

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## URUGUAY

### **IDB GROUP COUNTRY STRATEGY 2021–2025**

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<sup>1</sup> The Country Development Challenges document (CDC) was finalized before the new administration took office, therefore, some of the recommendations suggested in the document are already being implemented by the government, such as, for example, the creation of a commission of experts to propose reforms to the pension system, the implementation of a fiscal rule, and the promotion of greater openness to trade.

## ABBREVIATIONS

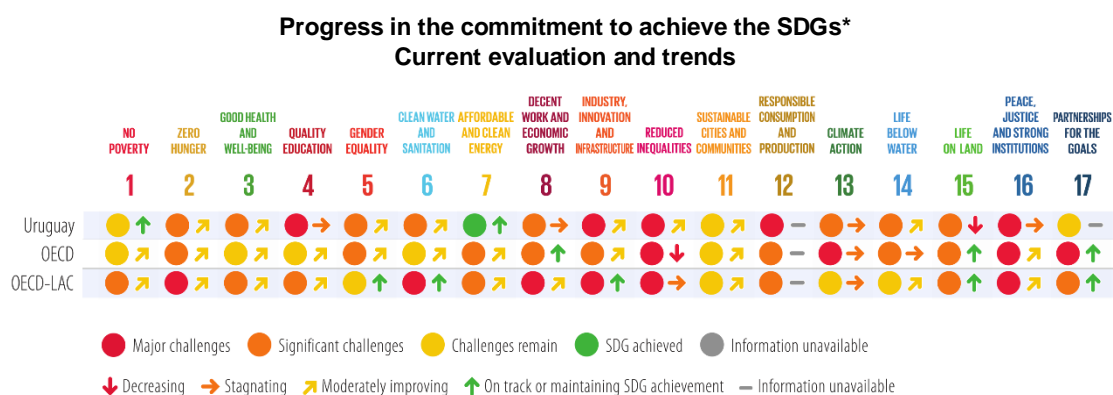
ANII	National Research and Innovation Agency
CCLIP	Conditional credit line for investment projects
CDC	Country Development Challenges
ECH	Ongoing Household Survey
ECLAC	Economic Commission for Latin America and the Caribbean
ICT	Information and communications technologies
IPSAS	International Public Sector Accounting Standards
MEF	Ministry of Economy and Finance
MIEM	Ministry of Industry, Energy, and Mining
MSME	Micro, small, and medium-sized enterprise
NCB	National competitive bidding
NDC	Nationally Determined Contribution
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PADO	High-Intensity Operations Program
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PISA	Programme for International Student Assessment
PPP	Public-private partnership
SDG	Sustainable Development Goal
SME	Small and medium-sized enterprise

## EXECUTIVE SUMMARY

<b>Country context</b>	<p>The Uruguayan economy began slowing down in 2015, averaging 0.8% growth from 2015 to 2019, with investment declines and contraction of employment. The COVID-19 crisis exacerbated this situation. In 2020, the GDP contracted by 5.9%. The loss of economic momentum coupled with growing public spending in recent years contributed to putting pressure on fiscal accounts and raising the debt level. While Uruguay stands out because of its relatively low levels of poverty and inequality, the COVID-19 crisis imposed new challenges. In this context, the country needs to promote changes that incentivize increased productivity and competitiveness, and enable inclusive, sustainable growth. These transformations should have an environmentally friendly perspective and ensure the inclusion of the most vulnerable population groups. Given that achieving progress in these areas requires a stable macroeconomic framework, it is essential to improve the fiscal position.</p>
<b>The IDB Group in Uruguay</b>	<p>The country strategy with Uruguay for the period 2016-2020 focused on the following priority areas: (i) boost productivity and competitiveness by promoting innovation, improving productive infrastructure, and supporting an integrated and coordinated policy for international positioning; (ii) promote equity and social inclusion by strengthening the human capital and employability of the population, supporting health care reform, improving habitat, and supporting the early childhood and youth segments of the most vulnerable population groups; and (iii) strengthen public sector management by supporting greater efficiency in public institutions and strengthening urban and departmental management. During the effective period of the strategy up to the end of December 2020, 32 sovereign guaranteed loan operations were approved in an aggregate amount of US\$2,048,800,000. IDB Invest approved 17 operations totaling US\$731.9 million and IDB Lab approved 12 operations for US\$9.3 million.</p>
<b>Priority areas 2021-2025</b>	<p>The objective of the country strategy 2021-2025 is to support the plan of the Government of Uruguay to achieve inclusive, sustainable growth, with an emphasis on creating quality jobs. To this end, actions will focus on three strategic areas: (i) public resource management; (ii) sustainable productive development; and (iii) equity and social inclusion. These challenges will be addressed by incorporating a gender and social inclusion perspective, an environmental perspective, and considering the use of digital technologies.</p>
<b>Lending framework</b>	<p>The Bank anticipates approvals of sovereign guaranteed operations totaling approximately US\$2 billion for the 2021-2025 period. Under this scenario, the country's debt with the Bank would remain at around 4.9% of GDP on average for the period—6.7% of the total public debt.</p>
<b>Main risks</b>	<p>The main risks to implementation of the strategy are: (i) macroeconomic risks, since a more adverse economic environment could make the government unable to achieve planned fiscal improvements. This would have a negative effect on sovereign debt dynamics and would impact the proposed actions; (ii) natural disaster and public health risks; and (iii) implementation risks, given the size and political and institutional complexity of some of the proposed initiatives, which will require significant consensus-building.</p>

## I. COUNTRY CONTEXT

- 1.1 **Uruguay has made significant progress in its commitment to fulfill the Sustainable Development Goals (SDGs), and stands out in the region.** Uruguay ranks 45th out of 166 countries in its progress achieving the SDGs and third in Latin America and the Caribbean, after Chile and Costa Rica.<sup>2</sup> However, Uruguay faces some challenges that intensified because of the COVID-19 pandemic.



Source: IDB and Sustainable Development Solutions Network document “[SDG Index and Dashboard for Uruguay](#).” OECD-LAC corresponds to Mexico, Chile, and Colombia.

\* This figure summarizes the current status and trends toward fulfillment of the SDGs in Uruguay. For example, it shows that Uruguay is moderately improving on SDG 1, No poverty (indicated by a yellow circle), but the trend suggests that the country is on track to achieve this SDG (green arrow).

- 1.2 **A slowdown of Uruguay’s economy began in 2015. Since then, the country has been in a low phase of the economic cycle, with investment declines and contraction of employment.** This occurred in a global and regional context that became less favorable, characterized by more uncertainty, lower commodity prices, and problems in neighboring countries. After growing at an average annual rate of 5.0% from 2003-2014, the country’s annual economic growth was 0.8% from 2015-2019. This led to significant declines in employment and investment in recent years.<sup>3</sup>
- 1.3 **The pandemic worsened this situation.** The first cases of COVID-19 in Uruguay were confirmed on 13 March 2020 and a public-health state of emergency was declared, with social distancing measures and voluntary quarantine—which were in general less restrictive than in other countries in the region. Economic and social measures were also implemented to mitigate adverse impacts on household income and the productive sector. In 2020, the GDP contracted by 5.9%, and it is projected to grow 3.0% in 2021 and 3.1% in 2022.<sup>4</sup>

<sup>2</sup> SDG Index 2020 and “[SDG Index and Dashboard for Uruguay](#).”

<sup>3</sup> The unemployment rate reached a minimum of 6.4% from 2011-2014. However, because of the economic slowdown it began increasing as of 2014, averaging 8.9% in 2019. Investment as a percentage of GDP was 22% from 2010-2014, but then contracted to 16% of GDP in 2019.

<sup>4</sup> World Economic Outlook, April 2021.

- 1.4 **The loss of economic momentum coupled with growing public spending contributed to putting pressure on fiscal accounts in recent years.** The overall fiscal deficit of the nonmonetary public sector averaged 2.8% of GDP in the five-year period of 2015-2019, doubling compared to the average for the previous five-year period. In 2020, lower revenue collection and higher public expenditures to address the emergency (estimated at 1.3% of GDP) led the nonmonetary public sector's overall deficit to 5.4% of GDP.<sup>5</sup> This, coupled with a 13.5% depreciation of the Uruguayan peso in 2020, increased the nonmonetary public sector debt to 68.6% of GDP in 2020. Inflation has remained under control, but higher than the target range of 3% to 7%. Although it reached 9.4% in 2020, it is expected to be within this range in 2021.
- 1.5 **One of the main challenges that the country faces is increasing the productivity and competitiveness of the productive sector in order to achieve higher growth and development.** The contribution of productivity to economic growth has been limited, preventing Uruguay from converging with high-income countries.<sup>6</sup> The challenge of achieving productivity improvements becomes more relevant given the aging of the population and the end of the demographic dividend that is expected to take place in the coming years.<sup>7</sup> The demographic transition toward an older population could have negative effects on per capita output and the savings rate. Therefore, improved human capital, increased participation by women in the workforce, investment in modern and efficient infrastructure, and innovation and technological development become fundamental in promoting higher productivity growth and enabling an increase in per capita output. Given that the pandemic led many companies to implement telework mechanisms and technology platforms, the new normal represents an opportunity to accelerate the digital transformation of the business sector and the use of new technologies, in which innovation and faster adoption of new technologies and automation are essential. In this context, opportunities could emerge for Uruguay in sectors where the country is well positioned and that have had fewer disruptions, such as the agroindustrial sector and nontraditional export services (business services, creative services, and information and communications technology services).
- 1.6 **Socially, Uruguay stands out among Latin American and Caribbean countries because of its relatively low levels of poverty and inequality. However, the COVID-19 crisis imposed new challenges.** In 2019, 8.8% of the population was living below the poverty line and 0.2% was living in extreme

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<sup>5</sup> In all cases, fiscal data is corrected for the "cincuentones" effect. The "cincuentones" are workers who were under age 40 in 1996 when the mixed pension system was implemented, requiring them to enroll with a Pension Savings Fund Administrator (AFAP) system. Law 19590 of 2017 (the "Cincuentones" Act) created a trust fund allowing workers between the ages of 50 and 60 to leave the mixed social security system and bring their contributions to the public system of the Uruguayan Social Security Bank (BPS) by transferring their savings to the trust fund. Although the operation involves a reduction in the government fiscal deficit as funds are paid in (and the accounts are kept on a cash basis), it also represents a deterioration in public finances going forward.

<sup>6</sup> From 2003 to 2019, the GDP trended upward at an annual average of 3.6%, because of the following increases: 28% in physical capital (1 percentage point), 30% in human capital (1.1 percentage point), and 42% in total factor productivity (1.5 percentage points).

<sup>7</sup> In 2020, 15% of the population was over age 65, and this percentage is expected to increase to 22% by 2050 (National Statistics Institute).

poverty. Poverty mainly affects the youngest population—one out of six children lives in poverty—and imposes significant intergenerational inequalities. The middle class in Uruguay has expanded and is one of the largest in Latin America and the Caribbean.<sup>8</sup> Approximately 75% of salaried employees work in the formal sector. This percentage is lower for workers in the first income quintile and for young people.<sup>9</sup> As a result of the pandemic, unemployment increased from 8.5% to 10.5% between December 2019 and December 2020, and poverty grew 2.8 percentage points to 11.6%.

- 1.7 **In this context, Uruguay faces a triple challenge.** The country needs to promote changes that incentivize increased productivity and competitiveness, and enable higher growth. However, these transformations need to have an environmentally friendly perspective and ensure the inclusion of women, young people, and informal and less-qualified workers, who are usually the most vulnerable groups. Moreover, achieving progress in these areas requires a stable macroeconomic framework. Therefore, improving the fiscal balance becomes essential for a long-term growth and development strategy.
- 1.8 **The administration that took office in March 2020 is committed to an agenda of growth, fiscal consolidation, and social inclusion.**<sup>10</sup> Significantly, priorities in the government program include improving public accounts, particularly by implementing a fiscal rule and a fiscal advisory council; promoting productive development, employment, and international positioning by aiming to increase trade liberalization through bilateral agreements; transforming education; strengthening citizen security; improving the social safety net and the health care system; and implementing environmental and gender equity policies.

