

WHY URUGUAY?

PPP – Programme February 2012



MINISTERIO DE ECONOMÍA Y FINANZAS
REPÚBLICA ORIENTAL DEL URUGUAY

Why Uruguay?



Strategic Location

Institutional, Political and Social stability

Open, stable and rapidly developing economy

Modern and attractive investment regime

Socio-Economic aspects

Uruguay: Platform to the region

Uruguay:

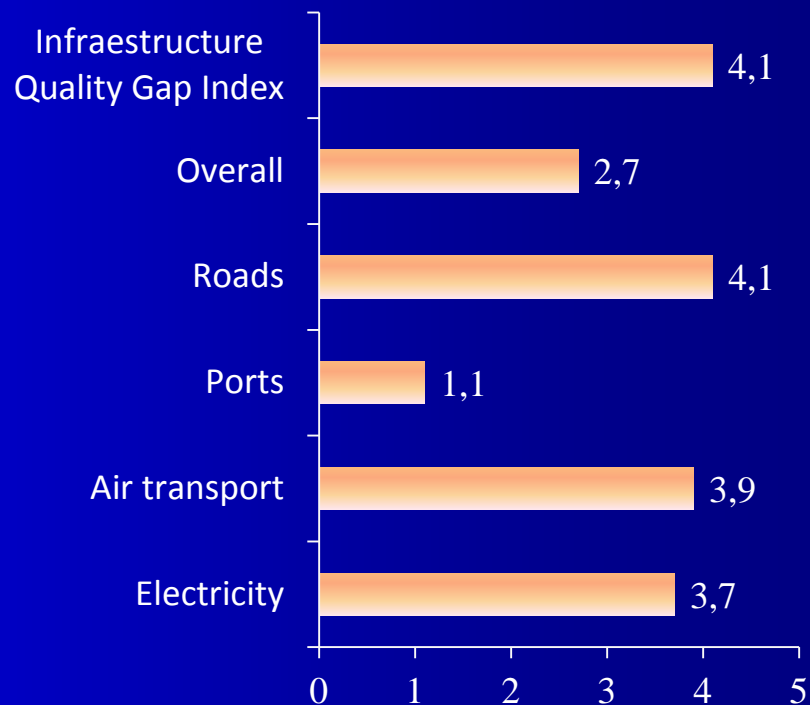
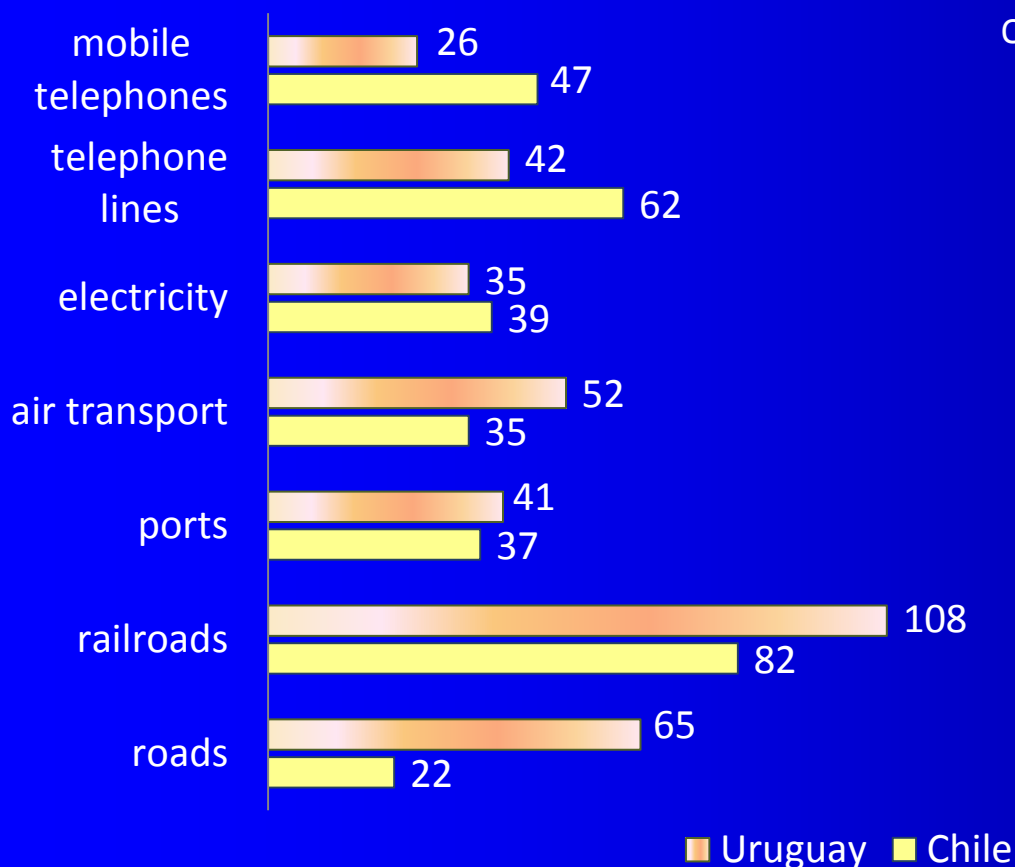
A strategic location, with the best connections to establish a logistics hub in the heart of the continent's richest region.



Competitiveness of Uruguay's infrastructure

Quality ranking infrastructure for 133 countries

Uruguay and Chile by sector



Source: World Economic Forum

Uruguay: an open economy and a full member of MERCOSUR

	URUGUAY	MERCOSUR
Population (millions)	3,25	240,48
Area (Sq. Km)	176.215	11.800.000
GDP 2010 (USD millions)	39.026	2.516.134
GDP per capita (USD)	12.002	10.745
GDP growth rate 2011 (%)	6,3%	4,47%

Why Uruguay?

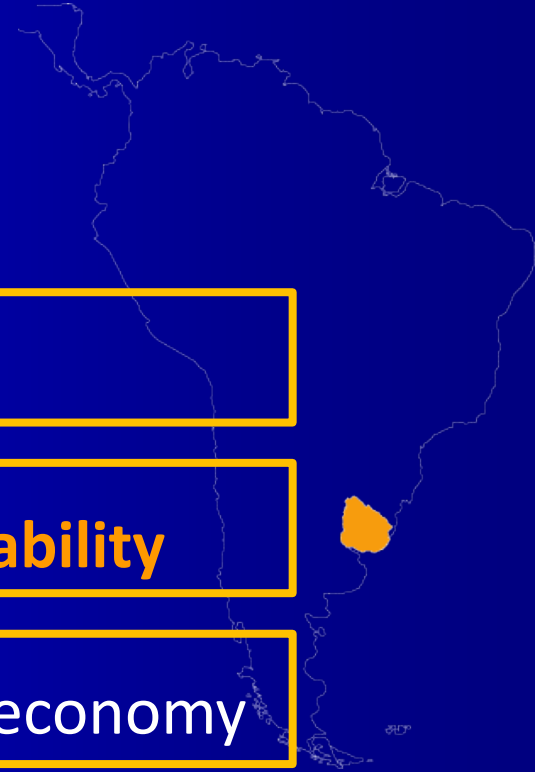
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Institutional stability

