

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **URUGUAY**

### **PROGRAM FOR THE DEVELOPMENT OF EMERGING TOURIST DESTINATIONS**

**(UR-L1155)**

#### **SECOND INDIVIDUAL LOAN OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR NATIONAL TOURISM DEVELOPMENT**

**(UR-O1149)**

#### **LOAN PROPOSAL**

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## ABBREVIATIONS

ANDE	National Development Agency
ANII	Agencia Nacional de Investigación e Innovación [National Agency for Research and Innovation]
CCLIP	Conditional credit line for investment projects
CCP	Corredor de Pájaros Pintados [Painted Birds Corridor]
CCZ	Centro comunal zonal [a political subdivision of Montevideo]
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
IPEs	Instituciones Patrocinadoras de Emprendimientos [Institutions Sponsoring Startups]
IRR	Internal rate of return
MINTUR	Ministry of Tourism
MSME	Micro, Small and Medium-sized Enterprises
NCB	National competitive bidding
NPV	Net present value
SIIF	Sistema Integrado de Información Financiera [Integrated Financial Information System]
TCA	Tourism characteristic activity

## PROJECT SUMMARY

### URUGUAY PROGRAM FOR THE DEVELOPMENT OF EMERGING TOURIST DESTINATIONS (UR-L1155)

### SECOND INDIVIDUAL LOAN OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR NATIONAL TOURISM DEVELOPMENT (UR-O1149)

Financial Terms and Conditions				
<b>Borrower:</b>			<b>Flexible Financing Facility <sup>(a)</sup></b>	
Eastern Republic of Uruguay			<b>Amortization period:</b>	25 years
<b>Executing Agency:</b>			<b>Disbursement period:</b>	5 years
Ministry of Tourism (MINTUR)			<b>Grace period:</b>	5.5 years <sup>(b)</sup>
<b>Source</b>	<b>US\$</b>	<b>%</b>	<b>Interest rate:</b>	LIBOR-based
<b>IDB (Ordinary Capital):</b>	6,000,000	83	<b>Credit fee:</b>	(c)
			<b>Inspection and supervision fee:</b>	(c)
<b>Local:</b>	1,250,000	17	<b>Weighted average life (WAL):</b>	15.25 years
<b>Total:</b>	7,250,000	100	<b>Approval currency:</b>	United States Dollars
Project at a Glance				
<p><b>Project objective:</b> The objective of the CCLIP is to help generate employment and income in emerging destinations, consolidating tourism activity as a factor in balanced regional development. The objective of the second individual operation is to increase tourism spending in three emerging destinations (Lower Santa Lucia River Basin Corridor; Minas Corrales-Tacuarembó Northern Corridor; and Calera de las Huérfanas), as tourism is an input that triggers employment and income at the local level.</p>				
<p><b>Special contractual conditions precedent to the first disbursement of the loan:</b> The Ministry of Tourism (MINTUR) will submit evidence that the <a href="#">program Operations Manual</a> has entered into effect and includes, in accordance with the terms agreed upon with the Bank: (a) the environmental and social management framework; (b) the training and prior professional experience required for each member of the execution unit and the outputs expected from its management; and (c) the criteria for designating departmental governments as subexecuting agencies for the program (paragraph 3.6).</p>				
<p><b>Special contractual conditions of execution:</b> (i) prior to beginning the execution of the works planned under Component I, MINTUR or the relevant subexecuting departmental government will submit, to the Bank's satisfaction, the corresponding technical, environmental, and economic viability studies and permits (paragraph 3.7); (ii) prior to starting activities related to the competitive fund under Component II, MINTUR will submit, in accordance with the terms previously agreed upon with the Bank, evidence of: (a) the signing and entry into effect of a Participation Agreement between MINTUR and the National Development Agency (ANDE); and (b) the entry into effect of the competitive fund's Operating Regulations (paragraph 3.2); (iii) prior to the designation of a specific departmental government as a program subexecuting agency, MINTUR will submit, to the Bank's satisfaction, evidence that the agreed requirements have been met, specifically: (a) the signing and entry into effect of the respective Participation Agreement; (b) the appointment of the subexecuting agency's team; and (c) the satisfactory assessment of the institutional capacity of that departmental government, following the Bank's analytical methodology (paragraph 3.3); and (iv) prior to issuing the first public invitation to bid on works under Component I under the jurisdiction of a participating national or departmental agency, MINTUR will submit evidence that the respective Institutional Cooperation Agreement has been signed and has entered into effect, in accordance with the terms previously agreed upon with the Bank (paragraph 3.5).</p>				
<p>The borrower will also fulfill the special contractual conditions of execution set forth in Annex B of the <a href="#">environmental and social management report</a>.</p>				
<p><b>Exceptions to Bank policies:</b> None.</p>				

Strategic Alignment			
<b>Challenges:</b> <sup>(d)</sup>	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
<b>Crosscutting themes:</b> <sup>(e)</sup>	GD <input type="checkbox"/>	CC <input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take market conditions as well as operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problems, and rationale

- 1.1 **Socioeconomic context in Uruguay.**<sup>1</sup> Uruguay's economy has grown continuously over the past 15 years, with annual average growth of 4.1% from 2003 to 2018. More than 60% of the country's population is middle class, and moderate poverty decreased from 32.5% in 2006 to 8.1% in 2018. In 2017, per capita gross national income adjusted for purchasing power parity was US\$21,870, which places Uruguay among high-income countries. These gains are linked to prudent macroeconomic policies and efforts to diversify products and markets.
- 1.2 **Importance of tourism in Uruguay.**<sup>2</sup> Tourism has played an increasingly important role within the country's productive matrix and has become the activity that generates the most foreign currency. With US\$2.344 billion in revenues from inbound tourism in 2017, the sector accounted for 49.2% of service exports and 14.4% of total exports. In the same year, tourism directly contributed 8.6% of gross domestic product (GDP), generated more than 110,000 jobs, and attracted a total of US\$1.014 billion in capital investment (7.7% of total investment). Arrivals of international visitors grew a cumulative 30.1% between 2013 and 2017, rising to US\$4.2 million.<sup>3</sup> Notably, Uruguay is the Latin American country with the most tourist arrivals relative to its population: the number of international visitors increased over the last decade from 53% of the population to an annual ratio of 1.06 visitors per inhabitant in 2017. As inbound tourism represents 65.4% of total tourism spending in Uruguay, domestic tourism is thus becoming increasingly important for the sector's development. In 2016, domestic tourists made 6 million trips in the country, of which 82% included at least one overnight stay. However, domestic tourism spending per visitor is still much lower than international tourism spending per visitor.<sup>4</sup>
- 1.3 **Challenges.** The global economic landscape shows signs of increased tariff protection that could slow growth in trade, and geopolitical risks heighten uncertainty. This global environment, coupled with the persistence of several structural constraints in Uruguay, especially global value chain integration, education, and capacity building, could hinder progress towards the country's sustained development objectives. Uruguay's Office of Planning and Budget has begun to prepare a National Development Strategy 2050 that will serve as an input for the development of long-term policies to help overcome these constraints, and it recognizes that the production matrix needs to be transformed in order to continue to boost the country's growth. Tourism is included as one of the ten strategic industry clusters for the coming years.
- 1.4 To maximize tourism's capacity to contribute to Uruguay's development, the following challenges must be overcome:

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<sup>1</sup> World Bank.

<sup>2</sup> World Tourism Organization, Ministry of Tourism (MINTUR), Uruguay XXI, and the World and Travel Tourism Council.

<sup>3</sup> Including same-day visitors.

<sup>4</sup> US\$127.3 spent per domestic tourist versus US\$548. MINTUR data, 2016.

- a. **The first challenge** is the need to diversify the international demand portfolio on two levels by: (i) reducing dependence on neighboring countries; and (ii) deepening segmentation of the current and potential market.
- i. The vulnerability linked to dependence on two neighboring countries must be reduced. In 2017, these countries accounted for 80.2% of total international visits and 80.9% of inbound tourism spending, with Argentina contributing 67.4% of that spending.<sup>5</sup> Although the border effect always entails an increase in the number of visits, this enormous dependence on neighboring countries, and one country in particular, increases Uruguay's vulnerability to shocks in the tourism market, as demonstrated by the crisis surrounding the free convertibility policy in 2001 and the conflict produced by closure of the Fray Bentos-Puerto Unzué international bridge in 2006. This is also borne out by an analysis of [panel data](#) based on 1,794 observations to identify the most important determinants in the selection of tourism destinations on regional and long-haul outbound markets. Income is the most significant variable for Uruguay's two neighboring markets: income elasticity is 1.3 in the Argentine market and 3.3 in the Brazilian market. High elasticity is advantageous when a country is in a period of expansion but problematic in times of stagnation or crisis. Uruguay did in fact experience a decline of almost -13% in arrivals and tourism spending from Argentina in 2018 due to the macroeconomic crisis that affected the country from April onward. Brazil also recorded a decline in both indicators (-7.4% and -8.6%, respectively), due to its weak economic recovery since the recession of 2015 and 2016.<sup>6</sup> As a result of the two markets' enormous relative share of the inbound tourism portfolio, Uruguay saw an overall decrease of almost -6% in international arrivals and -8% in inbound tourism spending in 2018. Tourism spending per visitor has also been decreasing gradually. Spending per Argentine visitor decreased from US\$628.7 in 2014 to US\$602 in 2018, while spending per Brazilian visitor also decreased from US\$635 to US\$574 over the same period.
  - ii. Several indicators underscore the need to deepen the market's segmentation. First, current demand is highly seasonal, as 51% of international tourism spending occurs in the first quarter of the year.<sup>7</sup> It is important to generate new offerings that do not depend on the climate and to attract visitors with other travel timing patterns to reduce this seasonality, because destinations face inefficiencies when they have to contend with sharp peaks and valleys in demand. Second, two reasons account for almost 50% of inbound tourism: (a) sun and sand trips are the source of almost 30% of international arrivals, which explains the seasonal consumption pattern mentioned above. This group, which is the most numerous, does not generate

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<sup>5</sup> MINTUR, Inbound Tourism Survey microdata.

