INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

IDB: COUNTRY STRATEGY WITH URUGUAY (2010- 2015)

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ABBREVIATIONS

AGESIC	Agencia para el Desarrollo del Gobierno de Gestión Electrónica y la Sociedad de la Información y del Conocimiento [Agency for the Development of Electronic Government and the Information and Knowledge Society]
AGEV	Área de Gestión y Evaluación del Estado [Government Evaluation and Management Area]
ANCAP	Administración Nacional de Combustibles, Alcohol y Portland
ANEP	Administración Nacional de Educación Pública [National Public Education Administration]
BCU	Central Bank of Uruguay
CAF	Corporación Andina de Fomento [Andean Development Corporation]
CIACEX	Comisión Interministerial para Asuntos de Comercio Exterior [Interministerial Committee for Foreign Trade Affairs]
DGI	Dirección General Impositiva [Revenue Bureau]
DINAMA	National Environmental Department
DINAPLO	National Planning and Logistics Bureau
GDP	Gross domestic product
IIC	Inter-American Investment Corporation
INE	Instituto Nacional de Estadísticas [National Institute of Statistics]
KTOE	Kilo ton of oil equivalent
MEC	Ministry of Education and Culture
MEF	Ministry of Economy and Finance
MIDES	Ministry of Social Development
MIEM	Ministry of Industry, Energy, and Mining
MIF	Multilateral Investment Fund
MTOP	Ministry of Transportation and Public Works
MTSS	Ministry of Labor and Social Security
MW	Megawatt
MWh	Megawatt-hour
NFPS	Nonfinancial public sector
OECD	Organization for Economic Cooperation and Development
OPP	Oficina de Planeamiento y Presupuesto [Office of Budget and Planning]
OSE	Obras Sanitarias del Estado [State Sanitation Works]
PEG-SEV	Strategic planning and evaluation system of the Uruguayan government
PPP	Public-private partnerships
SCF	Structured and Corporate Financing Department
SIIF	Sistema Integrado de Información Financiera [Integrated Financial Information System]
UNDP	United Nations Development Programme
URSEA	Unidad Reguladora de Servicios de Energía y Agua [Energy and Water Services Regulatory Unit]
UTE	Administración Nacional de Usinas y Trasmisiones Eléctricas [National Administration of Electric Power Generation and Transmission]
WEO	World Economic Outlook

EXECUTIVE SUMMARY

The IDB in Uruguay	The IDB is the main source of international financing in the country. Over the past five years, its disbursements accounted for about 50% of all multilateral financing for the public sector and 5% of the country's gross fixed capital formation.
Priority sectors	The national authorities and the Bank have identified the following strategic areas of cooperation:[1] (i) transport; (ii) energy; (iii) water, sanitation, and solid waste; (iv) science and technology; (v) social protection; (vi) education and job training; (vii) agribusiness; (viii) services exports; (ix) public management and finances; and (x) urban development and security. Opportunities for the private sector windows have been identified in the following sectors: energy, transport, agribusiness, and services exports.
Contribution to the GCI-9 goals	The country strategy provides an opportunity to contribute to the Bank's goals and sector priorities as established in the Ninth General Increase in the Resources of the Inter-American Development Bank (GCI-9). In general terms, it will contribute to the objective of "support for small and vulnerable countries" (Groups C and D). There are opportunities in the water and sanitation, social protection, education and job training, and urban development and security sectors for operations that will contribute to the objective of "poverty reduction and equity enhancement," while the energy and agribusiness sectors will contribute to the objective of "climate change, sustainable energy, and environmental sustainability" and "regional cooperation and integration." The energy, services export, agribusiness, and transport sectors will also contribute to the latter objective.
Financing needs	The public debt maturity profile is acceptable, and no sustainability problems are anticipated. The nonfinancial public sector (NFPS) will face an average of US$2.3 billion per year in principal and interest payments between 2011 and 2015. Considering the primary surplus, the NFPS will have total financing needs of US$1.27 billion per year between 2011 and 2015.
Bank financing	Under the proposed lending program, approvals of new Bank loans would rise to US$1.797 billion in the 2011-2015 period, and the net flow of capital would be US$409 million. Uruguay's debt with the Bank would fall from 4.9% of GDP in 2010 to 4.1% of GDP in 2015.
Use of country systems	The reasonable development of public financial management systems and orderly governmental management point to a low level of fiduciary risk. Uruguay is undergoing a modernization process that will enable it to make this management more effective, among other things. The country has a well-regarded legal and institutional framework for government procurement, but challenges remain in terms of implementing international best practices. The bank will continue its support of

[1] The present country strategy will be in effect from December 2010 to December 2015

efforts to strengthen the capacities of the national government and policy and regulatory agencies, supporting the adoption of best practices.

Coordination with other development partners

The IDB maintains fluid relations with the main multilateral and/or bilateral institutions that are active in Uruguay. From a sector viewpoint, the Bank works collaboratively in the social protection, science and technology, neighborhood improvement, and fiduciary sectors. The government's notable efforts to strengthen coordination of the activities of multilateral agencies are reflected in the creation of a new International Cooperation Institute in the Office of Budget and Planning (OPP) and an office in the Ministry of Economy and Finance (MEF).

RESULTS MATRIX

Development goals of the country	Sector	Strategic objectives	Expected outcomes of the country strategy	Indicators and sources	Baseline (2009 except as indicated)	Indicative target (2015 except as indicated)*
To ensure that infrastructure is consistent with productive sector requirements and the conformation of regional logistics facilities	**A. Transport**	To improve maintenance of the road network	Increase in the percentage of the road network in good or very good condition	% of road network managed by the DNV in very good, good, regular, and poor condition based on the Surface Condition Index (MTOP)[2]	2010 Very good: 26%; Good: 21%; Regular: 29%; Poor: 24%	Very good: 26%; Good: 21%; Regular: 29%; Poor: 24%
		To improve infrastructure and port management	Increase in port operations	TEUs[3] moved through Montevideo in one year (ANP)	2010: 671,952	900,000
	B. Energy	To increase electricity and natural gas supply capacity	Increase in generation capacity	Megawatts (MW) of installed generation capacity (MIEM-DNE)	2010: 2,692 MW (2010)	15% increase
			Increase in the supply of natural gas	Availability of gas through regasification (MIEM-DNE)	2010: 0	2.5 Mm^3/day
	C. Water, sanitation, solid waste	To expand sanitation and drainage coverage	Increase in sanitation coverage; (i) in Montevideo (ii) in Ciudad de la Costa Improved storm drain coverage in Montevideo	(i) % of households with sanitation coverage in Montevideo (Municipality of Montevideo) (ii) % of wastewater treated in zone A of Ciudad de la Costa (OSE) (iii) Urban areas vulnerable to flooding in Montevideo (Municipality of Montevideo)[4]	(i) 2008: 85% (ii) 2010: 0% (iii) 2010: 10 areas	(i) 90% (ii) 100% (iii) 8 areas
		To reduce solid waste disposed of in open-air dumps	Increase in the percentage of waste properly	Percentage of tons per day of solid waste disposed of properly in the country[5] (DINAMA)	2010: 6%	12%

2 This is calculated using the manual for the visual inspection of paved roads issued by the National Road Division (DNV). The DNV's managed network represents 10% of the total network and includes: international corridors, the entire primary network, and part of the secondary network. The following are not managed by the DNV: part of the secondary network, the tertiary network, and rural roads. The definition of the network managed by the DNV can be consulted on the Ministry of Transportation and Public Works website.

This makes it possible to determine road maintenance conditions by visually inspecting different surface irregularities (cracks, potholes, dips, etc.) The index summarizes the surface condition of paved roads. The visual inspection method for calculating the surface condition score includes the following information on surface irregularities: (1) type of defect; (2) severity; (3) size of defect. These three factors are used to determine a discount value and the surface condition score is calculated by subtracting those discounts from 100, with a score between 85 and 100 indicating very good condition, between 70 and 85 indicating good condition, between 50 and 70 indicating regular condition, and less than 50 indicating poor condition.

3 Twenty-foot equivalent units (TEUs) are used to measure container capacity.

4 The Municipality of Montevideo has identified 10 areas that flood in urban Montevideo. The intent is to lower this number to eight areas.

5 Disposed of properly is understood as following construction and operation guidelines pursuant to best international economically viable practices (see: *Solid Waste Landfills in Middle- and Lower Income Countries: A Technical Guide to Planning, Design and Operation*. World Bank Technical Paper 426).

Development goals of the country	Sector	Strategic objectives	Expected outcomes of the country strategy	Indicators and sources	Baseline (2009 except as indicated)	Indicative target (2015 except as indicated)*
To promote initiatives for innovation in productive and public management sectors	**D. Science and technology**	To increase private sector contribution to investment in research and development	Increase company investment in R&D	Amount investment in R&D by industry and service enterprises in current U.S. dollars (Survey on Innovation Activities in Industry and Services; question B.1)	2009: US$53.5 million	US$68 million
To reduce indigence and poverty	**E. Social protection**	To improve living conditions for vulnerable groups, with an emphasis on children and adolescents	Reduction in indigence and poverty rates among children and adolescents	% of children under 18 years who live in indigent households (extreme poverty) (Ministry of Social Development (MIDES))	3.2 %	1.8%
				% of children under 18 years who live in poor households (moderate poverty) (MIDES)	35.2%	25%
To strengthen the formal education system to incorporate children and adolescents, guaranteeing universal access to early childhood education, and strengthening basic secondary and higher education	**F. Education and job training**	To increase school access and retention and improve human capital formation with an emphasis on vulnerable groups	Increased coverage for 12- and 14-year-olds	Dropout rate among students in the first year of the basic cycle in the open secondary schools program[6] (ANEP)	2010: To be determined following a study in the fourth quarter of 2011	15% less than the control group
			Expanded secondary school coverage, targeting on 15- to 17-year olds	Net secondary school attendance rate among 15- to 17-year-olds in urban secondary schools (ANEP, with ECH data)	2009: 41% 17.7%	49% 22%
			Expanded use of information and communications technologies (ICT) in teaching and promotion of technological education	% of student beneficiaries of the Ceibal Plan[7] in the basic cycle of secondary school (ANEP)	0%	100%
				% of teachers trained to use ICTs in secondary school (ANEP)	0%	At least 30%
			Enhanced coverage and relevance of job training programs	% of training services offered by the public sector[8] that meet the demands of the productive sector, to be surveyed in the second half of 2011 (MTSS)	2011: To be determined via a survey	5% increase[9]

6 A program that aims to facilitate the transition from primary to secondary school in order to reduce the dropout and repetition rates.

