Office of Evaluation and Oversight

Country Program Evaluation

Uruguay
2016-2020

IDB | IDB Invest

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Contents

Preface

As part of its 2019-2020 annual work plan, the Office of Evaluation and Oversight (OVE) prepared an evaluation of the 2016-2020 country program of the Inter-American Development Bank (IDB) with Uruguay. This Country Program Evaluation (CPE) is the fourth independent evaluation of the Uruguay country program. Following the Bank's Protocol for CPEs (document RE 348-3), the main goal of the CPE is to "provide information on Bank's 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." The CPE has been prepared during the second half of 2019 and the first semester of 2020, in time to be an input for the new IDB Group (IDBG) Country Strategy (CS) with Uruguay, which is expected to be finalized during the second half of 2021.

This CPE focuses on the financial and nonfinancial relevance of the CS and country program, and on the program's implementation, effectiveness, efficiency, and sustainability. This CPE will be the first for Uruguay to cover operations of IDB Invest since OVE's oversight mandate was extended to IDB Invest with the 2016 consolidation of the IDBG's non-sovereign-guaranteed (NSG) windows.

In preparing this document, OVE analyzed country data, studied project documents, and conducted interviews with the Uruguayan authorities, project execution units, representatives from civil society and the private sector, Bank managers who supervise the program with Uruguay, and IDBG staff from the Country Office in Uruguay and Headquarters. The team also made site visits to projects that received IDBG support to evaluate implementation challenges and progress.

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Acronyms and Abbreviations

AFAPs	Pension Savings Fund Administrator, for its Spanish acronym
ANII	National Agency for Research and Innovation, for its Spanish acronym
BROU	*Banco de la República Oriental del Uruguay*, for its Spanish acronym
CAF-AM	CAF-Asset Management Corporation
CAIF	Child Care and Family Centers, for its Spanish acronym
CCLIP	Conditional Credit Line for Investment Projects
CEI	Ceibal in English, for its Spanish acronym
CEIBAL	*Conectividad Educativa de Informática Básica para el Aprendizaje en Línea*, for its Spanish acronym
COVID-19	Coronavirus disease
CPE	Country Program Evaluation
CS	Country Strategy
CSC	Country Department Southern Cone
DDO	Deferred drawdown option
FDI	Foreign direct investment
FFF	Flexible financing facility
GDP	Gross domestic product
GOU	Government of Uruguay
ICT	Information and communications technology

IDB(G)	Inter-American Development Bank (Group)
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LBR	Loans based on results
LNG	Liquefied natural gas
M&E	Monitoring and evaluation
MDB	Multilateral Development Bank
MW	Megawatt
NSG	Non-sovereign-guaranteed
OECD	Organization for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PAM	*Plataforma Adaptativa de Matemáticas*, for its Spanish acronym
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PENCTI	National Strategic Plan for Science and Technology, for its Spanish acronym
PISA	Program for International Student Assessment
PMR	Project Monitoring Report
PPP	Public-private partnership
R&D	Research and development
SG	Sovereign-guaranteed
SI	Synthetic indicator
TC	Technical cooperation
TC/INTRA	Intraregional Technical Cooperation
TFP	Total factor productivity
UYU	Uruguayan pesos
WB	World Bank
WEF	World Economic Forum

Executive Summary

Between 2016 and 2019 Uruguay's economy grew less than in previous years, but, unlike in neighboring countries, a recession was averted. In response to a deceleration due to a fall in commodity prices and neighboring countries' economic difficulties, Uruguay has diversified its export destinations and reduced its financial dependence on bank depositors from neighboring countries. Nevertheless, vulnerabilities remain, as it exports mostly agricultural products to only a few destinations, and it maintains important links with Argentina in terms of foreign direct investment (FDI) and tourism revenues. Growth is constrained by relatively low total factor productivity, comparatively low investments in research and development, limited educational attainments and skills acquisition, and infrastructure gaps. A growing fiscal deficit, exacerbated by large contingent liabilities from the social insurance system, poses important challenges for the future.

Uruguay stands out for its institutional strength, but capacity gaps at the subnational level affect the country's ability to cope with regional disparities. Although Uruguay is one of the most egalitarian countries in the region, it continues to face the challenges of reducing poverty among children, youth, and the Afro-descendant population. Inequalities in educational attainment and education quality persist and are linked to socioeconomic backgrounds. Uruguayan citizens have a relatively high level of trust in the Government and a low perception of corruption, but their perception of insecurity has increased in recent years.

The fallout from the coronavirus disease (COVID-19) pandemic will pose additional challenges. Two weeks after the inauguration of the new Government on March 1, 2020, the Ministry of Health confirmed the first cases of the virus in the country, prompting early measures to address it. Uruguay, like the rest of Latin America and the Caribbean (LAC) region, is taking drastic measures. While neither the full health impacts nor the broader social and economic impacts of COVID19 can yet be assessed, the pandemic's socioeconomic ramifications may be exacerbated by the fact that Uruguay is a small, open economy that is highly dependent on exports of primary goods and tourism revenues. Indeed, real gross domestic product (GDP) is projected to drop by 3% in 2020 according to the International Monetary Fund (IMF). In this context, creating fiscal space and access to financing may represent additional challenges for the future.

The IDB Group's 2016-2020 Country Strategy proposed to work on three pillars covering a broad range of objectives: boosting productivity and competitiveness, promoting equity and social inclusion, and strengthening public sector management. Under the pillars, the CS established 16 strategic objectives, structured around nine priority areas, and covering relevant development challenges of the country. The CS also provided guidance for two areas of cross-cutting action—gender equality and climate change—and established that the IDB Group (IDBG) would continue strengthening the country procurement and fiduciary systems and donor coordination. Under the CS, the IDBG also planned to continue increasing the number and amount of NSG operations, while seeking synergies and complementarities with the public sector, particularly in fostering public-private partnerships (PPPs). In addition, recognizing the potential "two-way" knowledge transfer between Uruguay and the Bank and the country's role as a provider of knowledge to other countries, the CS would support South-South Cooperation projects.

While the broad range of CS priority areas and objectives allowed for flexibility, it cast the IDBG's net too wide to make marked contributions in all areas. The CS's broad definition of priority areas was aligned with Government priorities and country development challenges, but it did not provide a clear road map to guide the IDBG's interventions in priority areas where it had a comparative advantage. The CS provided that the IDBG would continue its support in such areas as innovation, infrastructure, and public sector management, but it also included areas in which the Bank did not have a track record, such as the employability of the population and health care reform. Mirroring the broad priority areas, the CS defined a large spectrum of objectives of varying degrees of complexity and realism about what the IDBG could hope to contribute with dispersed support. The results matrix provided more focus in some, but not all, areas.

From 2016 to 2019, the IDBG approved a total of US$2.15 billion through 101 sovereign-guaranteed (SG) and NSG loans and technical cooperation (TC) operations, of which the largest share was channeled to the productivity and competitiveness pillar; the Group approved an additional US$438 million in the first half of 2020. On the SG side, 29 loans for US$1.5 billion were approved (including a regional loan for US$80 million guaranteed in equal parts by Uruguay and Argentina), complemented by 61 non-reimbursable TC operations. NSG operations consisted of 11 loans for US$607 million. The legacy portfolio under implementation comprised 58 SG operations for US$1.8 billion, and 28 NSG loans for US$861 million. SG loan approvals until 2019 (US$1.5 billion) were in line with anticipated approvals (US$1.6 billion). In the first half of 2020, two additional SG operations were approved in response to the COVID-19 pandemic, raising the total SG approved amount to US$1.97 billion, thus exceeding the US $ 1.8 billion approvals foreseen by the 2016-2020 CS. On the NSG side, the Bank approved one loan operation during the first semester of 2020.

The IDBG's portfolio was aligned with country needs and the majority of CS objectives, but it left one objective unaddressed, introduced additional areas not covered by the objectives, and resulted in a scattered portfolio of relatively small operations. Overall, the approved portfolio addressed long-standing country development needs and Government priorities. The implemented program covered 15 of the 16 strategic objectives and their associated expected outcomes but did not address the labor market objective. At the same time, the program embraced financial reforms and debt management, which were not suggested in the CS. The legacy portfolio was largely aligned with the CS strategic objectives and expected outcomes, reflecting the continuity of the IDBG's work in many areas.

The Bank's mix of instruments was relevant to address the CS's objectives and country needs. Policy-based loans (PBLs) accounted for 49% of SG approvals over the 2016-2019 period and supported policy and institutional reforms in the trade and financial markets sectors, while also serving as an important liquidity management tool for the country. Uruguay valued and made extensive use of the PBL deferred drawdown option (DDO) as an instrument for liquidity management depending on market conditions. The DDO was especially valued by the Government early in the COVID-19 induced crisis, as it allowed Uruguay to rapidly access fast-disbursing funds in support of its crisis response. It supplemented PBLs with loans based on results (LBRs). The Bank complemented its financial support for liquidity management with advice and solutions through its Treasury Client Solutions Group. OVE found that, in addition to supporting liquidity management, LBRs facilitated the focus of counterparts and the Bank on program results, but they required executing units to have strong institutional capacity, particularly in areas such as planning, project management, and results tracking.

IDB Invest provided mostly financial additionality and reached most of the sectors in which its support was foreseen by the CS; however, there is decreasing space to add value in the areas where IDB Invest has been operating. IDB Invest kept its presence in sectors traditionally funded by its lending in the country, including renewable energy generation, transportation, agribusiness and, to a lesser extent, financial markets. Also, IDB Invest provided nonfinancial additionality by assisting the drafting of power purchase agreement contracts that facilitated investments in renewable energy sources and made those projects bankable. Yet the space to bring financial additionality to these sectors is reducing as markets mature and private financing becomes available (although the COVID-19 health crisis may be slowing this trend). IDB Invest has addressed the financial needs of PPP projects; however, the space for foreign currency funding is limited under the PPP Law. Meanwhile, PPP financing through local debt funds has already been led by CAF-Asset Management Corporation (CAF-AM), who plays a major financial role by managing local institutional investors (pension funds or AFAPs, for its Spanish acronym) to fund PPP projects.

The Bank's broad nonfinancial SG support made significant contributions in some areas but lacked strategic focus in others. The Bank also continued to promote regional knowledge-sharing. As during the previous CS period, most of the TCs were approved as "client support" (77% of total). The TCs supported relevant topics to address the country's needs, such as institutional strengthening, and they generated knowledge in specific subjects. The support for fiscal management improvement stands out, revealing the country's increased demand for not only fiscal management but also PPP contracts and, most importantly, monitoring and evaluation capacities. The Bank also provided TCs in areas in which SG lending was nonexistent (labor markets). Some TCs lacked strategic focus. The Bank continued its efforts to promote regional knowledge-sharing channeled by Intraregional Technical Cooperation (TC/INTRA) funds. The lessons shared are related to a broad range of issues such as digital learning platforms, innovation support, debt management, and digital government. However, for such exchanges to reap their full benefit, they would need to be better tailored to the recipients' backgrounds and needs.

The preparation of investment loans in Uruguay was faster than the Bank's, but execution times were relatively slow. Investment loans approved during the 2016-2019 period have been faster to reach every stage of approval and first disbursement than those for other IDB borrowing and Southern Cone countries. However, they have taken somewhat longer to disburse. Although most investment loans have made satisfactory implementation progress, according to the Project Monitoring Reports (PMRs), OVE found that over half of them have encountered some implementation problems that were generally due to adverse fiscal and macroeconomic circumstances or to flaws in the projects' definition and planning stages.

Uruguay's investment loan portfolio showed high preparation costs per dollar approved compared with the rest of the Bank (a fact that is mainly explained by the relatively small size of its investment loans), while execution costs were in line with those of the rest of the Bank. Uruguay's high unitary costs of investment loans are largely explained by their small size, but OVE's analysis also points to such other factors as the country's demand for sophisticated technical assistance, which is reflected in the relatively high grades of Bank staff working on Uruguay's projects. Meanwhile, execution costs were in line with those of the Bank and lower than in other medium-small countries. Loans using the LBR modality, launched during the CS period, were prepared, and executed faster than the rest of the portfolio at comparatively lower cost. PBLs posted relatively low preparation costs, a reflection of Uruguay's advancing in the structuring and approval of reforms captured in the policy matrix before formally requesting a PBL.

Results of the IDBG program have been mixed, with stronger performance under the productivity and public sector management pillars than the equity and social inclusion pillar. The IDBG program achieved positive results in renewable energy, transport, financial markets, promotion of competitiveness and innovation, and public management systems. It helped strengthen the regulatory and supervisory capacity of the financial sector, promote investments in innovation, and improve the national road network. It also contributed to increased renewable energy capacity, but investments in non-renewables (combined cycle) raised efficiency concerns. Results were mixed in water and sanitation, with important contributions to improved drainage and sanitation in Montevideo, but limited results elsewhere. The Bank supported the creation of the single window for foreign trade, the new Customs Code, and the signing of bilateral customs cooperation agreements, but there is limited evidence that the lending operations helped the country gain access to new markets. Results fell short of expectations across the social sectors and on citizen security. While IDBG investments helped expand infrastructure for early childhood and secondary education, that support was insufficient to considerably affect access to early childhood education. Dropout and repetition rates and learning outcomes at the secondary school level changed little. Urban development operations aimed at alleviating informal settlements suffered from implementation delays due to a reduction of fiscal space. IDB support on citizen security focused on curbing crime rates also fell short of expectations. Efforts to strengthen public management systems at the national level resulted in greater efficiency in budgetary execution and benefits to citizens in their interactions with the state. IDB's contributions to the strategic objective of strengthening the decentralization process are less clear.

