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Report No.: 22476

PERFORMANCE AUDIT REPORT

URUGUAY

TRANSPORT PROJECT I
(Loan 3021-UR)

June 25, 2001

Sector and Thematic Evaluation Group
Operations Evaluation Department

Currency Equivalents

Currency Unit: Uruguayan peso (P$), since February 1993, formerly New Uruguayan Peso (Nur$)

US$1.00	=	Nur$279.50 (December 1988)
US$1.00	=	P$6.91 (December 1996)
US$1.00	=	P$12.80 (March 2001)

Weights and Measures

m	=	meter (3.281 feet)
km	=	kilometer (0.621 mile)

Principal Abbreviations and Acronyms

ANP	National Port Administration
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CREMA	Contract for Rehabilitation and Maintenance
DNV	National Directorate for Roads
HDM	Highway Design Model
CAS	Country Assistance Strategy
GNP	Gross national product
JEXIM	Japan's Export-Import Bank
ICR	Implementation Completion Report
IMF	International Monetary Fund
IPTI	Transport and Infrastructure Planning Institute
MTOP	Ministry of Transport and Public Works
OED	Operations Evaluation Department
PAD	Project Appraisal Document
PMS	Pavement management system
SAR	Staff Appraisal Report

Fiscal Year

January 1 – December 31

Director-General, Operations Evaluation	:	Mr. Robert Picciotto
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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

June 25, 2001

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: **Performance Audit Report on Uruguay Transport Project I (Loan 3021-UR)**

Attached is the Performance Audit Report prepared by the Operations Evaluation Department on the above project, which was approved in FY89 and closed on December 30, 1997, 30 months behind schedule. The loan was for $80.8 million, and an undisbursed balance of $0.5 million was canceled. The project was co-financed by Japan's Export-Import Bank, which provided a loan for US$73.9 million equivalent, of which US$67.8 million was disbursed.

The project aimed to help the government prepare institutional reforms in the transport sector with an emphasis on roads and ports, strengthen their management and regulations, and support the rehabilitation, capacity expansion, and maintenance of their infrastructure. To achieve these aims, the project financed (i) institutional development activities, including technical assistance and studies, to support policy and management Action Plans and (ii) investments in roads focused on rehabilitation and maintenance, and in ports focused on improving operations at Montevideo port and smaller ports. The project objectives were relevant and well tailored to support Uruguay's development strategy. They were well supported by the project components and detailed Action Plans for both roads and ports. The institutional objectives, in particular, were evolutionary and realistic, in line with Uruguay's traditional consensus-style of policymaking.

Project implementation was slow initially, mainly due to weak macroeconomic conditions that constrained the government's ability to provide counterpart funds. A small increase in the Bank's disbursement ratio and improvement in economic conditions helped address this problem. At the same time, incomplete engineering for two port investments (Montevideo and Piriapolis) delayed launching the bids for these works. During implementation, and following the initial delays, some priorities changed, and the project was amended, mainly to further strengthen the focus on maintenance and rehabilitation of infrastructure. A Bank objection to a consultant's contract on the basis of conflict of interest because a member of the consultant team was a government expert (in a different agency) led to a protracted argument between the parties.

As expected, the physical investments improved the condition of transport infrastructure, thereby reducing the cost for the movement of freight and passengers. Economic returns ranged from 14 percent for the Montevideo-Colonia road section to 28 percent for improvements at the port of Montevideo. The more significant achievements, however, were institutional, notably: (i) requirements under the project—such as preparing annual programs, conducting traffic counts, numbering the local roads, and setting up quality control mechanisms—for the allocation of routine maintenance funds to local governments, resulted in instilling accountability and developing a maintenance culture at the local level, (ii) using three different outsourcing instruments, the national highway agency drastically reduced force account operations from 100 percent in 1996 to just over 50 percent in 2000, and, in parallel, reduced its staffing from 3,300 at project appraisal to about 1,900 in 2001; (iii) together with reducing its workforce, DNV encouraged and assisted outgoing staff to form small companies to provide maintenance under multi-year contracts; such companies have grown in number from 3 in 1998 to 14 in 2001, and (iv) port organization was reformed and several services (including tugboat services, cargo loading and unloading, operation of warehouses, dredging) were privatized thanks to a law passed in 1992, and more improvements are being prepared as a new law in 2000 has opened the door to further reforms.

Overall, despite implementation delays that made benefits occur later than expected, the project achievements were significant. On this basis, the audit rates outcome satisfactory and institutional development impact substantial. Sustainability is rated likely because the benefits of both the physical and the institutional components are likely to endure. The audit rates Bank and borrower performance satisfactory.

Experience with this project confirms a number of OED lessons. *First,* the adoption and enforcement of strict requirements for the transfer of resources from the central to the local governments for the purpose of investments and preservation of assets, such as routine maintenance, can serve as an effective instrument to instill accountability and good planning at the local level. Other economic sectors could also benefit from applying similar approaches. *Second,* the right combination of incentives can help staff retrenchment programs promote entrepreneurship, by helping outgoing staff establish small enterprises that use skills developed in the public agency and by outsourcing work, initially through negotiated contracts, to these new enterprises.