7 The Ceibal Plan is the One Laptop per Child program.

8 Includes training services provided by the National Institute for Employment and Professional Training (INEFOP) and the Universidad de Trabajo del Uruguay (UTU).

9 Source of financing not yet certain for replication of the survey in 2015.

Development goals of the country	Sector	Strategic objectives	Expected outcomes of the country strategy	Indicators and sources	Baseline (2009 except as indicated)	Indicative target (2015 except as indicated)*
To promote innovation-intensive value chains with an impact on employment and local development	**G. Agroindustrial sector**	To ensure sustainable development of the agroindustrial sector	Increase in the adoption of technology in the sector	Agroindustrial exports, in thousands of current U.S. dollars (BCU)	5,385,509	30% increase
			Updated regulatory framework and strengthened environmental control system	National Environmental System (DINAMA) implemented	No national system in place; overlap between institutions	System implemented[10]
Active integration to establish productive structures based on competitiveness and employment	**H. Services exports**	To increase services exports	Increase in exports of high value-added services (all services exports except tourism and transport)	High-value services exports in millions of current U.S. dollars (BCU)[11]	2008: 1,509	55%
			Increase in tourism receipts	Foreign tourism receipts, in U.S. dollars (Ministry of Tourism)	2009: 1.3 billion	10% increase
Institution-strengthening for real improvements in public administration	**I. Public management and finances**	To improve public administration	Improved tax administration at the national and subnational levels	Value-added tax evasion rate (DGI)	2009: 16.1%	2014: 13%
				Departmental revenue/GDP (OPP – BCU)	2007: 3.5%	To be determined based on a study on potential revenue at the subnational level in the second half of 2011.
			Improved budget management and consolidation of results-based management	% of public programs with budget appropriations that have at least one performance indicator (OPP – AGEV)	2011: 5%	At least 40%
			Greater use and dissemination of e-government tools	Online government services index (United Nations – e-government Survey)	2010: 0.163	25% increase
			Strengthened procurement system	% of central government procurement notices that received at least one proposal via Internet / total central government procurement notices published during the year on the procurement website (AGESIC)	4.6%	20%

[10] This involves the organization and centralization of the environmental evaluation, control, and monitoring functions.

[11] To calculate the baseline, Other Services exports (BCU Balance of Payments) are added to the Gross Value of Free Trade Zone Production for: Finance and Insurance, Business Consulting, Health Services, and Other Service Activities (the MEF's 2008 Free Trade Zone Yearbook). An exchange rate of $20.95 = US$1 is used for this calculation.

Development goals of the country	Sector	Strategic objectives	Expected outcomes of the country strategy	Indicators and sources	Baseline (2009 except as indicated)	Indicative target (2015 except as indicated)*
			Expanded use of the national financial management system	% of Bank-financed central government operations that use the accounting and reporting subsystem (SIIF)	0	50%
			Improved efficiency of the environmental monitoring system	Average processing time for environmental permits issued by DINAMA, including Bank-financed projects	2007: 18 months	11 months
To improve the quality of life of urban dwellers	**J. Urban development and security**	To improve living conditions for the urban population	Improved quality of life for the urban population	Index to be developed using results from the Emerging and Sustainable Cities Platform for Montevideo (IDB)[12]	To be determined prior to the fourth quarter	Same or better

*The targets are indicative and aspirational.

[12] This includes the following dimensions: environmental sustainability, urban development, and fiscal sustainability. In the event that no baseline has been determined by the fourth quarter of 2011, the following indicator will be used: Quality of Living Index (Mercer), considering the rank of 79 among 222 countries as the 210 baseline with maintenance or improvement of that ranking as the target.

I. CONTEXT

1.1 On 1 March 2010, the Frente Amplio party took office for a second consecutive term, against a backdrop of growth (average annual growth of 6.9% in 2004-2009 and 2.9% in 2010) driven by a robust external sector (led by farm commodity exports, tourism, and larger foreign investments flows) and an expansion of domestic demand. Between 2004 and 2009, the public debt to GDP ratio fell from 97% to 69%, the poverty rate dropped from 40% to 20.9%, more than 180,000 jobs were created, and unemployment dipped to a historic low of 6.6% in December 2009.

1.2 There are still challenges to ***sustaining high economic growth rates with equity and inclusion***. The IDB Group identifies the following, which are also noted in the National Budget Act (2010-2014): (i) expand and improve transport infrastructure: (ii) ensure the energy supply; (iii) increase sanitation coverage and provide for the final disposal of solid waste; (iv) target investments in science and technology to the needs of the production sector; (v) reduce poverty and indigence, particularly among children and young people; (vi) reduce the secondary school dropout rate and improve job training programs; (vii) deepen the country's global integration; (viii) raise public sector efficiency; and (ix) improve urban living conditions (see Section III and analytical work for more information).

II. THE IDB GROUP IN URUGUAY

2.1 Traditionally, the IDB Group has been the main source of international financing in the country. Over the past five years, its disbursements accounted for about 50% of all multilateral financing for the public sector and 5% of the country's gross fixed capital formation. As of 31 May 2011, the outstanding portfolio was distributed among 12 sectors and consisted of 34 sovereign guaranteed operations totaling US$973.7 million, of which 47% was pending disbursement.[13] The technical assistance program consisted of 47 operations (23 MIF operations) totaling US$35.4 million, of which US$20.9 million was pending disbursement.

III. THE BANK'S COUNTRY STRATEGY WITH URUGUAY

3.1 The priority sectors correspond to the challenges identified in Section I, reflect the shared priorities of the Uruguayan government (National Budget Act) and the IDB Group (Report on the Ninth Capital Increase, AB-2764), and were discussed in consultation with civil society and private sector representatives (see electronic link). This country strategy represents a greater concentration of the Bank's engagement in the country compared with the previous strategy and addresses the following factors: (i) a context of strong economic growth, which imposes heavy investment requirements on a number of sectors; (ii) business opportunities, which in turn contribute to the Bank's institutional goals in the framework of the GCI-9; (iii) greater complementarity between the multilateral financial institutions; (iv) the Bank's responsiveness, based on the operations-related experience and technical knowledge it has accumulated over

[13] The undisbursed portfolio was concentrated in transport (32%), followed by fiscal and municipal management (19%), water and sanitation (16%), and education (13%).

decades of work in the country;[14] and (v) the government's need for continued engagement by the IDB Group in the sectors of intervention and deeper participation in energy and professional services exports. The Bank has generated analytical work for each priority sector and is currently financing loan and/or technical cooperation operations in each one. In the agribusiness, transport, and energy sectors, in addition to the traditional support offered to the public sector, Bank cooperation will be used to anchor private sector investments in the country.

3.2 The interventions will contribute to the objective of "support for small and vulnerable countries" (Groups C and D). Specifically, operations in the water, sanitation, and solid waste, social protection, urban development and security, and education and job training sectors will create opportunities for contributing to the objective of "poverty reduction and equity enhancement," while operations in the energy and agribusiness sectors will contribute to the objective of "environmental protection, climate change, sustainable energy, and food security" and the objective of "regional cooperation and integration." Operations in the transport and services export sectors will also contribute to the latter objective. This strategy is consistent with the strategic objective to "promote development through the private sector," which is aligned with the government's initiative to finance infrastructure investments through public private partnerships (PPPs). The IDB Group is collaborating on the design of the regulatory framework and institutional strengthening to facilitate the use of PPPs in the sectors identified in this country strategy.

A. Transport

3.3 Uruguay's transport network has approximately 60,000 kilometers of road, of which almost 9,000 kilometers are national roads. The condition of the country's primary roads has improved, but 54% of the primary network is in regular or poor condition.[15] Over 60% of the country's secondary and tertiary networks are in regular or poor condition. The increase in cargo flows (heavy truck traffic increased nearly 70% between 2005 and 2010) and overloaded trucks (with axle weights in excess of allowable limits) are accelerating the deterioration. This situation is compounded by technological and human resource gaps in the planning and management of road maintenance and road safety. At the level of the sector as a whole, multimodal planning is fragmented, which generates inefficiencies in the allocation of resources. The Administración de Ferrocarriles del Estado [State Railway Administration] does not have a suitable business model for participating in the national logistics system.[16] Meanwhile, ports are vital for increasing export capacity and transforming Uruguay into a regional logistics hub. The Port of Montevideo has led the way. Its gross register tonnage tripled between 2004 and 2008 and the volume of containers

[14] Since 1960 the IDB Group has worked with the country by providing loans and technical cooperation in the following sectors: social protection (6 operations for US$893.1 million); public finance (21 operations for US$859.8 million); transport (11 operations for US$533.1 million); financial sector (7 operations for US$530.2 million); urban development and security (11 operations for US$472.4 million); water, sanitation, and solid waste (11 operations for US$472.7 million); competitiveness (11 operations for US$357.1 million); agribusiness (19 operations for US$261.3 million); education and job training (7 operations for US$200.5 million); science and technology (5 operations for US$122.7 million); energy (4 operations for US$92.7 million); health (1 operation for US$75 million); and goods and services exports (4 operations for US$22.4 million) (December 2010 figures).

[15] The primary network connects the country's large cities, the secondary network connects the smaller cities, and the tertiary network connects specific sites in rural areas.

[16] The government is currently analyzing a proposal to restructure rail transport to enable it to take on a larger share of cargo transport.

and twenty-foot equivalent units climbed by more than 50%. There are challenges to the sustainability of this expansion, including: (i) possible congestion at the Port of Montevideo as cargo volumes rise; (ii) absence of a logistics planning system in place; and (iii) lack of a formal institutional coordination mechanism for entities in the sector.

3.4 The Bank, in the area of road transport, will participate in: (a) maintenance of the primary, secondary, and tertiary road networks; furthermore, it will support the institutional strengthening of: (i) the Ministry of Transportation and Public Works in its planning and policy-making roles; (ii) the National Road Division in its road maintenance management capacity; (iii) the institutions associated with rail transport; and (iv) the institutions responsible for road safety. In relation to ports, the IDB Group will support: (a) the development of port infrastructure; (b) strengthening of the Ministry of Transportation's National Planning and Logistics Bureau (DINAPLO) in its logistics and infrastructure needs planning capacity; and (c) institutional coordination mechanisms through strengthening of the the Instituto Nacional de Logística [National Institute of Logistics]. There are opportunities for the Structured and Corporate Financing Department to participate in road maintenance programs, as well as in the construction of port infrastructure. The main risk of intervention in this sector derives from the lack of a master plan for prioritizing and ranking the investments needed in the various modes of transport. This risk will be mitigated by the Bank's support for the DINAPLO and the National Institute of Logistics.

