

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS: NEIGHBORHOOD IMPROVEMENT

(UR-X1003)

SECOND INDIVIDUAL OPERATION UNDER THE CCLIP FOR THE NEIGHBORHOOD IMPROVEMENT PROGRAM II

(UR-L1084)

LOAN PROPOSAL

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ANNEXES

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ELECTRONIC LINKS

REQUIRED

1. Procurement plan
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38063284>
2. Environmental and social management report (ESMR)
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38085803>

OPTIONAL

1. Economic analysis
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38058932>
2. Final evaluation of the Neighborhood Improvement Program (loan 2052/OC-UR)
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38059075>
3. Program Operating Regulations
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38066665>
4. Roles and responsibilities of participants in neighborhood improvement projects
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38058080>
5. Multiyear execution plan
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38168738>
6. Safeguard screening form and safeguard policy filter report
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38058914>

ABBREVIATIONS

AWP	Annual work plan
CAIF	Centro de atención a la infancia y la familia [childhood and family care center]
CCLIP	Conditional credit line for investment projects
ECH	Encuesta Continua de Hogares [Ongoing Household Survey]
EIRR	Economic internal rate of return
ESA	Environmental and social analysis
ESMP	Environmental and social management plan
ESMR	Environmental and social management report
GCI-9	Ninth General Capital Increase, or Ninth General Increase in the Resources of the Inter-American Development Bank
INE	Instituto Nacional de Estadística [National Institute of Statistics]
MVOTMA	Ministry of Housing, Land Management, and the Environment
PCU	Program coordination unit
PIAI	Programa de Integración de Asentamientos Irregulares [Program for the Integration of Unregulated Settlements]

PROGRAM SUMMARY

URUGUAY

CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS: NEIGHBORHOOD IMPROVEMENT (UR-X1003)

SECOND INDIVIDUAL OPERATION UNDER THE CCLIP FOR THE NEIGHBORHOOD IMPROVEMENT PROGRAM II (UR-L1084)

Financial Terms and Conditions				
Borrower: Eastern Republic of Uruguay Executing agency: Ministry of Housing, Land Management, and the Environment (MVOTMA)			Flexible Financing Facility (FFF)*	
			Amortization period:	25 years
			WAL:	15.25 years**
			Disbursement period:	5 years
Source	Amount	%	Grace period:	5.5 years
IDB (OC):	US\$70 million	70%	Interest rate:	LIBOR-based
Local:	US\$30 million	30%	Inspection and supervision fee:	***
Total:	US\$100 million	100%	Currency:	U.S. dollars from the Ordinary Capital
Program at a Glance				
Program objective/description: To contribute to improve the living conditions of the resident population of unregulated settlements and rundown areas by enhancing household access to basic infrastructure and adequate social and urban services.				
Special contractual conditions: - Precedent to the first disbursement: Evidence that the program Operating Regulations have been put into effect by the executing agency on the terms agreed upon with the Bank (see paragraph 3.2). - Execution: Prior to the start of execution of any work under program components I and II, evidence that a subexecution agreement has been signed between the executing agency and the participating local government on the terms agreed upon with the Bank (see paragraph 3.1).				
Exceptions to Bank policies: None.				
Project consistent with country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				
Project qualifies as: SEQ <input checked="" type="checkbox"/> PTI <input checked="" type="checkbox"/> Sector <input type="checkbox"/> Geographic <input checked="" type="checkbox"/> Headcount <input type="checkbox"/>				

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

** The original weighted average life (WAL) may be shorter, depending on the effective date of loan contract signature.

*** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems to be addressed, strategy, and rationale

- 1.1 Uruguay has a sound macroeconomic framework and has been at the forefront in the implementation of social programs that have helped bring poverty levels down from 34.4% in 2006 to 12.4% in 2012.¹ Nonetheless, the progress made has been insufficient to overcome the still persistent inequalities in income distribution. In 2012, the average income of households in the highest income decile was nearly 12 times the national average. As is the case in other Latin American countries, this distributive inequality is reflected geographically.
- 1.2 Uruguay highly urbanized, with 95% of its 3.3 million inhabitants living in urban areas, but where 5% of the population (165,000 inhabitants/48,000 households) still live in zones known as “asentamientos” (settlements), which suffer from access deficits to one or more core services and do not offer security of tenure.² This program continues the 14 years of collaboration between the Bank and the Government of Uruguay to improve the living conditions of the resident populations of these settlements. The corresponding actions, designed and implemented with community involvement and a local focus, have proven effective both in Uruguay³ and in the region,⁴ enabling their inhabitants to exercise citizenship through the physical and social integration of neighborhoods.
- 1.3 **Conditions in the unregulated settlements.** The physical characteristics of the settlements include inadequate sanitation and drainage systems, poor road networks, limited access to public transportation, and, consequently, very poor environmental quality (see Table 1.1). Moreover, property tenure is generally unregulated, which devalues household assets.
- 1.4 For a social standpoint, households living in these areas suffer from high levels of poverty and have demographic and social features that make them more vulnerable. Settlement dwellers have a socioeconomic situation that is more precarious than the average for Uruguayan people: less formal education means they have fewer means with which to enter the labor market. As a result, the proportion of settlement

¹ Source: National Institute of Statistics (INE), 2013.

² An unregulated settlement is a grouping of more than 10 dwellings built on public or private land without authorization from the owner, under unregulated conditions, in noncompliance with urban development regulations and without property title.

³ The external evaluation of the first operation under the CCLIP shows that the outputs delivered have had positive results and impacts, and that the program tangibly alters the conditions of the family and community habitat. Achievement of the targets is also closely related to the integrated nature of the program activities and, therefore, to the close coordination among the different benefits attributed to the various components implemented in the targeted neighborhoods.

⁴ Studies that assess the impacts of integrated programs or specific components of neighborhood improvement programs include: Colegio de la Frontera Norte, “Informe de Evaluación del Programa Hábitat, 2011” [Frontera Norte College, Habitat Program Evaluation Report, 2011]; and Field, E. and M. Kremer, 2005. “Impact Evaluation for Slum Upgrading Interventions,” Working Paper 2008-0029, Weatherhead Center for International Affairs, Harvard University.

residents with jobs is less than in the rest of the country (44% compared to 49%). The average income of households living in unregulated settlements is 65% of the national figure.⁵ Moreover, the situation of women in settlements is different than the rest of the country: whereas the proportion of women heads of household nationwide is 25% (between 19 and 50 years of age), a sample of settlements revealed a figure of 36%. Settlement populations also tend to be young, with 50% under 20 years of age. This demographic trait reflects the greater vulnerability of this population group, as just one in every three teens in Uruguay completes the second cycle of education, and half of the country's unemployed are under 25 years of age.⁶ These problems justify the coordination of the program's physical interventions with the social programs that exist to address them.

Table 1.1. Infrastructure Deficit in Unregulated Settlements
(Percentage of total settlements in Uruguay)⁷

Indicators	%
Unpaved sidewalks	88
Unpaved roads	30
Vehicle access	80
Garbage in the street	8
Curb on the sidewalk	14
Presence of street lighting	28
Piped water in the home	92
Sanitation service in the home	79
Connection to sewerage network	24

- 1.5 These areas also suffer from a shortage of public and/or recreational spaces, community centers, and access to social services. Although Uruguay has a long tradition of quality social services with broad coverage, the settlements are not fully served. Lacking such services, the communities are seeing social capital deteriorate severely, as there are few mutual support organizations or systems.
- 1.6 **Rundown urban areas.** Another recurrent phenomenon in Latin America is the degradation of urbanized central or intermediate areas, losing much of their functionality and economic purpose. The causes of these processes of abandonment

⁵ Report on the results of the nationwide Ongoing Household Survey (ECH), which measures indicators relevant to the pre- and post-regularization conditions in the targeted settlements, 2011.