Attachment

Contents

This report was prepared by Hernan Levy (Task Manager) and reviewed by Binyam Reja. William B. Hurlbut edited the report. Romayne Pereira provided administrative support.

Principal Ratings

	ICR	ES	PAR
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development	Substantial	Substantial	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

Key Staff Responsible

	Task Manager	Division Chief	Country Director
Appraisal	Marta Rios	Alain Thys	Pietter Bottelier
Completion	Jose Luis Irigoyen	Danny Leipziger	Myrna Alexander

Preface

This is a Performance Audit Report (PAR) of Uruguay Transport Project I (Loan 3021-UR), for which the World Bank approved a loan for $80.8 million on February 7, 1989. The loan closed on schedule on December 31, 1997, 30 months behind schedule. The project was cofinanced by Japan's Export-Import Bank (JEXIM).

This report is based on reviews of the Implementation Completion Report (ICR), the Staff Appraisal Report (SAR), loan documents, project files, transcripts of Board proceedings, and other Bank documents, and on discussions with Bank staff. An OED mission visited Uruguay in March 2001, inspected the project-financed works, and reviewed the project with officials of the ministry. Their kind assistance is gratefully acknowledged.

The PAR confirms that the project was a successful operation and focuses on the outcome and the lessons that can be derived from the project. In particular, the PAR expands on the ICR in the following areas: (i) the sustainability of the investments, (ii) the impact of the institutional components, and (iii) the newer reforms in roads and ports.

Following standard procedures, copies of the PAR were sent to the Uruguayan authorities for comments. Comments received are attached as Annex B.

1. Background

Economic and Social Context

1.1 Uruguay is an upper middle-income country with social indicators that are among the best in Latin America. This includes: (i) the largest social spending as a percentage of GDP in the region, (ii) one of the best educated populations with universal access to health and retirement benefits, (iii) an income distribution that is comparable to Western Europe with a very low share of households living below the poverty line.

1.2 In the early 1980s, the debt crisis that affected Latin America sent Uruguay's economy into recession. The economy started to recover in the mid-1980s, and grew at an average 4.4 percent annual rate through 1999. Given the clear mandate against privatization in 1992, the government subsequently aimed at improving the legal framework to encourage greater private sector participation through concessions, reducing the monopoly power enjoyed by state enterprises and reducing the size of the public sector. An extensive debate on policy reform over the following years has led the government to prepare legislation to move forward with further privatization, including in ports and railways, and the public now appears ready to support such policies.

Institutional Reform: How support has changed in 10 years.	
2001	"Uruguay's government got the green light...the opposition failed to muster public support to call a referendum over a new law to bring private operators in the country's ports and railways" (In *Politics This Week, The Economist,* February 24, 2001)
1992	".....a privatization bill aimed at a significant reduction in the role of the state, was defeated by a wide margin (72 percent of the vote) in a referendum" (In *The economic program 1992-1994, Uruguay, Country Assistance Evaluation, OED,* November 16, 2000.)

1.3 The First Transport Project was prepared and appraised during the implementation of the 1985–89 economic program. This program, launched when the country faced a chronic fiscal deficit derived mainly from an oversized government wage bill, restructured some major public enterprises, sold or closed some state companies, and concessioned some public services to the private sector. In this context, the project aimed to improve cost recovery in ports and roads and the preservation of capital stock in the roads subsector.

1.4 Transport demand has grown substantially over the past decade, owing to increases in (i) the country's vehicle fleet, which doubled during the period; (ii) Uruguay's international trade with MERCOSUR members; and (iii) MERCURSOR truck transit through Uruguay, which grew at some 12 percent per year during the 1990s. While the geographical coverage of Uruguay's transport system is generally adequate, capacity is being strained and key international transport corridors do not meet the higher operating standards required to serve the increased demand from regional trade integration.

Evaluation of Overall Bank Assistance

1.5 A recent Country Assistance Evaluation by OED concluded that the results from the Bank's recent experience (essentially the 1997 CAS) show a highly satisfactory development outcome. This conclusion is underpinned by almost 100 percent of projects evaluated between FY94 and FY99 (projects approved between 1985 and 1999) showing satisfactory outcome despite slow execution. The CAE finds that the CAS correctly diagnosed high costs of infrastructure and services, weak financial markets and high levels of taxation as the major obstacles to competitiveness that had led to low levels of domestic savings, investment, and growth.

Ongoing Transport Operations

1.6 Two transport projects are currently under way:

- The Second Transport Project (Loan 43950, for US$64.5 million, approved in FY99) focuses on the road system and continues and expands the efforts launched under Transport I. Transport II aims to continue assisting the renewal of the national highway agency (DNV), strengthen DNV's maintenance capacities, and reduce costs of international trade by improving key roads for MERCOSUR trade.
- The Forest Products Transport Project (Loan 42040, for US$76 million, approved in FY97) aims to facilitate the cost-efficient transport of forestry products from forest to port-of-exit through the rehabilitation of transport infrastructure; and to increase productivity in the logistics chain (trucking, rail, port), reducing subsidies and increasing private sector participation in such transport. Forest products are expected to generate more than US$200 million in export revenues by 2004. These forest products will be exported as logs, with a low specific value (about US$50/ton). Therefore, low transport costs are essential to ensure their competitiveness.

