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***Country Program Evaluation:
Uruguay 2005-2009***

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ABBREVIATIONS

ANEP	Administración Nacional de Educación Pública [National Public Education Administration]
COF/CUR	IDB Uruguay Country Office
CPE	Country Program Evaluation
DGI	Taxation Directorate
DMU	Debt Management Unit
DOs	Development objectives
EME	Emergency loan
GDP	Gross domestic product
IMF	International Monetary Fund
IP	Implementation progress
MEF	Ministry of Economy and Finance
MIDES	Ministry of Social Development
MVOTMA	Ministry of Housing, Land Development, and Environment
OSE	Administración de Obras de Saneamiento del Estado (State Sanitation Authority)
PANES	Plan de Atención Nacional a la Emergencia Social (Emergency Social Plan)
PBL	Multitranchise policy-based loan
PBP	Programmatic policy-based loan
PDL	Performance-driven loan
PIAI	Program for Integration of Irregular Settlements
PROPEF	Project Preparation and Execution Facility
PPMR	Project Performance Monitoring Report
PRODEV	Program to Implement the External Pillar of the Medium-term Action Plan for Development Effectiveness
SIT	Science, innovation, and technology
SNIP	National Public Investment System
TDP	Technology Development Program
UDELAR	Universidad de la República, Uruguay

EXECUTIVE SUMMARY

Uruguay's economy has relatively high per capita income, estimated at nearly US\$12,000 in 2010 dollars, and the country has historically numbered among those with the best income distribution in the region. Robust economic growth between 2004 and 2009, averaging 6.1% annually, took the country out of the recession that began in 1999 and culminated in the financial crisis of 2002, one of the worst in the country's history. The turbulence took a heavy toll: between 1998 and 2002, GDP shrank 15%; in 2002, international reserves dropped almost 80%; the external debt stock topped 100% of GDP; commercial banks lost 45% of their deposits; unemployment climbed into the double digits, and the poverty rate doubled from 15% in 1999 to 30% in 2003.

This growth was a consequence, on the one hand, of ongoing economic reforms that facilitated the operation of markets and closer integration of the country into the world economy, in a context that was very favorable to the growth of national production. On the other hand, it was a consequence of the macroeconomic policies adopted by the government which, as a whole, made it possible to maintain the economic fundamentals and significantly reduce vulnerability to the external shocks that took place. This occurred simultaneously with a major and sustained effort to increase inclusion and transfers to the poorest sectors and improve the allocation of permanent public funds for these purposes. The fact that slower progress was made in distribution, reduction in inequality of opportunities, and access to basic services has led to a deepening of the country's leadership in these areas. It has attached higher priority to them without jeopardizing the stability achieved.

Against this backdrop, the starting point for construction of **the Bank's strategy** with Uruguay (hereinafter the "Strategy") were the near-term challenges the country was facing in 2005 following the crisis. The engagement of the Bank, which historically has been a key partner for the country, was relevant in that it pursued priorities set by the government, particularly to maintain fiscal sustainability and strengthen the social safety net. The proposed interventions were consistent with the Strategy diagnostic and defined in the Bank's country program (the Program), but to a lesser extent in the area of competitiveness and international positioning.

The Strategy called for the Bank's involvement in more areas than it ultimately did engage in with the country. As indicated, the focus was on the challenges that emerged during the crisis, which drew some attention away from the challenge related to growth. On the matter of competitiveness and international positioning, the Program did not address issues related to market failures, energy infrastructure, investment in human capital, vulnerability to regional instability, and the business climate. Important social-sector concerns that will require more attention in the future are adaptation of the education system to match human capital supply and demand, and programs to continue to reduce income inequality independent of the business cycle. As for strengthening public management, the weakest point was results-based management, as had been the case in previous programming cycles.

The Program provided valuable analytical inputs for adapting the social safety net, with assistance for the country's Emergency Social Plan (PANES). The rest of the analytical work was adequate for most of the Program's purposes, except for the energy and housing

areas. In some cases that effort did not translate into concrete actions envisaged in the Strategy or into projects to tackle the identified challenges—specifically, competitiveness and international positioning. This can be better understood by keeping in mind the fact that while implementation of the strategy focused on surmounting the impact of the crisis, its objectives were broader, but not necessarily in line with the political capacity of the government which, furthermore, did not have a great deal of experience in relations with multilateral agencies. The innovation in the area of poverty and social inclusion was the introduction of baselines and intervention models that were applied to interventions approved in the previous period.

With respect to **Program execution**, the total funding approved was similar to the previous period but with a substantial increase in number of operations, particularly unanticipated loans in the area of competitiveness and international positioning. As mentioned, the Program contained a series of projects approved prior to 2005, with low execution in the area of poverty and social inclusion, which were reformulated to support implementation of the government's action plan in this area. The strategy had the merit of maintaining continuity with what had gone before, while indicating flexibility to adapt to the country's objectives.

As in previous periods, the lending anticipation rate continued to be high, 69% of the programmed funds having been approved. Frequent use was made of policy-based loans (PBLs) and programmatic policy-based loans (PBPs) as the chief lending products: these quick-disbursing vehicles accounted for half of the funding approved over the period examined here. These products also had figured prominently in the previous country strategy (2000-2004) given the crisis unfolding at the time; over that span they accounted for 63% of approvals by amount. During the period reviewed here, these lending products were used for public debt restructuring and prospects of spillovers from the 2008/2009 global financial crisis.

A PBL helped implement the Emergency Social Plan, generating elements for the program's evaluation. And PBPs supported fundamental government reforms such as tax reform and strengthening of the Taxation Directorate (DGI), but those operations' relevance for the reforms' design and scope is hard to discern. These resources ultimately served as contingent facilities as the country's fiscal performance improved, which points up the dearth of appropriate products at the Bank to contend with stalled growth caused by exogenous factors and reflected in liquidity problems. The Bank should capitalize on the difficulty in securing timely unrestricted resources, to assess the need for financial products that preclude the use of products that are inappropriate for fiscal scenarios like the aforementioned.¹

Since the bulk of funding delivered under the Program was unrestricted, the transaction costs associated with Bank operations delivery were lower than in the previous country program. However, these products had not been framed with a view to the Bank's contribution to country performance. Thus, the objective of managing the Program based on results, as suggested by the previous Country Program Evaluation (CPE) recommendation regarding gearing the Bank's lending and its contribution to results, was not met. This

continues to be the main constraint that comes out of the evaluation of the Program's implementation effectiveness.

The analysis of Program results was constrained by the Strategy's low evaluability and, in lesser measure, the low evaluability of the projects, which were missing metrics with which to gauge the Bank's contribution to country performance. Outcome indicators had been clearly defined for just a quarter of the Strategy's proposed action areas, mostly in the poverty and social inclusion focus area. Performance indicators had been provided for two thirds of the objectives stated in the operations, but there was no indication in the Bank's ex post monitoring of those metrics as to its contribution to the country's progress in its areas of engagement. A sizable number of external ex post evaluations for the investment projects (agriculture; science, innovation, and technology; clusters; education; housing) helped mitigate in part these Program and project design limitations.

With regard to the Program's development **outcomes** and **lessons learned**, in the area of support for public management and fiscal sustainability, one of the Bank's prime objectives was to help Uruguay restructure its public debt and put through a tax reform. The Bank's assistance to set up the Debt Management Unit and enhance its profile yielded significant gains, though that operation lacked basic metrics to be able to precisely gauge the Bank's contribution. On the tax reform side, the Taxation Directorate (DGI) was strengthened to carry through the tax reform the government had designed in 2007. Outcomes in other areas were limited, such as improving the quality of expenditure and the budget process, and human resources management. In those areas, the problems seen in previous operations repeated themselves.

In the area of competitiveness and international positioning, there were fewer specifics as to the Bank's engagement. Insufficient information and delays in project evaluation activities made it hard to evaluate results. In several of the seven objectives established for this strategy focus area, it is still too soon to talk about development results. In the science, innovation, and technology (SIT) area, the Program provided support for the institutional and strategic reforms of the government policy launched in 2005. It centered on innovation and applied research and on the provision of more financing for private and public initiatives in these fields (ANII, CONICYT). These efforts were spurred by modernization of the system of financial incentives for investing in production approved by the government to address market failures that stand in the way of the diversification of production and the manufacture of goods and exports with higher value-added and technology content.

Despite the fact that the execution status of the projects makes it hard to draw firm conclusions about the results, some findings have been made. First, the institutional and legal reforms implemented by the country were important in addressing weaknesses in coordination, facilitating the simultaneous availability of funds to finance investments in innovation and specialized science and technology services. This points to better linkage with the private sector. Second, the Bank did not clearly point out the risks to the sustainability of project results entailed in supporting investments in production and innovation with incentive programs without simultaneous and significant progress in fixing market failures (which normally takes more time). Without this simultaneity, it is difficult to tap economies clustered around specialized services and companies that generate a scale

sufficient to raise productivity to the levels required to take advantage of current and potential demand on global markets.²

In the infrastructure area, the Bank's value-added centered on financing for major-roads maintenance. However, given its financial constraints at the time, the country was unable to do all the needed rehabilitation work that had been programmed. Issues that arose in the customs modernization, livestock industry support, and microfinance loans delayed implementation and evaluation of those projects' outcomes. The problems had to do with design issues, the institutional capacity of the executing agencies, and information access, among others.

The results in this area can be better understood by recalling that the country's economic structure has not changed substantially and that in its economic relations with the rest of the world, despite the diversification of markets that took place, its ties with Brazil and Argentina under MERCOSUR continue to be very important. The potential for making a change in the production structure was limited in this context by changes in external factors, while the motor of growth focused exclusively on the comparative advantages of natural resources.

The Bank did not sufficiently coordinate its action in this area in a way that was consistent with sustainable growth and the simultaneous reduction of inequality gaps. Given that Uruguay is a country with a small local market, not enough stress was placed on the fact that gradual diversification of its production and export bases is required, mainly based on the advantages of its commodities. A diversification process of this kind depends increasingly on the country's path toward industrialization, increased technology in exports, better trained and less unequal human capital, the abundance of physical capital and infrastructure, and the growing intensification of innovations and the knowledge economy. There are risks associated with continuing to support isolated actions without fixing the market failures that stand in the way of sustainable growth. A process of this kind will enable the national private sector to shift its demand to more highly skilled human capital, increasing the returns on education and protecting the country from the flight of skilled labor.³

In the third and final area—poverty and social inclusion—the Bank's projects were designed or reformulated to focus on implementation of the new government's action plan. The activities called for in each project were implemented as scheduled. Support was provided to perform diagnostic assessments and evaluations when they were needed; run pilot projects to test and replicate more efficient innovations; decentralize responsibilities and resources; support strategic discussions between the various stakeholders and generate learning; and promote a more effective dialogue between those responsible for allocating resources and those responsible for executing them.

National funding has primarily been targeted to improve coverage, though inclusion and improvement in the position of the most vulnerable segments of the population (through implementation of the Emergency Social Plan (PANES), the tax reform, and reform of the health and family allowances programs, which were merged into the Equity Plan). Coverage gains and the need for long-term sustainable growth led to rising demand for resources to fund initiatives to reduce gaps in the quality of social services⁴ (such as the National Strategy for Children and Adolescents 2010-2030), improving equality of services.⁵

Among the most noteworthy of the findings on the interventions reviewed as part of the evaluation was the effort to achieve universal coverage with the projects and institutionalize them in government programs, goals that the country's medium-term national budget was structured to accommodate. The national authorities took responsibility for project execution activities and outcomes, getting directly involved in project activities and contributing additional national resources to strengthen outcomes. This is essential for ensuring the sustainability of outputs and the feasibility of achieving impacts. The degree of institutional ownership will also allow funds to be released more efficiently,⁶ lend legitimacy to intersector activities, and improve, through proximity, public management in each area of activity. The projects were converted into agencies responsible for implementing a long-term public project involving many stakeholders. This made it possible to generate lessons learned in each phase and flexibly incorporate them into strategic priorities, helping to cement the relationship between the long-term vision for the country and the Bank's institutional contribution.⁷

At the Bank, this process has been less visible. In several cases, projects share the same beneficiaries and continue to be very sector-oriented, with little opportunity for dialogue or coordination, reducing their multiplier effect. In addition to putting stress on programming, this interferes with the strategic partnership that the country seeks with the Bank.

Generally, there are a number of **risks** to the Bank's engagement. Diagnostic assessments should focus more on identifying information and market gaps that hinder achievement of the impacts sought by social policies, as well as on promoting the broad consensus needed to correct them. Working without project baselines should be avoided, and efforts made to adjust to the diversity of beneficiaries and stakeholders.⁸ Otherwise, it will continue to be hard to identify intervention priorities, technical criteria, and the right tools and products to work with. Lastly, the Bank's exit strategy is not clear in some sectors that have long relied on Bank support but are nearing institutional and budgetary sustainability, which would free up scarce resources for other sectors.

Based on the analysis findings, the following **recommendations** are proposed as potentially useful ways to make the Bank's country engagement more effective:

Recommendation 1 – Knowledge as a strategic outcome of the program: Based on the identification of growth constraints with the country, it is suggested that an ongoing program of studies be devised (including tentative timetable, topics, objectives, rationale) to ensure the availability of resources to finance the analytical work needed to analyze: (i) where action is needed; (ii) how to act in those areas, i.e. what type of approach and intervention model should be used; and (iii) the general goals sought. This work agenda should be part of the strategic exercise, to ensure that it does not just identify Bank action focus areas but serves also as a country program implementation tool that can be used, in turn, to monitor and evaluate the program.