<sup>6</sup> MINTUR, Inbound Tourism Survey microdata, 2018.

<sup>7</sup> MINTUR 2018.



the most spending per visitor;<sup>8</sup> and (b) visits to friends and family are the source of 18% of total arrivals, which indicates a certain disconnect between the available tourism offering and the reason why a trip is initiated. This group generates one of the lowest levels of spending per visitor (US\$423.5, below the national average).<sup>9</sup> Third, tourism spending by Argentine and Brazilian tourists in Uruguay is significantly lower than average spending by these same markets at the international level, which indicates that, even in these two traditional markets, attracting visitors with different consumption patterns than those who are already arriving is possible, provided that products tailored to their expectations are produced and offered.<sup>10</sup> Fourth, over half of international visitors have previously visited the country more than five times. The loyalty effect is high, which is positive. However, this figure also demonstrates a need to increase awareness of Uruguay among potential tourists. Findings from the panel data analysis indicate that the effectiveness of tourism marketing is a factor that also influences outbound markets. According to the model, a one-point improvement in this variable increases visitor arrivals by 36.7%. A [diagnostic assessment](#) carried out during program preparation has found that the volume of online searches for Uruguay, in the category of travel and tourism, has decreased by an average of -31.7% in comparison with 2010. Therefore, Uruguay's visibility in potential markets needs to be increased by strengthening its tourism marketing.

- b. The **second challenge** is the geographic deconcentration of tourism activity. Between 2011 and 2018, 90% of investments made in tourism occurred in the departments of Maldonado and Montevideo.<sup>11</sup> In addition, of the country's seven tourism zones, 47.9% of international arrivals and 68.7% of international tourism spending were concentrated in Punta del Este and Montevideo in 2018, while domestic tourists also opted for the country's southern and eastern areas (68% of domestic trips and tourism spending).<sup>12</sup> This pattern of consumption and investment is logically reflected in tourism GDP: the department of Montevideo produces 50.6% of total tourism GDP, followed by Canelones (14.4%), and Maldonado (11.5%).<sup>13</sup> The economic benefits of tourism activity are not reaching different regions with the same intensity, because idle tourism-oriented resources are underutilized. However, even within dominant departments tourism activity is unevenly distributed: in Montevideo, tourism is concentrated along the coast and in the

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<sup>8</sup> Average 2014-2018. Of the 15 reasons for travel listed in the inbound tourism survey, the sun and sand segment ranks 7th in terms of spending per visitor.

<sup>9</sup> MINTUR, average for 2014-2018.

<sup>10</sup> From 2014 to 2018, average spending by an Argentine tourist in Uruguay was US\$602.5, compared to the average spending per Argentine tourist worldwide of US\$1,156. Average spending by a Brazilian tourist in Uruguay was US\$570, compared to an average spending per Brazilian tourist worldwide of US\$2,426. MINTUR and World Development Indicators.

<sup>11</sup> Comisión de Aplicación de la Ley de Inversiones [Investment Act Enforcement Commission] (COMAP).

<sup>12</sup> MINTUR 2017.

<sup>13</sup> Average for 2012-2018.

southeast (five of the department's 18 *centro comunal zonal* (CCZ) districts generate 49.5% of tourism GDP).<sup>14</sup> Likewise, tourism flow is concentrated in three communities in Canelones (Atlántida, Parque del Plata, and Ciudad de la Costa) and most predominant in Punto del Este in the department of Maldonado. This intradepartmental concentration is a relevant consideration given the high volume of international visits with respect to the population mentioned above and the need to relieve pressure on the most congested destinations, as well as the need to distribute the economic benefits of tourism more equitably, even within the departments that are currently the most visited.

- 1.5 **Rationale for the second program under the Conditional Credit Line for Investment Projects (CCLIP).** Aware of how important it is to overcome the two identified challenges—the need to diversify demand and to geographically deconcentrate tourism activity—some years ago the tourism authorities began efforts to promote a new dynamic in the country's tourism development. These efforts include two notable operations carried out through the Ministry of Tourism (MINTUR) with the Bank's support: the Program to Enhance the Competitiveness of Strategic Tourist Destinations (loan 1826/OC-UR) and the Program to Support the Tourism Sector (loan 2601/OC-UR), both of which have now been satisfactorily completed. These two operations generated new investments in tourism. Program [1826/OC-UR](#) financed interpretive centers in Colonia and Rocha and planning actions in the hot springs region. Notable program achievements include beneficiary destinations' increased share of total destinations visited in the country (thus contributing to the deconcentration of visits). Program 2601/OC-UR has supported the creation of a network of small nautical facilities and the development of tourism-related businesses in the Uruguay River Corridor (Painted Birds Corridor (CPP)). The [final evaluation](#) found that the perception of the level of tourism activity was greater in the program's areas of intervention than in areas where there were no interventions. The data show that tourism spending per international visitor increased in the CPP, exceeding the national average, in the three types of tourism supported by the operation (nautical, cultural, and ecotourism).<sup>15</sup>
- 1.6 Demand diversification and geographic deconcentration are long, gradual processes. Therefore, to continue to consistently support the efforts that are underway, the government asked the Bank for a CCLIP to support National Tourism Development (operation UR-O1149), which was approved along with its first individual operation (the Tourism Corridor Development Program, loan 3820/OC-UR) in November 2016. The CCLIP has US\$25 million in funds, of which the Bank finances US\$20 million, which are available over a 20-year term. MINTUR intends to use the CCLIP to frame its diversification and deconcentration efforts within long-term programmatic actions that support the transition from a tourism scenario based on visitors spontaneously arriving from nearby regions to a proactive scenario that induces demand niches interested in the country's new

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<sup>14</sup> CCZs 2,3,5,8, and 9.

<sup>15</sup> From 2015 to 2018, tourism spending per visitor increased 4.2% for ecotourism, 9.3% for nautical tourism, and 13.8% for cultural tourism, while the national averages were 1.8% for ecotourism, 1.6% for nautical tourism, and 0.9% for cultural tourism. MINTUR.

destinations and offerings. In this context, the CCLIP was designed to use tourism as a factor in balancing regional development. In recent years the country has been immersed in a decentralization process that aims to forge territorial equity and cohesion, as evidenced by the 2009 Political Decentralization and Citizen Participation Act. MINTUR is supporting this process by promoting the regionalization of tourism management, as outlined in the first strategic pillar of its National Sustainable Tourism Plan 2030.

- 1.7 The CCLIP's first operation (loan 3820/OC-UR), currently in execution, was designed to help decrease territorial imbalances in terms of employment and income generation, consolidating the tourism diversification and deconcentration efforts already underway in the CPP. The program's performance has been satisfactory and it has developed a series of assets critical to the design of new operations under the CCLIP: (i) working relationships and partnerships with other institutions such as the National Development Agency (ANDE); (ii) momentum for tourism regionalization and the expansion of MINTUR's working methodology at the subnational level, including the creation of local tourism observatories that are generating sectoral data with an unprecedented level of detail; and (iii) an incubator for local tourism entrepreneurial networks from a very early stage (Painted Birds Network), an experience that can be replicated in other destinations. The CCLIP's second operation, the Program for the Development of Emerging Tourist Destinations (operation UR-L1155), seeks to continue these efforts by generating new tourism-related proposals in three additional emerging destinations: (i) the Lower Santa Lucía River Basin Corridor (from Santiago Vázquez to Parador Tajés); (ii) the Minas de Corrales–Tacuarembó rail corridor (in the northern region); and (iii) Calera de las Huérfanas, as an entry point to the Jesuit Route, a joint product with other Mercosur countries. These [destinations](#) have been chosen for several reasons: (i) their status as tourism destinations linked to boating, ecotourism, and local culture; (ii) despite that status, they are emerging destinations because they currently receive comparatively less tourism spending relative to their respective departments and the national level; and (iii) the unemployment and/or poverty rates of these three destinations are higher than those of their respective departments. In addition, all three are located within the area of influence of the three main points of entry for inbound tourism in Uruguay (the city of Montevideo in the case of the Santa Lucía River Basin, Rivera in the case of the northern rail corridor, and Colonia in the case of Calera de las Huérfanas), which can help fast-track their tourism development by leveraging existing economies of scale at those points of entry.
- 1.8 **Empirical evidence.** A vast body of international literature demonstrates tourism's ability to drive local development through tourism spending and multiplier effects.<sup>16</sup> A [study](#) conducted in China, based on a dynamic panel data model, shows that tourism spending has a more significant effect on the development of less developed regions than on already developed regions and, therefore, may contribute to regional convergence. Also noteworthy is the European Union's use of tourism since the 1990s as an instrument of territorial cohesion between the more developed countries in the north and the less developed countries in the south. An ex post [evaluation](#) of the Interreg II Territorial Cooperation found that

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<sup>16</sup> Tourism Sector Framework Document, document GN-2779-3, Section A.

tourism was more effective than other economic sectors in achieving territorial convergence results. In the specific context of Uruguay, a [mapping](#) of territorial capacities and productive development concluded that departments with high potential for development are those that show relative specializations in services (including tourism), since they increase opportunities to generate linkages and positive externalities in the territory. This finding is backed by a [study](#) on the impact of tourism in Uruguay, based on an input-output analysis, that underscores that all 43 sectors of the Uruguayan economy are linked to the vector of tourism demand. Even in those sectors where there is no tourism demand, significant indirect effects are recorded, as in the cases of construction and telecommunications. Building on these results while taking into consideration the socioeconomic heterogeneity that exists within the departments, a Uruguay regionalization exercise was performed during program preparation to analyze the impact of tourism GDP on poverty levels using a panel data econometric methodology. It found that a 1% increase in the per capita tourism GDP reduces the poverty rate by -0.419%. In the Department of Montevideo, where approximately half of the country's population resides, poverty is concentrated in peripheral CCZs, but poverty levels are lower along the department's southeastern coast where a higher tourism GDP is recorded. Similarly, in the case of the unemployment rate, the CCZs on the outskirts of Montevideo have higher levels than the southern and southeastern CCZs.<sup>17</sup> Thus, the statistical evidence would demonstrate that tourism GDP plays an important role in lowering poverty rates in Uruguay and that its expansion could play a role in decreasing socioeconomic gaps between territories.