B. Energy

3.5 Uruguay has a high rate of electricity coverage, with nearly 98% of all households connected to the grid. It has 2,692 megawatts of installed capacity, 70% of which is generated by hydroelectric plants. In addition, the quality of service and the condition of infrastructure assets are relatively good. The crucial challenge is to ensure a long-term supply of electricity at reasonable cost. Given its strong dependence on the water cycle, the sector is especially vulnerable in drought years when it must rely more heavily on hydrocarbon-based thermal energy, which costs more and has a larger impact on the fiscal accounts due to the difficulty of transferring the higher cost to the users.

3.6 The government's priority, as established in the National Budget Act, is to ensure the electricity supply regardless of hydrologic conditions, at reasonable prices. Accordingly, priority has been placed on: (i) adding new sources of electricity by (a) establishing natural gas plants connected to a liquefied natural gas plant to be built and run by a private operator; (b) establishing direct access to electricity imports via connections to the transmission networks of neighboring countries; and (c) taking advantage of natural conditions conducive to generating electricity from wind (availability and average quality/velocity and laminar flow), biomass (availability of forest waste and cellulose byproducts), and solar energy at competitive costs. In relation to demand, (ii) the government is implementing a program to improve end-use energy efficiency but it has limited resources to make the equipment and lighting system replacements that would result in greater energy savings.

3.7 Expanding and diversifying electricity generation sources and enhancing grid interconnection capacity with neighboring countries will help make the system less vulnerable. Meanwhile, installing regasification capacity will help resolve the current lack of supply in the sector of natural gas imported through pipelines inasmuch as it will enable access to the international market for liquified natural gas.

3.8 In terms of sector policy, the electricity sector is governed by the Ministry of Industry, Energy, and Mining. There is a regulatory agency, the Energy and Water Services Regulatory Unit (URSEA), and a load dispatch agency. Generated power is dispatched based on marginal costs. User rates reflect costs and are regularly adjusted by the executive branch. The delivery of electricity is handled by the National Administration of Electric Power Generation and Transmission (UTE), a State-owned enterprise that is vertically integrated but keeps separate accounts for its generation, transmission, and distribution operations. The private sector is also involved in generation (especially generation of unconventional renewable energy), with bilateral exclusive contracts with the UTE. With respect to hydrocarbons, the production and importation of petroleum-derived fuels constitutes a legal monopoly in favor of the Administración Nacional de Combustibles, Alcohol y Portland (ANCAP), a vertically integrated State-owned enterprise. In addition, Distribuidora Uruguaya de Combustibles, S.A., a wholly owned subsidiary of ANCAP, operates in the liquid petroleum gas market alongside private firms. The provision of natural gas is dominated by the private sector. The regulatory agency for the sector, URSEA, calculates the import parity price for each product, which serves as a benchmark for the prices set by the executive branch.[17] The import parity price and the price set by the executive branch are generally observed to converge.

3.9 Within this sector framework, the IDB Group will support: (i) the energy supply, through: (a) the incorporation of natural gas regasification infrastructure and associated investments for generating electricity from natural gas and with combined cycle technology; (b) the deepening and expansion of regional energy integration; and (c) the expansion of generation capacity through unconventional renewable energy sources, such as wind and biomass; and (ii) the implementation of energy efficiency programs. With the exception of item (b), there are opportunities for the private sector windows (SCF, IIC, MIF) to support interventions in the energy sector. The main risks derive from the need to match supply and demand for energy (natural gas and electricity) in an interconnected regional market and efficiently administer a diversified energy matrix. The actions mentioned above will help to mitigate these risks.

C. Water, sanitation, and solid waste management

3.10 Uruguay has a high coverage rate for water services in urban areas (92% of the population), but coverage in rural areas is less than 10%. In Montevideo, 85% of residents live in areas that are connected to the sewer system. In the rest of the country, 70% of the population has onsite disposal systems, and improper use can lead to sanitation and environmental problems. The country has had a national water policy since 2009 but still lacks the tools needed to implement it (such as a national water resource management plan). No comprehensive approach has been adopted with respect to waste management, and there are significant infrastructure and management gaps in the sector. There is only one landfill in the country that meets international standards. In the Metropolitan Area of Montevideo, dumps are at maximum capacity and several are located in populated areas. The disposal of industrial and hazardous waste does not fall under any specific legislation.[18] The final disposal of urban waste is one of the main challenges for the sector, given the environmental and social impacts.

[17] Gasoline, diesel fuel, kerosene, fuel oil, liquefied petroleum gas, and propane.

[18] Article 21 of Law 12,283, the Environmental Protection Act, prohibits the disposal of any waste, regardless of its type, that could result in an environmental impact. However, there is no specific legislation on the disposal of industrial and hazardous waste.

3.11 The Bank proposes the continuation of the Sanitation Master Plan for Montevideo, including: (i) the construction of collector sewers in Montevideo neighborhoods that are still outside the sewer and storm drainage systems; and (ii) institutional strengthening of the Municipality of Montevideo's Sanitation Division. In addition, it proposes to support sanitation (sewers and treatment plants) and drainage systems in cities throughout the country, specifically in Ciudad de la Costa. Support will be provided to prepare a national integrated water resources management plan and supply water to rural communities, through technical cooperation operations. With respect to solid waste management, the IDB Group proposes to help strengthen the regulatory framework and the institutional capacity of sector stakeholders and support infrastructure investments to improve solid waste management. The regulatory framework allows private sector participation in solid waste management but not in the provision of water and sanitation services. For solid waste recycling, the Bank believes the participation of the Opportunities for the Majority (OMJ) Sector is possible. The main intervention risk lies in the difficulties that the government is having in proposing a solid waste disposal strategy that meets with public approval. To mitigate this risk, mechanisms will be created for coordinating and strengthening the capacities of the stakeholders, including the dissemination of successful experiences. No risks that would affect the sanitation interventions have been identified.

D. Science and technology

3.12 Despite advances in recent years, the science and technology academic community is largely focused on purely academic scientific research, with little attention to the needs of industry, and there are few partnerships between academia and industry (less than 10% of businesses are partnered with universities or research centers). Although investment in research and development has risen significantly in recent years, it remains low (0.64% of GDP, compared with 2% in countries in Organization for Economic Cooperation and Development (OECD) countries) and concentrated in the public sector, with only 25% coming from the private sector, compared with over 70% in the OECD countries. The human resource pool is small and approximately 40% of researchers live and work abroad. At the institutional level, the Sistema Nacional de Innovación [National Innovation System] has been established to coordinate the activities of government agencies. However, it needs to be consolidated at the planning level and by building stronger connections between the research and development community and the private production sector.

3.13 In this context, the IDB Group proposes to help increase investment in research and development in line with industry needs, by: (i) promoting private investment in development and technological modernization through subsidies or cofinancing, keying government research to the needs of business, or promoting greater dissemination of information and communications technologies; (ii) providing incentives for businesses to train and hire human resources specializing in research and development by cofinancing the salaries of researchers so they can work in the laboratories of private companies; (iii) supporting collaboration between companies, universities, and technology centers; and (iv) establishing regional centers near production hubs in order to directly meet the needs for technical services associated with the adoption of new technologies. The participation of the Bank's private sector windows is not anticipated.

3.14 The main risks are associated with: (i) leadership and coordination problems among the government stakeholders in the sector, which could slow consolidation of the National Innovation System; (ii) low degree of complementarity between production, financial, and educational policies; and (iii) lack of incentives to spur change among businesses and research centers. To mitigate these risks, support will be provided to strengthen the government's innovation portfolios council, through technical assistance to strengthen decision-making on policies and related programs.

E. Social protection

3.15 During the previous administration, significant headway was made in reducing poverty, which fell from 40% in 2004 to 21.4% in 2009, with a concomitant drop in extreme poverty from 4.6% to 1.6%.[19] Nonetheless, poverty and indigence levels remain high and are concentrated among children and young people up to 17 years old (poverty rate over 30% in 2009). The rate is even higher among children in the 6 and under group (38%). Whether due to information problems or insufficient coordination of sector efforts, these groups have a hard time gaining access to income transfers. For example, 49% do not receive the food allowance and 21% do not receive the noncontributory family allowance. Although public social spending has climbed systematically since 2005, topping 22% of GDP in 2009, mechanisms for its evaluation are insufficient. Under the National Budget Act, public social spending will rise to nearly 24% of GDP in 2014. With this in mind, the government has set itself the task of evaluating the quality of public social spending.

3.16 The IDB Group will support efforts to: (i) facilitate access to income transfers (food and noncontributory family allowances, etc.) for poor households with children or adolescents, through financing for the orientation, consultation, and regional coordination services provided by the Ministry of Social Development; and (ii) design and implement evaluations to determine the impact of social protection policies, contributing to more efficient use of public resources and to the objectives of reducing poverty and eliminating indigence. No opportunities for private sector participation have been identified. The main risk is associated with potential delays in the execution of policies and programs, as a result of coordination problems with other sector institutions. To mitigate this risk, coordination mechanisms with other organizations will be promoted in order to strengthen and synchronize cross-sectoral activities.

F. Education and job training

3.17 Education coverage is universal at the primary level and nearly universal at five years, with progress at four and three years (86.6% and 58.5%, respectively, in 2009). In all, 95% of 12- to 14-year-olds and 77% of 15- to 17-year-olds attend school. However, the education and job training system faces major challenges in terms of quality and equity, reflected in educational access and retention and in the employability and productivity of the labor force.

3.18 In 2009, 41% of 15- to 20-year-olds had not completed middle school. In particular, those who live in poor areas do not have adequate graduation rates or sufficient preparation to continue their studies or enter the job market (11.7% of young people between the ages of 15 and 20 do not study or work[20]). This situation is worse among Afro-descendant youth, since only 48% of 18- to 20-year-olds in this group complete primary school as their highest level of education, compared to 70% of white youth.[21] Findings by the Programme for International Student Assessment suggest that Uruguay is one of the countries with the largest gaps between young people from

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[19] Data based on the 2006 Poverty Line (INE).