Recommendation 2 – Improve the evaluability of designs and the evaluation of the Bank's contribution: It is suggested that support be provided to fix the current information gaps to be able to demonstrate, insofar as practicable, the results of planned loans, to improve the evaluability of project designs and prevent them from being approved without baselines for the problems that warrant the Bank's involvement. To that end, it is suggested

that beneficiaries and relevant public and private actors be integrated and that efforts be made to devise indicators that are more consistent with the development objectives of the interventions. Metrics should be identified with the Bank's contribution to country performance. Thus, in selecting the results evaluation methods, the preference should be for those that are best adapted to the information restrictions, knowledge requirements, and depth of analysis previously agreed upon with the national authorities, but use of these methods should not be a condition precedent to execution and should not present a hindrance to subsequent incorporation as part of the normal public administration of the institution receiving support. The country program and its interventions will thus progress gradually as the quality of the country expenditures being supported improves, and not only as a function of financial importance. The progress of country program activities in this regard will require greater analytical efforts and projection of the microeconomic logic that links the expected returns on the Bank's interventions and resources with progress made at the beneficiary level and in the use of national resources.

Recommendation 3 – A programmatic approach that is more cross-cutting: Complement the Program's eminently sector-oriented approach, which centers on financial resources, with a more coordinated approach that better accommodates the needs of the country, which are increasingly programmatic and cross-cutting, involving sector stakeholders, government levels, and the private sector as needed. The Bank should also revise its financial and administrative mechanisms to better target its intervention and supervision models to this cross-cutting approach.

Recommendation 4 – Greater programmatic focus on sustainable growth: Improve the targeting of objectives and the coherence of the Program with respect to the challenge of long-term sustainable growth. To that end the Bank should promote an approach to identify areas where its engagement could have greatest impact or contribute most value-added with respect to the challenge of sustainable growth, with particular regard to: (i) institutional and public administration constraints that could impede the implementation of projects in this area; (ii) fixing coordination and market failures that are roadblocks to more innovative entrepreneurship and a broader knowledge economy; and (iii) the need to support efforts to move toward diversification of the country's production and export bases in a way that builds on its comparative advantages and is consistent with trade integration on a global scale.

Recommendation 5 – ... consistently with ongoing reductions in equity problems: Address in the Program the issues of equity and income inequality as they pertain to: (i) continued support for closing gaps in the social welfare structure in accordance with the long-range needs of Uruguayan society, particularly in the case of no-growth scenarios or scenarios in which there are mismatches in human capital supply and demand; (ii) greater emphasis on raising the quality of public goods to improve basic services for the population and increase its production capacity. These are conditions that will help sustain long-run growth with greater equality of opportunities, taking advantage of the avenues that may open as the country's production model evolves.

I. CONTEXT

1.1 This document presents the Uruguay Country Program Evaluation covering the period 2005–2009. Its objective is to present the results of the Bank’s engagement in Uruguay over that span and draw lessons to make its future country work more effective. This first chapter briefly reviews the context in which the Program was designed and delivered and Uruguay’s main outstanding development challenges.

A. General context

1.2 **Uruguay is an economy with relatively high per capita income.** Its US\$9,654 per capita income in current dollars in 2008 was well ahead of other countries in the region and very close to Chile’s US\$10,112. Moreover, historically Uruguay has had the most egalitarian income distribution in the region, by most distribution measures. According to the recently released 2010 UNDP Human Development Report for Latin America and the Caribbean, Uruguay has had the region’s most equitable distribution for at least 10 years running. The UNDP report also underscores the role of social policies implemented in recent years, notably the Emergency Social Plan (PANES) and Equity Plan cash transfer programs.

1.3 **Uruguay is a relatively small economy.** In 2008 Uruguay’s gross domestic product (GDP) was less than 10% of Argentina’s output and less than 2% of Brazil’s,⁹ its neighbors and biggest trading partners. That year Uruguay’s economy was South America’s fifth smallest in output terms, after Guyana, Suriname, Paraguay, and Bolivia, and had the region’s third smallest population, after Suriname and Guyana.

1.4 **By virtue of its geographic location and its economic relations within MERCOSUR, Uruguay has strong ties to Argentina and Brazil.** The formation of MERCOSUR in 1991 opened up new opportunities for Uruguay, but at the cost of making it more dependent on its trading partners. Up until the 1970s Uruguay had experienced a different growth pattern than its trade partners; a convergence process then began unfolding as regional finance and trade integration deepened (MERCOSUR), affecting Uruguay’s exports and resulting in similar exchange rate policy changes.¹⁰ Uruguay’s heavy dependence on Argentina and Brazil was much in evidence during the recession it weathered from 1999 to 2002.

1.5 **Between 1999 and 2003 Uruguay lived through a recession and the 2002 financial crisis, which saw the poverty rate double.** Though its economic performance had been relatively stable throughout the 1990s Uruguay still had vulnerabilities that helped precipitate the crisis. The recession was sparked in 1999 when the terms of trade fell—a spillover from the Asian crisis—and the Brazilian real experienced a devaluation. In addition, an outbreak of foot-and-mouth disease in 2000 and 2001 hurt the livestock industry, one of the country’s economic mainstays. Uruguay’s economy thus was in a weakened state when the Argentine crisis broke out toward the end of 2001, and by 2002 it was engulfed in one of the worst financial crises in its history.¹¹ This took a heavy toll: GDP shrank by 15% in real terms between 1998 and 2002 (Annex I, Figure 1);¹² international reserves dropped almost 80%; the nation’s external debt stock topped 100% of GDP; banks

lost 45% of their deposits and the proportion of nonperforming to total loans soared to 37%; unemployment climbed to 17%, and the poverty rate doubled from 15% in 1999 to 30% in 2003.

- 1.6 **After the crisis, output rallied strongly and per capita GDP remained ahead of nearly all the region during the period 2004-2008 (Annex I, Figure 2).** The turnaround was driven by the favorable global environment and the Uruguayan government's sound macroeconomic management (IMF, 2008).¹³ The healthy growth rates posted from 2004 to 2008, averaging 6.6% annually, topped the forecasts.¹⁴ In the first post-crisis year Uruguay's growth rate was the highest in the region (2.9%, compared to 0.9% in Peru and Argentina in 2009).
- 1.7 **In recent years, growth has been driven by domestic demand, particularly private investment, with all-time highs, and commodity exports (Annex I, Figure 3).** Aggregate demand—particularly private investment—reacted favorably to the macroeconomic policy set and the benign global environment. As household income recovered, economic expectations stabilized and the consumer credit market revived. Household consumption expenditure, which had shrunk in 1999-2002, went up. Post-crisis public spending increased sharply, holding roughly in line with GDP. Exports grew 22% annually, on average, between 2004 and 2008, buoyed by strong commodity prices.
- 1.8 **Foreign direct investment played an important part in Uruguay's economic recovery.** Uruguay's heavy investment inflows from 2005 to 2008 were more than double (in percent GDP terms) the investment captured by its neighbors and, indeed, by the region overall (Annex I, Figure 4). This inflow of capital boosted the forestry, agriculture, and tourism sectors. Brazilian investments, for instance, targeted the agrifood industry: today 85% of Uruguay's meat agroindustry and more than 90% of its rice agroindustry are Brazilian-owned. Uruguay also has benefited from Argentina's export tax policy, which has enabled it to attract Argentine investments in the agriculture and livestock sector. Uruguay has also received large investments from outside the region, for example from the pulp producer BOTNIA.
- 1.9 **Public finances were managed to produce primary surpluses of 3.5% of GDP (Annex I, Figures 5 and 6).** After falling during the 2002 crisis, public revenues recovered strongly from mid-2003 forward as did expenditure starting in the first quarter of 2004. The primary revenue and expenditure balance (Annex I, Figures 8 and 9) was sufficient to meet the primary-surplus target agreed with the IMF of 3.5% of GDP in 2007. The IMF (2008)¹⁵ indicated that the fiscal effort could have given more priority to saving revenue overperformance and emphasizing public investment. The public sector deficit was larger in 2009 than in 2008 (-1.7% of GDP versus -1.5% of GDP, respectively) as a result of the countercyclical fiscal policy measures employed to contend with the financial crisis.

Table 1.1. Uruguay. Selected indicators, 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Macroeconomic indicators									
Real GDP (% change)	-3.8	-7.7	0.8	5	6.6	4.3	7.5	8.5	2.9
Nominal GDP (US\$ billion)	18.6	12.3	11.2	13.2	17.4	19.8	24.0	31.2	31.5
Gross fixed investment (% of GDP)	13.7	12.4	12.5	14.4	16.5	18.6	18.6	20.2	19.1
Nominal GDP per capita (US\$)	5610	3711	3388	4003	5252	5975	7206	9351	9420
Urban unemployment rate	15.3	17	16.9	13.1	12.2	11.4	9.6	7.9	7.7
Consumer prices (average % change)	4.4	14.0	19.4	9.2	4.7	6.4	8.1	7.9	7.1
Exchange rate (pesos per US\$, period end)	14.8	27.2	29.3	26.4	24.1	24.4	21.5	24.4	19.6
Exports of goods (US\$ mill.)	2139	1922	2281	3145	3774	4400	5100	7095	6389
Imports of goods (US\$ mill.)	-2915	-1874	-2098	-2992	-3753	-4898	-5645	-8807	-6660
Current account (% of GDP)	-2.4	2.8	-0.7	0.0	0.2	-2.0	-0.9	-4.8	0.7
Nonfinancial public sector (% of GDP)									
NFPS revenue	30.2	28.7	29.4	28.7	28.1	28.1	28.2	26.5	28.1
Tax revenue	14.6	12.8	16.7	18.7	16.9	17.3	18.3	14.3	19.6
NFPS expenditure	34.1	32.8	32.3	30.6	28.6	28.7	28.2	27.9	29.8
Budget deficit	-3.9	-4.1	-2.8	-1.9	-0.5	-0.5	0.0	-1.5	-1.7
Public debt	60.2	118.7	113.0	92.7	79.2	70.3	62.5	61.7	60.0
Social indicators									
Average household income per capita (2002 pesos)	6153	5503	4567	4662	4791	5326	5774	6438	n.d.
Poverty rate, country, urban (%)	27.3	33.7	41.5	41	37.6	34.8	32.2	24.5	23.2
Income inequality - Gini, country, urban (%)	n.d.	n.d.	n.d.	n.d.	n.d.	0.446	0.449	0.424	0.432
% of under-14 population who are poor (country, urban)	43.9	52.9	60.2	61.4	59.2	54	50.4	39.4	36.7*
% of over-64 population who are poor (country, urban)	7.8	10.6	17.6	18.6	15.7	14.2	10.9	8.4	7.4*
Preschool education enrollment, 3- to 5-year olds (%)	67.3	65.6	68.3	70.6	70.4	73.5	75.4	77.5	73.4
First grade repetition rate (%)	20.9	20.1	17.9	16.9	16.1	16.5	16.8	13.8	13.9
Gross enrollment ratio 15- to 17-year olds (%)	48.2	49.7	52	48.9	48.7	43.2	41.9	38.8	47.3
Bottom quintile 20-25 year olds w/ complete secondary educ.(%)	n.d.	12.9	11.7	13.4	9.3	7	7.2	6.3	8.5*

Source: Uruguayan Central Bank, DGI, EIU, World Development Indicators Database, INE.

* Data from the 2009 Household Survey

1.10 Like the rest of the region, Uruguay had to deal with inflationary pressures in 2005-2009. Escalating oil prices in 2004-2007 pushed up production costs and led to greater inflationary pressures. Domestic prices were influenced by buoyant global economic activity that helped keep the prices of Uruguay's leading export commodities high. The strong appreciation of its peso against the U.S. dollar (25% between 2004 and 2009) benefited the country, tempering increases in the price of certain tradables and inputs expressed in pesos (UDELAR, 2008).¹⁶

1.11 Robust growth from 2005 forward boosted employment, reduced poverty, and, to a lesser extent, income equality. After a 20% decline between 1999 and 2002, real per capita GDP in 2006 returned to pre-1999 levels and continued the growth trend that had begun in the mid-1980s. The rebound showed up in a drop in unemployment rates, from 13.1% in 2004 to 7.7% in 2009. Strong labor market growth helped lower the urban poverty rate from 39.7% to 23.2% over that span. There was a slight reduction in inequality. Deepening progress in this area is an ongoing challenge for the country.

