

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	GUATEMALA/CID - Isthmus & DR
▪ TC Name:	Structuring and Co-financing of the CA-9 North Corridor
▪ TC Number:	GU-T1296
▪ Team Leader/Members:	ALEM, MAURO (INE/TSP) Team Leader; CORTES FORERO, RENE ALEJANDRO (INE/TSP) Alternate Team Leader; CASTRO OTTO, RODRIGO ISMAEL (VPC/FMP); BARRAGAN CRESPO, ENRIQUE IGNACIO (LEG/SGO); HIDROVO, MARCELA VANESSA (VPC/FMP); BALADI RODRIGUEZ, AZIZ (INE/TSP); AOKI, ISSEI (INE/ENE); TORRES GRACIA, DANIEL (INE/TSP); NOBOA LOPEZ, NATHALY SOFIA (INE/TSP); LIBBY HERNANDEZ, MARGARITA (INT/TIN); ESQUIVEL GALLEGOS, MARICARMEN (CSD/CCS); SOSA VILLATORO, ANA AYME (CSD/CCS); LEFEVRE, BENOIT JEAN MARIE (CSD/CCS); ROSA DA SILVA CRUVINEL, RODRIGO (INE/TSP); SAMAYOA, JORGE OMAR (CSD/CCS); ESCOVAR BERNAL, MARIA ALEJANDRA (CSD/RND); VIEITEZ MARTINEZ, DANIEL (VPC/002); SUAREZ ALEMAN, ANCOR (VPC/002); FIORAVANTI, REINALDO DANIEL (INE/TSP)
▪ Taxonomy:	Operational Support
▪ Number and name of operation supported by the TC:	CA-9 Road Corridor Development - GU-L1170
▪ Date of TC Abstract:	04 Dec 2020
▪ Beneficiary:	Ministry of: Communications, Infrastructure and Housing (CIV); Public Finance (MINFIN)
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$450,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	30 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	INE/TSP - Transport
▪ Unit of Disbursement Responsibility:	INE/INE - Infrastructure and Energy Sector
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation ; Economic integration; Institutional capacity and rule of law; Environmental sustainability; Gender equality; Diversity

### II. Objective and Justification

- 2.1 The objective is to support the structuring of the CA-9 North Corridor project with the development of technical studies to: (i) improve designs of highway expansion works and strengthen socio-environmental standards and climate resilience management, in the project, and at the institutional level; and (ii) promote co-financing in a new execution structure to extend the project to Puerto Barrios, evaluating alternatives schemes such as public administration, concession, lease, and PPP model.
- 2.2 The Government of Guatemala requested support from the Bank to expand to 4 lanes of the CA-9 North, to reduce logistic costs of exports and improve trade conditions for national and foreign investment. The CA-9 North section of this corridor is of vital

importance for the country's exports. In contrast to the southern section (CA-9 South "A") that connects Guatemala City with Puerto Quetzal and is the main route for imports, the expansion of the northern section has not been completed (only a third have 4 lanes). The expansion of the CA-9 South was completed in record time under an alternative model of private participation, where the government – Dirección General de Caminos (DGC) – designed and funded construction works with proceeds from (i) sovereign loan and (ii) tolls revenues charged to users. This operation aims to support DGC to replicate this successful experience. The Bank is preparing a US\$129,9 million loan (GU-L1170) to fund construction works in 34,23km of the section El Rancho – Mayuelas (80,45km) of the CA-9 North. This TC will finance technical studies to support DGC to (i) review engineering designs to include climate resilience and socioenvironmental aspects, and (ii) evaluate alternative road management models to optimize the use of public funds. The CA-9 North expansion represents significant challenges for the Ministry of Communications, Infrastructure and Housing (CIV), and its road execution entity (DGC). Among them is the need to invest resources and allocate specialized technical staff to evaluate alternatives to achieve detailed engineering designs and anticipate land acquisition, together with observing appropriate socio-environmental safeguard standards and guidelines to develop a resilient and sustainable infrastructure over the entire life cycle of the project. Another challenge is the high investment cost to expand to 4 lanes the CA-9 North to Puerto Barrios, estimated in over US\$600 million. To minimize its fiscal impact, together with a phased approach, alternative schemes to create new funding sources will be studied, such as road management schemes that may include tolls to (cargo) users will be studied. New funding sources to cover maintenance costs may also contribute to fund construction, attracting other development banks, donors and potentially market financing. DGC will be assisted by the Dirección de Concesiones y Desincorporaciones (DCD) of the CIV to assess alternative road management models. Guatemala faces major challenges arising from the loss of competitiveness of its exports, which have been stagnating since 2011 (in 2020 it was US\$11,5 Billion, 10% more than 2011). Although other factors impact competitiveness, the investment lag in the CA-9 North Corridor has a considerable impact. Travel costs increased (now representing 40% for SMEs) due to the lack of protection of the right-of-way in the corridor, which generated "bottlenecks" at intersections with towns, ultimately causing significant economic losses due to longer travel times with their consequent impact on pollution and reduced quality of life for the population. This operation will support the structuring of the corridor expansion with a view to maximizing the opportunity to commit additional resources from other entities at costs comparable to those of the Bank.