Reforms anchored in legislation and strong institutional capacity increase the likelihood that Bank program results will be sustainable, but there are countervailing forces. Some key results linked to the Bank's support—public debt management, promotion of business innovation, renewable energy, and digital government—are cemented in the country's legal framework, institutional capacities, and long-standing policies agenda. Some Bank-supported investments such as electronic health records, digital learning platforms, and digitalization of government services can help Uruguay tackle the potentially long-effects of the COVID-19 pandemic, thus enhancing their sustainability prospects if they continue to be properly funded.

Nevertheless, OVE identified two sources of potential risks to the sustainability of the achieved development results: changing political priorities and reduced fiscal space.

The fiscal deficit, the slowdown in growth, and inflationary pressures may be exacerbated by the effects of the COVID-19 pandemic. Given Uruguay's macroeconomic fragility and fiscal concerns, a more focused IDBG support program going forward would be called for. The COVID-19 pandemic has created increased uncertainty, as its health, social, and economic effects cannot yet be fully assessed. IDB's support through DDOs has helped Uruguay cushion the immediate fiscal impact, but over the coming year it will require flexibility to support Uruguay in weathering the crisis most effectively.

Considering the evaluation findings and the uncertainties created by the COVID-19 pandemic, OVE makes the following recommendations:

1. **Ensure that a new CS is only adopted after the effects of the COVID-19 pandemic are better understood.** The current CS with Uruguay expires at the end of 2020. Given the still unknown health, social, and economic effects of the COVID-19 pandemic in Uruguay, OVE recommends that IDBG not proceed with agreeing on a new full-term CS with the Government until the extent of the crisis impact is better understood and it can commit to a new multi-year country strategy under greater certainty. In the interim, OVE recommends that IDBG continue its dialogue and support to the country under the transitional measures provided in the Guidelines for Country Strategies and under any special measures to address the emergency, while ensuring that it keeps the Board informed of the evolving situation until such time a new country strategy can be brought for its consideration.

2. **Provide focused support to help Uruguay address a limited number of key development challenges and reduce transaction costs.** The current broad-based strategy resulted in a large number of small and atomized operations with high preparation costs and limited overall impact. Therefore, OVE recommends that IDB better focus its future support to Uruguay, including through programmatic support that will allow it to leverage its contribution and reduce transaction costs, while focusing smaller operations in a limited number of areas where they can have a demonstration effect.

3. **Continue the role as trusted advisor for fiscal and debt management by making it an explicit CS objective, while also helping Uruguay to strengthen its capacity to effectively prioritize public investments.** IDB has played a much-valued role as advisor on fiscal and debt management, including through effective use of a variety of lending instruments.

At the same time, given fiscal constraints, there is room for IDB to also help strengthen Uruguay's analytical capacity to effectively prioritize public investments by providing TC support in such areas as fiscal management and monitoring and evaluation capacities.

4. **Adopt a more nuanced approach to knowledge-sharing in support of South-South dialogue.** IDB has supported Uruguay in sharing its knowledge with other countries in the region—for example, on innovation, e-government, and water. To ensure that Uruguay's knowledge-sharing yields the expected results, such efforts should be further tailored to the backgrounds and capacities of various recipients and should focus more on the application of Uruguay's lessons to specific recipients' contexts.

5. **Identify business opportunities where IDB Invest can continue to add value.** IDB Invest has added significant value in key areas such as renewable energy and infrastructure, but at the same time it had difficulty effectively engaging in areas such as health and education. Going forward, as commercial financing becomes more readily available for IDB Invest's traditional areas of work, IDB Invest will need to identify new business opportunities where it can add value through demonstration effects and, where possible, exploit synergies with IDB, as it did in renewable energy.

01

Country Context

1.1 Uruguay is a small and relatively egalitarian country with an aging population and a commodity-dependent export-oriented economy. With a per capita GDP of US$20,916,[1] Uruguay is classified in the group of emerging countries and developing economies, according to the IMF. Its population of 3.5 million is mostly urban (95%) and concentrated in Montevideo (40%), the capital. Uruguay exhibits the characteristics of a country in advanced demographic transition, with low birth and death rates and a slowly growing population. The country is among the highest in income and most egalitarian in the LAC region, with a relatively low poverty rate (8.1% in 2018)—and almost no extreme poverty (0.1%)—and one of the lowest Gini coefficients (39.7).[2] Its geopolitical location and its condition as a small and open economy make Uruguay vulnerable to external shocks, mainly from its two neighbors, Brazil and Argentina.

1.2 The deep 2002 financial crisis[3] showed the country's high vulnerability to external shocks, prompting macroeconomic reforms that helped mitigate the impacts of the 2008-2009 international crisis, while cementing a path for the longest period of economic expansion in decades. Between 2003 and 2015, the economy grew at an annual average rate of 4.7% (see Figure 1.1), benefiting from the commodity boom, a sound macroeconomic framework, and a favorable investment climate. FDI was an important driver of this acceleration.[4] Economic growth brought rapid job creation and significant growth in real wages, reducing unemployment rates to historically low levels (6.5% in 2014). However, growth started to slow in 2015,[5] mainly because of a fall in commodity prices and reduced demand from main economic partners (Argentina and Brazil).

1.3 Since 2016, Uruguay's economy has grown less than in previous years but until the COVID-19 pandemic hit, it avoided falling into recession, benefiting from macroeconomic stability and a more diversified exports sector. The economy grew an average of 1.5% during the 2016-2019 period, below the average of previous

1 Purchasing power parity (constant 2011 international dollars), World Bank (WB) data.

2 Gini Index, WB estimates.

3 Following the crises in Brazil (1999) and Argentina (2001), the Uruguayan economy suffered from contagion, with GDP falling over 7% in 2002. Poverty rates increased by more than 8 percentage points to 23.7%, and inequality, measured by the Gini coefficient, increased to 43.8. This contagion was the result of the country's undiversified economic base and its economic dependence on its two main economic partners from Mercosur.

4 Between 2003 and 2015, net inflows of FDI as a percentage of GDP averaged 5.5% (WB data).

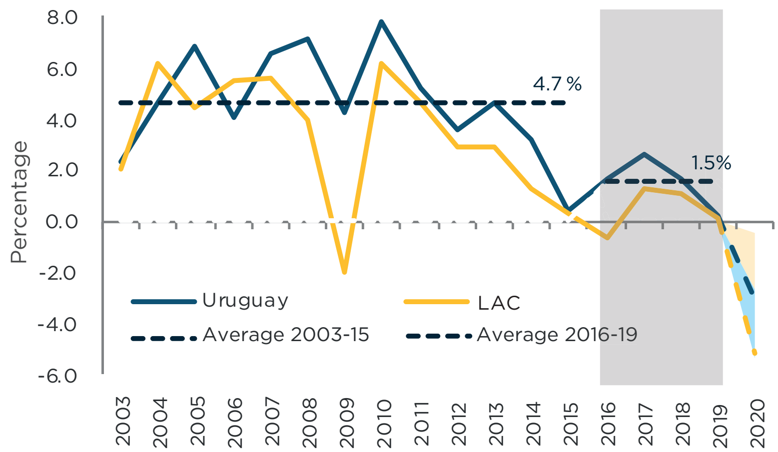
5 Uruguay's economic growth slowed considerably in 2015 and early 2016, at rates of 0.4% and 1.7%, respectively.

years (see Figure 1.1).[6] The economy did not fall into recession as Argentina and Brazil did, decoupling somewhat from its neighbors by reducing both its exposure through commercial channels and its financial dependence on bank deposits from nonresidents, and thus becoming less exposed to their economic downturns. However, the country maintains important links with Argentina in terms of FDI and tourism revenues.[7]

Figure 1.1

Real GDP growth (annual percent change)

Source: IMF World Economic Outlook.



Note: The shaded area represents the evaluation period. Dotted lines represent projections.

1.4 Uruguay is still transitioning from a commodity-based economy to an economy whose growth is underpinned by higher levels of productivity. Between 2003 and 2017 total factor productivity (TFP)[8] grew at an average annual rate of 1.5%, but the share of the economic growth explained by TFP is still low in Uruguay compared to other countries that succeeded in becoming advanced economies.[9] Moreover, Uruguay ranked 73 out of 144 countries in the 2015-2016 edition of the World Economic Forum's (WEF) Global Competitiveness Index (54 out of 141 countries in 2019). Among the different pillars of the index, Uruguay performed poorly on those related to its innovation ecosystem, ranking 83 in business sophistication and 80 in innovation, which are key for Uruguay's goal of inserting itself in higher value-added segments of global value chains and maintaining

6 As a result of this slowdown, unemployment has been on the rise during the period, increasing from 6.6% in 2014 to 8.5% in 2019. Inflation reached 6.6% in 2017, in line with the Government's target range of 3-7%. However, during 2018 and 2019, inflation has exceeded the ceiling established by the central bank, reaching 8.8%.

7 Argentina provides the largest amount of FDI—18% in 2017 (Uruguay XXI, 2019). Argentine tourists represented almost 70% of total visitors to Uruguay in 2017, and their expenditure was US$1.5 billion (68% of total tourist spending), according to statistics from the Ministry of Tourism.

8 The TFP percent change was retrieved from FRED, Federal Reserve Bank of St. Louis, and is based on calculations by researchers from the University of Groningen and University of California, Davis.

9 IDB Sector Note: Competitiveness and Innovation. Uruguay, 2016.

fast-paced productivity growth. In addition, Uruguay's growth model is limited by constraints in human capital, the fiscal pressures of an aging population on already high social security spending,[10] and the more restrictive global financial conditions that may limit investment to cover infrastructure gaps, mainly in transportation, and to support firms' innovation through research and development (R&D).

1.5 Uruguay's relatively low levels of investment in innovation and R&D (0.4% of GDP) are keeping it from bridging the productivity gap.[11] Furthermore, it has low levels of private business financing for these activities (4.6% in 2016 compared to 18-48% in Argentina, Brazil, Chile, Colombia, and Mexico).[12] The Uruguayan economy has some dynamic industries with productivity levels that are close to the technological frontier – such as forestry, pulp and paper, beef and dairy, and software and global business services,[13] yet it is characterized by an atomized and highly heterogeneous business sector with low innovation capacities at the firm level, which translates into poor aggregate performance. Even though Uruguay has the highest level of information and communications technology (ICT) adoption in LAC, this has yet to translate into more innovation at the technological frontier to put Uruguay on the path to becoming an advanced economy.[14]

1.6 Over the past decade, rising freight volumes have put pressure on transport and freight handling infrastructure. In the 2018 Global Competitiveness Index, Uruguay ranked 62 (out of 140 countries) in infrastructure, with negative notes in subcategories such as the quality of roads, efficiency of train services, and airport connectivity. According to an IDB Invest report,[15] the road coverage is adequate, but the volume of tons-kilometers transported over the national road network increased by 230%[16] between 2002 and 2015, putting pressure on maintenance. Ports and rails are also strained by the start of another mega project, a third pulp mill. In 2016-2020, the Government emphasized investing in infrastructure (more than US$12 billion as part of a plan for 2030) and, within this investment, the need to approve PPP for about a third of that amount. At present, the country's

10 Organisation for Economic Co-operation and Development (OECD) 2014; IDB 2018; WB 2015.

11 The investment in R&D is low in comparison with some LAC countries and with the OECD countries' average of 2.4% (OECD Data: gross domestic spending on R&D).

12 United Nations Educational, Scientific, and Cultural Organization's Institute of Statistics, http://uis.unesco.org/

13 World Bank Group 2015.

14 WEF 2018.

15 IDB Invest, Uruguay Country Insight, June 2019.

16 Based on 2018 data of the Ministry of Transport and Public Works.

PPP portfolio reaches some US$1.994 billion and consists of seven road projects, four education projects, a prison, and a railway line, all at different stages of progress.

1.7 Human capital accumulation is constrained by low educational attainments and skills acquisition. The levels of educational attainment in Uruguay are substantially below those of OECD economies. Secondary education is marked by high dropout and grade repetition rates, unequal outcomes across income groups, and low performance compared to international standards, with a significant proportion of students underperforming in the Programme for International Student Assessment (PISA).[17] Furthermore, according to official data, in 2017 only 10% of the population aged 25-64 had completed tertiary education, compared to 17% in Mexico and 22% in Chile.[18] In addition, the country is falling short in terms of the quality of technical skills offered through the vocational education system, which in turn affects access to formal work.[19] An inadequately educated workforce is one of the most problematic factors for doing business in Uruguay, according to WEF and WB surveys.[20] Factors related to human resources have also been reported as barriers to innovation. These factors include resistance to change (in how things are done) among employees, and lack of staff qualification or staff experience, suggesting problems related to both “hard” and “soft” skills (de Mendoza *et al*., 2014).

1.8 Poverty is highest among the young and Afro-descendants, and access to education varies significantly by socioeconomic status. Even though Uruguay stands out as a one of the most egalitarian countries in the region, poverty continues to disproportionally affect children, young people, and the Afro-descendant population. According to 2019 data, for children under 6 and from 6-12 years of age, poverty rates are 17.0% and 16.5%,[21] and the incidence of poverty among Afro-descendants is 18.7%.[22] Moreover, important inequalities in access to education and in education quality persist, strongly linked to socioeconomic background. They translate

17 The results on the PISA test show that the gap with OECD countries has widened in recent years for both mathematics and language. The gap with Chile also widened.