- 1.12 **Though poverty rates have come down, a large proportion of children and young people still are living in poverty.** In 2002-2007 over 50% of Uruguay's under-14 population was poor (Table 1.1). The child poverty rate is far higher than the adult rate and the gap between the two has been increasing sharply since the early 1990s (ECLAC, 2009).¹⁷ Indeed, Uruguay has one of the widest child/adult poverty rate gaps in the region (Annex I, Figure 9). Over the period reviewed here, public social spending began to prioritize children, as attested by the increase in the share of expenditure on the under-19 population from 18% to 22% between 2004 and 2009. However, pension outlays still account for over half of all public social expenditure, primarily payments to the over-60 population.¹⁸
- 1.13 **The new administration that took office in 2005 faced credibility and political constraints.**¹⁹ The credibility concerns were largely on the macrofiscal management side, which was a source of uncertainty due to the magnitude of the public debt.²⁰ The government restructured the public debt, instilling fiscal discipline and pursuing tax reform to broaden the tax base, make the tax system more efficient, and reduce evasion. The chief political constraints lay in tensions within the government regarding the role of markets in resource allocation, delivery of public goods and services, and labor market flexibility, among other issues.
- 1.14 **Along with very pressing concerns the government had to contend with long-range challenges to enhance growth.** The immediate priority was to maintain fiscal and financial sustainability so as to avert fresh episodes of contagion and crisis and, at the same time, bolster the social safety net to tackle the sharp increase in poverty. The challenges in domains other than the public finances,²¹ financial system,²² and poverty had to do with infrastructure shortfalls, business-climate regulatory shortcomings,²³ growing inefficiencies in the delivery of government services in social security, education, and innovation (World Bank, 2005),²⁴ and Uruguay's vulnerability to regional instability.
- 1.15 **The tax system, public debt restructuring, and social protection were the chief focuses of reforms enacted in the review period, along with the continued bolstering of financial regulation.** The IMF (2007)²⁵ pointed up the good progress Uruguay had made across a number of areas, notably tax reform, public debt management (with creation of the Debt Management Unit), and combating poverty, with a new emergency social program. Measures taken on the financial system side were the strengthening of the Central Bank and restructuring of the portfolio of Banco Hipotecario del Uruguay, the State mortgage bank.²⁶ The government made significant progress in addressing the short-term challenges of fiscal and financial sustainability²⁷ and the social emergency.
- 1.16 **There were notable changes to the health system and labor legislation.**²⁸ The revamped health system integrates public and private providers, which previously operated with little coordination. One of the health reform's prime objectives was to extend the system to the hitherto unserved population. As for labor legislation changes, the administration reinstated the Wage Boards,²⁹ instituting tripartite collective bargaining (workers, employers, and the government) by branch of

industry. Regulations governing dispute resolution and services outsourcing or subcontracting were rewritten.

B. Development challenges

1.17 This section looks at Uruguay's primary long-term development challenges, which were part of the landscape prior to preparation of the Strategy and continue to limit development. It is structured around the three focus areas for the Bank's engagement set out in its Strategy/Program.

1. Public Management and Fiscal Sustainability

1.18 **Gains were achieved in fiscal sustainability and public debt restructuring, but Uruguay faces continuing challenges on the macrofiscal management front.** The country's current public debt to GDP ratio, at about 60% (Table 1.1), is still above "comfortable" levels. Containing growth in current spending and budget rigidities are two other major ongoing challenges. The fiscal effort of recent years has not translated into budget agencies governed by rules and procedures that will deliver countercyclical fiscal policies (IMF, 2010).³⁰ Moreover, the administration did not take up some IMF reform proposals, such as a move from five-year to annual budgets and an organic public budget law (IMF, 2008).³¹

1.19 **There is still room to improve the quality of public spending.** The review period saw efforts to bring in a results-based management system, but little progress was made (see chapter IV). An assessment of public expenditure points up the efforts made to analyze social expenditure,³² but there was no progress in the quality of spending by public enterprises. Furthermore, the country continued to move forward with its decentralization agenda, accompanied by the creation of a National Public Investment System, although this did not ensure better use of investment monies.

2. Competitiveness and global integration

1.20 **Though it has been diversifying its export markets, Uruguay's economic performance is still dependent on how the Argentine and Brazilian economies are faring.** In 2004-2009 there was no increase in the number of Uruguayan export firms (Annex II, Table 2) though the country did send its exports to a greater number of markets. It became less reliant on Argentina but more reliant on Brazil. A recent IMF study (2010)³³ found that shock spillovers from its neighbors—specifically, Argentina—explain about 20% of Uruguay's output fluctuations³⁴ owing to its strong trade and financial ties with those economies,³⁵ though the government did work to diversify trade outlets.³⁶ In this context, the proper functioning of MERCOSUR is critical, particularly with respect to protecting the interests of the smaller member countries.

1.21 **The Strategy contributed to strengthening the priority placed on the science, innovation, and technology (SIT) area by the government, reflected in the objective "to strengthen competitiveness and international positioning."** Beginning in 2005, the government fundamentally altered its SIT policy to

emphasize the importance of applied research, knowledge, and greater innovation for long-run development. The role of research and academia changed from one of setting policy objectives to one of supporting the development of content and applied knowledge.³⁷ However, innovation is still limited in Uruguay. Investment in research and development rose to 0.64% of GDP in 2008 but remains below the average for Latin America and the Caribbean (0.68% in 2007) and for the developed countries (around 2% of GDP). The private sector contribution is still very small, in terms of both total spending on research and development (25%) and SIT staffing. The incorporation and application of technology to production continue to be modest.³⁸ The country is still turning out unsophisticated products, most of which fall into the category of commodities.

- 1.22 **Scant progress was made in new infrastructure building; the energy sector is still the biggest bottleneck to medium-term growth.** The energy sector still is one of Uruguay's most vulnerable points for economic growth. The country relies heavily on imported oil³⁹ and hydropower generation (Annex I, Figure 10), which is being increasingly affected by climate change, as was in evidence during the period reviewed here. The public sector's efforts (investment in thermal power generation, efficiency programs, and binational agreements)⁴⁰ were basically limited by the absence of an agreement on a long-term energy matrix, in addition to tight budgets and high debt levels. These efforts were complemented by the private sector in the area of renewable energy, although its role in solving energy supply problems is limited.

3. Poverty and social inclusion

- 1.23 **Social and economic inequality and their consequences remain one of Uruguay's most pressing development challenges.** Though Uruguay has one of the lowest inequality rates in the region, it is not low by international standards (Table 1.1). While inequality rates of comparable or lower income countries have been trending down, Uruguay's numbers have held steady since the end of the crisis. There are a number of possible explanations for this performance. In the first years of the period under review, economic growth mostly benefited the upper end of the income distribution, while income levels at the lower ends were bolstered by reforms implemented starting in 2007 (tax reform, healthcare reform, Equity Plan) but even more by the economic cycle.⁴¹ Disparities in education quality and access, particularly at the secondary and postsecondary levels, appear to be another important factor.⁴² Consequently, the lack of opportunities for people of low socioeconomic status impacts their own quality of life and may also impact the country's growth.
- 1.24 **The cash transfers program reduced the social assistance coverage gap,⁴³ but it could be more effective.** One facet of the National Emergency Social Plan (PANES) was a conditional cash transfers program, subsequently absorbed into the family allowance system.⁴⁴ As planned, PANES ended in 2007 after a two-year run. In January 2008 the government launched the Equity Plan, whose beneficiaries included the PANES benefit recipients, but it had a larger target population and a

far broader reach.⁴⁵ However, the primary challenges for this benefit program's sustainability are still there: effectively track school attendance⁴⁶ (increase coverage, the main concern today being high secondary school dropout rates); revamp elements of the education system to improve quality, to supplement the cash transfer incentive to keep students in school; and institute a tracking system to be able to identify potential undesired effects of the program, such as effects on workforce entry.⁴⁷

- 1.25 **The most serious ongoing challenge for the education system are coverage and quality gaps.** Owing to access problems and high primary school repetition rates and secondary school dropout rates (Annex I, Figure 11), only two thirds of 20-year-olds and a mere 6% of the bottom-quintile population aged 20 to 25 complete secondary school. There is a pressing need to expand education infrastructure. Quality is an issue as well for the most vulnerable population. Though Uruguay led the region in international student achievement (PISA) test scores for mathematics in 2003 and 2006 and came in second for reading and science, the test results differed greatly depending on the sociocultural environment of the school and on household characteristics.⁴⁸ Few changes were introduced⁴⁹ during the review period⁵⁰ to enhance education system quality. Some of the items that need to be adjusted are teacher training and the teaching profession,⁵¹ institution of learning standards, introduction of standardized testing in secondary school, and reorganization of the system and revamping of its management.⁵²

II. THE BANK'S PROGRAM

- 2.1 The first part of this chapter outlines the government's priorities and the Bank's Program intent set out in the Strategy. The second section discusses the Program's relevance.
- A. **The Bank's country strategy**
- 2.2 **The document *El gobierno del cambio, propuestas y proyectos: la transición responsable (The Government of Change: Proposals and Projects. A Responsible Transition)* mapped out the administration's top priorities for its 2005-2010 term.** Focuses in the area of public management and fiscal sustainability were acceptable primary surpluses and reforms that included revamping the tax system and creating a public debt management office. In the competitiveness and international positioning sphere the aim was to strengthen the State's regulatory role, nurturing innovation and making better use of public resources to avoid public policy fragmentation and overlaps. Priorities in the poverty and social inclusion area were a paradigm shift in the social intervention model, with special emphasis on the PANES emergency social plan to help the groups hardest hit by the 1999-2002 crisis.
- 2.3 **The objective of the Bank's Strategy was to “help the country sustain economic growth rates robust enough to reverse the decline ... in the aftermath of the ... recession ..., while creating conditions for lasting improvements in Uruguayan**

living standards.” The three strategic focuses for Bank support in pursuit of that aim were: (i) public management and fiscal sustainability;⁵³ (ii) competitiveness and global integration;⁵⁴ and (iii) poverty and social inclusion.⁵⁵ The formulation of the Strategy objectives turned out to be too broad, perhaps owing to the fact that it was prepared in a context of crisis and emergency.

- 2.4 **The proposed activities in the public management and fiscal sustainability area were seen as a sine qua non for Uruguay’s long-run development.** It became clear in the aftermath of the 2001-2002 crisis that sustainability of the public finances and of the public debt were necessary to bring in public management reforms, promote investment and enhance productivity, deepen Uruguay’s integration with the world economy, and fund assistance programs for the neediest.⁵⁶ The Strategy focused the Bank’s support in five areas of action: (i) public debt management; (ii) public spending efficiency; (iii) tax reform; (iv) social security spending, and (v) implementation of the Program to Implement the External Pillar of the Medium-term Action Plan for Development Effectiveness (PRODEV) to help embed results-based public management.
- 2.5 **The Strategy called for broadbased Bank engagement in the area of competitiveness and strengthening Uruguay’s international positioning.** After noting that the Bank’s traditional support focuses in Uruguay had been infrastructure, the financial sector, and reforms “*to nurture private enterprise generally*” the Strategy laid out seven action focuses: (i) business climate; (ii) production development policies; (iii) quality and science, technology, and innovation; (iv) productive-sector development institutions; (v) export development and internationalization of business and industry; (vi) infrastructure, and (vii) the financial system and capital market development.
- 2.6 **In the poverty and social inclusion focus area, the Strategy took account of the government’s new vision regarding social safety net needs.** The Strategy paper notes that when the 2002 crisis deepened the Bank provided funding for a program to shield priority education, health, and social protection program budgets. The starting premise for the new administration’s social policy was that a combination of structural and current factors explained why some of the poorest households were slipping through the country’s social safety net.⁵⁷ With those concerns in mind the Strategy mapped out four Bank action focuses: (i) help for the poorest of the poor; (ii) bolstering social sector institutions; (iii) education, and (iv) living conditions in cities.
- 2.7 **The Bank’s Strategy was consistent, beforehand, with the country’s strategy and was relevant, having addressed the country’s development challenges.** The Program’s close alignment to the government’s agenda and goals was particularly notable in: (i) tax reform, (ii) creation of a public debt management office, and (iii) implementation of PANES, the Strategy having set out clear action lines for those items.

2.8 **The Strategy—the basis for the Bank’s programming—evidenced considerable analytical work done on most of the issues addressed.** Much credit for the Program’s relevance to Uruguay’s challenges goes to the extensive analytical work done (sector notes, studies) for most of the issues addressed in the programming. However, this analytical work did not always clearly and specifically inform the Bank’s intent in line with government priorities, particularly in the area of competitiveness and international positioning and on the issue of urban living conditions (part of the poverty and social inclusion strategy focus), as we discuss below.

B. The Program’s relevance

2.9 A Bank country program is *relevant* if its strategic goals and purposes closely address the country’s development challenges and the proposed vehicles to achieve those goals and purposes and were approved with the planned contents and aligned to the corresponding targets. The following sections examine the relevance of the Program’s components.

1. Public management and sustained fiscal soundness

2.10 **The Bank delivered public debt management support to the country.** The government had undertaken with the IMF to set up a public debt management office⁵⁸ in the Ministry of Economy and Finance, which was designed following a diagnostic assessment. The Bank provided support for the new unit’s operation and release the funding quickly through a sector facility (UR-L1008). Comprehensive debt management strategy development and operational decision-making for the debt’s reprofiling were centralized in the new unit.⁵⁹ The quick delivery of this funding was crucial to take advantage of the favorable market environment at the time (end-2005) and thereupon begin reprofiling the public debt.

2.11 **The Bank funded operations to strengthen budget institutions, improve human resources efficiency and administration, and modernize and bolster tax administration.** The Bank’s main operation in this area was the three-stage Program for Modernizing the Tax System and Enhancing the Quality of Public Expenditure and the Civil Service (UR-L1021), to help pursue the policy reforms. The first stage finished disbursing in 2008. A second operation was approved in 2009 once conditions were fulfilled. The operation included three sector facilities⁶⁰ in the areas of tax administration (UR-L1028), civil service reform (UR-L1026), and enhancing expenditure and budget process quality (UR-L1027). The proposed operation and sector facilities addressed shortcomings set out in the Strategy and its support documents. The Bank’s engagement was relevant, especially its support for institutional strengthening of the Taxation Directorate (DGI).