2. Objectives And Design

2.1 The audit finds that the objectives (Box 1) were relevant and well tailored to the conditions prevailing in Uruguay at the time of project appraisal. The objectives were well supported by the project components and by detailed Action Plans covering the roads and port subsectors. The institutional development objectives, in particular, while substantial, were evolutionary and realistic, in line with Uruguay's "traditional consensus-style of policy making"[1]

1. Statement in government's response to the CAE (Attachment I to the CAE). The 2000 CAS notes that such consensus-building approach has been a trademark of Uruguay's political process since return to democracy in 1985.

Box 1. Project Objectives and Components

Objectives

- Strengthen road management, at the national and departmental level
- Reorganize the port subsector, including redefinition of functions and responsibilities for planning, construction, maintenance, and operations of the ports
- Improve transport regulations and cost recovery in ports and roads
- Support the rehabilitation, capacity expansion and maintenance of road and port infrastructure

Components

- Institutional development, including technical assistance and studies, to support policy and management Action Plans in roads and ports
- Road investments, including new construction (Montevideo-Colonia, 149 km), rehabilitation and maintenance of national roads, and routine maintenance of departmental roads
- Port investments, to improve operations at Montevideo port, and at three fishing or small craft ports

2.2 The departmental roads program was a significant departure from previous transport projects that focused exclusively on the national network. This innovation would prove of great value in strengthening the departmental governments' capacity for managing their road networks, thus supporting national policies aimed at strengthening subnational governments.

2.3 *Amendment.* During implementation, the project was amended to change some components, but objectives were not modified.

2.4 *Complexity.* The ICR takes the view that, by covering both roads and ports, the project design became unnecessarily complex, and that two separate projects would have been preferable. The audit agrees with the principle, but whether such an approach was feasible, given lending opportunities at the time, is less obvious and would require a review of the Bank's lending strategy for Uruguay in the late 1980s that is beyond the scope of this audit. More significantly, although the project covered two transport modes, it was not a multi-modal project with integrated objectives and policies. Such integration is difficult to achieve, and is generally easier to attain in trade logistics or commodity-focused operations, such as the ongoing forest products transport project. In effect, it was two projects bundled as one.

2.5 *Port studies and port reform.* As part of government reforms launched in the early 1990s, a 1992 law reformed the National Ports Administration (ANP). Government officials noted to the evaluator that while the project was approved before the 1992 law, the project-financed studies did help in the process. This is because (i) the process leading to the 1992 law was long, in fact overlapping with project preparation, (ii) the ANP team working on the law was essentially the same unit coordinating the project studies, and (iii) the studies' initial terms of reference were adapted to ensure their usefulness to the port reform debate. Such studies covered a broad range of topics, including improvement to the costing systems, tariff restructuring, ANP document and information flow databases, and a human resource database.

2.6 *Action Plans.* Based on a Bank transport sector report[2] prepared shortly before project appraisal, the government established a series of actions directed at resolving the sector's major issues. These actions were incorporated in Action Plans, agreed at project negotiations, which addressed issues at three levels: (i) sector-wide, (ii) roads subsector, and (iii) port subsector. The project's institutional objectives, as well as the studies and technical assistance components, were well integrated into those plans.

2.7 *Performance indicators and targets.* A weakness in project design was the lack of measurable targets and outcomes (other than the scale of the physical works) for the road-related objectives, and only minimal targets for the ports that focused more on outputs than on operational efficiency.

3. Implementation

3.1 The project was implemented slowly during the early years. The ICR provides a good overview of the problems facing the project during those years. They consisted of a combination of external factors as well as engineering design problems. The most critical of the external factors was the weak macroeconomic conditions that constrained government's ability to provide counterpart funds.[3] This led to an amendment of loan conditions, with the Bank increasing its disbursement ratio. As a result, government counterpart funding ended up financing 32 percent of total project, compared with 40 percent projected at appraisal. However, because the project was cofinanced with JEXIM, the Bank's financing ratio remained at a reasonable level (36 percent). The most critical design factor was incomplete engineering, which hindered implementation readiness.

3.2 *Implementation readiness.* Most project components were ready for implementation at appraisal. The ports of Piriapolis and Montevideo were significant exceptions. They only had preliminary engineering and this caused substantial delay in starting the works. Readiness for implementation appear to have been a common problem in the Uruguay portfolio, and prompted the Region in its 1997 CAS to emphasize the need to ensure that significant parts of individual projects would be "bid-ready" prior to loan effectiveness.