[20] The Ministry of Education and Culture's 2009 Statistical Yearbook.

[21] 2011-2015 National Youth Plan.

high- and low-income families. There are no sizeable secondary school completion programs in the country. The approval, in December 2008, of the General Education Law establishes a new institutional framework for the sector, including the National Educational Assessment Institute. In addition, there is a strong disconnect between education and the needs of the production sector, inasmuch as job training programs and evaluations are limited.

3.19 The IDB Group will gear its interventions towards increasing school access and retention and improving human capital, with an emphasis on vulnerable sectors. To this end, it will support efforts to: (i) increase coverage for 12- and 14-year-olds and improve quality; (ii) increase coverage and reduce dropout rates at the secondary school level, zeroing in on 15- to 17-year-olds in vulnerable groups, with an emphasis on Afro-descendants; (iii) expand information and communications technologies and promote technological education; (iv) establish secondary school completion services for adults; and (v) provide technical assistance to improve job training programs. No opportunities for private sector participation have been identified. Risks are associated with the possibility of failing to reach the political consensus needed to implement the General Education Law, which does not yet have a full set of implementing regulations. Specifically, there is a risk that the potential scope of the National Educational Assessment Institute could be limited in relation to measuring scholastic achievement and disseminating results. To mitigate this risk, the plan is to support the government in the technical discussion that will inform the implementing regulations drafted to govern the functioning of the Institute.

G. Agroindustrial sector

3.20 Changes in the global agriculture and forestry markets over the past decade are driving steady growth in demand for food products in Asian countries and for agricultural and forest products for the production of energy. This has translated into average growth of 8% in the agroindustrial GDP over the past 10 years. Maintaining this level of growth imposes challenges: (i) excessive concentration of low value-added products in the export portfolio (59% of total exports in 2009) and too few manufactured agricultural products (17%). Local investment in the sector is low, partly due to credit constraints resulting from a shallow financial sector and small business scale; (ii) low and/or stagnant growth among small and medium-sized producers (family agriculture), who represent nearly two thirds of the country's producers on just 15% of its arable land. These producers are characterized by a low rate of adoption of technological innovation and a limited production and marketing scale; and (iii) environmental impacts resulting from the consolidation of large-scale, highly mobile agricultural/agroindustrial production systems, which are not covered by existing regulations and require better monitoring. Climate change, too, has significant impacts on the ecosystem, causing greater volatility in the form of periods of heavy rain and drought, as well as drastic changes in temperature, which affects yields.

3.21 The IDB Group will support: (i) the sustainable use of natural resources associated with the agriculture and forestry industries and the adoption of technology in agroindustry, primarily for export-oriented production (80% of total production in the sector); (ii) rural development, particularly the adoption of technology by small producers in order to increase their productivity and deepen their integration in global markets. The activities described will be supported at the level of businesses, or through financial institutions with specific lines or other financial instruments for small and medium-sized enterprises in the sector; and (iii) the reduction of vulnerabilities associated with climate change, as well as in the environmental sector, by updating the regulatory framework and strengthening the environmental control system. In each of these areas of support, opportunities for SCF and IIC participation have been identified. The main risk is associated with uneven growth among small producers with respect to producers who already have access to the financial market and advanced technology. To mitigate this risk, the IDB Group will support institutional strengthening programs for government agencies in the sector and promote the adoption of technology by small producers.

H. Services exports

3.22 Seventy percent of Uruguay's exports are low value-added goods primarily produced in the agriculture sector, which makes the country vulnerable to volatility in commodity prices. It could reduce this vulnerability by diversifying its export portfolio, and especially by maximizing the potential to increase service exports, which grew by more than 40% between 2005 and 2010 and account for 25% of foreign sales. This performance has been fueled by growth in tourism, which is a traditional service export, and more recently by growth in professional services, known as "offshoring" (financial and accounting services, human resource management, software, medical research, etc.). The main obstacles to making services a larger component of the export portfolio are: (i) the seasonal nature of tourism in Uruguay, based on the sun and sand product, which leaves hotels with low occupancy rates in the off season and dependent on visitors from other countries in the region (80% of the total); (ii) the small size of the professional services sector, which has seen exports grow by 30.5% in the past two years, demonstrating the sector's potential; (iii) foreign direct investment, which has been a determining factor in growth in recent years, is concentrated in the primary sector (42% of total foreign direct investment) and does not target sectors with greater value-added such as services (only 10% of the total); and (iv) the Interministerial Committee for Foreign Trade Affairs (CIACEX) does not provide, at the operational level, the necessary institutional coordination of entities involved in the sector.

3.23 Consistent with the government's priorities, the IDB Group will support: (i) the promotion of tourism with options in addition to the sun and sand product, taking advantage of existing installed capacity; (ii) preparation of a strategy for identifying market niches to deepen offshoring services; (iii) efforts to attract foreign direct investment to the high value-added service export sector; and (iv) technical support for consolidating the CIACEX. There are opportunities for the Bank's private sector windows (SCF/IIC) to participate in the promotion of tourism. The main risk is associated with the interagency nature of trade policy, which means that efforts must be coordinated across multiple institutions with diverse interests that are not always aligned. To mitigate this risk, the Bank will support efforts to strengthen the CIACEX Executive Secretariat, which is responsible for coordination.

I. Public management and finances

3.24 Uruguay's tax ratio, which averaged 27% of GDP in 2000-2009, is high compared with the rest of the region. Over the past five years, tax receipts accounted for about 79%, on average, of central government revenue, and the tax structure was simplified following the 2007 reform. Still, there are challenges involved in maintaining revenue collection levels: (i) at the national level, there is a need to continue strengthening the government's revenue collection agencies, and in the case of the country's Social Security Bank, to analyze the medium- and long-term solvency of the system; (ii) the electronic invoice system that would facilitate voluntary compliance with tax obligations is not yet operational; (iii) subnational revenue levels are low in terms of GDP (3.5% in 2007), with a high percentage of taxpayers in arrears; (iv) the departmental governments do not have complete taxpayer registries, integrated with other local registry systems, that can be easily administered and verified, nor do they have mechanisms in place for a tax compliance program so are limited to conducting ad hoc audits.

3.25 The National Budget Act instituted a fiscal policy that would shrink the consolidated public sector deficit from -1.7% of GDP in 2009 to -0.7% of GDP in 2015, and public debt to 40% of GDP. Although there is fiscal room for the investment program, its benefits largely depend on efficiency gains in management. The challenges are as follows: (i) a monitoring and evaluation system is needed that improves decision-making and allows for results-based management, which has been identified as a government objective; (ii) the information systems used to support budget and strategic management are generally obsolete and in some cases are not adequately maintained. The Government Evaluation and Management Area (AGEV)[22] indicates that use of the PEG-SEV[23] has not yet translated into substantive changes in the ministries' planning, monitoring, and evaluation practices; (iii) the personnel selection system for senior executive positions is not guided by an overarching strategy that establishes deadlines, targets, or indicators of success for the different stages of selection or identifies parties responsible for implementing this model. With respect to human resource management, the model that was recently introduced is not yet in widespread use; (iv) at the subnational level, most departmental governments do not have regional development planning systems; and (v) significant achievements have been made in e-government over the past five years that should be consolidated both in financial management and procurement systems and in government-citizen transactions. There is no interoperable platform in place yet, so e-payment services have not been developed. At the sector level, although the transactions that can be processed via Internet have increased, services are still restricted.

3.26 In accordance with the government's decision to take steps to modernize the State and improve public management and finances, the Bank will support: (a) institutional strengthening of the tax administration in order to make it more efficient by: (i) establishing electronic invoicing; (ii) streamlining procedures; and (iii) working with the government to continue to reduce tax evasion and avoidance; (b) at the subnational level, efforts to strengthen the taxpayer registry; (c) improvements in budget planning and preparation; (d) strengthening of systems for monitoring and evaluating public programs in order to support results-based budgeting; (e) the implementation of a human resource management model that guides the creation, selection, implementation, and monitoring of executive-level functions and human resources, and strengthening to help the National Civil Service Office implement these systems; (f) at the national and subnational levels, general strengthening of the financial management and procurement systems; and (g) e-government solutions that facilitate government-citizen transactions and improve the administration of services (police, hospitals, etc.) and central government operations.

3.27 The main risks are associated with: (i) resistance among public officials to the changes inherent in institutional reform and (ii) implementation of the Decentralization Law, which will affect the planning and execution of projects at the subnational level. These risks can be mitigated by the participation of officials in the early stages of the reform process and at the subnational level, through the development of land management plans.

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22 In the Planning and Budget Office.

23 PEG-SEV is the government's strategic planning and evaluation system.

J. Urban development and security

3.28 Uruguay has one of the highest percentages (92%) of urban dwellers (more than half in Montevideo) in the region, which underscores the importance of comprehensively resolving the challenges that affect urban quality of life. The challenges are associated with: (i) the absence of an urban-spatial planning process and related public policies, which has led to an increasingly fragmented urban population and a widening gap between the haves and the have-nots; in addition, there is no urban planning in place to guarantee the sustainability of medium-sized and large cities, particularly those that are receiving foreign investment flows, which can lead to poor use of public services (excess demand or under-use) and/or the unwise use of natural resources; (ii) the existence of 600 unregulated settlements, 80% of which are located in the Metropolitan Area of Montevideo, where 6.3% of the population resides without access to adequate public spaces, inadequate solid waste management, limited public lighting, etc.; (iii) an inefficient public transportation system, with an outdated design, low quality of service levels for users, and an adverse impact on quality of life, particularly in the Metropolitan Area of Montevideo; and (iv) an increased perception of insecurity, which affects urban quality of life. More than 62% of Uruguayans feel the crime rate is a serious threat to future wellbeing,[24] with cases of violent theft drawing the most concern given the frequency with which they occur (32 per day). Over 40% of violent thefts are perpetrated by young people, most of whom come from vulnerable households.[25] Meanwhile, domestic violence has been the cause of 77% of female homicides in the country.