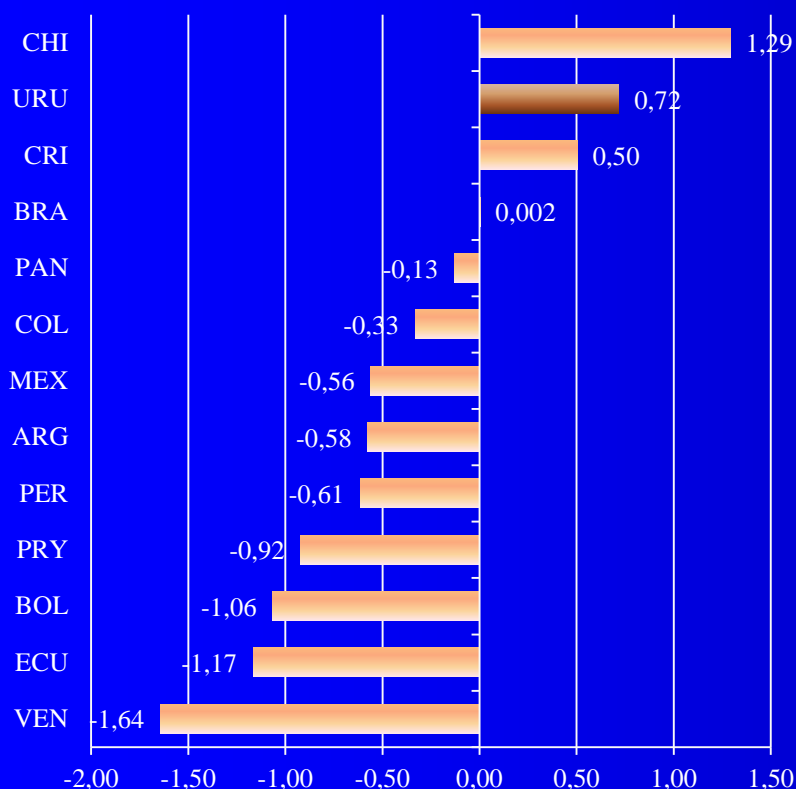
- Strong democratic tradition
- Consolidated structure of political parties
- Consolidated government policies
- Stable economic rules and respect for contracts



Uruguay offers a strong rule of law and respect for property rights...

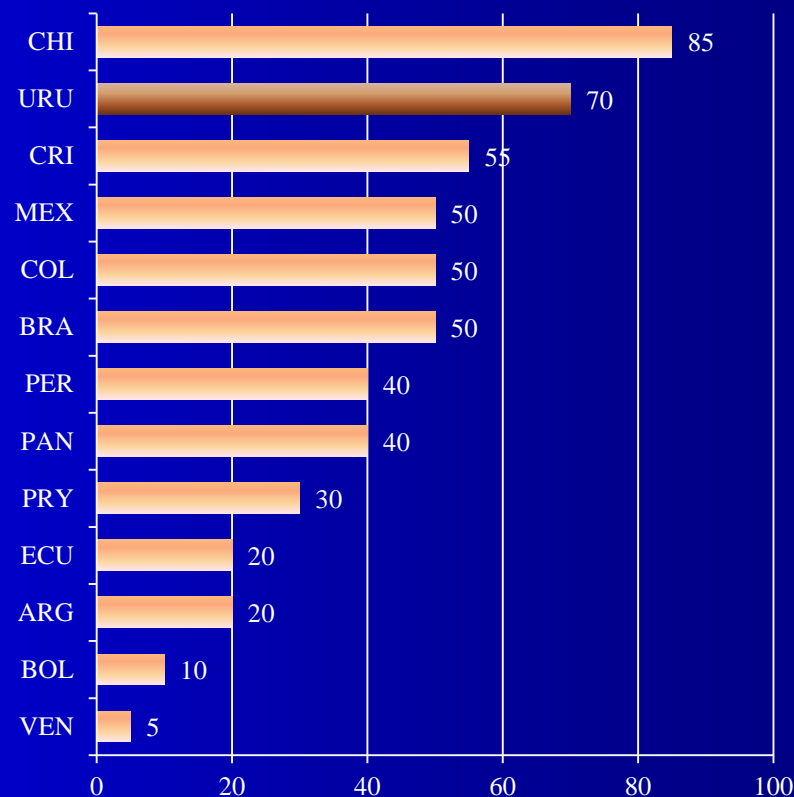
Rule of Law 2010

(Scale: -2.5 to 2.5)



Property Rights Index 2012

(Scale: 0-100)



Source: World Bank Institute: Governance Matters

Source: The Heritage Foundation

Main Indexes in Uruguay

Factor	Uruguay in South America	Uruguay in the World
Low Corruption (Transparency International, 2011)	2	25
Improvement of Trade Index (World Economic Forum, 2010)	2	50
Democracy Index (The Economist, 2011)	1	17
Economic Freedom Index (Heritage Foundation, 2011)	2	29
Quality of life (Mercer; 221 cities; data for Montevideo, 2011)	1	77
Low Cost Of Living (Mercer; data for Montevideo, 2010)	4	13

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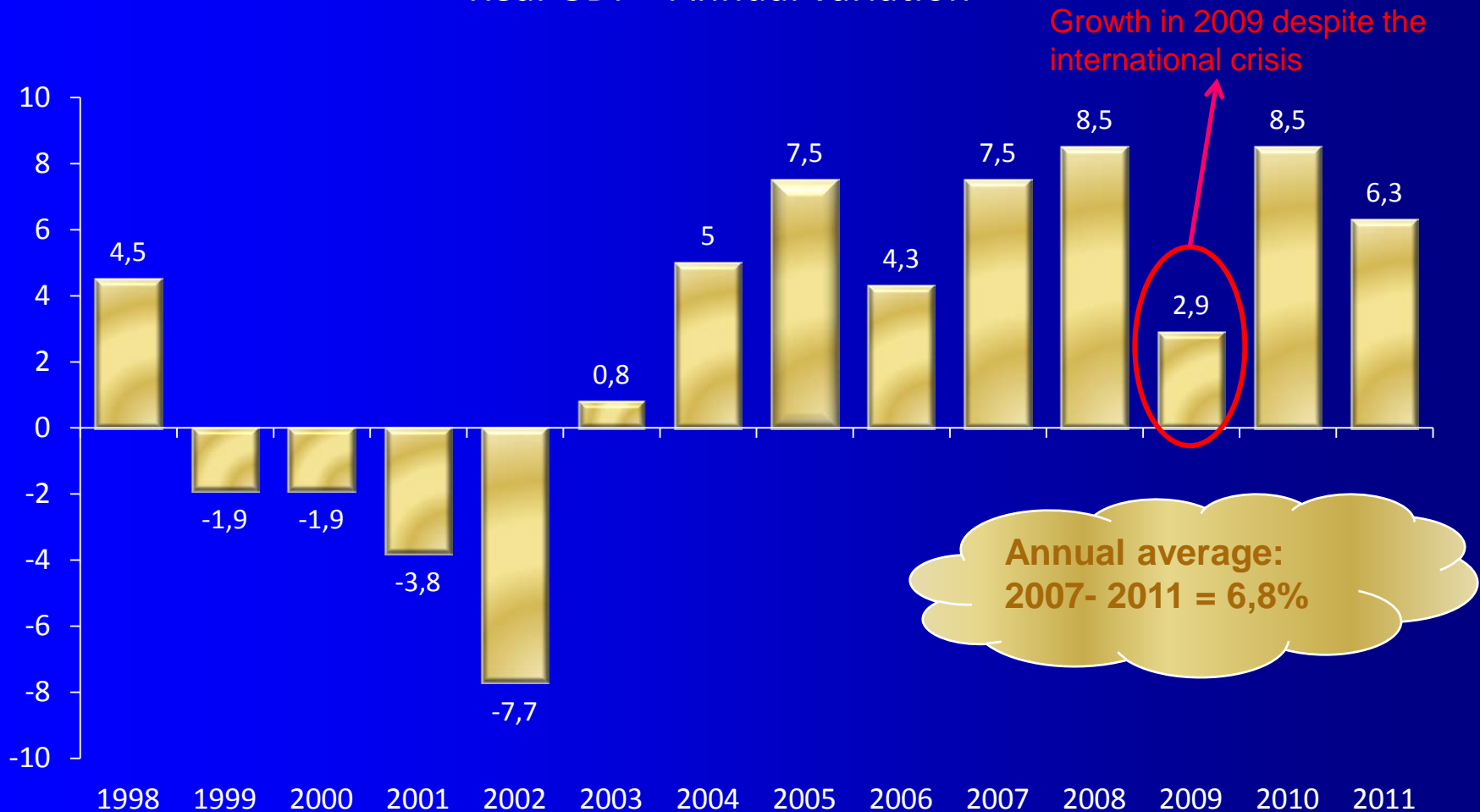
Modern and attractive investment regime