- 1.9 **Design of the second CCLIP operation.** Current inbound tourism spending<sup>18</sup> was analyzed to determine its breakdown across the three types of tourism that the selected destinations are known for: nautical tourism, ecotourism, and cultural tourism. This can be used to determine the likelihood, based on country of origin, that a visitor would choose these types of tourism in the beneficiary emerging destinations if new offerings were generated. The results indicate that the two traditional inbound markets (Argentina and Brazil) currently have less interest in these types of tourism than other regional or long-haul markets:<sup>19</sup> (i) Chile, Paraguay, and Italy have higher ratios of arrivals for nautical tourism and, therefore, a greater likelihood of consumption; (ii) the United Kingdom, Germany, the United States, and Spain stand out, in that order, in terms of current consumption of ecotourism; and (iii) Germany, the United Kingdom, the United States, and France, in that order, predominate in the area of cultural tourism.
- 1.10 These long-haul markets are the ones that are the most likely to engage in international tourism travel at the global level: by one yardstick, the United Kingdom's ratio of departures to population was 112.3% in 2017, compared to 27.6% in Argentina.<sup>20</sup> Although long-haul markets are a small share of Uruguay's current market, an increase of 1% in the volume of departures from these markets yields a much greater impact than an increase of 1% from neighboring and

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<sup>17</sup> The panel data analysis found that a 1% increase in the unemployment rate increases the poverty rate by 1.33%.

<sup>18</sup> MINTUR 2014-2018.

<sup>19</sup> In all, 46.33% of Argentines and 38.2% of Brazilians come to Uruguay for sun and sand tourism.

<sup>20</sup> World Development Indicators.

regional countries, since the latter start from a much smaller base of global tourist traffic. At the same time, it is important to point out that when the origin of visitors is broken down by city of residence, the results demonstrate the need to increase market microsegmentation in order to maximize diversification opportunities, even in traditional neighboring markets. For example, residents of Córdoba show 5% more interest in cultural tourism than the average Argentine visitor, while residents of Rosario are 4% more likely to engage in ecotourism.

- 1.11 To evaluate not only the state of current offerings but also the new offerings proposed by the program, [626 international visitor surveys](#) were conducted in the country's main points of arrival/departure (Carrasco International Airport in Montevideo, Colonia, and Rivera) whose sphere of influence includes the program's three beneficiary emerging destinations. The goal of the survey was to determine preferences and willingness to pay for a menu of potential tourism products associated with the types of tourism in which the three emerging destinations have the greatest tourism potential. The menu of activities included boating tourism, marine sports, visits to heritage buildings and ruins, train and bicycle tours along the Vía Verde Gaucha that are focused around the rail corridor, and hiking in natural areas. Survey findings are positive and confirm that international tourism demand has an interest in tourism innovation in Uruguay, as they project that the consumption of the new offerings will generate a minimum average annual value of US\$27.6 million and a maximum of US\$175 million. With the same objective, [1,874 Uruguayan resident surveys](#) were conducted through an online questionnaire, and the findings project that consumption of the new offerings will have a maximum annual value of US\$143.8 million. The different markets show complementary preferences and levels of willingness to pay. For example, regional markets show a greater willingness to pay for hiking products, while long-haul markets show a greater willingness to pay for boating products. Residents show the greatest willingness to pay for products related to the train trip along the Vía Verde Gaucha.
- 1.12 These surveys also included questions about protecting the ecosystem services that support tourism activities. All told, 35.2% of international visitors would be willing to pay an additional average weighted amount of US\$19.5 for conservation measures, which opens the possibility of designing products that include the conservation of the natural and cultural environment in which they take place. Based on this finding, Component II of the program proposes a competitive fund where tourist ranch and inn owners can apply for resources to implement measures to conserve native forests on their properties. In Component I, the program also plans to incorporate ecosystem services in tourism interpretation materials.
- 1.13 In this context, MINTUR, with the Bank's support through technical cooperation operation ATN/OC-17250-UR, has prepared the technical studies required for the program's components: (i) the [technical design](#) and economic assessment of the program as a whole and of its main investments; and (ii) the [terms of reference](#) for the technical assistance and studies that will be carried out during the first 18 months of execution. Investments in works have been prioritized in four communities (Santiago Vázquez, Parador Tajés, Calera de las Huérfanas, and Cuñapirú) and six small eligible works, aligned with the three types of tourism to be



promoted, have been identified, for a total of US\$2.32 million. The works<sup>21</sup> are the same types as those proposed under loans 2601/OC-UR and 3820/OC-UR; therefore, MINTUR has prior experience with them.

- 1.14 The program has also designed a competitive fund to incentivize tourism ventures in the three selected destinations. In many places worldwide, financial constraints are one of the most significant challenges to maintaining a high level of entrepreneurship.<sup>22</sup> In the case of Uruguay, the level of credit penetration is one of the lowest in the region (approximately 18% of GDP). Business credit is the most significant shortfall, as it amounts to only 12% of GDP.<sup>23</sup> In Uruguay, 99% of businesses are micro, small, or medium-sized enterprises (MSMEs) and 43% do not have any financial products.<sup>24</sup> Based on [evidence recorded](#) by ANDE,<sup>25</sup> potential entrepreneurs cite a lack of financial resources as their main challenge, while emerging entrepreneurs—those who have already started an enterprise—say that financing is their second greatest challenge, after marketing. Therefore, financing is one of the main constraints in the early stages of entrepreneurship, while market knowledge is a challenge in later stages. In this context, Uruguay has a low rate of entrepreneurship in early stages, involving only 14.3% of the economically active population.<sup>26</sup>
- 1.15 In the beneficiary destinations, there are persistent market failures related to: (i) the need to reduce information asymmetries in relation to the preferences of the tourism market, which generate risk aversion and curbs local investment; (ii) the financing difficulties faced by many potential tourism entrepreneurs, as well as by current entrepreneurs who consider tourism a supplement to family income and are only sporadically involved in tourism activity; and (iii) informality, which usually has a negative impact on business investments and the generation of local supply chains due to its association with low productivity and limited market access, especially when dealing with international supply chains such as those related to inbound tourism. The beneficiary destinations have a higher level of labor informality than the Uruguayan average.<sup>27</sup> MINTUR has estimated that in the three emerging destinations there is a modest universe of 148 tourism enterprises with the potential to be strengthened in one of these aspects. In the calls for proposals issued from 2016 to 2018 through ANDE's national instrument "Semilla," only 9% of approved projects were for the program's beneficiary areas and only two of those projects (1% of the total) were in the tourism sector. ANDE's [comparison](#) of projects submitted to Semilla<sup>28</sup> and those submitted to the competitive fund for the

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<sup>21</sup> Visitor centers, small nautical facilities, and conservation of natural and cultural goods.

<sup>22</sup> [Financing Constraints and Entrepreneurship, Harvard Business School, 2009.](#)

<sup>23</sup> [Lineamientos para impulsar el proceso de profundización bancaria en Uruguay, BBVA.](#)

<sup>24</sup> INE and national MSME survey.

<sup>25</sup> Evaluation and Monitoring Plan, ANDE, 2016.

<sup>26</sup> Country Profile, Global Entrepreneurship Monitor, 2015.

<sup>27</sup> Continuous Household Survey 2017: the national labor informality rate is 24.7%, compared to average rates of 27.3% in the Lower Santa Lucía Basin, 30.5% in Carmelo (Calera de las Huérfanas), and 39% the northern destination.

<sup>28</sup> Semilla is an ANDE instrument that seeks to support enterprises with differential value and dynamic growth potential. It does not prioritize any sector.