3.29 Against this backdrop, the IDB proposes to improve the provision of public services to the entire urban population through interventions comprehensively designed to coordinate systems and services through: (i) technical assistance to help departmental governments improve their spatial planning and management, as well as develop and implement the related public policies; (ii) investments in the revitalization of degraded areas and in unregulated settlements, mainly through improvements in public spaces, urban transportation, solid waste management, and public lighting, and in the prevention of new settlements; (iii) development of sustainable transportation in the Metropolitan Area of Montevideo, structured around a modern, efficient public transportation system providing quality service; developed in harmony and coordination with the objectives for human and territorial development, and in coordination with the various involved national and departmental jurisdictions; and (iv) development and implementation of targeted actions to prevent violence, including juvenile and domestic violence, as well as support for the creation of a community policing model. The main risk is associated with lack of coordination between the many agencies involved in the sector (service provider companies, municipalities, ministries, etc.). This risk will be mitigated by establishing coordination mechanisms. No operations with the Bank's private sector windows are anticipated.

IV. LENDING PROGRAM

4.1 Given its debt amortization schedule, the nonfinancial public sector (NFPS) will face an average of US$2.3 billion per year in principal and interest payments between 2011 and 2015. According

[24] Universidad de la República, "Victimización y justicia por mano propia en Uruguay. Una visión comparativa con América Latina [Victimization and Vigilante Justice in Uruguay. A comparative vision with Latin America], 2010."

[25] Information from the Ministry of the Interior.

to the macroeconomic projections provided in the National Budget Act and subsequent government estimates, the primary surplus will average 2.06% of GDP between 2011 and 2015. This means the NFPS will have total financing needs of US$1.43 billion per year between 2011 and 2015. The government plans to cover these requirements with disbursements from loans made by multilateral financial institutions and by issuing debt securities and using assets, preferably in local currency. For more detailed information, see Annex III.

4.2 Approvals of new Bank loans will rise from the 2005-2009 level of US$1.268 billion to US$1.797 billion in 2011-2015. This is consistent with the GCI-9 quantitative target of increasing the percentage of approvals for Group C and D countries through 2015. Between 2011 and 2015, the net flow of capital will be US$409 million (Table 1). This does not entail additional credit risk because Uruguay's debt with the IDB will fall from its end-2010 level of 4.9% of GDP to 4.1% of GDP in 2015 (Annex IV). At the same time, the government is planning to reduce total public debt from the end-2009 level of 69% of GDP to 40% of GDP in 2015.

4.3 In the event of a global or regional crisis that limits public and private sector access to international credit markets, the Bank may restructure its program of operations, giving priority to fast-disbursing loans. The debt sustainability analysis conducted for the financial scenario shows that assuming shocks are consistent with historic averages, the NFPS debt to GDP ratio would be between 21% and 40% in 2015 with 50% probability, and in excess of 59% with 5% probability (see electronic link).

Table 1 – IDB projections of financial flows and debt ratios (US$ millions)

IDB projections	2011p	2012p	2013p	2014p	2015p	Total
Approvals	185	383	401	404	424	1,797
Disbursements	170	230	208	303	216	1,129
Repayment of principal	116	123	138	166	177	719
Net flow of loans	54	108	71	138	39	409
Debt with the IDB						
US$ millions	2,016	2,124	2,195	2,333	2,372	
% External debt	13%	13%	13%	13%	13%	
% Multilateral public debt	48%	48%	48%	49%	48%	
% Public debt	8%	8%	8%	8%	8%	
% GDP	4.7%	4.6%	4.4%	4.3%	4.1%	

Only sovereign guaranteed operations are considered.

Sources: IDB Debt and Net Flows: IDB Finance Department/Finance Data Mart. External public debt, multilateral public debt, total public debt: BCU/MEF.

V. COUNTRY STRATEGY IMPLEMENTATION

A. Use of country systems

5.1 The most recent diagnostics[26] show a reasonable level of development of public financial management systems, as well as orderly, transparent governmental management, indicating a low

[26] Country Financial Accountability Assessment (CFAA, 2005), Managing for results in the public sector (PRODEV, 2007), and diagnostics of the Integrated Financial Information System (SIIF, 2008).

level of fiduciary risk for the country. Uruguay is engaged in a modernization process that will allow it to enhance the effectiveness of management. In order to contribute to this process, an evaluation is being conducted on the management of public finances using the methodology of the Public Expenditure and Financial Accountability Program. Its results are expected in the second half of 2011. The Bank will continue supporting Uruguay's General Accounting Office with the redesign of the Integrated Financial Information System for the adoption of international accounting standards,[27] progress in results-based management, and implementation of the accounting module for the financial management of projects financed by international agencies. It will also continue supporting the Office of the Auditor General with the modernization of its external auditing techniques

5.2 With respect to the use of financial management and control systems, the budget and treasury subsystems are used in 100% of Bank-financed operations, and the external control subsystem in 80%. During the strategy period, progress will be made on the use of the SIIF accounting and reporting subsystem until 50% of IDB-financed central government operation are covered.

5.3 The country has a well-regarded legal and institutional framework for government procurement, but challenges remain. There is no single policy and regulatory agency for government procurements, which has made it difficult to implement substantial reforms. The electronic procurement system has promoted transparency but does not yet cover all procurements. The publication of notices and awards for contracts financed from the national budget is obligatory but there are still legal and operational constraints. The Bank will support efforts to: (i) evaluate the national procurement system using the tool developed by the OECD Development Assistance Committee to identify areas in need of improvement; (ii) move ahead with the use of systems that could become best practices, such as the electronic procurement system for small contracts using the shopping procurement method; and (iii) strengthen policy and regulatory agencies to support the adoption of best practices that increase efficiency, reduce discretionary authority, and shorten the amount of time required by control agencies to analyze and validate procurement processes.

5.4 The Office of Planning and Budget (OPP) is responsible for monitoring the government's targets using the PEG-SEV. Its efforts have led to greater use of performance indicators in some sectors, although results-based monitoring is still new. Evaluations, which are also the responsibility of the OPP, are limited to a few programs. There is no framework law for the evaluation function, or preestablished methodologies. The need to strengthen institutional capacity for evaluation and monitoring has been identified, especially in terms of training personnel. The Bank will continue to provide support to strengthen evaluation and monitoring capacity at the OPP and at the ministries and related agencies.[28]

5.5 The data from official statistics systems are acceptable and reliable, underscoring the capacity of the institutions and their technical autonomy. Official data are used to monitor some Bank programs, as well as for research purposes by a number of international organizations, including the Bank itself and the United Nations Development Programme (UNDP) Human Development Index. Efforts to strengthen the country's evaluation systems are expected to result in greater use of the systems.

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[27] International Public Sector Accounting Standards (IPSAS).

[28] Technical cooperation operation UR-T1035 under the program to implement the external pillar of the Medium-term Action Plan for Development Effectiveness and operations with an institutional strengthening component to support sector entities.

5.6 All works performed in the country require the approval of the environmental monitoring system run by the National Environmental Department (DINAMA), which reports on the status of environmental and physical parameters and allows for their monitoring and control. The flow of investments is increasing, which means the country's institutional framework for environmental management must be strengthened. The Bank is supporting efforts to strengthen and modernize the DINAMA[29] in order to establish a National Environmental System and improve environmental impact assessments and environmental control.

B. Coordination with other development partners

5.7 Historically, the IDB Group has been the main lender in Uruguay, providing about 50% of multilateral resources. Its strategy vis-à-vis other donors has been based on coordination. From the sector viewpoint, the Bank works jointly on: (a) social protection with the United Nations Children's Fund; (b) science and technology with the World Bank, the European Union, and the Global Development Research Center; (c) neighborhood improvement with the European Union and the Spanish Agency for International Development Cooperation; and (d) fiduciary initiatives with the United Nations and the World Bank. The IDB Group has coordinated joint efforts to advise the government on the design of the new regulatory framework and strengthen capacity for the development of PPPs. For more detailed information, see Annex VI.

VI. IMPLEMENTATION RISKS[30]

6.1 ***Macroeconomic and fiscal risk.*** Uruguay has demonstrated strength following the 2008-2009 global crisis. However, a potential relapse in the global economy represents a latent risk for a small open economy. An external shock would slow growth, causing tax revenue to fall and the fiscal deficit to rise. This, in turn, could heighten perceived risk among investors, subjecting the country to higher external interest rates and/or limiting its access to credit. The Uruguayan government's commitment to maintaining prudent fiscal and monetary policy during the last global financial crisis is an extenuating circumstance that reduces the likelihood that this scenario will occur (see electronic link).

6.2 ***Private sector response risk.*** Although the new regulatory framework for PPPs (in the approval process) is expected to lead to greater private sector participation in the financing and management of infrastructure (roads, railways, ports, etc.), there is a risk that the conditions established may fail to attract private sector participation. There is an additional PPP-related risk that the capacities of the public stakeholders will not be strengthened according to schedule. Either circumstance would force the government to postpone investments or allocate additional public resources that are not presently provided in the National Budget Act. This risk will be continually monitored by SCF, IIC, and MIF specialists at the Country Office, at periodic meetings with the Private Sector Advisory Council, and in dialogue with the government.

6.3 ***Risk of reduced demand for Bank resources.*** The improvement in Uruguay's sovereign debt rating gives the country access to international financial products that are competitive with Bank

[29] Program to Support Environmental Management and Planning (1866/OC-UR).

[30] There are plans within the framework of the Report on the Ninth General Increase in the Resources of the Inter-American Development Bank to produce analyses of the macroeconomic sustainability of the borrowing member countries (including annual reviews), but the corresponding process and implications of this activity have yet to be defined by the Bank's Board of Executive Directors.

products. This situation, along with the strategy to de-dollarize the public debt, is generating greater demand for local currency financing, which could dampen demand for IDB resources in the period covered by the strategy. To mitigate this risk, the Bank is exploring the possibility of developing new products and instruments for mobilizing local currency financing.