⁶ Cabella, Wanda. "Análisis de situación en Población" [Analysis of population conditions], Office of Planning and Budget, Sector Commission on Population, May 2012.

⁷ The data on the deficit of urban facilities come from the intercensal comparison between 2006 and 2011 for the entire country. Data on access to water and sanitation services in the home come from the 2011 nationwide Ongoing Household Survey (ECH).

reflect changing economic and demographic dynamics,⁸ and the gradual deterioration and lack of maintenance of public and social services and recreational spaces. During the 1996-2004 intercensal period, the population of Montevideo shrank for the first time, at the expense of growth in the metropolitan area. Moreover, the central areas (Ciudad Vieja, Cordón, Reducto), which have all services, are those that suffered the largest population loss, with a declining trend averaging nearly 15%.⁹ This situation is being driven by a combination of factors and dynamics, including: (i) the emergence of new hubs; (ii) the migration of higher-income populations and growing businesses to other parts of the city; and (iii) the migration of low-income groups to outlying areas. The economic crises of the last few decades, compounded by the high cost of formal housing, have spurred the growth of informal outlying areas that are more affordable to lower-income groups. Examples include the La Unión and Villa Española neighborhoods and their hinterland, located in a semicentral urbanized area of Montevideo, where public spaces (public squares and parks) are decaying despite the urban complex of heritage value.¹⁰

- 1.7 The Government of Uruguay, in coordination with the Departmental Government of Montevideo, have set priorities that include investments and activities aimed at reversing this situation. International experience with processes of this type to revitalize rundown areas shows that specific strategic planning is needed that takes economic, social, real estate, and financial factors into account.¹¹ In addition, a specialized management mechanism is required to coordinate actions among the different public institutions, as well as with the private sector (transportation, owners of landmark buildings, street sweeping systems, etc.).
- 1.8 These shortcomings can be attributed mainly to: (i) weak capacity of national and local governments to finance the investments needed to serve these areas, in terms of resources, coordination of actions on the ground, and specialized human resources to address these problems; and (ii) no integrated urban planning that would make it possible to coordinate the delivery of urban, social, and mobility services.

⁸ In the 1970s, Montevideo, Uruguay's main city and home to 40% of the population, entered a new cycle of expansion involving the creation of unregulated settlements in outlying areas. In this case, the growth process reflects the departure from Montevideo of impoverished sectors who bore the brunt of rental market deregulation, unemployment, and the economic crisis. This process gathered pace from the 1990s onward.

⁹ Cabella, Wanda. "Análisis de situación en población" [Analysis of population conditions], Office of Planning and Budget, Sector Commission on Population, May 2012.

¹⁰ These are the Cipriano Miró Plaza, the Pasteur Hospital founded in 1858, and a metropolitan referral health center, as well as the San Agustín Church and the Piñeiro del Campo Geriatric Hospital.

¹¹ Fox, Catherine, José Brakarz, and Alejandro Cruz, 2005. "Alianzas tripartitas: reconocimiento del tercer sector. Cinco estudios de caso de revitalización urbana en América Latina" [Tripartite alliances: recognition of the third sector. Five case studies on urban renewal in Latin America]; and Wegelin, Emiel, Eduardo Rojas, and Eduardo Rodríguez Villaescusa, 2004. "Volver al Centro: la recuperación de áreas centrales degradadas" [Back to the center: the recovery of rundown central areas].

- 1.9 **Justification and methodology.** As the second operation under a conditional credit line for investment projects (CCLIP), this program maintains its holistic approach, addressing physical infrastructure needs and problems of access to social services in parallel. The integrated nature of the intervention is justified by research findings on human capital accumulation, which show that physical capital (access to services in housing) is a precondition both for human capital accumulation and for escaping poverty.¹² Sustainable capital accumulation requires: (i) connecting the different components of human and physical capital; and (ii) targeting and prioritizing the interventions.¹³
- 1.10 In this new stage, the program will also seek to maintain the line of action to revitalize rundown urban areas, which have ceased to be hubs and are falling into abandonment and disuse. The successful revitalization of the Goes neighborhood, in the center of Montevideo, financed partly by the first operation under the CCLIP (loan 2052/OC-UR), is included in this category.
- 1.11 **Achievements of neighborhood improvement programs in Uruguay.** Since 1999, the Bank has been working with Uruguay on programs to improve the quality of life of settlement residents. The first program of this kind, the Program for the Integration of Unregulated Settlements (known by its Spanish-language acronym, PIAI) (loan 1186/OC-UR), was approved in 1999. The CCLIP for neighborhood improvement (UR-X1003) has been active since 2008, with the first operation (loan 2052/OC-UR, Neighborhood Improvement Program I) approved in 2008 and now reaching the end of execution. These programs have made significant progress in terms of: (i) narrowing gaps in access to urban and social services in 97 settlements (equivalent to 11,381 households or 44,200 beneficiaries) and regularizing tenure in 42 projects; (ii) ensuring the integrated nature of program investments; (iii) strengthening the management capacity of the local governments to plan their physical and social investments, and coordinate the actions of different public agencies in the local area; and (iv) collaborate in mapping out public policies that prevent the emergence of new settlements by strengthening the Ministry of Housing, Land Management, and the Environment (MVOTMA).¹⁴
- 1.12 In 2011, a Population and Housing Census was conducted in Uruguay that yielded positive data in relation to settlement formation. According to studies,¹⁵ in the period 2006-2011: (i) the total number of settlements in the country decreased 11% from 662 to 589; (ii) the quantity of people living in settlements fell from 5.5% to

¹² “The stages of progress methodology, assets, and longitudinal trends: results from five year study in 236 communities of five countries.” Moser, C., 2006. “Asset accumulation policy and poverty reduction.” Solimano, A., 2006. “Asset accumulation by the middle class and the poor: economic considerations and the Latin American experience.”

¹³ The Bank’s Strategy for Housing and Urban Development (Operational Policy OP-751) reflects these issues.

¹⁴ The Bank’s projects made it possible to pilot and subsequently finance with internally generated resources housing policy instruments such as the rental guarantee fund and sites with services, among others.

¹⁵ Technical report, survey of unregulated settlements, initial results, Census 2011. INE/PIAI.

