



Country Program Evaluation

Uruguay

2010-2015

As part of its 2015 annual work plan, the Office of Evaluation and Oversight (OVE) has prepared the Bank's country program evaluation (CPE) with Uruguay for the period 2010-2015. This CPE is the third occasion on which OVE has evaluated the Bank's country program with Uruguay. The previous evaluations covered the periods 1991-2004 (document RE-312) and 2005-2009 (document RE-389).

According to the protocol for Country Program Evaluation (document RE-348-3), the main goal of a CPE is "to provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance."

This CPE seeks to analyze the Bank's relationship with the country, taking an independent view and assessing in particular the program's relevance and effectiveness, including both financial and nonfinancial products offered by the Bank during the period under analysis. The evaluation places special emphasis on analyzing the Bank's business model and its implications in an upper-middle-income country like Uruguay, in a context of higher economic growth and greater access to international markets. This evaluation is intended as an input for the new country strategy document that the Bank is preparing.

In 2009, Management developed a new country strategy document model for the purpose of equipping the Bank with an effective tool to sharpen the country focus and guarantee the flexibility envisaged during the realignment process. In this framework, new guidelines were drawn up to "reformulate country strategies, emphasizing the need for programming to be based on results and potential risks, adopting a programmatic and flexible approach that better responds to the country's priorities." Apart from these general principles, the most significant practical effects of the new model were: (i) decoupling of the country strategy, which is prepared every four years, and the actual programming, which is annual; (ii) a new emphasis on sector notes; and (iii) strengthening of the results matrix with specific indicators. The Bank's current country strategy with Uruguay (document GN-2626) was approved in August 2011, following these new guidelines.

The evaluation is organized into four chapters plus annexes. Chapter I looks at the general context of the country. Chapter II analyzes the Bank's program in 2010-2015 from a general standpoint, looking in particular at the country strategy's relevance, and analyzes the program as implemented. Chapter III analyzes, from a sector perspective, the implementation, effectiveness, and sustainability of the operations and the level of progress toward the Bank's strategic objectives. Chapter IV sets out the conclusions and recommendations.

The analysis of the documentation and data was supplemented by interviews with various actors involved in implementation of the program, including government authorities, Bank staff, execution units, and multilateral agencies active in the country.

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This document was prepared by the project team consisting of José Ignacio Sembler, Ana María Linares, Agustina Schijman, Chloe Fevre, Lynn Scholl, Kathryn Britton, Alejandro Guerrero, Barbara Nunberg, Alayna Tetreault-Rooney, Santiago Ramirez, Alejandro Palomino, María José Hernández, Víctor Beltrán, and Maya Jansson, under the general supervision of Cheryl Gray (Director of OVE). We are grateful to the Bank's administration and staff for their support and to numerous public and private sector respondents in Uruguay for generously sharing their time, knowledge, and information with the team.

ACRONYMS AND ABBREVIATIONS

ANEP	Administración Nacional de Educación Pública [National Public Education Administration]
ANII	Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency]
BPS	Banco de Previsión Social
CAF	Corporación Andina de Fomento [Andean Development Corporation]
CCLIP	Conditional credit line for investment projects
CEIBAL	Conectividad Educativa de Informática Básica para el Aprendizaje en Línea [Basic Educational Connectivity for Online Learning]
CPE	Country program evaluation
CVU	Corporación Vial de Uruguay
DDO	Deferrred drawdown option
DINAMA	Dirección Nacional de Medio Ambiente [National Environmental Department]
DPL	Development policy loan
DNV	Dirección Nacional de Vialidad [National Highway Administration]
ENIA	Estrategia Nacional para la Infancia y Adolescencia [National Strategy for Children and Adolescents]
FDI	Foreign direct investment
FLAR	Latin American Reserve Fund
HDI	Human Development Index
ICTs	Information and communication technologies
IMF	International Monetary Fund
INJU	Instituto para la Juventud [Institute for Youth]
LAC	Latin America and the Caribbean
MDB	Multilateral development bank
MEF	Ministry of Economy and Finance
MIDES	Ministry of Social Development
MIF	Multilateral Investment Fund
MTOP	Ministry of Transportation and Public Works
NCRE	Non-conventional renewable energy
NSG	Non-sovereign guaranteed
OECD	Organization for Economic Cooperation and Development
OMJ	Opportunities for the Majority
OVE	Office of Oversight and Evaluation
PAEMFE	Programa de Apoyo a la Educación Media y Técnica y a la Formación en Educación [Secondary and Technical Education and Teacher Training Support Program]
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PDL	Performance-driven loan
PforR	Program for results
PPEI	Programa de Posicionamiento Estratégico Internacional [Program for Strategic International Positioning]
PPP	Public-private partnership
PROPEF	Project Preparation and Execution Facility
SCF	Structured and Corporate Financing Department

SG	Sovereign guaranteed
SOCAT	Servicio de Orientación, Consulta, y Articulación Territorial [Territorial Guidance, Consultation, and Coordination Services]
TC	Technical cooperation
TFFP	Trade Finance Facilitation Program
UCC	Uruguay Crece Contigo [Uruguay Grows with You]
UTE	Administración Nacional de Usinas y Transmisiones Eléctricas [National Administration of Electric Power Generation and Transmission]
VUCE	Ventanilla Única de Comercio Exterior [Single Foreign Trade Window]

EXECUTIVE SUMMARY

Context

Uruguay is an upper-middle-income country that has experienced one of the highest growth rates in Latin America and the Caribbean over the last decade. This economic performance can largely be explained by a stable macroeconomic policy framework, favorable external conditions in terms of demand for export goods and services, and a favorable investment climate. In particular, exports and foreign investment have been key drivers of growth. This economic growth, however, has been accompanied by persistent high inflation, ongoing current account deficits, and, more recently, widening of the fiscal deficit. As economic growth puts more pressure on social and productive infrastructure, reforms and significant investments are needed in key sectors such as energy, transportation, and low-income housing. The country also faces challenges in sustaining high growth rates in the long term. Uruguay has a small economy with a limited productive structure and exports highly concentrated in agricultural staples. This highlights the importance of promoting investments in high value-added sectors and trade facilitation to reduce dependence on commodity prices and support the country's international integration. Additionally, lower productivity growth, low levels of R&D investment, constrained lending to the private sector, and weak linkage of the vocational training system and scientific output to the needs of the productive sector are other important factors restraining growth in the long term.

The introduction of reforms and the expansion of social programs, combined with good economic performance, have led to a significant reduction in poverty and inequality levels—one of the highest reductions in Latin America and the Caribbean. Nevertheless, the child poverty rate remains high, and there are major inequalities in terms of access to basic services at the local level and for more vulnerable groups. Uruguay is well positioned on governance and state capacity indicators relative to the region, although challenges remain in areas such as efficiency and prioritizing expenditure, and increasing capacity and improving governance at the subnational level.

As a small, open economy, Uruguay is exposed to external shocks, principally fluctuations in commodity prices and in the economic performance of its main trading partners. Major reforms to macroeconomic policy management following the 2002 crisis allowed for better handling of the recent international financial crisis and a reduction in the vulnerability of the country's public finances. In particular, the country improved its debt profile in terms of its currency composition (dedollarization) and maturity structure. A cornerstone of this strategy has been the adoption of precautionary financing to guard against a potential loss of access to financial markets, through contingent credit lines with multilaterals equivalent to 3.5% of GDP. In this context, Uruguay was restored to investment grade rating in 2012, which has given it greater access to international financial markets.

Country strategy

The IDB country strategy with Uruguay 2010-2015 was designed in a more favorable economic climate than its predecessor and sought to support the government's efforts to maintain macroeconomic stability and advance social reforms. The country strategy defined the Bank's work in ten areas with their respective strategic objectives: (a) energy; (b) transport; (c) water, sanitation, and solid waste; (d) science and technology; (e) social protection; (f) education and job training; (g) agroindustrial sector;

(h) services exports; (i) public management and finance; and (j) urban development and security. Although its scope in terms of areas of cooperation may be considered broad, it reflects the Bank's medium- and long-term relationship with the country in a number of sectors. The **country strategy's strategic objectives** were relevant insofar as they addressed critical problems for Uruguay's development and were aligned with the government's priorities. However, the role of the country strategy as a tool for dialogue was limited by the considerable time taken to approve it, making it less relevant. The country strategy had other design limitations, including its **sector approach** that failed to recognize the intersector synergies or enable multidimensional solutions to problems that require a more holistic approach in a country like Uruguay. It also considered a **single scenario for the lending envelope** that, although indicative, created expectations on the part of the government regarding the financing it expected to receive during the period, which was highly significant in Uruguay's case given the multiyear nature of its budget.

The Bank's program 2010-2015

Between 2010 and June 2015, 41 sovereign guaranteed (SG) and non-sovereign guaranteed (NSG) loans were approved for a total of US\$2.785 billion. Loans were approved in all the areas defined in the country strategy, particularly services exports (33.5%), energy (27.4%), and agroindustry (10.7%).¹ One factor associated with this high level of approvals was **increased participation of the private-sector window** (US\$813 million vs. US\$28 million over the period 2005-2009), which found a niche of opportunities, in particular in non-conventional renewable energy (NCRE), where the Bank has been an important player in supporting the sector's transformation. For example, in 2011 the Bank financed a pulp production plant, the largest investment project in the country's history. The significant increase in private investment in Uruguay, and the presence of Structured and Corporate Financing Department (SCF) staff in the country, were critical factors in the increase in NSG lending opportunities. In other cases, such as OMJ operations, the Bank's involvement was more in response to ad hoc opportunities not directly related to its strategy or operations program in the supported areas.

Although sovereign-guaranteed approvals were higher than in the previous period, thus far they have fallen short of the projected lending envelope for the evaluation period. Twenty-nine sovereign-guaranteed loans for US\$1.9083 billion were approved during the country strategy period. However, US\$366.3 million of that came from the Reallocation Program, and US\$50 million from the China Cofinancing Fund. If the reallocation resources are not included, since they increased the lending space, sovereign-guaranteed approvals (US\$1.542 billion) were less than the lending envelope projected in the 2011-2015 country strategy (US\$1.797 billion). In general, sovereign-guaranteed approvals were consistent with the strategic objectives of the country strategy. Smaller disbursements than in the previous period, together with the country's prepayment of debt, led to negative net capital flows during the period. In this context, although the IDB reduced its share of the country's debt, it remained the leading

¹ Amounts originally approved. Including amounts currently approved as of June 2015 (excluding cancelled loans), the total is US\$2.198 billion, and the leading sectors are services exports (25.7%) energy (24.7%), and agroindustry (13.7%).

multilateral in terms of lending, although with increasing competition from the CAF in infrastructure.

The decoupling of **programming** from the country strategy has had consequences for the Bank's program in Uruguay. The predictability of the loan program improved in comparison with 2005-2009. However, the unpredictability of annual allocations to the country and the annual nature of programming imposed significant time constraints in terms of project approval. The best example is the loan to support the country's international positioning, which was initially structured in two stages. The second stage had to be divided into two loans (approved in November 2014 and January 2015) due to the country's limited room for approvals at year-end 2014. This involved, for example, splitting of the results matrix and higher transaction costs for the Bank and for the country. In Uruguay this takes on particular importance, given the multiyear nature of its budget.

In a scenario of greater access to international finance, and in response to country demand, the Bank consolidated its role as provider of **contingent financing**. The IDB's costs of financing are similar to those Uruguay can obtain on the international market under normal conditions. Consequently, from a financial standpoint, one of the main advantages of dealing with the Bank is the possibility of accessing reasonably priced lending in times of international turmoil. The introduction of policy-based loans with deferred drawdown option (DDO) in 2012 was highly valued by the country, as was the introduction of the Reallocation Program and the Flexible Financing Facility. Contingent financing was US\$550 million. Notably, the country promoted IDB approval of the DDO, which it was already using with the World Bank and the CAF.

Uruguay has been a pioneer in the use of a variety of **lending instruments** according to its financing and sector support requirements. The country has a strong preference for policy, contingent, and performance-based instruments. During the previous evaluation period (2005-2009), 52% of resources were channeled through policy-based loans (PBLs), and the country used a wider variety of instruments, including some no longer available, such as the sector facility and performance-driven loans (PDLs). The experience with the use of PDLs, given the institutions and sectors in which they were used, was positive in terms of execution. In 2010-2015, SG approvals were channeled mainly through contingent loans (35%) and investment loans, particularly specific investment loans (48.3%), with growing use of conditional credit lines for investment projects (CCLIPs) (17%) to support sanitation, neighborhood improvement, social protection, and financial market programs. From a more general perspective, the Bank has been less quick and responsive than other multilaterals in **innovating its lending and financial products** to meet the country's specific and changing needs.

Technical assistance (particularly the TC program), which sets the Bank apart from other multilaterals, was targeted to supporting issues, institutions, and operations within the framework of the Bank's program. Although this complementarity is a good thing, the Bank has played a smaller part in generating advanced, prospective, and specific knowledge to address Uruguay's new development challenges as an upper-middle-income country.