18 See https://prisma.org.uy/eportal/web/anii-prisma/principales-indicador

19 OECD 2014.

20 This issue came fourth and third in the 2017 edition of the WEF’s Global Competitiveness Index and the World Bank’s Enterprise survey, respectively. The surveys also mentioned tax rates, inefficient government bureaucracy, restrictive labor regulations, and the informal sector.

21 National Institute of Statistics (*Instituto Nacional de Estadística*). Poverty estimation by the income method 2019.

22 Those who declared they were white tended to estimate the poverty rate of Afro-descendants as about 9%.

into unequal educational attainment, higher dropout rates for youth from socioeconomically disadvantaged backgrounds, and disparities in educational performance.[23]

1.9 Uruguay stands out for its institutional strength, but capacity gaps at the subnational level affect the country's ability to cope with regional disparities. Uruguayan citizens have a relatively high level of trust in the Government and a low perception of corruption; in addition, the state is recognized for its active and effective role in most public service sectors.[24] Nevertheless, the perception of insecurity has increased among Uruguayans in recent years.[25] Regarding institutional capacity, some local governments and municipalities face challenges in matters such as tax collection and financial management, hindering investment plans for local development.[26] Moreover, these subnational entities' lack of institutional capacity weakens their effectiveness and efficiency, aggravating regional inequalities in a mostly urban country.

1.10 Increasing fiscal difficulties pose an important challenge for the coming years. After 2012, the fiscal deficit began to grow, reaching 4.3% of GDP as of February 2020.[27] The gross debt of the nonfinancial public sector decreased from 96.8% of GDP in 2003 to 42.7% in 2013, but has increased since then, reaching 51.3% at the end of the third quarter of 2019. The authorities have managed to improve the debt profile, reducing the proportion of debt in foreign currency (from 93.2% in 2003 to 56% in 2019) and almost doubling its average maturity (from 7.4 years in 2004 to 14 years in 2019). The Government has also accumulated liquid resources and has secured contingent credit lines to face external shocks, including PBLs with a DDO from IDB, which allow for better liquidity management according to market conditions and helped provide quick access to liquidity early in the COVID-19 crisis.

1.11 The country also faces growing contingent liabilities stemming from an aging population.[28] A larger aging population requires and demands more expensive health services. The impact

23 World Bank 2015.

24 OECD 2014.

25 According to the 2017 National Victimization Survey, insecurity is the main concern of Uruguayans: 21.6% of respondents stated that this issue is the one that worries them most, above education (17.5%) and unemployment (15%).

26 IDB Sector Note: Decentralization 2015.

27 The observed fiscal result of the consolidated public sector for February 2020 was -3.0% of GDP. Note that this result includes the net effect of the income from the funds of the Social Security Trust (*Cincuentones* effect), estimated at 1.3% of GDP. Without considering these revenues, the overall result of the consolidated public sector is -4.3% of the GDP.

28 Of Uruguay's total population, 15% is 65 years of age or older. Therefore, the demographic transition is more akin to that of Eastern European countries than to the rest of LAC countries.

extends beyond health care to the social security system, with upward pressures on pension payments. Therefore, Uruguay faces a major challenge in the coming decades, with growing needs to finance the dependent population[29] on the one hand and a declining working population on the other. According to WB estimates,[30] by 2050 22% of the population in Uruguay will be over 65 years old, and in 2100 it will reach 30%. This means that the total spending on retirement and pensions will go up to 17.1% of GDP in 2100 from nearly 10% in 2013. Additionally, population aging poses a clear challenge in terms of financing the health sector, because the larger size of the elderly population group implies greater demand.[31]

1.12 Following the November 2019 elections, a new coalition led by the Partido Nacional came to power, displacing the Frente Amplio after 15 years of governing. The new government's proposed agenda places greater emphasis on areas such as security, education, quality of public spending and labor relations and less on such areas as roads and energy infrastructure. It also envisages a fast-paced approach to approve reforms early in the Government's term.[32]

1.13 The public health and economic impacts of the COVID-19 pandemic will pose additional challenges for the country. Two weeks after the inauguration of the new Government, on March 1, the Ministry of Health confirmed the first cases of the virus in the country, prompting early measures to address it. In taking these measures, Uruguay, like the rest of the LAC region, is using and adapting emerging lessons from Asia and Europe. While neither the full health impacts nor the broader social and economic impacts of COVID-19 can yet be assessed, the pandemic's socioeconomic ramifications may be exacerbated by the fact that Uruguay is a small, open economy that is highly dependent on exports of primary goods and tourism revenues. In this context, creating fiscal space and gaining access to financing may present additional challenges for the future.

29 Defined as the number of older adults (65 and over) per 100 people aged 15 to 64.

30 World Bank, *Cambio demográfico y desafíos económicos y sociales en el Uruguay del siglo XXI,* 2016.

31 According to World Bank estimates, the demographic change in Uruguay would increase total health spending to 10.3% of GDP in the year 2100.

32 In January, the elected Government began discussions of an emergency bill that contains 457 articles to promote legal changes in the areas of security, justice, education, economy, and other sectors. The bill was introduced into Parliament in late April and is now under discussion.

02

IDB Group Strategy and Programming (2016-2020)

A. Relevance of the IDBG's country strategy

2.1 Uruguay's development priorities were laid out in the Government's five-year budget.[33] The multiyear budget set out a broad range of areas, such as education, the care system, infrastructure, health, citizen security, and decentralization, that would receive incremental resource allocations. The 2015-2019 administration would also continue the efforts started by previous administrations in the areas of childhood and youth, as well as housing, land, and environment, and would strengthen the resource allocation for research and innovation.[34] At the same time, the Government of Uruguay (GOU) recognized the need for greater efficiency and effectiveness in the management of public spending as the economy decelerated after a decade of strong growth.[35]

2.2 The IDBG's 2016-2020 CS proposed to work on three pillars covering a broad range of objectives: boosting productivity and competitiveness, promoting equity and social inclusion, and strengthening public sector management. Under the pillars the CS established 16 strategic objectives, structured in nine priority areas (Table 2.1). The CS also provided guidance for two areas of cross-cutting action, gender equality and climate change, and established that the IDBG would continue strengthening the country procurement and fiduciary systems[36] and donor coordination.[37] Under the CS, the IDBG also planned to continue increasing the number and amount of NSG operations[38] while seeking synergies and complementarities with the public sector, particularly in fostering PPPs in transportation and energy.[39] The CS

33 For reference, see *Ministerio de Economía y Finanzas 2014.*

34 See Annex I for a summary of the Government's priorities in each of these areas (based on *Mensaje y Exposición de Motivos del Proyecto de Presupuesto Nacional 2015-2019)*.

35 In addition to the GOU's goal to reduce the public deficit to 2.5% of GDP in 2019 (from 3.5% in 2014).

36 The CS pointed to the increasing use of, and projected improvements in, some country subsystems (budget, accounting, treasury, internal audit, external control, and procurement).

37 The CS expressed the IDB's commitment to maintaining its ongoing relationships with other multilateral and bilateral agencies, acting in coordination and promoting joint projects that would allow for an efficient allocation of resources.

38 The CS envisaged the support of NSG operations as being of key importance to promote credit access for businesses and capital market growth and to support the production and export sectors so as to achieve greater efficiency, productivity, and development of value chains. NSG support could also be extended to new areas such as habitat and health improvement.

39 During 2016-2020, the GOU was planning to expand the amount of private investment through the use of a relatively new legal instrument (PPP Law 18.876 from 2011). Based on the 2030 agenda, one-third of the US$12 billion expected infrastructure investment in the five-year period would come from the private sector. For more details, see Annex VII on Financial Additionality.

also identified the potential “two-way” knowledge transfer between Uruguay and the Bank and suggested that the Bank would support projects in Uruguay that incorporated experiences from outside the region. At the same time, the CS recognized Uruguay’s role as a provider of knowledge to other countries and thus would support South-South projects.

Table 2.1. Strategic objectives of IDB’s CS 2016-2020

Strategic pillar	Priority area	Strategic objective
Productivity and competitiveness	1. Promotion of innovation	1.1. Promoting business innovation.
		1.2. Improving coordination of ICT policies.
	2. Improvement of the productive infrastructure	2.1. Improving the transportation infrastructure.
		2.2. Developing installed power generation capacity.
		2.3. Increasing medium- and long-term financing.
	3. Integrated and coordinated international positioning	3.1. Diversifying export markets.
Equity and social inclusion	4. Strengthening of the human capital and employability of the population	4.1. Improving access to early childhood education.
		4.2. Increasing the secondary school graduation rate.
		4.3. Improving the quality of education.
		4.4. Improving access to job training.
	5. Support for health care reform	5.1. Improving the first level of health care.
	6. Habitat improvement	6.1. Reducing the qualitative housing deficit.
	7. Support for early childhood and youth segments of vulnerable population groups	7.1. Improving access to and quality of social benefits and services for the most vulnerable children and youth (quintiles 1 and 2).
Public sector management	8. Greater efficiency in public institutions	8.1. Strengthening public management systems.
		8.2. Increasing the effectiveness of the National Police in preventing crime.
	9. Strengthening of urban and departmental management	9.1. Strengthening the decentralization process.

Source: Document GN-2836, IDB Country Strategy with Uruguay, 2016-2020.

2.3 While the CS’s set of priority areas allowed for flexibility, it was too broad for the Bank’s support to make marked contributions in all areas. The CS’s broad definition of priority areas aligned the CS with Government and country needs, but it did not provide a clear road map to guide the IDBG’s interventions in priority areas where it had a comparative advantage. The CS addressed areas of continuity and previous success, such as innovation, infrastructure, and public sector management.[40] However, it also addressed areas in which the Bank did not have a track record of interventions, such as the employability of the population. It also set support for health care reform as a priority area without spelling out how the IDBG would address the complexity of such reforms.

2.4 The scope of the CS's objectives and their expected results were also too widely defined, and some were unrealistic. Mirroring the broad set of priority areas, the CS defined a large spectrum of objectives to be pursued by IDB, covering several of the country's development challenges (Table 2.1). Two of these objectives (diversifying export markets and increasing the effectiveness of the National Police in preventing crime) were unrealistic in view of what the IDBG could hope to contribute, particularly given the dispersion of the proposed support. The results matrix provided more focus in some areas—for example, under productive infrastructure it defined expected results on renewable energy capacity and the national road network. However, this did not happen in other areas, such as strengthening of human capital, in which the expected outcomes were broadly defined.

2.5 The CS identified the main risks to achieving progress on the CS's broad agenda, but some mitigation measures underestimated the challenges ahead. The main risks identified were the uncertain international environment, leading to uncertainties about the Government's financing needs, and the complexity of certain GOU reform initiatives, which could affect the Bank's program, particularly the interventions related to health and education sector reforms. The CS reasonably envisaged the increased use of PBLs to cope with the deterioration in macroeconomic scenarios. However, it also suggested that the use of technical assistance and institutional strengthening components could be enough to mitigate implementation risks in programs requiring organizational reengineering, regulatory changes, or interagency coordination. Despite Uruguay's high institutional capacity, the decision-making process in the sectors envisaged by the reforms are time-consuming because of the many actors involved, and it is unclear how the Bank expected to help build consensus toward the reforms.

2.6 The CS anticipated SG approvals for US$1.8 billion between 2016 and 2020, with disbursements of US$1.3 million and an average of US$101 million in annual net flows.[41] Approvals

40 OVE (2015) assessed that the Bank had supported significant progress in areas such as energy, innovation, trade, and reducing the housing deficit, while making more limited progress in areas as urban transportation, food health and safety, and rehabilitation and maintenance of secondary road networks.

41 Not including approvals and disbursements by IDB Invest.

would be concentrated in the first years of the period and would include a significant proportion of investment loans combined with programmatic PBLs with and without a DDO, considering the Uruguayan Government's requests for the availability of fast-disbursing funds.[42] The ratio of Uruguay's SG debt with IDB to GDP was projected to be at an average of 3.6% during the period, and the ratio of IDB debt to external public debt at 5.4%.

B. Relevance of the IDB Group program[43]

2.7 From 2016 to 2019, the IDB Group approved a total of US$2.15 billion through 101 new SG and NSG loans and TC operations; the Group approved an additional US$438 million in the first half of 2020.[44] On the SG side, 29 loans for US$1.5 billion were approved during the 2016-2019 period,[45] complemented by 61 non-reimbursable TC operations. NSG operations consisted of 11 loans for US$607 million.[46] The amount of SG lending approved by December 2019 (US$1.5 billion) was in line with the anticipated approvals by that year (US$1.6 billion).[47] In addition, during the first half of 2020, the Bank approved two more SG loan operations in response to the COVID-19 pandemic, raising the total approved amount to US$1.97 billion, thus exceeding the US$1.8 billion of approvals foreseen by the 2016-2020 CS.[48] On the NSG side, the Bank approved one loan operation during the first semester of 2020.

42 IDB Country Strategy with Uruguay, 2016-2020 (document GN-2836), page 23.

43 See sector notes in the Annexes for an in-depth analysis of the relevance of Bank's programming.

44 Note that it is too early to fully assess operations approved by the IDB Group during the first semester of 2020. Hence, while the evaluation period is 2016-2020, for the purpose of this CPE, the portfolio evaluation analysis covers 2016-2019.

