I. Country Context

1. Uruguay is an Upper Middle Income Country. For the last 8 years, it has enjoyed strong economic growth and consistent poverty reduction. The economy grew an average of 5.6 percent of GDP during 2003-2010, and growth is estimated at 6 percent in 2011. During that time poverty rates fell from 39.9 percent to 14.3 percent. These positive trends are credited to prudent macroeconomic policy, improvements in structural areas, and a booming regional economy, and are matched by a social context of low inequalities, high coverage of services, and strong democratic institutions. With regards to income inequality, Uruguay boasts one of the lowest Gini coefficients in the region (.426). This broad equality is also reflected in social indicators: Uruguay ranks 48th in the Human Development Index, just behind Chile and Argentina, and ahead of Mexico and Brazil. Nonetheless, Uruguay still ranks well below OECD averages, a benchmark to which it is increasingly comparing itself.

2. Transportation, warehousing, and communication were among the sectors revealing highest growth rates throughout 2011, at 12.6 percent. Domestic consumption, growing at 7.6 percent in 2011, constituted the greatest driver of GDP growth, explaining 6.4 percent points of GDP growth. High internal demand and commodity prices caused a rise in the Consumer Price Index to 8.6 percent in 2011, compared to 6.9 percent in 2010; the dollar has continued to depreciate, leading to a drop in the real exchange rate of 5.5 percent. This deterioration in external price competitiveness added to a buoyant internal demand have impacted the trade balance, dropping from 1.9 percent in 2010 to 0.8 percent of GDP in 2011, generating a current account deficit of 1.9 percent of GDP in 2011, compared to 1.1 percent of GDP in 2010. However, large capital inflows have more than offset this deficit and resulted in reserve accumulation of 5.5 percent of GDP (approximately US$2.6 billion).

3. On trade performance, in the last decade exports have grown at an average annual rate of 13 percent (in US dollar terms), with exports of goods reaching a record value of US$8,022 million in 2011. MERCOSUR countries account for the larger part of Uruguayan exports, with Brazil representing 20.3 percent of exports and Argentina 7.3 percent, respectively, in 2011. However, moving forward, trade restrictions imposed by Argentina and the recent loss in price competitiveness will surely exert pressure
on Uruguayan exports. In addition, the European economic crisis and the slowdown in China could further deteriorate the trade balance.

4. Uruguay has evidenced a solid macroeconomic framework characterized by consistent and prudent fiscal policies. During 2011, fiscal policy remained neutral, with expenditures growing slower than revenues during the period, with a drop in investments from 3.6 percent of GDP to 2.7 percent of GDP. While a reduction in public investments would help reduce the budget deficit, this could become an obstacle in terms of addressing medium-term infrastructure needs, given strong economic and trade performance. The recently approved Public-Private Partnership Law is expected to increase private investments in infrastructure.

II. Sectoral and Institutional Context

5. The Uruguay 2030 Strategy sets its aim at “fostering Uruguay’s sustainable economic development and improving the country’s efficiency and competitiveness”. An objective follows in “consolidating Uruguay as a global distribution center and improving logistics, services, and people competitiveness”. In this respect, the quality of road infrastructure is a key enabler of logistics services considering, for the time being, almost all logistics chains in Uruguay involve a road transport link. In 2010, it is estimated that 90 percent of cargo (ton-kilometers) were transported by road.

Road infrastructure in Uruguay

6. In terms of infrastructure, Uruguay has one of the highest densities of roads in Latin America (2.5 times as much as Brazil, 4 times as much as Paraguay). The road network in Uruguay is approximately 60,000 kilometers (km), of which about 8,875 km correspond to the national network. Categorizing the current roadways, the national road network includes the main corridors (2,452 km), the primary network (1,512 km), the secondary network (3,816 km), and the tertiary network (1,005 km). Approximately 90 percent of the national road network is paved, either with asphalt concrete or surface treatment. The most important traffic is borne by the main corridors and the primary network. Over the last five years, traffic has increased steadily on the main corridors, at an average annual rate of 5 percent. Beyond the national road network, Uruguay has approximately 51,000 km of departmental roads, managed at a subnational level (Departamentos). This low-volume road network is mostly unpaved, with only 8 percent of paved roads, 65 percent of gravel roads with year-round accessibility, and 27 percent earthen roads.