3.3 *Changes in scope.* Following the significant initial implementation delays, and despite extension of the closing date, it became apparent that all project components could not be completed. At the same time, some priorities changed. In consequence, a project amendment was agreed in 1996. The amendment mainly (i) reduced the overall number of kilometers of road and bridges (although new works, including maintenance of national roads and bridges were added), (ii) eliminated a small port, and (iii) added financing for a study of an international bridge that would link Buenos Aires to Colonia. The evaluator finds these changes reasonable, especially the reduction by about half of the Montevideo-Colonia road works, eliminating from project financing the less-trafficked section of the road.

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2. Transport Sector Strategy Paper for Uruguay, report No 6747 UR, of May 11, 1987.

3. The ICR also notes disruptions cause by government changeovers and delays in approving legal frameworks for privatization and reduction in the size of the State.

3.4 *Risk assessment.* The SAR was correct in predicting that implementation could be slowed by (i) involvement of various agencies to deal with the roads and ports components and (ii) the government faltering in carrying out some of the agreed reforms. Project requirements to establish a Project Coordinating Unit and to conduct joint Bank-government annual reviews were useful and probably ameliorated the delays. However, the SAR failed to anticipate the risk with availability of counterpart funds, and delays stemming from lack of detailed engineering for some subproject components.

3.5 *Conflict of interest in consultants' studies.* Project files reveal that at least in one consultant contract (Port of Montevideo Master Plan study) the Bank initially raised objections claiming a conflict of interest existed. Some personnel in the consulting company selected as the bid winner were civil servants, although they served in a different government agency. Then, it appeared that the Bank was willing to agree to the contract under some conditions, including requiring such personnel to take leave of absence from the agency during the conduct of the study. In the end, no agreement was reached and the consulting company was disqualified. Government officials were not pleased with the situation. They reported to the evaluator the paradox that a highly qualified MTPW port specialist, who consults for several ports in Latin America, could not apply his expertise in his own country. Under Uruguayan law, the exclusion only applies for a staff member to serve as a consultant in the same agency where the staff works. The Bank's procurement guidelines for consultants contain two clauses regarding conflicts of interest, but none specifically prohibit government officials from being recruited under Bank-financed projects. Such prohibition is contained in an internal Bank memorandum, on the basis that "the principle of transparency would be compromised and the opportunity for abuse heightened".[4] This issue is of importance for the Bank and for small country borrowers, particularly as countries are expanding the use of consultants, including local firms. In many instances, the expertise in a small country may reside within a public agency, and to this evaluator it appears that, depending on the circumstances, the gains from increased transparency may or may not outweigh the underuse of valuable local knowledge.

4. Outcome

4.1 The physical investments have improved the condition of transport infrastructure, thereby reducing the cost for the movement of freight and passengers. The more significant outcome is institutional, however. The Action Plans, and the studies and technical assistance supporting them, helped reorganize the port subsector, strengthen management of the road sector, and generate data and analysis for better costing of road and port usage. The auditor finds the following broader outcomes of the project noteworthy.

Strengthening local governments: instilling accountability and a maintenance culture

4.2 Requirements under the project and applied by DNV in order to allocate funding under the routine maintenance component demanded that the Departments prepare annual programs, collect relevant information and be able to clearly identify the roads. This

4. Memorandum by Alfonso Sanchez, dated July 19, 1999.

translated into the significant improvements in departmental management of routine maintenance.

4.3 At the same time, implementation of this component required the MOPT to devise a formula for allocating funds among the various local governments, a formula that remains in use today.

4.4 A result of this program was a substantial improvement in the condition of the departmental roads network, as shown in Table 1. More significantly, these changes, sustained over the period of the project, created a "maintenance culture" previously non-existent in the Departments, and established mechanisms, now ingrained in the Departments, to ensure adequate planning, programming, and accountability for the funds applied to routine maintenance. Government transport officials noted that the rigorous management and accountability procedures established under the project for the implementation by the Departments of the routine maintenance component are not matched in any other departmental programs funded by the government.

Table 1. Condition of the Departmental Road Networks

	At appraisal(1988)	*At ICR(1998)*	*At PAR(2001)*
Percentage road network rated poor	65	21	18