45 This sum includes part of a regional US$80,000 loan guaranteed in equal parts by Uruguay and Argentina (RG-L1124). Operation RG-L1124 is included in the evaluation portfolio for the US$40 million corresponding to Uruguay. Note that seven regional TCs totaling US$3.4 million and partly benefiting Uruguay were approved and are being administered by the Bank's Country Office. These, however, are not included in the evaluation portfolio.

46 Unless otherwise specified, NSG approved amounts include funds under the administration of the Bank (but do not include B-loans).

47 Anticipated approvals included US$250 million to be approved in December 2015 as part of the 2016-2020 CS. This operation is part of the "period approvals" in the evaluation portfolio. See Annex II for the detailed evaluation portfolio.

48 Loan operations UR-L1170 (PBP-DDO for US$350 million) and UR-L1171 (investment loan under the global credit operation modality for US$80 million) were prepared in response to the COVID-19 pandemic. The first, to strengthen the management of public policy and fiscal management; the second, to support the sustainability of micro, small and medium-sized enterprises as providers of employment in Uruguay in the midst of the COVID-19 crisis. In addition, a new TC was also approved.

2.8 The productivity and competitiveness pillar received considerably more funding than the other two pillars, although the number of operations approved was more evenly distributed. More than three-quarters of the SG and NSG amounts approved during the 2016-2019 period were assigned to the productivity and competitiveness pillar (over two-thirds of SG financing through 15 SG loans, 18 SG TCs, and all NSG financing - see Annex II).[49] The equity and social inclusion pillar received close to 18% of SG financing (through 7 SG loans and 19 TCs), while only 13% (through 12 loans and 24 TCs) went to public sector management. By priority area, "improvement of the productive infrastructure" obtained the most financing (50%), followed by "promotion of innovation" (16%).[50]

2.9 In terms of sectors, the period approvals were dominated by financial markets, trade, transport, and energy. While most of the operations classified under the productivity and competitiveness pillar (contributing specifically to the strategic objectives of increasing medium- and long-term financing, promoting business innovation, diversifying export markets, improving the transportation infrastructure, and developing installed power generation capacity), a few sectors (financial markets, trade, transport, and energy) accounted for 70% of the funds approved under the CS during 2016-2019. Transport and energy operations accounted for 84% of NSG amounts approved,[51] while two financial market operations and two trade operations represented 25% and 21% of the approved SG portfolio, respectively.[52]

2.10 A legacy portfolio, composed of 86 SG and NSG operations for US$2.6 billion, was also active during the evaluation period.[53] Its distribution among CS strategic pillars and priority areas is similar to that of period approvals (see Annex II for details). On the SG side (US$1.8 billion), this covers 33

49 Annex II provides details about the classification criteria by pillars and shows the number and amount of operations in each area, including more detail about double classifications.

50 The evaluation portfolio includes some TCs not aligned with any strategic pillar. These operations consist of two TCs for natural disaster support, a series of TCs related to budget allocation to action plans for C&D countries, and a knowledge and dissemination TC to support Uruguay's growth agenda.

51 NSG approvals as of December 2019 included a US$300 million railway project, seven energy projects for a combined amount of US$212 million, two agriculture loans for a total of US$70 million, and one US$25 million education project.

52 These include one PBL in each sector for US$250 million.

53 The legacy portfolio included all SG and NSG operations that had balances to be disbursed as of January 1, 2016 (the beginning of the evaluation period), even if approved in prior periods. See Annex II for a summary table and detailed list. The NSG legacy portfolio also included (i) any operation for which an expanded supervision report was prepared during the evaluation period; and (ii) any operation with disbursements in the two years preceding the evaluation period (as a proxy for being expected to prepare an expanded supervision report, even if one was not produced).

loans, one reimbursable technical cooperation, and 24 TCs (including one regional TC administered by Uruguay). Legacy SG lending is mostly made up of investment loans (two-thirds of the financing); the rest is concentrated in three PBLs with DDO. On the NSG side, the legacy portfolio comprises 25 senior loans and three subordinated loans for US$861 million.

2.11 The evaluated portfolio was aligned with country needs and the majority of CS objectives, but it left one objective unaddressed, introduced additional areas not covered by the objectives, and resulted in a scattered portfolio of relatively small operations. Overall, the approved portfolio addressed long-standing country development needs and Government priorities and included some innovative areas particularly in support of the country's digital agenda.[54] The implemented program covered 15 of the 16 strategic objectives and their associated expected outcomes but did not address the labor market objective. However, the program embraced financial reforms and debt management, which were not suggested in the CS. At the same time, not all operations were aligned with the CS; for instance, only one of the 23 schools to be built under the PPP modality supported by an NSG project will directly support the objective of expanding early childhood education coverage. The legacy portfolio was largely aligned with the CS strategic objectives and expected outcomes, reflecting the continuity of the IDBG's work in many areas.

2.12 The climate change and gender equality areas were mainstreamed in the portfolio. Climate change elements were included in 21 currently approved operations, 11 of which were approved under the IDB's private window. Four operations integrated the area as part of the operation objective, and seven included concrete activities in the components. Seven operations integrated the gender perspective as part of their objectives, and seven included specific activities within their components. One NSG loan operation specifically included considerations related to diversity; this area was mostly addressed by TCs.

2.13 The Bank's mix of instruments was relevant to address the CS's objectives and country needs. Of the total amount of SG approvals during the 2016-2019 period, 50% corresponds to 26 investment loans for US$778 million, and the rest is accounted for by three PBLs with DDO (49%) and 61 TCs (1%).[55] Modalities of investment lending approved during the

54 Innovative support in the digital area included the Bank's first operation to strength cybersecurity, support for digital learning platforms, electronic health records and digitalization of government services.

55 The PBL approved during the first half of 2020 (outside the analysis period) raises the share of PBLs to 56%.

period include specific investments (17 operations), multiple works programs (four operations), global credit programs (one operation), and LBRs (four operations). The prevalence of DDO PBLs and LBRs reflects the country's use of such instruments for debt management purposes (see Section II.C) and allowed the Bank to promptly disburse funds early during the COVID-19 crisis. Meanwhile, NSG operations included only debt instruments, mostly senior debt, but new instruments like B-bonds and leasing were used.

2.14 The three PBLs approved between 2016 and 2019 backed policy and institutional reforms in the trade and financial markets sectors. Two loan series supported reforms in these sectors. The first one (one operation for US$250 million) aimed to strengthen financial regulation and supervision (Basel II and III standards), improve financial inclusion (financial inclusion law), and strengthen institutions and financing for productive development (capital markets, public banks, and state-owned companies). The second one (two operations for US$500 million) promoted the country's international insertion by modernizing policies and institutions. For instance, it supported the regulatory and financial strengthening of the National Strategic Plan for Science and Technology (PENCTI, for its Spanish acronym) through a management commitment between the Executive Branch and National Agency for Research and Innovation (ANII, for its Spanish acronym), as well as through incentives for private investments in innovation and projects that link foreign companies and local suppliers.[56] In a depth analysis, OVE found that around half of the PBLs' policy conditions had enough "depth" to have immediate and possibly significant effect, but they would need to be followed by other measures for their effect to be lasting (Annex III, Figure III.6). The other half could, by themselves, trigger long-lasting changes in the institutional or policy environment as they entailed, for instance, legislative changes. Interviews with country counterparts suggest that, while there was dialogue between the GOU and the Bank during the design stages of the supported reforms, Uruguay's requests for PBLs typically came after the country had advanced in their structuring and approval processes, to which the Bank PBLs gave a seal of approval.

56 A third series in the legacy portfolio (three operations for US$550.75 million) supported the approval and consolidation of reforms and initiatives for the country's international insertion and improvement of its innovation capacities. These included the creation of a single window for foreign trade, the preparation of the new Customs Code of Uruguay, and the signing of bilateral customs cooperation agreements.

2.15 OVE found that the LBR can be a useful instrument to facilitate the Bank's and the counterpart's focus on program's results, but strong institutional capacity is a key factor. The LBR allowed executing agencies with strong institutional capacity in areas like planning, project management, and results-tracking to focus on attaining programs' goals. This focus was aided by these agencies' already existing results-based management and their capacity to identify implementation arrangements and remove systemic bottlenecks as they arose.

2.16 NSG support, dominated by senior loans in US dollars, provided financial additionality. According to its clients, IDB Invest has offered value mainly by allowing them access to financing terms and amounts that are not available in the Uruguayan market. This was particularly highlighted by clients engaged in large-scale projects that required large funding amounts and sophisticated structures (i.e., syndications), namely in the energy, transportation, and agribusiness sectors. Also, IDB Invest introduced new products such as a leasing to fund the construction of a transmission line, and it structured a project via financial trusts that allowed an agrobusiness company to offer a credit value proposition to its clients (some of them small producers), with larger tenors than those available in the country financial markets.

2.17 IDB Invest's financial engineering has adapted to project needs, and the funding instrumentation fitted the client's demands; however, challenges remain in terms of promoting positive spillover effects in the domestic market. The instrumentation through bond placement by B-lenders (B-bonds) during the CS period stands out, as it has been successful in channeling funds into projects. However, the bonds' private placement abroad and under foreign law limits their financial spillover in second- or third-order effects, as the domestic capital market (both placers and local investors) does not benefit from learning effects. In contrast, trusts and negotiable obligations issued in the Uruguayan market contribute to a greater financial spillover in the stock market, increasing the offer of investment products while making it possible to finance smaller units in a productive chain.

2.18 IDB Invest reached most sectors in which its support was envisaged by the CS but finding sectors to generate demonstration effects is still a challenge. IDB Invest kept its presence in the sectors traditionally funded by its lending in the country—energy, transportation, agribusiness, and, to lesser extent, financial markets. It also added new areas through a project each in the education and health sectors. However, the space to bring financial additionality to some sectors is decreasing as markets mature. In the renewable energy market, for instance, private financing is available, and the country has met its supply needs years ahead. IDB Invest has addressed the financial needs of PPP projects; however, the space for foreign currency funding is limited under the PPP Law. Meanwhile, PPP financing through debt funds has already been led by CAF-AM,[57] which plays a major financial role by managing local institutional investors (AFAPs) to fund PPP projects.

2.19 OVE found evidence of synergies among IDB and IDB Invest interventions, but there is room for improvement. The synergies were also noted and valued by the IDBG's counterparts, particularly in the energy sector, where the Group-supported Government encouragement of private investment in energy generation freed up public resources to invest in other segments of the electric chain like transmission and distribution. The Bank's private and public sector windows not only funded some of these projects, but also provided technical support. The private sector windows, for instance, assisted in drafting power purchase agreement contracts that facilitated the investment process in renewable energy sources, and made the projects bankable. In the education sector, IDB supported the creation of a management area for PPP contracts within the National Administration of Public Education, while IDB Invest was able to finance an educational infrastructure package once PPP regulations were adjusted to allow government payments in dollars making the projects bankable in foreign currency. Going forward, there is still room to improve synergies by learning from recent experiences when exploring new areas for NSG interventions. For example, IDB has long-standing experience in the health and education sectors, areas that recently received pioneering support from IDB Invest. However, the latter's health operation was not aligned with the CS's objectives and only one out of the 23 schools funded under the PPP's education operation was aligned with the CS's priorities. For the future, exploring synergies between the windows would contribute to better align public and private interventions to reach the IDBG CS's objectives.

57 CAF-AM is the main player in the senior debt market by managing funds for infrastructure projects in Uruguay. Two debt funds structured in the period had AFAPs as major investors: (i) the first one in 2016, for $350 million, with a closed project (routes 21 and 24) and eligible projects (Circuit 1, 2, 3 and Education), and (ii) the second one in 2018, for US$500 million, which counts circuits 5, 6, 7, and educational packages 2, 3 and 4 among eligible projects. CAF-AM also manages the Central Railway Financial Trust, which has US$350 million aimed at investing in senior debt for the central rail project, with the participation of institutional investors (AFAPs).

C. Financial contribution of the IDB Group[58]

2.20 The Bank has played a major financial role in the country, most of it not anticipated in the CS, but ultimately offering Uruguay valued debt management options and helping create and deepen the foreign exchange hedging market in the country. Beyond providing financing for the design and implementation of Government programs and initiatives, the Bank continued to play a key role as counterpart, trusted advisor, and market link for the GOU in its liquidity and sovereign debt managing efforts. Through both lending instruments' features like the DDO for PBL, and advice and solutions offered through the Treasury Client Solutions Group, the Bank was able to add value in the area of public debt management.