7. Looking ahead, the objective in the road sector is to stop further deterioration of the road infrastructure. As shown in Figure 1, the overall condition of the Uruguay national network has deteriorated in recent years: while approximately 60 percent of the network was in good or very good condition in 2004, only about 42 percent were of the same condition in 2011. This overall picture is actually the result of both an improvement of the main road corridors and the primary network and a deterioration of the secondary and tertiary road network.
8. This overall condition of the road networks in Uruguay stems from three main factors: First and foremost, the 2002 financial crisis — during which almost all budgets devoted to road rehabilitation and maintenance were cut — created a significant rehabilitation backlog. This backlog has had two main impacts: (i) critical symptoms of pavement deterioration appear with some time-lag, meaning that the deterioration observed in the recent years originate, in part, in this early 2000s maintenance backlog; and (ii) the deferred maintenance has entailed more expensive rehabilitation solutions, as pavements. Second, Uruguay has to cope with aging roads. Most of the Uruguay network was built in the first part of the 20th century. Road pavements on the Uruguay national network are reaching the end of their life cycle and deteriorating exponentially, consequently calling for more expensive rehabilitation or reconstruction solutions. Third, the economic recovery, since 2004, has been accompanied by a steep increase of road-based cargo transport; the impact on roads of this truck traffic increase has been scaled up by a simultaneous increase of average-unit axle loads, putting further stress on the ageing roadway surfaces.

9. The Government of Uruguay has taken critical measures to address these issues. National road network maintenance and management is the core function of Uruguay’s Ministry of Transport and Public Works or Ministerio de Transportes y Obras Publicas (MTOP), in particular its Road Department or Direccion Nacional de Vialidad (DNV). Partial management of the core national road network falls under the Uruguay Road Corporation or Corporacion Vial del Uruguay (CVU), a concessionaire established to leverage financing (backed by toll revenues) and scale-up road management efficiency. This public concessionaire, created in 2002, manages 1,600 km of Uruguay’s primary network; CVU intervention has turned out to be critical to the improvement of Uruguay’s primary network. On the other hand, public funding to the road infrastructure sector (under the MTOP road budget) has substantially increased, from about US$80 million in 2006 to approximately US$140 million in 2011 (plus 75 percent in nominal terms), back to the pre-crisis levels. During this period, the Government applied several loans from international finance institutions, including the World Bank\(^1\), to support of road rehabilitation and maintenance. Notwithstanding, a significant part of this funding increase has been offset by serious inflation in the construction sector, stemming from the economic recovery. This inflation has also been

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\(^1\) IDB Programa Vial CVU (UR-L1022); IDB Proyecto de Infraestructura Vial (UR-L1582); CAF Programa de Infraestructura Vial Fase III; IBRD Transport Infrastructure Maintenance and Rural Access Project (loan 7303-UR)
compounded by the steep increase of bitumen prices, over the same period. As a result, while some net improvements have been gained on the primary road network, which includes the key strategic and the most traveled segments, these measures have not yet turned out to be sufficient to fully address the road sector maintenance issue in a sustainable way.

10. Moving forward, the MTOP has engaged in a more holistic approach to addressing the road maintenance challenge. This approach includes four strands:

- **Developing multimodality**, in particular developing alternative modes to road-based transport. Rail transport development, in particular, is expected to relieve the most travelled road corridors and reduce concomitantly their maintenance costs.
- **Fostering private-sector management of road infrastructure**, through public-private partnerships. In August 2011, Uruguay passed a law to provide a regulatory framework for public-private partnerships and is currently exploring some piloted projects in the road sector.²
- **Increasing budgetary allocations to the road maintenance sector**, even though such increases are expected to be modest in the short to medium term, considering the available budget space.
- **Working on a result-based approach**, in order to foster public efficiency, as exhibited by the 2010-2014 programmatic and result-based Budget Law.

**Uruguay's road rehabilitation and maintenance program**

11. National road network maintenance and management is the core function of MTOP and its Road Department, DNV, in particular. Since 2010, the country has operated in a programmatic- and result-based environment, following the 2010-2014 (5-year) Budget Law that defines programs, monitoring, and evaluation frameworks associated with these programs and corresponding budgetary resources. Program results framework set yearly physical and quantitative objectives to be reached at program level and within implementing agency or contributing unit.

12. The MTOP implements the Uruguay Road Maintenance and Rehabilitation Program. This Government-led program is defined by the 2010-2014 Budget Law that includes 2 specific provisions: (a) Program 362, Road infrastructure, which targets rehabilitating, maintaining, and developing the national road infrastructure (highways and bridges), in order to develop multipurpose road-based transport; and (b) Program 462, Road safety, which targets developing strategies that contribute to the safe mobility of people. The Uruguay Road Corporation (CVU), the public concessionaire of about 1,600 km of Uruguay’s main corridors and primary network, is responsible for maintaining and rehabilitating the road network covered by the concession agreement.