Source: DNV

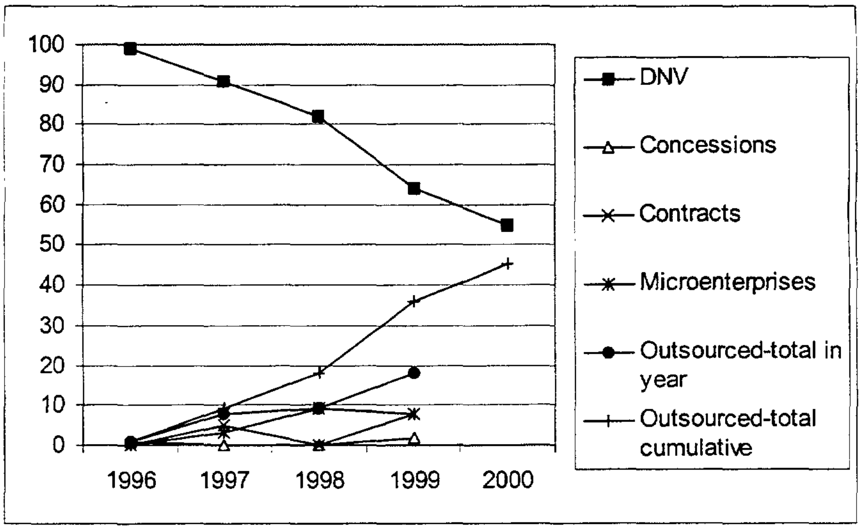
Changing the role of the highway agency

4.5 During the project period, and beyond, the DNV has drastically reduced its direct role in highway maintenance. Using three different outsourcing instruments, toll-based concessions covering a road subnetwork, contracts including rehabilitation as well as routine maintenance (launched under the Transport II project), and microenterprises, DNV has reduced its share of force account operations from 100 percent in 1996 to just over 50 percent in 2000 (Chart 1). The result is gains in efficiency, both of the highway department and in the execution of maintenance, especially in intermediating budget funds in the highway sector, that is, doing the same or more work as before with lower operating costs. The government intends to continue reducing its direct role in the execution of maintenance. Further outsourcing, especially of routine maintenance, is likely to be more difficult, however, as the contracts in the regions more attractive for private operators have already been awarded.

4.6 The Uruguayan parliament has recently requested the DNV to start submitting performance indicators on an annual basis. Such indicators, which DNV will start to formally submit by the end of 2001, comprise the condition of the road network (surface condition) and the operating costs of the highway agency.

4.7 The project also helped to strengthen DNV's management systems in a number of areas, notably road planning and maintenance management, traffic data collection and truck overloading systems.

Chart 1. Outsourcing of Road Maintenance



Source: DNV

4.8 In parallel with the increased outsourcing, DNV has reduced its personnel, as shown below:

Table 2. Staffing of national highway agency

	At appraisal(1988)	*At ICR(1998)*	*At PAR(2001)*
DNV Staff a/	3,300	2,400	1,880

a/The large majority of DNV personnel is temporary or contract labor. A significant factor in the large personnel reduction is the outsourcing of routine maintenance.
Source: DNV

4.9 The evolution in the condition of the national network over the same period is difficult to trace, because measurements at appraisal were unreliable, as noted in the SAR. Recent measurements, which are supposed to be more accurate, show the percentage of national roads rated poor dropping from 44 percent at ICR (in 1997) to 30 percent at PAR (in 2000).

Shrinking the state, creating entrepreneurs[5]

4.10 In parallel with reducing its workforce, DNV encouraged and assisted ex-staff to form small companies —the so called microenterprises—to provide maintenance under contract. The concept has provided satisfactory quality at low cost, and expanded significantly in recent years. From 3 microenterprises existing in 1998 reported in the ICR, they now number 14. Such companies perform a range of tasks, although their main focus is routine maintenance of the road surface. The "microenterprise" label is misleading: while companies have on average some 10-14 staff, they execute multi-year contracts that can be worth several million dollars (Box 2). The microenterprises' key characteristics are:

5. An excellent account of the development and operations of the road microenterprises is in 'De peones a empresarios [from day laborers to entrepreneurs]. El surgimiento y vida de las microempresas [The emergence and life of microenterprises], Octuber 1998.

- Capital formed with separation grant, plus a special training bonus.
- Infant industry protection. The initial 2-year contracts are negotiated directly between DNV and the microenterprise, without competition; such contracts can be extended to up to 2 more years. All contracts are financed from government budget; all have been extended. The first competitive contracts are planned to start in the first semester of 2001, when the first contract extensions terminate.
- The standards and monitoring under which they operate is changing routine maintenance culture from "doing maintenance work when the road is bad" to "keeping the road always (or mostly) in acceptable condition."
- Individual contracts vary widely in value and scope.
- Carry out various types of works, including routine maintenance, road signs, lights, and transport of asphalt.

Box 2. Microenterprises: The smallest and the largest contracts

The Smallest Contract

Value: US$444,000
Duration: 2 years
Work: road signs, 422 kilometers
The company:

- 6 partners, 3 employees
- Number of years partners worked for DNV:
  - – less than 5 years: 3
  - – more than 15 years: 3
- Partners' education:
  - – incomplete technical school: 1
  - – incomplete secondary education: 2
  - – complete primary education: 2
  - – incomplete primary education: 1

The Largest Contract

Value: US$7.1 million
Duration: 4 years
Work: routine maintenance and road signs, 341 kilometers
The company:

- 6 partners, 14 employees (all former DNV staff)
- Number of years partners worked for DNV:
  - – 5 - 15 years: 1
  - – more than 15 years: 5
- Partners' education:
  - – university degree: 1
  - – incomplete secondary education: 2
  - – complete primary education: 2
  - – incomplete primary education: 1

Reforming the ports

4.11 As the ICR notes, the project supported major reforms in the Port of Montevideo, Uruguay's main port. The reforms started in 1992, and intended to transform the National Ports Administration from port operator into a port owner that would outsource operations to the private sector. As noted in chapter 2, while port reforms were made possible by a State reform law passed in 1992, that is, three years into project implementation, the long gestation period of the law overlapped with project preparation, and the team that drafted the port reforms was the same one that designed the institutional components of the project. Applying such law, ANP privatized tugboat services, cargo loading/unloading and on-land transfers, operation of warehouses, and passenger handling. However, the law had limitations and, for example, did not allow to privatize the container terminal.