2.12 **The Bank ended support to the country to bolster the social security system as had been envisaged.** The Strategy laid emphasis on second-generation reforms of Banco de Previsión Social (Social Security Fund Administrator) to better equip that agency to manage payments and benefits, and on actions on the revenue intake side to help check the rise in unregistered employment and underemployment, an

important undercoverage issue. The only operation programmed in the review period was the continuation of sector facility UR-L1032, approved in December 2002, to help implement a periodic longitudinal survey—the Social Protection Survey—along with analytical studies on coverage, efficiency, and sustainability.

- 2.13 **PRODEV support to build capacity for results-based public management did not materialize, that assistance having been one of the main recommendations in the previous CPE.** The Strategy envisaged the possible use of PRODEV resources to implement the recommendations of the Country Financial Accountability Assessment (CFAA) produced with the World Bank in 2003. In the end the IDB funded only two technical-cooperation operations with objectives aligned to the CFAA recommendations: one to produce a strengths and weaknesses assessment of areas of results-based management, the other for a National Public Investment System (SNIP).⁶¹ The previous CPE's recommendation that "*the Bank's programming be backed up by a program of studies and ongoing institutional development ... [and that] support be provided for the government to identify the best opportunities for ... development of management by results in the public administration*" was not fully delivered. Identifying successful Bank interventions in this area is still difficult.⁶²
- 2.14 **Some operations that had not figured in the Strategy were delivered to support reforms of internal control agencies and for e-government reform.** The late-2008 sector facility UR-L1031 was intended to build up institutional capacity and tighten coordination among control agencies.⁶³ The loan to support e-government management was intended to help assess the effects of implementing the various ongoing e-government initiatives, set e-government standards, assist with development of e-government solutions, and support the institutional strengthening of Agencia de Gobierno Electrónico y Sociedad de la Información [E-Government and Information Society Agency] (AGESIC). Though these operations had not been envisaged in the Strategy, their focuses fit the objective of enhancing public management and public expenditure quality.
- 2.15 **In brief, the Program was relevant in this focus area.** The most important actions were those pertaining to public debt management and support to tax administration institutions, which were among Uruguay's top short-term challenges to sustain fiscal soundness. The same cannot be said for other issues related to long-range reforms, such as public management by results.

2. Competitiveness and international positioning

- 2.16 **There were no operations in the business climate area that had been identified in the analytical work.** There was a need to help Uruguay reduce bureaucratic hurdles to business startups and operation, and the bottlenecks that needed targeting had been identified.⁶⁴ It was unclear what the Bank's action focus would be to "*streamline regulations to instill a more investment friendly, competitive environment.*" With respect to challenges and proposed strategy focuses⁶⁵ the regulatory framework could encompass such diverse matters as the justice system,

intellectual property rights, the tax burden (general and by industry sector), export and import facilities, etc. This potential list of topics could be expanded according to the Thematic Note on Business Climate (Castillo, 2004). As a result of this lack of focus, no operations were approved, except for some policy actions in the proposed programming in the area of competitiveness. The previous CPE recommendation to *concentrate on areas where the greatest growth impact can be achieved, such as enhancing the investment climate* was not followed.

- 2.17 **In the area of production development policies, the agricultural sector support policy contents did not materialize and there were no industrial development policy operations, in contrast to the Bank’s activity in the tourism sector and cluster development.**⁶⁶ For the agriculture sector, the Strategy proposed a trade policy review to do away with specific trading arrangements and, for the tourism sector, enhanced strategic planning. The agriculture projects implemented—Productivity and Support for Development of New Livestock Products (UR-0141) and Support for Agricultural Public Management (UR-L1016)—had no tie-in to trade policy. The tourism project (UR-L1018) delivered assistance for strategic development of the tourism industry, as the Strategy had proposed.⁶⁷ The Strategy had called for support for a review of industrial policies and for policy performance assessment mechanisms, but there were no operations approvals in that area. As for Bank engagement in cluster development, the need for clusterings of firms in export-oriented industry sectors was addressed in the Cluster Competitiveness and Value Chains Program (UR-L1020).⁶⁸
- 2.18 **The support it delivered to the agriculture sector exemplifies the Bank’s flexibility and ability to dialogue to adapt to new government priorities.** The livestock products project,⁶⁹ which drew on experience gained in operation UR-0137, subsidized small and mid-sized livestock producers to incorporate technologies⁷⁰ such as management plans or innovations to better articulate the supply chain.⁷¹ Following a dialogue in 2007 the project was reformulated to align it to the new administration’s vision, with priority support to family livestock farmers, institutional strengthening of the Ministry of Agriculture and Fisheries, and key animal health and food safety areas.⁷² To further that dialogue the Bank funded technical cooperation (UR-T1060) and a study on the structure of government spending and government programs to identify potential interventions and cooperation focus areas.
- 2.19 **In the focus area of quality and science, technology, and innovation (SIT), the Program included new operations in support of the Strategy and by the government in the area.** The Bank’s Strategy stated that: *“support for priority attention to these concerns [encouraging SIT and adopting international quality and technical standards] and institutional improvements will help Uruguayan businesses innovate more and bring their operations and products up to international quality standards.”*⁷³ The Technology Development Program (TDP I), approved in 2000, was executed, and a new operation (TDP II) was approved and under way by late 2008. The TDP II was intended to strengthen the National Innovation System in

- order to boost the country's investment in innovation by enhancing the innovation capacity of the business sector and updating the incentives offered by the public sector to offset the market failures that the sector faces. The operation was executed by the National Research and Innovation Agency (ANII) as a nongovernmental organization.⁷⁴
- 2.20 **With regard to support for productive-sector development institutions, the Strategy did not clearly elucidate the Bank's role and there were no operations approvals in this focus area.**⁷⁵ The Strategy spoke of the need to “*rethink Uruguay's current institutional infrastructure for helping businesses grow and go international,*” with greater private-sector engagement and decentralized implementation arrangements, but offered no specifics as to what form such a rethinking would take. It could be inferred from the sector note that the idea would be to consolidate several institutions into a single development agency,⁷⁶ with a three-pronged model⁷⁷ that would assess and make a case for interventions or subsidies, but the institutions or agencies that might be integrated were not identified. The Bank's support was confined to technical-cooperation funding (operation UR-T1023) to help set up a Private Sector Assistance and Promotion Unit, drawing on knowledge gained in similar experiences in other countries.⁷⁸ Thus, it could be said that there were problems in the formulation and design of the Strategy, perhaps due to the context in which it was conceived. Given these problems, it might have been wise to depart from what had been planned.
- 2.21 **The match between the “institution-strengthening for competitiveness” activities delivered and those proposed in the Strategy was weak.** The Strategy had proposed Bank support for modernization and capacity strengthening of public and private institutions, with converging competencies for trade policy development and delivery. Though operation UR-L1015, Strengthening of Foreign Trade Negotiating Capacity, did pursue that end, but some contents did not materialize. One approved operation that had not been envisaged in the Strategy was customs reform (UR-L1037). According to the sector note that had informed the Strategy's design, Uruguay's customs rules needed rewriting if its economy was to become a full partner in the global marketplace.⁷⁹ The idea had been to recast the vision of its customs administration from treasury revenue provider to trade facilitation, but this did not happen.
- 2.22 **In the infrastructure sphere the programming was specific; the only operations approvals were in the transport sector.** The discussion about public and private involvement in infrastructure—the main challenge identified in the Strategy—was absent in the cases of road transport and port infrastructure⁸⁰ but not in the case of energy.⁸¹ In devising transport sector action focuses, the Bank had delimited its engagement to roads and ports and had specified outstanding challenges, which were not the only bottlenecks at the time.⁸² In the overland transport area it approved an operation with the National Road Corporation (Corporación Vial) (UR-L1022) and continued the 2004 Highway Infrastructure Program (UR-L1001) to maintain the country's major arteries and some secondary

roads at a time of financial restraint.⁸³ For port infrastructure, the Bank approved the Port of Montevideo Modernization Program (UR-L1004) after supplying technical-cooperation funding to prepare that operation (UR-T1016).

- 2.23 **The Bank did not address the prime challenge identified in the Strategy, that of infrastructure vulnerability associated with heavy public sector involvement in service delivery.** The loan to Corporación Vial, a private but publicly owned concessionaire,⁸⁴ arguably pursued that aim, but that operation brought in no new private actors, as the concession dated back to 2002. Vulnerabilities in other sectors, like energy, were not addressed. Political constraints, lack of agreement between the Bank and the country, and the Bank's own experience limited the number of operations delivered.^{85 86}
- 2.24 **With regard to the Strategy's financial system and capital market development focus, Bank operations approvals and delivery fell short of the Strategy's more ambitious proposals, in part owing to the lack of demand.** Apart from continued Bank engagement in some ongoing operations, the Strategy proposed a multisector credit program as part of reforms to bring in a full-fledged deposit insurance system, charting and implementing a microfinance strategy. The single Bank operations approval, in 2007, was the Microfinance for Productive Development Program (UR-L1010), designed as an integrating intervention that would: *“(i) not be limited to microcredit, but instead explicitly incorporate effective and efficient development and delivery of other financial services, such as savings, insurance, etc.; (ii) offer access to complementary services ... to boost ... financial services ...; (iii) help introduce policies, regulations, and a framework for oversight ...; and (iv) provide support for strengthening institutional infrastructure”*⁸⁷ The Bank also approved technical-cooperation funding (UR-L1052) to build up institutional capacity in the Superintendency of Financial Services.⁸⁸
- 2.25 **During the review period the Bank approved the first programmatic competitiveness loan,** consisting of two policy-based loans each to be disbursed in a single US\$75 million tranche.⁸⁹ Its objective was to make Uruguayan firms and the country's business climate more competitive by revamping regulations, institutions, and private sector promotion policies.⁹⁰
- 2.26 **In short, this is the focus area in which the Bank's engagement was the most poorly coordinated.** Coordination was weakened by the large number of interventions with duplication risks,⁹¹ despite having the findings of diagnostic assessments that suggested potential integrated interventions in this area.⁹² These studies emphasized the importance of supporting a Program that was large enough to achieve the economies of scale that would provide the sustainability needed for individual innovations to go global. In addition, the Program did not ultimately address the most pressing challenges for stronger long-run growth, such as energy infrastructure, productive capacity, human capital and, in lesser measure, the business climate.

3. Poverty and social inclusion

- 2.27 **To assist Uruguay's poorest and strengthen social sector institutions the Bank approved the Social Sector Program (UR-L1003), which fit with the Strategy.**⁹³ The loan contained conditions regarding operation of the government's Emergency Social Plan (PANES) and an outcome assessment of that initiative, a centralized benefit-client registry, and analysis of options for transferring PANES benefit recipients to other benefit programs. Other conditions had to do with the institutional structure of the new Ministry of Social Development (MIDES) and surveys to provide decision-making information. The Bank provided technical-cooperation funding to strengthen MIDES (UR-T1038)⁹⁴ and design the Social Protection Survey (UR-T1021).⁹⁵ The diagnostic assessment the Bank had funded when mapping out the Strategy was a valuable resource in developing this loan.^{96 97} In contrast to other similar operations during the review period,⁹⁸ the social sector loan conditions went beyond targets or beneficiary headcounts,⁹⁹ with requirements that spoke to the importance of results delivery and measurement.^{100 101} This operation thus met one of the previous CPE's recommendations regarding structural adjustment of the social welfare system.
- 2.28 **Some changes were made to the Comprehensive Support Program for At-risk Children, Adolescents, and Families (INFAMILIA, UR-0134 and UR-1046).** The program was launched in 2002 amid worsening poverty.¹⁰² In 2005 Uruguay's social policies were highly fragmented and uncoordinated.¹⁰³ The INFAMILIA project supported the transition from a short-term emergency program in 2005 to an initiative reflecting a vision in line with the National Strategy for Children and Adolescents that ensured that actions would be sustainable through broad coordination between the diverse actors. Through its coordination unit, a multisector program launched in 2008-2009 was executed, by centralizing procurements.
- 2.29 **The Strategy's education sector diagnostic was clear, indicating that new education system interventions should be avoided, which was confirmed in its delivery outcomes.** The four potential Bank action focuses proposed in the Strategy—strengthen preschool education, provide support to primary and secondary school students who have learning difficulties, increase technical education offerings, and upgrade teacher quality—addressed three of the four identified development challenges. The Strategy left out the matter of programmatic reforms in the education system, in line with the Education Sector Note recommendation,¹⁰⁴ which might have pursued the fourth identified challenge—*“improve efficiency in education system administration in the broadest sense, including planning, coordination, management, and resource assessment.”* The Bank continued executing the MEMFOD secondary education project (UR-0132), reformulated in 2005 to improve investment management in the country's secondary and technical education model and implement pilot education models, reducing its role in development and monitoring of education policy decisions.¹⁰⁵

The loan approved in 2009 to help deliver the Ceibal Plan (UR-L1058) was not envisaged in the Strategy.