### **III. Description of Activities and Outputs**

- 3.1 **Component I: Climate resilience and socioenvironmental impacts.** It includes the review of engineering designs prepared by DGC in the following aspects: (i) right of way and potential social impacts and land acquisitions; (ii) additional environmental studies; (iii) measures to improve resilience to climate change and disasters; and (iii) strategy to promote job creation in transport sector that considers inclusion (diversity) and contributes to mitigate gender-based violence issues, including dissemination activities to publish a report with lessons learned
- 3.2 **Component II: CA-9 Corridor management model studies.** It considers: (i) review, comparison and analysis of alternative management models for CA-9 Corridor; (ii) transit studies and preliminary schedule of fiscal contributions; (iii) training and strengthening of CIV, including benchmarking of alternative private participation models (concession/lease, PPP); and (iv) dissemination material (Technical Note) and intraregional events to share results and lessons learned in the expansion of the CA-9 North Corridor

#### IV. Budget

##### Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Climate resilience and socioenvironmental impacts	US\$250,000.00	US\$0.00	US\$250,000.00
CA-9 Corridor management model studies	US\$200,000.00	US\$0.00	US\$200,000.00
<b>Total</b>	<b>US\$450,000.00</b>	<b>US\$0.00</b>	<b>US\$450,000.00</b>

#### V. Executing Agency and Execution Structure

- 5.1 The Bank will be the executing agency. The activities will be coordinated by INE/TSP, in collaboration with Infrastructure and Energy Sector (INE/INE) and Environmental and Safeguard Unit (VPS/ESG). INE/INE will act as the Basic Responsibility Unit (UDR) of these contracts.
- 5.2 At the request of the beneficiary, the Bank will be the executor of this TC. This modality is justified by the different actors who are beneficiaries of the TC: Road Department (DGC), Concessions Department (DCD), Ministry of Communications, Infrastructure and Housing (CIV) and Ministry of Public Finance (MINFIN). It is worth mentioning that the activities of the Component II will be carried out in coordination with the DCD due to its leadership in the success execution of the public construction/private operation concession model of the CA-9 South, based on sovereign funding to construct a first phase (23,5km) and a private concession to operate it and charge users to fund construction of the second phase.
- 5.3 The TC will be executed by the Bank, and the studies will be carried out by consultants. The Bank will be responsible for: (i) identifying the studies and technical work necessary to structure the project with climate resiliency and fiscal sustainability standards; (ii) select consultants to provide the necessary services; and (iii) manage the execution and delivery of consulting services. The activities will be carried out in coordination with the Beneficiary.
- 5.4 This process will be in accordance with the Policy for the selection and contracting of consulting firms for the operational work carried out by the Bank (document GN-2765-1 and OP-1155-4), the Complementary Policy for the workforce (AM-650) and the Institutional Procurement Policy (document GN-2303-20).

#### VI. Project Risks and Issues

- 6.1 The development of road concessions faces significant risks of approval in Congress and challenges in relation to the institutional structure of the CIV. The emergence of the National Agency for the Development of Economic Infrastructure (ANADIE) through Public-Private Partnerships (PPPs) models has not solved the institutional challenge. The strategy of this TC is to develop the CA-9 North Corridor by replicating the simple concession model used successfully in the past. The activities of the Component II and the undergoing strengthening of the CDC (it was recently promoted from Unit to Department level of the CIV) will serve as a basis for evaluating and adapting the use of this model to the context of the CA-9 North Corridor, and potentially to other expansion projects in the Central American road network of the country. Another issue that presents a critical risk to the project is the ability of the CIV to select and create at the initial stage of the TC a group of key public officials to overcome multiple challenges in implementing private participation in transport

infrastructure in the country. Thirdly, TC resources will finance studies to achieve best practices in managing land acquisition (if needed) and socio-environmental safeguards and best practices.

- 6.2 There is a risk that the project preparation is impacted by restrictions imposed to prevent COVID19 pandemic, delaying field visits, data collection and meetings with the beneficiary. To mitigate that risk, the team involved in the preparation of the loan is holding close dialogues with the government and with the Bank's office in Guatemala, to identify and mitigate possible bottlenecks and develop strategies to reduce potential negative impacts on the project and consultancies' schedule.

## **VII. Environmental and Social Classification**

- 7.1 The ESG classification for this operation is "B".