## II. THE IDB GROUP IN URUGUAY

- 2.1 **IDB Country Strategy 2016-2020 (document GN-2836).** The country strategy with Uruguay for the period 2016-2020 focused on three core pillars: (i) productivity and competitiveness; (ii) equity and social inclusion; and (iii) public management.
- 2.2 During the effective period of the strategy up to the end of December 2020, 32 sovereign guaranteed loan operations were approved in an aggregate amount of US\$2,048,800,000. Of these, four were policy-based loans (PBLs), totaling US\$1.1 billion. During this period, a regional operation with Argentina was approved for a total of US\$80 million, of which Uruguay is executing a US\$40 million loan. The approvals were in the following sectors: integration and trade (25.5%, including two PBLs), fiscal and municipal management (20.3%, including one PBL), capital markets and financial institutions (18.2%, including one PBL), social protection and health (8.8%), transportation (6.9%), education (3.8%), water and sanitation (3.8%), housing and urban development (3.4%), competitiveness and innovation (2.9%), environment, rural development, and

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<sup>8</sup> According to IDB estimates, Uruguay and Chile have the largest middle class in the region, with 64% and 53%, respectively (data as of 2018 for Uruguay and 2017 for Chile).

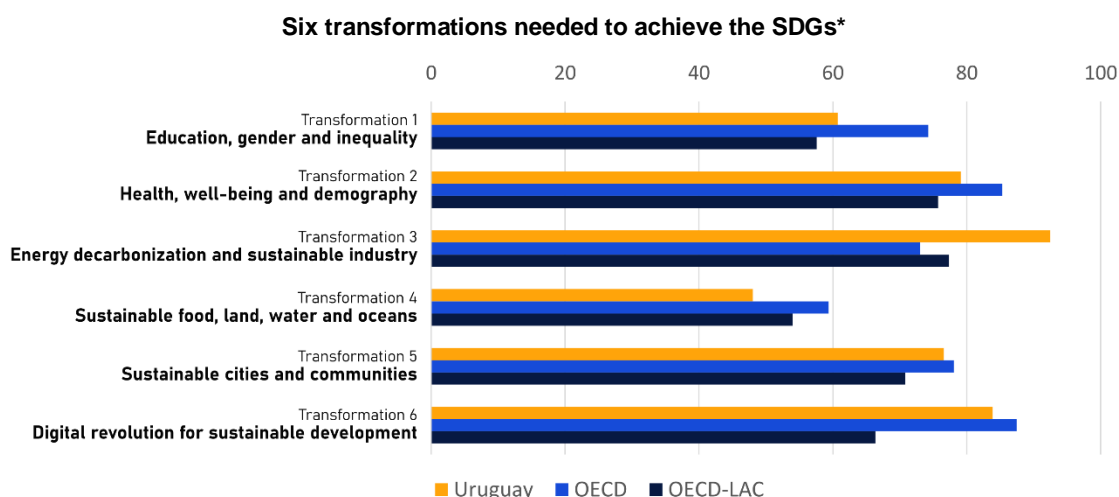
<sup>9</sup> In 2019, the informality rate was 38% for young people under 25 and 63% for households in the first income quintile.

<sup>10</sup> The government's priorities are summarized in the document "Compromiso por el País" (November 2019, see link).



- disaster risk management (2.3%), institutional capacity of the state (2.1%), and energy (1.9%). In addition, a US\$100 million contingent facility was approved to address the potential effects of natural disasters and/or future pandemics.
- 2.3 During the same period, IDB Invest approved 17 operations for US\$731.9 million in transportation (42%), energy (37%), agribusiness (15%), social infrastructure (3%), and financial institutions (2%). These operations included senior financing, subordinated loans, and capital market transactions to support an expanded electricity transmission network; installed capacity from renewable power generation; job creation; and micro, small, and medium-sized enterprises (MSMEs). Also, IDB Lab approved 15 operations (including one direct investment and one regional technical-cooperation project) for US\$11.3 million and one replenishment of funds for a US\$1 million regional operation. These included support for the development of an entrepreneurial ecosystem and access to finance, digitalization and innovation processes in small and medium-sized enterprises (SMEs), environmental sustainability and resilience to climate change, and skills generation among young people for the future of work.
- 2.4 As of December 2020, the sovereign guaranteed portfolio in execution included 39 operations for US\$1,759,500,000 (including one regional operation with Argentina, with Uruguay executing US\$40 million). Of these, 38 are investment loan operations totaling US\$1,409,500,000, of which US\$686.6 million are pending disbursement, and there is 1 PBL for US\$350 million. The main sectors that comprise the active portfolio in the public sector are: fiscal and municipal management (25%, including one PBL), transportation (18%), social protection and health (10%), water and sanitation (9%), housing and urban development (8%), capital markets and financial institutions (7%), competitiveness and innovation (6%), institutional capacity of the state (6%), education (5%), environment, rural development, and disaster risk management (3%), energy (2%), and integration and trade (0.5%). A US\$100 million contingent facility was also approved to address the potential effects of natural disasters and/or future pandemics. Moreover, 46 nonreimbursable technical-cooperation operations are currently being executed in the public sector for a total of US\$17.6 million. These operations finance a broad variety of activities, such as strengthening public entities, electronic government, water and sanitation, education, and energy.
- 2.5 IDB Invest has an active portfolio consisting of 20 operations with exposure of US\$500.3 million, focused on the energy sector (59%) and transportation (20%). Efforts to mobilize resources have enabled it to more than double the amounts invested in Uruguay: they include US\$520 million in B loans and US\$131 million in third-party funds, totaling US\$1.151 billion in assets being administered in Uruguay.
- 2.6 IDB Lab is executing 16 operations for US\$18.8 million (including 12 technical cooperation operations, 2 regional programs, and 2 equity investments with outstanding principal balance) with a focus on innovation for inclusion, digitalization, skills development for the future of work, entrepreneurship, and environmental sustainability and resilience.
- 2.7 **Results achieved.** Considering the results obtained in the framework of the country strategy for 2016-2020, the IDB Group has been a key partner for Uruguay in achieving the Sustainable Development Goals. Six transformations or strategic

interventions were identified, which guide the achievement of the SDGs in the long term: (i) education, gender, and inequality; (ii) health, well-being, and demography; (iii) energy decarbonization and sustainable industry; (iv) sustainable food, land, water, and oceans; (v) sustainable cities and communities; and (vi) digital revolution for sustainable development. This classification, developed by the United Nations, provides an operational framework to achieve the 17 SDGs.<sup>11</sup> The chart below shows Uruguay’s progress in these areas.



Source: IDB and Sustainable Development Solutions Network document “[SDG Index and Dashboard for Uruguay](#).” OECD-LAC corresponds to Mexico, Chile, and Colombia.

\* This chart illustrates the progress achieved by Uruguay, Organisation for Economic Co-operation and Development (OECD) countries, and Latin American and Caribbean countries that are OECD members in six critical areas to achieve the SDGs, based on data available prior to the pandemic. With respect to Transformation 1, for instance, Uruguay has obtained better results toward the SDGs when compared to Latin American and Caribbean countries that are OECD members, but has not done as well as OECD countries. The percentage indicates each group’s achievement level regarding the specific transformation.

**2.8 Education, gender, and inequality.** The IDB Group significantly contributed to the digital transformation of education through several projects under Plan Ceibal.<sup>12</sup> These operations supported the implementation and increase in usage rates for math learning platforms, a digital library, and the education management system. The intensive use of the math platform increased learning in this subject by 0.2 standard deviation.<sup>13</sup> There were also contributions to the Ceibal program for teaching English, consolidating its universalization in primary schools, with 8 out of 10 students achieving the expected learning outcomes. Progress utilizing educational technologies enabled Uruguay to stand out during the pandemic for

<sup>11</sup> Sachs, Schmidt-Traub, Kroll, Lafortune, and Fuller (2019). “Six Transformations to Achieve the Sustainable Development Goals.” Sustainable Development Solutions Network.

<sup>12</sup> Since its establishment in 2007, Plan Ceibal has supported Uruguay’s education policies through technology. Every child entering the public education system has access to a computer with a free internet connection from the school. Plan Ceibal also offers programs, educational resources, and teacher training.

<sup>13</sup> Perera, M., and Aboal, D. (2017). Evaluación del Impacto de la Plataforma Adaptativa de Matemática en los resultados de los aprendizajes. CINVE.

its use of distance learning, connecting more than 75% of students and almost 85% of teachers to the learning platform in 2020.<sup>14</sup> The transformation of technical education on forestry was promoted through the Technical and Professional Education Council, aligning it with the development needs of this value chain. Along with IDB Lab, support was provided to modernize the issuing of degrees and certifications using blockchain. The IDB, with Ceibal and other government organizations, developed a program to internationalize digital skills, creating a master's in data science and artificial intelligence. This involved implementing partnerships between local and foreign educational centers (including Harvard and MIT). The IDB Group also helped improve educational infrastructure by supporting the design and institutional framework of a program with four public-private partnership (PPP) projects. This resulted in the construction of 12 secondary schools and 44 kindergartens. IDB Invest financed one of these projects (Educativa 2 Uruguay), which supported the design, financing, construction, and maintenance of schools, technology centers, and multisports centers. IDB Lab worked with Plan Ceibal and Fundación Forge, helping more than 4,500 young people improve their digital and soft skills to work in the information and communication technologies (ICT) industry.

- 2.9 The IDB Group also helped to promote more gender equality, foster the inclusion of Afro-descendants, and expand knowledge about the LGBT+ population's situation. During the strategy period, 14 approved sovereign guaranteed loans addressed gender issues, including actions to strengthen the caregiving system and prevent women from disproportionately shouldering the burden of caregiving. With UN Women, Women's Economic Empowerment Principles were promoted—and more than 120 companies agreed to follow these principles. A report with policy recommendations was prepared to promote the socioeconomic development of Afro-Uruguayans. This document informed the design of the National Plan for Racial Equity and Afro-descendants. The Bank conducted, in cooperation with the government, a study on coexistence and discrimination in secondary schools to collect data on the presence of the LGBT+ population and the exclusion that these young people face.<sup>15</sup> This innovative study raised awareness countrywide and regionally.
- 2.10 There were noteworthy interventions to reduce inequalities by fostering innovation and economic growth. The IDB financed: (i) four institutions to implement innovation projects for productive transformation, 284 projects to improve business capacity for innovation, 75 scholarships in engineering, strengthening of an engineering and technology curriculum, 505 scholarships for master's degrees and doctorates, and 159 research and development projects to generate new scientific and technological knowledge; (ii) 742 technology-improvement management plans benefitting 5,710 small and medium-sized agricultural producers and 69 participatory research projects, improving the productivity of beneficiary producers compared to nonbeneficiaries; and (iii) one program to promote exports

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<sup>14</sup> The National Public Education Administration has a system to protect the students' pathways that enables online enrollment for secondary school, monitoring of students, and provides early alerts for frequent absenteeism or poor performance. [Link](#).

<sup>15</sup> Convivencia y discriminación en Centros de Educación Media en Uruguay. Ministry of Social Development and National Public Education Administration (August 2019).

and investment in the global export services sector, which trained more than 7,000 people from 200 companies using finishing schools and developed a service-sector skills and talent portal to match supply and demand, with more than 27,000 registrations. IDB Invest supported innovation in the agroindustrial sector and improved the country's international positioning in the forestry sector, generating additional exports of more than US\$2 billion and more than 6,000 direct jobs. IDB Invest also facilitated access to finance totaling US\$216 million for 21,116 MSMEs. IDB Lab supported: (i) the creation of 59 new technology companies, with social and environmental impact; and (ii) a pilot project to promote collaborative innovation between companies in creative industries and other sectors of the economy, reaching more than 250 companies.