- 5%; and (iii) the average number of people per dwelling in these areas decreased from 3.6 to 3.4, reflecting both smaller household size and less overcrowding. Although these results are not directly attributable to the program, it can be called a determining factor in this change.¹⁶
- 1.13 In relation to the integrated nature of actions, there has been a systematic increase in coordination with social programs, through neighborhood development plans, and based on equipment either built or refurbished by the program. This suggests that the communities and local governments are obtaining better results from integrated interventions than from sector-level actions.
- 1.14 In terms of strengthening the local governments' management and programming capacity, provided through technical and financial support and the application of integrated planning with community participation, a consensus-based and applied methodology now exists for integrated interventions in settlements, which is becoming consolidated as an element of public policy.
- 1.15 **Challenges of the Neighborhood Improvement Program.** The main challenges still faced by the program are: (i) providing access to social and infrastructure services, and regularizing settlements not yet targeted; (ii) finalizing the processes of property title registration in the neighborhoods targeted; (iii) better addressing environmental issues in the settlements, particularly solid waste treatment in several communities; and (iv) coordinating the program activities with the new level of municipal government.
- 1.16 Considering the available budgetary funding allocated annually, it would take a total of 28 years¹⁷ to do away the settlements that can be targeted by the program.¹⁸ The level of budgetary funding allocated thus far is relatively low compared to investment needs. Unless current capacities and resources are increased, it will be impossible to address these needs in less time.
- 1.17 A lesson learned from this and other neighborhood improvement programs in Latin America is the existence of backlogged property titling processes. The natural cycle of the regularization process, which can only begin once the works have concluded, delays this process. Nonetheless, many families abandon the legalization process after receiving the right of tenure certificate issued by the local governments. One of the main reasons for this behavior is the price of individual property registration, and the high perceived cost of formality, in terms of paying for gas, water,

¹⁶ The regularization of 97 settlements was financed in the period addressed.

¹⁷ The current stock of households in settlements stands at 48,000. Of this total, the program can target 28,800 (60%). At an average intervention value per cost-efficient lot, that means a total investment of US\$570 million. Assuming fiscal space of US\$20 million per year with no new settlements being formed, it would take 28 years to eradicate them.

¹⁸ The program only targets settlements with specific features: over 20 years in existence, mostly in hazard-mitigable zones, close to service connections, on government-owned land.

electricity services, etc.¹⁹ The data show that none of the settlements targeted under the first CCLIP operation has been titled.²⁰ To overcome this backlog, in this second operation: (i) intermediate targets will be set for property rights (registration and legal tenure, applicable to the second and first operation, respectively); and (ii) the methodology of social work in support of the registration process will be strengthened. An agreement has also been signed with the Uruguayan notaries association to minimize registration costs.

- 1.18 An unsatisfactory outcome of previous programs has been the treatment of solid waste.²¹ In a recent sample of 10 targeted settlements, half of the population rated the problem of garbage accumulation due to poor management or lack of collection, as serious or very serious. Moreover, some of the economic activity in the settlements involves the recycling of solid waste. The neighborhood and community development component of this program will study and develop alternative methods to improve solid waste management. Special emphasis will be put on environmental education programs at the neighborhood level, emphasizing waste management and the adverse impacts of its incorrect disposal. Work will also be done with the local governments, which are responsible for solid waste management, to identify potential management systems and the possibility of using green points. The possibility of building specific infrastructure into the neighborhood for sorting activities will also be explored. These points will be included in the program Operating Regulations.
- 1.19 In September 2009, Law 18567 created a third, municipal, level of government. The municipios are led by an elected authority consisting of a mayor and five aldermen, and have taken on functions related mainly to the maintenance of roads and small public spaces, as well as certain social services and community relations. This program sees the municipio as a key player in areas related to its current roles, and will seek to strengthen their function and involvement in its actions.

1. Strategy of the Bank and the program

- 1.20 This operation is aligned with the Bank's country strategy with Uruguay 2010-2015 (document GN-2626), seeking to "to improve the provision of public services to the entire urban population through interventions comprehensively designed to coordinate systems and services through... investments in the revitalization of degraded areas and in unregulated settlements, mainly through improvements in public spaces, urban transportation, solid waste management, and public lighting, and in the prevention of new settlements." Moreover, the Sector Framework Document on Urban Development and Housing (document GN-2732-2), approved

¹⁹ Galiani, S., and E. Scharrotsky, 2010. "Property rights for the poor: effects of land titling." *Journal of Public Economics*, 94 (9-10): 700-729.

²⁰ Progress has been made on registration for loan 1186/OC-UR, and roughly 50% of the first CCLIP operation (loan 2052/OC-UR) is expected to be registered during this program.

²¹ Program evaluation (see [optional electronic link 4](#)).

in September 2013, specifies comprehensive urban interventions as one of the lines of action for the Bank's operational and research activities. It is also aligned with the objective of the Ninth General Capital Increase (GCI-9) in relation to poverty reduction and increasing the percentage of households with access to basic services, inasmuch as the program seeks to reduce the deficits in basic infrastructure and social services for the most vulnerable population groups. It also contributes to the Bank's target for lending to small and vulnerable countries.

- 1.21 The program's strategy to address backlogs in infrastructure and services for the country's settlements complements other interventions in the habitat and housing sector. Whereas the Neighborhood Improvement Program focuses on the settlements, other programs concentrate on addressing the housing deficit through the formal market.²²

B. Objective, components, and costs

- 1.22 **Objective.** The program's objective is to contribute to improve the living conditions of the resident population of unregulated settlements and rundown areas by enhancing household access to basic infrastructure and adequate social and urban services. It has three components, described below.²³

- 1.23 **Component I. Neighborhood improvement (US\$73.75 million): Subcomponent 1: Urban integration.** Actions will be financed to: (i) expand or improve infrastructure and basic urban services in the unregulated settlements; (ii) improve the surrounding environment; (iii) reduce the vulnerability of the population settled in natural disaster risk-prone areas; and (iv) provide or refurbish urban facilities and street furniture. The program will finance comprehensive interventions including: (i) basic urban infrastructure networks—drinking water, sanitary sewerage, storm drainage, paving of the road network, electrification, and street lighting—in addition to providing a basket of materials to facilitate individual bathroom and sewer network connections; (ii) construction, refurbishment, or upgrading of social infrastructure (community centers, childcare facilities, health centers, and/or childhood and family care centers (CAIFs), among others; and (iii) relocation of families within the neighborhoods, when necessary. The specific works in each settlement will be identified in the final designs prepared during program execution.

²² Housing policy in Uruguay is implemented through other programs such as: (i) provision of rent guarantees; (ii) credits for construction materials (the Credimat program); (iii) support for existing owners to maintain their dwelling with lending products for renovation and expansion; and (iv) access to housing for nonowner households by providing public housing, or the granting of subsidies and credits to housing cooperatives. See Garabato, N. and M. Ramada-Sarasola. "Are Uruguayan housing policies reaching the poor? An assessment of housing deficit, housing informality, and usage of housing programs in Uruguay." Technical Note IDB-TN-278.

²³ The list of eligible expenditures is part of the program Operation Regulations.

- 1.24 This operation is structured as a multiple-works program. Initially, 15 projects have been prioritized,²⁴ representing a total of 5,185 households in the departments of Montevideo (77%), Canelones, Rivera, and Salto (23%). These settlements, selected using the criteria set in the program Operating Regulations: (i) were identified and counted in the 2005/2006 Census of the National Institute of Statistics (INE); (ii) have a minimum of 40 lots, 75% of which are occupied with dwellings; (iii) are located in urban areas with over 7,000 inhabitants; (iv) do not occupy ecological reserve, environmental conservation, or archeological heritage areas, areas at risk of natural disaster, areas displaying irreversible levels of pollution of soil, water, air, or other environmental hazards; and (v) can be regularized on the current site.
- 1.25 **Subcomponent 2: Legalization/regularization of the property.** This subcomponent aims to assist families in the titling process, emphasizing the key milestones to security of tenure. It will finance technical and notarial assistance for the transfer of land ownership in the settlements benefited by the current program, the first CCLIP operation, and the remaining lots under program 1186/OC-UR. The expenditures related to this activity include the professional fees of notaries and social-sector teams, as well as the cost of registration and other activities involved in the process of regularization of the resident families' title to the property.²⁵ The goal is to deliver at least 1,500 property titles with the program.²⁶
- 1.26 **Subcomponent 3: Community development.** Community and social development actions will be financed to support the social/urban integration projects. The purpose of these actions is to guarantee effective participation by the settlement residents and their organizations in all phases of the project cycle. They include: (i) participatory diagnostic assessments to identify the vulnerabilities of the resident population by segment (older adults, children, young people, women, single mothers, and others); (ii) guidance and support for residents in accessing the different networks of social services offered in Uruguay, especially services for women; and (iii) community guidance in terms of environmental and health education (the use of sanitation equipment, maintenance of drains, collection and disposal of garbage, cleaning and restoration of hillsides, reforestation, training for environmental conservation), maintenance of housing, and other areas. The workshops and activities will be determined on the basis of the specific needs identified in each settlement.

