ICR Review
Operations Evaluation Department

Report Number : ICRR11797

1. Project Data:		Date Posted :	06/30/2004	
PROJ ID:	P049267		Appraisal	Actual
Project Name :	Uruguay Transport II	Project Costs (US$M)	137.0	167.0
Country:	Uruguay	Loan/Credit (US$M)	64.5	64.5
Sector(s):	Board: TR - Roads and highways (94%), Central government administration (6%)	Cofinancing (US$M)		
L/C Number:	L4395			
		Board Approval (FY)		99
Partners involved :		Closing Date	09/30/2002	09/30/2003
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2. Project Objectives and Components

a. Objectives

The objectives of the project were to:
(a) rehabilitate and upgrade to Mercosur standards selected national roads and bridges to permit transit of larger and heavier vehicles and reduce transport costs between Uruguay and its Mercosur trading partners;
(b) support the Ministry of Transport and Public Works' (MTOP) policy of increasing private sector participation in the maintenance and rehabilitation of national roads through performance-based contracts; and
(c) strengthen road sector management through the carrying out of (i) the National Directorate of Highways (DNV) renewal program, (ii) the transfer of technology to the Departments (Intendencias) to maintain gravel roads, and (iii) a road safety program.

b. Components

Road rehabilitation and bridge reconditioning (appraisal US$ 23.3 million, actual US$ 12.9 million);

- Contracts for Rehabilitation and Maintenance (CREMA) performance-based contracts (appraisal US$ 26.5 million, actual US$ 42.2 million);
- (DNV) road maintenance Program (appraisal US$ 45.1 million, actual US$ 73.7 million);
- Departmental roads maintenance (appraisal US$ 33 million, actual US$ 32.9 million);
- Road sector management and institutional building (appraisal US$ 3.1 million, actual US$ 0.6 million); and
- Road safety program (appraisal US$ 5.3 million, actual US$ 1.1 million);

In response to the economic crisis that hit Uruguay during the project implementation, which resulted in the reduction of roads sector budget, the scope of some of the project components was revised.

c. Comments on Project Cost, Financing and Dates

The project was granted a one year extension to provide continuity to the new CREMA contracts and "Access to Montevideo" contract.

3. Achievement of Relevant Objectives:

The objective of rehabilitating and upgrading selected national roads and bridges to Mercosur standards was achieved.

- Physical targets for road rehabilitation were met. Substantial gains were made in improving the network roughness and road condition, but these were eroded due to budget constraints following the economic crisis. The average network roughness improved from 3.5 in 1997 to 3.0 in 2002 but reached 3.4 in 2002. Similarly, the road network in good condition improved from 52% in 1997 to 82% in 2002, and fell back to 64% in 2002. Mercosur trade between 1999 and 2000 increased from 2 million ton per year to over 3 million tons per year and fell to 2.5 million tons per year in 2001.
- Regarding bridge rehabilitation, nine out of thirteen bridges have been reinforced, widened or replaced. The rehabilitation of the remaining four bridges and an additional 38 bridges is being done under the Megaconcession.
- The ex-post ER for road rehabilitation and bridge component are 16.6% and 36.7% respectively.

The objective of supporting MTOP policy of increasing private sector participation in the maintenance and rehabilitation of national roads through performance-based contracts was achieved. Use of performance based contracts increased from 620 km in

1997 to 3599 km at the end of the project compared to 2840 km as envisaged at appraisal. The rehabilitation works under the CREMA contract was carried out satisfactorily and the actual costs were lower than the appraisal estimate. The average annual cost per km for CREMA was US$ 8,640 compared to US$ 10,000 in Argentina.

The objective of strengthening the road sector management was achieved.

- New organizational structure with managers in charge of key processes was implemented.
- DNV consolidated and improved the maintenance management system (SAM) and the integrated highway planning system (SIPLA). These operational planning tools to manage road maintenance by contract and force account are fully operational.
- DNV also strengthened its bridge management capacity by implementing a bridge management system (BMS). This is not being used efficiently due to lack of resources.
- DNV has substantially improved its efficiency to carry out maintenance through force account.
- Road safety improvements such as placement of road signs and pavements markings were carried out.

4. Significant Outcomes/Impacts:

The project has resulted in substantially expanding the role of the private sector in the roads sector. To attract private financing, MTOP and National Corporation of Development (DND) signed a framework agreement for Megaconcession in December 2001. A new public corporation Uruguay Road Corporation (CVU) was created. The CVU was granted a 15 year concession for 1,270 km primary roads, which constitutes 15% of the national roads network and 38 bridges. To further expand the role of private sector, DNV tendered five new CREMA contracts in 2002. Four of them are under implementation and fifth was not awarded by the time the ICR was written.

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. The study to analyze options to modernize DNV and the road safety pilot did not take place.
2. The study to transfer technology to and build capacity within the *Intendencias* had significant shortcomings especially regarding the financial aspects.
3. The program for urban road maintenance was not prepared.
4. Road safety works at the crossing of (old) Route 1 with the village of *Relcon de la Bolsa* were not carried out.
5. MTOP lacks sustainable/stable mechanism for financing road maintenance.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

Several important lessons are identified by the ICR. Three are repeated here for their broad applicability:

- The strict policy of prioritizing maintenance in times of budgetary crisis can stall road deterioration to a limited extent. However, after a point in time there is a need for a reasonable amount of more costly periodic maintenance and rehabilitation investments, otherwise the road assets value will inevitably decrease.
- The CREMA-type performance-based contractual arrangements are powerful instruments to carry out road maintenance and rehabilitation in an efficient and effective way even in a situation of budgetary pressure.
- The decline in road sector funding and uncertainties regarding future funding adversely impacts implementation of institutional initiatives that are piloted under the Bank funded project. For example, MTOP could not further expand the micro-enterprise program with former DNV staff and the performance agreements between DNV and some of its maintenance Districts, or launch new CREMA contracts, for all of which there was strong interest among potential participants but unclear ability to meet their funding requirements on a timely basis.

8. Assessment Recommended? ● Yes ○ No

Why? The project is a good example of successful private sector participation in road transport sector. An assessment could yield some useful lessons.

9. Comments on Quality of ICR:

The quality of the ICR is satisfactory. The analysis is sound and the explanation of the ratings is satisfactory. The annex on progress indicators to evaluate project's implementation and achievement of development objectives is noteworthy. Also, the Lessons Learned section is insightful and useful.