- 2.11 **Health, well-being, and demography.** The implementation of electronic health records (one of the few examples worldwide of interoperative health records) covered all of the country's health care providers and ensured every user access to their medical information. With respect to citizen security, the Bank supported improved police deployment capacities based on crime analysis and policing of hot spots under the High-Intensity Operations Program (PADO). In areas with PADO patrolling, there were 23% fewer robberies than in areas without PADO interventions.<sup>16</sup>
- 2.12 The IDB Group's support during the pandemic included redirecting portfolio resources in execution for the procurement of respirators, monitors, and other medical supplies; the leasing of electronic ankle monitors to prevent domestic violence; and financing to produce 10,000 polymerase chain reaction test kits, antibody serology tests, and manufacture respirators domestically. In addition, IDB Lab financed a prototype to accelerate processes for epidemiological monitoring of COVID-19 using artificial intelligence.
- 2.13 **Energy decarbonization and sustainable industry.** The IDB Group helped consolidate an important change in the country's energy matrix and strengthen its electricity system. The IDB Group approved non-sovereign guaranteed financing for five wind and photovoltaic solar renewable energy projects that will help boost electric power generation capacity by 227 MW from the electricity transmission line (Melo-Tacuarembó) with a leasing mechanism, as well as the refinancing of wind and solar projects by issuing bonds. The system's installed power generation capacity rose from 3,989 MW in 2015 to 4,920 MW in 2020,<sup>17</sup> recording an increase of 931 MW, of which 757 MW (81%) corresponded to IDB Group-supported operations (including sovereign guaranteed and non-sovereign guaranteed operations). During this period, the country became a net exporter of energy, with 2,994 GWh exported to Argentina and Brazil in 2019. Moreover, sovereign guaranteed financing was approved to modernize the binational hydroelectric power plant in Salto Grande (1,890 MW). In addition to providing power, this plant plays an important backup role for intermittent power sources and promotes regional integration. Innovative initiatives are being supported with grant

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<sup>16</sup> Chainey, S., Serrano, R., and Veneri, F. (2017). Evaluando el impacto del Programa de Alta Dedicación Operativa (PADO) en la reducción de robos violentos en Montevideo, Uruguay. In Ministry of the Interior-IDB (editors). *¿Cómo evitar el delito urbano? El Programa de Alta Dedicación Operativa en la nueva policía uruguaya* (pages 155-179).

<sup>17</sup> Data from MIEM. See Country Development Challenges (CDC).

funding, such as an innovation project for electricity distribution systems using batteries (from IDB Lab); studies for a pilot hydrogen project; digitalization of energy data for the Ministry of Industry, Energy, and Mining (MIEM); and improvements in energy supply efficiency. As a result, the IDB Group has continued supporting the country in diversifying its electricity matrix. In addition to the favorable environmental impact of preventing carbon dioxide emissions, these efforts position Uruguay at the forefront in achieving the SDGs in these areas.

- 2.14 **Sustainable food, land, water, and oceans.** The IDB Group helped increase the responsiveness to environmental complaints (from nearly 400 in 2015 to more than 1,000 in 2019) and audits (from nearly 2,000 in 2014 to about 9,000 in 2019) by expanding the economic sectors subject to regulations, improved the environmental quality of the Santa Lucía River basin (the main source for Montevideo’s metropolitan area), and supported the approval of the first National Environmental Plan for Sustainable Development. In addition, elements of public management in the agriculture sector were strengthened, reducing transaction costs by implementing electronic government, improving the efficiency in the laboratory system of risk-analysis mechanisms to monitor food safety, and enhancing the efficiency of systems of sanitary barriers. These achievements are important to have healthy food for the population and maintain the reputation of Uruguay’s products in global markets. IDB Lab implemented a program intended to generate sustainable, resilient infrastructure for primary milk production, which reached more than 200 producers.
- 2.15 **Sustainable cities and communities.** The IDB has supported the sanitation sector in Montevideo for four decades. During this period, the safely managed sanitation coverage increased from 65% to 92% of the population by 2020, with the entry into operation of the city’s west-side sewer system. Therefore, the capital will have one of the region’s highest rates of adequate sanitation coverage. Also in Montevideo, a drainage system was inaugurated with underground stormwater tanks that prevent flooding for 1,500 households. Tactical urbanism interventions also took place, to dignify and recognize the work of vulnerable populations—including setting up sidewalk extensions for delivery workers. Moreover, since 1999 the IDB has supported the country with programs to improve the quality of life for informal settlement residents. During the 2016-2020 strategy period, the second and third loans of a conditional credit line for investment projects (CCLIP) were executed. These programs achieved important progress in: (i) reducing gaps in access to urban and social services; (ii) ensuring the comprehensiveness of investments; (iii) strengthening the management capacity of departmental governments; and (iv) helping develop public policies that prevent the establishment of new settlements.
- 2.16 **Digital revolution for sustainable development.** The IDB Group has been an essential partner in the country’s digital transformation—an area where Uruguay stands out and that has enabled it to continue operating more resiliently during the pandemic. In addition to the digital transformations in education and health mentioned, the Bank supported the development of digital government. The target of 90% of the central administration’s transactions being fully digitized was achieved. This was possible because an institutional framework was developed, and necessary components such as digital identity, an interoperability platform, and cybersecurity capacity were implemented. IDB Lab is financing the first digital

transformation experience for logistics SMEs, through technical advice and financial incentives.

- 2.17 Lastly, the IDB supported improved public resource management. The Bank supported significant enhancements in budget management, which helped improve the predictability of financing for public institutions and the central government's financial management (the unexecuted portion of the national budget declined from 5.5% in 2013 to 3% in 2018). The Bank also gathered evidence of resource management and efficiency gains in the contracts to renovate and maintain the country's roads. At the subnational level, the following was achieved: (i) increased the fiscal sustainability of departmental governments, as a result of integrated fiscal information systems and improved collection mechanisms that contributed to an up to 5% higher departmental collection of property taxes from 2016-2018; and (ii) strengthened departmental fiscal management and financial systems. In addition, the Bank has been a strategic partner for the government's precautionary debt policy, providing contingent credit lines along with other multilateral organizations. During the pandemic, these credit lines provided liquidity to the public sector through the disbursement of US\$1,050,800,000 for five programmatic policy-based loans (PBPs) with a deferred drawdown option.
- 2.18 **Lessons learned.** *Strategic lessons.* In countries such as Uruguay, with strong institutional frameworks and access to finance, the Bank's value added is based more on its ability to quickly generate cutting-edge knowledge for policy design and implementation than on its financial additionality. With this objective, the IDB Group has emphasized: (i) contributing knowledge on cutting-edge issues, such as through interventions in behavioral economics to promote preventive health care; (ii) supporting issues that are high priorities for the government, such as debt management, through a combination of training, contingent financing instruments, rate and currency conversions, and sustainable financing; (iii) using the synergy of the IDB Group's three windows to achieve transformational sector changes, such as developing the energy matrix (achieving almost 100% of energy generation from renewable sources); (iv) promoting multisector approaches to solve complex problems, such as development of an innovation cluster and digitalization of several essential services; and (v) complementarity in using financial and nonfinancial instruments, such as policy-based loans, investment projects, and technical cooperation operations. A lesson learned from working with the private sector is that when seeking to accelerate the penetration of new technologies (for example, nonconventional renewable energy), it is important to have available the prerequisites for private sector participation, particularly adequate financing mechanisms.
- 2.19 *Operational lessons.* The following are necessary: (i) having a variety of financial instruments to select the best match for projects and execution capacities (for example, Uruguay is a pioneer not only in the use of PBPs with a deferred drawdown option, but also loans based on results, which require strong institutional capacity and a solid theory of change);<sup>18</sup> (ii) using CCLIPs, which provide continuity

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<sup>18</sup> For a summary of the lessons learned from Uruguay's experience using innovative financial instruments, see the "[Lending Instrument Report](#)" from the Office of Evaluation and Oversight (OVE) of May 2020 (RE-549).

while minimizing transaction costs; (iii) developing instruments for ongoing portfolio monitoring, as well as continuously training executing agencies and IDB Group staff and rotating the teams; (iv) seeking improvements in fiduciary processes that streamline execution, including e-disbursements and electronic calls for tender; and (v) reviewing project design to enable adaptations to changing circumstances. For IDB Invest, a lesson learned to expand access to finance for traditionally underserved segments through financial institutions is to consider using subordinated debt with partners that have a clear strategy of disruptive growth in the target segment, which also has a multiplier effect because additional resources can be leveraged.

### **III. PRIORITY AREAS**

- 3.1 The objective of the country strategy for 2021-2025 is to support the plan of the Government of Uruguay to achieve inclusive, sustainable growth, with an emphasis on creating quality jobs. To this end, actions will focus on three strategic areas: (i) public resource management; (ii) sustainable productive development; and (iii) equity and social inclusion. It is important to address these challenges by incorporating a gender and social inclusion perspective, an environmental perspective, and considering the use of digital technologies to overcome them. The latter is particularly important for a country like Uruguay, which stands out in the region for its use of ICT.
- 3.2 Challenges in these areas were identified based on Uruguay's progress achieving the SDGs, the IDB Group's experience and current portfolio in the country, the lessons learned from the previous country strategy, the findings of the Country Development Challenges (CDC) document, the recommendations from OVE, exchanges with civil society, and government priorities. These challenges, which already existed in Uruguay, intensified with the emergence of COVID-19, as described below.
- 3.3 In general, there is alignment and continuity with the IDB Group's current operational actions in Uruguay. Many of these actions are part of a decades-long evolving work approach that will be consolidated and deepened during the new strategy period. This work is characterized by a diversified, wide variety of areas of intervention, which responds to the country's demand for innovative interventions, aiming to maximize the IDB Group's technical value added. This is reflected in the IDB portfolio in Uruguay, which responds to the value that the country places on the Bank's technical support in a variety of cutting-edge and high-value-added issues. These issues are essential for the country's development status and generate positive externalities in terms of learning, good practices, and the demonstration effect for the rest of the region. These cutting-edge issues include the first sovereign guaranteed operation on cybersecurity, universal technology coverage in educational policies, digitalization in the delivery of health services, digital government, and projects to attract talent and investment. IDB Invest will seek to contribute to Uruguay's development through the private sector, building on its track record of support provided mainly on issues related to energy and climate change, infrastructure, and financing for the export sector and SMEs (particularly in the agribusiness area).

- 3.4 **Alignment.** The priority areas contribute to the second Update to the Institutional Strategy 2020-2023 (document AB-3190-2), under its productivity and innovation, economic integration, and social inclusion and equality objectives. In turn, these areas adopt a crosscutting approach of gender equality, diversity and inclusion, climate change and environmental sustainability, and institutional capacity and rule of law. The priority areas also promote increased resource mobilization and are aligned with IDB Invest's 2020-2022 Business Plan, specifically with respect to infrastructure development, capacity-building in the corporate sector, and establishment of partnerships in the financial sector to work on priority action areas such as support to SMEs. Lastly, these areas align with the IDB Lab Business Plan 2019-2021 (document MIF/GN-235-3).<sup>19</sup>
- 3.5 These areas are also aligned with government priorities connected to improving public accounts (particularly by implementing a new fiscal institutional framework); strengthening citizen security; improving the social safety net and the health care system; implementing environmental, productive-development, and improved-competitiveness policies (by developing road, railway, and port infrastructure and improving energy costs); strengthening the stock market and supporting MSMEs; diversifying and improving access to international markets by seeking increased liberalization; transforming education and developing programs to provide technical/professional training to young people who neither study nor work; regularizing settlements and access to housing; promoting intergenerational caregiving programs; and fostering policies to benefit groups that have historically been disadvantaged based on their gender, ethnicity, sexual orientation, or other personal characteristics.
- A. Public resource management**
- 3.6 **Efficiency and sustainability of public policies.** Uruguay stands out in the region because of its institutional and political stability, its democratic participation, and its low level of corruption. Nevertheless, the fiscal deficit growth in recent years, which prior to the COVID-19 outbreak was at its highest in 30 years, poses challenges for fiscal policy management. The high level of tax burden and public expenditure means that interventions to improve social indicators will need to be financed through a more efficient use of public resources.<sup>20</sup> IDB estimates show that there is room for improvement in technical efficiency (i.e., achieving the same results using the same or fewer resources) and the allocative efficiency of spending (i.e., allocating more where it yields higher benefits).<sup>21</sup>
- 3.7 In the medium term, because Uruguay has one of the oldest populations in Latin America and the Caribbean, additional pressures on public finances are expected

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<sup>19</sup> Thematic papers Climate-Smart Agriculture (document MIF/GN-237-1), Inclusive Cities (document MIF/GN-238-1), and Knowledge Economy (document MIF/GN-241-1).