²⁴ The PCU issues a call, and the local governments propose settlements meeting the program eligibility conditions set in the Operating Regulations, to be targeted on a first come, first served basis. A representative sample of eligible projects has been prepared, representing 22% of the loan amount.

²⁵ The steps in the process include: (i) registration of the settlement's lot subdivision plan at the National Cadastre Office; (ii) cadastre request from the local government for that each entity/lot to be registered; (iii) definition of the final list of beneficiaries and confirmation of property owners (program social-sector team); and (iv) presentation and approval of the titling by the departmental legislature.

²⁶ Of these, 36% are expected to be for households headed by women.

- 1.27 **Component II. Recovery of rundown urban areas (US\$19 million).** This component will finance the preparation of an integrated intervention strategy for urban and economic renewal, initially, of the La Unión and Villa Española neighborhoods and their immediate areas, as well as the investments arising from that strategy. The MVOTMA, will engage a consulting firm to develop the integrated intervention strategy and prepare one or more final designs, which are to be ready for implementation in December 2014. The targets, results, and implementation arrangements will be developed during the design process.
- 1.28 **Component III. Institution-strengthening (US\$2.45 million).** The institution-strengthening component seeks to improve the policy design and operational management capabilities of the local governments participating in the program. The component will finance technical assistance to build their capacity in settlement regularization processes and in the preparation of projects to be financed by the program, as necessary. Resources will also be earmarked to consolidate the monitoring and supervision system developed during the previous stage, and to generate knowledge on specific neighborhood improvement program topics, including a monitoring center for unregulated settlements.
- 1.29 **Administration, evaluation and monitoring (US\$4.8 million).** The operating costs of the program coordination unit (PCU) will be financed, which include fees, operating expenses, monitoring and evaluation (midterm and final evaluations), and audit of the program.
- 1.30 **Costs.** The project will be financed through an investment loan with a planned execution period of five years. The total cost of the second individual operation under the CCLIP is US\$100 million, US\$70 million of which will be financed with the Bank loan, and US\$30 million with the country's counterpart contribution.
- 1.31 The following table summarizes the program costs:

Table 1.2. Cost and Financing (US\$000s)

Component	IDB	Counterpart	Total	%
I. Neighborhood improvement	52,600	21,150	73,750	74
II. Recovery of rundown urban areas	13,000	6,000	19,000	19
III. Institution-strengthening	2,100	350	2,450	2
Administration, evaluation, and monitoring	2,300	2,500	4,800	5
Total	70,000	30,000	100,000	100

C. Key results indicators

- 1.32 The program's key results relate to habitat improvements in informal neighborhoods, to improve living conditions for their residents and reduce poverty in the most vulnerable segments of the population. The indicators and their projected values are presented in detail in the Results Matrix (see Annex II). The

outcome indicators include: (i) a rise in property values in the targeted areas; and (ii) the percentage combined coverage rate of social and basic urban services.

II. FINANCING STRUCTURE AND RISKS

A. Financing instruments

- 2.1 This operation is the second individual loan under CCLIP UR-X1003, structured as a multiple-works program.²⁷ The goal of the CCLIP is to contribute to improve the quality of life of residents of informal settlements and prevent the emergence of new settlements; its objective is to guarantee that residents of these settlements have access to habitable urban lots and adequate infrastructure and social and municipal services, to integrate them with the rest of the city.
- 2.2 **Disbursement schedule.** The planned execution period is five years, running from the effective date of the loan contract. The disbursement schedule is shown below.

Table 2.1. Disbursement Schedule (US\$ millions)

Source of financing/ Year	2014	2015	2016	2017	2018	Total
IDB	10.3	18.5	21.2	14.6	5.6	70.2
Local	1.0	4.5	11.1	7.3	5.9	29.8
Annual total	11.3	23.0	32.3	21.9	11.5	100.0
%	11	23	32	22	12	100

B. Environmental and social safeguard risks

- 2.3 The operation has been classified as category “B” under the Bank’s Environment and Safeguards Compliance Policy (Operational Policy OP-703) (see Annex IV). The activities expected to carry adverse environmental and social risks and impacts are those associated with construction and operation in the neighborhoods to be targeted. All the impacts and risks identified and analyzed for the construction stage (dust, noise, movement of machinery, workplace safety, etc.) can be mitigated with well-established measures. The potential environmental and social impacts and risks identified for the neighborhood operation stage relate to the management of solid waste and discharges of effluents/sewage. All of these can also be mitigated with well-established measures and support from the respective local governments.
- 2.4 The environmental and social analysis (ESA) was prepared during program preparation, along with its respective environmental and social management plan (ESMP) and resettlement framework. The key findings of the ESA and ESMP are contained in the environmental and social management report (ESMR). The project

²⁷ The program satisfies the conditions set in document GN-2246-4 for second stages of the credit line, namely: (i) the operation falls under the sectors and components defined under the credit line; (ii) the operation is included in the country program; (iii) the executing agency is the same; and (iv) at least 75% of project 2052/OC-UR funds have been committed, and has achieved good physical and financial execution.

is expected to generate positive social impacts during its operation. Additionally, no adverse social impacts are expected from family resettlement since this will take place within the same neighborhood. The executing agency, acting through the works contractors, will prepare and deliver the ESMP for the construction phase of each intervention to the Bank. In addition, the executing agency will build the environmental and social considerations described in the ESMR requirements into the project cycle; and, to strengthen the program's environmental management capabilities, the PCU will engage an environmental specialist for environmental monitoring and supervision of the program.

C. Fiduciary issues

2.5 **Fiduciary risk.** The operation's fiduciary risk is regarded as "low." Annex III contains the guidelines for financial management and procurement execution to be applied for project implementation. The same annex also describes the fiduciary agreements and requirements for the operation, which include the fiduciary context of the country and the executing agency, the institutional analysis of the executing agency, the risk workshop with staff of the participating entities, and meetings with staff of the executing agency and with the project team and key personnel of the participating entities.

2.6 **Procurement.** The procurement plan lists the program procurements, to be conducted in accordance with the policies established in documents GN-2349-9 and GN-2350-9. The plan describes: (i) the contracts for works, goods, and consulting services required for program implementation; (ii) the methods proposed for the procurement of goods and selection of consultants; and (iii) the procurement review procedures applied by the Bank. The borrower will update the procurement plan annually or according to the program's needs. Any proposed revision of the plan will be submitted to the Bank for approval.

2.7 **Retroactive financing and recognition of expenditures.** No retroactive financing or recognition of expenditures is anticipated.