CPP under the CCLIP's first operation<sup>29</sup> confirms the need to design specific instruments to implement in emerging tourist destinations such as those selected for the program, since the projects and the entrepreneurs themselves have a "more vulnerable" profile as people with lower levels of education and higher unemployment rates and as projects in small communities that lack access to experienced providers and services. For these reasons, MINTUR believes that the experience that began in the CPP should be replicated through a new competitive fund that provides technical assistance, support for formalization, and financing for tourism entrepreneurship. The design of the competitive fund factors in previous experiences in the country. An [evaluation](#) of the National Agency for Research and Innovation's (ANII) Innovative Entrepreneurs Support Program, which is based on nonreimbursable subsidies, shows positive results in terms of the creation of new enterprises and concludes that each dollar invested in enterprises that have lasted for three years has been multiplied by twelve. In all, 23% of program beneficiaries say they would not have started their enterprises without the support received, and 60% think that starting their enterprises would have taken more time. In this case, the competitive fund is built around three windows segmented according to the eligible tourism types: (i) a window supporting nautical tourism enterprises; (ii) a second window supporting cultural tourism and ecotourism enterprises; and (iii) a third window to support tourism in natural and rural areas in the northern destination, with a focus on forest conservation on properties with tourist ranches or inns.<sup>30</sup> As in the first CCLIP operation, ANDE will act as the subexecuting agency for this competitive fund, so it can offer its know-how on business development in regions outside of the capital as well as technical support on the ground through its network of Institutions Sponsoring Startups (IPEs). These IPEs will provide specialized technical advisory services during execution of the subsidy.

- 1.16 The program's third component includes investments to strengthen subnational tourism governance to continue enhancing the territorial coordination initiated with loans 2601/OC-UR and 3820/OC-UR. The consolidation of this governance depends on the availability of statistically rigorous data at the local level. For the most part, only national or departmental data are available, making it difficult to measure the universe of existing tourism companies, their performance, and the performance of local-level public investments, other than through ad hoc efforts using heterogeneous data collection and processing methods. This has been one of main challenges faced by MINTUR in its regionalization efforts, which the CCLIP's first operation helped overcome by creating a local tourism observatory with four decentralized territorial management hubs in the CPP. The experience has been very valuable for MINTUR and the local governments in the CPP, which now have an updated and standardized census of the corridor's enterprises and visitors. This second CCLIP operation seeks to consolidate data collection in additional communities in the CPP and replicate this experience in the three emerging tourist destinations that are the beneficiaries of the new program. The observatory will be informed by the diagnostic assessment on the harmonization of tourism data in the Southern Cone countries, conducted with Bank support under

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<sup>29</sup> A total of 31 entrepreneurs in 18 projects have been supported, 9 of these in communities of less than 20,000 inhabitants.

<sup>30</sup> The productivity of land in the northern destination is lower than the national average; therefore, tourism becomes an interesting economic alternative.

technical cooperation operation ATN/FG-12141-RG, which included subnational-level recommendations. The third component will also finance investments in digital tourism marketing, coordinated at the national and subnational levels, to accelerate the positioning of Uruguay and new offerings generated by the CCLIP.

- 1.17 **Bank experience and lessons learned.** The execution of operations 1826/OC-UR, 2601/OC-UR, 3820/OC-UR, and other tourism operations in Latin America and the Caribbean has yielded shared lessons learned<sup>31</sup> that have been incorporated in the new operation's design.

**Table 1. Lessons learned**

Lesson learned	Reflection in program design
<b>Development model/Tourism product</b>	
Investments should be planned and spaced out to prevent and mitigate the negative impacts associated with accelerated tourism growth.	The program is based on MINTUR's National Sustainable Tourism Plan 2030 and Nautical-River Tourism Master Plan.
To avoid unfocused, one-off, and low-impact investments, tourism projects should follow a strategic development model, targeting efforts on specific tourism types and destinations.	The program targets nautical tourism, ecotourism, and cultural tourism in three emerging destinations whose potential offerings have been validated by studies of domestic and international tourism demand.
<b>Environmental management</b>	
Tourism development should include a tangible environmental commitment, in terms of both planning and investment.	The program has an environmental and social management framework. Environmental impact studies, construction company supervision, and periodic environmental audits will be conducted for works projects. Furthermore, the design of investments includes mechanisms to conserve 340 hectares of native forests.
<b>Tourism governance</b>	
Tourism development programs should balance infrastructure investments with efforts to strengthen local tourism governance.	Investments in institutional strengthening are planned in Component III through local tourism observatories and the strengthening of Uruguay's digital tourism positioning with coordinated marketing actions at the national and subnational levels.
Tourism development programs require capacity for inter-agency collaboration and execution, consistent with the nature of tourism.	Agreements signed with national entities such as ANDE and beneficiary departmental governments ensure inter-agency collaboration and execution.

- 1.18 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008), as it is aligned with the following development challenges: (i) social inclusion and equality, by focusing on areas with higher poverty and/or unemployment rates than the departmental average and contributing to territorial cohesion through increased inbound tourism spending; and (ii) productivity and innovation, through support for MSME investments in emerging destinations, with the objective of maximizing resources that are currently underutilized. The program is also aligned with the crosscutting areas of (i) climate change and environmental sustainability, in that 3.33% of the operation's resources are invested in climate change mitigation activities, in accordance with

<sup>31</sup> Tourism Sector Framework, document GN-2779-7.



the joint [methodology](#) of the multilateral development banks.<sup>32</sup> These resources contribute to the IDB Group's target of increasing financing for projects related to climate change to 30% of all approvals by the year 2020. In addition, these resources will benefit 65,799 residents of the communities directly benefitting from actions to conserve native forests;<sup>33</sup> and (ii) institutional capacity and rule of law, by strengthening the institutional framework for tourism through local tourism observatories and the national-subnational coordination of marketing actions. Furthermore, the program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6): (i) jobs created by companies supported by the program; (ii) micro / small / medium-sized companies financed; (iii) micro / small / medium-sized companies provided with nonfinancial support; and (iv) the number of government agencies benefited by projects that improve public service delivery. The program is also consistent with the four dimensions of success outlined in the Tourism Sector Framework (document GN-2779-7), as the operation seeks to increase the economic benefits of tourism and the benefits captured by the local population, sustainably exploit natural and cultural heritage sites for tourism, and strengthen the institutional framework for tourism. In addition, the program supports the CCLIP's objectives and guidelines and is included in the 2019 Operational Program Report (document GN-2948).

- 1.19 Furthermore, this operation is aligned with the IDB Country Strategy with Uruguay 2016-2010 (document GN-2836), through: the pillars of productivity and competitiveness, in that it supports the strategic objective of diversifying export markets (creating conditions to receive new outbound markets); the objective of promoting innovation in tourism entrepreneurship, by supporting the creation of innovative offerings in new destinations in the country; and the strategic pillar of public sector management, by supporting the objective of strengthening the institutional framework for tourism. It is also aligned with the crosscutting area of sustainable management of natural resources, through support for actions to conserve native forests and the incorporation of ecosystem services in tourism product design.

## **B. Objectives, components, and cost**

- 1.20 The objective of the CCLIP is to help generate employment and income in emerging destinations, consolidating tourism activity as a factor in balanced regional development. The objective of this second individual operation is to increase tourism spending in three emerging destinations (Lower Santa Lucía River Basin Corridor; Minas Corrales-Tacuarembó Northern Corridor; and Calera de las Huérfanas), as tourism is an input that triggers employment and income at the local level. The second CCLIP program will directly benefit six communities in these Corridors, their tourism companies (148), new tourism ventures (18), and their residents (144,933 inhabitants),<sup>34</sup> strengthening conditions for tourism development through investments grouped under three components that are aligned with the CCLIP's strategic lines.

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<sup>32</sup> Estimates indicate that a total of 340 hectares of forest can benefit from the program, which represents 11,000 tons of carbon dioxide equivalent.

<sup>33</sup> Tacuarembó, Laureles, Minas de Corrales, and Tranqueras, 2011 Census.

<sup>34</sup> Carmelo, Santa Lucía, Los Cerrillos, Montevideo CCZ 18, Tacuarembó, Valle Edén, Minas de Corrales, Tranqueras, and Laureles.

- 1.21 **Component I: Resource development and tourism facility improvement (IDB US\$3.56 million; local US\$0.85 million).** This component will include investments related to the development of publicly owned tourist attractions to promote nautical tourism, cultural tourism, and ecotourism. The investments will support the creation of light river structures (a floating dock, a pier, and a marina) in Parador Tajés; visitor centers and the conservation of the Calera de las Huérfanas chapel and the Cuñapirú ruins; the modernization of the Santiago Vázquez interpretation center; interpretative aids and signage about culture and ecosystem services at the three destinations, using both traditional formats and new technologies; improved museographic content; the thematic development of a train car currently operating under the umbrella of the Vía Verde Gaucha brand; and restoration of an antique Simmering train car in Valle Edén. This component also covers an environmental management expert to support the processes of design, obtaining permits, and execution of the investments, as well as a line item of US\$150,000 for unforeseen events during the works.
- 1.22 **Component II: Support for tourism entrepreneurship (IDB US\$0.8 million).** This component will provide technical and financial support to local entrepreneurs for the creation, formalization (where appropriate), and consolidation of new tourism offerings through a competitive fund that will be executed with the support of ANDE as the program's subexecuting agency (paragraph 1.15). The competitive fund will have a total of US\$800,000 in funds and will benefit new local startups and the consolidation of tourism companies already operating in the three beneficiary destinations (with less than 19 employees and annual billing below Ur\$10 million) to cover all early and emerging stages of entrepreneurship and consolidate the micro and small enterprise segments in particular. Based on ANDE's previous experience and the demand generated by the fund from the first CCLIP operation,<sup>35</sup> the competitive fund will provide nonreimbursable support of up to 70% of a project's total cost, up to a maximum amount of US\$25,000.<sup>36</sup> Companies must contribute the percentage not covered by the fund's cofinancing. Applicants will receive technical support from one of the IPEs associated with ANDE for proposal preparation, submission to the competitive fund, and financing execution. The competitive fund will consist of three windows supporting distinct types of entrepreneurial initiatives, whose viability is supported by the surveys of international and domestic tourists' willingness to pay (paragraphs 1.11 and 1.12): (i) window 1 will support nautical tourism along the Colonia/Carmelo and Santiago Vázquez/Parador Tajés Corridor (US\$300,000); (ii) window 2 will support cultural tourism and ecotourism in the three emerging destinations (US\$300,000); and (iii) window 3 will support actions to conserve native forests and indigenous natural resources on lands where the northern destination's tourist ranches and inns are located (US\$200,000). Competitive fund disbursements will take place through at least two consecutive calls for proposals geared toward target entrepreneurs during program execution (see [optional link #6](#)).