13. While Uruguay may selectively invest in some new road developments (new roads sections, bypasses, duplications), given the pressing rehabilitation and maintenance needs, the Government program only includes road rehabilitation and maintenance works at this time. Road maintenance and rehabilitation works are carried out on Uruguay’s entire national network; by nature, such works have usually low environmental and social impact.

14. Over the five-year period of the 2010-2014 Budget Law, initial budgets (Creditos) for Programs 362 and 462 are US$1,300 million and US$34 million equivalent, respectively; available spending ceilings (Topes) are nonetheless expected to be much lower, about 60 percent of initial budgets.

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² The World Bank is supporting this promising initiative through technical assistance activities funded by the Public-Private Infrastructure Advisory Facility.
15. Uruguay’s fiscal revenues (MTOP budget) are the primary financial source for the Government programs. Loans from international financing institutions and toll revenues collected from CVU concession operation also support the Government programs. In particular, in March 2012 the Government of Uruguay and IADB signed a US$80 million loan. This investment loan for multiple works, to be implemented over a 5-year period, focuses on national highway rehabilitation and maintenance; it will be implemented by Government rules and procedures and, as needed, specific IADB rules (e.g., procurement).

16. Overall, the Government program provides a solid basis to address road rehabilitation and maintenance challenges. While showing an overall and progressive deterioration of the network, results obtained correspond to what can be best obtained in the current context, considering in particular the level of funding of the program and the current condition of roads. The Government is aware of the issue and actively taking steps forward.

III. Program Scope

17. Supporting the Government of Uruguay road rehabilitation and maintenance program, the Program consists of the following activities to be carried out by MTOP and CVU within the Uruguay National Road Network from 2012 until 2015: (i) road rehabilitation and/or maintenance works; (ii) bridge rehabilitation and maintenance works; (iii) bridge reconstruction works; (iv) provision of technical assistance; (v) horizontal and vertical road signaling works; (vi) road lighting works; and (vii) acquisition and installation of road safety equipment.

High-risk activities
18. As confirmed during preparation, the Program does not include any high-risk activity, as defined in Operations Policy (OP) 9.00, nor works, goods, and consultancy contracts above the Operations Procurement Review Committee (OPRC) thresholds. As part of the implementation support, the World Bank will screen Program execution to ensure that no high-risk activity is engaged under the Program.

Program duration and geographic scope
19. Program duration is expected to be four years, covering calendar years 2012-2015. Program activities will be located on the Uruguay national road network, therefore not including activities on international bridges.

Program results
20. The Program will support:

- **Improving conditions of road infrastructure and bridges** through adequate rehabilitation on select sections of the Uruguay national road network. It is expected that about 765 km of roads will have been rehabilitated by 2015 under the Program.
- **Maintaining the 8,875 km of the national road network**, through routine maintenance activities.
- **Enhancing road sector management**, through technical, fiduciary, and safeguards systems improvement.

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3 Loan UR-L1067
Program beneficiaries
21. Five groups are identified as Program beneficiaries: road users, shippers and end-consumers, road construction companies, people at large, and the State. First and foremost, the road users will benefit from lower vehicle maintenance and operating costs stemming from better road and pavement; it is estimated that, annually, about 3 million people will directly benefit from the Program, in a total of approx. 175 million trips. Second, goods shippers and end-consumers will benefit from better transport and logistics cost and, consequently, a competitive situation where efficiency gains on the logistics chain translates into reduced prices on consumer goods. Third, the road construction industry benefits in terms of increased activity and market opportunities. Fourth, Uruguayans at large benefit from enhanced conditions of the national road network, fostering mobility and access to jobs, markets, social safety nets, as well as safer roads. Finally, as shown by the Program economic appraisal, better preventive road maintenance results in net savings for the State, through its road agency, over the pavement life cycle: adequate pavement routine maintenance and timely rehabilitation are cheaper than pavement reconstruction when no other option is available.

Role of development partners
22. The IADB will finance some of the investments included in the Program. The IADB operation also contributes to strengthening selected elements of the Program’s systems and procedures through its technical assistance component. The Government of Uruguay, the IADB, and the World Bank have strongly coordinated efforts to foster synergies and avoid duplication.