As regards the **performance of the investment loan portfolio**, significant gains were seen in shortening preparation times and costs, largely associated with deepening of the programmatic approach in several sectors and the larger average size of operations. There have also been gains in terms of execution, but extensions to execution time

remain significant. Reasons for extensions include factors such as the need to reformulate projects, design problems (e.g., underestimating execution times), difficulties in tenders and procurement, and management problems at certain execution units. The factors underlying the improvements in execution include decentralization of staff to the Country Office, which is highly valued by counterparts, the close and coordinated monitoring of the portfolio by the Country Office and the Ministry of Economy and Finance (MEF), the support for execution capacity through TCs and loans, and the Bank's flexibility in some cases to adapt projects to new government needs. **Cost overruns on infrastructure projects** have been a major problem during the evaluation period, and have been associated with design problems, problems in competitive bidding processes, and exogenous factors such as exchange rate fluctuations.

Implementation and Effectiveness of the Bank's Program

The approvals for the period 2010-2015, plus the balance of operations at the start of 2010 (US\$466 million, 31 loans), equals a portfolio of 72 loans totaling US\$3.251 billion during the evaluation period.

The Bank's program in **energy** was highly relevant as it responded to the 2005-2030 Energy Policy priorities. The private-sector window positioned itself early on, financing the country's first non-conventional renewable energy (NCRE) projects, and the Bank's involvement has had significant elements of financial and nonfinancial additionality, as well as an important demonstration effect, contributing to the development of the market for private investments. The Bank's technical support for the implementation of more bankable power purchase agreements to attract private sector involvement, depending on the various actors, has also been important in facilitating subsequent investment financing. Through the public-sector window, the Bank is building on these efforts by supporting the expansion of baseload generation. In this regard, the program has been characterized by effective coordination between the public- and private-sector windows.

The results of the Bank's program in **transportation** are mixed. In **road infrastructure**, progress was seen mainly in rehabilitation and maintenance of primary and international networks, with challenges persisting in secondary and tertiary networks as well as in institutional strengthening, and new financing mechanisms needing to be implemented. The Bank also supported expansion of the capacity of the **Port of Montevideo**. However, the significant cost overruns suggest the need for better analysis of the design of this type of works. In **logistics**, the Bank's support through technical assistance was important in establishing the National Logistics Institute and generating important outputs for the sector's planning and potential development.

Taking a programmatic approach sustained mainly with conditional credit lines for investment projects (CCLIPs), the Bank supported financing of investments in **sanitation** in Montevideo and Ciudad de la Costa. The operations suffered significant delays and cost overruns that required supplemental financing, largely due to exchange rate fluctuations since the cost estimates did not include an exchange rate management strategy that allowed for more conservative assumptions. The results to date are partial, with a bias towards the works components rather than institution-strengthening; nevertheless, if the projects are completed, the potential impact is high. The only operation in the **solid waste** sector was canceled in its entirety.

The Bank consolidated its position as a strategic partner in **science and technology**, where it has been actively involved since 2001. The Bank's financial and technical

support has been crucial to stimulating innovation promotion policies, and positive results have been seen in the mobilization of private investment and scientific output. Nevertheless, the scale of the Bank's program, as well as the public-sector contribution, is still too small to bridge the sizeable R&D investment gap. In addition, the coordination of innovation, productive development, and trade policies will be crucial to ensuring the sustainability of the outcomes achieved.

In **social protection**, the Bank set a broad strategic objective considering the intervention areas envisaged in the country strategy. The Bank's program comprised mainly a single SG loan approved in the period, which was the first operation of a CCLIP to support the National Strategy for Children and Adolescents (ENIA). It also included several TCs, accounting for 28% of the total TC amount approved in 2010-2015. The Bank's support for a number of ENIA priority initiatives has been significant, with positive results in narrowing gaps for vulnerable groups, although it is difficult to isolate the Bank's specific contribution. The Bank's support has also been important in strengthening of the Ministry of Social Development (MIDES) in its social policy coordination role, as well as other key agencies and programs. In social security, the project has suffered significant delays, but has positioned the Bank as a major partner of Banco de Previsión Social (BPS). However, there have been many different interventions with similar objectives and populations. Even though there is a shared diagnostic assessment, streamlining the interventions has been difficult in practice. Given the large number of innovative pilots financed by the Bank that naturally cannot all be rolled out or made a permanent institutional fixture, follow-up and documentation of their outcomes and lessons learned by the Bank will be essential to benefit the country and the region.

The Bank remains an important partner in **secondary education**, having begun its support more than 20 years ago, although it plays a minor role in steering policy given the special features and complexity of the sector institutional framework. The program completed several of its outputs and outcomes, but challenges remain in teacher training and the institutionalization of pilots supported and their impact on the rest of the system. The Bank's support for strengthening the National Public Education Administration (ANEP) was also significant. The Bank also supported **Plan CEIBAL**, which has helped to narrow the digital divide. However, there is still no robust evidence of its impact on learning outcomes, and challenges remain to increase technology use by students and teachers. The Bank's financial contribution to the Plan is small, and its role has focused more on supplying technical knowledge and facilitating the exchange of know-how. The Bank is interested in participating in the Plan in order to ascertain the effects of ICT use on learning and learn lessons for the region, for which it is important to conduct a comprehensive evaluation of both impacts and implementation processes. The Bank's support in **job training** has been more limited, financing diagnostic assessments of skills gaps to inform policy-making, which have yet to be used. The Bank has also financed other, more ad hoc activities, but there is little evidence on the outcomes.

Consistent with the increasing pressure of foreign direct investment on natural resources, the country strategy was the first to establish an environmental sustainability objective in the **agroindustrial sector**. Although the operations suffered delays, significant results were achieved in **direct support to producers for technology adoption**. Nevertheless, the sustainability of outcomes is weak as continuing technical assistance once the program concluded was not planned, nor were the structural barriers to suboptimal investment in technology addressed. A new project could mitigate

some of these risks if it spawns a private market for agricultural services. The results in **food health and safety** were more limited than expected. **Institutional strengthening** of the National Environmental Department (DINAMA) is a significant achievement, but it remains to be decided whether to advance towards a National Environmental System. Through the **private-sector window**, the Bank took on an important role in the preparation and financing of a major pulp production plant, the largest investment in the country's history, expected to generate annual exports of approximately US\$700 million; and also in another innovative project in terms of its focus on environmental sustainability.

In **services exports**, institutional strengthening operations for **trade facilitation** have had positive results, although there were significant implementation delays. Particularly noteworthy was the progress in modernizing the Customs Bureau. The PBP/DDO to support the country's **international positioning** played a major financial role in supporting the government's precautionary borrowing strategy, which has contributed to regaining investment grade status. The PBB/DDO supported measures with considerable structural depth, including in particular the approval of a new Customs Code and guidelines for its implementation, the approval of legislation for dual taxation and tax information exchange agreements, and introduction of the regulatory framework for implementation of the strategic plan for science, technology, and innovation; the Bank has been supporting these lines of work through investment loans. Thus, the program did not catalyze reforms or deliver technical additionality, but facilitated a framework for the organization of initiatives that were already under way and had strong political backing. The reforms are part of a work in progress, and there is still a degree of institutional fragmentation, hence the challenge of deepening and consolidating them. In **tourism**, the scale of operations is still too small to produce high impacts, but the Bank's support has helped the country move from a scenario of reactive development based on spontaneous demand, toward a planned, demand-inducing scenario, where there is room to expand the country dialogue on the focus of future operations.

In **public management and finances**, the Bank's program included a large number of operations continuing the Bank's long-standing support in this area. Although operations have been extended significantly, the majority of the outputs have been achieved. Through a set of small loans the Bank has supported the key strengthening of institutions for the modernization of **public finances**, including, in particular, support for the Debt Management Unit and the Revenue Directorate (DGI). Progress has been more modest and is still being made in other areas such as the introduction and consolidation of results-based management, strengthening of the budget cycle, and information systems for financial management. The Bank positioned itself as an important partner in implementation of the **e-government** strategy, supporting the expansion of digital services and strengthening of the e-Government Agency, although interoperability challenges persist. Although the Bank's financial support was less, its participation in this area of e-government, and the MIF's involvement in supporting a clinical records pilot, recently enabled the Bank to enter the health sector. The Bank also continued supporting the **decentralization** process through investments and capacity building at the subnational level and supporting regulatory changes. However, failure to consider the risk associated with the political cycle at the subnational level affected results in this area. In other areas, the Bank's support was more limited and ad hoc. In the **justice sector**, a project approved in 2000 was completed, albeit with difficulties. In **civil service**, support was provided for institutional development, technological

modernization, executive training, and in some cases the implementation of modern human resource management practices. However, less progress was made in regulatory terms.

In **urban development and security**, the country strategy proposed actions based on independent sector diagnostic assessments that included only limited analysis of potential synergies between proposed lines of intervention, apart from the fact that they all focused on the urban environment, chiefly Montevideo. The Montevideo **urban transportation** project had significant execution problems, such that future Bank support should pay closer attention to design and supervision as well as support for the reforms necessary to achieve the expected benefits. In **neighborhood improvement**, taking a programmatic approach, the Bank has made significant gains in housing improvement, providing the vulnerable population with better access to basic services, although challenges persist in titling, community and social development, and institution-strengthening of the municipalities to ensuring the sustainability of these interventions. In **citizen security**, the project was targeted and its design relevant, but changes in the structure of the police force had an impact on its implementation. The Bank supported this process, and its biggest contribution was to provide training for police officers, which is set to be made a permanent feature in 2015.

Conclusions and recommendations

In a scenario of greater access to international finance for the country and growing competition from other multilaterals, the big challenge for the Bank in Uruguay is how to more quickly adapt its **business model** (including its internal processes, structure and capabilities, financial and nonfinancial instruments) to Uruguay's specific and changing needs. Even though it is an upper-middle-income country, Uruguay still demands significant lending resources from the Bank. Although the findings and problems identified in this evaluation (e.g., sector focus and programming, instruments) are specific to Uruguay and have a special nature given the country's distinctive features (e.g., its multiyear budget) and relationship with the Bank, they also affect other upper-middle-income countries and may have corporate implications.

Based on the findings presented in this evaluation, OVE makes the following recommendations:

1. **Increase the multisector focus of the country strategy and the Bank's program in general.** The country is making efforts to adopt this focus in such areas as competitiveness and social policy. In this regard, the Bank should structure the new strategy, and it possible its operations and analytic work, around crosscutting issues that leverage possible synergies among different sectors of the Bank.
2. **Balance the need for contingent financing with investment and technical assistance.** To implement this recommendation, the Bank could consider: (i) developing parameters that help define the makeup of the lending envelope (contingent and investment resources), to respond more effectively and efficiently to the country's needs. For this, the strategy should also incorporate different lending scenarios, allowing flexibility based on the management of program and country risks; and (ii) using contingent financing supplemented with investment and technical assistance, for example through hybrid lending instruments, in areas where a role can be played in catalyzing reforms.

3. **Deepen the analysis and cost estimates for infrastructure projects.** The Bank could consider supporting the country through: (i) deeper and more detailed analysis of the estimated costs of works prior to tenders in order to minimize **design problems**; and (ii) the systematic incorporation of the possible impact of **exogenous variables** such as the exchange rate and price of inputs in their cost estimate models.
4. **Design a knowledge strategy with the country.** Explore financing mechanisms to support the design of an agreed strategy with the government that contains at least two major lines of work: (i) an agenda of advanced, prospective, and specific knowledge to address the new and complex issues Uruguay faces as an upper-middle-income country in order to offer the country attractive solutions and products; (ii) an agenda to systematically capture and document the results and lessons of lending and technical assistance operations (e.g., evaluations of innovative pilots), in order to learn lessons for the country and the region as a whole.
5. **Explore the use and development of new lending and financial instruments tailored to the country's specific needs that allow its debt strategy to be supported and that reduce the transaction costs for the Bank and the country.** The options to explore include, for example: (i) deepening the use of programmatic lending instruments; (ii) a new results-based lending instrument; (iii) an “umbrella” lending instrument, for example, to support various institutions in a common thematic area (e.g., institution-strengthening); (iv) innovative financial instruments (e.g., swaps, insurance, local currency financing).
6. **Move in the direction of greater flexibility in the annual programming process.** Explore new mechanisms for progress toward a multiyear or ongoing operations programming process, in order to make annual allocations and operation design more predictable in Uruguay, and more in line with the country's multiyear budget.

I. GENERAL CONTEXT OF THE COUNTRY

- 1.1 **Uruguay is a small economy with one of the highest per capita incomes in the region.** It is among South America's smallest countries in terms of population (3.3 million) and land area (176,000 square kilometers). Its population is overwhelmingly urban (95%), with approximately 53% living in metropolitan Montevideo. In terms of GDP, Uruguay ranks tenth in Latin America and the Caribbean, and its service sector is responsible for nearly 60% of that output. The country has a high level of human development relative to Latin American and Caribbean countries,¹ with a per capita GDP (purchasing power parity) of US\$20,497 in 2014 it ranks fifth in terms of income among the Bank's 26 borrowing member countries (Figure I.1, Annex I).
- 1.2 **Uruguay has an open, export-led economy with strong economic ties to Argentina and Brazil.**² Exports have been a major driver of the economy, averaging 30% of GDP over the past decade (Figure I.2, Annex I). Specifically, the agriculture sector remains the largest generator of foreign exchange (70% of exports in 2014) and continues to exert the greatest multiplier effect on the economy (MEF). As a small, open economy, however, Uruguay is highly exposed to external shocks, such as fluctuations in commodity prices and exchange rates, and in the economic performance of its main trading partners, chiefly Argentina, and Brazil.³ The creation of Mercosur in 1991 opened new economic opportunities for the country, but also made it more dependent on its partners.
- 1.3 **Over the past decade, Uruguay has experienced one of the highest economic growth rates in Latin America and the Caribbean.** Following the severe crisis of 2002,⁴ the country entered a high growth phase (Figure 1.1). Between 2004 and 2014 real GDP grew at an annual average of 5.4%, while per capita GDP doubled. Meanwhile, unemployment declined to historic lows (6% to 7% in 2009-2014). This economic performance can largely be explained by a stable macroeconomic policy framework, favorable external conditions in terms of demand for export goods and services, and a favorable investment climate. In particular, foreign direct investment (FDI) has been a key driver of recent economic growth (Figure I.3, Annex), rising from 2.2% in 2001-2004 to 5.7% in 2005-2013.