<sup>20</sup> Tax revenue accounted for 29.2% of GDP in 2018, while the average for Latin America and the Caribbean was 23.1% of GDP (OECD data). Meanwhile, primary expenditures for the nonmonetary public sector were 31.3% of GDP in 2019. On average for Latin America and the Caribbean, general government primary expenditures were 24% of GDP in 2019 (World Economic Outlook, April 2020).

<sup>21</sup> The technical efficiency of expenditures in Uruguay is estimated at 3.7% of GDP in 2016 (Better Spending for Better Lives, Development in the Americas, IDB, 2018).



through higher expenditures on pensions, health care, and caregiving.<sup>22</sup> While Uruguay has one of the highest levels of pension coverage in the region (87% of people over age 65 have a pension), the pension system's financial sustainability is at risk. Estimates show that expenditure on liabilities averaged 9.5% of GDP from 2017-2020. If nothing changes, this is expected to reach 13.5% of GDP in 2040, based on estimates prepared by the authors. Therefore, in mid-2020 the government established an advisory committee of experts to prepare a diagnostic assessment of the pension system and offer recommendations for reform. With respect to health, Uruguay's epidemiological profile is similar to that of developed countries with the oldest populations, where chronic diseases cause more than 80% of deaths. This impacts finances and the organization of health care and caregiving services.

- 3.8 **Citizen security.** Prior to the pandemic, half of the population considered insecurity as the country's main problem. Therefore, the administration established citizen security as a priority issue. Uruguay has higher rates of victimization and crimes against property compared to the region.<sup>23</sup> Homicides rose to 11.8 victims per 100,000 people in 2018, below the average for South America (21 in 2018) but higher than Chile (4.4) and Argentina (5.3).<sup>24</sup> There is a high incidence of violence against women: nearly 8 out of 10 women ages 15+ said they suffered gender violence throughout their lives (psychological, patrimonial, sexual, or physical). The annual rate of femicides is 1.4 per 100,000 women.<sup>25</sup> Most offenders are young people (69% are ages 18-35) with a low educational level (40% only completed primary school).<sup>26</sup> With respect to prisons, Uruguay has the second-highest rate of prison use in South America (27th worldwide) and approximately 62% of the inmates are not first-time offenders.<sup>27</sup> Academic leveling, professional training, mental health, and reintegration programs are insufficient and methodologically weak to meet the needs of former inmates and prevent recidivism.<sup>28</sup>
- 3.9 **Proposed actions.** To address the challenges of public resource management, the IDB Group will support: (i) strengthening fiscal stability, including supporting a new fiscal institutional framework by implementing a fiscal rule and a fiscal advisory council, as well as instruments that provide contingent resources to address natural disaster and public health emergencies; (ii) generating efficiencies and improving the quality of expenditure and investment in key sectors such as infrastructure, health care, and social protection, supported by the implementation

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<sup>22</sup> If there is no reform, estimates show that by 2065, an aging population would lead public spending in pensions and health care to 30% of GDP (Better Spending for Better Lives, Development in the Americas, IDB, 2018).

<sup>23</sup> In 2018, 29.3% of people said they had been victims of a crime in the past 12 months, above the median for the region (21.6% in 2016). In 2017, Uruguay was first in the region with respect to theft and fifth for robberies.

<sup>24</sup> Ministry of the Interior of Uruguay and United Nations Office on Drugs and Crime, 2019.

<sup>25</sup> Encuesta Nacional de Prevalencia sobre Violencia Basada en Género y Generaciones 2019; and Gender Equality Observatory for Latin America and the Caribbean of the Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>26</sup> See CDC.

<sup>27</sup> [Boletín Estadístico del Sistema Penitenciario No. 3, 2017.](#)

<sup>28</sup> Informe Anual Comisionado Parlamentario Penitenciario (2017).

of new digital technologies; (iii) reforming the pension system; and (iv) developing instruments and capacities for debt management, particularly to develop sustainable finance. For the latter, the development of thematic bonds (which help close the financing gap for SDG achievement) presents an opportunity for a country with Uruguay's characteristics. These types of bonds could diversify the sources of finance and expand the investor base, as well as strengthen the country's position in terms of the SDGs, given the higher level of transparency, reporting, and fulfillment of commitments that they require. With respect to citizen security, the IDB Group will focus on: (i) strengthening crime prevention programs and capacities, with an emphasis on using digital technologies (especially for gender violence and youth violence, through synergies with educational improvement and retention strategies); and (ii) improving the rehabilitation and reintegration of former inmates.

- 3.10 These interventions will rely on the IDB Group's experience in the country and the active portfolio in all these areas.<sup>29</sup> Significantly, the IDB Group supported the first issuance of sustainable financing by a private entity in Uruguay, which represents the first step to work with these types of assets in the country.
- 3.11 **Contribution to the SDGs.** The actions indicated will directly contribute to achieving the following SDGs: Good health and well-being (SDG 3), Gender equality (SDG 5), Decent work and economic growth (SDG 8), Reduced inequalities (SDG-10), Climate action (SDG-13), and Peace, justice, and strong institutions (SDG-16).

## **B. Sustainable productive development**

- 3.12 Uruguay has had several years of declining employment and investment, low productivity levels, and loss of competitiveness. COVID-19 intensified these problems: while investment only fell -0.5% in 2020, the unemployment rate rose from 8.5% to 10.5% between 2019 and 2020. In this context, the IDB Group's objective is to increase employment and productivity by attracting investment and boosting participation in global value chains, particularly regional ones. Therefore, the focus will be on fostering innovation, supporting international positioning policies, improving access to finance, and enhancing productive infrastructure. The IDB Group will also support human capital skills development and workforce adaptation, which are addressed in the next strategic area.
- 3.13 **Innovation.** Uruguay invests 0.4% of GDP in research and development, while Latin American and Caribbean countries invest 0.8% and OECD countries 2.5%. This gap is particularly significant in the private sector: spending on company-financed research and development totals 0.1% of GDP, while the average for

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<sup>29</sup> Program for Development and Strengthening of Fiscal and Subnational Service Management (UR-L1111), Program to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 in Uruguay (UR-L1170), Program for Improvement of Public Services and State-Citizen Interaction (UR-L1109), E-Government Management Project in the Health Sector II (UR-L1143), Budget and Financial Management Program (UR-L1151), Program to Support the Digital Government Strategy (UR-L1159), Strengthening the Monitoring and Evaluation of State-Owned Enterprises (UR-T1136), Support for Fiscal Management (UR-T1230), Strengthening Cybersecurity in Uruguay (UR-L1152), Program to Strengthen the Management of the Government Health Services Administration (UR-L1161), Support for Improved Effectiveness and Efficiency in the Integrated Health System (UR-T1210), and Comprehensive Citizen Security Program (UR-L1112).

- OECD countries is 1.5%. The main obstacles to innovation are: (i) the size and structure of the market; (ii) the institutional context with respect to the capacities of science, technology, and innovation institutions, their infrastructure, and the regulatory environment; (iii) problems with the appropriability of results; (iv) problems with financing; and (v) difficulties accessing human capital (the supply of engineers is insufficient to meet the demand).<sup>30</sup> Coupled with these obstacles, gender gaps in entrepreneurship and leadership were identified. These could impact the levels of innovation, since evidence shows that companies with women in senior positions usually invest more in research, innovation, and technology.<sup>31</sup> Also, nearly twice as many men than women graduate from programs in science, technology, engineering, and mathematics.<sup>32</sup> Low investment in innovation is reflected in the digital gaps of Uruguayan companies: while the country leads the region in the use of ICT in households and within the government, it lags behind with respect to companies using these technologies.<sup>33</sup>
- 3.14 **International positioning.** Participation in commodity exports and manufacturing based on natural resources has increased since 2003, to 79% in 2020. Beef, pulp, soybeans, and dairy products accounted for 51% of goods exports in 2020.<sup>34</sup> In terms of destinations, the top market for exports is China, whose share has been growing. China, Brazil, the United States, and Argentina purchased more than half of goods exports in 2020. Advances in digital technologies and biotechnology offer opportunities for the agriculture sector, both to achieve increased productivity and adapt to the impacts of climate change. Factors that affect the international positioning model include relatively high costs (from merchandise transportation, administrative processing of shipments, and processing time), information barriers with respect to destination markets and counterparts, tariff and nontariff measures, and problems with access to finance.<sup>35</sup>
- 3.15 Uruguay is part of the global trend of rising trade in services, with average annual growth of 11% between 2002 and 2019. Nontraditional services, other than transportation and tourism, have grown at an above average pace and represented 44% of total services exports in 2019. Most of this corresponds to global business services. Also noteworthy are exports of creative services (architecture, engineering, design, and advertising) and ICT services (26.2% of exports of nontraditional services in 2019). Nontraditional services with higher value added

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<sup>30</sup> See CDC.

<sup>31</sup> Only 10% of Uruguay's companies have women in senior management positions, while 21% of companies in Latin America and the Caribbean do. Companies that foster promoting women to senior management usually make decisions based on empirical evidence and invest more in research, innovation, and technology (*Women's Empowerment Principles* for business, UN Women, 2016). Moreover, the presence of women on the management team generates a better combination of leadership skills and behaviors that boost business returns (*Women in Business and Management: Gaining momentum in Latin America and the Caribbean*, International Labour Organization, 2017).

<sup>32</sup> See CDC.

<sup>33</sup> In 2017, only 62% of MSMEs had a computer or laptop, 70% used the internet, and 38% said they had a computerized program for administrative, accounting, and financial tasks. Also, only 30% of these companies had made online sales in the past three months, while 27% had made online purchases (MIEM, 2018).

<sup>34</sup> The share of exports for soybeans and pulp was almost nonexistent in 2003. As a result of foreign investment in these sectors, they accounted for approximately 33% of total exports in 2020.

<sup>35</sup> See CDC.

could promote positioning with more quality and sustainability, because they are more knowledge-intensive and encompass more research and development; involve tasks that are not routine or standardized; employ highly qualified personnel; and generate more knowledge transfer. Therefore, they promote more spillovers or linkages to the rest of the economy. The worldwide trend toward a low-touch economy as a result of the COVID-19 pandemic will increase the demand for services supported by digital platforms, creating opportunities to leverage the reconfiguration of global value chains and achieve better export positioning. In addition, tourism is remarkably important for the country's economy. Considering its direct, indirect, and induced effects, tourism activity accounted for 16.4% of GDP in 2019 and 16.3% of jobs,<sup>36</sup> generating more foreign currency than traditional export segments. However, this sector has been the hardest hit by the pandemic and reactivating it will require adapting to the new normal, with technology playing a more central role.