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<sup>35</sup> In all, 92 projects have been submitted over two consecutive calls for proposals. A third call for proposals has yet to be held.

<sup>36</sup> This limit was established based on ANDE's and ANII's experience, as well as comparable exercises with other countries in the region (paragraphs 1.14 and 1.15).

- 1.23 **Component III: Strengthening tourism governance (IDB US\$1.00 million; local US\$0.23 million).** To respond to the need to generate reliable tourism information at the local level (paragraph 1.16), the sphere of action of the tourism observatory already set up in the CPP will be expanded to the Carmelo and Calera de las Huérfanas community with a new decentralized territorial management hub. In addition, a new hub will be created to develop an observatory in the country's northern destination, and the tourism information system will be expanded from Montevideo to the Lower Santa Lucía River Basin Corridor. This component will also finance the development and implementation of a digital tourism marketing plan that, in coordination with national marketing actions, will allow the new offerings created through the program to position themselves in the market and reverse the decreased level of interest of potential tourism demand, as reflected in the reduced volume of online searches identified during program preparation (paragraph 1.4).
- 1.24 **Administration, supervision, and audits (IDB US\$0.64 million; local US\$0.17 million).** Program administration funds will be used to finance the creation and operation of the execution unit, the establishment of baselines, and the ex post evaluation, as well as expenses for supervision and audits.

**C. Key results indicators**

- 1.25 The Results Matrix has been agreed upon with MINTUR and sets forth in detail all of the impact, outcome, and output indicators associated with the components. The program will help increase income from tourism (measured by per capita tourism GDP) and tourism employment in the beneficiary destinations. At the outcome level, the program is expected to help increase: (i) inbound tourism spending on the types of tourism supported by the program; (ii) the number of businesses operating in the three emerging destinations; and (iii) the diversification of outbound markets that conduct searches on official tourism websites.
- 1.26 **Economic viability.** An [ex ante economic impact](#) analysis was performed to evaluate the program's economic viability and estimate its net present value (NPV) and internal rate of return (IRR). To estimate the program's direct, indirect, and induced benefits, a dynamic general equilibrium model was constructed for Uruguay, with a base year of 2012. Potential international tourism spending, including only spending from tourists who would consume the new products without extending their stay, is conservatively estimated at US\$27.6 million, without factoring in the substitution of other products. The scenario with the highest potential consumption, which includes tourists who would extend their stay to consume the proposed products, shows an estimated US\$175 million in potential annual revenue. Both scenarios show positive impacts on consumption and employment levels compared to the baseline scenario. The economic NPV reaches Ur\$28.9 million (US\$0.8 million) in the low scenario and Ur\$765.8 million (US\$21.9 million) in the high scenario, corresponding to an economic IRR of 15% and 97%, respectively. A socioeconomic assessment was also done for the program's four main investments in civil works. It found that the investments in Santiago Vázquez, Calera de las Huérfanas, Parador Tajés, and Cuñapirú (conservation and visitors center) had economic IRRs of 178%, 31%, 21%, and 15%, respectively.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Program resources and disbursement schedule.** This program is the second individual operation under the CCLIP for National Tourism Development (operation UR-O1149), approved in 2016. This program is a specific investment loan. Its total cost is US\$7.25 million, of which US\$6 million will be financed by the Bank through a specific investment loan charged to Ordinary Capital and the remaining US\$1.25 million will be local counterpart funds. The execution period is five years from the effective date of the loan contract.

Table 2. Program cost and financing (US\$ millions)

Investment breakdown	IDB	Local contribution	Total	%
<b>I. Program administration</b>	<b>0.51</b>	<b>0.14</b>	<b>0.65</b>	<b>8.97</b>
<b>II. Direct costs</b>	<b>5.36</b>	<b>1.08</b>	<b>6.44</b>	<b>88.83</b>
2.1 Component I. Resource development and tourism facility improvement	3.56	0.85	4.41	60.83
2.2. Component II. Support for tourism entrepreneurship	0.80	0.00	0.80	11.03
2.3. Component III. Strengthening tourism governance	1.00	0.23	1.23	16.97
<b>IV. Monitoring, impact evaluation, and audits</b>	<b>0.13</b>	<b>0.03</b>	<b>0.16</b>	<b>2.20</b>
<b>V. Financial costs</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total</b>	<b>6.00</b>	<b>1.25</b>	<b>7.25</b>	<b>100</b>
<b>Percentage</b>	<b>83</b>	<b>17</b>	<b>100</b>	<b>100</b>

Table 3. Annual financing (US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>IDB</b>	0.20	1.46	1.75	1.53	1.06	6.00
<b>Local</b>	0.05	0.30	0.35	0.32	0.23	1.25
<b>Total</b>	0.25	1.76	2.10	1.85	1.29	7.25
<b>%</b>	3	24	29	26	18	100

- 2.2 **Eligibility of the second operation.** Pursuant to the Proposed Modifications to the Conditional Credit Line for Investment Projects (CCLIP): Strengthening the Multisector Approach (document GN-2246-9), the [requirements](#) for financing a second operation through the CCLIP have been met, in that: (i) the individual operation falls under the tourism sector and is linked to the three components under the credit line; (ii) the operation is included in the country program; (iii) the executing agency of the project is the same as that of the first operation, and its performance level has not deteriorated, as confirmed by the institutional capacity analysis, and there are assurances that the required monitoring and evaluation system will be in place during execution; and (iv) the previous operation under the the credit line complies with the following criteria: (a) its on-going execution performance is satisfactory and it is on track to achieve its objectives, as evidenced by its [midterm evaluation](#); (b) the project has disbursed 51% of loan proceeds as of June 2019; (c) the borrower and executing agency have complied with the contractual conditions of the loan contract and with the Bank's disbursement and procurement policies; and (d) financial and operational reports

have been prepared and presented in a timely manner and demonstrate an acceptable quality standard.

**B. Environmental and social risks**

- 2.3 This program has been classified as a category “B” operation under the Bank’s Environment and Safeguards Compliance Policy (document GN-2208-20; policy OP-703), as the planned interventions and potential impacts will be temporary and can be mitigated with standard measures and good socioenvironmental practices. Given that the operation is the second individual operation under CCLIP UR-O1149, a [social and environmental analysis](#) has been developed for all of the facilities works under Component I and includes an environmental and social management plan. The program’s [environmental and social management framework](#) has also been updated and defines the specific monitoring and management measures that will be used for the competitive fund component and for the monitoring and evaluation of the program’s socioenvironmental impact indicators and compliance with the country’s socioenvironmental law.
- 2.4 To comply with the public consultation requirements, three [meaningful consultation](#) events were held with stakeholders from communities in each of the three beneficiary destinations. These events confirmed social acceptance of the program’s proposals and did not identify any evident opposition or conflicts of interest.
- 2.5 The [environmental and social management report](#) discusses the compliance status of the program as well as the main guidelines and recommendations for its socioenvironmental management. Among other provisions, it stipulates that MINTUR, as the executing agency, will be responsible for the environmental and social management of the program and will contract an environmental specialist assigned to Component I.

**C. Fiduciary risks**

- 2.6 One medium severity fiduciary risk was identified, due to cost variations whenever there is a lack of providers in remote areas or a lack of applicants able to meet technical specification requirements at the local level. This risk will be mitigated by a contingency allowance for the works (US\$150,000) and by expanding the coverage of calls for bids to the national level, to guarantee the supply of providers.

**D. Other risks**

- 2.7 During the risk workshop, four additional medium severity risks were identified:
- a. Three development risks: (i) the possibility of unanticipated archeological finds during the heritage conservation works, to be mitigated by the abovementioned contingency allowance; (ii) a lack of private sector interest in becoming involved in tourism development in the emerging destinations, which will be mitigated through technical support for entrepreneurs and the narrowcasting of program marketing to target business communities; and (iii) inadequate maintenance of program works, to be mitigated through the development of cost-recovery mechanisms and the establishment of

operation and maintenance-related responsibilities by beneficiary local governments.