¹ In 2013 the inequality-adjusted human development index (HDI) was 0.662, similar to Chile's (0.661) and below only that of Argentina (0.68) in Latin America and the Caribbean. Uruguay's HDI rose from 0.755 to 0.790 from 2005 to 2013.

² Although Uruguay has reduced its exposure to Argentina and Brazil, these countries remain important in terms of financial and trade flows. In 2013 Argentina and Brazil represented 35% of total FDI and 80% of total tourism revenue.

³ According to a 2012 study by the International Monetary Fund (IMF), "Intra-Regional Spillovers in South America: Is Brazil Systemic after All?", Uruguay has the second highest sensitivity to external shocks in South America (excluding Guyana, Suriname, and French Guyana). Around 36% of GDP variance can be attributed to external shocks: 25% to direct shocks from Argentina, 3% to shocks from Brazil, and the remaining 8% to global shocks.

⁴ The 1997-2002 recession culminated in 2002 with one of the worst financial crises in Uruguay's recent history. From 1998 to 2002, GDP plummeted 15%, external debt surpassed 100% of GDP, and the poverty rate doubled.

The main recipients of FDI over this period were the construction sector (associated mainly with the tourism sector) and the agroindustrial sector, with the construction of the Fray Bentos and Montes del Plata cellulose plants accounting for a significant share. In the case of the agroindustrial sector, the substantive increase in investment brought about a profound transformation of the sector.⁵

1.4 Major reforms to macroeconomic policy management following the 2002 crisis allowed for better handling of the recent international financial crisis.

The 2002 crisis prompted adjustments in the institutional framework of the financial system, as well as in macroeconomic policy management, through the accumulation of foreign reserves and the adoption of macroprudential measures aimed at reducing liquidity and exchange rate risks. Thanks to these measures, the economy was able to largely mitigate the impacts of the 2009 international financial crisis. In addition, significant efforts were made to reduce the vulnerability of public finances, specifically in the area of debt management. Total public debt fell from 102% of GDP in 2004 to 60% in 2014 (Figure I.4, Annex I), and the debt profile has improved in terms of currency composition and maturity structure (Figure I.5, Annex I).⁶ In this context, Uruguay was restored to investment grade rating in 2012, which has given it greater access to international financial markets. The country has also adopted a precautionary financing strategy to guard against a potential loss of access to financial markets. As of December 2014, the government had cash reserves equivalent to 3.8% of GDP, enough to cover two years of debt repayments.⁷ These reserves have been supplemented with nearly US\$2 billion in contingent credit lines with multilateral institutions (World Bank, CAF, Latin American Reserve Fund, and more recently the IDB), equivalent to 3.5% of GDP (December 2014).⁸

1.5 This economic growth, however, has been accompanied by persistent high inflation, ongoing current account deficits, and, more recently, widening of the fiscal deficit. Over the last decade, inflation averaged 7.4% in Uruguay, the third highest rate in South America (Figure I.6, Annex I). Despite a cautious monetary policy to guard against possible external shocks to the exchange rate, measures to contain some of the prices in the basic shopping basket and regulated rates, inflation expectations have not been anchored to the central bank's target (3% to 7%) and strong domestic demand and the widespread practice in the country of index-linking salaries to inflation have created inflationary pressures.⁹ The growing influx of foreign capital and exchange rate fluctuations have led to increased spending on imports, affecting the current account balance, which averaged -3% between 2006 and 2013 (Figure I.7, Annex I). Meanwhile, the fiscal deficit in 2012 rose to 2.8% of GDP (from 0.9% in 2011) due to payments for

⁵ These changes have raised productivity and land prices, also impacting the returns for family producers and accelerating the process of rural emigration. They have also increased the need for food health and safety and environmental stewardship services. See "Review of the Bank's Support to Agriculture, 2002-2014: Evidence from Key Thematic Areas" (OVE, 2015).

⁶ The proportion of debt denominated in local currency increased from 11% in 2004 to 52% in 2014. Meanwhile, the average maturity increased from 7.4 years to 14 years over the same period (Debt Management Unit, MEF).

⁷ Source: Debt Management Unit, MEF.

⁸ Ibid.

⁹ Over the last decade private consumption grew at an average rate of 6%.

the liquidation of Banco Comercial and the impact of drought on UTE's finances. The deficit recovered slightly in 2013 with an increase in revenue. However, VAT revenue intake declined in 2014, due in part to more moderate growth, which, in conjunction with current expenditure, led to a more significant fiscal deterioration (Figure I.8, Annex I).

- 1.6 **As economic growth puts more pressure on social and productive infrastructure, reforms and significant investments are needed in key sectors.** The infrastructure investment gap for the next five years is estimated at nearly 30% of GDP (Table I.1, Annex I).¹⁰ In 2011, a new regulatory framework for public-private partnerships (PPPs) was approved in a bid to increase private-sector participation in the provision of infrastructure. One of the main gaps is in roads, where heavy traffic has grown exponentially in the past decade, affecting the condition of the roads.¹¹ In energy, a matrix heavily dependent on water resources and fuel imports (chiefly from Brazil and Argentina), combined with the high cost of electricity generation in comparison with the region, has led to a firm, consensus-based policy of investment in renewable energies. Investment gaps in the social sector are estimated at US\$3.6 billion, mainly for low-income housing projects.
- 1.7 **The country also faces other big challenges in sustaining high growth rates in the long term.** Uruguay's productivity is among the highest in the region, measured in terms of total factor productivity (TFP), but its growth in recent decades has fallen short of the regional average,¹² further widening the gap with developed countries. This situation is reflected in the low levels of R&D investment (0.3% of GDP in 2013) in comparison with other upper-middle-income countries in Latin America and the Caribbean and the OECD (2.4%), the small private share of this investment (25%), and the fact that the vocational training system and scientific output are poorly linked to the needs of the productive sector. Additionally, Uruguay has a small economy with a limited productive structure and exports mainly concentrated (70%) in low value-added agricultural staples (soya, meat, dairy products). This highlights the importance of promoting investments in high value-added sectors and trade facilitation to reduce dependence on commodity prices and support the country's international integration.¹³ Although the financial sector has adopted prudential measures to ensure liquidity in the system and mitigate foreign currency risks, Uruguay lags well behind Latin

¹⁰ Office of Planning and Budget of the Office of the President of the Eastern Republic of Uruguay, Fourth Seminar of the Network of National Public Investment Systems of Latin America and Caribbean (June 2014).

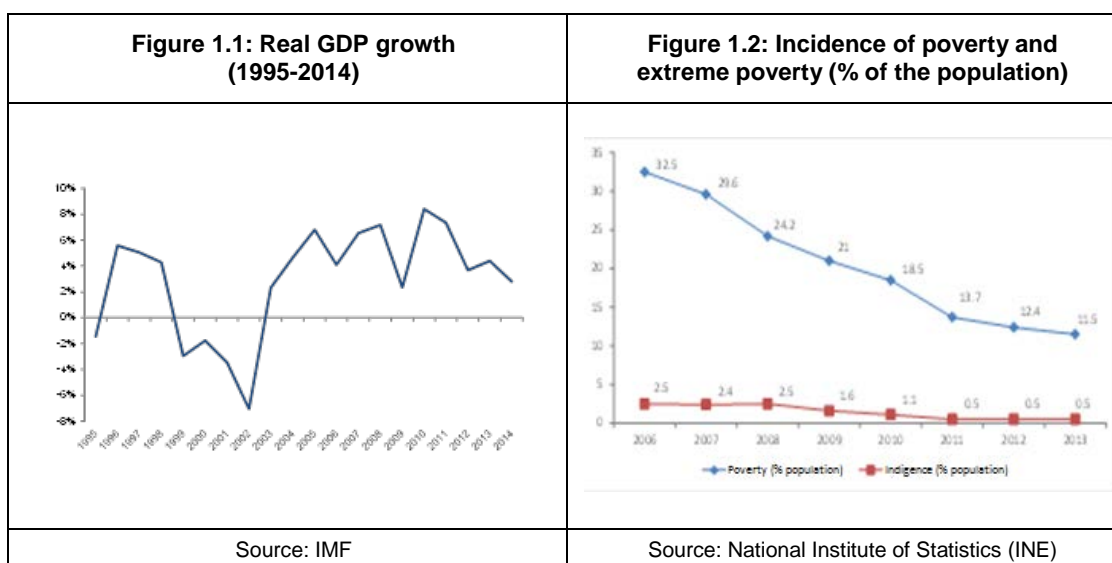
¹¹ Between 2000 and 2010 the percentage of the road system in "fair or poor" condition increased from 16% to 46% of the total, contributing to a road infrastructure investment gap of US\$1.8 billion. Port and telecommunications infrastructure has also come under pressure. According to the Global Competitiveness Report 2014-2015, infrastructure is one of the main constraints on doing business in Uruguay.

¹² "Productivity and Factor Accumulation in Latin America and the Caribbean: A Database (2014 Update)". Eduardo Fernández-Arias (2014).

¹³ The sectors with recent growth include tourism, which increased its share of GDP from 3.1% to 4.8% between 2006 and 2010. Currency earnings from tourism rose from US\$598 million to US\$2.663 billion over the same period (Figure I.11, Annex I). Despite its growing importance, inbound tourism remains concentrated in terms of geography, season, and tourist origin. Exports of global services (e.g., software and information technology, professional services, call centers) have also grown by an average of 10% in the past decade, coming to represent 11% of the total in 2013 (Source: Uruguay XXI).

America and the Caribbean as a whole in terms of the level of credit to the private sector (Figure I.9, Annex I) and capitalization (0.4% vs. an average of 47% in Latin America and the Caribbean).

- 1.8 **The introduction of reforms and the expansion of social programs, combined with good economic performance, have led to a significant reduction in poverty and inequality levels—one of the highest reductions in Latin America and the Caribbean.** The increase in public social spending between 2005 and 2012 from 19% to 25% of GDP reflects the important role that social reforms have played since the economic crisis ended. Between 2006 and 2013 poverty declined from 32.5% to 11.5%, and indigence from 2.5% to 0.5% (Figure 1.2). In terms of income inequality, the Gini coefficient moved from 0.45 in 2006 to 0.38 in 2013 (MIDES, 2014), while the ratio between incomes in the last and first decile dropped from 17.9 to 12 (Figure I.10, Annex I).



- 1.9 **Nevertheless, there are major inequalities in terms of access to basic services at the local level and for more vulnerable groups.** Poverty is concentrated in urban areas (13.1% compared with 3% in rural areas) and the child poverty rate remains high.¹⁴ Moreover, significant inequalities persist in access to basic services. Although the bulk of the population has access to clean drinking water, sanitation coverage lags behind, with significant differences between Montevideo (91%) and the rest of the country (50%), and effective rates of connection that are lower still (82% and 44%, respectively). In education, Uruguay has made significant gains in terms of coverage. However, quality lags behind OECD countries and has declined in recent years, as the results of international tests show. Additionally, although it has improved, the completion rate for basic secondary education (17 to 18 years) and upper secondary (21 to 22 years) remains low (65.1% and 37.7%, respectively). The percentage of young people (aged 15 to 29) neither in education nor employment, and hence in a

¹⁴ In 2013 22.6% of the under-6 population was living in poverty. This figure was 21.2% for the 6- to 12-year-old segment, and 19.9% for youth (13 to 17 years old) (Source: National Institute of Statistics (INE)).

situation of high social vulnerability, is 40%.¹⁵ Inequality and exclusion are factors in the increase in crime and violence in urban areas.

1.10 **Uruguay has made gradual progress in the process of State and public management reform, although significant challenges remain.** Uruguay is well positioned on governance and state capacity indicators relative to the region (Figure I.12, Annex I). In order to accelerate administrative modernization and improve services to citizens, Uruguay is promoting an e-government agenda, on which significant progress has been made.¹⁶ Fiscal policy has been strengthened with the diversification and increase in tax revenues. However, in a recent context of weakening fiscal balances and increased spending pressure, raising efficiency and prioritizing expenditure is a major challenge. Lastly, Uruguay is one of the most centralized countries in Latin America and the Caribbean, although decentralization has intensified in recent years with growing transfers from central to department level and the creation of a new level of government (municipios), which has created challenges in terms of increasing capacity and governance at the subnational level.

1.11 **In a less favorable international economic climate, the growth forecasts for the coming years are more moderate.** Since 2012 Uruguay has entered a cycle of more moderate growth. The government projects growth of 2.5% in 2015 and that the consolidated public deficit will converge on 2.5% of GDP by end-2019. Since Uruguay is a small and open economy, its biggest risks derive from external shocks, especially exchange rate fluctuations, which could particularly affect flows of trade, tourism, and foreign investment, as well as the debt profile. In a scenario of less global growth and a slowdown in China, exports could also be affected. Moreover, as mentioned, Uruguay's trade flows remain tied to the economic cycles in Argentina and Brazil, so the performance of those economies remains important. The country also faces domestic risks, the biggest of which is probably high inflation. The IMF projects inflation of 7.9% in 2015, compared with 8.8% in 2014. The five-year budget set to be approved in 2015 will be important in determining the fiscal policy stance in the years ahead.