4.12 As a result of the privatization process, ANP was able to cut staffing from 4,400 in 1992 to 1,350 in 1998. During this period, throughput of general cargo (ton/hour) increased 270 percent, and ship staying time decreased by 34 percent. As a result of growing overseas trade, port traffic increased 120 percent and container traffic 100 percent. The combination of reduced staffing and higher cargo volume, resulted in average costs for all ANP traffic dropping by close to 60 percent.

4.13 Two surveys carried out by a consulting firm confirmed the success of the reform. One survey, focused on personnel, found that two thirds of the retrenched staff felt they were better off or equivalent compared to their ANP positions. The other survey, focused on user satisfaction, found that 72 percent of the users felt port service was better compared to pre-reform conditions.[6] The evaluator finds ANP's management decision to carry out these surveys to indicate concern for its personnel and for port users, and the results to be highly significant. Such results are encouraging for further reforms.

4.14 It is worth highlighting that ANP has continued preparing reforms on its own after closing of the project under review. Beyond what is reported in the ICR, ANP recently has privatized dredging, which is a major cost item in port operations. Thanks to a new port law approved in 2000, ANP is now preparing to concession the container terminal, under a private-public partnership, that would in turn select a contractor to operate the terminal as an integrated operation. ANP expects to launch the concession process in June 2001. At the same time, ANP is proposing to continue restructuring and to improve its commercial policy, and is launching studies, under its own financing, to assist with this process.

4.15 Despite the reforms and operational improvements, ANP's financial position has remained weak. While operating revenue covers operating costs (the working ratio ranges between 0.80 and 0.90 in recent years), revenues do not fully cover depreciation and other financial charges. ANP's tariff structure, which is now more rational than in the past for individual services, overall yields less revenue per unit of throughput. This seems to have been a key factor in attracting transit to the port of Montevideo, especially containers. The forthcoming concessioning to a private operator of the container terminal should lead to full commercial management of this service and improve ANP's financial position.

Study of the Buenos Aires - Colonia bridge

4.16 The Uruguayan government gives high priority to the country's economic and physical integration with its regional trading partners. Construction of the Buenos Aires-Colonia bridge, which should significantly shorten the time between these two cities and therefore between Buenos Aires and the Montevideo port, is considered a priority. The

6. The ICR provides substantially more details on these surveys and on the incentives given employees to leave their ANP jobs.

outcome of this project component is a set of studies, economic, environmental, navigational, engineering, as well as documentation defining the concessionaire's obligations under a BOT operation.[7] The studies, prepared by experts, are likely to carry great credibility vis-à-vis potential international investors. The studies show that the bridge is economically justified and could be financially attractive for private investors.

4.17 The evaluator met with senior staff of the Uruguayan Bi-National Commission for the Buenos Aires-Colonia Bridge. They reported that further progress has been made in preparing for this project: (i) under government financing, further studies were made to find ways to reduce risks for the concessionaire, which is important because the two governments have agreed not to provide guarantees or subsidies, and (ii) the Uruguayan parliament has given its agreement to proceed. A similar agreement has not yet been obtained in Argentina.

5. Ratings

Outcome, Institutional Development, and Sustainability

5.1 ***Outcome*** is rated satisfactory.[8] This rating is based on the assessment of three criteria:

- *Relevance.* Project objectives, aimed essentially to improve the management of the road and port subsectors and to help preserve their assets, supported with institutional components that helped prepare reforms in both areas were relevant to the country development strategy prevailing at appraisal and today. Only a minor component became irrelevant shortly during implementation: the purchase of trucks for ANP (cost: about US$400,000). As a result of the port reform, ANP changed its role from operator to owner, and no longer needed this equipment. With Bank agreement, ANP sold the trucks and recovered the cost.
- *Efficiency.* The ICR estimates the economic returns to range from 14 percent for new road construction (section of the Montevideo-Colonia road) to 28 percent for rehabilitation investments at the port of Montevideo. Although lower than estimated at appraisal, mainly because of construction delays and therefore of benefit generation, these are satisfactory returns. The assumptions used in the ICR to estimate the return are reasonable, with the possible exception of those used for the port of Piriapolis. Extrapolating values from Punta del Este as the ICR does, even using conservative assumptions, may not be appropriate because Piriapolis dock rates are one-half those of Punta, and berth utilization is much lower.
- *Efficacy.* The project amendments modified the project scope and increased the disbursement. The latter resulted in reduced physical targets

7. The description and conclusions of the studies are summarized in a Bank letter, dated November 27, 1998, from Myrna Alexander, Director, Argentina, Chile and Uruguay Country Department, to Mr. Lucio Caceres, Uruguay's Minister of Transport and Public Works and to Mr. Roque Fernandez, Argentina's Minister of Economy and Public Works.