- 3.16 The government is working to promote increased international liberalization, particularly with the proposal to modernize MERCOSUR, providing the bloc's countries with greater flexibility to reach agreements with third countries.
- 3.17 **Financing.** The lack of financing for the productive sector was identified as a main limiting factor for investment. According to the World Economic Forum's Global Competitiveness Report 2019, Uruguay lags behind with respect to market capitalization (121st out of 141 countries) and domestic credit to the private sector (106th out of 141). The MSME segment, which represents 99% of enterprises, is one of the hardest hit due to its low financial depth (only 17% of MSMEs have obtained a bank loan in the three years prior to the pandemic, although this percentage was higher in the last year due to the support provided by the government during the pandemic under the SIGA guarantee program). The main challenges for Uruguay's financial system are: (i) high dollarization (78% of bank deposits and 65% of loans are denominated in U.S. dollars); (ii) restricted availability of medium- and long-term credit (60% of bank loans are for less than one year); (iii) reduced financial intermediation in the stock market; (iv) high transaction costs and spreads; (v) high collateral because of information asymmetry problems and high execution costs; and (vi) low development of microcredit.<sup>37</sup> On financial inclusion, Uruguay is ranked third in Latin America and the Caribbean, after Colombia and Peru.
- 3.18 **Productive infrastructure.** The accelerated growth of agroindustrial and forestry production generated an investment gap in meeting the needs for conservation and road-network capacity, as well as adaptation and maintenance of departmental roads for production.<sup>38</sup> Since 97% of freight is transported by road, the poor conditions of routes result in higher costs and lower productivity. Freight transported by rail has reached record minimums in recent years because of the system's shortcomings. However, it is expected to increase with the construction of the Central Railway. In view of the position of the ports of Montevideo as a regional hub and of Nueva Palmira as a transshipment port, and their importance

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<sup>36</sup> World Travel and Tourism Council, 2019.

<sup>37</sup> See CDC.

<sup>38</sup> While nearly 60% of the primary network, including international corridors, is in good or very good condition, secondary networks are in worse condition.

to the export sector, it is necessary to continue investing in dredging of maritime and inland waterways and ports, as well as potential additional investments in berthing piers to accommodate more and larger cargo vessels, to maintain conditions that enable a sustainable expansion of port activity. The logistics industry faces inefficiencies and its digital transformation would provide environmental and social benefits, improving efficiency and decreasing energy consumption costs and emissions.<sup>39</sup> The highest coverage of long-term evolution networks is in the south of the country, in contrast with rural areas, delaying the adoption of digital technologies beyond these covered areas.<sup>40</sup> Given the positive effects of infrastructure investment on employment, these productive infrastructure elements are particularly important in the post-pandemic recovery context.

- 3.19 As mentioned, Uruguay stands out worldwide because it achieved a significant change in its energy generation matrix.<sup>41</sup> The country has a high percentage of renewable energies in electricity generation (98% in 2019), broad and good quality electricity coverage, and electricity connections with neighboring countries that boost regional integration. However, the cost of energy is high compared to other countries in the region and 37% of the energy supply is from nonrenewable sources (oil and natural gas). This is largely because 27% of primary energy demand is from the transportation sector.<sup>42</sup> Therefore, Uruguay intends to promote the decarbonization of the transportation sector through initiatives that promote the incorporation of new vehicle technologies. The country has conditions that favor adding these vehicles (surplus electricity from renewable sources and short distances between cities).
- 3.20 In general, there is a need to plan for resilient, low-carbon infrastructure, which is essential to use public resources efficiently. Likewise, the private sector plays a fundamental role in financing infrastructure, particularly given the constraints that the fiscal position imposes on public investment. This accelerates the need to seek public-private mechanisms and instruments that solve existing shortcomings in a coordinated manner.<sup>43</sup> Managing the effects of climate change also imposes challenges for public resource management, since the country will increasingly have to channel the public budget to increasing resilience (prevention) and financing rebuilding due to the impact of natural disasters, droughts, and floods.<sup>44</sup>
- 3.21 Lastly, gender gaps are evident in infrastructure sectors, where women are underrepresented in the job market. For instance, women account for approximately 5% of personnel in the construction sector and 6% in the road

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<sup>39</sup> According to the Logistics Performance Index (World Bank, 2018), Uruguay ranks 85th out of 160 countries.

<sup>40</sup> While the territory coverage of long-term evolution networks in Montevideo, San José, Canelones, and Colonia surpassed 99% in 2019, in Tacuarembó it was only 60% (Regulatory Unit of Communications Services, 2019).

<sup>41</sup> This transformation is a result of major investments, significantly US\$6.375 billion from 2010-2017 in infrastructure for clean and renewable energy generation, with more than half corresponding to private financing. Almost 50% of the country's installed capacity has had financing from the IDB Group.

<sup>42</sup> Energy Balance 2019, MIEM.

<sup>43</sup> As of March 2021, these were the public-private partnership (PPP) projects: 7 for roads, 4 for education, 1 for railways, and 1 for prisons (in operation).

<sup>44</sup> Uruguay is extremely vulnerable to the effects of climate change, since nearly 70% of the population lives in coastal areas and the economy is based on agroindustrial production and coastal tourism.

sector, and the tasks they usually carry out are administrative and cleaning. Cultural constraints, stereotypes, disproportionate caregiving responsibilities, and few opportunities for women to obtain training and learn trades for these sectors threaten gender equality in infrastructure.

- 3.22 **Proposed actions.** The IDB Group will support the country's sustainable productive development and its post-COVID-19 economic recovery with the objective of increasing employment and productivity by: (i) fostering business innovation and promoting strategic sectors with high value added by emphasizing development and adoption of digital and green technologies (such as information and communications technology, biotechnology, and a green hydrogen system) with a gender focus; (ii) boosting the promotion and diversification of exports and investment by strengthening the private sector's integration with global value chains and promoting the country as a regional hub for services exports, including tourism; (iii) fostering the adoption of digital technologies and new business models by SMEs; and (iv) increasing productive financing, particularly for SMEs, by using innovative tools such as guarantees and thematic bonds, in addition to traditional lines of credit. With respect to infrastructure, the IDB Group has these objectives: (i) improving the transportation network (road, river/ocean, and railway) and logistics services, with a focus on efficiency, incorporating digital technologies, and resilience to climate change and sustainability; (ii) continue supporting energy decarbonization, with an emphasis on developing new technologies such as electric and hydrogen-powered vehicles, and higher energy efficiency; (iii) expanding advanced telecommunications network infrastructure to promote the mass deployment of technology solutions; (iv) supporting the development and application of contractual models or new financial structures that foster private sector participation, to increase the availability of long-term financing; and (v) increasing the participation of women in all these sectors. The IDB Group will also support increased employment and productivity through professional education, training, upskilling, and reskilling policies, as described in the next strategic area.
- 3.23 During the previous strategy period, the IDB Group positioned itself in these areas. Therefore, the proposed actions represent an opportunity to deepen and consolidate existing interventions and increase their effectiveness based on the

lessons learned.<sup>45</sup> The organization's work will prioritize coordination between public- and private-sector windows to accelerate the takeoff of Uruguay's productive sector.

- 3.24 **Contribution to the SDGs.** The actions indicated have the potential to contribute to the following SDGs: Gender equality (SDG 5), Affordable and clean energy (SDG 7), Decent work and economic growth (SDG 8), Industry, innovation and infrastructure (SDG 9), Responsible consumption and production (SDG 12), Climate action (SDG 13), and Partnerships for the goals (SDG 17).

### C. Equity and social inclusion

- 3.25 The COVID-19 pandemic intensified existing equity and inclusion gaps, with a more severe impact on the most vulnerable groups (informal and less-qualified workers, young people, and children). In this context, the IDB Group will promote a social agenda to improve equity, social inclusion, and employability.

- 3.26 **Education and job training.** Uruguay's education system poses major challenges for young people's achievement of continuous, complete, and successful careers. Attendance is almost universal between the ages of 4 and 11 (completion of primary school), but begins declining toward low completion levels in secondary school. In 2019, only 43.3% of young people between the ages of 20-24 had completed secondary education (in Latin America and the Caribbean, it was 62%). With respect to the quality of education, Uruguay has worse results than OECD countries in all the areas evaluated according to the Programme for International Student Assessment (PISA) 2018. The third challenge in education is equity. Only 18.5% of young people ages 20-24 in the first income quintile graduate from secondary school, compared to 81.9% in higher income quintiles. The results from the PISA-2018 also show that students in the highest quintile achieve approximately 100 points more in reading than those in the lowest quintile—equivalent to nearly three years of schooling. Causes of these problems include the generalized use of grade repetition as an evaluation mechanism; an encyclopedic curricular framework and lack of coordination between levels; low hourly load and large number of subjects per grade; high percentage of unlicensed teachers; excessive weight of seniority in the teaching profession; and a teacher

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<sup>45</sup> Business Innovation and Entrepreneurship Program I and II (UR-L1142 and UR-L1158), Program to Support Research and Innovation on Food and Health (UR-L1162), Innovation for the Reactivation and Resilience of SMEs (UR-T1245), Uruguay Global: Promoting Digital Skills for Internationalization (UR-L1150), Program for the Development of Emerging Tourist Destinations (UR-L1155), Financial Program for Productive Development II (UR-L1115), Global Credit Program for Safeguarding the Productive Fabric and Employment (UR-L1171), Productive Rural Road Improvement Program (UR-L1114), Program to Improve Road Corridors for Agroindustry and Forestry (UR-L1153), and Modernization of the Salto Grande Binational Hydropower Complex (RG-L1124). Support was also provided for sustainable productive development through these nonreimbursable technical-cooperation operations: Promotion of Uruguay's International Positioning in Knowledge-Intensive Services and Goods (UR-T1188), Support for the Design and Implementation of Promotion and Facilitation Policies for Uruguay's Internationalization (UR-T1206), and Support for the Creation of a Hydrogen Ecosystem in Uruguay: Promoting a Sustainable Mobility System (UR-T1223). With respect to private-sector windows, noteworthy are the roles of IDB Invest in the operation PPP Rail Project "Ferrocarril Central" (12278-01). Also, the role of IDB Lab in the initiatives Innovation Vouchers for Creative Industries in Uruguay (UR-T1150), Digital Solutions Learning Lab for the Logistics Industry (UR-T1198), Innovation in Electric Distribution Systems Through the Use of Storage Batteries (UR-T1225), and Innovation for the Reactivation and Resilience of SMEs (UR-T1245).

- management system that creates a high degree of dispersion.<sup>46</sup> These problems intensified with COVID-19, and school attrition rates are expected to increase post-pandemic. In this respect, while Uruguay has tools for distance learning (through Ceibal), 23% of children were unable to connect to online education platforms while schools remained closed in early 2020.
- 3.27 In addition, there is evidence of deficits in the skills and competencies required in the labor market.<sup>47</sup> According to the Global Talent Competitiveness Index 2020, Uruguay is among the countries that lag behind the most in aspects such as relevance of its education system to the economy (125th out of 132 countries) and the availability of scientists and engineers (103rd out of 132). Specifically, as mentioned, there is a deficit of scientists and engineers, particularly among women, and the demand from the productive sector is not met. Promotion and gender equity in science, technology, engineering, and mathematics careers becomes especially desirable, since in Uruguay these careers have a return to education approximately 10% higher than other careers.<sup>48</sup> Gender gaps have been observed in the choice of subjects of study since secondary school, which are later reflected in lower salaries.<sup>49</sup> The COVID-19 crisis has also demonstrated the importance of providing more digital skills to the workforce.<sup>50</sup>
- 3.28 **Most vulnerable populations.** In 2020, 11.6% of the population was living in poverty. Prior to the pandemic, approximately two thirds of the population were middle class. However, part of the population was in vulnerable situations and childhood poverty was already one of the country's main challenges. Poverty among children ages 0-6 was 17% in 2019—almost 10 times more than among adults over age 65—and approximately 1 out of 4 children under the age of 14 lived in households with housing deprivation. For young people ages 15-24 in the first income quintile, functional disengagement (not studying, working, or looking for a job) was 43% for men and 51% for women. This gender-based gap is due to the high percentage of young women who work doing household chores (34% of young women ages 15-29 in the first income quintile do not study and only work in the home). Moreover, more than half of the workers in the first income quintile have an informal status, lacking social security coverage.
- 3.29 Uruguay also has populations with increased vulnerability, such as Afro-descendants, some immigrant groups, and people with disabilities. The Afro-descendant population lags behind in education and has a higher unemployment

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<sup>46</sup> See CDC.