D. Other key issues and risks

2.8 **Program risks.** Five risks were identified, four of which were assessed as medium severity and one as low severity. No high severity risks were identified. The details of the analysis are described in the risk matrix. The risks identified as medium severity were as follows: (i) during economic boom times in a small country such as Uruguay, there may be a shortage of construction firms interested in this type of works, which are inherently complex; (ii) the government changeovers at the national, departmental, and municipal level scheduled for 2015; (iii) the potential effects of exchange rate fluctuations and a rise in construction costs on program coverage; and (iv) nonperformance of future service providers in the neighborhood, which could impair the sustainability of the investments undertaken. A mitigation plan has been prepared for these risks, to be monitored during program implementation.

- 2.9 **Economic viability and the average value per lot targeted.** The economic evaluation took the form of a cost-benefit analysis of projects in a representative sample (see [optional electronic link 1](#)). This was based on a comparison of the incremental costs and benefits at efficiency prices in conditions with and without the project. The benefits were estimated on the basis of hedonic pricing theory (Rosen, 1974, Freeman, 1974). The key idea is that the value of a differentiated product (real estate property) can be broken down into the sum of the values of its attributes (size, features, location, infrastructure, access to services, etc.), so an improvement in those attributes will raise its price. The rise in property values resulting from the program's interventions was estimated on that basis.²⁸
- 2.10 The analysis, using a 12% discount rate and a 20-year evaluation horizon, yielded economic internal rates of return (EIRRs) for each project in the range of 31% to 70%, and 49% for the total sample. In addition, the sensitivity analysis showed that with a 6% increase in investment cost and an investment impact on property value appreciation of 94% of the benefits, simultaneously, the EIRR remains equal to or greater than the discount rate used, confirming the robustness of benefits to less favorable scenarios. The results obtained were used to calculate the cost-efficiency criterion that would ensure the project's economic return, setting a limit of US\$19,750²⁹ per dwelling benefited at market price. The program will finance up to 70% of this cost and up to 20% of resettlements per project.
- 2.11 **Financial and institutional viability.** The PCU has no significant institutional, technical, or financial weaknesses; its human resources are well qualified and have the experience necessary to administer the operation with subexecuting agencies. The areas where weaknesses have been found will be strengthened (mainly environmental). The analysis of current financial resources and their projection shows that the program's execution and the counterpart contribution are viable, since the counterpart resources will come from the national government itself and the participating departments. The subexecution agreements will serve as the binding instrument specifying the commitments of the aforementioned local contribution.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Eastern Republic of Uruguay. The Ministry of Housing, Land Management, and the Environment (MVOTMA) will serve as executing agency, acting through the program coordination unit (PCU). The PCU will be the central agency responsible for program coordination and the execution of all

²⁸ The property value appreciation was estimated as a function of the price elasticity obtained from a hedonic pricing model developed to measure the impact of the Neighborhood Improvement Program (loan UR-L1009) (Roche, April 2008).

²⁹ That limit, equivalent to UR\$447,831 as of June 2013, will be adjusted by the construction cost index at the time each project is evaluated.

- components. The local governments will act as subexecuting agencies. Evidence that a subexecution agreement has been signed between the executing agency and the participating local government on the terms agreed upon with the Bank will be a special execution condition for components I and II.
- 3.2 The projects will be proposed by the departmental governments, in accordance with the criteria and conditions described in the program Operating Regulations, the preliminary version of which was produced during program preparation. The program Operating Regulations states the responsibilities of the participating subexecuting agencies to be included in the subexecution agreements. **Evidence that the program Operating Regulations have been put into effect by the executing agency on the terms agreed upon with the Bank will be a special contractual condition precedent to the first disbursement.**
- 3.3 The PCU will be responsible for coordinating and executing the various actions and interventions, as well as for promoting communication and integration among the mechanisms involved in the program, and serving as liaison with the Bank. It will also be responsible for the operation's financial management. The PCU's main functions include: technical and operational coordination of the program, programming of interventions, approval and financing of projects, and supervision of formulation, execution, and evaluation.
- 3.4 As subexecuting agencies of component I, the departmental governments will be responsible for: (i) contracting consulting services to design the projects; (ii) formulating the projects for approval by the PCU and the Bank; (iii) contracting and supervising the project works and activities; (iv) approving works progress reports and certificates; and (v) managing payments with the PCU. Works supervision includes not only the infrastructure works but also the neighborhood development proposal, the task of property regularization, and subsequent works maintenance. Resources have been provided to build capacity of the departmental governments to handle the additional work involved in project execution.
- 3.5 The recently created municipal governments ("alcaldías") will also participate in the program, with functions related to societal oversight of the works and involvement as key players in the project design process.
- 3.6 [Optional electronic link 5](#) contains a table describing the roles and responsibilities of each of the parties throughout the project cycle of the neighborhood improvement component. The implementation arrangements for component II will be determined during its final design. Component III will be executed by the PCU.
- 3.7 **Audits.** The PCU will deliver the program's audited financial statements annually during execution, on the terms required by the Bank in its financial management policies. These audited financial statements will be delivered no later than 120 days after the end of the fiscal year. The closeout audit reports for the program will be delivered no later than 120 days after the last disbursement.

3.8 **Disbursements.** The loan will be disbursed under the advance of funds modality, with a frequency determined on the basis of effective financial programming and consistency with other financial and planning instruments such as the annual work plan (AWP) and the procurement plan. The Bank may make fresh advances of funds, preferably once every six months, provided that at least 80% of the total of funds previously advanced has been justified.

B. Summary of arrangements for monitoring and evaluating results

3.9 The monitoring and evaluation plan will track program implementation in relation to the targets and progress indicators specified in the Results Matrix. A reflexive methodology will be used to evaluate the program's expected outcomes, measuring the impact of the program's interventions on: (i) the value of housing in the targeted areas; and (ii) the coverage of basic urban and social services both before and after the intervention. The evaluation will also draw on knowledge relating to implementation of the urban renewal project of component II, as well as capacity building of the entities involved and the application of urban renewal methodologies used. The evaluation will be based on an agenda and terms of reference agreed upon with the Bank. The evaluation budget was agreed upon with the executing agencies and is included in the program monitoring and evaluation annex, as part of the monitoring and evaluation plan (see [required electronic link 3](#)). An ex post economic evaluation will also be performed, to verify realization of the assumptions that guided the design of the intervention.

Development Effectiveness Matrix			
Summary			
<i>I. Strategic Alignment</i>			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	i) Lending to small and vulnerable countries, and ii) Lending for poverty reduction and equity enhancement.		
Regional Development Goals	i) Paved road coverage (Km/Km ²), ii) Percent of households with electricity, and iii) Proportion of urban population living in dwellings with hard floor.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Households with new or upgraded water supply, ii) Households with new or upgraded sanitary connections, iii) Km of inter-urban roads build or maintained or upgraded, iv) Km of electricity transmission and distribution lines installed or upgraded, v) Number of households with new or upgraded dwellings, and vi) Municipal or other sub-national governments supported.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2626	To improve living conditions for the urban population.	
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
<i>II. Development Outcomes - Evaluability</i>	Highly Evaluable	Weight	Maximum Score
	8.3		10
3. Evidence-based Assessment & Solution	8.4	33.33%	10
4. Ex ante Economic Analysis	10.0	33.33%	10
5. Monitoring and Evaluation	6.5	33.33%	10
<i>III. Risks & Mitigation Monitoring Matrix</i>			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B		
<i>IV. IDB's Role - Additionality</i>			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: i) Budget, ii) Treasury, iii) Accounting and reporting, and iv) Internal audit.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	Program activities are geared towards promoting gender equality throughout all phases of the project cycle, by means of participatory planning processes to supervision of the works. Also, there is a clear goal and actions to guarantee joint ownership or female head of household ownership when this is applicable. Finally, the program is sensitive to women specific needs and as such the social programs promoted in the neighborhoods are related to womens' health, education and access to labor opportunities.	
Labor			
Environment	Yes	The upgrading efforts will considerably improve the living conditions of its dwellers and the enviroment, by preventing flooding, treating sewage waste, promoting solid waste recycling and adequate disposal of non recyclable materials, among other measures.	
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Many consultancies were hired during the design stage, and also a workshop on how to create safe spaces through environmental design was held for public and private sector actors.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The objective of the program is to improve the quality of life of the population living in settlements and degraded areas, ensuring basic infrastructure and adequate social and urban services to the households. The diagnosis is clear, the country is highly urbanized but there is still a significant percentage of the population living in areas called settlements, with a lack of access to basic services and without security of tenure. These areas are characterized by lack of adequate sanitation and drainage, poor road networks, limited access to public transport and low environmental quality, coupled with irregular property that limits the value of household assets and mobility.