Socio-Economic aspects



Strong growth in recent years

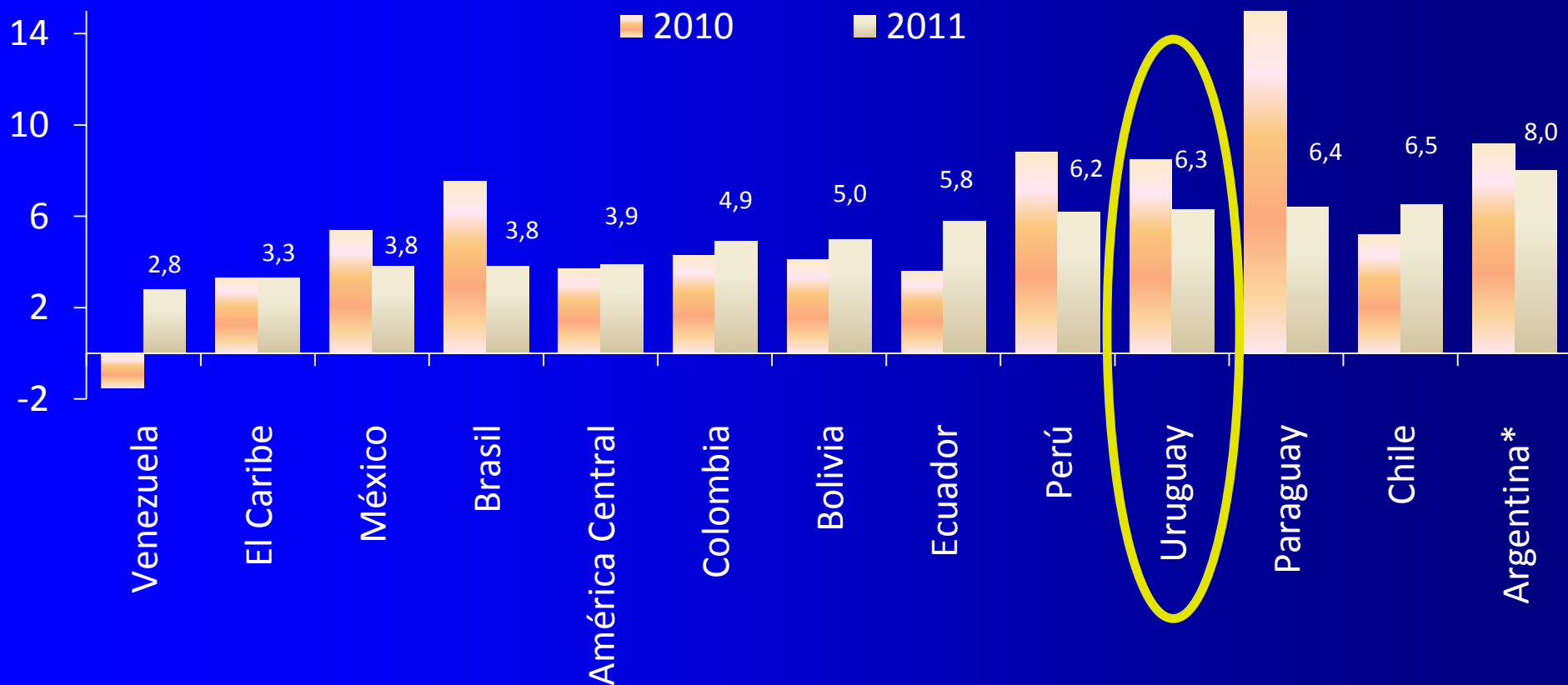
Real GDP - Annual variation



Source: Central Bank of Uruguay - CEPAL

... outstanding performance in the context of Latin America ...

Real GDP - Annual variation

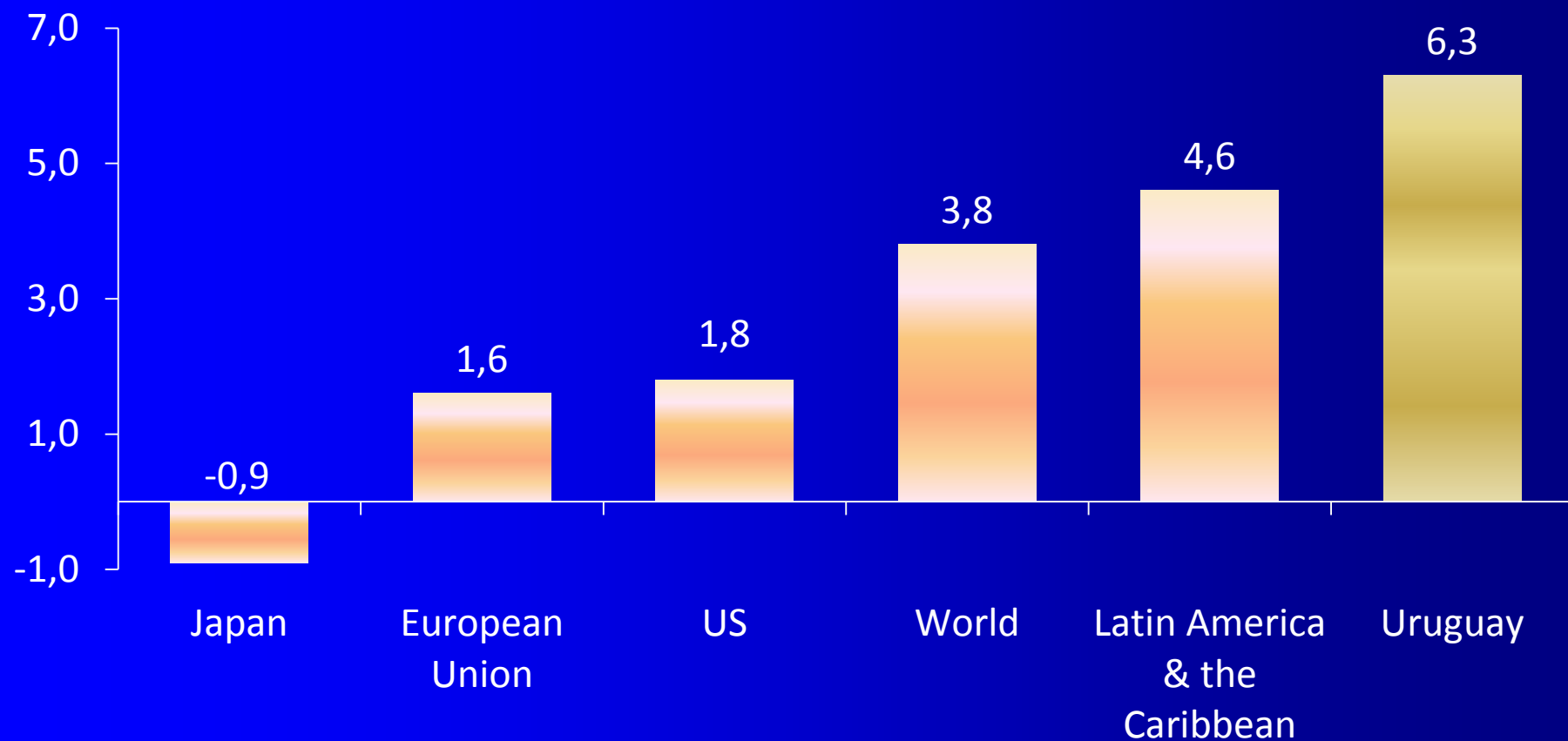


Source: IMF : World Economic Outlook - BCU

* Official data.

... as compared to the global economy...