ANNEX I. MACROECONOMIC AND SOCIAL INDICATORS

ECONOMIC INDICATORS	2006	2007	2008	2009	2010	2011f	2012f	
Real GDP growth (%)	4.3%	7.5%	8.5%	2.9%	8.5%	5.0%	4.2%	*
GDP at current prices (US$ billions)	19.8	24.0	31.2	31.5	40.3	43.3	46.5	*
Per capita GDP (US$)	5,976.9	7,206.2	9,351.3	9,420.5	11,997.9	12,843.7	13,740.8	*
Per capita GDP (US$ PPP)	10,416.0	11,490.0	12,704.4	13,144.4	14,296.1	15,121.2	15,916.9	*
Gross capital formation (% GDP)	19.8%	19.6%	23.0%	20.0%	17.9%	21.7%	22.1%	*
Gross national savings (% GDP)	17.4%	18.6%	17.5%	17.8%	18.4%	20.6%	20.6%	*
Unemployment rate (%)	10.9	9.5	7.7	7.3	6.8	6.9	6.8	*
Inflation (%)	6.4%	8.5%	9.2%	5.9%	6.9%	6.8%	6.5%	*
Exchange rate (Ur$/US$)	24.1	23.5	20.9	22.6	20.1	21.2	21.9	*
Real effective exchange rate (1986=100)	125.0	123.3	112.1	107.8	98.8	-	-	
Current account (%GDP)	-2.0%	-0.9%	-4.7%	0.6%	0.5%	-1.0%	-1.6%	*
Financial account (%GDP)	2.7%	2.1%	1.8%	-3.7%	-0.5%	1.0%	1.6%	*
Net foreign direct investment (%GDP)	7.5%	5.2%	5.8%	4.0%	4.1%	-	-	
Portfolio investment (%GDP)	8.5%	4.8%	-1.8%	-2.3%	-3.1%	-2.4%	-2.6%	*
International reserves (US$ billions)	3.1	4.1	6.4	8.0	7.7	7.9	8.1	*
Public sector primary balance (%GDP)	-0.5%	0.0%	-1.5%	-1.7%	-1.2%	-1.1%	-1.0%	*
Public sector gross debt (%GDP)	70.3%	63.2%	61.7%	61.0%	55.3%	52.8%	50.2%	*
SOCIAL INDICATORS								
Population (millions)	3.3	3.3	3.3	3.3	3.4	3.4	3.4	
Income gap (Gini coefficient)	44.6	44.9	42.4	43.2	42.1	-	-	
Indigence (% total population)	2.7	3.2	2.0	1.6	1.1	-	-	
Poverty (%total population)	34.4	30.5	22.4	20.9	18.6	-	-	
Over-25 unemployment rate	7.7	6.6	5.2	5.1	4.4	-	-	
Under-25 unemployment rate	29.3	26.2	22.0	21.3	20.6	-	-	
Unemployment rate among men (%)	8.8	7.4	5.8	5.8	5.4	-	-	
Unemployment rate among women (%)	14.4	12.9	10.4	10.0	9.0	-	-	
Internet users (per 100 people)	25.7	29.1	40.2	55.5	-	-	-	
Mobile telephones (per 100 people)	70.3	90.4	105.2	113.7	-	-	-	

World Economic Outlook (WEO) estimates (April 2011).

Source: BCU, Economic Commission for Latin America and the Caribbean, INE, and WEO

For the unemployment rate disaggregated by age and sex, only communities with more than 5,000 people were considered.

ANNEX II. SUMMARY OF THE NATIONAL BUDGET ACT*

The 2010-2014 National Budget, approved by the legislature in late 2010, and subject to an annual review of accounts, is the financial expression of the government's plan. The most important policy areas in terms of budget appropriations are those related to: (i) education; (ii) emergency housing; (iii) public security; and (iv) infrastructure. In addition, a number of actions and programs are given priority that are aimed at consolidating and strengthening essential areas of social policies.

Country Vision 2010-2014: A more inclusive and democratic society that regards justice and prosperity as key elements of progress towards greater social and economic development.	
Strategic pillar #1: Education: Democratization of access to quality education	
General objectives	Specific objectives
1.1 Greater inclusion of children and adolescents in the school system: Universal access at 4 years and expanded coverage at 2 and 3 years 30,000 children from disadvantaged backgrounds incorporated into full-day schools Retention in secondary school of 40% of the young people not studying or working More opportunities for young people from outside the capital region to attend university	1.1.1 Universal access, especially to early childhood education in disadvantaged sectors 1.1.2 New scholarship systems in place 1.1.3 Improvements in school infrastructure (Centers for Care of Children and Families, full-day schools, high schools, universities) 1.1.4 Education policies coordinated between institutions in the system
Strategic pillar #2: Housing: Consolidation of the low-cost housing policy to improve access to dignified and decent housing for broad sectors of the population	
General objectives	Specific objectives
2.1 Greater inclusion and socio-spatial integration	2.1.1 Relocation of communities living in unsuitable habitat 2.1.2 Reversal of social segregation and spatial fragmentation processes 2.1.3 Reconversion of properties reclaimed from illegal occupants
2.2 Rehabilitation of critical areas on the urban fringe	2.2.1 Neighborhoods consolidated and rehabilitation of critical fringe areas of towns and cities 2.2.2 Housing solutions incorporate technological innovation and research
2.3 Greater decentralization	2.3.1 Planned urban growth 2.3.2 Land developed to integrate heterogeneous social sectors in accordance with national, departmental, and municipal policies
2.4 Diversified housing solutions	2.4.1 Access to permanent rental housing provided to broad sectors of the population

General objectives	Specific objectives
	2.4.2 Sustainable housing solutions for people living or working in rural areas and small towns 2.4.3 Creation of instruments for the participation of private savings and private investment in the production of low-cost housing
Strategic pillar #3: Public security: Creation of a stable, safe environment for the development and well-being of the citizens and the full enjoyment of their rights and opportunities	
General objectives	Specific objectives
3.1 Professionalized police force	3.1.1 Structural reform of human resources and organizational reform of public security in the Ministry of the Interior
3.2 Lower juvenile delinquency rates	3.2.1 System of measures for adolescents in trouble with law 3.2.2 Greater coverage of services for adolescents in trouble with the law
3.3 Reduction in traffic accidents	3.3.1 Guaranteed safe transit for the population 3.3.2 Inspection and systemization of vehicle traffic on departmental roads 3.3.3 Road safety and accident prevention education
3.4 Reduction in fires and accidents	3.4.1 Prevention and investigation of accidents, toxic spills, natural events, recovery and poor management of radioactive material
Strategic pillar #4: Infrastructure: Creation of a strategic logistics hub for the distribution of goods from the southern region of Latin America	
General objectives	Specific objectives
4.1 Promotion of an effective and efficient multimodal transport system	4.1.1 Rehabilitation, maintenance, and development of national road infrastructure 4.1.2 Improved transport for people and cargo, with lower operating costs 4.1.3 Expansion of national port system 4.1.4 Promotion of PPPs for investments in logistics, port, and airport infrastructure
4.2 Diversified energy matrix	4.2.1 Promotion of clean energy 4.2.2 Regional energy integration

Strategic pillar #5: Social protection and security: Consolidation and strengthening of essential areas of social policies	
General objectives	Specific objectives
5.1 Social protection	5.1.1 Ensure the continuity of the social protection system implemented in the previous administration 5.1.2 Maintain crosscutting, integrated approach of education, health, social security, food, and housing policies 5.1.3 Deepen coordination between the various institutions in the country 5.1.4 Improve the targeting and coverage of programs
5.2 Social security	5.2.1 Increase in the minimum retirement benefit 5.2.2 National Health Fund for children of unemployed parents 5.2.3 Modifications to the cap on sickness benefits
Other programmatic areas:	
Area	Objectives
6. Health	6.1 Progress towards universal coverage of national health insurance 6.2 Promotion of comprehensive health benefits 6.3 Development of regulatory and oversight functions of the Ministry of Public Health 6.4 Human resources policy for the National Integrated Health System 6.5 Incentive for social participation throughout the country 6.6 Greater decentralization and regionalization of health services
7. National defense	7.1 Improved management systems
8. Work and employment	8.1 Promotion of active employment and job training policies 8.2 Promotion of labor relations
9. Productive development	9.1 Strengthening of the productive base for goods and services, combining crosscutting and sector policies, as well as innovation-intensive value chains, with an impact on local development and employment
10. Culture and sports	10.1 Increase in the level of production and enjoyment by people throughout the country, developing cultural rights, quality, and cultural diversity

	10.2 Incentives to establish a Uruguayan cultural presence abroad and dialogue between local culture and regional and international expressions 10.3 Development of specific social cohesion programs, supporting the cultural creativity of vulnerable groups 10.4 Promotion of community and competitive sports
11. Administration of justice	11.1 Advisory services, cooperation, and representation of public interests in the justice system 11.2 Administrative management and support services for courts and public defender's offices 11.3 Administrative justice in order to exercise jurisdictional function in cases subject to administrative law 11.4 Military justice administration
12. Legislative affairs	12.1 Provide administrative, management, and support services with respect to legislative affairs
13. Science, technology, and innovation	13.1 Promotion of academic research and support for basic sciences and their dissemination
14. Control and transparency	14.1 Control of fiscal and financial matters and the institutional management of the State 14.2 Control of management and proposal with corrective measures to increase transparency 14.3 Control of entities that receive public funds 14.4 Protection of consumer rights
15. Environment and natural resources	15.1 Solid waste and wastewater management; reduction of pollution; conservation of biological diversity and the land; spatial planning; research and development for environmental protection
16. Official registers and information	16.1 Production, registration, and dissemination of general information of public interest, national statistics, cartography, cadastral, and meteorological information, custody and protection of public documents, registration of identification of individuals and their civil status and vital statistics
17. General public services	17.1 Foreign policy, public policy on human rights, management of public funds, electoral services, human resources management, policies for the regulation and control of services to safeguard human rights

*Tables prepared by the authors based on the preliminary recitals of the National Budget Act.

ANNEX III. LENDING PROGRAM

Fiscal position. Uruguay's economy grew at a real rate of 8.5% in 2010. Meanwhile, the nonfinancial public sector (NFPS) posted a primary surplus of 1.9% of GDP and an overall deficit of 1.2% of GDP. According to the most recent government figures, growth of nearly 6% is expected for 2011. For the remainder of the country strategy period, the National Budget Act estimates annual growth of 4%. Against this backdrop of strong economic growth, the government expects to reach an overall fiscal deficit of 1.6% of GDP in 2011 and 0.7% of GDP in 2015.