The program has a clear logic, the results matrix has SMART indicators for outcome and products, however there are no baselines and targets for most of the specific indicators of works, making it difficult to relate the magnitude of the specific deficiencies of households (drinking water, sanitation, storm drains, lighting, etc.) with the expected targets of the program. The intervention has an economic analysis that identifies the expected benefits and costs of the intervention based on a representative sample projects. The estimate of benefits is based on hedonic price theory .

The program has a monitoring and evaluation plan that includes an ex-post cost-benefit analysis and a reflexive evaluation to verify the efficiency of the operation once achieved the expected results and taking the real costs of the intervention.

RESULTS FRAMEWORK

Objective: To contribute to improve the living conditions of the resident population of unregulated settlements and rundown areas by enhancing household access to basic infrastructure and adequate social and urban services.

OUTCOMES	Unit of measure	Baseline		Final target		Source/Mean of verification/Comments
		Value	Year	Value	Year	
Average value of housing in the targeted settlements	Constant US\$ per dwelling	9,000 ¹	2013	13,500	2018	Source and means of verification: ² Surveys to be conducted in 2013 and 2018 to determine the real estate value of the housing located in the targeted areas.
Households with access to the set of basic residential services (drinking water, sanitation, street lighting, electricity, road access, and legal possession/title)	% of Households	0	2013	90	2018	Source: Six-monthly reports, final evaluation. Means of verification: Final approval of works

INDICATORS	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/Mean of verification
Component 1. Neighborhood improvement									
Output indicators. Design and monitoring									
Neighborhood surveys and diagnostic assessments completed	Diagnostic assessment	0	2	8	0	0	0	10	Source: Six-monthly reports Means of verification: Initial censuses and reports

¹ The baseline value is obtained by updating the results of the survey performed in late 2007 in the Pando and Montevideo settlements using the construction cost index, to estimate a hedonic pricing model. This value is also compatible with the estimate for the economic evaluation, based on data from the 2011 Ongoing Household Survey (ECH) implemented by the National Institute of Statistics (INE). This program will conduct a survey to determine the real estate value of the housing before and after the program interventions.

² This indicator is used as a general proxy for the quality of life, because the market price is an indicator of service quality/access, both for the housing itself and for the services in the neighborhoods where it is located. The key idea is that the value of a differentiated product (real estate property) can be broken down into the sum of the values of its attributes (size, features, location, infrastructure, access to services, etc.), so an improvement in those attributes will raise its price.

INDICATORS	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/Mean of verification
Eligible final designs ready for execution ³	Final design	0	0	2	7	2	0	11	Source: Six-monthly reports Means of verification: No objection to the final design
Projects subject to physical monitoring and societal oversight from approval to the post-works stage	Projects	0	0	0	4	7	2	13	Source: Six-monthly reports Means of verification: Final report
Output indicators. Works execution									
Households with access to the set of basic residential services (drinking water, sanitation, street lighting, electricity, road access, and legal possession/title)	Households	0	0	277	327	778	3,803	5,185 ⁴	Source: Six-monthly reports Means of verification: Final systemization report Corresponds to households in upgraded settlements
Physical works projects executed (water, sanitation, paving, etc.)	Projects	0	0	3	2	7	3	15	Source: Six-monthly reports Means of verification: Final systemization report
Households with access to drinking water ⁵	Households	n/a							Source: Six-monthly report Means of verification: Project master file based on census data and final design.
Households with access to sanitation	Households	n/a							Source: Six-monthly report Means of verification: Project master file based on census data and final

³ A project is considered eligible once the Bank has stated its no objection to the project master file prepared by the PCU, showing that the eligibility conditions are met. An eligible final design includes the final design for the works, technical specifications for competitive bidding, and the design and implementation of the neighborhood development project.

⁴ The values used are taken from: (i) the 15 settlements to be targeted by the program, representing 1,747 households; and (ii) 3,438 households targeted in the informal area of La Paloma and Pando Norte, including both formal and informal residents. An informal area is defined as a part of the city that contains two or more informal settlements with shortfalls in or any or all basic urban infrastructure services, where frequently there are also deficits in social services, or major difficulties in accessing them.

⁵ The baseline and final target for the indicators of drinking water, sanitation, storm drainage, street lighting, electricity, roads, relocations, bathroom and connections, and community facilities, will be surveyed for each project individually. The indicator for the baseline is obtained at the time of performing the settlement census; and for the final target when the final design is available.

INDICATORS	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/Mean of verification
									design.
Households with access to storm drainage	Households	n/a							Source: Six-monthly report Means of verification: Project master file based on census data and final design.
Households with street lighting	Households	n/a							Source: Six-monthly report Means of verification: Project master file based on census data and final design.
Households with access to electricity	Households	n/a							Source: Six-monthly report Means of verification: Project master file based on census data and final design.
Kilometers of roads improved or built	Km	n/a							Source: Six-monthly report Means of verification: Project master file based on census data and final design.
Households relocated or resettled	Households	n/a							Source: Six-monthly report Means of verification: Project master file based on census data and final design.
Dwellings with bathrooms and indoor sewer network connections installed	Dwellings	n/a							Source: Six-monthly report Means of verification: Project master file based on census data and final design.
Community facilities rehabilitated and/or built, and functioning within the settlement or surrounding area (community centers, health centers, childcare centers, etc.).	Equipment	n/a	0	3	2	7	3	15	Source: Six-monthly report Means of verification: Project master file based on census data and final design.

INDICATORS	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/Mean of verification
Output indicators. Legalization									
Households with legal possession ⁶ six months after provisional acceptance of works	Households	0	0	277	327	778	3,803	5,185	Source: Six-monthly reports Means of verification: Notice of right of tenure issued by the local government (“intendencia”) and registered in the six-monthly report in the name of each beneficiary
Number of lots registered from previous programs and the current program ⁷	Lot	0	300	300	300	300	300	1,500	Source: National Registry Office Means of verification: Registered title deeds
Lots registered or with legal possession in the name of women or man/woman jointly	Lots	0	210	210	210	210	210	1,050	Source: National Registry Office Means of verification: Registered title deeds
Output indicators. Community development									
Settlements with neighborhood development project implemented ⁸	Settlements	0	0	3	2	7	3	15	Source: Six-monthly reports Means of verification: Bimonthly reports on neighborhood development projects

⁶ Legal possession means holding a formal document recognizing the family’s right of tenure.