IV. Program Development Objective(s)
23. The Program Development Objectives (PDO) are to sustain at least 35% of the Uruguay national road network in good or very good condition and improve road sector management.

24. The funding level of the Program is not sufficient to improve the road network condition, in absolute terms, on Uruguay’s national network as a whole. In this context, the Program is expected to ensure that the quality of the national network remains above a given threshold, as reflected in the key results. In this context, this result is deemed to be the best achievable outcome, at network level, when compared not only to the past declining trend shown in Section II but also to counterfactual situations prevailing in the absence of support to the Program. Corresponding to the 2002 crisis situation when most expenditures on the road sector were cut, the absence of World Bank support to the Program would reduce Program financing (by about 9 percent) and lower efficiency gains on road maintenance/rehabilitation, stemming from the implementation of the Program Action Plan. Simulations show that by 2015 implementing the Program with Bank support would prevent a further 6 to 7 percent deterioration and allow for stabilization of the network condition, with around 35 percent of the network in good and very good condition.

V. Environmental and Social Effects
25. The Program does not include any activity with potential high adverse impact on the environment and the society. In line with the past experience in Uruguay, the environmental and social impact in road rehabilitation and maintenance works is low. Few partial resettlements might occur, in case of road realignment for road safety purposes. The Program will not affect indigenous people, as no groups or communities are identified as such in Uruguay. The Program environmental and social assessment (ESSA) reports that Program environmental and social systems provide reasonable assurance that the Program can be implemented pursuant to OP 9.00 principles. While no significant gap has been identified between the Program social systems and OP 9.00 core principles, some gaps related to environment principles have
been highlighted and will be addressed through the Program Action Plan. Program environmental and social performance is deemed to be good, considering the relatively simple and low-impact nature of the Program activities. DNV and CVU implement similar environmental and social management systems. The specific safeguards arrangements set out for the IADB-financed contracts included in the Program are deemed to deal adequately with possible environmental and social issues related to these activities.

26. A preliminary focal consultation on the draft ESSA took place on February 16, 2012. The DNV staff involved in design, construction, supervision, maintenance, and road safety, as well as DNV Environmental Unit were consulted on the preliminary findings of the ESSA, the strengths, risks, and proposed action plan. Inputs from this consultation have been included in the Program Action Plan. On June 22, 2012, the draft ESSA was subject to public consultation in Montevideo; a panel of representatives from the various government agencies, local governments, and civil society participated. The consultation provided more detailed information on the PforR process, the proposed Uruguay Road Rehabilitation and Maintenance Program, and key findings and recommendations of the ESSA. The consultation also made some suggestions, e.g. with respect to MTOP’s Topographic department capacity strengthening. Overall, the participants showed support for the Program. Inputs from this consultation have been included in the ESSA.

Environment

27. Impacts. During preparation, it was confirmed that the Program does not include any high-risk activity, as defined in OP 9.00. The potential adverse environmental impacts of the Program are therefore assessed to be low. Rehabilitation and maintenance works impact will take place mostly within road right of ways and campsites, in rural areas (sometimes in urban). Highest impact would occur during the rehabilitation periods (months to 1-2 years), and lower-magnitude impact would occur during maintenance phases. Main impact is related to bridges works, operation of campsites, asphaltic plants and borrow pits, some hazardous waste generation (used oils, air emissions), noise, dust, contractors on the job for several years in small rural communities, and health and safety issues. In addition to the overall benefit to the economy and transport needs in the country, positive impact includes implementation of road safety measures, construction of walkways, parallel local roads, road signage, and road lighting.

28. Performance. The reviewed environmental documentation and information collected during consultations with main stakeholders as well from field visits to several project sites show that the environmental management processes are conducive to preventing and reducing adverse environmental and social impact and comply overall with the core principles and key elements of OP 9.00. Main gaps identified with regards to OP 9.00 relate to (a) formal grievance redress mechanism, and (b) hazardous material legislation.

29. The Program abides by current legislation and includes effective environmental instruments to screen out subprojects, and evaluate and supervise the operation, exceeding the current requirements of the EIA Law 16.466 and its Decree 435/94. There are more than 50 laws, decrees, and other regulations applicable to the environmental management of the Program; this regulatory framework provides reasonable assurance that the environment will be protected from critical adverse impact stemming from Program implementation. This comprehensive legislation requires environmental impact assessment, protects native forest and endangered species, controls water pollution, and enforces health and safety at work sites. Notwithstanding, the assessment identifies a need for regulations affecting air emissions and management of hazardous wastes.