Figure 2.1

External public debt by instrument (US$ million)

Source: BCU available at https://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx

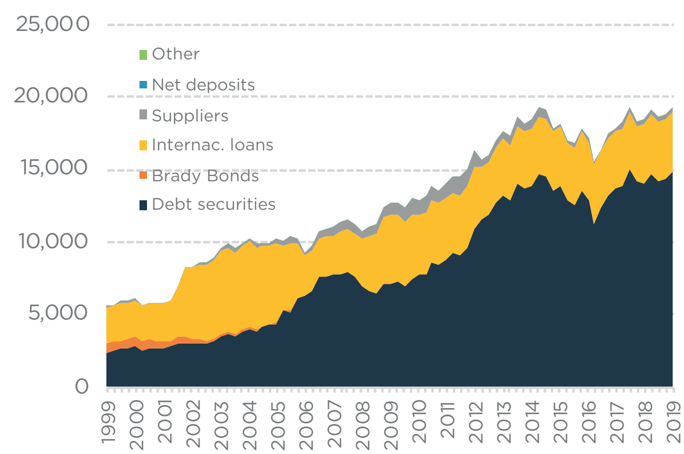


Figure 2.2

Multilateral public debt (% of total external public debt)

Source: BCU available at https://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx

2.21 While Uruguay increasingly finances itself in international capital markets (Figures 2.1 and 2.2), multilateral development bank (MDB) loans remain an important financing instrument for

58 For a detailed analysis of the IDB financial role, see the Annexes VI and VII.

the country. These loans represented around 21% of Uruguay's external public debt during the current and previous strategy periods. The country borrows mainly from IDB (50% of its outstanding MDB debt balance as of December 2019) and the WB (39% of the balance). From the former, it received net financing flows of US$207.2 million between 2016 and 2019 (with a negative net flow of US$224 million in 2019), compared to approximately negative US$238 million in 2011-2015 (driven by a negative net flow of US$395.8 million in 2013).[59] Uruguay's SG debt balance with IDB grew from US$1.7 billion at the start of the strategy period to US$1.8 billion at the end of 2019 (2% of the Bank's total stock of SG debt). Meanwhile, IDB Invest's outstanding exposure to Uruguay's private sector was US$97.4 million at the end of 2019 (3.7% of IDB Invest's total portfolio), up from US$31.8 million at the end of 2015.

2.22 The IDBG remains the most important development partner in terms of mobilizing both financing and technical assistance funds, which the GOU has coordinated with a high degree of ownership. During the evaluation period, Uruguay was graduated by the WB, and Development Bank of Latin America concentrated its support on infrastructure issues.

2.23 The Bank continued to support the Government's precautionary borrowing strategy. Recovered from the 2001-2002 financial crisis and having regained its investment-grade status in 2012, Uruguay has access to international finance at competitive prices. However, recognizing its vulnerability to unfavorable external conditions during crises, the country values and makes extensive use of the PBL DDO as a fast-disbursement credit line that allows for better liquidity management, depending on market conditions.

2.24 Uruguay continued to take advantage of the flexible financing facility (FFF) to better meet its debt management and project needs in terms of interest rate and currency exposures.[60] Uruguay has actively used this tool to support its prudent debt management strategy—specifically, to reduce its share of dollar-denominated and floating rate debt. During the 2016-2019 period, the Bank executed 12 conversions for Uruguay for the UYU (Uruguayan pesos) equivalent of US$360 million, corresponding to 9 loans. In addition, as part of its currency exposure management strategy, and given constraints in the

59 Net flows for 2020 are estimated at US$24.3 million. Excludes interest payments and fees. Excludes loans to private sector. ORC funds only. 2011-2015 data are only indicative, as there might be some inconsistencies in data records.

60 Through built-in options, the FFF allows for interest rate fixing, currency conversions, flexible repayment schedules, stand-alone hedges, and commodity hedges at inception or during the life of a loan.

USD/UYU market, at the end of 2018 the GOU requested the Bank to execute a conversion of US$250 million to Japanese yen. With that, Uruguay became the first country to have the Bank disburse in a major currency under the FFF. Furthermore, in July 2019, Uruguay asked the Bank to fix the USD rate of 21 loans (some under the FFF and some under financial products available before its implementation), for a total of US$310.7 million in outstanding amounts. This allowed the country to take advantage of the drop in U.S. interest rates and the reversal of the yield curve. More recently, on March 26, 2020, only 13 days after the COVID-19 was declared a health emergency, GOU withdrew US$400 million to address the pandemic, and it withdrew the rest of its available DDO funds (US$650.75) on April 13th. The Bank executed currency conversions for the US$1050.75 million disbursed in 2020.

2.25 The IDB has carried out these operations in partnership with the country debt management office, to which it has added value as counterpart, trusted advisor, and facilitator. The constant dialogue between the Debt Management Unit and the Bank's Treasury Client Solutions Group during the evaluation period allowed Uruguay to take advantage of intermittent market opportunities for currency swaps, slowly building up the converted amounts. The Bank has played a crucial role in linking Uruguay and international financial intermediaries, facilitating accessible prices that would otherwise not be available to Uruguay. Because the IDB trades in the swap market, transactions prices are based on its AAA credit rating. IDB's presence and its demand for long-term hedges in UYU has contributed to increased liquidity, stability, and depth in the foreign exchange hedging market itself. Despite intermittency in the availability of markets, swap amounts have increased, reaching a record of US$250 million equivalent of outstanding balances of nine different loans in 2017. Additionally, the structure and tenor of the swaps executed for Uruguay by the Bank have improved. The Bank executed only bullet-type swaps until 2016, when it executed an amortizing swap for the first time. Meanwhile, the maximum term of 5 years offered by the market in 2012-2013 was extended to 10 years in 2015 and 18 years in 2019.

2.26 Regarding the introduction of new financial instruments and products, OVE interviewees agreed that, while the Bank had traditionally been more reactive than proactive in innovating products and meeting new needs, once products are introduced, the Bank has been quick to innovate in the margin and to tailor them to specific country needs. This is particularly the case of the built-in options of FFF loans, which became a reference for other MDBs. For instance, IDB counterparts highlighted that, while the IDB was not first in offering commodity hedges to the country, it was the first to embed this option in its loan contracts, which has made the execution of loans faster and simpler.

D. The Bank's nonfinancial value added

2.27 The Bank's broad nonfinancial SG support made significant contributions in some areas but lacked strategic focus in others. As in the previous CS period, most of the TCs were approved as "client support" (77% of total). The TCs supported relevant topics to address the country's needs, such as institutional strengthening,[61] and generated knowledge in very specific subjects.[62] The support for fiscal management improvement stands out, revealing Uruguay's increased demand for not only fiscal management but also PPP contracts and, most importantly, monitoring and evaluation capacities.[63] The Bank also provided TCs where SG lending was nonexistent, allowing it to be active in such areas as labor markets. But some TCs lacked strategic focus and diluted the IDB's support.[64]

2.28 The Bank supported "two-way" knowledge transfer by promoting South-South cooperation; however, there is room for improvement to allow a greater appropriation of these

61 For example, through TCs UR-T1132 and UR-T1181 the Bank supported an internal reorganization that led to increased coordination within the *Banco de la República Oriental del Uruguay* (BROU, for its Spanish acronym) and hence increased operational capacity; changes that led to improved information within the organization include the creation of a universal client database. In labor markets, UR-T1100 allowed the National Institute of Employment and Vocational Training to identify internal coordination issues and enhanced their career development system.

62 A series of TCs (UR-T1121 and UR-T1179) generated information regarding the physical needs of elderly adults and ways of delaying dependency. UR-T1122 allowed the creation of the Open Government Innovation Laboratory, an institutional co-creation space for government, private sector, academy, and civil society aimed at designing and putting in place comprehensive digital solutions to complex and sensitive public issues. Through the Laboratory, an important number of procedures and services have been digitized, including some related to gender violence, mental health, and voluntary termination of pregnancies.

63 Through the TC UR-T1136, the Bank supported the country in developing and implementing a strategy for strengthening the monitoring and evaluation of all public enterprises. Currently the system allows monitoring financial statements, personnel, investments, budget execution, and financial indicators. Also, through TC/INTRA UR-T1195, the Bank is providing learning to the Planning and Budget Office of the Presidency of the Republic of Uruguay on methods of evaluating projects' designs. The Bank is also supporting ANII (UR-T1212) in generating, systematizing, and disseminating information and indicators to improve the processes of design, monitoring, and evaluation of policies, programs, and instruments for the promotion of science, technology, innovation, and entrepreneurship.

64 TCs supported a wide range of areas and sectors. Some of them could be seen as part of the country interest in generating and transferring knowledge (bullying and sexual diversity [UR-T1197], alternative methods to asses quality and promote attendance to early childhood education services [UR-T1194], trafficking in women [UR-T1159]); however in some cases there is no evidence that the knowledge has been internalized or systematized by other initiatives (digital platform for health practices communities [UR-T1183], genomic services exports [UR-T1119]).

experiences by other countries. As during the previous strategy period, the Bank continued its efforts to promote regional knowledge sharing channeled by TC/INTRA funds (13 TCs). The knowledge transfer is related to the digital learning platform (*Conectividad Educativa de Informática Básica para el Aprendizaje en Línea or Ceibal*, for its Spanish acronym), innovation support (ANII), promotion of connections in the water sector, result based projects (ANII, Ceibal, Transport), country debt management, and e-government. However, there is space to improve the interexchange process. According to interviewees, the recipients of the learning have important asymmetries of knowledge with their Uruguayan counterparts. Hence, the main difficulty raised about this process has been sharing the knowledge learned during project implementation—that is, the steps taken to overcome bottlenecks and execute projects properly.

2.29 Regarding NSG nonfinancial additionality, the main IDB Invest support was related to the dialogue on regulatory changes to facilitate private sector projects. As mentioned, IDB private sector windows assisted the drafting of power purchase agreement contracts that facilitated investment in renewable energy sources and made those projects bankable. Also, they engaged in dialogue with the GOU to change aspects of the PPP Law that ultimately allowed IDB Invest to finance a PPP railroad project.

E. Implementation of the Bank's program

2.30 Preparation times in Uruguay were faster than in other borrowing countries, but execution times were relatively slower.[65] Investment loans approved during the 2016-2019 period have been faster to reach every stage of approval and first disbursement than those in other IDB borrowing and the countries of the Country Department Southern Cone (CSC). The median investment loan was approved in 10 months and reached eligibility in 6 more, compared to a year plus 10 months in other IDB borrowing countries, 11 months plus 11 more in other CSC countries, and one year plus 9 months in other small countries. However, disbursements have been somewhat slower (Annex III, Figure III.1).[66] Half of the reviewed legacy operations required disbursement period extensions.

65 The analysis was based on median times for Uruguay, Bank (excluding Uruguay) and CSC (excluding Uruguay) projects. Time data is right-skewed, and hence the median was considered here the best representative of the central location of the data. If means are used, the analysis also suggests relatively fast preparation times but in line with the Bank execution times.

66 Note that because some projects, especially more recent ones, are currently executing, 2016-2019 times are underestimated.

The average extension was for more than two years.[67] Four of the six PBLs approved between 2011 and 2019 had not disbursed at the start of 2020 and one had partially disbursed, as Uruguay was making use of the DDO.[68] Between March and April 2020, the country requested disbursements of all of its available DDO funds (US$1.051billion).

2.31 According to PMRs, most investment loans have made satisfactory implementation progress; however, OVE found that over half have encountered some implementation problems. Of the 57 SG investment loan operations reviewed, 50 have reached post-eligibility stage. Of these, 82% were classified as having a satisfactory executing performance based on the Bank's synthetic indicator (SI) included in PMRs, while 18% were in either Alert (10%) or Problem (8%) status.[69] However, of these 50 investment loans, 28 reported one (10 loans) or more (18 loans) implementation setbacks of varying magnitudes that, in 13 cases, translated into delays (see Annex III, Figure III.1).

2.32 In loans that registered implementation setbacks, adverse fiscal and macroeconomic circumstances were the main source of those setbacks. Sixteen operations were affected by the current fiscal budgeting restrictions, the fluctuations in the exchange rate, or unfavorable economic conditions.[70] Operations related to water and sanitation were particularly affected by the changes in the exchange rate. Flaws in the definition and planning stages of projects that led to adjustments in the original budgets and timeframes were the second cause of implementation issues. Overall, 14 operations (slightly less than a quarter of the investment loans in the evaluation portfolio) registered problems in this area. For example, some projects in water and sanitation faced delays rooted in original designs that proved to be incompatible with the actual technical needs, and in unforeseen situations that compelled a new infrastructure design. Similarly, execution delays in the tourism sector (UR-L1066/2011) were caused by infrastructure cost overruns and higher administration

67 The median extension was 24 months. Note that, by definition, the legacy portfolio is likely to have extensions.

68 The oldest PBL (UR-L1076) was disbursed after five years of eligibility while the second oldest (UR-L1097) was partially disbursed after 3.5 years.

69 The SI summarizes the status of project implementation, integrating the project's disbursement performance and the execution of the physical and financial plan. The SI applies in Stages two (from first eligibility up to 95% of disbursement) and three (from more than 95% of disbursement to project closure) of the project execution, i.e., between eligibility and the project closure. The SI is used to classify the project performance in three categories: Satisfactory, Alert, and Problem. For more information, see Progress Monitoring Report, Appendix A. The Performance Classification is available at the following link.

70 In some cases, OVE found that the GOU chose to slow down the execution of certain loans to maintain their planned budgetary execution.

expenses, leading to a restructuring in components' budgets and to extended implementation. Problems related to changes in the priorities of the Government more frequently affected operations related to education, social protection, and reform and modernization of the state. To a slightly lesser extent, coordination among corresponding execution actors was also a source of delays. Operations with issues related to the performance of their executing units were rare (only six).

2.33 Uruguay's investment loan portfolio showed relatively high unitary preparation costs per dollar approved, which is mainly explained by the relatively small size of the investment loans.[71] During the 2016-2019 period, the country's median investment loan preparation cost per dollar approved was 1.6 times that of the Bank's borrowing countries and 2.7 times that of CSC countries (Annex III, Figure III.2). However, a comparison with other medium-small countries demanding relatively small investment loans[72] indicates that these high unitary costs are largely explained by the small sizes of the loans. OVE's analysis suggests that other factors are also at play—for example, the country's demand for sophisticated technical assistance, reflected in the relatively high grades of the Bank staff working on Uruguay's projects (Annex III, Figure III.3).[73]

2.34 PBLs had lower preparation costs than Bank, CSC, and other medium-small countries. While the sample is too small to draw definitive conclusions,[74] the lower preparation cost may be attributable to Uruguay's advancing in the structuring and approval process of the policy conditions for the loan before formally requesting the loan.