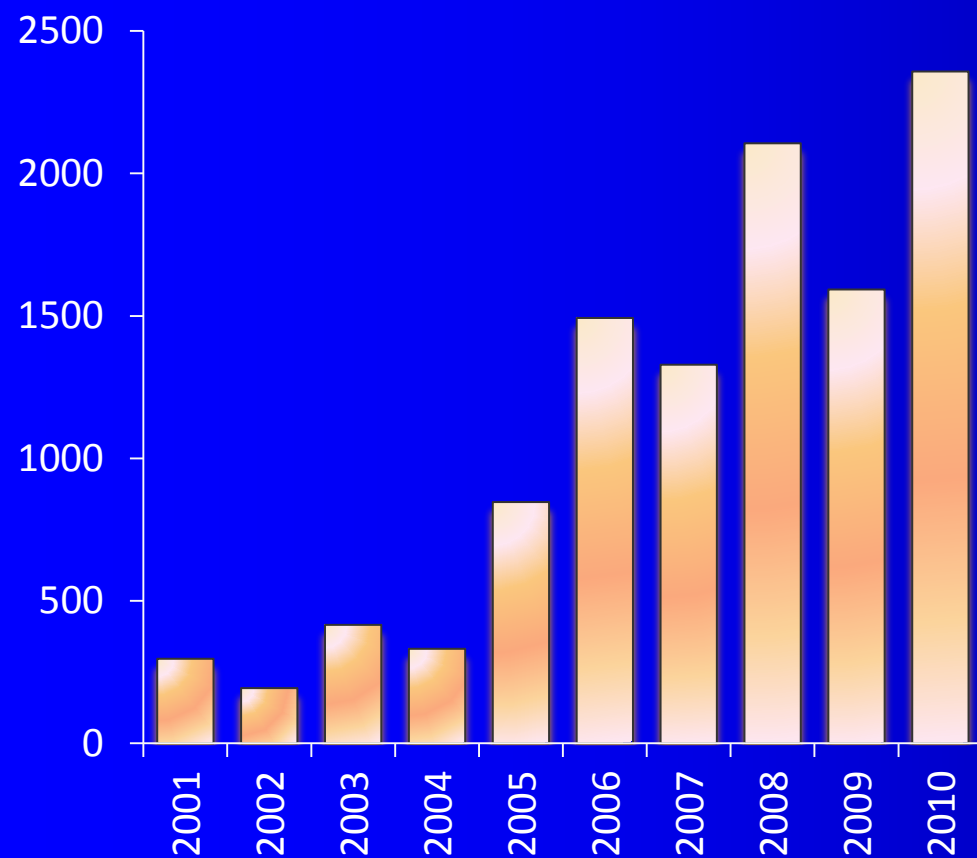
Real GDP - Annual variation - 2011



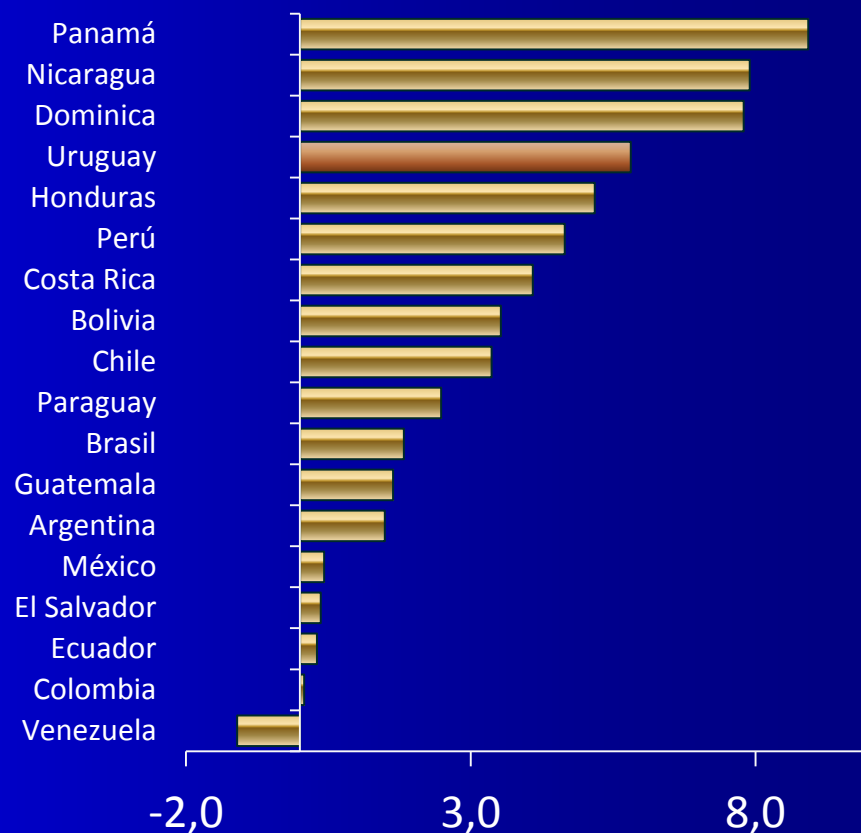
Source: IMF - World Economic Outlook – Central Bank of Uruguay

Important destination of foreign direct investment

Foreign Direct Investment
(million dollars)



FDI in Latin America
(2010, % of GDP)



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Tax and other incentives

Investment Promotion System

Comprehensive legal framework for investments. Up to 100 percent of investments maybe tax exempt

- Domestic and foreign investors are treated equally
- Investments are allowed without prior authorization or registration
- There are no restrictions on the transfer of capital or profits

Free Trade Zones

Areas exempt from corporate income and wealth tax, as well as from any other tax.

- Good entering the FTZ are exempt from all import levies.
- Authorized to develop any industrial, commercial or service activity.

Free Port

- Montevideo: first and only free port of South America's Atlantic coast.
- Free goods transit, no authorizations or formal procedures required. Within port facilities goods are exempt from all import levies.

Free Airport

- Value adding services can be carried out in activities related to goods.
 - Also in activities associated with services that are applied to goods.
 - Exemptions work in the same way as in the Free Port regime.

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Socio-Economic aspects

- High quality educational standards.
- Social and digital inclusion plan called “Plan Ceibal”
- Highest rated country in Latin America on the 2011 Legatum Prosperity Index
- Free from epidemics and natural disasters
- No racial or religious conflicts
- High quality standards in healthcare services.
- Uruguay: Smoke Free Country – 6th in the world, 1st in South America
- Numerous parks and green areas in Montevideo, golf courses, spas and a 15 mile coastal promenade. World class resort Punta del Este only 80 miles away



PPP Programme in Uruguay



Reasons to invest in infrastructure

Why PPP?

Is Uruguay appropriate for PPPs?

PPP Law

PPP Project Pipeline

“Uruguay demonstrates every day that it is an example of development and stability across the world”