30. In terms of environmental instruments, the DNV Environmental Manual is a well-respected reference both internally (in the MTOP) and externally (Ministry in charge of Environment, Ministry of Agriculture, contractors). The Manual has also received acceptance by the World Bank in previous transport operations, and environmental performance has been rated as satisfactory. Within the ESSA, the
Environmental Manual has been reviewed and is deemed to provide a relevant and satisfactory environmental management framework, based on OP 9.00 core principles. Yet, some sections need updating; this will be carried out through the Program Action Plan.

31. While there are few roadwork contractors (less than 50 firms), there is a significant variability in environmental compliance among contractors; strengthened environmental supervision is expected to address this issue. The CVU requires its contractors to be ISO 14000 certified; many of these contractors have sought this certification in order to improve their environmental management processes; specifically, the ISO 14001 norm provides criteria for the establishment of effective environmental management systems among firms or organizations, ensuring these are in conformity with existing environmental policies and regulations. This is a positive trend moving forward.

32. **Risks and mitigation.** The main identified environmental risks are: (a) risk of works having an adverse impact on the environment, in particular protected areas; (b) risk of inadequate environmental supervision stemming from insufficient human and financial resources in Environment Unit; (c) risk of contractors poor environmental performance; (d) risk of stakeholder claims related to environmental mismanagement. The Program Action Plan includes actions to reduce these risks and ensure good environmental management, transparency, and stakeholder communication.

**Social**

33. **Impact.** The activities to be financed under the Program will not require right-of-way acquisition, except in cases where the road alignment must be locally modified to correct curves or make other road improvements for road safety. Road maintenance and rehabilitation activities normally take place within the right of way of national roads and do not require land acquisition or cause physical or economic displacement. On the rare occasions when they do, the social impact is limited: the acquisition normally affects narrow strips of land without dwellings or other structures. Throughout the implementation of the previous World Bank-supported transport project, there were no cases of physical displacement of population resulting from land acquisition, except in one sub-project.

34. Housing and other structures are not likely to be affected by projects carried out under the Program because the modifications in the road alignment are normally minor and the owners of properties adjacent to the road are obliged to leave a setback strip of 25 meters. This means that there must be a distance of 25 meters between any building (except walls or fences) and the road right of way. The land adjacent to the roads, which will be part of the Program, tends to be legally titled and occupied; for instance, under the previous World Bank-supported road rehabilitation project squatters or other informal or illegal occupants of land adjacent to the road were not displaced. The DNV exerts effective control of existing rights of way, which are free of dwellings or other structures, except for a few roadside stalls that sell seasonal products. These stalls (approximately 80 in the entire roads network) do not affect road safety and are not likely to interfere with construction activities under the Program.

35. **Performance.** The Expropriation Law provides protection to the persons affected by the expropriation process — property owners, renters with a contract, occupants with a permit, and occupants with possession rights derived from occupation of the land for more than 10 years. Most cases of expropriation are settled amicably. Few cases go to the courts and many such cases are not the result of disagreements over compensation but are inheritance cases or such cases where it has not been possible to identify the owner.

36. In the unlikely event that a future subproject affects an informal or illegal settlement, the MTOP’s Topographic Department (DNTop – Dirección Nacional de Topografía) Social Unit would be responsible

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4 TIMRA-Project P057481-Loan 7303-UR
for developing relocation plans to assist displaced persons, regardless of their legal status, as it did in the case of the Montevideo ring-road (Anillo Colector Vial Perimetral de Montevideo), a project that was not financed by the World Bank. This case was reviewed, as part of the ESSA; the results show that, even in a situation much more complex (suburban area) than the potential cases within the Program activities, the DNTop Social Management Unit has performed in a satisfactory manner in handling people without land rights or without titles resettlement.

37. The DNTop has proven its capacity to implement, in an effective fashion, the provisions of the Expropriation Law by virtue of the previous World Bank-financed transport project in Uruguay and in new works that were not Bank financed, such as the Montevideo ring-road. In terms of expropriation and resettlement, no significant gaps were identified between the regulatory framework and the practice, and the OP 9.00 core principles.

38. **Risks and mitigation.** Risks associated to the Program social management systems are low; they stem from three areas of weaknesses, to be addressed in particular through the Program Action Plan: (a) medium-term risk of institutional disruption at DNTop; (b) risk of mismanagement of involuntary resettlement processes; and (c) risk of unfairness in right-of-way acquisition compensation.