2.35 Meanwhile, execution costs were in line with those of the Bank and lower than in other medium-small countries (Annex III, Figure III.4).[75] Cost per dollar disbursed in Uruguay for

71 The average size of investment loans approved for Uruguay during 2016-2019 was US$30 million vs. an IDB average of US$88 million (excluding regional operations). During the period, 40% of approved SG investment loans in Uruguay were smaller than US$10 million (38% in the Salto Grande regional operation is accounted for), compared to 11% at the Bank level.

72 For the purpose of this analysis, medium-small countries are defined as IDB borrowing countries with populations of 1-10 million; large countries have populations over 10 million, and small countries have populations of less than 1 million. The average investment loan size among medium-small countries during the 2016-2019 period was between US$32 million (El Salvador) and US$95 million (Costa Rica). In large countries, it was between US$49 million and US$255 million (in Colombia and Mexico, respectively); and in small countries, between US$10 million and US$61 million (in Belize and Haiti, respectively).

73 However, the relatively high grade of Bank staff working on Uruguay's projects is not directly reflected in high execution costs per dollar disbursed.

74 Note that Uruguay approved three PBLs during the 2016-2019 period (and three in the previous one) UR-L1108, UR-L1140, and UR-L1156, each for US$250 million and all with a DDO.

75 This analysis was based on median times for Uruguay, Bank (excluding Uruguay) and CSC (excluding Uruguay) projects. Cost data is right-skewed, and hence the median is considered here the best representative of the central location of the data. Means

2016-2019 investment loan approvals has been similar to that of the Bank, 50% larger than that of CSC, and only 0.6 times that of other medium-small countries.

2.36 Loans using the LBR modality, which was launched during the CS period, were prepared and executed faster than the rest of the portfolio at relatively low cost. LBRs in the evaluation portfolio had shorter preparation times than other investment loans approved during the period (a bit over one year from pipeline to legal effectiveness, compared to over a year and a half for other investment loans), and slightly lower costs (mean preparation costs were close to 1.13 cents per dollar approved vs. 1.63 cents for other investment loans). Despite disbursing against results, they have also disbursed relatively fast when compared with other country and IDB investment loans (Annex III, Figure III.5).[76]

2.37 The Bank made use of Uruguay's country systems as envisaged in the CS and achieved most of the related indicative targets, but further analysis is needed to evaluate the impacts of that use in facilitating program implementation.[77] The CS did not define the use of country systems as an objective, but predicted its greater use as part of the CS's implementation.[78] And indeed, over the CS period the Bank increased its use of the systems of accounting and reporting (from 22% to 39%), internal audit (from 5% to 7%), and procurement (price comparison from 50% to 59% and individual consulting from 0% to 15%). Furthermore, marking an important milestone, the Bank has recently given its acceptance to the full use of the country's procurement systems. However, it is important to point out that, according to interviewees, while IDB's support largely relied on the use of country systems, in some cases the executing agencies chose to use the Bank's or another donor's systems to allow greater flexibility in project implementation (see Annex IV, Box IV.1 and Table IV.4).

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analysis results in similar conclusions regarding preparation times, but mean execution costs are lower in Uruguay than in other Bank and CSC countries as well as medium-small countries.

76 Uruguay LBRs have disbursed 10-75% of their funds. Note, however, that there were only four LBRs in the evaluation portfolio, and factors unrelated to the instrument might explain these differences; qualitative evidence suggests that the LBR has some operational advantages over other investment loans for certain operations and executing agencies.

77 Although it was not part of the three strategic pillars, the CS defined a Country Systems Result Matrix, with specific objectives and expected results. Refer to Annex IV, Table IV.4. for details on the advances in that regard.

78 The operation UR-L1151/2018 has been supporting the strengthening of budgetary, treasury, and internal audit systems. Refer to Table IV.5 in Annex IV for more information.

03

IDB Group Program Results

A. Effectiveness

3.1 This chapter discusses the contribution of the IDBG's program toward the expected results of the CS, and the factors that affected its performance. A full assessment of progress against indicators in the CS results matrix is hindered by weaknesses in the matrix—indicators that are not adequate to measure outcomes, outdated baselines, and unavailable data. Since the CS's expected results are at the country level, their evolution cannot be attributed solely to the IDBG support, but they serve to review progress at the country level to which the IDBG hoped to contribute. Information was available for only about three-quarters of the indicators in the CS matrix. OVE found that about half of the 19 expected outcomes defined in the CS showed significant progress during the period and only 2 (people residing in irregular settlements, and robberies) showed a regression (Annex IV, Tables IV.1, IV.2, and IV.3); yet, as will be discussed below, IDBG's program overall achieved mixed results.

3.2 Progress against strategic objectives supported by the IDB Group has been mixed, with stronger performance under the productivity and public sector management pillars than under the equity and social inclusion pillar. The program shows positive results in transport, renewable energy, public management systems, and parts of water and sanitation. Results were unsatisfactory in the areas of citizen security and urban development, where CS indicators regressed. Similarly, CS results indicators show no progress on export diversification, early childhood education coverage, and learning in primary and secondary school. While CS results indicators showed some progress in the areas of health and jobs training, this cannot be not attributed to IDB support, as there was essentially no Bank intervention.

3.3 Regarding the CS's cross-cutting areas, the IDBG program has contributed toward mitigating the risks of climate change and promoting gender equality. The IDBG's support to the transformation of the country's energy matrix is mostly responsible for the program's contributions to reducing greenhouse gas (CO2) emissions, specifically from the power industry, which shows results in the period.[79] Regarding gender equality, operations supporting the care system, citizen security and improvement in rural roads have been promoting the elimination of gender stereotypes in certain occupations and reducing domestic violence, but is too early to identify their results.[80]

79 The Bank also supported Uruguay's update of its legal framework to integrate international best practices for mitigation of and adaptation to climate change (UR-L1140, UR-L1156). CO2 emissions per capita are under 2 tons since 2014, 21% less than the 2012 peak, and CO2 emissions from the power industry in 2018 were the lowest since 2003. Fossil CO2 and GHG emissions of all world countries, 2019 report.

80 This is the case for the UR-L1110, UR-L1112, and UR-L1114 operations. UR-L1110 (2016) seeks to (i) promote gender equality through the reduction of unpaid workload for women in terms of caring for dependent persons, and (ii) avoid the reproduction of parenting

1. Strategic pillar: Productivity and competitiveness

3.4 Under the productivity and competitiveness pillar, the CS established six strategic objectives (see Table 3.1), with greater contributions in energy and transportation than in business innovation, coordinating ICT policies, long-term financing, and diversification of markets. This pillar received the largest share of the lending. It was supported by 3 programmatic policy-based loans (PBPs) in the trade and financial market areas, as well as 41 SG and NSG operations in a wide range of sectors, including transport, energy, and agriculture. The IDBG has contributed to improving transportation infrastructure (through the improvement of the national road network) and energy power generation (through NSG support to wind and solar generation capacity). Information limitations regarding the CS indicator to measure the effectiveness of the Bank's support to increasing access to medium- and long-term finance make it difficult to adequately evaluate progress. IDB Invest projects and one IDB loan to BROU did offer clients longer terms than were commercially available, but it is unclear whether and how this reflects on wider economic indicators. In terms of business innovation, specific Bank-supported programs showed positive results, but data are not available to show progress at the broader CS indicator level.

Table 3.1. Productivity and competitiveness

Priority areas	IDB strategic objectives	Expected outcomes	Change
Promotion of innovation	Promote business innovation	Increased private sector investment in innovation	N/A
	Improve coordination of ICT policies	Launch of the National Competitiveness System	▲
Improvement of the productive infrastructure	Improve the transportation infrastructure	Improvement of the national road network	▲
	Develop installed power generation capacity	Increased installed generation capacity from wind and solar photovoltaic energy	▲
	Increase medium- and long-term financing	More medium- and long-term bank credit	N/A
Integrated and coordinated int. positioning	Diversify export markets	Greater diversification of export markets	■

△ indicators changed more than 5% from baseline during the period of analysis, **green** indicates positive outcome and **red** negative outcome.
■ indicators are within +/- 5% of the baseline, full data on indicators and sources in Annex IV.

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stereotypes between fathers and mothers; UR-L1112 (2016) has as one of its objectives the reduction of domestic violence, particularly that directed toward women; and UR-L1114 (2016) seeks a greater integration of women in operational activities in a sector (transport) in which women traditionally do not participate. Three TCs related to racial and sexual diversity were approved.

3.5 IDB support has contributed to increased investment in innovation through small-scale projects but has achieved less progress on promoting coordination of ICT policies. Limited country-level information on private sector investment in innovation is available to measure progress; however, small-scale IDB-supported projects have shown positive results. ANII instruments funded through UR-L1071/2012 (US$8 million) and UR-L1142/2017 (US$25 million) have been effective in helping to crowd-in private investment in innovative ventures and increase private sector involvement in knowledge generation. Regarding coordination of ICT policies, a TC (UR-T1125) facilitated technical assistance to inform the design, organization, and functioning of the National Competitiveness System, *Transforma Uruguay*. The system was launched in December 2016, but only became fully operational in 2019, a fact that limits assessing its effectiveness in increasing the coordination of ICT policies. Likewise, the Investment, Trade and Innovation Framework Modernization Program supported regulatory and financial strengthening measures of the PENCTI through a management commitment between the Executive Branch and the ANII; it also supported incentives for private investments in innovation and projects that link foreign companies and local suppliers. Measures to optimize the institutional coordination of the single window for foreign trade were also implemented through technical cooperation agreements.

3.6 Regarding productive infrastructure, IDB contributed to enhancing the transportation infrastructure by improving the national road network, but improvements in urban transportation fell short of expectations. Bank support through SG operations UR-L1067/2012 (US$80 million) and UR-L1107/2015 (US$76 million) contributed to work to rehabilitate about 642 km of the main road network. Part of the first operation was executed by the Ministry of Transports and Public Works for the rehabilitation of 133 km of Route 7, considered to be of high economic value because of the amount of cargo transported in the section. The *Corporación Vial del Uruguay* executed the rest of the rehabilitation (509 km), about 20% of the network under their concession. Overall, IDB support, along with the support of other multilaterals, plausibly contributed to increasing the proportion of the national road network that is in good and very good condition, which reached 56% in 2018 (up from 45% in 2012). However, a legacy operation for improving urban transport infrastructure (UR-L1087/2013, US$18.5 million) did not achieve its expected launching of a rapid transit bus system in Montevideo.[81]

3.7 In the energy sector, the IDBG contributed to increased capacity of renewable energy generation, but a large nonrenewable energy operation raises investment efficiency concerns. Key impacts of the IDBG-supported energy agenda were a decrease in energy vulnerability and greenhouse gas emissions, as well as an increase in private sector investment. By the end of 2018, the country's installed wind capacity reached 1,510 megawatts (MW), solar photovoltaic attained 230 MW and a strong technological change consisting of incentives for micro-generation was introduced for the latter subsector.[82] At the same time, some legacy projects raise economic efficiency concerns.[83] This was the case of the Punta del Tigre Combined Cycle project (UR-L1070/2012, IDB Loan US$200 million), designed to help supply sufficient power during peak hours, mitigate rationing risks and back-stop wind and solar PV generation. The project ended up not being an optimal investment for the country in light of three factors: i) its limited current and uncertain future use (due to slow demand growth and high availability of renewable sources),[84] ii) the failure to materialize of a related regasification plant project that would have provided a reliable source of natural gas for its operation,[85] and iii) the uncertainty in natural gas supply from Argentina.

81 After reformulating the operation, the Bank was able to support the efforts of the Municipality of Montevideo with the preparation of a new Mobility Plan and a Mobility Management Center, which was in the starting point for the use of intelligent transportation systems by the *Intendencia de Montevideo.*

82 IDBG-supported wind power generation projects accounted for 210 MW of installed capacity during the evaluation period (from projects Campo Palomas and Valentines and Colonia Arias approved in 2016 and 2015, respectively), while Bank-supported solar PV plants contributed with 173 MW installed capacity (projects Natelu; Yarnel, El Naranjal, and del Litoral; and Casablanca and Giacote, approved in 2016, 2018, and 2015, respectively).

83 Only one of these projects—the Punta del Tigre Combined Cycle project (UR-L1070) for US$200 million—was taken to the Bank's Board of Directors for approval.

84 Projections for electricity generation in Uruguay show a share of thermal generation of less than 5% for the next five years and, therefore, a low use of the Combined Cycle. Although it provides a reserve that implies greater security for the supply of intermittent sources, this function could have been achieved at lower costs. For example, installing smaller open cycle gas turbines (with a lower CAPEX), which, even when operated with gas oil, which implies higher operating expenses, would do so for only a few hours in the year to cover demand peaks, resulting in an overall lower cost for the public sector.

85 The plant was planned to be powered by imported natural gas in the form of LNG, but the construction of a regasification plant that would transform the LNG into natural gas did not materialize. The uncertainty of the supply of natural gas from Argentina means that the Combined Cycle might have to operate for long periods of time with gas oil.