Sean Penn, 14 February 2012

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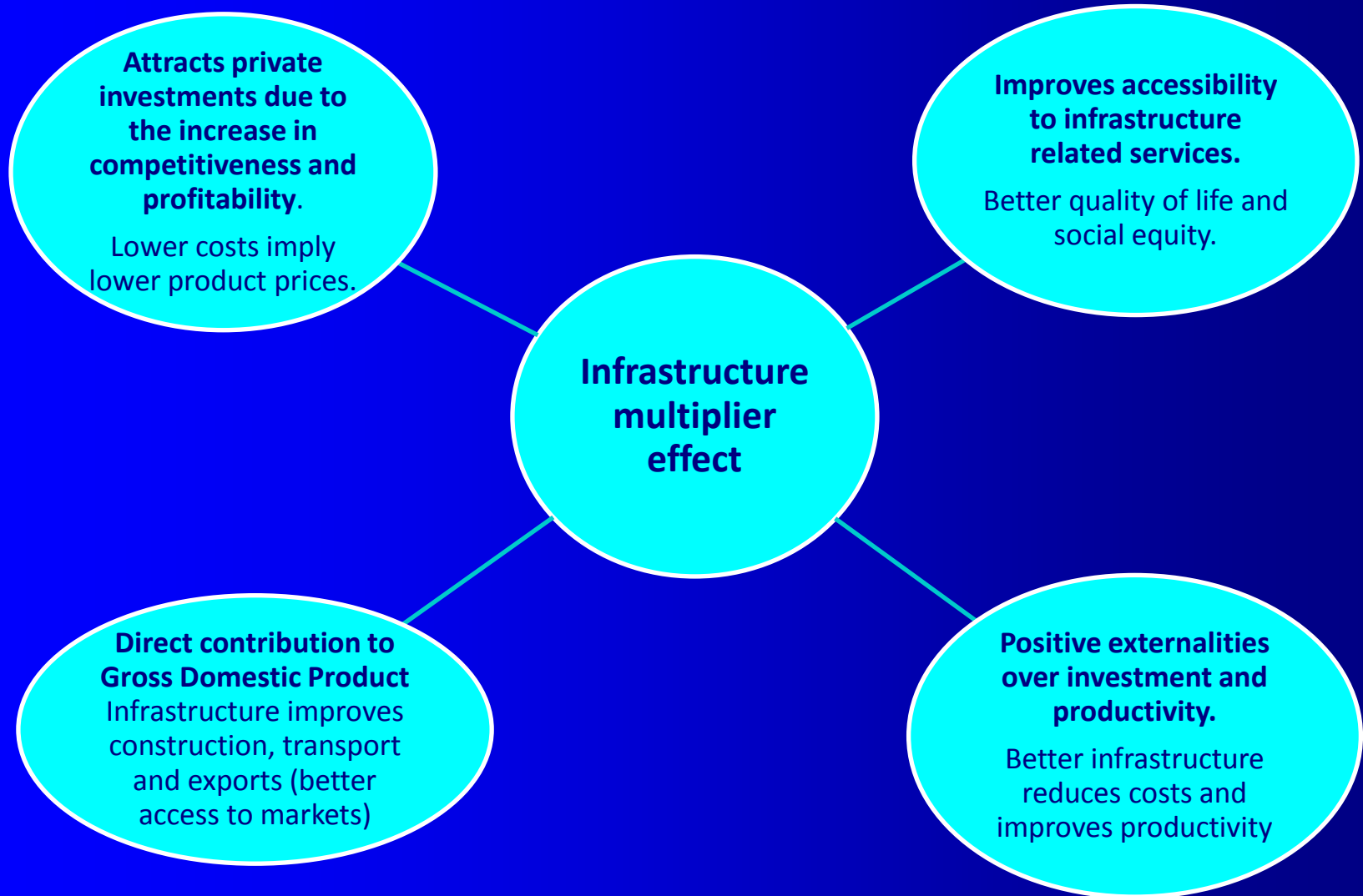
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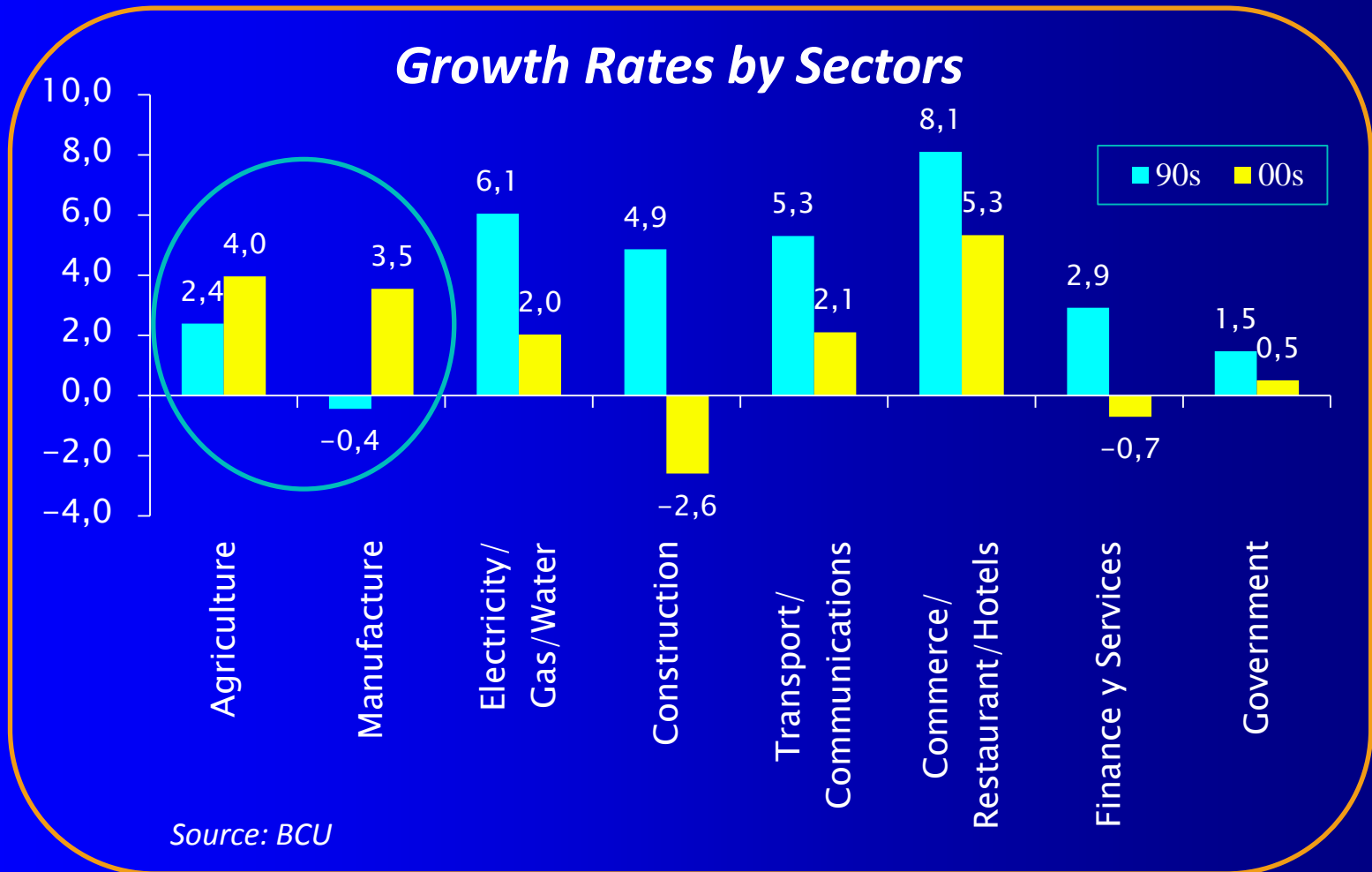


Reasons to invest in Infrastructure



Reasons to invest in Infrastructure

Also, the new export led growth model Uruguay is following requires more and better infrastructure....