**VI. Financing**

39. The Program expenditure framework is based on the 2010-2014 programmatic Budget Law. FY2015 budget estimates are similar to the FY2014 budget values since it is customary in Uruguay to assume that the budget of the first year of a new budget cycle is the same as the one of the last year of the prior budget cycle.

40. The total estimated cost of the Program is US$720.0 million equivalent over the 2012-2015 period. Table 2 shows the planned expenditures for the four years of implementation, based on anticipated available budgetary spending ceilings and works contracting/progress. During preparation, the Ministry of Economy and Finances committed that at minimum the spending ceiling will be made available to the MTOP to implement its work-program, including Program activities. Program expenditures are based on this conservative hypothesis.

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<th>Program Financing (US$ Million)</th>
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<td><strong>Total Program Financing</strong></td>
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**VII. Program Institutional and Implementation Arrangements**

**Main stakeholders**

41. The Program will be implemented by (a) the Road Department (DNV) of the Ministry of Transport and Public Works (MTOP) and (b) the Uruguay Road Corporation (CVU). The DNV is

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5 Estimate of the share of the IADB UR-L1067 loan contributing to the Program.
responsible for the maintenance and development of Uruguay’s national highway network and will be the entity primarily involved in Program implementation (accounting for approximately 80 percent of the network). Within MTOP, the Topographic Survey Department or Dirección Nacional de Topografía (DNTop) and the Planning and Logistics Department or Dirección Nacional de Planificación y Logística (DINAPLO) will also contribute to Program implementation.

42. The CVU was created in 2002 as a subsidiary of the National Development Corporation or Corporación Nacional de Desarrollo (CND); CVU is a state-owned entity and acts as public road concessionaire for approximately 1,600 km of Uruguay’s road network. The CVU is linked to the MTOP through (a) a concession agreement, making CVU responsible for managing part of Uruguay’s primary road network, including highway maintenance, rehabilitation, and, as needed, development; and (b) a technical assistance agreement, through which DNV provides technical and administrative support to CVU. The CVU collects road tolls, and finances and contracts out road rehabilitation and maintenance works. All other activities are carried out by DNV, in accordance with Program systems.

43. Beyond MTOP and CVU, several other institutions play significant roles within the scope of the Program. The Ministry of Economy and Finance (MEF) is directly involved with Program budgeting and financial management. The Ministry of Housing, Land Planning and Environment, especially its Environment Department or Dirección Nacional de Medio Ambiente (DINAMA), is in charge of environmental permits. The Budget and Planning Office or Oficina de Planeamiento y Presupuesto (OPP) is in charge of preparing the five-year and annual budgets. Other state institutions (State Court of Accounts in particular) have their roles to play in the external audit, oversight, and control of the Program.

Program technical implementation

44. The DNV includes all the necessary technical functions to adequately run the Program. The Planning Unit is in charge of works planning, based on a pavement management system, and monitoring and valuation. The Studies and Projects Unit performs engineering design. The DNV Construction and Maintenance Units, in turn, are responsible for supervising road rehabilitation and maintenance contracts, respectively. Ten DNV regional maintenance units carry out routine maintenance works with support from the DNV Maintenance Unit. Within the technical assistance agreement between the MTOP and CND, CVU relies on DNV for all works-related technical implementation processes, including planning, engineering design and works supervision.

45. The Program is implemented through contracts to the private sector (road and bridge rehabilitation, performance-based rehabilitation and maintenance or performance-based maintenance) or through routine maintenance works executed by DNV directly. Except for bridge rehabilitation and reconstruction (design-build contracts), all design and supervision required by Program-related activities fall under the jurisdiction of the DNV staff.

Fraud and corruption

46. **Institutions.** The World Bank Actional Governance Indicators\(^6\) data portal shows that, in 2011, Uruguay was rated 8 (out of 10) under the Transparency, Accountability and Corruption in the Public Sector indicator and 10 (out of 10) under the Rule of law indicator. These results compare favorably not only to Latin America countries but also to other Upper-Middle Income countries around the world. Overall, Uruguay has a solid combination of state agencies to address both the prevention and sanction of fraud and corruption — (a) Anticorruption Commission, Junta de Etica and Transparencia (JTEP); (b) State Court of Accounts, Tribunal de Cuentas; (c) Administrative Courts, Tribunal Contencioso Administrativo; (d) State Attorneys’ Office, Fiscalía or Ministerio Publico; (e) Judiciary, Poder Judicial,

\(^6\) [http://agidata/site](http://agidata/site)
including specialized anticorruption courts; (f) Agency for Access to Information and E-Government (AGESIC); and (g) Comptroller General’s Office, Contaduría General de la Nación. At Program level, preventing fraud and corruption relies on the MTOP, through the adequate implementation of Program’s technical, fiduciary, and safeguards systems.