- 2.30 **The Strategy’s proposals for urban quality of life improvements were disperse and for the most part not analytically grounded, though the situation improved over the Strategy span.** The Program called for sanitation, solid waste management, neighborhood improvement, and transportation service operations, but this last area of operations was not connected to the development challenges mapped out in the Strategy and the support documents.¹⁰⁶ The majority of those operations did come to fruition.¹⁰⁷ There was a significant gap in analysis of housing policy for vulnerable populations in so-called unregulated settlements, considering that a Bank project under way at the time was experiencing problems in this regard and, according to its monitoring reports, there were sector issues that were beyond the project’s implementation scope and were compromising its sustainability.¹⁰⁸ The absence of such analysis was evident in the Strategy. Subsequently the Bank funded analytical work on housing and transportation topics.¹⁰⁹
- 2.31 **With its loans for sanitation projects—the only sector within the “urban living conditions” focus area for which challenges were identified in the Strategy—the Bank attempted unsuccessfully to address public utility management issues.** The Montevideo (UR-L1005) and Ciudad de la Costa (UR-L1017) sanitation projects sought to improve sanitation service management, for instance by updating sewer connection records. To improve commercial management of this public service, the World Bank took the lead with a loan to reconfigure the State sanitation utility (OSE).¹¹⁰ The other sanitation sector challenge—regulatory shortcomings—was not addressed in the operations.
- 2.32 **In short, the Program was relevant in this focus area in that it pursued stated government priorities, addressing the social emergency and helping to redesign the social safety net.** The previous CPE recommendation of a program of studies and support for institutional development was better addressed in this focus area. Unlike other quick-disbursing loans, the Social Sector Program used independent ex post studies of education and housing projects to evaluate its outcomes. The INFAMILIA loan (UR-0134) provided key support for social policy design and planning.

III. DELIVERY OF THE PROGRAM

- 3.1 This chapter summarizes the Program and discusses its implementation effectiveness and the aptness of the Bank products used.
- A. **Program implementation**
- 3.2 **Operations approvals in the review period were close to the previous Program in total amount but greater in number.** In 2005-2009 the Bank approved 103 operations totaling US\$1.321 billion, 90% of the 2000-2004 approvals figure.

Investment project lending all but doubled and the number of operations (26) was near triple the previous programming cycle count. Technical-cooperation operations (41) and MIF grants (27) were respectively 2.5 and 1.5 times higher than in the previous period. A salient feature of the 2005-2009 Program was the increase in number of operations for smaller amounts. There were fewer cancellations in this span than in the previous period: one private-sector guarantee and three technical-cooperation operations.¹¹¹

- 3.3 **Though the number of loan approvals also rose considerably in other countries, Uruguay had one of the highest numbers of new sectors addressed.** In 2005-2009, the number of loan approvals for Uruguay was roughly double (2.3 times) the previous-period total, matching the Argentina, Colombia, and Paraguay increases; operations numbers tripled in Brazil and Costa Rica, while increases in Peru and Chile were more moderate. This rise in loan numbers was coupled with greater sectoral diversification of lending: Uruguay was third in this eight-country sample for additional sectors targeted, having gone from 8 sectors in 2000-2004 to 14 in 2005-2009. Notably, in five of the sectors for which loans were approved in the review period,¹¹² the Bank had made no loans between 1991 and 2004.
- 3.4 **Loan approvals under the most recent Program focused more on the challenge of enhancing Uruguay's competitiveness and international positioning.** An examination of how Bank funding was apportioned among its country programs' strategic challenges¹¹³ reveals that the aforementioned focus area's share of the total climbed from 20.9% to 34.5% between the two most recent programming periods, overtaking the poverty and social inclusion focus where lending fell back more or less proportionately (Table 3.1). Total project numbers stayed more or less the same in the poverty and social inclusion and public management and fiscal sustainability focus areas, whereas approvals to enhance competitiveness jumped from 6 in the previous programming period to 18 in the span reviewed here.
- 3.5 **Loan delivery performance was in line with the Strategy proposals, while most unanticipated approvals were in the competitiveness and international positioning area.** The previous CPE found the anticipation rates of the Program in the period reviewed therein to have been very high (80% of the amount, 74% of the number of operations), owing to the tie-in—with a slight time lag—of Bank programming to the country's five-year planning exercises. In the period examined here the anticipation rates (Program delivered that had been anticipated in the Strategy approved in 2006) were down to 69% in terms of amount and 56% for number of operations (Annex II, Table 3). By strategic challenge, the anticipation rate for the public management and fiscal sustainability focus area was low in approval amount terms.

Table 3.1 Loan approvals under Bank country programs* and 2005-2009 program anticipation rates

	Bank Programs				Anticipation	
	91-95	96-99	00-04	05-09	Yes (%)	No (%)
Amounts approved (US\$ million)						
Public management and fiscal sustainability	221.4	265.8	422.6	355.1	16.8	83.2
Competitiveness and greater global integration	181.1	369.9	293.8	447.7	78.1	21.9
Poverty and social inclusion	177.4	326.2	690.3	444.6	98.7	1.3
Other (environment)	0.0	0.0	0.0	49.5	86.9	13.1
Total	579.9	961.8	1,406.7	1,296.9	68.7	31.3
Distribution of approvals (% of total lending)						
Public management and fiscal sustainability	38.2	27.6	30.0	27.4		
Competitiveness and greater global integration	31.2	38.5	20.9	34.5		
Poverty and social inclusion	30.6	33.9	49.1	34.3		
Other (environment)	0.0	0.0	0.0	3.8		
Number of operations						
Public management and fiscal sustainability	3	3	7	9	5	4
Competitiveness and greater global integration	6	8	6	18	10	8
Poverty and social inclusion	6	9	5	4	3	1
Other (environment)	0	0	0	3	1	2
Total	15	20	18	34	19	15

*Loans only. Excludes MIF grants, small projects, and technical-cooperation operations. Source: IDB systems.

B. Implementation effectiveness

- 3.6 **With regard to transaction costs—the costs of doing business with the Bank—the average Uruguay project preparation time in 2005-2009 was shorter than the Bank and Southern Cone country averages, but longer than in 2001-2004.** Project preparation and execution time averages are proxies for transaction costs to the government and for project delivery efficiency. A comparison of 2005-2009 loan preparation time averages for Uruguay, the Southern Cone countries, and the Bank shows the Uruguay average to be shorter than the Southern Cone countries and the Bank but longer than in the immediately preceding strategy span (2000-2004). This increase contrasts with the other countries in the region, where the average time from approval to eligibility decreased by about 2.5 months. These preparation-time findings hold when the calculation is broken down by loan type (PBLs and investment loans).
- 3.7 **For project delivery efficiency, Uruguay operations outperformed the rest-of-Southern-Cone and Bank averages.** A first selected performance measure—incidence of underdisbursement—that depicts the proportion of projects for which actual disbursements were less than planned disbursements¹¹⁴ had jumped over the course of the previous programming cycle (2000 to 2004) from 12% to 46%, but improved in the Program reviewed here, standing at 25% in 2009 after having peaked at 67% in 2006, which reflected the low disbursement rate of the previous portfolio. The 2009 proportion for Uruguay loans is below the Southern Cone and Bank averages of 51% and 50%, respectively.¹¹⁵ A second metric used was degree of underdisbursement: over the 2005-2009 period the difference between estimated

- and actual percent disbursement for active Uruguay loans averaged 5%. As with the incidence of underdisbursement, this second indicator had risen during the previous programming cycle (decline in efficiency) but improved during the period reviewed here, outperforming the Bank average.¹¹⁶
- 3.8 **With respect to project implementation quality, self-evaluation reports indicate that implementation issues were minimal.** Implementation progress (IP) indicators in the individual projects' Project Performance Monitoring Reports (PPMRs) point to a significant improvement over the review period. In 2005, implementation issues had been reported in 36% of projects; in 2009 the proportion had dropped to 10%, in line with the Bank's overall portfolio trend. As for satisfactory delivery of projects' development objectives, the 2005-2009 performance record likewise marked an improvement over 2001-2004, with no issues reported from 2007 onward. One item that stands out in the IP analysis is that just 6 of the 56 issues reported in the 2005-2009 portfolio came up in projects that had been approved in those years (Annex I, Figure 12). With respect to IP risk anticipation, the ratio of anticipated but unmitigated issues to total reported issues was similar in the current and previous evaluation periods, at 43.9% and 42.8% respectively.
- 3.9 **According to the analysis done of Country Office (COF/CUR) staff time use and number of missions during the review period, project design and implementation work is increasingly being done by non-COF/CUR staff and COF/CUR staff is spending more and more time on administrative support work for project execution.** There was a sharp increase in the number of project execution and monitoring missions during the last two years of the review period, from 45 in 2007 to 64 and 60 in 2008 and 2009, respectively, echoing the increase in number of active projects (Annex I, Figure 13). Country Office staff time use over that same interval is measured by work hours reported in the TRS and classified by programmatic budget lines. Time spent on operations design and implementation fell from 56% of total time in 2006 to 25% in 2009. Over that span the time spent on support tasks¹¹⁷ jumped from 23% of total reported time to 68%.¹¹⁸
- 3.10 **Net Bank-Uruguay funds flows, customarily positive, were affected by the country's prepayment of debt to the Bank (Annex I, Figure 14).** Disbursements and approvals began to trend down after 2002, the year the Bank delivered important support (a US\$500 million emergency loan) to help the country manage the crisis. That would explain the increase in disbursements and approvals between 2004 and 2005 and the declining importance of economic stabilization loans after the new administration took office. The sharp change in net flows in 2006 was the result of Uruguay's decision to reprofile its debt, prepaying emergency loans it had received from the IDB, the World Bank, and the IMF to help manage the 2002 crisis¹¹⁹ and reprogramming future funding around programmatic policy-based loans (PBPs). The IDB thus continued to be a leading lending source over the review period.¹²⁰

Table 3.2. Uruguay and Bank portfolio implementation metrics, 2000–2009

Implementation metric	URUGUAY										BANK									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Timeliness of program design																				
Preparation time, PBL (months)		11.0	2.0	5.0		5.0	8.0	12.0			4.8	8.2	17.3	6.1	10.5	7.4	14.6	9.6	21.0	26.0
Months to first disbursement, PBL		3.0	-	1.0		3.0	2.0	23.0		2.0	2.6	3.1	1.5	3.9	4.8	5.5	7.5	8.3	1.7	3.0
Preparation time, INV (months)	25.3	14.5	16.0	29.0	7.0	11.0	7.7	12.0	18.9	35.0	16.1	21.6	14.9	14.2	14.3	17.8	13.9	13.5	18.6	38.9
Months to first disbursement, INV	11.0	5.0	6.0	10.0	10.0	8.0	10.8	7.3	7.3		13.3	14.2	11.8	16.0	16.0	14.7	14.5	12.2	10.1	3.6
Implementation timeliness																				
Portfolio underdisbursement rate (% of projects)	12%	25%	29%	31%	46%	42%	67%	47%	40%	28%	50%	53%	60%	59%	59%	57%	55%	50%	46%	41%
Degree of underdisbursement (% difference between estimated and actual)	2%	3%	4%	3%	5%	7%	8%	6%	3%	2%	7%	8%	9%	9%	10%	10%	10%	9%	7%	6%
Average age of operations (months)	50.6	40.7	40.1	41.8	45.4	42.5	38.6	36.1	36.2	36.8	45.0	43.0	42.8	46.5	48.7	46.5	45.7	45.8	44.7	42.3
Quality of active Program operations																				
Incidence of implementation progress (IP) issues	10%	8%	25%	28%	36%	36%	16%	9%	11%	10%	28%	25%	29%	29%	28%	23%	22%	16%	19%	14%
Incidence of development objective (DO) issues	0%	4%	0%	4%	9%	4%	3%	0%	0%	0%	14%	13%	13%	13%	13%	10%	10%	9%	10%	7%
Fiduciary quality of active Program oper.																				
Proportion of qualified audits	5%	5%	16%	0%	9%	0%	0%	0%	0%	0%	26%	24%	21%	17%	22%	21%	18%	19%	20%	6%
Proportion of late audits	14%	0%	4%	0%	5%	0%	5%	10%	19%	50%	62%	55%	50%	51%	40%	38%	47%	49%	52%	79%
Bank Program supervision (missions)																				
Loan origination (programming)	2	2	3	7	5	6	7	1			23	92	165	214	220	176	210	95		
Project execution and monitoring	25	31	27	26	20	36	54	45	64	60	939	947	1016	1051	1076	962	859	907	1438	1831
Knowledge generation		5	13	7	34	19	8	5			132	311	362	402	319	382	196	2	2	
Total missions	40	47	47	46	61	63	74	59	69	68	1794	1565	1740	1827	1856	1651	1699	1611	1772	2152
Other	13	9	4	6	2	2	5	8	5	8	832	394	248	200	158	194	248	413	332	319

Source: IDB Data Warehouse.

C. Aptness of the Bank products used

3.11 **As the previous CPE had reported for the programming cycle it reviewed, “quick-disbursing” products accounted for a high proportion of Bank lending to Uruguay in the period examined here.** The Bank’s quick-disbursing lending products are emergency loans (EMEs), multitranche policy-based loans (PBLs), and programmatic policy-based loans (PBPs). During previous Strategy cycles Uruguay had been among the three countries receiving the highest proportion of quick-disbursing support (1991-2004 approval amounts were 51% investment loans, 48% quick-disbursing loans, and 1% private-sector loans). Yet, in 2000-2004 there was a higher proportion of fast-disbursing resources as a response to the crisis (Table 3.3). Over the 2005-2009 period, Uruguay was sixth among countries with the highest demand for quick-disbursing loans, PBL and (mainly) PBP approvals having made up 51% of the Bank’s Uruguay lending (no emergency loan approvals). These fast-disbursing operations account for just 19.3% of the total loan approvals.

Table 3.3 Loan approvals under Bank country programs

	Amounts (US\$ million)				Number of loans			
	91-95	96-99	00-04	05-09	91-95	96-99	00-04	05-09
Investment loans	359.9	684.9	471.2	636.9	13	17	13	30
Private-sector loans	0.	12.0	10.5	0.0	0	1	1	0
PBL/PBP/EME loans	220.0	265.0	925.0	660.0	2	2	4	4
Tota	579.9	961.8	1406.7	1296.9	15	20	18	34

*Loans only. Excludes MIF grants, small projects, and technical-cooperation operations. Source: IDB systems.