PPP Programme in Uruguay



Reasons to invest in infrastructure

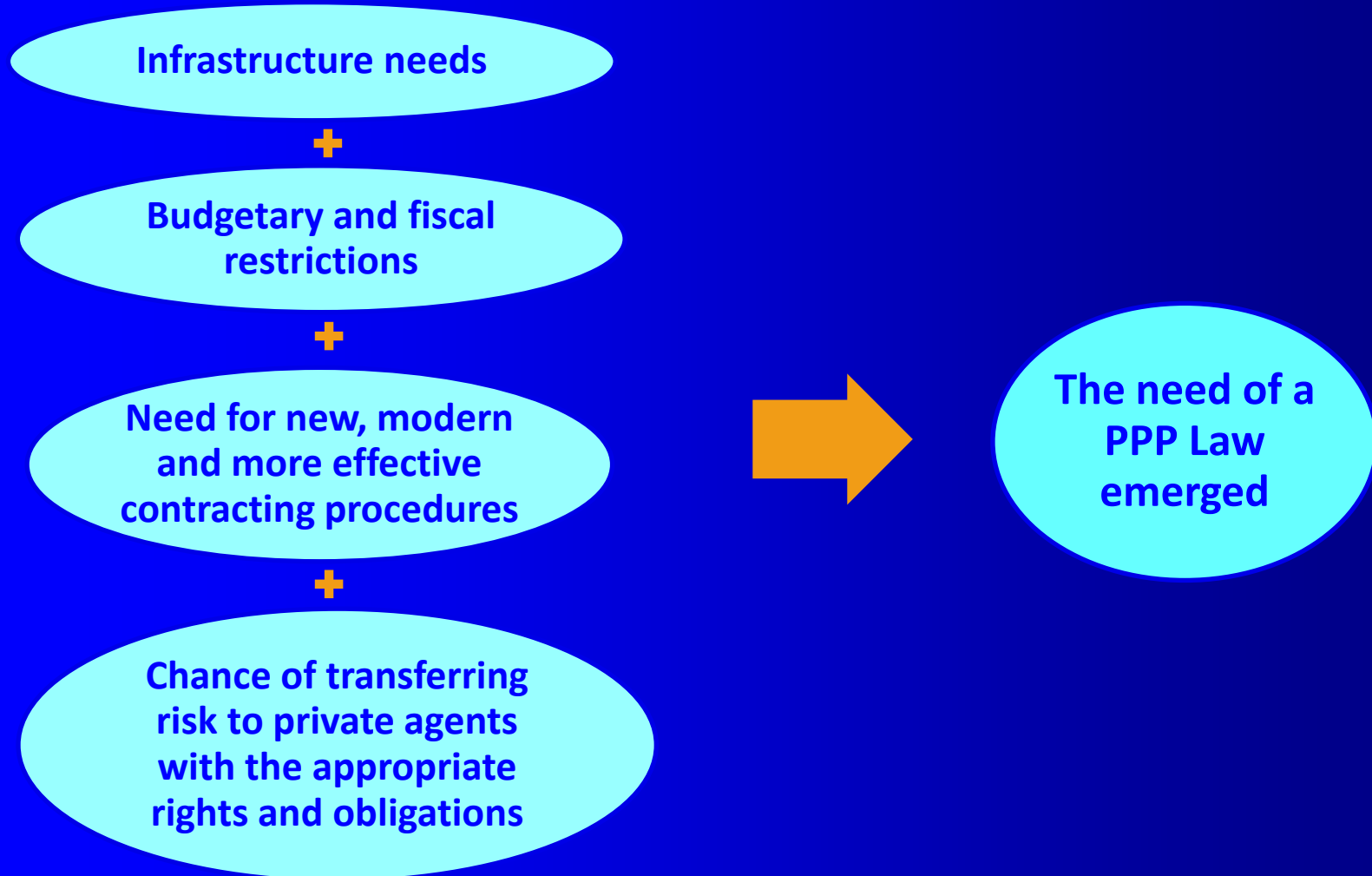
Why PPP?

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PPP Law

PPP Project Pipeline

Need for new tools



NOTE: The PPP Law does not derogate previous contracting regimes nor it affects the modifications the government is planning on the actual Public Purchases System.

Need for new institutions

Why the need to strengthen institutional support for Infrastructure?

***Increase the
level of
investment in
infrastructure***

- With few exceptions, investment has been concentrated in the public sector. Private investment in Uruguay is below the levels of other countries in the region (0.5% of GDP).
- The public sector should therefore be trained to make the necessary investments in the most efficient and effective way.
- Build the needed infrastructure properly requires previous studies, providing guarantees to funders and building initiative and response capacity in the public sector.
- Favorable macroeconomic conditions and institutional strength of the country favors private investments.
- Need to strengthen the institutional support to carry out Public-Private Partnership (PPP) initiatives successfully.

PPP Programme in Uruguay



Reasons to invest in infrastructure

Why PPP?

Is Uruguay appropriate for PPPs?

PPP Law

PPP Project Pipeline

Is Uruguay appropriate for PPPs?

Requirements	Uruguay	
Macroeconomic Stability	✓	
Rule of Law	✓	
Institutional Strength	✓	
Legal and Regulatory Framework	✓	Newly Approved PPP Law N° 18.786
Design and Evaluation	✓	CND–IADB-FOMIN-WB Expertise
Incentives and Penalties	✓	Design and Incentives Mechanisms
Selection Process	✓	Auction Theory + Competitive Dialogue
Adjudication Criteria	✓	CND–IADB-FOMIN-WB Expertise
Risk Management	✓	Risk Matrixes
Financing	✓	International Expertise plus IADB-WB
Guarantees	✓	International Expertise plus IADB-WB
Monitoring and Accounting	✓	CND–IADB-FOMIN-WB Expertise

Design/Evaluation/Incentives: CND Role

Key Successful Factors	CND Role: Guarantee the Key factors are achieved
Design and Evaluation	Design contracts and do the needed studies: feasibility, social impact, value for money, etc.
Incentives and Penalties	Design contracts with the adequate incentives and penalties so as to minimize the chance of renegotiation.
Selection Process	Ensure competitive procedures and transparency.
Awarding Criteria	Define the appropriate criteria depending on the project.
Risk Management	Identify, evaluate its impact, reduce and assign risks efficiently (risk matrixes)
Financing	Ensure feasible and sustainable debt/equity ratios.
Guarantees	Assess the process of creation and financing of the needed guarantees/infrastructure funds.
Monitoring and Accounting	Assess the public organization owner of the project in the control of the contract (if CND is asked to for it)



Design/Evaluation/Incentives: BID/FOMIN

Component 1:

Legal Framework Support

Help and promote the PPP Law and its reglamentary decree

Component 2:

Strength Local Capacity

Build local capacity in the involved institutions and standardize processes

Component 3:

Identify a Medium Term Project Pipeline

Identify infrastructure needs and possible PPP projects

Component 4:

Financial Instruments Development

Design and implement financial instruments

FOMIN CONTRIBUTION: US\$ 1.213.486

LOCAL CONTRIBUTION: US\$ 1.219.400

Design/Evaluation/Incentives: WB/CAF/IUK

✓ Andean Development Corporation

- ✓ Chilean expert advice for the project: Unit of Persons Deprived of Liberty
- ✓ Counterpart: CND



✓ World Bank

- ✓ Study on “Financing PPP Projects in Uruguay”.
- ✓ Counterpart : MEF



✓ Infrastructure UK

- ✓ Advice on the setting up of the PPP Unit and on the evaluation of the first projects
- ✓ Counterpart : MEF



PPP Programme in Uruguay



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PPP Law Objective (2011)

Main Objective of the PPP Law:

*Provide a framework for private investments in infrastructure development and related services as a tool to improve the existing infrastructure of the country and promote thereby economic growth. **All this without compromising quality or cost and without affecting fiscal stability.***

The articles comprised in the law regulate most of the necessary elements to ensure the success of the PPP contracts. Some of them are adequately addressed in the Law itself, while others refer to a subsequent regulatory decree or to the contracts themselves.

Contracting Procedure

PLANNED CONTRACTING PROCEDURE FOR PUBLIC/PRIVATE INITIATIVES:



Other important aspects of the PPP Law:

- ✓ Arbitrage
- ✓ Competitive Dialogue
- ✓ Renegotiation
- ✓ Step in rights

PPP Law: Fiscal responsibility

Fiscal limits established in PPP Law:

USD 3.500
million

Firm + contingent liabilities generated by PPP projects can not exceed 7% of GDP

USD 250
million

Annual payments generated by PPP projects can not exceed 5‰ of GDP



Procedure for private initiatives:

- The Public Administration may receive private initiatives for PPP projects under their area of governance.
- CND will receive all private initiatives, study them and present them to the respective Public Administration.
- The Public Administration will decide on the initiative
- All information related to the private initiative will be confidential.