47. **Complaints and grievance mechanism and Access to Information.** In cases of allegations of fraud and corruption, complaints can also be filed directly with the judicial branch, which initiates investigations and even has a specialized jurisdiction for fraud and corruption. For purposes of an investigation into an allegation, both the legislative framework and practice permits relevant authorities to have access to facts, evidence, and other relevant information. Additionally, Uruguay has a specialized agency responsible for the implementation of an Access to Information Law, which shares post-investigative information publicly, including the publication of judicial decisions. This system appears effective and functions well. In terms of complaint mechanisms, MTOP has an informal system in place that allows citizens and firms to report concerns or allegations. However, it is not systemized, limiting its potential in terms of addressing institutional weaknesses within MTOP.

**Program fiduciary implementation**

48. Over the 2012-2015 period, the Program is expected to include (at any one time) about 30 works contracts managed by DNV and 10 managed by CVU; the maximum contract amount is anticipated to be around US$15 million for road rehabilitation and maintenance works, according to the Program profile. The Program will also require contracting for procurement of goods, consultants, and non-technical services.

49. Program fiduciary arrangements for the proposed operation will use Uruguay’s regular fiduciary systems, which essentially rely on Uruguay’s Constitution and its procurement, accounting, and financial management code called Texto Ordenado de Contabilidad y Administración Financiera (TOCAF). The IADB-financed works activities are expected to be subject to IADB procurement policy and standards.

50. **Procurement.** Bidding documents are prepared within DNV by the Administrative Unit, with input from technical units. A public official (Ordenador de gasto) such as DNV Director, MTOP Minister, or the President — depending on the estimated contract amount — officially initiates the bidding processes. Program bidding processes are expected to be open competitive bidding. Bidding notices are published through several media, including the state procurement website. There is a clear division of roles and responsibilities for key steps on a procurement process. The public official holds the ultimate responsibility for a procurement process and the contract award decision but is assisted by DNV procurement and technical teams, and by a Bid Evaluation Committee. The State Court of Account has the authority to pre-review decisions that will trigger expenditures, including contract award decisions. Bidders may complain about decisions during the procurement process directly to the implementing agency, informing the State Court of Account of such complaint. The legal framework in Uruguay does not require agencies to respond to complainants directly, but complaints are addressed in bid evaluation reports, which are available for review by all bidders.

51. Since CVU operates under regulations of private sector law, the bidding company is not required to follow the TOCAF. The concession contract, however, requires publication of procurement

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8 From 2008 to 2011, 98% of all the funds procured by DNV for works followed open competitive procedures that had an average participation of five bidders.
9 The Compraestatales website, an open-access website kept by the Uruguayan Government.
10 The term used for this procedure is vistas.
opportunities, that all invitations for bids as well as contract awards and signed contracts be published on the CVU website and that all bidders are treated equally regardless of the contract amount. The procurement operational arrangement, as set in a technical assistance contract between CVU and DNV, establishes that, on one hand, CVU will publish bidding documents, open bids, sign contracts, and make payments to contractors; and, on the other hand, DNV will prepare engineering designs, technical specifications, and bidding documents; evaluate all bids received and recommend an award; and supervise the work done by contractors.

52. **Financial management.** In line with the existing processes utilized for the national budget, the Planning and Budget Office or Oficina de Planeamiento y de Presupuesto (OPP), linked to the Presidency, and the various departments of MEF\(^{11}\) execute, control, record, and report the budget and financial transactions related to the MTOP programs, through the existing procedures, methods and tools. At the end of each calendar year, the Annual Budget Execution Report or Rendicion de Cuentas (RC) process takes stock of all incurred expenditures and adjusts budgeted allocations accordingly.

53. The DNV Planning Unit is responsible for budget preparation and follow-up, in collaboration with the Administrative Unit where the DNV accounting function sits. Budget execution and payment transactions are made by each spending unit (ministry). All budget and financial transactions are registered through the state financial information system or Sistema Integrado de Información Financiera (SIIF); once information is entered into the system and payment requests cleared by the National Accounting Office or Contaduría General de la Nación (CGN) and Treasury or Tesorería General de la Nación (TGN), the process moves to MEF and the Treasury for release of funds. Financial management processes require both internal controls, from the National Accounting Office, Treasury, and external audits from the State Court of Accounts or Tribunal de Cuentas de la República (TCR). Program annual reports would mainly consist of the CGN-issued Annual Budget Execution Report for the overall central government (with an appropriate schedule detailing MTOP-managed programs) and submitted to Parliament every year.