<sup>47</sup> When it comes to finding sufficiently qualified workers, 37% of companies report challenges, compared to an average of 32% in Latin America and the Caribbean (Enterprise Surveys, World Bank, 2017).

<sup>48</sup> *Latin American Economic Outlook 2017: Youth, Skills and Entrepreneurship*. OECD/ECLAC/Development Bank of Latin America (2016).

<sup>49</sup> During the last year of secondary school, women are overrepresented in the humanities and arts (65% women compared to 35% men in 2017), but underrepresented in engineering and physics/mathematics courses (34% compared to 66%). Employed women (ages 15-64) earn 79% of what men of the same ages earn.

<sup>50</sup> The lack of high-capacity internet in the homes of workers and of qualifications to telework are among the top five difficulties in implementing work-from-home mechanisms, according to a survey released by the Chamber of Industries of Uruguay in March 2020 (El Covid-19 y sus efectos en la industria manufacturera uruguaya).



rate compared to non-Afro-descendants.<sup>51</sup> Recent immigrants face inequalities in the job market, since they have fewer employment opportunities compared to nonimmigrant natives.<sup>52</sup> People with disabilities also face gaps with respect to education and jobs.<sup>53</sup>

- 3.30 **Urban services and housing.** Uruguay's urban areas are segregated, particularly in Montevideo's metropolitan area, where some of the population living in peripheral areas is highly vulnerable.<sup>54</sup> In 2018, 18% of the urban population faced at least one type of housing deprivation (poor building materials, lack of drinking water or sanitation, overcrowding, etc.).<sup>55</sup> This percentage is higher in informal settlements, where 5.4% of the urban population lived in 2018. With respect to sanitation, only 45% of the urban population has safe sanitation services, meaning that drainage is routed into the general sewer network, and wastewater flows to a treatment plant for adequate final disposal. These problems are due to reasons including: (i) limitations accessing formal housing solutions, arising from barriers to entry for the population (informal status represents a limitation to obtain loans and guarantees, and only 7% of the population reports having a home mortgage); (ii) low coordination of public policies for metropolitan management with respect to housing, sanitation, waste, security, and transportation; and (iii) existence of vacant urban properties and/or abandoned buildings in central municipal areas, combined with land policy that does not promote its use and social and territorial integration.<sup>56</sup>
- 3.31 **Proposed actions.** The IDB Group will support: (i) implementing initiatives to improve learning achievement, with an emphasis on management and quality, through the modernization of pedagogical practices, a wider digital transformation of the education system, and institutional arrangements to coordinate the various educational levels and strengthen local authorities; (ii) retraining of workers, for example through reskilling and upskilling for the workforce; (iii) analyzing the quality of caregiving services and their importance in increasing the labor supply among women and the sharing of caregiving responsibilities between genders; and (iv) implementing specific measures to lessen the gaps faced by young people, women, Afro-descendants, immigrants, people with disabilities, and informal workers. With respect to urban services and housing, the new country strategy will focus on: (i) renewing informal neighborhoods in an integrated manner that

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<sup>51</sup> In 2019, nearly 40% of Afro-descendant young people aged 18 attended an educational center, compared to 66% of non-Afro-descendants.

<sup>52</sup> Unemployment for recent immigrants surpasses that of nonimmigrant natives (10.7% compared to 8.3% in 2018). For more details, see CDC.

<sup>53</sup> With respect to completing secondary school, there is a gap that affects young people with disabilities ages 25-34, which is 15 percentage points for women and 12 percentage points for men. Unemployment among people with disabilities is 10 times higher than for the rest of the population. Estimates show that nearly 80% of people with disabilities are unemployed (*Informe Inserción laboral de personas con discapacidad en el ámbito privado (2016) – Labor Legislation Committee – House of Representatives*).

<sup>54</sup> See CDC. About 60% of the country's population lives in the Montevideo metropolitan area.

<sup>55</sup> This calculation includes housing built with waste materials, overcrowding, and housing that lacks a kitchen, drinking water, a bathroom, electricity, heating system, refrigerator, or water heater. Prepared by the authors based on the 2018 Ongoing Household Survey (ECH) for towns with populations of more than 5,000.

<sup>56</sup> See CDC.

- considers not only access to services such as drinking water and sanitation, but also public spaces and social services; (ii) fostering mechanisms to develop low-income housing (including solutions through the private sector) and promoting urban operations aimed at more compact cities that enable land and social integration; (iii) supporting comprehensive actions (and in some cases, nationwide actions) in areas such as rainwater drainage, electricity supply, sanitation, waste, drinking water, and roads, by incorporating suitable instruments to achieve higher levels of sustainability and foster resilience to climate change; and (iv) supporting the strengthening of the environmental institutional framework.
- 3.32 In recent years, the IDB Group has supported the country in these areas, developing a starting point to design and implement new interventions.<sup>57</sup>
- 3.33 **Contribution to the SDGs.** The actions indicated have the potential to contribute to the following SDGs: No poverty (SDG 1), Zero hunger (SDG 2), Good health and well-being (SDG 3), Quality education (SDG 4), Gender equality (SDG 5), Clean water and sanitation (SDG 6), Decent work and economic growth (SDG 8), Reduced inequalities (SDG 10), Sustainable cities and communities (SDG 11), Climate action (SDG 13), Life below water (SDG 14), and Life on land (SDG 15).

#### **D. Crosscutting issues and dialogue areas**

- 3.34 The three strategic pillars described show opportunities and propose actions in three crosscutting areas: (i) gender and diversity; (ii) climate change; and (iii) digital transformation. This latter pillar becomes particularly important given growing demand for digitalization during the post-COVID-19 recovery phase. The digital transformation of the government and companies is critical to achieve higher efficiency, effectiveness, and transparency in the State and in productive development. It is also essential for the recovery phase toward a low-touch economy that is more intensive in telework. In turn, higher digital inclusion and literacy can contribute to aspects such as more equal opportunities through better health care and education services, and more tools for the job market. In this regard, it is important to continue strengthening institutions and the regulatory framework with an emphasis on developing digital talent, improving data governance policies (particularly ethics in the use of data), and transparency. Likewise, work promoting the adoption and use of key tools such as cybersecurity,

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<sup>57</sup> For the public-sector window, the following loan operations are noteworthy: Program of Support for Secondary Education and Teacher Training: Towards Seamless and Complete Learning Pathways (UR-L1116), Generation C: Consolidating Educational Innovations for 21st Century Skills and Competencies (UR-L1141), Neighborhood Improvement Program III (UR-L1146), Montevideo Urban Sanitation Program (PSU V) (UR-L1136), Ciudad de la Costa-West Area Sanitation Project (UR-L1094), Ciudad del Plata Sanitation Program, Stage I (UR-L1149), and Program to Support the National Integrated Care System (UR-L1110). Support was also provided for social equity and inclusion through these nonreimbursable technical-cooperation operations: High Touch High Tech: Teachers and Artificial Intelligence Building an Enhanced Response to COVID Emergency by Fostering Knowledge and Skills (UR-T1244), Talents and Skills Training for the Agroforestry Sector in Uruguay (UR-T1186), Support for the Strengthening of Advanced Digital Skills in Uruguay (UR-T1236), Strengthening Early Childhood Policies and Programs in Uruguay (UR-T1137), Social-Exclusion Based on Sexual Orientation and Gender Identity (SOGI) in Secondary Schools in Uruguay (UR-T1197), Innovation and Socio-Urban Integration for Migrant Population (RG-T3440), Master Plan for the Supply of Drinking Water in the Department of Maldonado (UR-T1171), and Improving Urban Solid Waste Management in Montevideo (UR-T1173). With respect to private-sector windows, of note are the roles of IDB Invest in the operation PPP Educativa 2 (12340-01) and of IDB Lab in the initiative Youth Programmers (UR-T1168).

artificial intelligence, interoperability (inclusion of the private sector), and digital identity and signature will continue.

- 3.35 **Dialogue areas.** The IDB Group will continue the dialogue with Uruguay with respect to regional energy integration and will participate in coordination efforts in these areas. To supplement actions to improve urban services and housing, support will be provided for urban transportation and road safety. The opportunities offered by the development of the *silver economy* in an aging country like Uruguay will also be explored.<sup>58</sup> Lastly, support for the government will continue on matters related to water security and the creation of the Ministry of the Environment. In this regard, according to its First Nationally Determined Contribution (NDC), which is for the 2017-2022 period,<sup>59</sup> Uruguay committed to reducing emissions by 2025 (compared to 1990) as follows: 24% of carbon dioxide (CO<sub>2</sub>), 48% of nitrous oxide (N<sub>2</sub>O), and 57% of methane (CH<sub>4</sub>), all with respect to GDP. By helping establish the Ministry of the Environment and with the IDB Group's multisector support described in this strategy, the following contributions will be made to NDC targets: (i) support for energy decarbonization; (ii) natural disaster risk management; and (iii) investment in resilient infrastructure.

#### IV. LENDING FRAMEWORK

- 4.1 The IDB is the main multilateral institution in the country. Over the past five years, its disbursements accounted for about 52% of all multilateral financing for the public sector and 5.5% of overall public debt. In 2020, public sector borrowing from the IDB grew to 7.2% of total public debt, as a result of financing during the pandemic.
- 4.2 The nonmonetary public sector's financing needs for the 2021-2025 period are projected at US\$20.5 billion. The Bank anticipates sovereign guaranteed operation approvals of approximately US\$2 billion for the country strategy period, with disbursement of US\$1.083 billion and an average of US\$109 million in annual net flows for loans. Under this scenario, the country's debt with the Bank would remain at around 4.9% of GDP on average for the period—6.7% of the total public debt.

#### V. COUNTRY STRATEGY IMPLEMENTATION

- 5.1 **Portfolio execution.** Uruguay needs flexible, effective instruments and processes that facilitate project execution, transparency, and accountability. Noteworthy in this regard are: (i) the use of loans based on results, a dynamic instrument valued by government agencies (four operations, 50% of the total loans based on results approved by the IDB); (ii) the availability of 11 CCLIPs (approximately US\$2 billion), which enabled optimized preparation times for operations, provided

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<sup>58</sup> The aging of the population presents possibilities for economic development by generating startups and job opportunities. Seniors will also continue making economic contributions, since having better health enables a more productive longevity. As an example, IDB Lab recently approved an operation to develop the first pilot promoting an entrepreneurial ecosystem based on the silver economy in Uruguay. It is intended to increase the supply of services and products targeting this population, helping to improve their well-being.

<sup>59</sup> Uruguay will present its second NDC in 2022. This will set more ambitious targets than those in the current NDC, in accordance with the *Paris Agreement*.

continuity to interventions through a long-term vision, and developed a multisector approach for operations; (iii) the use of innovative financing modalities that enabled the reduction of currency risks in the loan portfolio, with currency conversions to Japanese yen, Swiss francs, indexed units, and Uruguayan pesos for an amount of more than US\$1.4 billion; and (iv) the combination of contingent financing and investment, which was essential to the government's prudential debt management policy, fostering institutional reforms in the medium term and providing liquidity in times of crisis. In this respect, Uruguay, despite having access to international markets at competitive prices, turned to the disbursement of PBLs with a deferred drawdown option to manage liquidity risks in the context of the COVID-19 pandemic. In the short and medium term, portfolio execution faces challenges, since part of the planned actions and outcomes need to be reviewed based on government priorities, budget constraints, and the redirection of resources caused by the pandemic. However, opportunities still exist, since the current portfolio has the potential to deepen and expand the progress achieved in digital transformation, positioning the country in areas such as telemedicine, distance learning, online services, and cybersecurity.