II. THE BANK'S PROGRAM (2010-2015)

2.1 **At the start of the evaluation period, the Bank had a strong financial and sector presence in Uruguay.** During the previous evaluation period (2005-2009) the Bank approved loans of US\$1.269 billion, mainly in the form of policy-based loans (PBLs) (52%). At the start of the evaluation period the country's debt with the Bank was 17.8% of its total external debt, 51.8% of its multilateral debt, and 7.6% of GDP. The outstanding sovereign-guaranteed portfolio comprised 31 loans in 14 sectors, with undisbursed balances of US\$466 million, mainly in transportation (29.3%) and water and sanitation (23.2%). There were also two outstanding non-sovereign guaranteed operations (TFFPs), for a total of US\$28 million.

¹⁵ The unemployment rate among young people under age 25 is 21% (17.3% for men and 26.7% for women). Therefore, 80% of young people neither in education nor employment belong to the poorest 40% of the country's population.

¹⁶ From 2010 to 2014, Uruguay raised its score on the United Nations digital public services index from 0.479 to 0.850, thus positioning itself in third place on the world ranking for digital public service availability.

A. Relevance of the Bank's country strategy with Uruguay

- 2.2 **The current country strategy was designed in a more favorable economic climate than its predecessor and sought to support the government's efforts to maintain macroeconomic stability and advance social reforms.** The country strategy for the period 2005-2009 (document GN-2379-1) was formulated in a context marked by deterioration in the social and fiscal indicators as a result of the 2002 crisis. The current 2010-2015 country strategy (document GN-2626) was approved in August 2011, in a more favorable economic and social scenario, and sought to support the government's efforts with actions geared toward supporting high rates of economic growth with equity and inclusion.¹⁷ The country strategy defined the Bank's work in ten areas with their respective strategic objectives (Table 2.1). Although the country strategy's scope is broad in terms of sectors, it reflects the Bank's medium and long-term relationship with the country in a number of them.¹⁸ In **non-sovereign guaranteed (NSG) operations**, the country strategy identified opportunities for participation in transportation, energy, agroindustry, and service exports (tourism).¹⁹ In **technical cooperation and knowledge generation**, simultaneous structuring with the lending program was envisaged.
- 2.3 **In this context, the country program projected a bigger sovereign guaranteed lending envelope than in the previous strategy and a scenario of positive net capital flows for the country.** The sovereign guaranteed (SG) lending envelope for the period 2011-2015 was US\$1.797 billion, an increase regarding the previous period (US\$1.2 billion). SG disbursements in 2011-2015 are therefore estimated at US\$1.129 billion and net capital flows at US\$409 million (Table I.2, Annex).

¹⁷ In 2010, the Bank's work in Uruguay was guided by the update to document GN-2379-1 in March 2010. Country strategy updates (document GN-2570).

¹⁸ At the start of 2010 the Bank had active loans in nine of the ten sectors envisaged in the country strategy. The only exception was energy, where the Bank had not approved any loans since 1980.

¹⁹ The country strategy also envisaged support for the regulatory framework and institutional strengthening of public-private partnerships.

Table 2.1: The Bank's strategic objectives by cooperation areas (document GN-2626)

Cooperation areas	Strategic objectives
Energy	To increase electricity and natural gas supply capacity
Transport	To improve maintenance of the road network
	To improve infrastructure and port management
Water, sanitation, and solid waste management	To expand sanitation and drainage coverage
	To reduce solid waste disposed of in open-air dumps
Science and technology	To increase private-sector contribution to investment in research and development
Social protection	To improve living conditions for vulnerable groups, with an emphasis on children and adolescents
Education and job training	To increase school access and retention and improve human capital formation with an emphasis on vulnerable groups
Agroindustrial sector	To ensure sustainable development of the agroindustrial sector
Services exports	To increase services exports
Public management and finances	To improve public administration
Urban development and security	To improve living conditions for the urban population

- 2.4 **In general, the country strategy's strategic objectives were relevant insofar as they addressed critical problems for Uruguay's development and were aligned with the government's priorities.** Although in some cases the objectives were broad and somewhat unrealistic in relation to the proposed lines of intervention (e.g., to improve living conditions for the urban population; to improve living conditions for vulnerable population groups, with an emphasis on children and adolescents), these were consistent with the **2010-2014 National Budget Act**, the five-year budget that reflects the government's priorities.²⁰ The budget identified five priority areas with their respective objectives (housing, education, public security, infrastructure, and social protection), and a further ten programmatic areas.²¹ Moreover, despite the existing portfolio and loans in preparation, the country strategy did not set objectives in the financial markets area, where the Bank had identified one of the biggest development gaps.²²
- 2.5 **However, the role of the country strategy as a tool for country dialogue was limited by the time taken to approve it, undermining its relevance.** Preparation of most of the sector notes began in 2009 and was completed before the high-level

²⁰ In the fiscal area, the main targets were to reach a consolidated public sector deficit of 0.8% of GDP in 2014 (1.7% in 2009), and progressively reduce public sector debt from 69% of GDP in 2009 to 40% in 2015.

²¹ Health, national defense, work and employment, productive development, culture and sports, administration of justice, legislative affairs, science and innovation, control and transparency, environment and natural resources.

²² An analysis of economic growth and development gaps (document IDB-TN-816, 2015) identified the country's biggest gap to be in financial markets due to the low levels of: credit to the private sector, volume of insurance premiums, number of bank branches, and capitalization of the capital markets. See also document IDB-WP-516 (2014).

policy meeting for dialogue with the incoming government (“encerrona”) in February 2010. However, the country strategy was only approved in August 2011, with a period of validity from December 2010 to December 2015, which did not coincide with the country’s political cycle. Although in a context of methodological changes in country strategies the approval time may be in line with others approved in 2009-2010,²³ the government considered the process excessively bureaucratic and cumbersome, generating significant transaction costs for the Bank and the country,²⁴ and limiting the strategy as an instrument to support the dialogue between the Bank and the country. By contrast, the World Bank began preparing its strategy after the IDB but approved it one year sooner.

2.6 **The country strategy had other design limitations as a tool for guiding the Bank’s program.** The country strategy considered a **single scenario for the lending envelope** that, although indicative, created expectations on the part of the government regarding the financing it expected to receive during the period, which was highly significant in Uruguay’s case given the multiyear nature of its budget. Additionally, although a holistic approach was taken to the country’s development needs during the preparation of the country strategy, following the existing preparation guidelines, the country strategy ended up with a **sector approach** that failed to recognize the intersector synergies or enable multidimensional solutions to problems that require a more holistic approach in a country like Uruguay. The country strategy was based on extensive analytical work (22 sector notes), and despite various sectors sharing common goals, in practice the various areas were a mapping of the Bank’s sectors.²⁵

B. Program implementation

1. The Bank’s program (2010-2015)

2.7 **Between 2010 and June 2015, 41 loans (SG and NSG) were approved for a total of US\$2.785 billion.** Loans were approved in all the areas defined in the country strategy, and the amounts were concentrated in services exports (33.5%) energy (27.4%), and agroindustry (10.7%) (Table I.3, Annex).²⁶ These approvals for the period 2010-2015, plus the balance of operations at the start of 2010 (US\$466 million, 31 loans), equals a **portfolio of 72 loans for US\$3.251 billion during the evaluation period.**

2.8 **One factor associated with the level of approvals is the increased participation of the Bank’s private-sector window (Figure 2.1), which found a sizeable niche of opportunities.** Between 2010 and June 2015, the Bank approved nine NSG investment loans totaling US\$813 million, equivalent to 34% of

²³ The country strategy with Uruguay took 11.2 months from the issues paper (August 2010) to its approval. The average for the other 12 country strategies approved in 2010-2011 was 11.7 months.

²⁴ In the Bank’s case, the costs charged to the country strategy were US\$544,000.

²⁵ One example is Urban development and security, which included independent diagnostic assessments in three sectors (neighborhood improvement, transportation, and citizen security). The country strategy included an area proposing the Bank’s involvement in three sectors, with no analysis of synergies and complementarities beyond the fact that interventions would be in urban areas, primarily Montevideo.

²⁶ Amounts originally approved. Including amounts currently approved as of June 2015 (excluding cancelled loans), the total is US\$2.198 billion, and the leading sectors are services exports (25.7%) energy (24.7%), and agroindustry (13.7%).

total loan approvals.²⁷ This is well above the 2005-2009 approval level (two TFFP operations for US\$28 million) and, in general, above historical approval levels in the country. Particularly noteworthy is the work in the area of non-conventional renewable energy (NCRE), which accounts for 67.8% of NSG resources, and where the Bank has been an important player in supporting the sector's transformation. Private-sector work in this area was also characterized by effective coordination with the public-sector window (See Energy section, Chapter 3). To launch this expanded private-sector engagement, in 2011 the Bank financed a pulp production plant, the largest investment project in the country's history (see Agroindustry section, Chapter 3). The significant increase in private investment in Uruguay, and the presence of Structured and Corporate Financing Department (SCF) staff in the country, were critical factors in this increase in lending opportunities. In other cases, such as OMJ operations, the Bank's involvement was more in response to ad hoc opportunities that were not directly related to the strategy or the Bank's program in the targeted areas.²⁸

- 2.9 **Although sovereign-guaranteed approvals were higher than in the previous period, thus far they have fallen short of the projected lending envelope for the evaluation period.** Twenty-nine SG loans for US\$1.9083 billion were approved during the country strategy period. However, US\$366.3 million of that came from the Reallocation Program, and US\$50 million from the China Cofinancing Fund. If the reallocation resources are not included (since they increased the lending space), SG approvals (US\$1.542 billion) were less than the lending envelope projected in the 2011-2015 country strategy (US\$1.797 billion).²⁹ In general, SG approvals were consistent with the strategic objectives of the country strategy (see Chapter 3).

²⁷ The Structured and Corporate Financing Department (SCF) approved nine loans (US\$819 million), and the Opportunities for the Majority Sector (OMJ) approved two (US\$7.5 million). The amount includes US\$117.3 million from the China Cofinancing Fund and US\$25 million from the Canadian Climate Fund.

²⁸ Pipeline A (June 2015) includes five NSG loans (US\$350 million) and one SG loan (US\$76 million).

²⁹ For the period 2010-2015, SG approvals (excluding reallocation resources) would be US\$1.582 billion. This is less than the lending envelope (US\$2.045 billion), which includes projected approvals in the 2011-2015 country strategy and in the CPD for 2010 (US\$248 million).

Figure 2.1: Loan approvals 2005-2015 (SG and NSG)	Figure 2.2: Disbursements and (SG) net capital flows: 2005-2014
<p>Note: (*) Includes amounts approved as of June 2015.</p> <p>Source: OVEDA using the Bank's data warehouse.</p>	<p>Note: Includes principal prepayments in 2006 (US\$300.3 million), 2007 (US\$8.1 million), 2010 (US\$300.4 million) and 2013 (US\$518.9 million).</p> <p>Source: Finance Department (IDB).</p>

2.10 **Smaller disbursements than in the previous period, together with the country's prepayment of debt, led to negative (SG) net capital flows during the period.** In 2010-2014 disbursements totaled US\$1.049 billion, 18% less than registered in 2005-2009 (US\$1.284 billion), partly associated with approval of undisbursed contingent loans. Moreover, Uruguay prepaid debt to the Bank in 2010 (US\$300.4 million) and more recently in 2013 (US\$518.9 million). Under the new Reallocation Program approved by the Bank in 2012,³⁰ Uruguay used the prepayment (US\$367 million) in 2013 to partially finance DDO policy-based loans. In this context, total net flows of Bank capital to the country were negative in 2010-2014 (Figure 2.2).

2.11 **The predictability of the loan program improved, yet the annual nature of programming has put major time constraints on project approvals.** Between 2010 and 2015, Bank Management formulated six country program documents (CPDs). The decoupling of programming from the country strategy improved the advance preparation of the approved projects (Table I.4, Annex I).³¹ However, the unpredictability of annual allocations to the country and the annual nature of programming imposed significant constraints in terms of project approval. A case in point was the PBL/DDO to support the country's international positioning, which was initially structured in two stages. The second stage had to be divided into two loans (approved in November 2014 and January 2015) due to the country's limited room for approvals at year-end 2014. This involved, for example, splitting of the results matrix and transaction costs for the Bank and for the country.

2. Financial significance of the Bank's program

2.12 **In a scenario of greater access to international finance, and in response to country demand, the Bank consolidated its role as provider of contingent financing.** The IDB's costs of financing are similar to those Uruguay can obtain on

³⁰ Proposal for the Establishment of a Reallocation Program. Revised version (document FN-672-1).

³¹ In terms of amounts, the main unapproved operation was a PBL for the financial sector (UR-L1097, US\$170 million) slated for 2010, which completed the design stage but was not approved.

the international market under normal conditions (Figure I.13, Annex I). Consequently, from the government's viewpoint, one of the main advantages of dealing with the Bank is the possibility of accessing reasonably priced lending in times of international turmoil. In the past, de facto contingent financing was obtained by the government's not requesting disbursements of PBLs even when the conditions set in the policy matrix had been met (Table I.1, Annex I). During the evaluation period Uruguay was the Bank's first country to use PBLs under the new deferred drawdown option (DDO)³² modality approved in 2012. The country promoted IDB approval of this instrument, which it was already using with the World Bank and the CAF. In 2010-2015, 35% of SG resources were approved under the DDO modality (US\$550 million).³³ Access to these contingent lines was an important factor in the country's recovering its investment grade status in 2012, thus expanding its sources of finance.