54. In terms of internal controls, Program expenditures receive verification from the MTOP central accountant who reports to the National Accounting Office and State Court of Accounts. In addition, MTOP hosts an internal auditor, reporting to the MEF Internal Audit Office or Auditoria Interna de la Nacion (AIN). Program external audit falls to the State Court of Accounts, which is also Uruguay’s Supreme Audit Institution. The nature of audit undertaken by the State Court of Accounts is strictly financial, and its scope includes the consolidated public sector. The MTOP budget execution is audited in different ways, according to the source of expenditure financing. The Program external audit will be the same as the regular annual audit exercised on Government programs, with a supplemental letter related to Program specificities.

55. IADB-financed activities included in the Program will use the country institutional arrangements and systems for financial management.

56. The CVU carries out financial management following International Financial Reporting Standards (IFRS). Specifically, CVU issues annual and semiannual (interim) financial statements, which are subject to external audit by a private auditing company and submitted to the State Court of Accounts through CND reporting.

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\(^{11}\) National Budget Unit (UPN), National Accounting Office (CGN), National Treasury (TGN), Internal Audit Office (AIN).
Program environmental and social management

57. The DNV Environmental Unit or Unidad Ambiental de Vialidad (UAV) is the main unit responsible in MTOP for the Program environmental management, both for DNV and CVU contracts. Environmental management mainly includes the preparation of the environmental documentation and the analysis and follow-up of environmental supervision. Environment Unit submits the environmental communications to DINAMA, when required. On-site environmental supervision is the responsibility of DNV road engineers (Directores de obras), either from the Construction Unit or the regional units. The road engineers maintain communication and coordination with the Environment Unit. The Environment Unit is responsible to inform DINAMA of the proposed road projects and to carry out the follow-up of environmental contractors reporting. A UAV health and safety technician undertakes periodic works supervision missions and reports to the Ministry of Labor.

58. An Environmental Manual (EM) will guide the Program’s environmental management. The Environmental Manual, prepared with support from previous World Bank-financed operations, has become the official DNV Environmental Management Guideline by the Decree 176/003 in 2003. Mandatory for all contractors and DNV and CVU roadworks, the Environmental Manual refers to country environmental management regulations and includes measures and procedures to prevent and reduce the negative impact of the roadworks.

59. Beyond the Environmental Manual, several environmental instruments are in place to evaluate, monitor, and supervise environmental management of Program works. Among these instruments are (a) environmental clauses in the bidding documents; (b) environmental management plan; (c) environmental fee (Rubro Ambiental), a percentage of the total contract that is paid monthly to contractors, based on their environmental performance; (d) environmental supervision checklists (Listas de Chequeo) used by the supervision engineers to check contractors compliance; (e) environmental quarterly reports (Informes trimestrales) prepared by contractors and sent to the Environment Unit; and (vi) environmental closure plan (Plan de Restauración Ambiental para el cierre), a site cleaning and restoration plan.

60. The Department of Topographic Surveying or Dirección Nacional de Topografía (DNTop) and the Social Unit of the DNTop are responsible for addressing the potential adverse impacts of right-of-way acquisition required by the Program activities. Social management arrangements are the same for DNV and CVU contracts. As a general rule, road maintenance and rehabilitation activities under the Program do not require land acquisition and very few social impacts are expected. However, some projects can require minor modifications in the road alignment (for example, to rectify curves or to make junctions safer). Any land acquisition under the Program would take place according to the provisions of the Expropriation Law (No. 3958 of March 28, 1912, and subsequent amendments). The DNTop is responsible for assessing losses and damages caused by expropriation and for determining just compensation. Funds to cover the costs of expropriations are provided by the MTOP.

61. The IADB-financed contracts included in the Program will be subject to the same environmental and social safeguards instruments currently used by DNV (Environmental Manual) and an additional environmental plan defined by the Government and the IADB under the loan. These instruments draw substantially on the procedures and requirements set at the national level and are deemed to deal adequately with possible environmental and social issues related to these activities. Defined measures aim at increasing environmental and social supervision of DNV contractors, preventing and reducing impact, increasing DNV Environment Unit human resources, and increasing on-site supervision of works by environmental and social specialists.
VIII. Contact point

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