3.12 **The PBLs/PBPs were designed to help put through specific reforms approved by the country, though in practice two of the three operations executed as contingent liquidity facilities.** In the absence of a suitable instrument, the government held off for about a year on disbursement of the proceeds approved for the proposed competitiveness program and the second tranche of the social-sector PBL, even though all the conditions in each loan’s policy matrix had been fulfilled. No disbursement request was made for either loan because, according to the operations’ PPMRs, the funds had not been needed. The loans ultimately disbursed in December 2008, following one of the milestones in the recent global crisis (the collapse of Lehman Brothers) when the funding costs in long-term capital markets skyrocketed (Annex I, Figure 15). This suggests that, in practice, these loans were used as very convenient contingent liquidity facilities.¹²¹

3.13 **The use made of quick-disbursing loans was not in line with one of the previous CPE’s recommendations: to establish financing relations with executing agencies on the basis of periodic accountability and results-based performance.**¹²² The Bank approved three quick-disbursing loans in the review period, one for the tax reform, one for competitiveness, and one for the social sector. In the tax reform loan, which was to be disbursed in three tranches, the loan

document specified output indicators as first-disbursement conditions but no conditions for release of the second and third tranches. There were output indicators in the conditions for the competitiveness and social-sector loans but these were not performance-based because funding was not directly tied to results.

- 3.14 **Performance-driven loans (PDLs) and sector facilities accounted for an appreciable share of the Bank’s total Uruguay funding.** In 2005-2009 the Bank approved two PDLs for the Science, Technology, and Innovation (SIT) Program and the Corporación Vial (National Road Corporation) Program. PDLs accounted for 10.3% of total approvals by amount, making Uruguay the third-largest recipient of this form of lending over that span.¹²³ The aim of PDL use is to assure results and reduce transaction costs. With respect to results delivery, the two projects have made differing uses of this lending product: the Corporación Vial program uses outcome indicators as targets for disbursements, whereas the SIT program ties 37% of total disbursements to output indicators¹²⁴ and the remainder to output and outcome indicators, the latter not clearly defined.¹²⁵ Whether or not the use of these products lowered transaction costs could not be ascertained. The Bank also approved a large number of sector facilities for Uruguay over that period—8 of 33 sector-facility approvals in all. These facilities enabled the timely financing of relatively small scale interventions, relying on the quality of country institutions and addressing short-term sector reform needs. In some instances the quick use of this product was crucial to implement changes (Public Debt Management Office).

IV. RESULTS

- 4.1 The first section of this chapter examines the Program’s evaluability; the second section discusses project results. Not all projects were reviewed, since many of them have experienced implementation slippages or are recent approvals and thus could only be considered for the assessment of the Program’s relevance. The evaluation team also looked at projects approved in previous country programs that were closely related to outcomes in the Program reviewed here.

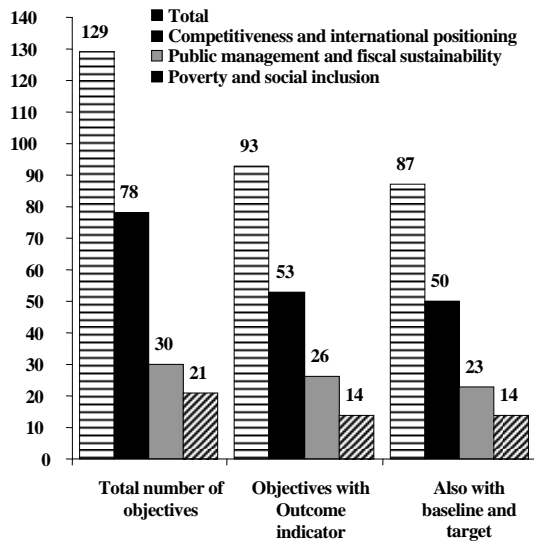
A. Evaluability of the Program

- 4.2 **The Strategy’s evaluability was too low to be able to focus on the overall Program results.** The Country Strategy results matrix laid out 36 “priority focuses” for Bank action (Annex II, Table 4). In 53% of cases the Strategy provided no outcome metric; in 22% such indicators were provided but poorly defined;¹²⁶ for the other 25% of action focuses there was at least one results indicator for each objective. Accordingly, only a quarter of the proposed actions are evaluable against performance metrics. Moreover, more than one results indicator had been proposed in many of the action focus areas with a total of 53 indicators to be evaluated.¹²⁷ Of that total, the stated target was achieved in 17% of cases and not achieved in 15.1% of cases; in 20.8% of cases it is too early to assess results (the case of indicators for recent approvals or projects with implementation slippages), and in 47.2% of cases

results could not be evaluated.¹²⁸ The Bank Strategy component that stands out is the poverty and social inclusion area, with gains on five of nine indicators.

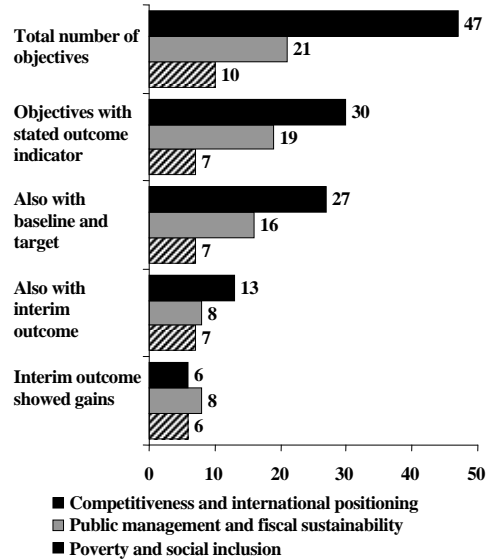
- 4.3 **An analysis of the performance of the Program looking at project outcome objective delivery shows that there is no evaluation of its contribution to government project performance.** This is also the case across all the Program components. In the competitiveness and global positioning focus area, 64% of the objectives of projects approved in 2005-2009 had an associated outcome indicator, with a baseline and targets. The proportion rose to 77% for the public management and fiscal sustainability area and 67% for poverty and social inclusion. To track targets the evaluation team elected to consider projects approved between 2005 and 2007 (14 of the 26 projects), which should give a picture of progress toward interim or final targets in the majority of cases. Though an analysis of this type does not measure the impact of the Bank's intervention and presents methodological limitations for aggregation of objectives, the exercise does reveal that only in 26% of the total objectives was some measure of progress achieved. In 28% of cases there were no outcome indicators associated to the project objectives; in another 28% there were indicators and metrics but no information on the current situation for the evaluation. Eight percent (8%) of objectives had associated indicators but no baseline and targets, and in 10% of cases the results found were neutral or negative. Not surprisingly, the results are less encouraging when we look at the entire review period.¹²⁹ However, there are considerable differences among the Strategy components: the poverty and social inclusion and competitiveness and international positioning focus areas each achieved gains in six indicators, but with a sharply different number of total objectives—only 10 for poverty and social inclusion versus 47 for the second focus area.

Figure 4.1. Objectives and availability of outcome indicators of approved projects, 2005-2009*



*Includes one 2004 project and approvals through September 2009.
26 projects included.
Source: Authors' calculations.

Figure 4.2. Objectives, indicators, and outcomes of approved projects, 2005-2007*



*Includes one 2004 project.
14 projects included.
Source: Authors' calculations.

4.4 **The low evaluability of the Strategy and of projects limits the ability to pinpoint what makes for a successful intervention.** This is important in terms of creating knowledge for the Bank itself and advising the country on the best means of producing results in future interventions. The Bank and the country both attempted to fix this evaluation impediment associated with the Strategy's design and projects' design by commissioning external evaluations. But in most cases it was difficult to determine the value-added of the Bank's intent and discern whether interventions' success was a result of same, given the problems in attributing their results.

B. Projects' contribution to country performance

1. Public management and fiscal sustainability

4.5 **The establishment of the Debt Management Unit (DMU) helped enhance public debt sustainability.** The DMU centralized public debt management and charting of a national borrowing strategy, though the improvement in the public debt-to-GDP ratio was driven mainly by economic growth and the depreciation of the dollar.¹³⁰ It was crucial that the DMU be operational to take advantage of favorable global market terms and efficiently reprofile the debt (Table 9): (i) debt maturities were extended from 7.4 years in 2004 to 12.7 years in 2009; (ii) the debt's composition was altered by way of bond issues, including inflation-indexed peso bonds in international markets (an increase from 11% to 31%), raising the

bond debt share of the total debt from 56% to 79%; and (iii) the long-term and fixed-rate share of the debt climbed from 77% to 90%. These positive developments notwithstanding, the program is not evaluable because, according to the most recent PPMR,¹³¹ no outcome indicator targets were set for the Bank's engagement.

- 4.6 **Results of the Program for Modernizing the Tax System and Enhancing the Quality of Public Expenditure and the Civil Service varied by component.** Significant gains were achieved in the component to help the tax administration carry through the tax reform. Those changes cut the number of taxes from 30 in 2006 to 15 in 2009, reducing the dispersion of tax revenue intakes, and increased the direct-tax share of total tax receipts from 29% to 48% over that period, according to the Taxation Directorate (DGI). The progress made on DGI modernization left that department better equipped to meet the new needs coming out of the reform, with a reconfigured organization structure and updated information systems. However, there were budget execution slippages in this project for reasons beyond the Bank's control—delays within the Ministry of Economy and Finance (MEF) and in reorganizing the DGI to administer the revamped tax system.
- 4.7 **The tax reform has had positive impacts, albeit with modest gains against poverty and income inequality.** The reform significantly increased direct taxes on personal income, with rising tax rates; reduced direct and indirect corporate taxes; standardized employer social security contributions across all sectors, and did away with some highly distortive taxes. Two studies done by the World Bank¹³² and CINVE¹³³ in 2008 and 2009, respectively, using different methodologies, conclude that the changes brought in by the 2007 tax reform yielded gains, albeit relatively modest ones in terms of reducing poverty (a 0.7% decline) and inequality (an estimated reduction in the Gini coefficient of after-tax income from 0.453 pre-reform to 0.442 post-reform).¹³⁴
- 4.8 **Progress was made in the component to enhance expenditure and budget process quality, including a new management system, but the expected results have yet to materialize.** This project's aims were to strengthen information systems and the evaluation culture, streamline government procurement, and formally institute horizontal management and customer service systems using information technologies. The project helped to strengthen management planning and tracking practices in central government agencies and extended the use of the Government Procurement Information System, but experienced implementation problems caused by the disparate data available from the ministries' executing units. The Planning and Budget Office maintains that all executing units are reporting results via the Strategic Planning and Evaluation System (PEG-SEV), which is considered a step forward to instill a public expenditure planning and tracking culture in the central government. However, the use of the PEG-SEV *“has not brought about substantive changes in the ministries' management planning, tracking, and evaluation practices and its maintenance has been largely*

routine.”¹³⁵ In other words, a strategic planning and evaluation culture has not been embedded in the central government.

4.9 **Although the proposal for the spending efficiency loan (UR-L1021) identified shortcomings in the budget assessment system as a mechanism for providing feedback for the budget process and integrating information on its results into resource allocation decisions, that program’s contribution was basically on the methodology side.** Specifically, the loan document noted: (i) that “*this problem is related to the weakness of the relevant mechanisms and the available information for assessing results and outputs together with the associated expenditures;*”¹³⁶ (ii) the need for a comprehensive evaluation system that employs a predetermined methodology agreed upon with the Executive Branch; and (iii) the absence of a consolidated strategic planning and evaluation culture. Operation UR-L1021 tackled only the second of those concerns and part of the first; it did not develop the incentives needed to help instill a results-based planning culture.

4.10 **Implementation of the civil service reform component is on track, though coverage of the Integrated Compensation and Employment System (SIRO) is limited.** The project’s logical framework targets have been delivered. In 2009 the outcome indicator targets set for sector facility UR-L1026 were surpassed, but the SIRO has been implemented in very few central government units. According to the National Civil Service Office, the entire central government administration is expected to transition to the SIRO “in the medium term,” without further specifics. A new human resources management model has been approved (Human Resources Management System) and its gradual implementation in various agencies is being planned.

2. Competitiveness and international positioning

4.11 **The results of the first tranche of the programmatic competitiveness operation are not yet evaluable, although there have been some gains in terms of production-sector support institutions and investment promotion.** The disbursement conditions for this loan included changes to bolster the institutional apparatus for investment and export promotion and to nurture innovation. A Private Sector Assistance Unit (UNASEP) and the Interagency Commission on Foreign Trade Affairs (CIACEX)¹³⁷ were established, and the National Research and Innovation Agency (ANII) Act was passed.