3.8 In terms of increasing access to medium- and long-term finance, the IDBG supported key financial system reforms and regulations, and channeled long-term loans through BROU. Through UR-L1052/2009 (US$4 million) the Bank enhanced the effectiveness and efficiency of the Financial Services Superintendence in its financial regulation and supervision functions. Furthermore, through the Financial System Reform Support Program PBL UR-L1108/2015 (US$250 million), the Bank supported and validated financial sector reforms that, among other results, led to convergence towards Basel II and III standards,[86] increased efficiency in public banks and state-owned companies, and contributed to a significant increase in electronic payments as a result of the financial inclusion law.[87] Finally, at 88% disbursement, the Financial Program for Productive Development UR-L1099/2014 (US$125 millions) had achieved some output goals in canalizing long-term financing to renewable energy projects, but less so for agribusinesses.

3.9 The IDBG aimed to facilitate an integrated and coordinated international positioning by supporting the country in diversifying its export markets, although results in this area are mixed. The PBP for strategic international positioning supported the creation of the single window for foreign trade, the preparation of the new Customs Code of Uruguay, and the signing of bilateral customs cooperation agreements. IDB's support to the agricultural sector focused on enhancing public management in animal health and food safety (UR-L1016/2009, US$10.5 million; UR-L1135/2016, US$7.6 million) and on increasing farm productivity through new technologies (UR-L1064/2011, US$28.4 million). Shortcomings in project's monitoring and evaluation (M&E) system hindered the measurement of results at projects closure, but a management impact evaluation suggests that UR-L1064/2011 helped increase productivity of milk and meat production.[88] Other SG and NSG operations were not directly aligned with the CS objective but contributed indirectly, with mixed results. For example, a small SG legacy loan for improving tourism (UR-L1066/2011, US$5 million) contributed to the increase of foreign currency

86 See Financial Additionality Annex VII.

87 The number of debit card transactions multiplied by 23 between 2014 and 2018.

88 Operation UR-L1016/2009 faced challenges in defining adequate outcome and impact indicators that would have allowed to measure and attribute results related to improved public sector management in animal health and food safety to the Bank's support. UR-L1064/2011 experienced difficulties in implementing its M&E system. Specifically, it was not able to establish a national producers' baseline in order to assess an increase in production at project end. Based on administrative data, the program's impact evaluation (difference in difference), however, concluded that beneficiaries increased their production in the supported products; meat (11 kilos per hectare) and milk (10% increase in milk liters per hectare).

during the period of analysis.[89] On the NSG side, the support to Montes del Plata through loan UR-L1068/2011 (US$200 million) in 2018 leveraged company investments. Moreover, the country has not experienced a greater diversification of export markets in the period (as measured by its Herfindahl-Hirschman Index).[90]

2. Strategic pillar: Equity and social inclusion

3.10 The CS laid out seven strategic objectives for contributing to equity and social inclusion in Uruguay (see Table 3.2), but the achievements of the Bank's program have been limited. Progress against several objectives fell short of expectations, and in some areas where there were improvements, such as in access to jobs training or improved primary health care, the changes cannot be ascribed to IDB's program, which was not substantial enough to effect change. IDB was able to expand infrastructure that would benefit early childhood education and secondary school coverage, but progress toward expected outcomes in terms of actual early childhood education coverage or reduction in dropouts and repetitions in secondary education has been limited. In terms of quality of education, the Bank's support was channeled through *Plan Ceibal* and programs to improve the qualifications of teachers, but the contributions to progress toward expected outcomes are so far modest. Regarding habitat improvement, the contributions also had mixed results: urban development operations did not achieve their expected outcomes in terms of irregular settlements (mainly because of delays in implementation), but water and sanitation infrastructure programs achieved progress in the drainage and sanitation coverage in Montevideo. Efforts to improve access to and the quality of social benefits and services for the most vulnerable have shown mixed results.

89 Foreign currency in the areas of intervention of UR-L1066 has risen from US$65.6 million to US$80.5 million, and nearly 2,059 tourism-related jobs have been created. The delivered outputs of UR-L1066/2011—such as touristic investment works, supporting the establishment of 255 service providers along the Pájaros Pintados Corridor, and improvements in the local governance of the Río Uruguay—could have had an influence on the observed outcomes.

90 The Herfindahl-Hirschman Index Uruguay was 0.11 in 2019, the same diversification as in 2014. Source: *Cámara de Industrias del Uruguay.*

Table 3.2. Equity and social inclusion pillar

Priority areas	IDB strategic objectives	Expected outcomes	Change
Strengthening of the human capital and employability of the population	Improve access to early childhood education	Expanded early childhood education coverage	■
	Increase secondary school graduation rate	Increased rate of completion of secondary school cycles	▲
	Improve the quality of education	Students improve learning in primary school and basic secondary school	■
	To improve access to job training	Expanded job training coverage through public sector	▲
Support for health care reform	To improve the first level of health care	Improved primary and preventive health care (ASSE, IAMC)	▲
Habitat improvement	To reduce the qualitative housing deficit	Reduction of people residing in irregular settlements	▲
		Expanded sanitation coverage in the Mvdo. metro area	▲
Support for early childhood and youth in vulnerable populations	To improve access to and quality of social benefits and services for the most vulnerable children and youth (Q1 and Q2)	Expanded access to parenting skills training workshops and "Experiencias Oportunas" for children in vulnerable households	N/A
		Reduced rate of functional disengagement among more vulnerable youth	N/A

△ indicators changed more than 5% from baseline during the period of analysis, **green** indicates positive outcome and **red** negative outcome.
■ indicators are within +/- 5% of the baseline, full data on indicators and sources in Annex IV.

3.11 IDB contributed to increasing early childhood education coverage by expanding the infrastructure and linking the existing services to the most vulnerable families, though progress has been limited. During the period, the IDBG contributed to increasing the access of vulnerable families to early childhood education by supporting the expansion of Child Care and Family Centers (CAIFs, for its Spanish acronym) (UR-L1046/2010, US$40 million; UR-L1110/2016, US$50 million). The construction of 18 CAIFs has been completed and most of them are in operation, expanding the early childhood education infrastructure by 13.6%.[91] Overall, however, there has been limited progress on coverage: it increased from 60% in 2013 to 61% in 2019.

3.12 The Bank has supported actions to increase secondary school graduation during this and previous strategy periods, but without the expected results. By the end of the CS, an increase in the rate of completion of secondary school cycles was expected. With that aim, Bank's support via UR-L1046/2010

91 It is important to highlight that although the target population of CAIF centers are children up to 3 years of age, in practice, a significant number of children enrolled have between 36 and 47 months old. The GOU started the expansion of CAIF in 2015 and expects to increase the number of centers in 132. The expectation is that the IDB will contribute by financing 30, 42 will be financed through PPPs, and 60 will be financed with public investment. The location of each CAIF center is determined according to the expected demand of at least 100 children who are under 3 years old.

(US$40 million) partly contributed to reducing the gap in the net basic secondary school attendance and the average years of schooling of 16-year-old adolescents between the poorest and top-earning quintiles, but it did not meet its targets. Also, operation UR-L1050/2010 (US$48 million) to support decreasing the dropout and repetition rates did not achieve its expected outcomes, though it achieved better results in expanding physical infrastructure, thus increasing the number of enrolled students in appropriate-sized classes.[92]

3.13 To improve the quality of education, the Bank has been supporting Plan Ceibal and programs to improve the qualifications of teachers. The CS expected outcome was to improve learning in primary and basic secondary school, measured by a better performance in the average PISA test score (reading, math, and science). The Bank contributed through UR-L1050/2010 (US$48 million) to improve the performance of 7th, 8th, and 9th grade teachers in rural communities and to increase the number of secondary level teachers with a degree, and although some progress was made in rural areas, the results did not meet the expected targets.[93] In terms of improving students' skills, support has been provided to Plan Ceibal through operation UR-L1093/2014 (US$6 million), which helped expand platforms to improve math skills (Plataforma Adaptativa de Matemáticas or PAM, for its Spanish acronym) for students in the 4th to 6th grades of primary education and the 1st to 3rd grades of secondary education and to expand the platform for learning English as a second language (*Ceibal en Inglés* or CEI, for its Spanish acronym) for primary education students.[94] A management impact evaluation shows positive effects of Ceibal on learning outcomes in mathematics, but overall progress is still modest, with PISA 2018 results showing only a slight improvement: reading 427 points (411 in 2012), mathematics 418 points (409 in 2012), and science 426 points (416 in 2012).

3.14 Regarding addressing qualitative housing deficits, operations to contribute to improving irregular settlements were delayed during implementation and results are uncertain. The two operations supporting this objective (UR-L1084/2013 and UR-L1146/2018, US$70 million each) are the second and third phases of a conditional credit line for investment project

92 In 99% of the (175) classrooms built there are fewer than 33 students.

93 The approval rate for students in rural schools was 75% in the beginning of the period and increased to 76% by 2017. However, the rate for students in urban schools decreased in the same period from 79% to 73%.

94 A second operation (UR-L1141, 2017) is continuing these efforts by improving teachers' pedagogical practices and incentivizing the use of the math skills (PAM) and English as a second language (CEI) platforms.

(CCLIP).[95] However, the 2013 project was delayed almost two years (it is expected to close at the end of 2020), and the 2018 project is in an early stage of implementation. Even though many of the outputs of the Neighborhood Improvement Program II have advanced, it has been very slow in recent years (neighborhood improvement proposals, physical infrastructure, and institutional strengthening), and PMRs have identified risks that may affect the capacity of the program to achieve its objectives, such as fiscal space and credit to subnational governments. In terms of the CS's expected outcomes, the proportion of people living in irregular settlements is still very near the 2014 baseline (5%).[96]

3.15 The results of the water and sanitation programs are mixed, with important contributions to improved drainage and sanitation in Montevideo, but fewer results elsewhere. The Drainage and Environmental Sanitation program UR-L1069/2011 (US$20.5 million), the only operation in the sector portfolio that closed during the period, shows satisfactory results. It provided critical infrastructure for Montevideo, protecting 1,500 houses against the risk of flood; improved 9 flood-prone areas (of the 11 targeted) to resist stronger storms; and met the target for reduction in irregular connections to the water and sanitation system. However, this and other operations (UR-L1005, UR-L1063) experienced substantial delays and cost overruns, which affected what they could deliver.[97] The second program of Ciudad de la Costa (UR-L1081/2012, US$27 million), which has been fully disbursed but not closed, was also delayed in some outputs (e.g., Pando pumping station) and results (home connections) but achieved results in terms of sewage water treatment. Overall, the Bank has contributed to water and sanitation, especially in Montevideo, where the percentage of households connected to the sanitation network in the metropolitan area has increased from 70.7% (2014) to 78.43% in 2018.

3.16 The Bank's contributions to improving access to and the quality of social benefits and services for the most vulnerable have been mixed. The CS pursued expanding access to parenting skills for parents in vulnerable households and

95 Neighborhood Improvement Program II and III.

96 "Fundación Techo Uruguay" estimations based on Encuesta Continua de Hogares survey suggest that in 2019 192,000 people were living in irregular settlements—that is, 5.5% of the population, an increase of almost 0.5% since the 2011 census. There are no official numbers for this indicator.

97 As discussed in the implementation section, the Montevideo Sanitation Program PSU IV (UR-L1005/2006, US$118.6 million) and its extension (UR-L1063/2011, US$43 million) suffered several delays and overruns, affecting the delivery of some of their main outputs, such as pumping stations and a pretreatment plant, which are expected to be completed by 2020.

reducing the rate of functional disengagement among more vulnerable youth. In 2010 the Bank approved a CCLIP toward attaining this objective. The first operation (UR-L1046/2010, US$40 million) focused on vulnerable families and achieved the targets related to early childhood but did not achieve those related to access to social services and to primary and secondary school attendance and repetition rates, although some improvements were made. The ongoing operation (UR-L1110/2016, US$50 million), which increases access to caregivers and quality of care for vulnerable and dependent populations (infants, older adults, and people with disabilities), has already launched the care system portal, which is key to achieving the expected results of the program.

3. Strategic pillar: Public sector management

3.17 Aiming to strengthen public sector management, the CS set out three strategic objectives (see Table 3.3), for which IDB's program achieved mixed results. On the one hand, the targeted efforts in strengthening public management systems at the national level resulted in greater efficiency in budgetary execution and benefits to citizens in their interactions with the state. On the other hand, however, results are less clear regarding the support to the National Police and to decentralization. The Bank's collaboration with the National Police did not translate into better results in terms of citizen security, and while work done with subnational entities has strengthened their capacities, the progress against the related CS indicators is not attributable to the Bank's efforts.

Table 3.3. Public sector management pillar

Priority areas	IDB strategic objectives	Expected outcomes	Change
Greater efficiency in public institutions	To strengthen public management systems	Improved budget management	▲
	To increase the effectiveness of the National Police in preventing crime	Reduction in robberies	▲
		Increase in the proportion of victims of robberies who report them to the National Police	N/A
Strengthening of urban and departmental management	To strengthen the decentralization process	Development of third level of government	▲

△ indicators changed more than 5% from baseline during the period of analysis, **green** indicates positive outcome and **red** negative outcome.
■ indicators are within +/- 5% of the baseline, full data on indicators and sources in Annex IV.