- 2.13 **In this context, although the IDB reduced its share of the country's debt, it remained the leading multilateral in terms of lending, though with increasing competition from the CAF in infrastructure.** Despite the increase in approvals, the expansion of bond financing on the international market, together with the country's debt repayment, led to a decline in the IDB's share of the country's external debt in 2010-2014 (from 18% to 9%). The World Bank also reduced its share of Uruguay's external debt (from 8.5% to 5.7%). The World Bank approved less resources than the IDB (US\$1.027 billion) but surpassed its projected lending envelope,³⁴ mainly through development policy loans (DPLs) (60%) in the areas of competitiveness, public management, and social inclusion. Meanwhile, the CAF, with a growing presence and activity in the country,³⁵ approved US\$688 million in SG loans (US\$308 million in NSG loans), mainly for contingent financing (58%) and infrastructure (40%). In the context of the regulatory framework for public-private partnerships (PPPs), supported by the IDB and other cooperation agencies, the CAF and the government are structuring a US\$500 million fund to finance infrastructure.

3. Operational aspects of the Bank's program

- 2.14 **Uruguay has been a pioneer in the use of a variety of lending instruments according to its financing and sector support requirements.** In 2005-2009, 52% of resources were channeled through PBLs, and the country used a wider variety of instruments, including some no longer available, such as the sector facility and performance-driven loans (PDLs) (Table I.5, Annex I). In the case of the sector facility (eight loans, US\$25 million), the expected improvements in terms of streamlined execution did not materialize.³⁶ The experience with the use of PDLs,

³² The DDO modality allows PBL resources to be withdrawn during a set period of time (three years from the disbursement eligibility date, with the option of a single renewal of a further three years), provided that the loan approval conditions are met. Proposal to Establish a Set of Contingent Lending Instruments of the IDB. Revised version (document GN-2667-2).

³³ The amount originally approved was US\$917 million, but US\$366.3 million was cancelled.

³⁴ Development policy loans (DPLs) increased from US\$200 million to US\$620 million through the increase in the lending envelope for the strategy. In 2013 the World Bank classified Uruguay as a high-income economy, so its financial support to the country may decline in the medium term.

³⁵ The CAF is currently building a headquarters for the South region in Montevideo.

³⁶ On average they took 8.2 months to prepare, 9.3 months to reach eligibility and over five years to disburse.

given the institutions and sectors in which they were used, was positive (Box 2.1). In 2010-2015, sovereign-guaranteed approvals were channeled mainly through contingent loans (35%) and investment loans, particularly specific investment loans (48.3%), with growing use of conditional credit lines for investment projects (CCLIPs) (17%) to support sanitation, neighborhood improvement, social protection, and financial market programs.

- 2.15 **The Bank has been less quick and responsive than other multilaterals in terms of innovating its lending and financial instruments to meet the country's specific and changing needs.** Uruguay viewed the introduction of contingent loans, the Flexible Financing Facility, and the Reallocation Program highly positively as a convergence with the products offered by other multilaterals. However, the IDB's response has been slow considering that Uruguay had contingent loans with the World Bank and the CAF. Moreover, in 2012 the World Bank approved the first program-for-results (PforR) loan in Latin America and the Caribbean in Uruguay, an instrument sought by the country but no longer available from the IDB. Other innovative World Bank products in Uruguay that were highly valued by the government include conversion of US\$150 million in debt to Uruguayan pesos through a swap, a hedging transaction with the National Administration of Electric Power Generation and Transmission (UTE) to reduce its exposure to low precipitation and energy price fluctuations, a DPL financed in local currency through the issuance of a bond denominated in Uruguayan pesos, and a technical assistance loan (TAL) to support the institutional strengthening of various institutions.

Box 2.1: Experience using PDLs in Uruguay

Technology Development Program II (loan UR-L1030). The Bank approved this PDL for US\$40 million in 2008 to support instruments of the National Research and Innovation Agency (ANII). The ANII is a non-State body organized and operating under public law and reporting to the Ministerial Office of Innovation and chaired by the Ministry of Education. The PDL recently finished disbursing, and its execution was positive, thanks to the ANII's strong institutional capacity and flexible structure; the clear definition of indicators (although some were more output indicators than outcome indicators), which facilitated external verification; and the availability of resources to meet the disbursement conditions, except in 2014, such that the last disbursement was delayed by a few months. The ANII rated the experience positively, and considered the new loans approved in 2012 and 2014 in the form of traditional investment loans to be a step backwards.

CVU Highway Program II (loan UR-L1022). The Bank approved this PDL for US\$100 million in 2008 to make investments in the road network administered by the Corporación Vial de Uruguay (CVU). The loan was executed within the period projected, although disbursements were front-loaded at the start of implementation in 2009 (80%). Together with the clear definition of indicators, the legal status of the CVU as an entity organized and operating under private law was a decisive factor. The CVU is responsible for works and maintenance on the road network (through private firms) concessioned by the MTOP to the National Development Corporation, which owns the CVU's share capital. The CVU has greater flexibility when contracting works since it operates under rules of private law and has better access to budget alternatives (e.g., tolls) than public entities. The pipeline for 2015 includes an investment loan with the CVU under the multiple works modality.

- 2.16 **One distinctive feature of the Bank, however, has been the provision of technical assistance geared towards supporting the Bank's program areas.** Between 2010 and June 2015 the Bank approved 43 TC operations for US\$17.6 million, the majority executed by the country (61%),³⁷ which have, in

³⁷ Excluding operations for Group C and D countries.

general, been aligned with the Bank's program.³⁸ The amounts have been concentrated in social protection (28.2%), an area where the Bank approved a single SG loan during the period, and in public management and finance (15.5%) (Table I.6, Annex I). Fourteen percent of the TC was "operational support" for the preparation and implementation of loans (e.g., demand studies, investment plans, evaluations), and 84% was "client support" focused on strengthening sector institutions, financing pilots and intervention strategies, sector plans, etc. (Table I.7, Annex I). The government particularly valued the exchange of civil servants in such areas as education, urban development, and procurement through the CT/INTRA intraregional technical cooperation program. The Bank has also provided more ad hoc assistance with other resources, such as the recent local knowledge networks with experts promoted by the Country Office for the discussion of policies and prospective topics. Although the assistance and loan programs complement one another well, it has been precisely in the generation of advanced, prospective, and specific knowledge to address the country's new and complex issues, where the Bank has been less involved.

4. Performance of the loan portfolio

- 2.17 **Deepening the programmatic approach in several sectors led to a significant shortening of investment loan preparation times.** The average approval time (from pipeline to approval) decreased by 38% from 16.3 months (2005-2009) to 11.8 months (2009-2013), a bigger reduction than the one experienced by the Bank, which went from 17.9 to 15.6 months (-14%). The greater use of CCLIPs and, in general, the programmatic focus in sectors such as sanitation, urban development, agroindustry, tourism, education, and science and technology enabled shorter approval times for follow-on operations within a given programmatic intervention.³⁹ The time between approval and eligibility dropped from 10 months to 6.5 months, less than the Bank's average (11.6 months).
- 2.18 **The programmatic approach, in conjunction with the larger average size of operations, helped bring down preparation costs, although they remained above the Bank average.** The costs of preparation (per million approved) decreased from US\$8,430 in 2005-2009 to US\$4,437 in 2010-2014, converging on the Bank's average levels (US\$2,624). This decrease is partly explained by the shortening of approval times, and the increase in the average size of operations in Uruguay, which rose from US\$24.2 million in 2005-2009 to US\$38.9 million in 2010-2014. In this regard, the operations with the highest preparation costs (per million disbursed) were mainly in the public management and finances areas, followed by agroindustry and tourism. These are sectors with small volume operations relative to portfolio averages.

³⁸ An investment grant (US\$6.8 million) was also approved in water and sanitation. From a more general standpoint, the Bank has also been effective at attracting cofinancing for its SG and NSG loans, which is valued by the government.

³⁹ Between 2010 and 2014, CCLIP loans took an average of 10 months to prepare (compared with 13.1 months for specific investment loans). Looking at operations under CCLIPs approved in 2005-2014, the first loans took an average of 19 months, while the second loans took 4.5 months. Something similar happened in the case of specific investment loans not belonging to a CCLIP, but which have supported a sector programmatically (e.g., agroindustry, tourism, education, and science and technology).

- 2.19 **In terms of execution, there have been gains in terms of portfolio performance, but extensions to execution time remain significant.** At year-end 2009, 25% of the active loan portfolio had extensions, rising to 39% in 2010 during the government changeover. In 2014 this fell to 26% (24% as of June 2015), which is below the Bank's and CSC's average (27%) (Figure I.14, Annex I). Meanwhile, the mean number of months' extension declined from 48 to 24 months between 2009 and 2015. Reasons for extensions included project reformulations during the government changeover, design problems (e.g., underestimating execution times), delays caused by difficulties in tenders and procurement, and management problems at certain execution units (see Chapter 3). The factors underlying the improvements in execution include decentralization of specialists (often leasing experts in their fields) and operational and fiduciary staff to the Country Office (which is highly valued by counterparts), the close and coordinated monitoring of the portfolio by the Country Office and the MEF, the support for execution capacity through TCs and loans, and the Bank's flexibility in some cases to reformulate projects and adapt them to government needs (see Chapter 3).
- 2.20 **Cost overruns on infrastructure projects were a major problem during the evaluation period.** The SG portfolio under evaluation has two supplementary loans to cover cost overruns in Sanitation (US\$51.8 million) and Ports (US\$20 million). In any event, the actual costs have been even higher than the supplemental financing, with the incremental costs being borne by the sector bodies responsible. The cost overruns have tended to arise from **design problems** (e.g., technical problems with estimates, lack of specification of design at the time of solicitation); **problems in competitive bidding processes** (e.g., long bidding processes, small number of bidders); and **exogenous factors** (e.g., rising price of construction inputs, exchange rate fluctuations). Although such factors are difficult to predict, in an open economy vulnerable to external shocks like Uruguay, the cost estimate models would be expected to include more analysis and more conservative assumptions for these variables (see Chapter 3).

Coordination with other MDBs

Coordination and division of labor between cooperation agencies, in particular with the World Bank and the CAF, improved significantly. The Bank's program has been characterized by a strong sense of ownership by the government. The MEF has led cooperation agency coordination and the prioritization and determination of debt sources and limits for the sectors. During the evaluation period, the activities of the IDB, World Bank, and the CAF came to be coordinated directly by the MEF through the multilateral coordination unit. The only project cofinanced with another multilateral (CAF) is the Punta del Tigre combined cycle plant, and according to the various stakeholders the experience was positive. Also noteworthy is the coordination of the design of certain road infrastructure projects with the National Highway Administration (DNV), where the definition and completion of the IDB loan outputs supported the outcomes necessary for the World Bank's PforR disbursements.

III. IMPLEMENTATION AND EFFECTIVENESS OF THE BANK'S PROGRAM

- 3.1 **This chapter analyzes progress on the implementation and results of the Bank's program during the period 2010-2015 (Table 3.1).** In particular, it includes loans and technical cooperation (TC) operations approved between 2010 and June 2015, and operations approved previously but with significant undisbursed resources at the start of 2010. For more details on implementation and results at the operation level supporting these findings, see Annex II, which

also discusses progress toward strategic objectives in the areas where the country strategy set them. Operations were also completed in areas not envisaged in the country strategy, such as financial markets, where the Superintendency of Financial Services was strengthened through a small loan for the integration of regulation and supervision functions, and support was provided for the expansion of microfinance services for productive development, as well as for clusters and supply chains, which made an important methodological contribution but did not become established as public policy (Box I.2, Annex I).

Table 3.1: Portfolio of operations 2010-2015

Area	Strategic Objectives	Existing loans and guarantees (Dec. 2009)		New loans and guarantees (2010-2015)		Existing TC (Dec. 2009)	New TC (2010-2015)
		SG	NSG	SG	NSG		
Transport	√	4	-	1	-	1	1
Energy	√	-	-	1	7	-	2
Water, sanitation and solid waste management	√	3	-	5	-	-	5
Science and technology	√	1	-	2	-	-	3
Social protection	√	1	-	1	1	3	8
Education and job training	√	1	-	2	-	1	6
Agroindustrial sector	√	3	-	3	2	1	2
Services exports	√	3	2	5	-	-	2
Public management and finances	√	8	-	6	-	5	6
Urban development and security	√	2	-	4	-	3	3
Other (productive sector) and financial markets	-	4	-	-	2	-	-

A. Energy

3.2 **The Bank set the objective of improving the electricity and gas supply capacity.** The Bank supported this objective through a combination of sovereign guaranteed (SG) and non-sovereign guaranteed (NSG) loans and TCs to support key investments under the 2005-2030 Energy Policy. The objective and the program implemented were aligned with the country's strategic decision to diversify its energy matrix to reduce its dependence on fossil fuels and mitigate the impacts of oil price fluctuations.