8. The audit agrees with the ICR on the rating of outcome, as well as the other ratings. There are, however, some differences in assessments and the audit ratings are based on standard OED methodology.

overall. Most of the objectives and the revised targets were achieved. The objective relating to transport regulations and cost recovery were only partially achieved, and mostly on the ports.

5.2 ***Institutional development impact*** is rated substantial. Montevideo port underwent major organizational improvements, DNV significantly increased its efficiency and outsourcing of maintenance, and the project helped instill a maintenance culture in the local governments. However, caution should be exercised in considering the attribution of the improvements and reforms. The government's own initiatives and support by the follow-on Transport II project (highways) and the PERL (ports) project may have been crucial contributing factors to the reforms.

5.3 On the negative side, the government in 1998 eliminated the vehicle axle tax, a key charge to ensure that trucks and other heavy vehicles pay for the damage they inflict to road pavements. This decision was made on the basis that the tax was expensive to collect, and that the differential toll levied in concessioned roads provided an adequate compensation. However, toll roads are a small fraction of the total national road network, and therefore the expected compensation does not occur.

5.4 ***Sustainability*** is rated likely. The evaluator visited road and port works financed under the project, and found them in good working condition and properly maintained. This assessment includes investments that are 8 years old (port facilities at Punta del Este). Further, as noted in earlier chapters, in both roads and ports positive trends continue three years after project closing. The transport agencies have continued to downsize, the condition of the road network has improved, and the improvements achieved in port operations remain and are being extended.

Bank Performance

5.5 ***Bank performance*** is rated satisfactory. The following points should be noted:

- Project design was necessarily complex due to the coverage of two subsectors (roads and ports). The ICR takes the view that two simpler projects, one focusing on ports and one on roads, would have been a better, more efficient approach. While this is certain, it is not obvious that, considering the overall lending opportunities, it would have been possible to process two separate projects.
- There was good, frequent supervision. Government officials noted that communications with the supervision team during early implementation were difficult, but that the situation was reversed when a new team took over.
- The Bank responded rapidly when the need arose to amend the project. The changes made were generally for the better.
- The Bank performance on the Buenos Aires-Colonia study was highly praised by government officials, despite initial problems and the Bank being seen as prejudiced against the bridge concept. Yet, the same officials concluded that, in the end, such prejudice led the Bank to provide valuable assistance to put together a top-quality team of project-financed consultants, with the Bank also assigning highly regarded personnel to oversee the study. The upshot was a high-quality study that will be the essential documentation for a BOT invitation once the Argentinean and

Uruguayan government have reached agreement to launch the BOT process.

- The Bank coordinated well its support for reform of public enterprises. Its 1992 public enterprise reform loan (PERL) was instrumental in financing studies for port reform and assisting with laying the foundations for a system of concessions for commercial services.

Borrower Performance

5.6 ***Borrower performance*** is rated satisfactory. During the initial years of implementation, at a time the economy was stagnant, borrower performance was weak, especially because of inadequate provision of counterpart funds. As a result, four years into the project, disbursements were only one-third of the SAR estimate. The situation was reversed starting in 1995, when the government assigned a high priority to arresting the deterioration of the national road network.

5.7 The borrower made significant progress in implementing reforms, first in the port, and later in the management of the highway system. Making such changes required a long debate between the government and the Congress, and the borrower should be given credit for achieving the reforms, which were instrumental in the satisfactory outcome of the project.

5.8 As required by the project, the borrower set up a Coordinating Unit that was effective and complied with project covenants.

6. Lessons

6.1 The following lessons emerge from this project:

- *Local governments capacities can be strengthened through the imposition of strict requirements for the transfer of central government resources.* A government program supporting local governments' investments and preservation of assets, such as routine maintenance, that uses well-selected requirements, can serve as an effective instrument to instill accountability and good planning in the use of government and local governments' funds. To maximize the benefits of such programs, the concepts and methods underlying their requirements and processes could, adequately adapted, be replicated in other sectors.
- *Staff retrenchment can be turned into an opportunity to promote entrepreneurship by giving redundant staff incentives to set up small enterprises.* Government support for redundant staff in the highway department to become entrepreneurs through the creation of microenterprises demonstrates that a proper combination of incentives can help launch new enterprises that utilize the skills developed in the public agency and to which works can be outsourced. Such incentives include separation grants, training bonuses, and "infant industry protection"

consisting of direct contracting for a transitional period before opening the works to competitive contracting.

Future Sectoral Dialogue and Operations

6.2 The two ongoing transport operations (Loans 43950 and 42040), are currently half-way in their implementation. The current CAS suggests that, if there are no policy slippages, it could be possible to proceed with reform-oriented infrastructure projects. The government, in its response to the CAE, notes (confirming CAE's assessment) that reducing long-term structural deficiencies afflicting the public sector is one of the government's main priorities, and suggests that technical as well as financial assistance will still be required during a transitional period. The reforms being implemented in the transport sector are significant and are reducing the sector's fiscal claims, facilitating trade, and substantially increasing the role of the private sector. Continuing financial support by the Bank would be a key factor in pursuing such reforms, especially to ensure the financial credibility required to sustain the efforts to expand the transfer of transport system maintenance and operations to private investors and managers.