3.18 In line with the CS objective, the IDBG's support to strengthen and modernize the financial management systems of Uruguay's central government has contributed to greater efficiency in budgetary execution. The CS sought to improve budget management in the Government, to contribute, for example, to reducing the unexecuted portion of the national budget. The IDBG has been contributing to the adoption of Government Resource Planning systems within ministries and agencies of Uruguay's Central Government through two operations (UR-L1098/2014, US$14.5 million; UR-L1151/2018, US$17 million). The number of entities adopting the systems has increased to 13. As a result, the latest available data suggest that financial management by the Central Government has been more efficient, with a reduction in the unexecuted portion of the national budget for 2018 to around 3%,[98] compared to 5.5% in 2013.

3.19 By providing long-term support to develop the digital agenda in Uruguay, Bank efforts contributed to improving citizens' interactions with the state; however, these results were not directly linked to specific outcomes in the CS. As part of the effort to strengthen public management systems, IDB has remained a strategic partner of Uruguay in further developing e-government tools. Through operations UR-L1065/2011 (US$10.5 million) and UR-L1109/2015 (US$35 million), the Bank has contributed to some products such as the digitization of nearly 86% of Government procedures, which reduces transaction costs for citizens and enterprises.[99] This effort (CCLIP UR-X1009/2013) has also been supporting the development of an Electronic Health Record, in which more than 90% of the population has already registered a clinical event and to which 100% of comprehensive health providers are connected.

3.20 With regard to citizen security, the Bank's support in the sector has not achieved its expected outcomes. The CS sought to (i) reduce the numbers of robberies and rapines[100] in the country, and (ii) increase the proportion of rapine victims that report the crimes to the National Police. With a view to increasing the effectiveness of the National Police in preventing crime, the IDB has made important efforts to introduce and internalize modern tactics such as problem-oriented policing in National Police precincts in Montevideo through UR-L1062/2012 (US$5 million) and hot spot policing through UR-L1112/2016 (US$6 million). Nonetheless, by the end of 2018 nearly 29,904

98 https://www.gub.uy/ministerio-economia-finanzas/presupuesto-facil

99 A recently approved operation, UR-L1159/2019, seeks to continue these efforts to achieve the full digitization of the public procedures of the Uruguayan State.

100 The Ministry of Interior of Uruguay classifies rapine crimes as attempted or actual thefts that were carried out through the use of force or threat.

rapine crimes (attempted and actual) occurred nationwide,[101] considerably more than the CS's baseline year (2014) of 20,097. Hence, the official data suggest that the Bank's support has not had the expected effects on reducing crime rates related to rapines in the country.

3.21 The Bank's collaboration with subnational entities has aimed to strengthening their public management, but there is limited evidence that its actions have contributed to deepening the decentralization process in the country. The IDB's long-standing collaboration with subnational entities in the country has been oriented toward enhancing the budgetary, financial, and local investment management of Intendencias operations (UR-L1038/2012, US$70 million; UR-L1111/2016, US$75 million). In that regard, 15 of the 18 subnational governments have used the country's Integrated Financial Management System. Lastly, while the municipalized territory increased from 20% to 31% in 2015,[102] that progress is more related to the advances in the country's own political processes than to contributions by the Bank.

B. Sustainability of development results

3.22 Reforms anchored in legislation and strong institutional capacity increase the likelihood that Bank program results will be sustainable, but there are countervailing forces. Some key results linked to the Bank's support—public debt management, promotion of business innovation, renewable energy, and digital government—are cemented in the country's legal framework, institutional capacities, and long-standing policies agenda. Nevertheless, OVE identified two main sources of potential risks to the sustainability of the development results achieved: reduced fiscal space and changing political priorities, exacerbated by the health and economic crises caused by the COVID-19 pandemic.

3.23 The decreasing fiscal space facing Uruguay's new administration represents risks to the continuation of the development results of the IDB-supported infrastructure projects. In particular, the country has built a stock of renewable energy infrastructure whose utilization depends on the correct functioning of the Uruguayan electric system. In this regard, the modernization of the Salto Grande binational

101 Bank's support was focused on Montevideo, the capital, which concentrates crime rates nationwide. Nonetheless, the CS' indicator aimed at measuring rapine crimes rate in the whole country.

102 The results matrix of the CS defined as outcome indicator the "% of municipalized territory" in Uruguay, which may not necessarily reflect the efforts in the collaboration with subnational governments, since it is a process not attributable to the Bank's support.

hydroelectric power plant—a large public infrastructure project that is especially vulnerable to fiscal constraints and that requires large budgetary commitments from Uruguay and Argentina—is key. Likewise, the maintenance of the national road network relies on regular investments to keep it in good condition. On the plus side, Uruguay's precautionary borrowing policy is serving to mitigate some risks. In fact, previously approved PBL DDOs are already providing liquidity buffers to the country, which disbursed an initial US$400 million to address the COVID-19 crisis as early as March 26, 13 days after declaring a health emergency. The rest of Uruguay's available DDO funds (US$650.75) were disbursed during April 2020.

3.24 Some Bank-supported investments can help Uruguay tackle the potential effects of the COVID-19 pandemic, thus enhancing their sustainability prospects if they continue to be properly funded. The Ceibal program ensured that primary and secondary school students have access to Ceibal learning platforms, and that students in public institutions have access to personal laptops. This has given Uruguay some advantage in meeting the challenge of providing access to education during social distancing measures. Moreover, advances in e-government tools can support the ongoing operation of public procedures while social distancing measures are in effect. Most importantly, progress made in the modernization of the state sector through the Bank's support to the development of the Electronic Health Record can be sustained at a time when telemedicine procedures have grown in significance because of the sanitary challenges in Uruguay and all over the world.

3.25 Another factor that may affect the sustainability of results is a change in the priorities of the new Government when rationalizing the portfolio. The atomization of the interventions across many sectors and areas could be a risk for the continuation of relevant and effective interventions. This could especially affect relatively small projects, in areas in which interventions were intended to improve complex situations, such as education, trade, urban development, water, e-government, and tourism. This risk could be somewhat mitigated if evaluations of the program's results are available to provide a basis for the necessary prioritization. For example, in the innovation area there are evidence-based studies whose results show the efficiency of the interventions and can provide a baseline for future programs.

04

Conclusions and Recommendations

4.1 The IDBG's program was relevant to address the country's development needs and was aligned with Government priorities, but it was too dispersed to make substantial contributions in all areas. Aiming to boost productivity and competitiveness, promote equity and social inclusion, and strengthen public sector management, the Bank's program covered 9 priority areas and 15 of 16 strategic objectives involving 13 sectors. While the IDBG intervened in most of these areas, it was not able to address the labor market objective. At the same time, the program embraced financial reforms and debt management, even though these areas were not included in the CS.

4.2 The Bank has played an important financial role in the country, effectively deploying its lending instruments in support of Uruguay's debt and liquidity management, although the CS did not explicitly establish any strategic objectives to this effect. The PBL portfolio backed policy and institutional reforms in the trade and financial markets sector, and also aimed at providing liquidity management support to the country (even though this area was not explicitly set as a CS objective). The country made extensive use of the PBL DDO as a fast-disbursing credit line that allows for better liquidity management, depending on market conditions, and the Bank continued to play a key role as counterpart, trusted advisor, and market link for the GOU in its liquidity and sovereign debt managing efforts. Uruguay also used LBRs to facilitate the Bank's and its own focus on program results and to streamline disbursement processes.

4.3 IDB Invest provided financial additionality and reached most of the sectors in which its support was foreseen by the CS; however, there is decreasing space to add value in the areas in which IDB Invest has been operating. According to its clients, IDB Invest has offered value mainly by allowing them access to financing terms and amounts that are not available in the Uruguayan market. IDB Invest kept its presence in sectors traditionally funded by its lending in the country, including renewable energy generation, transportation, agribusiness, and, to a lesser extent, financial markets. Yet the space to bring financial additionality to these sectors is decreasing as markets mature and private financing is now available (although the COVID-19 health crisis may slow this trend). IDB Invest has addressed the financial needs of PPP projects; however, the space for foreign currency funding is limited under the PPP Law. Meanwhile, PPP financing through local debt funds is being led by CAF-AM, which plays a major financial role by managing local institutional investors (AFAPs) to fund PPP projects.

4.4 Although the Bank has provided a significant amount of TC funding, its overall allocation was broadly spread and, in few areas, lacked strategic focus. The TCs were relevant to address the country's needs, providing support to institutional strengthening in several areas, including innovation, financial markets, and public administration. In particular, support for fiscal management improvement stands out, revealing the country's increased demand not only for fiscal management, but also for PPP contracts and, importantly, for monitoring and evaluation capacities. At the same time, IDB provided TCs in sectors, such as labor markets, where SG lending was nonexistent. Some TCs, however, lacked strategic focus.

4.5 The Bank continued its efforts to promote regional knowledge-sharing channeled through TC/INTRA funds, but there is room for improving the knowledge transfer. Some of the lessons shared are related to digital learning platforms (Ceibal), innovation support (ANII), promotion of connections in the water sector, LBRs (ANII, Ceibal, transport), the country's debt management, and e-government. However, there is space to improve the interexchange process. According to interviewees, some of the recipients of the learning have important asymmetries of knowledge with their Uruguayan counterparts. Hence, the main difficulty raised about this process has been sharing the knowledge learned during project implementation—that is, the steps taken to overcome bottlenecks and execute projects properly. There is also room for progress toward a greater systematization of all these lessons supported by data that could improve their replicability in other contexts.

4.6 Although most investment loans made satisfactory implementation progress, over half of the portfolio encountered some implementation setbacks. Such setbacks were usually due to adverse fiscal and macroeconomic circumstances, although some operations also suffered from shortcomings in design.

4.7 Uruguay's investment loan portfolio showed higher preparation costs per dollar approved than those of the Bank, a fact that is mainly explained by the relatively small size of its investment loans. The country's median investment loan preparation cost per dollar approved during the 2016-2019 period was 1.6 times that of the Bank and 2.7 times that of CSC countries. The preparation costs are in part explained by the small loan sizes. Another factor appears to be the allocation of a large number of Bank staff at higher grades to the portfolio, conceivably a reflection of the country's demand for sophisticated technical assistance. Meanwhile, execution costs were in line with those of the Bank and lower than in other medium-small countries.

4.8 Overall, the results of the IDBG program have been mixed. They were stronger in the productivity and public sector management pillars than in the equity and social inclusion pillar. The IDBG's program shows positive results in transport, renewable energy, financial markets, promotion of competitiveness and innovation, and public management systems, but results were mixed in water and sanitation, and investments in nonrenewable energy (combined cycle) raised efficiency concerns. Results fell short of expectations across the social sectors and on citizen security.

4.9 The large fiscal deficit, a slow-down in growth, and inflationary pressures may be exacerbated by the effects of the COVID-19 pandemic, raising some sustainability concerns about the results the IDB has supported. Given macroeconomic fragility and fiscal concerns in particular, a more focused support program going forward would be important. The COVID-19 pandemic has created increased uncertainty, as its health, social, and economic effects cannot yet be fully assessed. IDB's support via DDOs has helped Uruguay cushion the immediate fiscal impact, but its response over the coming year will require flexibility to allow it to support Uruguay in weathering the crisis most effectively.

4.10 In light of the evaluation findings and the uncertainties created by the COVID-19 pandemic, OVE makes the following recommendations:

1. **Ensure that a new CS is only adopted after the effects of the COVID-19 pandemic are better understood.** The current CS with Uruguay expires at the end of 2020. Given the still unknown health, social, and economic effects of the COVID-19 pandemic in Uruguay, OVE recommends that the IDBG not proceed with agreeing on a new full-term CS with the Government until the extent of the crisis impact is better understood and it can commit to a new multi-year country strategy under greater certainty. In the interim, OVE recommends that IDBG continue its dialogue and support to the country under the transitional measures provided in the Guidelines for Country Strategies and under any special measures to address the emergency, while ensuring that it keeps the Board informed of the evolving situation until such time a new country strategy can be brought for its consideration.

2. **Provide focused support to help Uruguay address a limited number of key development challenges and reduce transaction costs.** The current broad-based strategy resulted in a large number of small and atomized operations with high preparation costs and limited overall impact. Therefore, OVE recommends that IDB better focus its future support to Uruguay, including through more programmatic support that will allow it to leverage its contribution and reduce transaction costs, while focusing smaller operations in a limited number of areas where they can have a demonstration effect.

3. **Continue the role as trusted advisor for fiscal and debt management, by making it an explicit CS objective, while also helping Uruguay to strengthen its capacity to effectively prioritize public investments.** IDB has played a much-valued role as advisor on fiscal and debt management, including through effective use of a variety of lending instruments. At the same time, given fiscal constraints, there is room for IDB to also help strengthen Uruguay's analytical capacity to effectively prioritize public investments by providing TC support in such areas as fiscal management and monitoring and evaluation capacities.

4. **Adopt a more nuanced approach to knowledge-sharing in support of South-South dialogue.** IDB has supported Uruguay in sharing its knowledge with other countries in the region—for example, on innovation, e-government, and water. To ensure that Uruguay's knowledge-sharing yields the expected results, such efforts should be further tailored to the backgrounds and capacities of various recipients and should focus more on the application of Uruguay's lessons to specific recipients' contexts.

5. **Identify business opportunities where IDB Invest can continue to add value.** IDB Invest has added significant value in key areas such as renewable energy and infrastructure, but at the same time it had difficulty effectively engaging in areas such as health and education. Going forward, as commercial financing becomes more readily available for IDB Invest's traditional areas of work, IDB Invest will need to identify new business opportunities where it can add value through demonstration effects and, where possible, exploit synergies with IDB, as it did in renewable energy.

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