

PROGRAM TO IMPROVE HIGHWAY CORRIDORS IN PARAGUAY

(PR-0035)

EXECUTIVE SUMMARY

BORROWER: Republic of Paraguay

EXECUTING AGENCY: The Ministry of Public Works and Communications
[Ministerio de Obras Públicas y Comunicaciones]
(MOPC)

AMOUNT AND SOURCE: IDB: US\$ 82.3 million (OC)
Local counterpart funding: US\$ 27.7 million
Total: US\$110.0 million

FINANCIAL TERMS AND CONDITIONS: Amortization period: 20 years
Disbursement period: 4 years
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%

ENVIRONMENTAL CLASSIFICATION: At its meeting of July 20, 1993, the Environment Committee (CMA), classified this project as a Category III operation. The environmental report covers planned improvements to Route 3 and includes the improvement of Route 10 which will eventually complete the Asunción-Salto del Guairá corridor. The report was approved by the CMA at its January 9, 1996, meeting. The environmental summary was forwarded to the PIC on April 8, 1996.

BACKGROUND: In 1992 the Government of Paraguay approved a study on the transportation sector to establish guidelines for preparation of a national transportation plan and determine spending priorities for the period 1993-2010.

As part of the strategy for reaching the goals set for 1993-1998 under the plan, the Government of Paraguay requested support from the Bank for the financing of a highway corridor program which consists of: (i) upgrading and paving of the corridor between Asunción and Salto del Guairá (on the Brazilian border), including stretches along National Routes 3 and 10; (ii) studies for improvements to portions of other highway corridors; and (iii) other activities designed to improve the efficiency of highway maintenance throughout the country.

In order to meet the need for preliminary measures for environmental protection in the area of influence of Route 10, the Government of Paraguay and the Bank agreed to continue processing an operation (referred to below as "the project") as part of the proposed program, consisting of (i) upgrading and paving of the section corresponding to Route 3; (ii) environmental protection activities in preparation for future upgrading of Route 10; and (iii) other components intended to improve the efficiency of highway maintenance and strengthen the management capacity of the MOPC.

OBJECTIVES:

The overall objectives of the highway corridor program are to: (i) reduce transportation costs as a means of improving competitiveness and stimulating the production of exports or of goods for which there is great demand within the country; and (ii) support economic and social integration among the member countries of MERCOSUR by strengthening the transportation links between them.

The specific objectives of the proposed project are to: (i) reduce by approximately 80 km the travelling distance along the northern corridor in the Eastern Region; (ii) eliminate the economic losses and isolated living conditions of the rural population along Route 3 caused by the frequent blockage of transportation routes and traffic problems due to adverse weather conditions during an average of 90 days a year; (iii) increase the percentage of national routes (trunk roads and secondary roads) that are usable year-round from 60% to 80%; and (iv) set aside approximately 20,000 ha as woodland reserves and some 11,000 ha of land for indigenous settlements in the area of influence of Route 10 along the section of the highway corridor between Asunción and Salto del Guairá.

The indicators for measuring the extent to which these objectives have been achieved and the respective means of verification are presented in the Logical Framework (see Annex II-1).

DESCRIPTION:

The project will be made up of the following components:

- (a) upgrading works and paving of approximately 131 km of roadway that is part of Route 3 between the town of Emboscada (near Asunción) and San Estanislao (these works, together with those to be carried out as soon as practicable on Route 10, will make up the corridor from Asunción

to Salto del Guairá on the Paraguayan border with Brazil);

- (b) a highway maintenance program, consisting of:
 - (i) introduction at the national level of the integrated highway maintenance administration system (SIAMV) developed in 1994-1995 with financing under technical-cooperation project ATN/SF-3422 (loan 829/SF-PR);
 - (ii) installation of weigh stations for inspection of vehicles using the improved highways, to supplement the existing system;
 - (iii) construction of some 5 km of experimental sections and selection of new methods for upgrading the surfacing of dirt roads;
 - and (iv) monitoring and evaluation of progress in implementing the proposed systems, and assessing their impact on conditions in the highway system;

- (c) an environmental protection program to include, among other activities:
 - (i) formulation of a regional development plan covering the area of influence of Route 10 (between San Estanislao and Salto del Guairá), the results of which can be used to propose specific activities for achieving sustainable development of that area, appropriate management of its resources, protection of important forests that remain standing in the area, expansion of population centers, and organization of the social services for inhabitants in anticipation of the increase in migration and pressure for land that will result from future improvements to Route 10;
 - (ii) acquisition of approximately 20,000 ha of natural forest to expand the nation's environmental reserves and private reserves to protect remaining Atlantic forests and maintain suitable habitat for valuable animal species throughout the corridor area;
 - (iii) regularization of indigenous people's ownership of some 11,000 ha located in the area of influence of Route 10, which will eventually complete the Asunción to Salto del Guairá corridor;
 - (iv) monitoring of measures intended to prevent or mitigate any direct or indirect adverse environmental impact caused by works to upgrade Route 3; and
 - (v) institutional support required for effective operation of the Environmental Unit of the MOPC and the Joint Commission;

- (d) a management training program for senior executives and middle-level managers of the MOPC, designed to broaden and diversify their experience in the management of financial, technical,

and human resources, in preparation for growing participation by the private sector in activities previously carried out on force account; and

- (e) the economic, environmental, and engineering studies necessary for the upgrading of approximately 230 km of roads which are part of Route 8 (between Caazapá and Coronel Bogado) and Route 10 (between Rosario and San Estanislao). The proposed studies will cover the sections needed for eventual completion of other major transportation corridors nationwide.