4.12 **There has been some slippage in Uruguay’s business climate indicators.** Specifically, this shows up in measures of bureaucracy reduction. According to the 2010 *Doing Business* ranking,¹³⁸ it currently takes 65 days to start a business in Uruguay, up from 43 days in 2007.¹³⁹ This is a result of the longer time it takes for the country’s Audit Office to approve a new business’s articles of association (44 days in 2010).¹⁴⁰

4.13 **In the science, innovation, and technology (SIT) focus area, the first Technology Development Program (TDP I) finished executing in December 2009, with positive results.** For the first component, the largest in amount, which

was to nurture innovation and help Uruguayan businesses become more competitive, 281 projects were approved between 2001 and 2007 and 90% of them ultimately were executed, with total funding of US\$12 million. The TDP contribution to total project cost averaged 49%.¹⁴¹ In their review of economic returns of 10 supported projects López and Svarzman (2007)¹⁴² found that the social benefit yield in that sample topped the total investment outlay. According to an impact assessment produced by Cenit-CPA Ferrere (2010),¹⁴³ the firms receiving assistance are spending more on innovation than firms that did not (76%, on average, in line with other evaluations of similar programs),¹⁴⁴ increasing the likelihood of new technology adoption. The study also reports impacts on the business's performance, if variables like the hiring of skilled personnel and partnering with other innovation system actors are factored in. However, as OVE also found in its 2008 evaluation of similar programs in Latin America,¹⁴⁵ the impact diminishes as the assessment looks at indicators more weakly associated to the project's immediate goal (increase in spending). TDP I would have had no discernable impact on the firms' productive performance (measured by labor productivity and exports as a proportion of total sales) until late 2009. With respect to TDP II, it would be premature to evaluate results as the operation just launched.¹⁴⁶ However, the legal and institutional changes that have been implemented and the resources from programs with multilateral development organizations have been consistent with diversification of the country's production and export bases on a global scale. The evaluation also found that there is consensus on the need for more active policies and incentives to fix the coordination and market failures that are limiting the development of the country's production system.¹⁴⁷

- 4.14 **The analysis indicates that the scale achieved is still experimental due to the case-by-case treatment of the public programs.** This limits the options for drawing verifiable conclusions and well-founded lessons learned. There was no clear finding of any indication that the scale of the actions pursued under the government program should be large enough to ensure a sufficient density of specialized services and small firms functioning in networks, chains, or clusters, to generate sufficient economies of scale to make long-term individual innovation investment efforts sustainable and thus sustainably tap the demand potential of global markets. Nor was there an indication of the risks that arise from relying on an applied innovations promotion system that is based on a system of economic incentives, when there is no significant progress on the structural limitations that are behind the market failures that the system of incentives is meant to compensate for. Lastly, institutional learning mechanisms have not been fully deployed, and there is no timely information on the results of the products supported. Surveys to verify the impacts of the actions on the results indicators established by the project are now scheduled for 2013. This makes it hard to adjust in a timely manner to the deviations and risks identified in intervention monitoring activities.
- 4.15 **The evaluation found that the customs operation had design and management capacity issues that affected its implementation.** According to the PPMR and

- interviews, the project as originally conceived by the MEF and external consultants, with its 16 subcomponents and some 800 activities, presented problems of formal logic, the association between the planned activities and project results delivery being very weak. Thus, according to the PPMR, the project was approved by the Bank “*without an analysis of its technical coherence and particularly of its implication for achieving the stated objectives*” and without considering the risk that the Customs Bureau’s weak management capacity would entail in such a complex project, the agency’s low personnel turnover—reflected in the high average age (54) of its employees—being particularly noteworthy. In December 2008, the Bank and the Customs Bureau decided to rework the project components, cutting the original 16 subcomponents to 4, with 100 to 110 planned activities.¹⁴⁸
- 4.16 **A prime reason for the customs reform program’s implementation problems was the change in Customs Commissioner and a new vision as to the role of the customs service that put the emphasis on inspection and compliance—this being counter to the spirit of the customs program’s design, which envisaged more of a trade-facilitating role.**¹⁴⁹ Other reported issues are bureaucratic impediments of the Civil Service Office, General Accounting Office, and other Uruguayan government departments and agencies, problems with UNDP procurement management, and MEF budget execution problems and slippages. On the Bank performance side there were reports of problems and delays in communicating with the project’s Washington-based task leader; delays in resolving requests for the Bank’s non-objection; and the perception of lack of Headquarters-Country Office coordination.
- 4.17 **OVE produced an external ex post evaluation of the Productivity and Support for Development of New Livestock Products project, which came out with positive findings.** According to the impact evaluation (López and Maffioli, 2008),¹⁵⁰ the project increased the rate of adoption of managerial practices such as keeping records of physical and economic events. The authors found some evidence that the project improved the productivity of livestock breeders: the Reproductive Efficiency Index of assisted breeders was 6.7 percentage points higher than the nonbeneficiary breeders, which translates into an average income increase of US\$5,960 for the beneficiaries. The study also found that the project had some success in fostering the breeders’ rate of specialization. Given the changes made to this project that shifted its focus from competitiveness enhancement to family livestock farming, results cannot be extrapolated or inferred from this pilot venture.
- 4.18 **In road infrastructure projects the Bank’s relevant contribution was in financing.** The aims of the Corporación Vial project (UR-L1022) were to help maintain the country’s road assets and upgrade service levels on Corporación-administered roads, whereas maintenance was performed by the private sector and supervised by reference to those goals. According to the interim outcome indicators, the current condition of the administered roads is lowering transportation costs: the ratio of current road asset value to average road asset value is above 1.0¹⁵¹ and stood at 1.06 in May 2009. The arrangement is expected to be

sustainable in the long run. Road maintenance indicators for the Highway Infrastructure Program (UR-L1001), which was intended to maintain the country's arterial road system assets and some secondary roads, are positive, but indicators of driving and riding comfort are down slightly—the result of budget constraints during the review period that limited spending on rehabilitation of certain roads, which thus became rougher (Annex I, Figure 16). One point underscored by executing-agency officials and authorities interviewed was the Bank's flexibility to rework the contract in light of road-sector needs and liquidity availability.

- 4.19 **The performance of the microfinance operation (UR-L1010) cannot be clearly discerned.** To judge from the performance of three of the four results indicators, the project has not delivered its interim targets. The evaluation found a sharp disparity between the perception of officers of the Development Projects Directorate (DIPRODE), the government agency in charge of implementing the project, and the findings of the June 2009 PPMR. The latter report rated the project implementation status satisfactory, whereas the interviews suggested that the executing agency was uncomfortable with the Bank and the way the project was operating. In preparing the present report the evaluation team did not have access to the midterm review of the project¹⁵² nor to any detailed explanation of differences of opinion with DIPRODE, so it could not do a more thorough analysis.
- 4.20 **The other operations in this component were not included in the outcome evaluation.** The Support for Agricultural Public Management project (UR-L1016) is a recent (2009) approval and has not started to execute. In the Strategic Tourist Destinations project (UR-L1018) works contracts have been tendered and consultants hired but there are as yet no outcomes to report. A noteworthy feature of that project is the part it has played in helping to embed strategic investment planning and foster validation and consultation processes with local governments and civil society, in line with the Strategy proposal. The Cluster Competitiveness and Value Chains Program (UR-L1020) is on track, and 12 clusters have been selected and strategic plans developed. By September 2009, 110 projects had been selected for matching funding, half of them planning to market products internationally. That operation's outcome evaluation was scheduled for 2010¹⁵³ as programmed.¹⁵⁴ The Port of Montevideo Modernization Program (UR-L1004) to construct a new pier and dredge the inner harbor has experienced implementation slippages because the bids received were far higher than initial estimates.

3. Poverty and social inclusion¹⁵⁵

- 4.21 **At the beginning of the programming period, the country was up against two challenges: respond in the short term to the poverty emergency and promote a sustainable social inclusion strategy as a way of improving equality of opportunities over the medium and long term, and reorganize the government to respond to this challenge.**¹⁵⁶ The country had a high level of exclusion in many important areas such as education and health, poverty and extreme poverty, and citizen security.¹⁵⁷ Based on a pragmatic understanding of these gaps, action was first taken to address short-term emergencies and subsequently to generate a

strategic course for allocating resources over the medium term to build a more universal and integrated social base from a higher starting point.¹⁵⁸

- 4.22 **A number of studies affirm that PANES operated well but that its only impact was to reduce extreme poverty.**¹⁵⁹ No adverse effects were detected on the aggregate labor participation rate, though negative impacts were seen on the male economic activity rate and the aggregate registered employment rate. The program had no effect on housing conditions or accumulation of household durable goods. In their closer evaluation of cash transfers in Uruguay, Arim, Cruces, and Vigorito (2009)¹⁶⁰ affirm that PANES had an income effect—raising more people out of extreme poverty—but did not accomplish other more ambitious goals relating to workforce re-entry and reducing exclusion. In that same vein, a later paper¹⁶¹ found PANES to have had no significant effect on school attendance.
- 4.23 **The Program for Integration of Irregular Settlements (PIAI) (UR-0123), approved in 1999,¹⁶² continued during this programming cycle,¹⁶³ with significant progress and important lessons learned.**¹⁶⁴ The objective of the project was to improve the quality of life of residents of irregular settlements, building urban and community infrastructure, addressing social problems, and promoting the integration of the population into urban solutions that lead to formal home ownership. The intervention model reflected a two-pronged strategy to tackle the stock of irregular housing by issuing property titles to residents of these irregular settlements¹⁶⁵ and to prevent the emergence of new settlements.¹⁶⁶ With the 2005 change in government, the program was coordinated with other social policies,¹⁶⁷ which made it possible to inject new resources into the operation. The municipal governments were better executing agencies although discrepancies in their management abilities persist.¹⁶⁸ In addition, the program has not been sufficiently decentralized. Since its reformulation, the Bank-supported project has adopted a methodology that brings rigor and prevents discretionary action, incorporating stakeholders and establishing controls that promote efficiency. The project has become a government program.
- 4.24 **The program had a number of problems, many of which became lessons learned that have been incorporated into the new operation.** To begin with, there was no pairing of the program with a targeted housing program integrated with the rest of the government's social policies.¹⁶⁹ The intervention model was not bolstered by coordinating with other organizations working in this sector to add resources when budget constraints arose. In the final stage, the PIAI changed the territorial unit criterion to the more inclusive "irregular area," which strengthened the project investment. The intervention strategy in the irregular settlements did not set a per-unit budget cap, and did not have a predetermined basic package of services, which reduced the irregular housing stock that could be targeted by the program.¹⁷⁰ In addition, because the PIAI did not have an initial baseline, there was no program universe. Lastly, the municipal governments did not properly execute the transfer of property titles, which was the program's biggest weakness. Program sustainability¹⁷¹ and significant risks¹⁷² were not considered.

- 4.25 **The objective of the Municipal Development and Management Program (UR-0131) was to improve the fiscal situation of the departmental governments outside of the metropolitan Montevideo area, upgrade the quality of municipal services, and make their delivery more efficient.**¹⁷³ The main benefits were expected to accrue from improvements in the fiscal and tax management practices employed by the department governments acting on the financial incentives and technical support provided through the program.¹⁷⁴ The program was reformulated in 2007. As a result of the massive reorganization of municipal authorities and a new assessment of the institutional capacities of the departmental governments, the activities in the program's institutional strengthening component will be determined by the needs of the departmental governments. The focus on fiscal and tax management that was present in the original program has disappeared, considering that any institutional weakness can be cause for support,¹⁷⁵ which led to a proliferation of projects.^{176, 177}
- 4.26 **It was determined that unmet basic needs had not been considered as an important criterion in the evaluation.** The evaluations focused on the project, not on the strategic policies or budgets that would justify it as part of a departmental action plan. Although this was not true in every case, it was in most, which meant that the investment and thus the Bank's project lost strategic priority.
- 4.27 **The Secondary Education Modernization and Teacher Training Program (UR-0132) had two clearly-differentiated phases, with a larger number of results obtained in the second phase.** The objective of the program was to "consolidate and deepen the policies aimed at improving quality and increasing equity in secondary education and teacher training in Uruguay, bringing the educational reforms being implemented in line with the new demands of the information society."¹⁷⁸ In the project's life cycle, two very distinct phases are apparent: 2002-2005, which involved the design and testing of technical proposals to influence the country's educational policies; and 2006-2010, which concentrated on institutionalizing the program in ANEP and extending the benefits universally. The project design was inadequate, since it hypothesized that the program's activities and outputs could have an impact on the results of the entire secondary education system.¹⁷⁹ In the phase that began in 2002, the project was viewed as foreign and superimposed upon the public system, unaccountable to the authorities for its progress or activities. Since the phase that began in 2005, the strategy for transparent institutional integration and rapprochement with ANEP overcame the resistance that the program had encountered until then. This made it possible to replicate progress in other spheres. Involvement in technical-educational aspects was curbed and the focus was placed on improving ANEP's academic and administrative management.¹⁸⁰
- 4.28 **The project has strengths that contribute to its sustainability but some risks persist.** The project's sustainability is linked to three aspects that are not necessarily part of the components of the new recently-approved operation with the Bank and, consequently, they should be viewed as its main risks. First, the transformation of

- the project into a government program that is part of strategic planning for the education system, as reflected in the five-year budget and for which resource monitoring and fulfillment of targets are part of the annual accountability reports submitted to parliament. Second, the transfer of management and knowledge to the permanent structure of the organization, although this aspect can be dealt with in greater depth in future. Third, a review of the educational proposals for secondary school remains pending, to that ensure they reflect the social and cultural reality and the quality of education in countries that Uruguay uses as comparators.
- 4.29 **The Comprehensive Program for At-Risk Children, Adolescents, and Families (INFAMILIA) (UR-0134, UR-1046) began in 2003 and had two differentiated stages.**¹⁸¹ The objective was to improve living conditions and social integration of at-risk children and adolescents and their family groups. Execution was very slow until 2005 (< 10%), linked to the normal process of fiscal austerity during the period and the political weakness of the executing unit compared to consolidated and autonomous sector institutions. The components were not measured or described in detail and there was no precise identification of instruments to implement each of them. The project was viewed as a large number of uncoordinated actions that were inefficient. In 2005, the Bank's program was transferred to MIDES, which restructured it to fit with the government's new priorities, not changing the original objectives but linking them to available budget items.¹⁸² INFAMILIA supported cross-cutting work between the institutions responsible for services, promoting ownership of the subject areas by the sectors in order to act in fields that previously had not been considered part of its area of action.¹⁸³
- 4.30 **The Bank's value added lay in making the program viable by contributing resources to conduct the initial pilot project and the current program.** The Bank played an important role by insisting on the generation of sustainable proposals and their monitoring, with the result that the program is currently becoming consolidated in the Secondary Education Council, which pays the teachers and the NGOs. In particular, the program with the Universidad del Trabajo del Uruguay (UTU) was essential in broadening the supply for the population outside the education system, while avoiding competition between basic vocational training and junior high school. It is a more realistic action proposal that brought supply closer to demand for labor specialties. The problems encountered and lessons learned from each component are discussed in Annex III.
- 4.31 **Since 2005 the program demonstrated that starting with a small window of opportunity, it is possible to act on the different facets of the problems encountered by children and adolescents in vulnerable families in the country.** It allowed progress to be made in the concept of universal access and in community development. It also supported highly necessary diagnostic studies and made it possible to identify target populations for other programs. However, important challenges remain, such as: (i) building strong community networks that can act as valid counterparts for the government program; (ii) the lack of a clear baseline

describing the extent of the problem and the characteristics of the beneficiaries; (iii) limitations on the number and quality of human resources available; and (iv) the temptation to universalize activities without considering the resulting quality and budgetary aspects.