Medium-term financing needs. The NFPS had gross financing needs of US$1.48 billion in 2010. Its financing needs will average US$1.43 billion per year between 2011 and 2015. These needs are expected to be covered with disbursements from loans by multilateral financial institutions (US$417 million per year on average between 2011 and 2015) and by issuing debt securities locally and abroad (US$1.005 billion per year on average between 2011 and 2015) and using assets.[31]

Financing needs (US$ millions)

IDB projection based on historical MEF, BCU, and National Budget Act data

	Nonfinancial Public Sector						
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	
USES	**2,268**	**2,522**	**2,149**	**2,122**	**2,352**	**2,923**	
Interest payments	965	965	965	1,021	1,057	1,105	(1)
Amortizations	1,156	1,389	1,135	1,052	1,246	1,769	(1)
Other	147	168	49	49	49	49	(2)
SOURCES	**2,268**	**2,522**	**2,149**	**2,122**	**2,352**	**2,923**	
Primary balance	786	670	932	998	1,102	1,228	(3)
Multilateral disbursements	100	315	426	385	561	400	(4)
IDB	*54*	*170*	*230*	*208*	*303*	*216*	(5)
Debt issues in local or international market	271	1,727	645	887	579	1,185	(6)
Use of assets (reduction of reserves)	957	-313	70	-216	32	32	(2)
Other	*154*	*123*	*76*	*76*	*78*	*78*	(2)

(1) Central Bank of Uruguay, NFPS debt amortization schedule to March 2010, to which principal and interest payments from 2011 to 2015 on debt contracted between 2010 and 2015 are added.

(2) Figures for 2010-2014 taken from the debt report prepared by the Debt Management Office. The figure for 2015 is assumed.

(3) Figures for 2010-2014 taken from the budget presented by the executive branch to Congress.

(4) Figures have been calculated on the assumption that the IDB will maintain its historical disbursement rate. The figure for 2010 is from the debt report prepared by the Debt Management Office.

(5) IDB.

(6) Central government debt issues for 2010-2014 taken from the budget presented by the executive branch to Congress; the 2015 figure is assumed. Debt issues from the rest of the NFPS are assumed to balance total uses and sources.

[31] Figures estimated by the IDB.

IDB lending. In the baseline scenario constructed on the macroeconomic assumptions of the five-year budget bill, approvals of new sovereign guaranteed loans in the period 2011-2015 would total US$1.797 billion. The net flow of capital for 2010 was negative by US$408 million, while for the 2011-2015 period it will be a positive US$409 million. This does not entail additional risk because Uruguay's debt with the IDB would fall from its 2010 level of 4.9% of GDP to 4.1% of GDP in 2015, with a reduction in the relative weight of the debt. According to projections by the Ministry of Economy and Finance, public debt would fall from the 2009 level of 69% of GDP to 40% of GDP in 2015. In the case of non-sovereign guaranteed loans, approvals are expected to increase with respect to 2009 levels.

The country strategy calls for a **technical cooperation and knowledge program** to be formulated alongside the lending program, to ensure its consistency with the country's priorities and the Bank's cycle of operations. For the period 2011-2012, an analytical program was developed with the Uruguayan government for the purpose of mobilizing nonreimbursable technical cooperation resources on the order of US$3 million. This program complements the operations program in the sectors included in the country strategy, with an emphasis on environmental issues, efficiency in public social spending, human capital formation, and regional integration. The program will be updated annually to ensure that the interventions are timely and tailored to the specific needs of the country.

ANNEX IV. GROSS AND NET LOAN FLOW SCENARIOS (IDB DATA)

	2004	2005	2006	2007	2008	2009	2010
Approvals	77	268	190	101	383	326	88
Disbursements	53	242	115	113	337	477	54
Repayment of principal	113	220	520	134	139	162	463
Net flow of loans	-60	22	-405	-21	199	315	-408
Debt with the IDB							
US$ millions	2,265.9	2,251.4	1,865.3	1,850.3	2,056.0	2,371.0	1,962.6
% External debt	19%	20%	18%	15%	17%	17%	13%
% Multilateral public debt	39%	41%	69%	69%	65%	52%	48%
% Public debt	17%	16%	13%	11%	12%	11%	8%
% GDP	16.5%	12.9%	9.4%	7.7%	6.6%	7.6%	4.9%

Note

Only sovereign guaranteed operations are included.

Sources

Approval and disbursement figures are projections based on preliminary dialogue with the country.

Debt with the IDB and net flow of loans: IDB Finance Department/Finance Data Mart.

External public debt, multilateral public debt, total public debt: BCU/MEF

IDB projections	2011p	2012p	2013p	2014p	2015p	Total
Approvals	185	383	401	404	424	1,797
Disbursements	170	230	208	303	216	1,129
Repayment of principal	116	123	138	166	177	719
Net flow of loans	54	108	71	138	39	409
Debt with the IDB						
US$ millions	2,016	2,124	2,195	2,333	2,372	
% External debt	13%	13%	13%	13%	13%	
% Multilateral public debt	48%	48%	48%	49%	48%	
% Public debt	8%	8%	8%	8%	8%	
% GDP	4.7%	4.6%	4.4%	4.3%	4.1%	

Only sovereign guaranteed operations are included.

Sources

Debt with the IDB and net flow of loans: IDB Finance Department/Finance Data Mart.

External public debt, multilateral public debt, total public debt: BCU/MEF.

ANNEX V. RECOMMENDATIONS FROM THE OVE COUNTRY PROGRAM EVALUATION

Recommendations from the Country Program Evaluation	Incorporation into the Bank's Country Strategy with Uruguay 2010-2015
Recommendation 1 – Knowledge as a strategic outcome of the program: Based on the identification of growth constraints with the country, it is suggested that an ongoing program of studies be devised (including tentative timetable, topics, objectives, rationale) to ensure the availability of resources to finance the analytical work needed to analyze: (i) where action is needed; (ii) how to act in those areas, i.e. what type of approach and intervention model should be used; and (iii) the general goals sought. This work agenda should be part of the strategic exercise, to ensure that it does not just identify Bank action focus areas but serves also as a country program implementation tool that can be used, in turn, to monitor and evaluate the program.	The Bank's country strategy with Uruguay calls for a technical cooperation and knowledge program to be formulated alongside the lending program, to ensure its consistency with the country's priorities and the Bank's cycle of operations (see Annex III). To this end, the Bank has been working on an ongoing basis with the Ministry of Economy and Finance (MEF) since June 2010 and with the Office of Planning and Budget (OPP) more recently to identify and prioritize the technical cooperation program, which includes analytical work. However, the Bank allocates resources on an annual basis, which makes it hard to make longer-term financing commitments. An ongoing program such as the one suggested would only be feasible if the resource allocation mechanism were modified for this purpose.
Recommendation 2 – Improve the evaluability of designs and the evaluation of the Bank's contribution: It is suggested that support be provided to fix the current information gaps to be able to demonstrate, insofar as practicable, the results of planned loans, to improve the evaluability of project designs and prevent them from being approved without baselines for the problems that warrant the Bank's involvement. To that end, it is suggested that beneficiaries and relevant public and private actors be integrated and that efforts be made to devise indicators that are more consistent with the development objectives of the interventions. Metrics should be identified with the Bank's contribution to country performance. Thus, in selecting the results evaluation methods, the preference should be for those that are best adapted to the information restrictions, knowledge requirements, and depth of analysis previously agreed upon with the national authorities, but use of these methods should not be a condition precedent to execution and should not present a hindrance to subsequent incorporation as part of the normal public administration of the institution receiving support. The country program and its interventions will thus progress gradually as the quality of the country expenditures being supported improves, and not only as a function of financial importance. The progress of country program activities in this regard will require greater analytical efforts and projection of the microeconomic logic that links the expected returns on the Bank's interventions and resources with progress made at the beneficiary level and in the use of national resources.	Following the guidelines established in the Development Effectiveness Framework, the country strategy has been designed to incorporate indicators that can be used to measure the Bank's contribution to the established targets. Moreover, the Framework stipulates that each individual intervention to be supported by the IDB Group must have a results matrix to ensure its evaluability. To this end, efforts are being made to ensure that every operation has data collection mechanisms in place to identify the baseline and measure the specific indicators presented in the respective results matrix. It should be noted that the average evaluability of projects approved by the Bank for Uruguay has improved significantly, from a score of 4.8 in 2008 to a score of 7.7 in 2010, placing Uruguay above the Bank average (6.9). Annual reviews will be conducted with the national authorities in order to assess the status of strategy implementation and provide an opportunity to adjust the parameters of the strategy.
Recommendation 3 – A programmatic approach that is more cross-cutting: Complement the Program's eminently sector-oriented approach, which centers on financial resources, with a more coordinated approach	During preparation of the Bank's country strategy with Uruguay (2010-2015), a comprehensive approach was taken as a way to incorporate as a criterion in the initial

that better accommodates the needs of the country, which are increasingly programmatic and cross-cutting, involving sector stakeholders, government levels, and the private sector as needed. The Bank should also revise its financial and administrative mechanisms to better target its intervention and supervision models to this cross-cutting approach.	sector prioritization process the holistic and cross-cutting nature of each sector and the value-added of this approach. The Bank has been prioritizing not only cross-sector work but also public-private work in the design and supervision of the different interventions it is supporting. However, consideration should be given to the challenges involved in implementing a cross-cutting approach, taking into account the capacity and transactional costs associated with coordinating diverse entities on the part of both the government and the Bank.
Recommendation 4 – Greater programmatic focus on sustainable growth: Improve the targeting of objectives and the coherence of the Program with respect to the challenge of long-term sustainable growth. To that end the Bank should promote an approach to identify areas where its engagement could have greatest impact or contribute most value-added with respect to the challenge of sustainable growth, with particular regard to: (i) institutional and public administration constraints that could impede the implementation of projects in this area; (ii) fixing coordination and market failures that are roadblocks to more innovative entrepreneurship and a broader knowledge economy; and (iii) the need to support efforts to move toward diversification of the country's production and export bases in a way that builds on its comparative advantages and is consistent with trade integration on a global scale.	The Bank's new country strategy with Uruguay proposes to focus on interventions that support long-term competitiveness and global integration and improve infrastructure (transport and energy) so it does not become a brake on long-run growth. In addition, it proposes science and technology as a strategic area in which operations will be geared to: promoting private investment in development and technological modernization, training and incorporating specialized human resources, and deepening collaboration between firms, universities, and technology centers. It also identifies the agroindustrial sector as an area for engagement, in which it will promote sustainable resource use, rural development, and enhanced capacity for environmental control. The strategy will also support services exports, including tourism and services with considerable value added (professional services). Lastly, it will enhance human capital productivity, through technical assistance for job training systems and improvements in secondary education (see Chapter III of the Strategy).
Recommendation 5 – ... consistently with ongoing reductions in equity problems: Address in the Program the issues of equity and income inequality as they pertain to: (i) continued support for closing gaps in the social welfare structure in accordance with the long-range needs of Uruguayan society, particularly in the case of no-growth scenarios or scenarios in which there are mismatches in human capital supply and demand; (ii) greater emphasis on raising the quality of public goods to improve basic services for the population and increase its production capacity. These are conditions that will help sustain long-run growth with greater equality of opportunities, taking advantage of the avenues that may open as the country's production model evolves.	The new country strategy addresses these issues in three priority areas: (i) social protection, to improve the living conditions of vulnerable groups, with an emphasis on children and adolescents; (ii) education and job training, seeking to increase the inclusion and retention of students from poor households in the school system and to develop information for the formulation, implementation, and evaluation of labor market policies; and (iii) urban development and security, to improve the living conditions of city dwellers (see Chapter III). There are plans to conduct impact evaluations of social protection policies in order to contribute to the efficiency of public expenditure as well as the quality of the corresponding services. Lastly, the IDB will work with the MEF and the World Bank on the Public Expenditure Review as part of ongoing efforts to improve the quality of public policies in the social and other sectors.