- b. One reputational risk, linked to local residents' high expectations for program results, which will be mitigated by implementing public relations activities to improve awareness of the program's objectives and scope.
- 2.8 An institutional capacity assessment was performed for MINTUR, as the executing agency, and for ANDE, as the subexecuting agency for the competitive fund under Component II. To this end, an analysis of MINTUR's performance in operations 1826/OC-UR, 2601/OC-UR, and 3820/OC-UR was taken into account, as were the findings of the Institutional Capacity Assessment System (ICAS). MINTUR's performance in the previous operations has been satisfactory, and the weighted risk level of the dimensions currently analyzed under ICAS, for both MINTUR and ANDE, is low.
- 2.9 As in the case of the previous programs with MINTUR, the sustainability of the program's works is guaranteed by the operation and maintenance-related responsibilities of the beneficiaries, as included in the planned Participation Agreements or Institutional Cooperation Agreements (paragraphs 3.3 and 3.5). In addition, the designs for all the works include cost recovery mechanisms to ensure their maintenance.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

#### **A. Summary of implementation arrangements**

- 3.1 The program borrower will be the Eastern Republic of Uruguay, and MINTUR will be the executing agency. MINTUR will be responsible for the general administration, financing and accounting management, and monitoring and evaluation of the operation as established in the program Operations Manual. In fulfilling its obligations, MINTUR will be supported by a program execution unit consisting of a general coordinator, legal counsel, an administration and finance specialist, and an administration and finance assistant. The execution unit will also contract support from other disciplines as needed.
- 3.2 ANDE will also participate in the program as the subexecuting agency of the competitive fund under Component II, which will be governed by [Operating Regulations for the competitive fund](#). For these purposes, ANDE will sign a Participation Agreement with MINTUR, which will stipulate the conditions for operating the fund, requirements for issuing calls for proposals, criteria and procedures for evaluating and selecting beneficiaries, coordination arrangements with the network of IPEs, and disbursement and accountability mechanisms. To enable execution of the competitive fund and as a special contractual condition of execution precedent to the start of activities related to the competitive fund, MINTUR will submit, in accordance with the terms previously agreed upon with the Bank, evidence of: (a) the signing and entry into effect of a Participation Agreement between MINTUR and ANDE; and (b) the entry into effect of the competitive fund's Operating Regulations.
- 3.3 In addition, the program's beneficiary departmental governments will be able to participate in the program in two ways: (i) by cooperating with MINTUR in the



- development of the planned activities, through Institutional Cooperation Agreements (paragraph 3.5); or (ii) by acting as subexecuting agencies, through Participation Agreements, for the investments in developing tourist attractions in their respective jurisdictions, as provided under Component I of the program. The departmental governments will participate as subexecuting agencies in the event of any of the following circumstances: (i) the calls for works encounter problems in terms of the quality of local bidders or bid price levels; (ii) unanticipated domain issues arise, necessitating changes in the sites selected for the works, in which case departmental governments can facilitate access to new locations; and (iii) in the event that the departmental governments add funds from other financing sources not originally anticipated, affording the opportunity to expand the scope of the program's projects. To ensure the departmental governments' compliance with the execution guidelines agreed upon with the Bank, and as a special contractual condition for execution, prior to the designation of a specific departmental government as a program subexecuting agency, MINTUR will submit, to the Bank's satisfaction, evidence that the agreed requirements have been met, specifically: (a) the signing and entry into effect of the respective Participation Agreement; (b) appointment of the subexecuting agency team; and (c) satisfactory assessment of the institutional capacity of said departmental government, following the Bank's analytical methodology.
- 3.4 Common responsibilities of program subexecuting agencies (ANDE and potentially departmental governments) include: (i) developing technical specifications in collaboration with MINTUR and conducting bid solicitations; (ii) contracting and technical supervision of the contracts associated with activities under their purview; (iii) handling financial execution including the review, approval, and processing of payments for eligible expenses; (iv) preparing and submitting to MINTUR supporting documentation for expense reports for the transferred funds; and (v) administering their operational accounts and preparing reconciliations of funds transferred by the program, at the request of the execution unit and the Bank.
- 3.5 **Coordination with other entities.** The program will require coordination with public sector entities at the national and departmental levels (departmental governments as program beneficiaries). This coordination will be established in Institutional Cooperation Agreements signed with MINTUR, which will address the parties' obligations, which include commitments to assume annual operating and works maintenance costs, collaborating in the management of authorizations and permits, and monitoring program investments. The details of the responsibilities and relationships between program actors will be included in the program Operations Manual. As a special contractual condition of execution, to ensure the viability of the investments, prior to issuing the first public invitation to bid on works under Component I under the jurisdiction of a participating national or departmental entity, MINTUR will submit evidence that the corresponding Institutional Cooperation Agreement has been signed and has entered into effect, in accordance with the terms previously agreed upon with the Bank.
- 3.6 **Program Operations Manual.** Operation execution will be governed by a program Operations Manual, which establishes the rules and procedures for programming activities, financial and accounting management, procurement and contracting, audits, and program monitoring and evaluation. The program Operations Manual includes: (i) rules and procedures for MINTUR and other subexecuting agencies

and participants; (ii) mechanisms for the execution of the program's three components; (iii) instructions for works execution and supervision; and (iv) the program's environmental and social management framework. **As a condition precedent to the first loan disbursement, MINTUR will submit evidence that the program Operations Manual has entered into effect and includes, in accordance with the terms agreed upon with the Bank: (a) the environmental and social management framework; (b) the training and prior professional experience required for each member of the execution unit and the outputs expected from its management; and (c) the criteria for designating departmental governments as subexecuting agencies for the program, with the goal of establishing the guidelines and procedures to be followed for the program's successful execution.**

- 3.7 **Execution and supervision of works.** MINTUR and eventually the subexecuting local governments will contract and supervise construction companies' work following the guidelines of the instructions for the [execution](#) and [supervision](#) of works. MINTUR and, when applicable, the subexecuting departmental governments, will be responsible for carrying out the required consultations with the affected communities, technical supervision, and verification of contractors' compliance with environmental regulations and with the Bank's Environment and Safeguards Compliance Policy. These instructions will be part of the program Operations Manual. As a special contractual condition for execution and to ensure the viability of the investments, prior to the execution of the works planned under Component I, MINTUR or the relevant subexecuting departmental government will submit, to the Bank's satisfaction, the corresponding technical, environmental, and economic viability studies and permits.
- 3.8 **Procurement of works, goods, and consulting and non-consulting services.** Procurement financed in whole or in part with Bank funds will be carried out by the executing agency or subexecuting entities in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9). The procurement plan contains the details of the procurements that will take place during execution and the Bank's procedures for their review. Provision is made for the direct contracting of individual consultants who were previously selected for loan 3820/OC-UR and who will continue to provide services for this operation, for a total amount of US\$645,000. This procedure is justified by the provisions of the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9, 5.4, a), for when the services are a continuation of previous work that the consultant has carried out and for which the consultant was selected competitively. The fiduciary agreements and requirements (Annex III) establish the framework for financial management and planning, as well as for the supervision and execution of eligible procurement.
- 3.9 **Disbursements.** The main disbursement modality will be "advances" based on real liquidity needs. Advances will be made preferably on a six-monthly basis, once



justification has been provided for at least 70% of the advance amount.<sup>37</sup> Submission of accountability report forms and the financial planning spreadsheet will be required as supporting documentation. This documentation will be reviewed ex post.

- 3.10 **Audits.** During execution, each year the Ministry will submit the program's audited financial statements, as required by the Bank (policy OP-273-6). The audited financial statements will be submitted within 120 days following the end of the fiscal year, and the closing audited statements within 120 days following the date of the final disbursement.

**B. Summary of arrangements for monitoring results**

- 3.11 The program has a monitoring and evaluation plan, agreed upon with MINTUR and included in the budget as a specific line item (US\$160,000).
- 3.12 **Monitoring.** MINTUR will send the Bank, no later than 60 days after the end of each six-month period during execution, a consolidated monitoring report on the progress made in program activities. The reports will focus on the fulfillment of the output indicators and progress made towards the outcomes set forth in the results framework, will analyze problems encountered, and will present the corrective measures adopted. The reports for the second half of each year will also include the annual work plan for the following calendar year, projected disbursements, and an updated procurement plan.
- 3.13 **Evaluation.** MINTUR will submit to the Bank a midterm evaluation report no later than 90 days after the date when 50% of the loan proceeds have been committed or when 50% of the execution period has elapsed, whichever occurs first; and a final evaluation report no later than 90 days after 90% of the loan's proceeds have been disbursed. The final evaluation report will include the results of measurement of the program's impact, in accordance with the agreed evaluation plan, which has an assigned budget of US\$100,000. The ex post evaluation will be based on the control group methodology, involving the selection of communities in which investments will be made and control communities with similar conditions in which the program will not act. The methodology will be based on the difference-in-differences approach and will require two rounds of surveys of households, visitors, and tourism businesses.

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<sup>37</sup> Pursuant to policy OP-273-6, this limit is justified because the central administration entities, which include MINTUR, must have funds in Central Bank accounts to undertake new obligations. Payment processing also requires the preventive oversight of the Office of the Auditor General (TCR) and the General Accounting Office (CGN).

