This plan may be adjusted based on project execution and the external audit reports.

Table 1. Financial supervision plan

Activities	Nature/scope	Frequency
Operational	Inspection visit/Review of project progress	Annual
	Portfolio review with the executing agency and the MEF	Six-monthly
Financial	Ex post review of disbursements	2 per year
	Financial audit and submission of financial statements	Annual
	Review of disbursement requests and accompanying reports	2 or 3 per year
	Inspection visit/analysis of internal controls and control environment at the executing agency	Annual

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/16

Perú. Loan ____/OC-BO to the Republic of Peru
Project for Improvement of the Huánuco –
Conococha, Highway Huánuco - La Unión
- Huallanca Segment Route PE-3N
(North-South Mountain Highway)

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 Republic of Peru, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Project for Improvement of the Huánuco – Conococha, Highway Huánuco - La Unión - Huallanca Segment Route PE-3N (North-South Mountain Highway). Such financing will be for the amount of up to US$80,000,000 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)

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PE-L1151