3.3 **The private-sector window positioned itself early on, financing the country's first large-scale non-conventional renewable energy (NCRE) projects.** The Bank approved six loans for US\$382.3 million for the construction, operation, and maintenance of four wind farms (394 MW), three of which were the first to be financed by the private sector through the first public competitive bidding for power purchase agreements by the National Administration of Electric Power Generation and Transmission (UTE) in 2008. More recently, the Bank approved two loans for US\$144 million to finance two wind farms (140 MW) sponsored by UTE that will be the first projects to introduce a new financing mechanism: 80% of the debt will be raised from individual and institutional investors through an initial public offering on the local market. In the framework of the government's 200 MW solar energy program, the Bank also financed one of the first solar projects (64.8 MW) in 2014, the first initiative of this kind to be financed by the Bank in Latin America and the Caribbean.

- 3.4 **Through the public-sector window, the Bank is building on these efforts by supporting the expansion of baseload generation.** Given the inherently intermittent nature of NCREs, their large-scale introduction requires steady rapid response generation, thus requiring investments in traditional sources. In this context, the Bank is financing (US\$200 million) the Punta del Tigre 530 MW combined cycle power station, which includes a component (US\$1 million) to support UTE's environmental stewardship, and which received TC support during its preparation. Another TC operation is supporting the government's plan to build a regasification plant to ensure a stable gas supply. This plant will receive financing from the Bank's private-sector window. The Bank is also financing initial studies for the development of an investment plan for the Salto Grande binational hydroelectric plant (1,890 MW), financed by the IDB in the 1980s.
- 3.5 **With some delays, the majority of these operations are under construction or entering operation.** A wind farm (50 MW) has been in operation since May 2014 and another three wind farms (230 MW) and a solar plant (48.6 MW) are under construction and set to enter operation between August 2015 and year-end 2016. A further two loans did not close financially. Construction of the Punta del Tigre plant is more than a year behind schedule due to a series of factors, including problems with the construction consortium's subcontractors, labor disputes, and adverse weather. Provisional acceptance of the first turbine is expected to occur in 2016, followed by the entire plant in 2018.
- 3.6 **The Bank's program has been highly relevant in responding to the energy strategy's priorities, contributing additionality as well as substantial demonstration effects.** The Bank provided financing with maturities rare in the commercial market, and leveraged supplemental financing, including concessional resources, from international financial institutions, and recently from local banks. The Bank's early involvement in financing the first commercial-scale projects and support to UTE to develop more bankable power purchase agreements to attract private sector involvement was important in facilitating subsequent financing of this kind of investment. In this regard, the program has been characterized by strong complementarity of instruments and effective coordination between the public- and private-sector windows.

B. Transport

- 3.7 **The objectives were to improve maintenance of the road network and improve port infrastructure and management.** The Bank's program was aligned with these objectives and sector needs. It included loans to address the deterioration and maintenance deficit of the road networks administered by the DNV and the Corporación Vial de Uruguay (CVU) in a context of growing vehicle traffic and changing freight movement patterns. The Bank supported the expansion of the port of Montevideo and, through the TC operations, the establishment of the National Logistics Institute and other important outputs (e.g., survey on logistics and source/destination of freight journeys, freight logistics observatory) for the planning and potential development of the sector. Progress on these objectives has been mixed.
- 3.8 **In roads, progress was seen mainly in rehabilitation and maintenance of primary networks. However, challenges persist in secondary and tertiary networks and in institutional strengthening, and there is a need to explore new financing mechanisms.** The first loan (UR-L1001) with the DNV was

extended by three years due to the DNV's budget and works execution problems. The program supported the rehabilitation and maintenance of 153 km of international and primary roads (135 km planned), increasing the percentage of roads in "very good" condition from 36% to 48% between 2003 and 2010, while those in "poor" condition went from 22% to 17%. In the case of secondary and tertiary roads, there was an execution deficit of 17 kilometers (43 km vs. 60 km planned), and roads in "fair" or "poor" condition worsened (from 44% to 75%). In road safety, the number of accidents dropped by 29% between 2003 and 2010, while the number of victims rose by 20%.⁴⁰ Support for institutional strengthening with the first loan was reduced considerably as a result of project reformulation,⁴¹ and the second loan (UR-L1067), which is starting execution, supported a business plan for the new firms envisaged in the railroad reform, but has not yet been implemented while awaiting the new government's decision on the reform. Execution of the loan with the CVU was better, since at project-end 93% of the road network administered by the CVU was maintained under service-level contracts (with a target of 90%), and 90% saw improvements in level of service. The road asset value ratio was 108.3% (with a target of 90%).

- 3.9 **The capacity of the port of Montevideo was expanded. However, the project suffered significant cost overruns, suggesting the need for better analysis of the design of this type of works.** As the best offer of the competitive bidding process was more than twice the budget envisaged in the loan contract (UR-L1004), the project required US\$31 million in supplemental financing, US\$20 million of which was provided by the Bank (UR-L1054). Dredging and quay construction finished in 2014. However, the final cost exceeded the original estimate (US\$130 million vs. US\$40 million), with the additional cost over the supplemental financing being borne by the National Ports Authority. The cost overruns were mainly related to technical problems with the estimates, in particular, factors not considered or fully evaluated given the works used as reference and the complexity of the project. Moreover, at the time the loan was approved, the design and cost specifications, supported by a TC operation, were not well advanced (preliminary plans) considering the project's complexity and the limited track record of similar works. Other determining factors were the change in the exchange rate, higher risks for the contractor introduced in the bidding documents, and the increase in the price of certain inputs for which there is a niche market.

C. Water, sanitation, and solid waste management

- 3.10 **Based on a full diagnostic assessment of the sector, the Bank set itself two highly relevant objectives for the country, but only made progress on one.** The objectives were to expand sanitation and drainage coverage, and to reduce solid waste disposed of in open-air dumps. Both objectives were aligned with the

⁴⁰ When the increase in traffic (40%) is taken into account, this figure decreased in relative terms.

⁴¹ In a context of budgetary constraints the project was reformulated in 2006 to shift the emphasis toward maintenance and away from rehabilitation and institution-strengthening. The Bank's final contribution to strengthening was US\$70,000 (vs. US\$2.6 million planned).

sector master plans. However, the Bank failed to make progress on solid waste.⁴² The Bank pursued the first objective under a programmatic approach, supported mainly by CCLIPs to address sanitation and drainage issues in Montevideo (UR-L1005) and Ciudad de la Costa (UR-L1017, UR-L1081). The Bank approved other loans (UR-L1069, UR-L1094) that addressed similar issues but were not included in the CCLIP due to slow execution (Montevideo) and problems with the execution mechanism and the lack of coherence of the institutional arrangement (Ciudad de la Costa). The Bank retained its position as the main MDB in terms of lending to the sector, although with increasing competition from the CAF. The Bank supplemented its work with nonreimbursable operations on highly relevant topics not envisaged in the country strategy. However, the expected outcomes have not yet been generated.

- 3.11 **Operations suffered significant delays and cost overruns that required supplemental financing.** The Montevideo loan took 11 months to reach eligibility and has had one of the longest extensions in the portfolio (48 months) due to delays in works execution, in particular, the construction of the underwater outfall, which turned out to be more complex than anticipated. Moreover, the competitive bidding process for the first batch of works took over two years from loan approval as technical work to define the terms of the competitive bidding process had to be completed. In Ciudad de la Costa the execution mechanism worked partially, such that the loan (UR-L1017) was delayed 48 months for completion of the works for which the counterpart was responsible. Even so, the agencies agreed on the Bank's technical merit and its responsiveness to these problems in order to maintain the wholeness and scope of the projects. The Bank approved US\$42.8 million in supplemental financing (UR-L1063) to cover cost overruns on the Montevideo loan,⁴³ and a further US\$9 million (UR-L1075) for cost overruns on sanitation works in Ciudad de la Costa. The cost overruns were largely due to exchange rate fluctuations between 2006 and 2008. Although Uruguay is an open economy exposed to external shocks, the estimates did not include an exchange rate management strategy that allowed for more conservative assumptions. In the latest operation for Ciudad de la Costa (UR-L1094) the Bank conducted a cost study that considered exchange rate fluctuations and took the lessons learned on deadline extensions into account.
- 3.12 **The results in sanitation to date are partial, with a bias towards the works components rather than institutional strengthening; nevertheless, if the projects are completed as planned, the potential impact is high.** In Montevideo the majority of the sanitation and storm drainage networks were completed, but the pretreatment plant and underwater outfall are still under

⁴² In 2007 one PROPEF operation had been approved for a loan to implement the Master Plan for Solid Waste Management in Montevideo and Metropolitan Area, prepared with Bank support. However, difficulties agreeing on the location of the sanitary landfill and the government's interest in exploring the possibility of a waste-to-energy program resulted in the total cancellation of the PROPEF operation in 2012.

⁴³ The mismatch between the lowest offer and the budget for the first lot of works on sanitation networks was 285.8%. The negotiations lasted a year and concluded with a price 101% higher, adjustments to technical designs, and reduction in accessory works. The estimated cost of the underwater outfall was US\$34.8 million and for the supplemental financing it was estimated that it would reach US\$48 million. The works have not yet been completed, and the cost has exceeded the supplemental financing, to be borne by the municipality.

construction. The residential connections fund to provide access for low-income families is being underutilized (26%) due to the complexity of the applications procedure. However, this is due to change. In institutional strengthening, although the Sanitation Department covers the operation and maintenance costs of the service from its income, the update of the Master Plan, which will serve as the basis for the design of works on a possible second operation under the CCLIP, has barely begun. Sanitation works in Ciudad de la Costa were completed, although users have barely begun to connect to the system. Half of the storm drainage works have been completed, with flood-prone areas decreasing from 10 to 2, and 47% of expected beneficiaries in the selected neighborhoods being reached. The strengthening activities for Obras Sanitarias del Estado [State Sanitation Works] (OSE) and the Canelones municipal authorities have made little progress.

D. Science and technology

- 3.13 **The strategic objective in this area was to increase the private contribution to investment in R&D.** This objective is in line with the country's need to sustain its growth and with the National Strategic Plan for Science, Technology and Innovation. The Bank continued the support to the sector it began in 2001 via three loans to support outputs and lines of financing of the National Research and Innovation Agency (ANII). The portfolio also included TCs to analyze sector needs, support implementation of the new Technological University (UTEC) and identify the qualified diaspora in knowledge-intensive sectors.
- 3.14 **The technical and financial contribution of the Bank's program has been important, and evidence was found of positive impacts on the generation of incentives for private investment in innovation.** The Technology Development Program II (UR-L1030, US\$34 million) represents 26% of ANII's investment between 2008 and 2013 in private investment, research, and human resource training components.⁴⁴ To date, 210 innovation projects have been financed. An impact evaluation found that these instruments had a positive impact on increasing the value of total investment in innovation, as well as the net investment of the ANII contribution. Additionally, evidence was found that beneficiary firms showed improvements in productivity and the likelihood of introducing new products on the market relative to firms in the control group. The Technology Development Program II also financed 197 postgraduate scholarships and travel grants for researchers, and 33 projects for equipment and training at institutions providing R&D services. Although the grant program has had a positive impact on scientific output (ANII 2014), the linkage with productive sector demand is weak (5% of beneficiaries work at private companies). Also worth noting is the support given to the ANII's monitoring and evaluation capabilities.
- 3.15 **In general, the Bank's technical and financial support has been crucial to stimulating innovation promotion policies.** Positive results have been seen in the mobilization of private investment and scientific output. Nevertheless, the scale of the Bank's program, as well as the public-sector contribution, is still too small to bridge the sizeable R&D investment gap. The coordination of innovation,

⁴⁴ The Program to Support Future Entrepreneurs (UR-L1071), approved in 2012, is executing and its outputs include 22 entrepreneurship projects. A new project approved in 2014 (UR-L1096) will promote innovation for productive development in priority sectors.

productive development, and trade policies will be crucial to ensuring the sustainability of the outcomes achieved.

E. Social protection

- 3.16 **The country strategy set a broad objective considering the intervention areas it has laid out: improve the living conditions of the most vulnerable groups, with an emphasis on children and adolescents.** The Bank's program comprised mainly a single SG loan approved in the period, which was the first operation of a CCLIP (UR-L1046) to support the National Strategy for Children and Adolescents (ENIA), which continued the support to the Ministry of Social Development (MIDES) begun over a decade ago. The program also included several TCs, accounting for 28% of the total TC amount approved in 2010-2015, chiefly for institution-strengthening and support to vulnerable groups in several different age groups and initiatives as part of the Social protection matrix (Table 3.1). The Bank also provided other support of a more ad hoc nature. A loan approved in 2008 (UR-L1032) to finance surveys with Banco de Previsión Social (BPS) suffered serious delays, first in reaching eligibility, and then in the competitive bidding process and implementation of the first round of surveys. Yet the Bank's support in execution was valued, positioning it as a partner of the BPS. Preliminary results of the survey are being used to design the policy for the system to provide early childhood care, which is one of the government's priorities. The Bank also approved other operations not directly linked to the program in the sector.⁴⁵
- 3.17 **The Bank financed various activities prioritized in the ENIA action plan, and its support was important for strengthening MIDES in its social policy coordination role.** The loan envisaged a large number of outputs, with great variation in the extent to which they were achieved. It included in particular an innovative family support pilot that provided input for design and implementation of the CERCANIAS program. Also evaluated was the pilot of the SOCAT network of territorial guidance, consultation, and coordination services, which provides access to social services for vulnerable families with children. The pilot was institutionalized and forms part of MIDES's current territorial deployment at 78 points across the country. Support was also provided for the national system to provide early childhood care, programs targeting adolescents, and other initiatives. In terms of outcomes, the percentage of children and adolescents in vulnerable households located in target areas decreased from 20.1% to 10.3%, and gains were made in terms of narrowing gaps (Annex II). This loan and TCs (UR-T1038, UR-T1031) also supported the strengthening of MIDES, which was created 2005. In particular, support went to strengthen its internal management, monitoring and evaluation capabilities, and territorial management model for implementation of the SOCAT services.
- 3.18 **The Bank's implementation support for ENIA was important, but revealed the difficulty of streamlining social sector offerings and making strategic use of**

⁴⁵ Despite implementation difficulties, TC operation UR-T1058 financed development of the national sports policy and important diagnostic assessments (e.g., sports infrastructure, women's participation in sports). However, there is no awareness of the use and rollout of the pilot financed for community management of sporting venues, although the methodology was documented and could be used in other locations. In 2015, the OMJ approved a loan for US\$5 million (UR-L1088) to improve access to dental health services for members of the national association ANDA.

pilots. The strengthening of key organizations and programs (MIDES, UCC, INJU, SOCAT) has been important, yielding positive outcomes in narrowing gaps for vulnerable groups, although the Bank's specific contribution is difficult to isolate. The many different interventions with similar objectives and populations have made streamlining difficult in practice, even with a shared diagnostic assessment. Given the large number of innovative pilots financed by the Bank, and even though naturally they cannot all be rolled out or made a permanent institutional fixture, documentation of their outcomes and lessons learned by the Bank will be key for the benefit of the country and region.