**5.2 Use and strengthening of country systems.** Currently, the IDB is fully using the budget and treasury subsystems and the procurement information system. The subsystems for accounting and reporting, external audit, shopping, individual consultants, and advanced national competitive bidding are being used partially. During this strategy period, the government will receive support with fiduciary management initiatives involving: (i) improvements in the budget execution process; (ii) improvements in single treasury account controls; (iii) development of an integrated financial information system; (iv) convergence toward International Public Sector Accounting Standards (IPSAS); and (v) improvements in the government's internal control system. Other contributions include: (i) technical support to strengthen knowledge and professionalization in public procurement; (ii) the study and possible implementation of new procurement strategies and innovative modalities that enable demand aggregation to increase efficiency and value for money, such as centralized procurement, framework agreement consolidation, contract management systems, coordinated procurement, and reduced procurement through competitive tendering processes; and (iii) technical support to consolidate and strengthen electronic public procurement systems. With respect to the procurement system, in 2019 there was a diagnostic assessment of the public procurement system using the OECD-MAPS (Methodology for Assessing Procurement Systems) methodology. In general, and based on the policy and regulatory framework and on rendering-of-accounts practices, Uruguay presents a low fiduciary risk. Uruguay's country procurement system was validated for advanced use in IDB-financed operations, in accordance with the policies on the use of country systems. During the strategy period, implementation of the country system will continue, to achieve full use. The following table summarizes the use of fiduciary country systems as of 31 December 2019.

Country systems	2019 baseline	2025 estimated use	Actions planned during the country strategy
<b>Budget</b>	100%	100%	Support to improve budget execution.
<b>Treasury</b>	100%	100%	Support to improve single treasury account controls.
<b>Accounting and reporting</b>	39%	50%	Support for the IPSAS implementation plan (loan 4705/OC-UR), the development of SIIF 2 (loan 3161/OC-UR), and development and expansion of the SPI (country system).
<b>Internal audit</b>	11%	11%	Support to improve the integrated system for internal control.
<b>External control</b>	78%	80%	Support the State Audit Office (TCR) with training activities.
<b>Information system</b>	100%	100%	Monitoring and supervision.
<b>Shopping</b>	59%	100%	Implementation of the country procurement system in IDB-financed operations.
<b>Individual consultants</b>	15%	100%	
<b>National competitive bidding</b>	15%	100%	
<b>Advanced national competitive bidding</b>	15%	100%	

- 5.3 **Coordination within the IDB Group.** Strategic coordination between the IDB, IDB Invest, and IDB Lab could boost the impact of the IDB Group in Uruguay in the future. This occurred during the COVID-19 pandemic, where the development of innovative ideas supported by IDB Lab was coordinated with the availability of financing through the National Research and Innovation Agency (ANII) and scaling through the private sector. In coming years, there are plans to continue a coordination and synergy model between the IDB, IDB Invest, and IDB Lab. Leveraging each window’s comparative advantages, this will enable progress with a mechanism of experimentation/public policy development/institutional consolidation and with scaling in areas such as productive and social infrastructure, agtech, telemedicine, distance learning, business innovation applied to health sciences and the pharmaceutical industry, and energy efficiency.
- 5.4 **Coordination with other donors and stakeholders.** Dialogue and coordination of cofinancing with the following financial institutions will continue: (i) the Japan International Cooperation Agency, which may fund part of the fiscal policy-based loan approved in 2020, in close coordination with the World Bank; (ii) the European Investment Bank, cofinancing education projects; (iii) the United Nations, providing support to establish the new Ministry of the Environment and for actions to move forward with SDG achievement and sustainable finance; (iv) the Development Bank of Latin America, for financing opportunities with public and private participation for education and road initiatives; (v) the Japan Bank for International Cooperation and FONPLATA, continuing to explore cofinancing opportunities in various sectors; and (vi) Korea, through Seoul National University, continuing to explore support for the Biotechnology Center. Work identifying and executing partnerships with private sector companies, foundations, universities, and nongovernmental organizations to promote a sustainable finance ecosystem and the financing of gaps in achieving the SDGs will also continue.

## VI. RISKS





- 6.1 **Macroeconomic risks.** As described in previous sections, the deterioration in public finances in recent years poses challenges for public policy management. There is a risk that in a less favorable environment, the government could be unable to achieve planned fiscal improvements. This would have a negative effect on debt dynamics and the perception of relevant economic agents, impacting the actions proposed in this document. Therefore, the selection of priority areas for this country strategy is aimed at strengthening public finances, achieving more productive development and economic growth that renews the central role of the private sector, and supporting social programs focused on the most vulnerable populations. The IDB Group will closely monitor macroeconomic risks through its available monitoring instruments.
- 6.2 **Natural disaster and public health risks.** Uruguay is exposed to multiple hydrometeorological and climate threats, such as droughts, floods, and frost, which have increased in severity and recurrence.<sup>60</sup> The country is also vulnerable to public health events, as the COVID-19 pandemic demonstrated. The materialization of any of these events during the new strategy period could negatively impact the development process, lead to changes in government priorities, and affect the execution of IDB Group-financed projects. To mitigate the impact that these events could have on public finances, a proposed action included in the first pillar was to reinforce fiscal stability, including instruments that provide contingent resources to address natural disaster and public health emergencies.<sup>61</sup> In addition, issues related to climate change mitigation and adaptation were included as a crosscutting area in this country strategy. Therefore, the objective is that the operations approved during the new strategy period include and/or consider measures to reduce natural disaster and public health risks.
- 6.3 **Implementation risks.** The new administration has proposed a reform agenda that includes changes in fiscal and expenditure policy, pension system reform, and educational policy. There is a risk that, given the size and political and institutional complexity of these initiatives, the difficulty in implementing them will affect the IDB Group's program in those areas. In this regard, the proposed interventions are designed to be consistent with the government agenda and acknowledge the importance of having flexible programs that can be adjusted to reflect potential changes in the government's needs and requirements. At the same time, the IDB Group will provide technical support and have dialogues with the authorities to accompany any required monitoring and mitigation action. Non-sovereign guaranteed operations face specific risks arising from: (i) market fluctuations associated with demand for financing for business investment projects; and (ii) the management capacities of potential clients and financial institutions. These risks could impact the identification of potential clients, the cost of operations, and preparation and execution periods. To mitigate these risks, IDB Invest will seek to strengthen the management capacities of its direct clients, as well as of the financial institutions with which it works.

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<sup>60</sup> From 1967 to 2019, Uruguay experienced 32 severe events, 23 of which occurred since 2000.








<sup>61</sup> In 2020, the IDB approved a Contingent Loan for Natural Disaster and Public Health Emergencies.

**RESULTS MATRIX AND COUNTRY SYSTEMS MATRIX**

Government objective	Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (year and source)	Contribution to the SDGs
Reduce the fiscal deficit and identify savings opportunities in public expenditures, including social security system reform.	Public resource management	Generate efficiencies and sustainability in public policies	Reduced growth in current expenditures	Annual growth rate in real current expenditures for the central government, past three-year average	1.9% (Average 2017-2019), MEF	
			Improved sustainability for the pension system	Pension spending as a % of GDP, past three-year average	9.4% (Average 2017-2019), MEF	
Improve citizen security		Reduced levels of recidivism	% of the prison population who are not first-time offenders <sup>62</sup>	62% 2017, Prison System Statistics Bulletin		
		Reduced levels of gender violence	Annual rate of femicides <sup>63</sup> per 100,000 women	1.4 2019, Gender Equality Observatory - ECLAC		

<sup>62</sup> Total of the prison population who are not first-time offenders compared to the total prison population for a given year. Inmates who are first-time offenders are those who have never been prosecuted, even if they have not served time in jail (as broadly defined by the Ministry of the Interior).








<sup>63</sup> A femicide is the killing of a woman by her current or former partner.

Government objective	Priority area	Strategic objective	Expected outcomes	Indicators	Baseline (year and source)	Contribution to the SDGs	
Foster an entrepreneurial culture. Generating startups creates jobs, but should also be conceived as a tool for technological development, innovation, and improved living conditions.	<b>Sustainable productive development</b>	Increase innovation	Increased investment in innovation from the private sector	Private sector investment in research and development as a % of GDP	0.1% 2018, ANII		
Diversify and improve access to international markets.		Improve international trade positioning	Increased exports of nontraditional services	Exports of information and communication technologies (ICT) services as a % of total exports of nontraditional services	26% 2019, Uruguay XXI	 	
Strengthen the stock market and support MSMEs.		Expand productive financing	Increased credit provided to MSMEs	% of MSMEs accessing a bank loan, past three years	17% 2017, MIEM		
Increase productive development and improve competitiveness by developing infrastructure.		Improve productive and resilient infrastructure	Improved infrastructure quality	Infrastructure index <sup>64</sup> (based on transportation and public services)	Infrastructure index <sup>64</sup> (based on transportation and public services)	68.7 2019, Global Competitiveness Index	
			Progress achieved toward energy decarbonization	% of nonrenewable sources in the primary energy matrix for a given year <sup>65</sup>	% of nonrenewable sources in the primary energy matrix for a given year <sup>65</sup>	37% 2019, MIEM	 

<sup>64</sup> Simple average of the score given for transportation infrastructure and public services infrastructure. Ranked 65th out of 141 countries.

<sup>65</sup> Nonrenewable sources are oil and its derivatives, natural gas, coal, and coke. MIEM publishes this data annually.



Government priority	Priority area	Strategic objective	Expected outcomes	Indicators	Baseline	Contribution to the SDGs
Expand educational coverage.	Equity and social inclusion	Improve education and job training	Increased completion of secondary school	% of young people ages 20-24 completing secondary school	41% 2019, ECH	
			Improved relevance of the education system to the economy	Index of relevance of education system to the economy <sup>66</sup>	2.5 2020, Global Talent Competitiveness Index	 
Support the most vulnerable population groups		Reduced functional disengagement in the first income quintile, with a gender focus	Functional disengagement among young people ages 15-24 in the first income quintile <sup>67</sup>	51% women 43% men 2019, ECH	 	
Facilitate urban services and housing		Increased access to safe sanitation services	% of the urban population with access to safely managed sanitation services <sup>68</sup>	45% 2018, National Sanitation Plan	 	

<sup>66</sup> Average answer to the question: In your country, how well does the education system meet the needs of a competitive economy? [1 = not well at all; 7 = extremely well]. Uruguay ranks 125th out of 132 countries for this indicator.

<sup>67</sup> Proportion of women/men ages 15-24 in the first income quintile who are not studying, working, or looking for a job, compared to the total population in that age group in the first income quintile.

<sup>68</sup> Sanitation is considered to be safe when the drainage is routed into the general sewer network, and wastewater flows to a treatment plant.