Annex A: Basic Data Sheet

Key Project Data *(amounts in US$ million)*

	Appraisal Estimate	*Actual or Current estimate*
Total project costs	257.4	221.9
Loan amount	80.8	80.3
Cofinancing	73.9	69.8
Cancellation (Bank loan)		0.4
Date physical components completed	12/30/1994	12/31/1997
Economic rate of return	28%	17%

Cumulative Estimated and Actual Disbursements

	1989	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Appraisal Estimate	8.0	18.0	36.0	57.0	72.0	79.0	80.8	N/A	N/A
Revised Appraisal Estimate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Actual	8.0	9.2	12.5	18.0	28.5	41.1	53.8	70.0	80.3
Actual as % of Estimate	100	51	35		32	40	52	68	N/A

Date of final disbursement: 8/31/97

Project Dates

Steps in project cycle	
Identification (Executive Project Summary)	N/A
Preparation	November 1987
Appraisal	April 1988
Negotiations	September 1988
Board Presentation	February 7, 1989
Signing	April 6, 1989
Effectiveness	October 19, 1989
Project Completion	December 31, 1997
Loan Closing	December 31, 1997

Staff Inputs

Stage of project cycle	*Actual*	
	Weeks	*US$*
Through Appraisal	112.6	212.6
Appraisal – Board	19.5	39.2
Board – Effectiveness	25.4	55.1
Supervision	198.1	645.7
Completion	4.8	12.8
Total	360.4	965.4

Mission Data

Stage of Proj. Cycle	*(Month/year)*	*No. of persons*	*Days in Field*	*Specialized staff skills represented*	*Performance rating*		*Types of problems*
					Implement. status	*Develop. objectives*	
Through Appraisal							
	5/87	1	15				
	11/87	6	53	HE, PE, TE, TEC, FA			
	N/A	N/A	N/A				
Appraisal Through Board Approval							
	N/A	N/A	N/A				
	N/A	N/A	N/A				
Board Approval Through Effectiveness							
	N/A	N/A	N/A				
	N/A	N/A	N/A				
Supervision							
	4/89	1	10	HE	2	1	
	8/89	1	10	PE	2	1	PP
	2/90	2	12	HE, TEC	2	1	AP, PP
	4/90	2	2	PE, TS	2	1	PP
	10/90	3	15	PE, TEC, FA	2	1	PMP, PP
	5/91	1	5	HE	1	1	PP
	10/91	2	10	HE, PE	2	2	AP, PP
	3/92	2	10	PE, TEC	2	2	PP
	11/92	3	15	HE,TEC,PE	2	2	PP
	5/93	3	36	TE,HE	2	2	PP
	7/93	1	2	TE	2	2	AP, PP
	10/93	4	40	TE, TEC, FA	2	2	AP, PMP, PP
	7/94	2	10	TE, C	U	S	AP, PMP, PP
	10/94	1	2	TE	U	U	AP, PMP, PP
	5/95	2	16	TE, FA	U	U	AP, PMP, PP
	12/95	1	2	TE	U	S	PMP,PP,CLC,SP
	4/96	2	10	TE, TEC	U	S	PMP,PP,CLC,SP
	10/96	2	4	TE, TP	U	S	PMP,PP,CLC,SP
	12/96	1	1	TE	S	S	AP, PMP, CLC, SP
	2/97	1	2	TE	S	S	PMP
	7/97	1	5	TE	S	S	PMP
	10/97	2	10	TE	S	S	
Completion							
	10/97	1	1	TEG, HE	S	S	
Total	N/A	N/A	298	N/A	N/A	N/A	N/A

Staff Skills: TEG = Transport Engineer; TEX = Transport Economist; Transport Planner; TS = Transport Specialist; C = Consultant; HE = Highway Engineer; FA = Financial Analyst, PE = Port Engineer

Problems: CLC: Compliance with covenants; FP; Financial Performance; AP: Technical Assistance Progress; PMP: Project Mgt. Progress PP: Procurement Progress; SP: Studies Progress

Annex B: Borrower Comments

MINISTRY OF TRANSPORT AND PUBLIC WORKS
URUGUAY

BM2-011/01

Montevideo, June 22, 2001

Mr. Alain Barbu
Manager, Sector and Thematic Evaluation
Operations Evaluations Department

Re: Uruguay: Transport Project I (Loan 3021-UR/Performance Audit Report, PAR)

Dear Sirs,

I am pleased to write to you in relation to the draft of the PAR for the above-mentioned project.

We wish to express our agreement with the views contained in that report.

However, we would like to note:

(1) In para 23, reference to the concessions should be specific to the primary road network, rather than the secondary roads

(2) In the Basic Data Sheet, the amount disbursed by the cofinancier was US$70.2 million.

Sincerely yours,

Cra. Isabel Martinez Destouet
Director – World Bank Area
External Finance Advisory Services