Box 3.1: TCs targeting children, youth, and the elderly

In **pregnancy and childhood**, TC operation UR-T1101 is supporting the Uruguay Crece Contigo (UCC) program through studies for the design of the comprehensive protection system for early childhood (now up and running) and a polyclinic pilot to bring pregnant women into the system early and ensure their follow-up. The evaluation of the polyclinic was not conducted due to discussions about where it would be housed (health or social protection). The UCC program was transferred from the Office of Planning and Budget (OPP) to MIDES. In **adolescence and youth**, TC operation UR-T1082 supported strengthening of the Instituto para la Juventud [Institute for Youth] (INJU) with development of the national youth survey and its 2010-2015 action plan, which was the basis for the 2015-2025 Youth Policy targeting the school-to-work transition. The TC was also to support an improvement in the school environment and the secondary school retention rate, but was restructured to support the National Public Education Administration (ANEP) secondary education council with an information system. In **support for the elderly**, support was provided for the development of a caregiver training model, which is expected to lay the groundwork for professionalization of such training. The care manual should serve as the basis for continuation of the training, although thus far there is not enough awareness of its rollout and institutionalization.

F. Education and job training

3.19 The Bank sought to increase school access and retention and improve human capital formation with an emphasis on vulnerable groups. The expected outcomes of the country strategy focused on secondary education coverage and the use of information and communication technologies (ICTs) in a setting marked by the special features and complexity of the sector institutional framework.⁴⁶ The Bank program continued its support for secondary education begun more than 20 years ago with the Secondary and Technical Education and Teacher Training Support Program (PAEMFE) (UR-L1050). The Bank also supported Plan CEIBAL (UR-L1058, UR-T1084) and the National Public Education Administration (ANEP) system with strengthening of its management (PAEMFE) and, more recently, with the implementation of results-based management and harmonization of council systems (UR-T1008). The Bank's support in job training has been more limited, with TCs financing diagnostic assessments of skills gaps to inform policy, which have yet to be used, and more incidental support to strengthen labor bargaining power and employment in Ciudad Vieja, but there is little evidence on the outcomes.

3.20 In secondary education, the program has made progress on most of its outputs and outcomes, with the biggest challenges being in teacher training

⁴⁶ The National Public Education Administration (ANEP) is responsible for the formulation and implementation of educational policy (early childhood, primary, and secondary) and for teacher training. Differently from other countries of the region, ANEP is an autonomous agency, independent of the executive and legislative branches.

and building pilots into the institutional structure. The PAMFE program's design called for a large number of activities that had to be simplified to facilitate their execution. In infrastructure, support was provided to build, renovate, and equip secondary schools, and the program targets were surpassed. By 2014, 93% of classrooms had reached the desired scale, and 70% of schools had no more than 800 enrolled students. An architects' unit was also created that has become a resource for the construction of secondary schools, although there are no plans yet to make it a permanent fixture. The PAEMFE program also provided financial support to pilots showing varying degrees of progress, whose institutionalization or expansion remains uncertain. In the Interface program promoting the transition between lower and upper secondary education, the dropout rate among beneficiaries fell from 3.2% to 2.9% between 2011 and 2013, meeting the target, and the repetition rate remained at 25% between 2011 and 2014. In the Rumbo program supporting completion of studies and continuing education through flexible training paths, 105 students enrolled for vocational secondary school (out of a projected 688), but none have graduated so far (46 projected in 2014). Progress on teacher training outputs is behind schedule, and there are no data on outcomes due to methodological problems with the indicators.

- 3.21 **Plan CEIBAL has helped to narrow the digital divide, but there is no robust evidence of its contribution to learning outcomes.** The decision to universalize the Plan during the implementation of loan UR-L1058 led to more than 20,000 teachers being trained in both classroom and online modes (6,600 planned), and the digital content rose from 600 to 890 items. At program-end, 68.6% of teachers and students had used the program's strategies and resources (50% planned), but there is no evidence in terms of quality. Implementation was also planned for secondary education, but since the curricular structure with different teachers was not anticipated, the loan focused entirely on primary education. The loan called for an impact evaluation that was not done due to the fact that the baseline was not taken in time and the decision was made to universalize the plan. One evaluation (Plan CEIBAL) found that in 2007 less than 15% of households in the two poorest quintiles had access to computers, whereas in 2013 the figures were 66% and 58%. Nevertheless, there is still no evidence of impact in terms of learning improvements, and challenges remain as to how to increase the use of new technologies. A loan approved in 2014 (UR-L1093) focused on two of the Plan's pilot programs (mathematics and English).
- 3.22 **The Bank firmly positioned itself as a partner in education, although it plays a minor role in steering policy, considering the sector institutional framework.** Support for secondary education completed several of its outputs and outcomes, but greater challenges remain in teacher training and the institutionalization of pilots supported and their impact on the rest of the system. The support to strengthen ANEP was also significant. In the case of Plan CEIBAL, the Bank's financial contribution is smaller, and its role has focused more on supplying technical knowledge and facilitating the exchange of know-how.⁴⁷ The Bank is interested in participating in the Plan in order to ascertain the effects of ICT use on learning and so learn lessons for the region, for which it is important to

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The Bank's financing with the first loan was US\$6 million (3.5 years) versus an average annual budget for the plan of US\$50 million. The second loan is for the same amount.

conduct a comprehensive evaluation of both impacts and implementation processes.

G. Agroindustrial sector

- 3.23 **Consistent with the increasing pressure of foreign direct investment (FDI) in the sector on natural resources, the Bank sought to promote the sustainable development of agroindustry.** SG loans focused on three areas: (i) producer support based on a model in which the State subsidized small and medium-sized producers to cover part of the cost of adopting productive and management technologies (UR0141, UR-L1064); (ii) food health and safety (UR-L1016); and (iii) environmental institutions (UR-L1033, UR-L1033). The Bank also approved TCs to support loans and sector dialogue, together with NSG operations, in particular the financing for the largest-ever private investment in the country (Box 3.2).

Box 3.2: Sector engagement of the Bank's private-sector window

In 2011 the Bank approved its first NSG loan (UR-L1068) in the period for US\$200 million to support the development of a eucalyptus plantation-based pulp production plant located in the Punta Pereira free trade zone. At approximately US\$2.5 billion, the plant is the largest private investment in Uruguay's history. The project also envisaged a 160 MW biomass electricity generation plant with related infrastructure, including a port terminal. The Bank's main additionality was in environmental and social standards, given the early stage of the country's environmental legislation. The plant is now in its first months of operation and is expected to generate annual exports of approximately US\$700 million. In 2012 the Bank also approved an innovative loan (UR-L1059, US\$65 million) focused on environmental sustainability incorporating emission-reducing technologies. Among other investments, the project supports a free-stall dairy facility for milking cows and a milk production system, also incorporating waste treatment and biogas plants to capture methane and generate thermal energy. This project is still under construction and received technical assistance to evaluate options for methane capture, generation of biogas from waste, generation of biodiesel, and carbon credits.

- 3.24 **In the case of producer support, the outputs were achieved, and the subsidies promoted improvements in management techniques, but the productivity targets were not met.** The New Livestock Products Program (UR0141) financed approximately 1,300 ranch improvement plans for 1,100 ranchers (5% of family producers). Although the targets were met, there was less demand for improvement plans than expected, partly due to the subsidy's loss in value in real terms due to the appreciation of the peso. The beneficiary profile was consistent with the target population, although the impact was greater in the case of the largest producers and those located in areas better connected to urban centers. The majority of beneficiaries introduced good management techniques, although there is no robust evidence of productivity improvements. The program also financed plans to develop process innovations, but very few product innovations. Coordination with the industrial phase was limited, and it is unclear that all beneficiaries suffered from tight credit.
- 3.25 **Only a few outputs were achieved in food health and safety, while in environmental institutions the Bank contributed to raising the operational efficiency of the National Environmental Department (DINAMA).** Some operations in food health and safety enabled progress in veterinary services with the implementation of traceability and accreditation of private veterinarians, improvement of the Ministry of Livestock, Agriculture, and Fisheries (MGAP) information systems, and development of a strategic plan on food safety. Other important outputs were relegated (e.g., the strategic plan on animal and plant health, internal process certification) and resources for an MGAP strategic plan

were redirected to a dashboard that has a number of limitations. In environmental institutions, it was possible to segment environmental reviews by levels and improve management capabilities, firmly establishing DINAMA as the sole environmental authority. The time taken for environmental permitting of projects with medium and high environmental impact was cut from two years to 10 months between 2007 and 2011, and the time taken to respond to reports of environmental infringements was shortened by 70% between 2010 and 2012. The operation had the indirect effect of absorbing consultants engaged by the Bank.

- 3.26 **Although delayed,⁴⁸ the Bank's program achieved significant results in terms of institution-strengthening and producer support, but the sustainability of outcomes is weak.** The New Livestock Products Program design did not stipulate continuing the technical assistance, once concluded, nor did it address the structural barriers to underinvestment in technology. The new project could mitigate some of these risks, if it spawns a private market for agricultural services. The results in food health and safety were more limited. Strengthening DINAMA was a significant achievement, but it remains to be decided whether to advance towards a National Environmental System.

H. Services exports

- 3.27 **The Bank set out to increase service exports, which is an important objective for the country given its challenge of reducing commodity price dependence and sustaining long-term growth.** In trade facilitation, institutional strengthening operations were completed with the Customs Bureau and the MEF and Ministry of Foreign Affairs foreign trade offices. The Bank also approved contingent financing for the Program for Strategic International Positioning (PPEI) and a loan (UR-L1060) to support the development of the global services market, one highlight of which thus far has been a public-private mechanism that has trained more than 2,000 people in the sector (often termed "finishing schools"), a platform to register skills, and implementation of foreign trade processes in the Single Foreign Trade Window (VUCE). The Bank also continued the work begun in the previous period through operations with the Ministry of Tourism (Box I.3, Annex I).
- 3.28 **Although significantly delayed, institutional strengthening operations have had positive results, particularly the progress in modernizing the Customs Bureau.** In both cases the stakeholders have recognized the Bank's support and its flexibility in adapting. The loan to support the Customs Bureau (UR-L1037) supported its regulatory and organizational restructuring and other important outputs such as the VUCE, risk-based control systems, Authorized Economic Operators program, and new Customs Code (Annex II). These measures enabled gains in enforcement and efficiency. Import declarations assigned to red and orange circuits decreased from 45% to 16% between 2009 and 2014, clearance time for import declarations was shortened from eight to four hours, raising the level of satisfaction among key stakeholders from 19% to 43%. The Foreign Trade Management Support Program (UR-L1015) modernized the management and information system, upgraded computer hardware, and strengthened human

⁴⁸ Loans suffered delays due to internal coordination difficulties between agencies, design flaws, and reformulations during the 2005 government changeover. The counterparts noted the Bank's flexibility in adapting to new needs.

resources. Both operations had the indirect effect of absorbing consultants engaged by the Bank.

- 3.29 **In addition to its important financial and contingent role, the PPEI's support facilitated the process of adapting to best practices for the country's integration into international markets.** The PPEI supported the government's precautionary borrowing strategy, which has been an important part of the country's restoration to investment grade. The PPEI represented 3.3% of the central bank's international reserves and supported measures with considerable structural depth, including in particular the approval of a new Customs Code and guidelines for its implementation, the approval of legislation for dual taxation and tax information exchange agreements, and the introduction of a regulatory framework for implementation of the strategic plan for science, technology, and innovation; the Bank has been supporting these lines of work through investment loans. Thus, the PPEI did not catalyze reforms or deliver technical additionality, but facilitated a framework for the organization of initiatives that were already under way and had strong political backing. The PPEI was also the Bank's first programmatic policy-based loan (PBP) to propose a rigorous methodology for the impact evaluation of policy reforms.
- 3.30 **In general, the Bank's support has been important, but the challenge remains of deepening and consolidating sector reforms.** Significant progress was made in foreign trade facilitation and management capabilities, particularly in terms of efficiency gains at the Customs Bureau. The inclusion of key reforms in the PBP/DDO program facilitated adaptation to best practices for the country's international positioning. Nevertheless, it remains a work in progress, and there is still a degree of institutional fragmentation. In tourism, the scale of operations is still too small to produce high impacts, but the Bank's support has helped the country move from a scenario of reactive development based on spontaneous demand, toward a planned, demand-inducing scenario, where there is room to expand the dialogue on the focus of future operations.