**Country Systems Matrix**

<b>Strategic objective</b>	<b>Expected outcome</b>	<b>Indicator</b>	<b>Unit of measure</b>	<b>Baseline</b>	<b>Baseline Year</b>	<b>Main objective</b>	<b>Distribution over time</b>	<b>Alignment to Corporate Results Framework</b>
Increase use of country systems	Increased use of the accounting and reporting subsystem	Active portfolio using the accounting and reporting subsystem	% of the active portfolio	39%	2019	50%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased use of the shopping subsystem	Active portfolio using the shopping subsystem	% of the active portfolio	0%	2019	100%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased use of the individual consulting subsystem	Active portfolio using the individual consulting subsystem	% of the active portfolio	0%	2019	100%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased partial use of the national competitive bidding (NCB) subsystem	Active portfolio partially using the NCB subsystem	% of the active portfolio	0%	2019	100%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Increased advanced use of the NCB subsystem	Active portfolio using the NCB subsystem in an advanced manner	% of the active portfolio	0%	2019	100%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
Strengthen country systems	Implemented the action plan for adoption of the IPSAS	Progress implementing the action plan	% progress implementing the plan	0%	2020	30%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality
	Implemented the action plan resulting from the MAPS evaluation (**)	Progress implementing the action plan	% progress implementing the plan	0%	2020	50%	End of strategy period	- Institutional capacity and rule of law - Productivity and innovation - Social inclusion and equality

**SOCIAL AND ECONOMIC INDICATORS**

	2015	2016	2017	2018	2019	2020
<b>Output</b>						
Real GDP growth (%)	0.03	1.6	1.6	0.5	0.4	-5.9
GDP (US\$ millions)	53,150	59,744	63,531	61,036	57,533	52,864
Per capita GDP (US\$)	15,330	17,167	18,187	17,409	16,351	14,972
Gross capital formation (% of GDP)	N/A	17.5	16.6	15.7	14.8	17.0
Unemployment rate (%)	7.4	7.7	6.9	8.4	8.5	10.5
<b>Monetary</b>						
Inflation (%)	9.4	8.1	6.6	8.0	8.8	9.4
Exchange rate (Ur\$/US\$)	29.9	29.3	28.8	32.4	37.3	42.3
<b>External sector</b>						
Current account (% of GDP)	-0.3	0.7	-0.03	-0.6	1.4	-0.6
Trade balance (% of GDP)	4.2	5.1	5.4	5.3	6.4	4.3
Financial account (% of GDP)	-3.1	-4.4	3.9	-0.2	-2.7	3.6
Foreign direct investment (% of GDP)	1.5	-3.1	-3.3	-0.8	2.2	4.9
Country risk indicator (EMBI)	280	244	146	207	148	135
<b>Fiscal</b>						
Nonmonetary public sector overall balance	-1.9	-2.7	-2.5	-3.1	-3.9	-5.4
Nonmonetary public sector primary balance	0.2	-0.2	-0.1	-0.6	-1.6	-2.8
Nonmonetary public sector debt (% of GDP)	57.8	55.9	56.9	58.7	60.8	68.6
International reserves (US\$ millions)	15,634	13,436	15,959	15,557	14,505	16,250
<b>Social</b>						
Population (million)	3.47	3.48	3.49	3.51	3.52	3.53
Poverty (% of population)	9.70	9.40	7.90	8.10	8.80	11.60
Gini coefficient	0.39	0.38	0.38	0.38	0.38	0.39

Sources: MEF, BCU, INE, Bloomberg

## INDICATIVE LENDING FRAMEWORK

### Projected Sovereign Guaranteed Debt Flows and Ratios for the Total Public Sector

	2016	2017	2018	2019	2020	2021p	2022p	2023p	2024p	2025p	Total country strategy 2021-2025p	Average 2021-2025p
<b>Approvals (US\$ millions)<sup>(1)</sup></b>	329	311	189	409	561	410	400	400	400	390	2,000	400
<b>a. Loan disbursements to the TPS</b>	174	196	451	193	1,240	219	234	135	213	283	1,083	217
<b>b. Repayment (principal)</b>	119	119	127	409	121	120	129	196	230	299	974	195
<b>c. Net flow of loans to the TPS (a-b)</b>	55	77	324	-216	1,119	99	105	-61	-17	-17	109	22
<b>d. Interest and fees</b>	87	101	118	121	93	90	88	85	83	76	423	85
<b>e. Net cash flow (c-d)</b>	-32	-24	206	-337	1,026	9	17	-146	-100	-93	-314	-63
<b>TPS debt with the IDB</b>												
<b>US\$ millions</b>	1,751	1,814	2,103	1,831	2,870	2,969	3,074	3,013	2,995	2,979		3,006
<b>% multilateral debt</b>	48%	49%	54%	48%	58%	58%	58%	58%	58%	58%		58%
<b>% debt</b>	5.2%	4.7%	5.5%	4.9%	7.2%	7.1%	7.1%	6.7%	6.5%	6.2%		6.7%
<b>% of GDP</b>	3.1%	2.8%	3.3%	3.0%	5.3%	5.4%	5.3%	4.9%	4.7%	4.4%		4.9%
<b>Multilateral debt/TPS gross debt</b>	10.8%	9.4%	10.1%	10.4%	12.4%	12.2%	12.2%	11.6%	11.2%	10.8%		11.6%
<b>Multilateral debt/TPS external debt</b>	21.1%	20.5%	21.1%	19.9%	23.3%	22.9%	22.9%	21.7%	21.0%	20.2%		21.7%

**Note:** The flow of funds table does not take into consideration loans to the private sector, regional loans, or other types of loans outside the Bank's financial portfolio.

TPS = Total public sector

(1) The annual approval amounts are indicative and subject to availability of Bank resources.

**Sources:**

Approvals and disbursements of sovereign guaranteed operations: estimates based on preliminary dialogue with the country.

IDB debt and net flows: IDB Finance Department/Finance Data Mart, and authors' own calculations.

IDB/multilateral debt is assumed to remain constant during the strategy period.

Total public debt: projections prepared by the authors based on estimates of financing needs.

## SUMMARY DEVELOPMENT EFFECTIVENESS MATRIX

**The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the “Good Practice Standards for Country Strategy and Program Evaluation.”**

### COUNTRY STRATEGY: Uruguay

#### **STRATEGIC ALIGNMENT**

*Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government’s development plans and priorities.*

#### **EFFECTIVENESS**

*This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.*

Effectiveness dimensions	
<b>I. Country Diagnosis - Country Development Challenges (CDC)*</b>	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
<b>II. Priority Areas Diagnostics</b>	%
- That clearly identify and dimension, based on empirical evidence, the <b>priority area's</b> specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the <b>main factors</b> or causes contributing to the specific constraints and challenges	100%
- That provide corresponding <b>policy recommendations</b>	100%
<b>III. Results matrix**</b>	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%
<b>IV. Vertical logic</b>	Yes/No
- The CS has vertical logic	Yes

\* This analysis includes any potential diagnostic document used to inform.

\*\* The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.

**IDB GROUP MANAGEMENT’S COMMENTS ON THE COUNTRY PROGRAM EVALUATION:  
URUGUAY 2016-2020**

OVE recommendation	Management response
<p><b><u>RECOMMENDATION 1:</u></b>  <b>Ensure that a new Country Strategy is only adopted after the effects of the COVID-19 pandemic are better understood.</b> The current Country Strategy 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 IDB Group not proceed with agreeing on a new full-term Country Strategy with the Government until the extent of the crisis impact is better understood and it can commit to a new multiyear country strategy under greater certainty. In the interim, OVE recommends that the IDB Group 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.</p>	<p><b>Agreed.</b> Management considers this recommendation appropriate.</p> <p>From the start of the pandemic to the preparation of the new strategy, the Bank has supported and will continue to support measures to address the emergency and the post-pandemic recovery needs. These interventions agreed upon with the government are based on: (i) liquidity contributions (policy-based loan (PBL), deferred drawdown option (DDO)); (ii) redirecting of portfolio resources in execution for the purchase of medical supplies; (iii) approval of new sovereign guaranteed (fiscal, economic recovery, and support for vulnerable populations prototypes) and non-sovereign guaranteed operations (pandemic monitoring and creative industries through IDB Lab).</p> <p>The current country strategy is in effect until 31 December 2020, so the transition period will begin on 1 January 2021 and will end on 31 December 2021. Management is considering submitting the new country strategy for Board approval during the current country strategy’s transition period.</p> <p><b>Actions proposed by Management:</b></p> <ul style="list-style-type: none"> <li>• Agreement with the government to redirect/reformulate operations to provide support for the crisis.</li> <li>• Processing and approval of operations with a focus on health needs, support for vulnerable groups, fiscal sustainability, and economic recovery.</li> <li>• Approval of the country strategy during the second half of 2021.</li> </ul>
<p><b><u>RECOMMENDATION 2:</u></b>  <b>Provide focused support to help Uruguay address a limited number of key development challenges and reduce transaction costs.</b> 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 the IDB better focus its future support to Uruguay, including through more programmatic support that will allow it to leverage its contribution and</p>	<p><b>Partially agreed.</b> Management agrees with the importance of focusing efforts on high value-added areas where the Bank has competitive advantages, which it has done during the evaluation period of the CPE and is considering deepening in the next country strategy.</p> <p>The current strategy has permitted working with the authorities, through loan and/or technical assistance operations, on fundamental cutting-edge issues for the country’s development. These include the Bank’s first operation on cybersecurity, universal technology coverage in educational policies, and digitalization in the delivery of health services. The Bank has also deployed a set of innovative financing instruments, such as policy-</p>

<p>reduce transaction costs, while focusing smaller operations in a limited number of areas where they can have a demonstration effect.</p>	<p>based loans with a deferred drawdown option, sectoral conditional credit lines for investment projects, and loans based on results tailored to the needs of a country like Uruguay, which has access to international financial markets (investor grade).</p> <p>The high value-added interventions, given their innovative nature, do not lend themselves to analysis from an exclusively cost-based viewpoint, but rather should be accounted for considering their strategic dimension and demonstration effect of the IDB Group's capacity to contribute to the development of upper middle-income countries.</p> <p><b>Actions proposed by Management:</b></p> <ul style="list-style-type: none"> <li>• Multiyear programming with high value added, considering the limited fiscal space.</li> <li>• Crosscutting incorporation of the digital agenda and innovative actions in all operations.</li> </ul>
<p><b><u>RECOMMENDATION 3:</u></b></p> <p><b>Continue the role as trusted advisor for fiscal and debt management, by making it an explicit country strategy objective, while also helping Uruguay to strengthen its capacity to effectively prioritize public investments.</b> The 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 the IDB to also help strengthen Uruguay's analytical capacity to effectively prioritize public investments by providing technical cooperation support in such areas as fiscal management and monitoring and evaluation capacities.</p>	<p><b>Agreed.</b> The Bank will make every effort to continue working on the strengthening of fiscal management and debt management based on the strategic priorities to be agreed upon with the government. The recently approved Program to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 not only recognizes Uruguay's fiscal efforts in the pandemic, but also provides a roadmap for the strengthening of the fiscal institutional framework in the coming years.</p> <p><b>Actions proposed by Management:</b></p> <ul style="list-style-type: none"> <li>• Include fiscal matters as a priority area in the new country strategy.</li> <li>• Continue supporting the government on fiscal matters through studies, technical cooperation, and loan operations in the coming years.</li> <li>• Support the development of sustainable finance in Uruguay as a way to diversify sources of financing and expand the investor base, which would also strengthen the country's position in terms of the Sustainable Development Goals (SDGs).</li> </ul>
<p><b><u>RECOMMENDATION 4:</u></b></p> <p><b>Adopt a more nuanced approach to knowledge-sharing in support of South-South dialogue.</b> The 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</p>	<p><b>Agreed.</b> Management will continue promoting the strategic use of knowledge-sharing to support South-South dialogue. However, the subsequent tailoring to the context of each country poses actions and challenges that are beyond the scope of the country strategy and the Bank's actions in Uruguay. This requires a broader approach, particularly in terms of the definition and scope of the Intraregional Technical Cooperation program (TC/INTRA) coordinated by ORP/GCM.</p>

<p>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.</p>	<p><b>Actions proposed by Management:</b></p> <ul style="list-style-type: none"> <li>• Strengthen prior knowledge regarding the recipients of sharing experiences.</li> </ul>
<p><b><u>RECOMMENDATION 5:</u></b>  <b>Identify business opportunities where IDB Invest can continue to add value.</b>          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 the IDB, as it did in renewable energy.</p>	<p><b>Agreed.</b> The country strategy preparation exercise, together with the strategic response to COVID-19 and the priorities set out in the Business Plan, will identify the areas in which IDB Invest has the potential to continue to add value and generate synergies with the IDB Group. IDB Invest's presence in Uruguay is expanding; the portfolio has grown during the 2016-2020 period generating significant contributions (financial and nonfinancial) in key sectors of the economy, deepening the role of the private sector in its sustainable development. The development impact of IDB Invest operations in terms of the contribution to the fulfillment of the country's SDGs is noteworthy. In all, 95% of the financing provided contributes directly to SDG 8 (decent work and economic growth), 90% to SDG 17 (partnerships for the goals), and 87% to SDG 9 (industry, innovation, and infrastructure). These indicators account for the impact promoted by IDB Invest to the pillar promoting productivity and competitiveness set forth in the current country strategy.</p> <p><b>Actions proposed by Management:</b></p> <ul style="list-style-type: none"> <li>• Explore new business opportunities aligned with the new country strategy in sectors such as transportation and education.</li> </ul>