ANNEX VI. COORDINATION WITH OTHER DEVELOPMENT PARTNERS

The IDB maintains fluid relations with the main multilateral institutions that are active in Uruguay: the World Bank, the Andean Development Corporation (CAF), the United Nations system, the European Union, and the Spanish Agency for International Development Cooperation, as well as bilateral agencies in Spain, Japan, and Korea. These relationships have been strengthened through recent initiatives to deepen dialogue and coordination between these institutions (meetings and group and bilateral forums). The government's notable efforts to strengthen coordination are reflected in the recently created Agencia Uruguaya de Cooperación Internacional [Uruguayan Agency for International Cooperation] and the office created within the Ministry of Economy and Finance to coordinate multilateral lending institutions.

At the sector level, the following are specific examples of coordination:

In the social sector, the National Strategy for Children and Adolescents Support Program (UR-L1046) received technical assistance during preparation from the United Nations Children's Fund in the form of a social policy specialist who participated in the preparation missions;

In science, technology, and innovation, the Bank's support for Uruguay's Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency] is coordinated with a loan from the World Bank and a grant from the European Union, an arrangement that requires the three teams to meet frequently;

The Goes Neighborhood Improvement Program is part of a repopulation and revitalization strategy that the government is pursuing in the neighborhood of Goes, with the participation of the Ministry of Housing, Spatial Planning, and the Environment, and several donors and stakeholders (IDB, MIF, European Union, and the Spanish Agency for International Development Cooperation) active in the public security, gender, spatial planning, and national heritage sectors;

In the water and sanitation sector, the IDB will administer a grant from the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean, to guarantee that rural communities and schools gain access to better water and sanitation services.

In addition, the IDB's fiduciary and procurement sector has co-organized and participated alongside the UNDP and Uruguay's Agency for the Development of Electronic Government and the Information and Knowledge Society (AGESIC) in technical workshops on government procurements.

Lastly, the IDB has coordinated efforts related to the topic of public-private partnerships with the World Bank, the International Monetary Fund, and the CAF.

There will be opportunities in the future to work with the Japan Bank for International Cooperation and the Japan International Cooperation Agency.

Deepening dialogue between donor agencies in the country has made it possible to share information on the areas in which each plans to work in the future. With respect to **reimbursable**

international cooperation, the main lenders are the IDB, the World Bank, and the CAF, in order by the size of their portfolios in the country.

As of 31 May 2011, the active portfolio of the **World Bank** included seven investment loans totaling US$243 million in the following areas: primary education; rural access and transportation infrastructure; national resources management and biodiversity; health; water; and institution-strengthening.

Approvals totaling US$700 million are planned for the next five years, of which US$500 million will be for investment loans and US$200 million will be for fast-disbursing loans. The World Bank's new country assistance strategy for Uruguay rests on four pillars: (i) reduction in macroeconomic vulnerability and strengthening of public administration; (ii) competitiveness and infrastructure; (iii) agriculture, the environment, and climate change; and (iv) social inclusion and equity. At the sector level, the World Bank will continue to support the sectors in which it has traditionally been active (primary education, transport, innovation, institution-strengthening, health, energy, and natural resources), with particular emphasis on education (full-day schools) and transport.

In addition, with the objective of emphasizing technical assistance support targeted to the needs of the country, the World Bank will implement an annual program agreed upon with the government. The indicative program for the next two years includes: an evaluation of public social spending (in coordination with the IDB), health reform, rural migration, transportation, primary education, sanitation, adaptation to climate change, business climate strengthening, and South-South exchanges, with an emphasis on the Ceibal Plan.

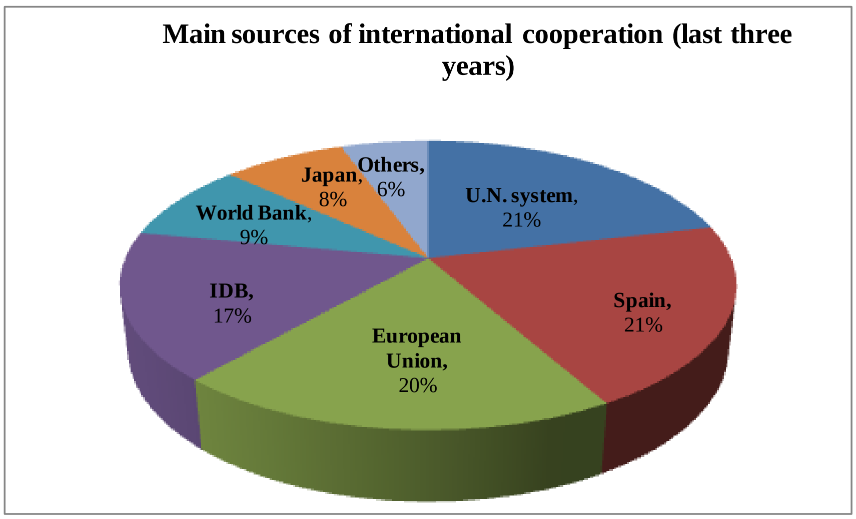
As of 31 May 2011, the **CAF** had an active portfolio in Uruguay (including its Human Development Fund) totaling US$570 million, of which US$280 million was disbursed for a contingency line of credit for US$400 million. The remaining US$290 million corresponded to investment loans primarily related to infrastructure (road, electricity, water and sanitation) and microfinance (Human Development Fund for US$180,000). Recently, the government asked the CAF to renew the contingency line for the undisbursed balance of US$120 million.

The CAF has strengthened its presence in the country, increasing its annual average lending in the country from US$70 million in 2005 to US$690 million in 2011. The focus of its support in Uruguay has been on infrastructure development, particularly in the road, energy, and social sectors. Although it has not yet reached an agreement with the government on a new intervention strategy, it expects to support: (i) electric energy (generation, transmission, and distribution) and alternative energy projects and wind parks, probably in partnership with the private sector; (ii) social infrastructure for the development of water and environmental sanitation services, treatment plants, additional irrigation capacity, and reduction of losses; and (iii) road infrastructure: maintenance and rehabilitation of the road network.

With respect to **nonreimbursable international cooperation**, 364 active projects have been identified totaling approximately US$190 million.[32] In 2010 alone, US$54 million was

[32] According to information compiled by the OPP Department of International Cooperation.

mobilized.[33] The main areas of cooperation have been: the environment; decentralization and local development; industry and microcredit; sexual and reproductive health; and gender. There are currently 39 sources of international cooperation in Uruguay, including: the United Nations system (represented by: the UNDP, the U.N. Environment Programme, the U.N. Population Fund, the U.N. Educational, Scientific and Cultural Organization, the U.N. Entity for Gender Equality and the Empowerment of Women, the U.N. Children's Fund, the Food and Agriculture Organization, the U.N. Volunteers, the Pan American Health Organization – World Health Organization, and the following funds: the Global Environment Facility, the Montreal Protocol, and the Uruguay One U.N. Coherence Fund); the European Union; Spain; the IDB; the World Bank; the Southern Common Market; and the governments of Italy and Japan. In addition to these sources, contributions have also been made by other countries and international organizations, such as France, Brazil, Canada, the Organization of American States, Argentina, China, Mexico, Switzerland, and Chile.



[33] The section corresponding to international cooperation is based on the study "Status of International Cooperation in Uruguay," April 2010, prepared by the OPP Department of International Cooperation and subsequent updates.

ANNEX VII. DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.
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 2011-2015

STRATEGIC ALIGNMENT *(measures two dimensions: (i) the degree of consistency between the strategy objectives and the country's development challenges, on one hand, and the government's priorities nd plans, on the other; and (ii) the use of a blend of products (financial, knowledge, and technical assistance) to attain the proposed objectives and identify other donor agencies and their areas of action):*

Consistency with strategy objectives: The country strategy identified in the following areas of work: (i) transport; (ii) energy; (iii) water, sanitation, and solid waste; (iv) science and technology; (v) social protection; (vi) education and job training; (vii) agroindustrial sector; (viii) services exports; (ix) public finances; and (x) urban development. All selected areas address important development challenges in Uruguay (Note on Development Challenges) and are consistent with the government's priorities as established in the 2010-2014 National Budget Act. The selected areas of work are the result of the dialogue between the country and the Bank.

Product blend and participation of other donors: The country strategy calls for the use of various Bank instruments: sovereign guaranteed operations, non-sovereign guaranteed operation, technical cooperation operations. The country strategy takes into consideration the interventions of other multilateral donors such as the World Bank, the Andean Development Corporation (CAF), the United Nations system, the European Union, and the Spanish Agency for International Development cooperation, as well as bilateral agencies in Spain, Japan, and Korea .

EFFECTIVENESS *(measured as the extent to which the country strategy is expected to achieve its objectives based on a review of four dimensions: (i) the quality of the diagnostics supporting the Bank's action in each area of work; (ii) the quality of the results matrix accompanying the strategy; (iii) the use and strengthening of country systems; and (iv) the analysis of the lending framework* ***:***

Effectiveness dimensions	%
I. Sector diagnostics	
- Sector diagnostic assessment (includes main subsectors)	100
- Identifies the main problems based on empirical evidence	100
- Identifies the main beneficiaries	100
- Identifies and assesses factors contributing to the problems identified	100
- Presents the policy framnework and a sequence of events for Bank intervention	100
- The diagnostics match the objectives presented in the strategy	100
II. Results matrix	
- Expected results are clearly defined	92
- Indicators are based on results and SMART	85
- Indicators have baselines	92