I. Public management and finances

- 3.31 **The Bank sought to improve public management in this area.** The Bank's program included a large number of operations continuing the Bank's support in this area. In public finance, support was provided mainly for revenue generating capacity, debt management, budget management, and results-based management. The Bank also continued its support in crosscutting areas such as e-government and decentralization. In other areas, the Bank's support has been more limited and ad hoc. In the justice sector, a project approved in 2000 was completed, albeit with difficulties. In civil service, support was provided for institutional development, technological modernization, executive training, and in some cases the implementation of modern human resource management practices. However, less progress was made in regulatory terms (Annex II).
- 3.32 **The Bank supported institution-strengthening through a set of small loans, contributing in many cases to the adoption of modern management standards.** The operations mainly supported improvements to information and management systems, human resources, and equipment. Although operations have undergone significant extensions to their deadlines, most of the outputs have been achieved. The main progress was in support for the creation of the Debt Management Unit, the National Public Investment System, and strengthening the

Revenue Directorate (DGI) as part of the tax reform. Gains have been more modest and are still being made in other areas such as the introduction and consolidation of results-based management, strengthening of the budget cycle, and information systems for financial management (Annex II).

3.33 The Bank positioned itself as an important partner in implementation of the e-government strategy. The Bank approved two sequential loans in 2008 and 2011 (UR-L1042 and UR-L1065) that have contributed to the expansion of digital services and strengthening of the e-Government Agency, although interoperability challenges persist given the initial fragmentation of the systems.⁴⁹ The loan also supported the updating of the legal framework for the e-government strategy. The government put a high value on the use of maturity diagnostics, the demand focus in public interventions through the use of competitively awarded funds, and the use of one-stop windows to deliver public services and greater interoperability of computer systems. Although the Bank's financial support was less, its participation in this area and that of the MIF supporting a clinical records pilot, enabled the Bank to enter the health sector in 2013 with the approval of the first loan under a CCLIP (UR-L1082, US\$21 million) to support the groundwork for an integrated health information system and expand digital services in the sector.

3.34 The Bank supported the decentralization process, but failure to consider the risk associated with the political cycle at the subnational level affected implementation and results. The Bank completed execution of the Municipal Development and Management Program IV (UR0131, US\$60 million) approved in 2003. The loan was extended by 48 months as a result of difficulties in departments with lower levels of institutional development, mainly due to the effect of political cycles, which led to changes in administrations and technical teams at the subnational level in 2005 and 2010. Although the risk related to the political cycle at the national level was taken into account in the loan design, the risk at the subnational level was not, and ultimately had a greater impact. The loan was reformulated, gearing it toward investment and strengthening activities sought by the departments. Sixty-three strengthening projects were executed, allowing all departments to harmonize their budgetary and accounting criteria, for example. The program financed investments (averaging US\$3 million per department) mainly in neighborhood improvement (73%) and urban roads (11%). Support was also provided for preparation of a law expanding the decentralization process to the municipal level. Some outputs were not achieved, such as the project monitoring system, which limited monitoring of the program. A new project (UR-L1038) incorporated many of these lessons learned in its design (Annex II).

J. Urban development and security in cities

3.35 The Bank set a single broad objective: to improve living conditions of the urban population. The country program proposed actions in urban transportation (Box 3.3), neighborhood improvement, and citizen security based on independent sector diagnostic assessments that included only limited analysis of possible synergies between proposed lines of intervention, apart from the fact that they all focused on the urban environment. The results in these areas are mixed. Several studies and urban development plans were made through these TC operations,

⁴⁹ At the end of the first loan, 17 execution units had solutions implemented, and 78 systems master plans had been executed.

although their implementation will depend on political will and the availability of financing.

Box 3.3: Montevideo Urban Transportation Project

The project had significant execution problems, such that future Bank support should pay closer attention to design and supervision, as well as support for the reforms necessary to achieve the expected benefits. In 2008 the Bank approved a loan (UR-L1025, US\$80 million) to improve accessibility, mobility, and safety on the Montevideo public transportation system. Project preparation was supported by a TC operation (UR-T1015). In terms of design, the segregated corridors used as pilots (Avenida Garzón and Avenida General Flores) had limited potential benefits in terms of mobility, mainly due to their relatively low levels of congestion. Many of the institutional and operational reforms to improve service were not implemented, including renovation of buses, restructuring of bus routes, and technology upgrades. This resulted, for example, in alterations to the designs of works in progress. The design problems and changing direction of the reform, together with opposition from bus operators and the technical weakness of the execution unit, resulted in Avenida Garzón pilot failing to achieve satisfactory results. Although the TC identified the risk of resistance from operators, no mitigating mechanisms were planned. As a result, the mobility improvements on Avenida Garzón did not materialize. Rush-hour passenger volumes are now slightly lower than prior to the project. Average bus speeds remain similar, and travel times have increased for some passengers. These outcomes led to the design of the Avenida General Flores corridor being changed to allow traditional bus lines to operate until the system was restructured. Given the circumstances in 2014, a second phase of the program, for which the IDB had approved financing, was cancelled (UR-L1079) was cancelled and UR-L1087 is being reformulated to support other sector activities).

Source: Comparative Case Studies of Three IDB-supported Urban Transport Projects (OVE, 2015).

- 3.36 **Taking a programmatic approach, the Bank helped reduce the vulnerable population's deficit in access to basic services, although challenges persist in titling, community and social development, and institutional strengthening for the sustainability of interventions.** The first loan under the CCLIP (UR-L1009) suffered delays due to problems with the preinvestment studies and intervention design, but managed to address 24 informal neighborhoods, facilitating access to water, sewer, transportation, electricity, education, and health services and public commons for 7,348 households. Improvements were also made to 157 dwellings in the Goes neighborhood, and 184 sites with services were established for relocated families. Informal neighborhoods decreased by 16% between 2006 and 2014, although this cannot be attributed directly to the project. Additionally, 31 execution units were supported, although entities outside the capital faced bigger coordination problems and a shortage of physical and human resources, posing a challenge to the sustainability of the interventions. An impact evaluation on a sample of regularization projects identified a high level of compliance with targets in infrastructure and housing (89%) and social/urban integration (70%) and more limited results in community development (46%) and social services (54%). In conjunction with the MIF, the project also supported an agricultural market in Goes with positive impacts on the neighborhood's economy. The second loan under the CCLIP (UR-L1084), now under way, expanded the scope to include waste management, titling, and community development.
- 3.37 **In citizen security, the loan was targeted, and its design relevant, but changes in the structure of the police force had an impact on its implementation.** The first component of loan UR-L1062 supported development of a problem-oriented policing model using a holistic approach. However, a restructuring of the police changed police stations' responsibilities, impacting their

coverage.⁵⁰ The Bank supported this process, and its biggest contribution was to provide training, which is set to be made a permanent feature of a police education framework in 2015. Predictive-policing software was also financed. The component still lacks a clear evaluation strategy. In parallel, an impact evaluation financed with a regional public good sought to rigorously evaluate the outcomes of the problem-oriented policing and predictive policing methodologies. A social network for violence prevention was also developed, specifically an early warning system that centralizes information from police stations and keeps track of young people. The program includes sporting activities, resocialization, and vocational training. As of May 2015, 117 young people had taken part, and 31 had successfully completed the program. Given the complexity of resocialization, the high cost of such programs, and the scarcity of trained social workers, its expansion and sustainability are uncertain. Moreover, limitations on the monitoring of beneficiaries will make impact measurement difficult (for more detail, see Annex II).

IV. CONCLUSIONS AND RECOMMENDATIONS

- 4.1 The country strategy was designed in a more favorable economic climate than its predecessor, and sought to support the government's efforts to maintain macroeconomic stability and advance social reforms. The strategic objectives of the country strategy were relevant, but its role as a tool for country dialogue was limited by the considerable time taken to approve it, making it less relevant. The country strategy also had other design limitations, including its sector approach and the inclusion of a single lending scenario that, although indicative, created expectations on the part of the government regarding the financing it expected to receive during the period, which was highly significant in Uruguay's case given the multiyear nature of its budget. In addition, the decoupling of programming from the country strategy has had consequences for the Bank's program in Uruguay. Although the predictability of the loan program improved, the unpredictability of annual allocations to the country and the annual nature of programming imposed significant time constraints for project approval.
- 4.2 In a scenario of greater access to international finance, and in response to country demand, the Bank consolidated its role as provider of contingent financing. The introduction of DDO loans (35% of SG approvals) was valued by the country. However, from a more general perspective, the Bank has been less quick and responsive than other multilaterals in terms of innovating its lending and financial instruments to meet to the country's specific and changing needs. In this context, although the IDB reduced its share of the country's debt, it remained the leading multilateral in terms of lending, although with increasing competition from the CAF in infrastructure.
- 4.3 In terms of portfolio performance, significant gains were seen in shortening preparation times and costs, largely associated with deepening of the programmatic approach in several sectors and the larger average size of operations. Gains were also made in execution, but extensions to execution time remain significant, along with considerable cost overruns on infrastructure projects

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As the component supported the investigation and control capabilities of three police stations, for which police stations are no longer responsible, police training was extended to more areas.

due to design problems, problems in competitive bidding processes, and exogenous factors.

- 4.4 The Bank has supported significant progress in such areas as energy, innovation, trade facilitation, and reducing the housing deficit. More limited progress was made in such areas as urban transportation, food health and safety, and rehabilitation and maintenance of secondary road networks. The PBP/DDO to support the country's international positioning played a major financial role in supporting the government's precautionary borrowing strategy, which has contributed to regaining investment grade status. The PBP/DDO also aided measures with considerable structural depth that the Bank had been supporting with investment loans. The Bank's support has also been important in strengthening various key entities in such areas as social protection, public finances, e-government, environment, foreign trade, and banking regulation and supervision, although there have been delays in this area in sectors such as transportation and sanitation. Technical assistance, which sets the Bank apart from other multilaterals, was targeted mainly to supporting issues, institutions, and operations within the framework of the Bank's program. Although this complementarity is a good thing, the Bank has played a smaller part in generating advanced, prospective, and specific knowledge to address Uruguay's new development challenges as an upper-middle-income country.
- 4.5 In a scenario of greater access to international finance for the country and growing competition from other multilaterals, the big challenge for the Bank in Uruguay is how to more quickly adapt its business model (including its internal processes, structure and capabilities, financial and nonfinancial instruments) to Uruguay's specific and changing needs. Even though it is an upper-middle-income country, Uruguay still demands significant lending resources from the Bank. Although the findings and problems identified in this evaluation (e.g., sector focus and programming, instruments) are specific to Uruguay and have a special nature, given the country's distinctive features (e.g., its multiyear budget) and relationship with the Bank, they also cut across other upper-middle-income countries and may have corporate implications.
- 4.6 Based on the findings presented in this evaluation, OVE makes the following recommendations:
1. **Increase the multisector focus of the country strategy and the Bank's program in general.** The country is making efforts to adopt this focus in such areas as competitiveness and social policy. In this regard, the Bank should structure the new strategy, and ultimately its operations and analytic work, around crosscutting issues that leverage possible synergies among different sectors of the Bank.
 2. **Balance the need for contingent financing with investment and technical assistance.** To implement this recommendation, the Bank could consider: (i) developing parameters that help define the makeup of the lending envelope (contingent and investment resources), to respond more effectively and efficiently to the country's needs. For this, the strategy should also incorporate different lending scenarios allowing flexibility based on the management of program and country risks; and (ii) using contingent financing supplemented with investment and technical assistance, for example through

hybrid lending instruments, in areas where a role can be played in catalyzing reforms.

3. **Deepen the analysis and cost estimates for infrastructure projects.** The Bank could consider supporting the country through: (i) deeper and more detailed analysis of the estimated costs of works prior to tenders in order to minimize **design problems**; and (ii) the systematic incorporation of the possible impact of **exogenous variables** such as the exchange rate and price of inputs in their cost estimate models.
4. **Design a knowledge strategy with the country.** Explore financing mechanisms to support the design of an agreed strategy with the government that contains at least two major lines of work: (i) an agenda of advanced, prospective, and specific knowledge to address the new and complex issues Uruguay faces as an upper-middle-income country in order to offer the country attractive solutions and products; (ii) an agenda to systematically capture and document the results and lessons of lending and technical assistance operations (e.g., evaluations of innovative pilots), in order to learn lessons for the country and the region as a whole.
5. **Explore the use and development of new lending and financial instruments tailored to the country's specific needs that allow its debt strategy to be supported and that reduce the transaction costs for the Bank and the country.** The options to explore include, for example: (i) deepening the use of programmatic lending instruments; (ii) a new results-based lending instrument; (iii) an "umbrella" lending instrument, for example, to support various institutions in a common thematic area (e.g., institution-strengthening); (iv) innovative financial instruments (e.g., swaps, insurance, local currency financing).
6. **Move in the direction of greater flexibility in the annual programming process.** Explore new mechanisms for progress toward a multiyear or ongoing operations programming process, in order to make annual allocations and operation design more predictable in Uruguay, and more in line with the country's multiyear budget.