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2836	Promote tourism bussiness innovation
Country Program Results Matrix	GN-2948	The intervention is included in the 2019 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		7.7
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		1.7
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		7.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		0.0
4.4 Sensitivity Analysis		0.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.3
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		6.8
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.  Procurement: Information System.
Non-Fiduciary	Yes	Strategic Planning National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

*This is the second individual operation under the CCLIP for the National Development of Tourism, and its objective is to increase tourism spending in three emerging destinations, as it is the input that triggers employment and income at the local level.*

*The diagnosis of the sector and the associated challenges in emerging destinations to achieve the objective is well structured and validated with ample evidence. The result matrix presents a clear vertical logic and all the indicators of impact, result and product are SMART. The end of project targets of the impact and result indicators are related to the simulated projections of the economic analysis. The cost-benefit analysis is based on a general equilibrium model to simulate the direct, indirect and induced impacts of an external injection of resources into the local economy by way of tourism expenditure. The tourism expenditure projections attributable to the program used in the simulations are based on willingness to pay surveys (WTP) for tourism products to be developed by the program.*

*The Monitoring Plan includes the necessary detail to facilitate the replicability of the target estimates of the different indicators at the end of the program. The Evaluation Plan proposes to select similar localities to those that will be benefited by the program to attribute the level of change observed in the indicators of interest to the program interventions.*

## RESULTS MATRIX

<b>Objective:</b>	<p>The objective of the Conditional Credit Line for Investment Projects (CCLIP) is to help generate employment and income in emerging destinations, consolidating tourism activity as a factor in balanced regional development.</p> <p>The objective of the second individual operation is to increase tourism spending in three emerging destinations (Lower Santa Lucía River Basin Corridor, Minas Corrales-Tacuarembó Northern Corridor; and Calera de las Huérfanas), as tourism is an input that triggers employment and income at the local level.</p>
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## EXPECTED IMPACT

Expected impact	Indicators	Unit of measurement	Baseline		Targets		Means of verification	Observations
			Value	Year	Value	Year		
Increase in employment in tourism characteristic activities (TCAs)	Number of jobs in TCAs	Number	Santa Lucía Corridor: (Department of Montevideo CCZ 18) 1,475 (Santa Lucía and other areas) 221 Calera de las Huérfanas: Carmelo 1,067 Minas-Corrales-Tacuarembó Tacuarembó City 1,357 Rural Tacuarembó (Tacuarembó) 52 Tranqueras (Rivera) 66	2018	Santa Lucía Corridor: (Department of Montevideo CCZ 18) 1,649 (Santa Lucía and other areas) 247 Calera de las Huérfanas: Carmelo 1,193 Minas-Corrales-Tacuarembó Tacuarembó City 1,517 Rural Tacuarembó (Tacuarembó) 58 Tranqueras (Rivera) 74	2024	Microdata from continuous household surveys	<p><b>Baseline:</b> total number of jobs in TCAs, including main jobs and secondary jobs, according to continuous household surveys.</p> <p>Data from one representative community per intervention destination are used. The program also acts in other communities, but information on tourism spending, income, and jobs is only available for these representative communities.</p> <p><b>Target:</b> projected growth in the dynamic general equilibrium model's low scenario.</p> <p><a href="#">Indicators matrix</a> methodology and sources.</p>

Increase in tourism income	Per capita tourism GDP	Amount (US\$)	Santa Lucía Corridor: (Department of Montevideo CCZ 18) 998 (Santa Lucía and other areas) 940 Calera de las Huérfanas: Carmelo 1,135 Minas Corrales - Tacuarembó Tacuarembó City 511 Rural Tacuarembó (Tacuarembó) 371 Tranqueras (Rivera) 282	2017	Santa Lucía Corridor: (Department of Montevideo CCZ 18) 1,301 (Santa Lucía and other areas) 1,226 Calera de las Huérfanas: Carmelo 1,481 Minas-Corrales-Tacuarembó Tacuarembó City 666 Rural Tacuarembó (Tacuarembó) 484 Tranqueras (Rivera) 368	2024	Microdata from continuous household surveys, Ministry of Tourism (MINTUR) data, and GDP provided by the Central Bank of Uruguay	<b>Baseline:</b> According to <a href="#">“Una aproximación al PBI turístico departamental de Uruguay 2010”</a> [“An approximation of departmental tourism GDP in Uruguay in 2010”]  <b>Target:</b> projected growth in the dynamic general equilibrium model’s low scenario and considering the low scenario.  <a href="#">Indicators matrix</a> methodology and sources.
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### EXPECTED PROGRAM OUTCOMES, THROUGH ITS THREE COMPONENTS

Expected Outcomes	Indicators	Unit of measurement	Baseline		Targets		Means of verification	Observations
			Value	Year	Value	Year		
Component I. Resource development and tourism facility improvement								
Increase in international tourism spending	International tourism spending on the types of tourism supported at the beneficiary destinations	Amount (US\$)	Nautical tourism 502,856 Ecotourism 11,572,456 Cultural tourism 61,247,173	2019	Nautical tourism 956,553 (108,464) Ecotourism 34,379,539 (232,894) Cultural tourism 99,435,661 (1,176,441)	2024	Surveys of inbound tourism (MINTUR)	<b>Baseline.</b> Tourism spending in the departments of beneficiary destinations, according to the types of tourism promoted by the program: nautical tourism spending in CCZ18 and Colonia available for 2018; weighted averages for ecotourism (CCZ18, Colonia, and Canelones) and cultural tourism (CCZ18, Colonia, Canelones, and Tacuarembó). Inbound tourism spending has been used because it is sufficient

Expected Outcomes	Indicators	Unit of measurement	Baseline		Targets		Means of verification	Observations
			Value	Year	Value	Year		
								for program viability.  <b>Target:</b> expected growth in spending without the program until 2024 plus the minimum increase in spending on each type of tourism that makes the program viable (this boost appears in parentheses). The boost in spending is based on the current distribution of spending on the three types of tourism in the country in 2018.  <a href="#">Indicators matrix</a> methodology and sources.
<b>Component II. Support for tourism entrepreneurship</b>								
Increase in the number of tourism businesses operating in the beneficiary destinations	Number of tourism businesses registered per local government beneficiary	Number	Lower Santa Lucía River Basin: 89 Northern Destination: 30 Carmelo (Calera de las Huérfanas): 29	2019	Lower Santa Lucía River Basin: 110 Northern Region: 38 Carmelo: 36	2024	Beneficiary areas' local government registries	<b>Baseline.</b> Total number of tourism businesses registered by the local governments of the beneficiary areas.  <b>Goal:</b> the growth percentage was extrapolated from the number of businesses observed in the Painted Birds Corridor Program (25% in five years).
<b>Component III. Strengthening tourism governance</b>								
Diversification of outbound markets conducting searches on official tourism websites	Searches conducted on official tourism websites from outbound markets other than Uruguay, Argentina, and Brazil	%	<a href="http://www.turismo.gub.uy">www.turismo.gub.uy</a> 16.37% of searches  <a href="http://www.mintur.gub.uy">www.mintur.gub.uy</a> 22.15%	2019 (Jan-Mar)	<a href="http://www.turismo.gub.uy">www.turismo.gub.uy</a> 25% of searches  <a href="http://www.mintur.gub.uy">www.mintur.gub.uy</a> 34%		Key performance indicators from each official website	<b>Baseline.</b> Diagnostic assessment conducted for program preparation.

## OUTPUTS

Outputs	Cost (US\$)	Unit of measurement	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final goal	Means of verification
<b>Component I. Resource development and tourism facility improvement</b>										
Visitor centers constructed	920,000	Number	0	0	0	1	1	0	2	Monitoring reports
Wetland interpretation center renovated	60,000	Number	0	0	0	0	1	0	1	Monitoring reports
Interpretation projects implemented	1,040,000	Number	0	0	0	1	3	2	6	Monitoring reports
Museographic projects implemented	400,000	Number	0	0	0	1	1	1	3	Monitoring reports
Calera chapel preserved	490,000	Number	0	0	1	0	0	0	1	Monitoring reports
Calera business plan developed	50,000	Number	0	0	1	0	0	0	1	Monitoring reports
Nautical facilities in Tajes made operational	750,000	Number	0	0	0	1	2	0	3	Monitoring reports
Trail projects developed	180,000	Number	0	0	0	0	1	1	2	Monitoring reports
Parador Tajes building renovated	100,000	Number	0	0	0	1	0	0	1	Monitoring reports
Train cars restored and thematically developed	160,000	Number	0	0	0	0	1	1	2	Monitoring reports

Outputs	Cost (US\$)	Unit of measurement	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final goal	Means of verification
<b>Component II. Support for tourism entrepreneurship</b>										
Projects supported by window 1 funds	300,000	Number	0	0	3	3	4	0	10	Monitoring reports
Projects supported by window 2 funds	300,000	Number	0	0	3	3	4	0	10	Monitoring reports
Projects supported by window 3 funds	200,000	Number	0	0	2	2	2	0	6	Monitoring reports
<b>Component III. Strengthening tourism governance</b>										
Local observatory tourism management hubs implemented	630,000	Number	1	1	1	0	0	0	3	Monitoring reports
Digital tourism-promotion plan implemented	600,000	Number	0	0	0	0	0	1	1	Monitoring reports

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Uruguay  
**Project:** Program for the Development of Emerging Tourist Destinations (UR-L1155)  
**Executing agency:** Ministry of Tourism (MINTUR)  
**Prepared by:** Abel Cuba and Emilie Chapuis (FMP/CUR)

### **I. FIDUCIARY CONTEXT OF THE EXECUTING AND SUBEXECUTING AGENCIES**

- 1.1 The Fiduciary Agreements and Requirements are based on MINTUR's background as the executing agency for loan 1826/OC-UR, "Program to Enhance the Competitiveness of Strategic Tourist Destinations" (closed), and loan 2601/OC-UR, "Program to Support the Tourism Sector," and for the first individual operation approved under this conditional credit line for investment projects (CLIPP), loan 3820/OC-UR. They are also based on the findings of the updated institutional capacity assessment conducted using the institutional capacity assessment system (ICAS) tool in 2019, which yielded satisfactory results in all areas, as well as the assessment of the National Development Agency (ANDE), also with satisfactory results.
- 1.2 ANDE will be the subexecuting agency responsible for the competitive fund under Component II, in the amount of US\$800,000. The competitive fund will be governed by specific regulations agreed upon with MINTUR. ANDE has an adequate organizational structure to manage this fund and will not engage in procurement using operation proceeds.
- 1.3 The country systems used for this operation are the following:
  - a. Budget: national budget system. This operation's resources will figure in the new Five-year Budget Act for 2020-2025. The budget base, which includes loan proceeds and local counterpart resources, should be sufficient to contend with challenges arising from program execution.
  - b. Cash flow. A special designated account will be set up at the Central Bank of Uruguay, which will be part of the Single Treasury Account in the name of MINTUR and will specify the name of the program.
  - c. Accounting and reports. Public resource management is channeled and recorded through Integrated Financial Information System (SIIF). In this case, it will be complemented by the program's own parallel accounting system.<sup>1</sup>
  - d. Internal control. MINTUR has an internal control system for managing its operations. This system's effectiveness is assessed when the Office of the Auditor General monitors expenditures and payments, and compliance audits are conducted by delegated accountants.