BENEFITS:

The direct benefits from the upgrading of the respective segments of Route 3 will be: (i) lowering the cost of transporting freight and passengers between the northeastern portion of the country and Asunción; (ii) elimination of the semi-isolation suffered by individuals living along these routes; and (iii) reduction of traffic congestion on Route 2 (Coronel Oviedo-Asunción) by creating an alternate route for traffic between San Estanislao and Asunción.

The various components of the project will also help to: (i) stimulate agricultural production and increased diversification in the program's area of influence; (ii) lower transportation costs for the highway system as a whole; (iii) increase the amount of land set aside for environmental reserves and encourage appropriate use of natural resources as a means of promoting sustainable development in the region; (iv) improve land ownership and services for indigenous communities, and make it easier for all inhabitants to gain access to and make use of the area's social services; and (v) expedite the decision-making process by providing management training for MOPC officials.

RISKS:

The creation of the Joint Commission, which will be responsible for decision-making and monitoring activities under the environmental program, will considerably lessen the likelihood of a repetition of the delays that occurred in the environmental components under earlier loans, given that the mechanisms for coordination among the agencies involved have now been enhanced. In addition, the Environmental Unit is expected to be given a greater role and increased decision-making powers under planned restructuring of the MOPC which is currently being studied with support from the IBRD.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank's strategy for Paraguay concentrates on three basic areas: (i) social sector development, in order to reduce poverty and improve living standards; (ii) modernization of the productive sectors, with special emphasis on modernizing and diversifying agriculture, and enhancing private-sector competitiveness; and (iii) institutional strengthening and modernization of the State. This strategy is designed to improve the quality of life for disadvantaged social groups and create the right conditions for sustainable economic growth by making Paraguayan products more competitive on external markets, particularly those of the MERCOSUR countries.

The Bank's strategy for the transportation sector is to continue its support for the establishment of an efficient basic highway system, and for implementation of a maintenance system capable of ensuring that the system remains in satisfactory condition.

The proposed operation is consistent with this strategy in that it will: (i) promote the integration, development, and mobility of the rural population living in the project area; (ii) support development of the productive sectors, particularly agriculture and agroindustry; (iii) include measures which favor indigenous communities living in the project area; (iv) help upgrade one of the country's most important highway corridors, paving 40% of its most critical sections and allowing for eventual improvement of the remaining stretches; (v) provide support for implementation of systems and methods that will raise the level of maintenance services throughout the nation's highway system; and (vi) reinforce transportation links with the other member countries of MERCOSUR and improve access to these markets for Paraguayan products.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

As a condition precedent to the first disbursement of the loan proceeds, an environmental expert must be hired to strengthen the capacity of the MOPC's Environmental Unit (paragraph 3.26).

Except for the resources needed to hire a coordinating consultant, the disbursement of financing for training activities will be subject to submittal of the training program and creation of a coordination committee for the program (paragraphs 3.27 and 3.28).

The loan contract will likewise include sufficient provisions to ensure timely hiring of the construc-

tion supervisors (paragraph 3.10) and other consulting services, including those required for internal auditing (paragraph 4.21) and preparation of the regional development plan covering the area of influence of Route 10 (paragraph 3.23 and following) and the maintenance plans, and submission of the respective reports (paragraph 3.13 and following, 3.18, 3.19 and 3.39); implementation and monitoring of the environmental protection program (paragraph 3.25); presentation of the bill to allow land to be procured for the protection of woodlands and indigenous settlements by eminent domain (paragraph 3.24); presentation of audited financial statements (paragraph 4.23) and the ex post evaluation (paragraph 3.43 and following); and compliance with the Bank's procedures for the procurement of goods, awarding of construction contracts, and hiring of consulting services (paragraphs 3.30 and 3.33).

**POLICY GUIDELINES
ON POVERTY
TARGETING AND
SOCIAL PROJECTS:**

According to the Eighth Replenishment document (AB-1704), the proposed project does not qualify as a poverty-targeting program, either geographically or in terms of its beneficiaries, nor is it aimed specifically at women.

PROCUREMENT:

All contracts for works to be financed under the proposed loan must be awarded on the basis of bids submitted by prequalified firms. The threshold amounts above which procurement under the program must be by international competitive bidding (ICB) are US\$250,000 for goods and US\$1 million for works (paragraphs 3.32 and 3.30).

Contracts for consulting services to be financed with resources from the proposed loan in amounts of US\$200,000 or more shall be awarded by means of an international call for proposals (paragraph 3.33).

**EXCEPTIONS TO THE
BANK'S POLICIES:**

The proposed project does not entail any exceptions to the Bank's policies.

**CONVENTIONAL
PROCEDURE:**

Pursuant to Part III, Section 2(a) of the Regulations of the Board of Executive Directors, this operation is to be submitted to the Committee of the Whole for consideration.