Stages of the Process

Presentation: Information related to the identification and feasibility of the project

Evaluation (CND): CND elaborates a technical report

Initiative: CND will present the project at the appropriate Public Administration

Feasibility Study: To be done by the Private Sector if the initiative is accepted

Public Auction: To be done by the respective Public Administration

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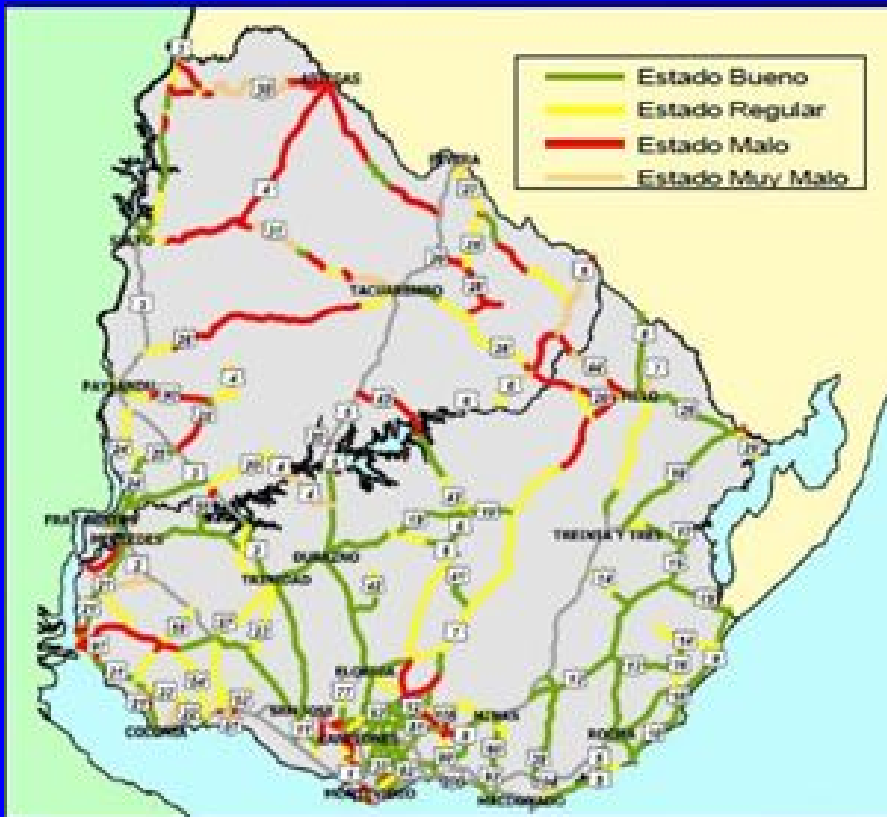
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Transport: Roads

If the investments are not done 500 million USD would be postponed and the low quality of the roads will remain...



Needed Investments

Circuit	US\$
Route 3 North	100,000,000
Routes 31 & 4	120,000,000
Route 26	300,000,000
Routes 6, 7 & 8	270,000,000
Routes 13 & 15	110,000,000
Route 14	100,000,000
Routes 21 & 24	125,000,000
TOTAL	1,125,000,000

***Note:** Estimated values for initial investment and maintenance based on project characteristics and on availability payment contracts for 20 years

Source: MTOP

Routes 21-24 Project: Background

✓ The project includes the actual path of Route 21 goes from Nueva Palmira to Mercedes and Route 24 between Route 2 and 3.

✓ **Nueva Palmira:**

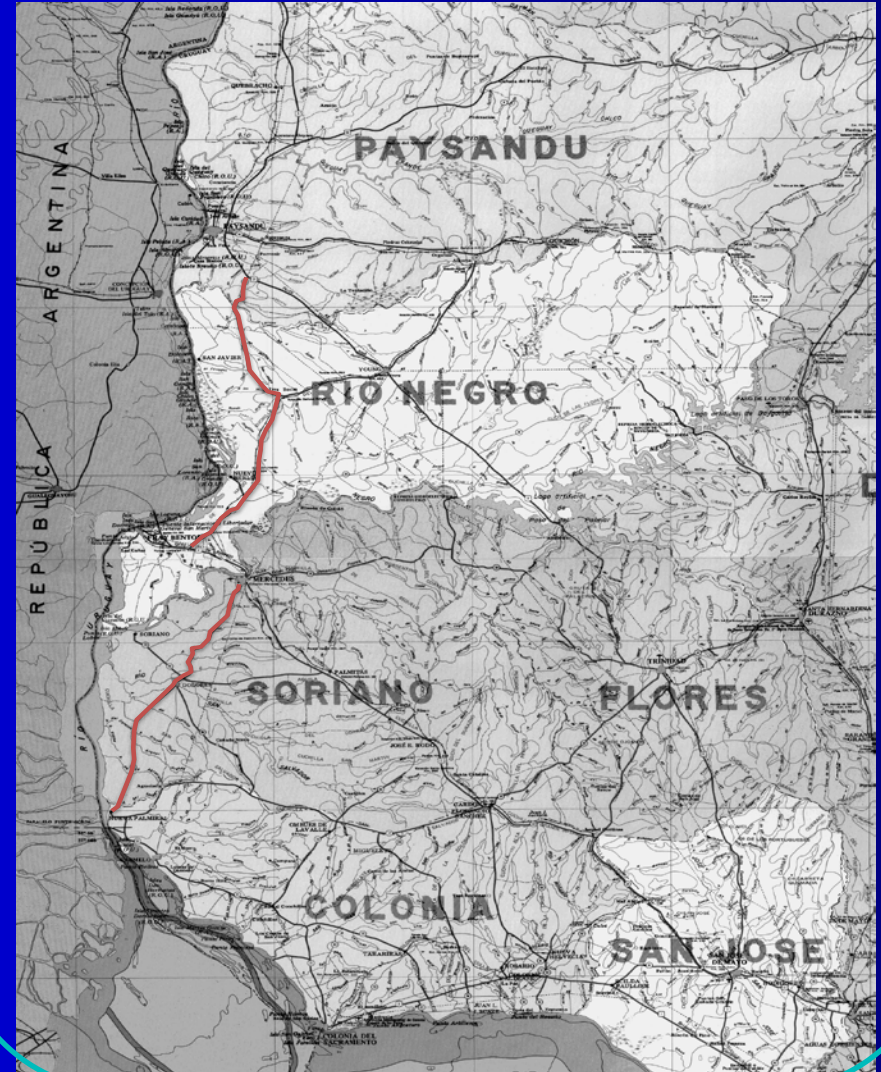
Circulation is disorganized and over minimum maintenance granular material pavements

✓ A 6 kilometers by-pass for trucks to access the port must be done

✓ **Dolores and Mercedes:**

This area shows a similar situation, where heavy vehicles must enter urban areas when passing by.

Routes 21 and 24



Routes 21-24 Project: Characteristics

-Type of Contract

Due to the fact that the route already exists and there is no need for new works, the private sector will have to carry out rehabilitation and maintenance works in order to improve the present state of 190 kilometers of the Route 21-24. This shall be done under Build, Finance, Maintenance, Operation, and Transfer (BFMOT) contract.

-Investment Amounts

The total amount of the investment is approximately USD 120 million during 20 years, though the initial investment is approximately USD 80 million.

- Form of Payment

This project will include an availability payment that the Government will make to the private sector, the set standards for the routes are fulfilled.

- Tender

Tenders will be international and the implementation period of the works is estimated in 36 months.



Education infrastructure

Pre-School Education

Two main aspects worry pre-school educational centers directors :

- 1. Over 60% says the classroom chairs and bathrooms are problematic for the development of the center*
- 2. Near 50% are worried about low capacity and inappropriate playground infrastructure*

Source: Survey done by ANEP

Primary Education:

The school is not a place to “keep” children but a place from where to fight social inequalities

To achieve this we need:

- 1. Extension, broader coverage and development of full-time schools*
- 2. Alternative models to expand the school day*

More infrastructure is required and it has a high social cost

Project pipeline of around US\$30 millions to construct CAIF Centers (DayCare Schools) and US\$ 130 to construct/rebuild new primary/secondary schools