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<sup>1</sup> Until the new accounting module for projects developed under SIIF II is launched.



- e. External control. In recent years, the Office of the Auditor General has been responsible for the annual audits of Bank-financed programs, and its work is framed within the international guidelines issued by the International Organisation of Supreme Audit Institutions.

## II. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 2.1 The program's fiduciary risk is considered low, based on the findings of the institutional capacity analysis conducted using ICAS in May 2019, MINTUR's experience, and the fact that no modifications to the execution framework are expected.
- 2.2 A risk workshop following the project risk management methodology conducted in May 2019 identified a medium fiduciary risk arising from difficulties in keeping bidding process variables in check, such as: (i) cost overruns due to lack of providers in remote areas; and (ii) a lack of applicants who can meet technical specification requirements at the local level. This risk will be mitigated by a contingency allowance for the works (US\$150,000) and by expanding the coverage of calls for bids to the national level, to guarantee the supply of providers.

## III. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

- 3.1 **Exchange rate.** Accounting in dollars will apply the "pesification" criterion; in other words, the conversion of costs to the approval currency will be based on the date when Bank disbursements were converted to the local currency, with the specific conversion method stipulated in Article 4.10(b)(i) of the General Conditions of this loan contract.
- 3.2 **Audited financial statements.** Audited financial statements must be submitted within 120 days following the end of each fiscal year. The terms of reference will be agreed upon with the Bank and the auditing firm will be satisfactory to the Bank, with the specific submission deadline stipulated in Article 7.03 of the General Conditions of this loan contract. The final audit report will be submitted within 120 days following the date of the final disbursement.

## IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 The Bank's procurement policies, as set forth in document GN-2349-9 (Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank) and document GN-2350-9 (Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank) will apply to all procurement activities anticipated for this operation. The procurement activities will be included in the procurement plan that covers an initial period of 18 months and thereafter will be updated annually. This procurement plan will be registered, approved, and published in the Digital Procurement Plan System (SEPA – [www.iniciativasepa.org](http://www.iniciativasepa.org)) before procurements have begun. Once registered, it will be updated annually or as needed in the event of substantial changes to the original plan.

## 4.2 Procurement execution:

- a. Before carrying out any procurement process, the executing entity will submit, to the Bank, for prior approval, a procurement plan that sets forth in detail: (i) the required contracts for goods and services; (ii) the proposed methods for the procurement of goods and the contracting of consultants; and (iii) the applicable Bank procedures for contract supervision. The borrower will update the procurement plan every 12 months at a minimum and in accordance with program needs. Any proposed revision of the procurement plan will be submitted to the Bank for its approval.
- b. No advance contracting or retroactive financing is anticipated for this operation, and no exceptions to Bank policies are being requested.

## 4.3 The following are the provisions applicable for procurement execution:

- a. **Procurement of works, goods, and nonconsulting services.**<sup>2</sup> Contracts arising under the program and subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be executed using bidding documents satisfactory to the Bank.
- b. **Consulting firms.** Firms will be selected and contracted in accordance with IDB policies. International bid solicitations (for more than US\$200,000) will be subject to ex ante review.
- c. **Selection of individual consultants** will be carried out in accordance with Section V of Bank policies as set forth in document GN-2350-9.

**Table of Threshold Amounts for Uruguay (thousands of US\$)**

Works			Goods <sup>3</sup>			Consulting	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity	Shortlist 100% National
≥ 3,000	250-3,000	≤ 250	≥ 250	50-250	≤ 50 <sup>4</sup>	> 200	≤ 200

- 4.4 **Main procurement processes:** The procurement activities planned for this operation are included in the initial procurement plan, which covers an 18-month period. During execution, the procurement plan will also incorporate the direct contracting of a general coordinator, an administration and finance specialist, legal counsel, and an administration and finance assistant, for a total amount of US\$645,000. The contracting of this key personnel will take place beginning in the second year of execution, in line with the requirements of section 5.4(a) of Section V of document GN-2350-9.

- 4.5 **Procurement supervision.** Procurement activities will be subject to ex post supervision, except in the cases of (i) direct contracting; (ii) contracts in amounts that exceed the threshold for international competitive bidding as indicated in paragraph 5.9 of this document; and (iii) activities for which the executing agency

<sup>2</sup> Policy [GN-2349-9](#) paragraph 1.1: Nonconsulting services are treated as goods.

<sup>3</sup> Includes nonconsulting services.

<sup>4</sup> For technically simple goods, shopping can be used up to the threshold for NCB.

and the Bank mutually agree, through the procurement plan, that supervision will be ex ante. The initial review method will also be ex post, subject to the stipulated conditions, which can be modified by mutual agreement reflected in the procurement plan. ICBs and consulting assignments for amounts that exceed the applicable threshold for international short lists will be subject to ex ante review.

- 4.6 **Records and files:** Project report preparation and filing will follow the formats and procedures that have been agreed upon and are outlined in the program Operations Manual, in accordance with the requirements of the applicable policies.

## V. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 5.1 **Programming and budget.** MINTUR, as a central administrative entity of the State, sends its budget proposal directly to the Ministry of Economy and Finance, which includes it in the Consolidated National Budget Proposal and submits it to the executive branch for consideration. The proposal is then sent to the legislative branch for analysis and legal approval, and this approval regulates the Ministry's activities. The Ministry internally allocates the budget required for program execution, based on the identified needs.
- 5.2 The executing agency, through the program execution unit, will program and formulate its budget in accordance with the agreed-upon annual work plan, which is based on the program's execution plan.
- 5.3 **Accounting and information systems.** Budget credits are allocated and executed through the SIIF of the National General Accounting Office, and program obligations and payments will follow the procedures established by this Office. In addition, the program will have its own accounting system, parallel to that of the SIIF, until the development of the respective model in SIIF II is concluded.
- 5.4 The program's financial statements will be submitted periodically in accordance with public sector accounting guidelines. The following financial statements will be submitted: (i) a statement of cash received and disbursements made; and (ii) a statement of cumulative investments including the corresponding explanatory notes.
- 5.5 **Disbursements and cash flow.** A special designated account (in name alone) will be set up at the Central Bank of Uruguay through the National Treasury Office. The program will also have an operational bank account, from which payments will be made, at Banco de la República Oriental de Uruguay.<sup>5</sup>
- 5.6 The disbursement modality will be advances based on real liquidity needs grounded in adequate financial projections. Advances will be made preferably on a six-monthly basis, once justification has been provided for at least 70% of the advance amount.<sup>6</sup> Each disbursement request will include financial planning spreadsheets and a reconciliation of funds. The digital e-disbursement mechanism will be used to process all disbursements. The agreed upon exchange rate for the conversion of

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<sup>5</sup> BROU.

<sup>6</sup> Pursuant to policy OP-273-6, this limit is justified because the central administration entities, which include MINTUR, must have funds in Central Bank accounts to undertake new obligations. Payment processing also requires the preventive oversight of the Office of the Auditor General (TCR) and the General Accounting Office (CGN).

payments into local currency or any currency other than contract currency will be the one obtained from applying the “pesification” criterion.

- 5.7 **Internal control.** Pursuant to the Amended Accounting and Financial Administration Code, the Office of the Auditor General must carry out preventive oversight of expenses related to program execution. Under current legal regulations, MINTUR also falls under the authority of Internal Audit Office. During program execution, arrangements will be made with the Internal Audit Office if the program is subject to review.
- 5.8 If, during execution, a departmental government participates as a subexecuting agency for the program, the requirements it will have to fulfill include a satisfactory institutional capacity assessment, following the Bank’s analytical methodology.
- 5.9 **External control and reporting.** To fulfill the Bank’s contractual requirement, annual program audits can be conducted by the Office of the Auditor General or by an independent auditing firm that is acceptable to the Bank. In the case of the Office of the Auditor General, its relationship with MINTUR will be outlined in a Service Agreement Letter that will include the terms of reference agreed upon with the Bank.
- 5.10 Financial audit reports will be submitted on an annual basis during the disbursement phase, prior to 30 April of each year, and no later than 120 days after the date of the last disbursement. Audits will be managed in accordance with the guidelines of policy OP-273-6.

## VI. FINANCIAL SUPERVISION PLAN

- 6.1 The supervision plan will discuss the following items:
  - a. Participation in the program launch workshop organized by the program team.
  - b. Periodic reviews of the annual work plan and the financial plan prepared by the executing agency, acting through the program executing unit, as supporting documentation for the advances requested.
  - c. Based on a portfolio risk assessment, in situ financial visits can be planned. These visits will evaluate the program’s main financial, monitoring, and file management aspects. Disbursements will be subject to ex post review.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/19

Uruguay. Loan \_\_\_\_/OC-UR to the Eastern Republic of Uruguay. Program for the Development of Emerging Tourist Destinations. Second Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) for National Tourism Development (UR-O1149)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Eastern Republic of Uruguay, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program for the Development of Emerging Tourist Destinations, which constitutes the second individual operation under the Conditional Credit Line for Investment Projects (CCLIP) for National Tourism Development (UR-O1149) approved on 30 November 2016 by Resolution 107/16. Such financing will be for the amount of up to US\$6,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2019)