⁷ As with other programs, registration processes have been slow, so the previous programs (loans 1186/OC-UR and 2052/OC-UR) have not completed this task in all of the regularized settlements. This program has made changes to the registration processes, to make them more efficient, and includes strong social support and an agreement with the Uruguayan notaries association to viably complete the process. The 1,500 registrations represent approximately 50% of the interventions completed under program 2052/OC-UR.

⁸ These projects relate to human and social capital strengthening activities for the community and its organizations, conducted by the consulting firms responsible for design and implementation of the projects. Examples of these activities might include: (i) formation of working committees to define and supervise the works (works supervision committee, relocation committee, neighborhood committee to support the technical team); (ii) coordination and steering of the community toward programs to serve the needs of specific groups, such as young people, women, older adults, etc., offered by entities responsible for providing social services in health, education, work, recreation, etc. (i.e., promotion of access to job training programs for young people, support programs to prevent school dropout, after-school programs; for women: job training programs, nutrition or health training, programs of access to social services, etc.); and (iii) workshops on environmental education, use of sanitation, home maintenance, construction, etc.

INDICATORS	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/Mean of verification
									Means of verification: Bimonthly reports on neighborhood development project execution.
Works supervision committees with at least one woman representative	Committee	0	0	3	2	7	3	15	Source: Six-monthly reports Means of verification: Bimonthly reports on neighborhood development projects
Information and awareness campaign ⁹ on services for women (health, domestic violence, training, employment, etc.).	Campaign	0	0	3	2	7	3	15	Source: Six-monthly reports Means of verification: Bimonthly reports on neighborhood development projects
Component 2. Integrated urban interventions in rundown areas									
Output indicators									
Urban renewal project designed ¹⁰	Project	0	1	0	0	0	0	1	Source: Six-monthly reports
Renewal project concluded	Project	0	0	0	0	0	1	1	Means of verification: Signed contracts and physical progress of works

⁹ An information or awareness campaign can take the form of events or workshops organized specifically to publicize the services available for women, whether in the neighborhood or the surrounding area. This campaign can also be supported by graphical/audiovisual material that can be displayed in the community facility or distributed door-to-door to the families. Materials produced by the line ministries (education, health, employment, etc.) can also be used, and community consultation bodies can be used to disseminate this information.

¹⁰ The specific output indicators will be added when we have the project design and its specific urban actions (e.g. interventions in public spaces, restoration of building facades, community initiative funds).

INDICATORS	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source/Mean of verification
Component 3. Institution-strengthening									
Output indicators									
Subnational government strengthened for program execution	Local governments /municipios	0	3	3	3	3	3	3 ¹¹	Source: Six-monthly reports Means of verification: Signed contracts
Training activities for local governments, consulting firms, PCU technical staff, and others.	Activities	0	2	2	2	2	2	10	Source: Six-monthly reports Means of verification: PCU reports
Information system improved in areas related to the physical and financial/visibility cycle of the interventions, and information for the Neighborhood Improvement Program monitoring center.	System	0	1	0	0	0	0	1	Source: Six-monthly reports Means of verification: PCU reports

¹¹ The program will work with three local governments (“intendencias”) in total, which will receive support in each year of the program. The target is therefore 3, not 15.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Uruguay
Project number:	UR-L1084
Name:	Neighborhood Improvement Program II
Executing agency:	Ministry of Housing, Land Management, and the Environment (MVOTMA)
Prepared by:	Fiduciary team (Pablo Puente and David Salazar)

I. FIDUCIARY CONTEXT OF THE COUNTRY

- 1.1 The fiduciary agreements and requirements specified for this program are based on the Country Financial Accountability Assessment (CFAA) for Uruguay, performed in 2005, supported by knowledge of the executing agency, which is the Ministry of Housing, Land Management, and the Environment (MVOTMA), and the Program Coordination Unit (PCU), which have been responsible for loan 1186/OC-UR for the integration of unregulated settlements (concluded in 2011) and the currently executing loan 2052/OC-UR, Neighborhood Improvement Program I.
- 1.2 Fiduciary risk in Uruguay is considered low, and the likelihood of public or donor funds being used for unauthorized purposes is small. Public finance management in Uruguay is generally considered responsible and transparent, although certain processes can be somewhat slow or bureaucratic. Studies done in 2005 and 2008 show that corruption is not perceived as a problem; and, in relation to public procurement, although Uruguay has a recognized legal and institutional framework and a sound legal base, its weaknesses lead to inefficient practices that make processes less cost-effective. The country's procurement risk is regarded as "medium."
- 1.3 The estimated cost of the program will be US\$100 million, US\$70 million of which million will be financed by the Bank, and US\$30 million by the local counterpart. The borrower and guarantor of the operation will be the Eastern Republic of Uruguay, and the executing agency will be MVOTMA, acting through the PCU. The PCU has an effective structure and organization, and will be responsible for administering the resources of the operation and ensuring timely provision of the local counterpart funding.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 In terms of fiduciary management, the executing agency is regarded as “low risk,” a perception that has matured in recent years. The key considerations are:
- a. The PCU has sufficient experience in managing this type of project, as demonstrated by the execution of operations 1186/OC-UR and 2052/OC-UR.
 - b. It has solid prior experience in procurement and contracting processes according to Bank policies, and has performed adequately under both review modalities (ex ante and ex post).
 - c. Its administrative and financial processes, and the general internal control environment are deemed sound; and audit reports and financial visits historically have contained no reservations or observations raising major concerns.
 - d. The recent project risk management (PRM) exercise undertaken by staff from the executing agency, resulted in a low risk profile on financial issues.
 - e. Procurement risk is rated medium, owing to a shortage of construction firms and consulting firms with the experience needed to work on the program. Nonetheless, mitigation measures have been proposed that should minimize the occurrence of delays for this reason.
- 2.2 The project would operate with the following country systems:
- a. *Budget:* The project and its corresponding credits will be included in the five-year national budget, as part of the MVOTMA budgetary appropriation;
 - b. *Treasury:* The program will use the General Treasury Account at the Central Bank of Uruguay (BCU), which is a registered account;
 - c. *Accountability and financial reports:* Program accounting will use the recently implemented module of the International Project Management System (SPI), which is integrated with the expenditure execution model of the SIIF integrated financial information system;
 - d. *Internal control:* The PCU operates in a satisfactory internal control environment and, as part of the MVOTMA, is subject to oversight by the National Internal Audit Office (AIN); and,
 - e. *External control:* External audits will be performed by a firm of independent auditors eligible for the Bank. Moreover, the Tribunal de Cuentas de la República [State Audit Office] (TCR) maintains preventive control of expenditure as part of its oversight responsibilities.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The operation’s fiduciary risk profile was rated low by the project risk management (PRM) workshop. In the event of a lack of firms with experience to work on the program, a situation rated as medium risk, mitigation actions are

proposed, such as adequate planning and coordination with the construction industry and consulting firms.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 Considerations for the special provisions are as follows:
- a. *Exchange rate:* For the conversion from local currency and the corresponding accounting in dollars, the “pesification” criterion will be used, i.e., the exchange rate used to convert the funds disbursed.
 - b. *Financial statements:* These will be presented at the end of each year, audited by an independent firm eligible for the Bank. The external auditors will also report on the review of disbursement processes and requests, evaluation of the internal control environment, and fulfillment of the contractual clauses of the loan.
 - c. *Bank accounts:* For management of the operation, a registered account will be opened at the BCU, as well as an operating account at Banco de la República Oriental del Uruguay (BROU) for disbursements.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The procurement policies applicable for this loan are those contained in documents GN-2349-9 and GN-2350-9.