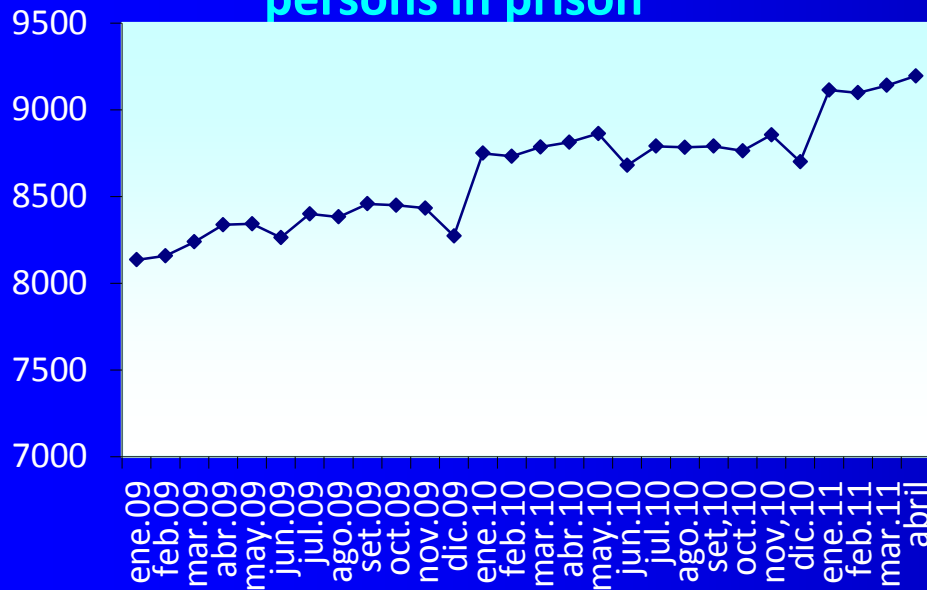
Education infrastructure

- ✓ Pursuant to the Budget Law, during the 2010-2014 period the National Administration of Public Education (ANEP) shall contribute approximately USD 130 million to the construction of the Public Infrastructure Fund, called the “Public Education Infrastructure Trust.”
- ✓ The purpose of said fund is to contribute to the growth, improvement, and rehabilitation of public education infrastructure through the design, construction, maintenance, and repair of the public education buildings, the offering of diagnoses when required, and the purchase of properties for the construction of said infrastructure.
- ✓ The fund will be managed by CND, which shall comply with the guidelines of the ANEP, and shall carry out every contracting activity through competitive procedures. CND shall perform all the civil and commercial acts, as well as sign all the necessary contracts, for the fulfillment of the trust, and shall be able to carry out the supervision of the works.

Prisons

DEMAND:

Evolution of the number of persons in prison



Source: INACRI

SUPPLY:

1. Each Department (19) has its own prison that depends of the Police Chief of the department
2. Overpopulation

	Capacity	Pupulation	%
TOTAL	7598	9252	122
INTERIOR	3245	3700	114
MONTEVIDEO	4353	5552	128

The total number of prisoners was 8.200 in June 2009, representing an overpopulation level of around 150% → More infrastructure is needed

Ongoing project of US\$120 millions to build a prison for 2000 prisoners



Prisons: Prisoners Unit Nº 1 Project

-Services to be contracted

The design, construction, and funding of a building for 2,000 inmates will be contracted with the private sector, as well as the cleaning, preventive maintenance, equipment replacement, food, laundry, plague control, gardening, and on-site general store services. The Uruguayan State will be responsible for the health services, police guard and rehabilitation services. The land shall be granted by the Ministry of Defense

-Amount of the Investment

Investment (including an initial investment and maintenance) is estimated in USD 120 million during 20 years.

- Form of Payment

The State will repay for this investment in the form of availability payments. The private party must fulfill certain quality standards; otherwise, a percentage of the agreed-on payment shall be deducted.

- Tenders

Tenders will be international and the implementation period of the works is estimated in 36 months.

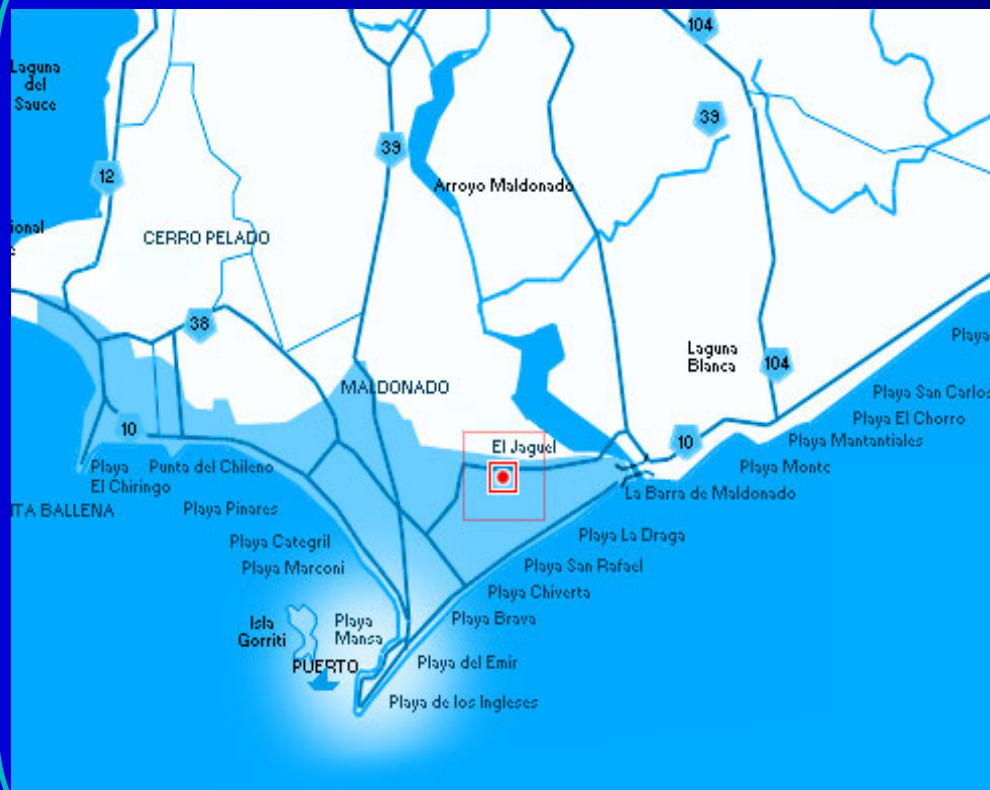
Convention Center Trust

The construction of convention and exhibitions centers is a priority for the Tourism Ministry

Ongoing projects:

1. Convention Center “El Jaguel” (Punta del Este). Amount: US\$ 30 millions
2. Convention Center and Sporting Complex in Montevideo. Amount: US\$ 200 millions

“El Jaguel” Park



Convention Center Trust

-Amount of the Investment

The investment is estimated in USD 25 million. USD 15 million will come from the disposal of lands owned by the departmental government, plus USD 10 million that will be contributed by the Ministry of Economy and Finance (MEF). The contractor will be in charge of the construction, administration, and maintenance of the Center. It will receive a subsidy associated to the construction of the Center and, afterwards, during its operation, the contractor will have to pay a royalty to the State.

- Trust

A management trust was created, which is be in charge of managing the assets held in trust for the design, construction, operation, and maintenance of the Center. The trustor is the City Council of Maldonado and the trustee is CND. CND will more work during the construction stage because the Project Management is included. During the operation stage, some of the duties of CND will be to monitor the fulfillment of the service levels established in the specifications, as well as the fulfillment of the minimum amount of events and the applicable fines.

Mid Term Projects

Hospitals: BSE, Colonia

Railways

Montevideo Port Expansion

Logistic Center

Commercial Ports:

Medium Term:

✓ **Puntas de Sayago Logistic Port**

✓ **Rivera Dry Port**

Long Term:

✓ **La Paloma Deepwater Port**

Railways Needed Investments

Circuit	US\$
Chamberlain- Algorta- Fray Bentos	100,000,000
Toledo- Nico Perez- Rio Branco	75,000,000
Algorta- Paysandu-Salto	50,000,000
TOTAL	225,000,000

Source: MTOP

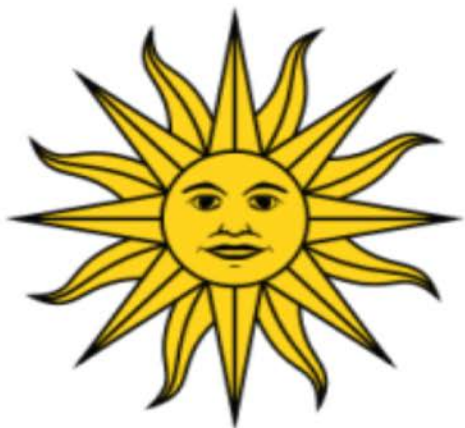
Uruguay, the best kept secret in Latin America:

- A stable country
- A strong economy
- An appropriate legal framework to attract investments
- Well educated workforce
- Strategic location
- High quality of life

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Thank you!



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