1. Procurement execution

- 5.2 The procurement plan for the first 18 months will be processed through the Procurement Plan Execution System (SEPA) prior to the start of procurements. The procurement plan will be updated at least annually by the executing agency.
- 5.3 The relevance of the expenditure, i.e. the terms of reference, technical specifications, and budget, is the responsibility of the project’s sector specialist and always requires prior no objection, with respect to the start of the procurement itself, and under PTL operational criteria.

2. Procurement of works, goods, and nonconsulting services¹

- 5.4 Program contracts requiring international competitive bidding (ICB) will be conducted using the standard bidding documents (SBDs) issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be conducted using national bidding documents satisfactory to the Bank.
- 5.5 Without detriment to the relevant Bank policies, direct contracting may be used for technically simple and low-cost inputs and services, up to a maximum of US\$5,000 or equivalent.

¹ “Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank” (document GN-2349-9), paragraph 1.1: Nonconsulting services are treated as goods.

5.6 Procurement of information technology systems: No need for specific advisory services from within the Bank or elsewhere is anticipated at this time.

3. Procurement and selection and contracting of consultants

5.7 Consulting firms. Consulting firms will be selected and contracted in accordance with the Bank's policies. Invitations with international publicity (for amounts above US\$200,000) will be subject to ex ante review.

5.8 Selection of individual consultants.² The individual consultants engaged to form the execution unit of this project may be the same as for the execution unit of project 2052/OC-UR, thereby taking advantage of the capabilities developed during the previous projects. In such case, they will be engaged by direct contracting, and their costs will be reflected in administration costs. The same contracting modality will apply for certain individual consultants engaged previously for the first phase of this CCLIP operation, who are fully identified in the procurement plan. In addition, contracting through the services of the United Nations Development Programme (UNDP) is also anticipated, under the terms of the current agreement.

4. Training

5.9 No need for specific contracting of this type is anticipated at this time. If necessary, selection and contracting will be conducted using the appropriate competitive methods.

5. Advance procurement/retroactive financing

5.10 **Retroactive financing and recognition of expenditures.** No retroactive financing or recognition of expenses is anticipated.

Table of thresholds amounts for Uruguay
(US\$000s)

Works			Goods ³			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity	Short list 100% national
≥ 3,000	250 to 3,000	≤ 250	≥ 250	50 to 250	≤ 50	≥ 200	< 200

² Pursuant to Section V of the Bank's policies (document GN-2350-9), no short list is required, and the standard RFP will not be used.

³ Includes nonconsulting services.

Works	Goods ³	Consulting services
Threshold for ex post review, project UR-L1084 (US\$000s)		
Works	Goods and nonconsulting services	Consulting firms and individual consultants
<ul style="list-style-type: none"> • Shopping up to US\$250 • NCB up to US\$3,000 	<ul style="list-style-type: none"> • Shopping up to US\$50; • NCB up to US\$250 	<ul style="list-style-type: none"> • Firms with quality- and cost-based selection (QCBS) up to US\$200 (national competitive invitations) • Individual consultants up to US\$60 per contract

6. Main procurements

- 5.11 The procurements for the first 18 months are listed in the procurement plan and do not involve technical complexity or procedures that warrant special attention or provisions.

7. Procurement supervision

- 5.12 The initial review method is ex post, but this may be altered by agreement, with any such changes being recorded in the procurement plan. Procurements involving ICB and consulting services in excess of US\$200,000 will be subject to ex ante review.
- 5.13 The ex post review reports will involve a small number of inspection visits.⁴ Given the executing agency's low risk profile, these visits will be replaced by a verification during the ex post reviews of the goods and works delivery documents. Should these be missing, a physical verification will be performed.

VI. FINANCIAL MANAGEMENT

1. Programming and budget

- 6.1 The MVOTMA sends its budget proposal to the Ministry of Economy and Finance (MEF) for inclusion in the draft consolidated national budget. The MEF then forwards it for approval by the Office of the President, after which it is sent to the legislature for analysis and constitutional approval.
- 6.2 The executing agency will demonstrate to the Bank that the local counterpart funding has been authorized for the first year of implementation at the time of fulfillment of the conditions precedent, and thereafter annually during program execution (by end-February).

2. Accounting and information systems

- 6.3 The program will keep its accounts in the new SPI accounting module, which is linked to the SIIF. Budgetary credits are allocated and executed through the SIIF

⁴ The inspection verifies the existence of procurements, leaving verification of quality and compliance with specifications to the sector specialist.

of the Contaduría General de la Nación [General Accounting Office] (CGN); and project-related commitments and payments will follow the procedures defined by the CGN and UNDP.

- 6.4 Financial statements for the project will be issued regularly, in accordance with Generally Accepted Accounting Principles, and will be audited annually by an independent audit firm. The following financial statements will be delivered: (i) statement of cash received and disbursements made; (ii) statement of cumulative investments; (iii) statement of assets and liabilities; and (iv) explanatory notes to the financial statements.

3. Disbursements and cash flow

- 6.5 For the execution of program funds, a special registered account will be opened at the BCU. An operational bank account will be opened at BROU for the management of program resources.
- 6.6 Disbursements will be made in the form of advances of funds, based on the program's projected liquidity needs, which must also be supported by the annual work plan (AWP) and the procurement plan. These advances of funds will preferably be made once every six months, after accounting for at least 80% of amounts previously advanced. The disbursement request will be accompanied by the financial planning and reconciliation of funds. Disbursements will be processed using the online (e-disbursement) mechanism. It is agreed that payments made in local or other currencies will be converted into U.S. dollars using the "pesification" exchange rate.

4. Control and internal audit

- 6.7 Pursuant to the Amended Code of Accounting and Financial Administration (TOCAF), the TCR will preventively review all expenses related to program implementation; in addition, the PCU will be subject to AIN control pursuant to current regulations.

5. External control and reports

- 6.8 The external audit will be performed by a private firm eligible for the Bank. In the past, the PCU, which has been responsible for two previous programs with the Bank, has delivered its reports on a timely basis, and the auditors have always issued an unqualified opinion on those programs without significant observations.
- 6.9 The financial audit reports will be delivered annually by 30 April of the following year throughout the disbursement period. Subject to the Bank's prior no objection, the terms of contracting between the executing agency and the audit firm can be financed out of operation resources.

6. Financial supervision plan

- 6.10 The financial supervision plan contains the following points:
- a. Participation in the launch workshop identified by the project team, making a brief presentation on key fiduciary topics.

- b. Review of conditions precedent of a financial nature (financial management and internal control system, contracting of the external audit, demonstration of budgetary appropriations).
- c. Review of the AWP and initial financial plan prepared by the execution unit, to support the first advance of funds to be requested once the program has been declared eligible. Thereafter, updates and consistency with the procurement plan will be reviewed during the implementation phase.
- d. One financial visit per year during program execution, to evaluate the main financial aspects of control and management of project files. Disbursements will be subject to ex post review.

7. Execution mechanism

- 6.11 The borrower for this program will be the Eastern Republic of Uruguay. MVOTMA, acting through the PCU, will serve as executing agency with basic responsibility for the project and direct dealings with the Bank, and will coordinate with other project stakeholders.