- 4.32 **Other operations reviewed were not included in the results evaluation.** Recently approved loans (2008 and 2009) are helping to deliver the Ceibal Plan (UR-L1058), the Ciudad de la Costa Integrated Sanitation Program (UR-L1017), and the Montevideo Urban Transportation Program (UR-L1025). There are reported implementation issues in the Montevideo Sanitation Program (UR-L1005) stemming from tendering delays, so its results cannot yet be evaluated. Budget issues with the Project Preparation and Execution Facility for the Metropolitan Montevideo Solid Waste Management Program (UR-L1019) have held up that operation.

ENDNOTES

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- ¹ There is unmet demand for products across the IDB (not just in Uruguay). For example, a product that would allow the IDB to charge for “liquidity insurance,” similar to the World Bank’s deferred drawdown option, is still in development, and local currency products have never been fully deployed. The countries increasingly need and value the IDB’s technical cooperation services, not necessarily tied to a loan to finance a project.
- ² Uruguay continues to encounter imperfections of different degrees and natures when prioritizing efforts to diversify production and develop exports with high value-added and greater technological content, which include: the lack of a suitable supply of skilled labor, which means that major efforts must be undertaken in human capital formation; lack of sufficient energy resources to contribute to cost and energy efficiency; the existence of a gap in physical infrastructure that is still wide and requires heavy investments that cannot be provided by the public sector alone; the quality and quantity of the information backing research and the knowledge of current and future market conditions and of data on the adoption and adaptation of production technology; the lack of scale to enable services and integrated companies to tap opportunities for integration into global markets, etc. Surmounting these restrictions or market failures is essential for the sustainability of long-term growth. In efforts to overcome these limitations, economic incentives and the promotion of investment and the business climate are tools that can be mobilized by policies to offset the impact of these imperfections on the process of growth in production with equity. To be effective and efficient, these systems need to be up to date and tailored to the continuous movements in the macroeconomic and external contexts in which investments in production are made. This creates uncertainty regarding the results of the Bank’s Program given that the success of the initiatives it supports does not simply depend on whether the incentive system is up to date, but also on the existence of significant process (normally slower) in fixing the market failures that justify the creation of such systems. Innovative initiatives that depend on the framework of these interventions are corrected by the contribution of systems to promote investments in production.
- ³ This is fundamental for reducing the emerging risks associated with a GDP that is above its potential, which places limitations on growth.
- ⁴ One condition for ensuring the sustainability of achievements in social inclusion and expanded opportunities for the population is simultaneous progress in human and social capital formation consistent with the market requirements that underlie long-term sustainable growth.
- ⁵ This derives from greater social inclusion and expanded opportunities for integrating the most vulnerable sectors of the population in the markets.
- ⁶ In general, funding commitments were met during the period.
- ⁷ All Bank-supported projects in the country have a new phase that was recently approved or is pending approval in the 2011 pipeline.
- ⁸ Mainstreaming and improving the skills and competencies of program beneficiaries can be expected to facilitate their reintegration into the markets, freeing up public resources for other areas of the social agenda.
- ⁹ According to World Bank development indicators.
- ¹⁰ International Monetary Fund (2006), *Uruguay’s Growth History*. IMF Country Report No. 06/427.
- ¹¹ The crisis was fueled by a run on banks precipitated by mass withdrawals by Argentine depositors, who held close to 40% of all funds on deposit in Uruguayan banks.
- ¹² Source: Central Bank of Uruguay.
- ¹³ International Monetary Fund (2008), *Uruguay: Ex-Post Evaluation of Exceptional Access Under the 2005 Stand-By Agreement*. IMF Country Report No. 08/47.
- ¹⁴ The IMF had forecast 4.2% average growth over this span.
- ¹⁵ International Monetary Fund (2008), *Uruguay: Ex-Post Evaluation of Exceptional Access Under the 2005 Stand-By Agreement*. IMF Country Report No. 08/47.

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- ¹⁶ Universidad de la República (UDELAR) (2008), *Uruguay 2007-2008. Informe de Coyuntura*, September 2008. Área de Coyuntura, Instituto de Economía, Facultad de Ciencias Económicas y de Administración, Universidad de la República del Uruguay.
- ¹⁷ Economic Commission for Latin America and the Caribbean (2009), *Social Panorama of Latin America 2009*.
- ¹⁸ C. Llambí, G. Oddone, M. Perera, and C. Vázquez (2009), “Estudio sobre Impacto Distributivo del Gasto Público Social.” Mimeo.
- ¹⁹ G. Oddone (2009), “Evaluación preliminar de la estrategia país de Uruguay 2005-2009.” Mimeo.
- ²⁰ As a result of the 2001 and 2002 crises, at end-2003 Uruguay’s public debt stock exceeded its total GDP (see Figures 6, 7, and 8).
- ²¹ Large debt, procyclicality of spending, high proportion of expenditure on pensions.
- ²² Regulatory and oversight failures.
- ²³ Business startups, high labor costs, investor protection, a judicial system underequipped to deal with economic matters, inefficient bankruptcy processes.
- ²⁴ World Bank (2005), *Uruguay: Sources of Growth*. Report No. 31737-UY.
- ²⁵ World Bank (2005), *Uruguay. Poverty and Social Impact Assessment (PSIA) of the Tax Reform*. Report No. 44939-UY. Poverty Reduction and Economic Management Unit, Latin America and the Caribbean Region.
- ²⁶ The government’s Central Bank institution-strengthening initiative, in particular, created controversy in the legislative branch, so its approval took over two years to secure (the Executive presented a bill to amend the Central Bank’s charter in 2006; it was not passed by Congress until late 2008). The Banco Hipotecario del Uruguay changes also took longer than planned; the final ones were implemented in the last quarter of 2008, though the government did observe the loan ceilings introduced following the 2002 crisis.
- ²⁷ Financial regulation, which had been one of the country’s most severe vulnerabilities during the crisis, was substantially strengthened. Adler et al. (2009) found that “*the changes in Uruguayan regulations pertaining to loan classification, provisioning and liquidity requirements have been elaborate and comprehensive, covering the main aspects of credit risk exposure and other intermediation risks*” and that, comparatively speaking “*Uruguay’s loan quality standards are relatively stringent, and its liquidity regime is more refined.*” Consequently, despite the problem noted, Uruguay’s financial regulation is among the region’s soundest.
- ²⁸ In a review of policies enacted by the new government, Castiglioni (2009) notes [in Spanish] that “*the main measures adopted by Encuentro Progresista Frente Amplio were tax reform, reinstatement of the Wage Board, and health system reform, but pro-poor policies were the big innovation.*”
- ²⁹ These Boards, set up in 1943, already had constitutional standing, but former president Lacalle (1990-1995) had stopped convening them.
- ³⁰ International Monetary Fund (2010), *Uruguay: 2009 Article IV Consultation*. IMF Country Report No. 10/48.
- ³¹ International Monetary Fund (2008), *Uruguay: Ex-Post Evaluation of Exceptional Access Under the 2005 Stand-By Agreement*. IMF Country Report No. 08/47.
- ³² In the course of its evaluation the OVE team accessed studies on the distributional impact of public social spending, impact assessments of conditional cash transfer programs, evaluations of public education quality, housing program evaluations, and others.
- ³³ Uruguay: 2009 Article IV Consultation, IMF Country Report No. 10/48.
- ³⁴ See Sosa (2010).
- ³⁵ Consequently, and even though Uruguay has diversified its export outlets in recent years, Argentina and Brazil still are major destination markets for Uruguayan goods and services. Together those two countries buy 30% of Uruguayan goods exports. As for service exports, around 45% of Uruguay’s tourism receipts, for instance, come from Argentine visitors. Deposits held by Argentine nonresidents in Uruguayan banks currently make up roughly 20% of total funds on deposit, down from 40% in the pre-crisis years.

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- ³⁶ To further integrate Uruguay into the global economy the government brought in policies to enhance the country's international market presence. Its integration policy consisted in deepening the open regionalism strategy (UDELAR, 2006), which meant, first, a realistic, credible reshaping of MERCOSUR to have the flexibility needed to fashion bilateral agreements with non-bloc countries and, second, moving directly, via bilateral avenues, to seek out more attractive trade and investment options outside the region. To that end, the authorities explored and pursued trade and investment relations with the United States, China, India, Chile, and other countries. A strategy and reform blueprint was drawn up for Uruguay XXI, the country's export and productive-investment promotion agency.
- ³⁷ The 1990s were characterized by the gradual incorporation of SIT issues into the government's policy agenda. Investments in research and development came primarily from the public sector and started out very low (0.22% in 1990 versus 0.24% in 2000), below the average for the region and far below the levels of developed countries. A number of studies documented the lack of innovation in the public sector and the low skill level of workers in this area. The gap between scientific and technological activity and production innovation was very large.
- ³⁸ The national economic structure has not changed enough to deem it the most appropriate for achieving sustainable growth: Uruguay incorporates 27% in value-added to its production, while countries that have had more success in locking in long-term growth incorporate 40%. See J. Barrios, N. Gandelman, and G. Michelin (2010), *Analysis of Several Productive Development Policies in Uruguay*, IDB Working Paper Series No. IDB-WP-130.
- ³⁹ From 2005 through 2008, 59% of Uruguay's energy supply was oil-based (Annex I, Figure 8).
- ⁴⁰ Source: D. Yuravlivker (ed.), *Uruguay: Notas de Política. Desafíos y Oportunidades 2010-2015*, Montevideo, World Bank.
- ⁴¹ According to social sector data from the Budget and Planning Office, between 2005 and 2008, were it not for PANES, the tax reform, and the health and family allowances reforms, poverty would have fallen by 6.35% instead of 8.7% as it did during that period, which means it would not have matched economic growth. Of the 8.7% decline, 5.2% occurred in 2008, indicating that the reforms that had an impact on poverty reduction were those in the health and family allowances systems, with impacts concentrated on children and adolescents. With respect to inequality, the 2006 and 2007 reforms slowed the increase in the inequality rate, but it was the reforms initiated in 2008 that seem to have reduced it (0.455 to 0.437 in the Gini index), which suggests that bringing down inequality levels is not an easy task. See *Evaluación de la Pobreza, la Indigencia y la Desigualdad 2004-2008. ¿Que hubiese sucedido con la pobreza, la indigencia y la desigualdad de no haberse aplicado las reformas sociales?*, Budget and Planning Office, Montevideo, 2009, and E. Gasparini, G. Cruces, L. Tornarolli, and M. Marchionni (2009), *A Turning Point? Recent Developments on Inequality in Latin America and the Caribbean*. CEDLAS Working Paper No. 81.
- ⁴² Amarante and Vigorito (2007), *Evolución de la pobreza en el Uruguay 2001-2006*. INE, UNDP and UNFPA and L. Gasparini et al. (2009).
- ⁴³ According to Arim, Cruces, and Vigorito (2009) [in Spanish], "though the reach of Uruguay's social protection system before the reforms was relatively extensive by Latin American standards, there were systematic coverage gaps. Prior to the reform approximately 20% of households in the bottom three deciles received no transfers of any kind. The PANES cut that figure by half, while the Equity Plan's permanent transfer policies (food purchase card, new family allowance system, old-age allowance) took coverage levels close to 95%."
- ⁴⁴ PANES consisted of eight specific programs. The most important was Citizen Income, which provided cash transfers tied to children's and teens' regular school attendance and child and prenatal health checkups: that program reached 74,500 households of the total 84,000 that were receiving PANES benefits.
- ⁴⁵ The transition from PANES to the Equity Plan meant putting the new programs under the country's traditional social protection framework. For instance, cash transfers to households with children were delivered by modifying the family allowance system that dated back to 1943 and had undergone a succession of changes over the years.

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- ⁴⁶ Household surveys confirm the need for closer attendance tracking: between August and December 2008, 25.3% of the children and teens aged 12 to 20 who had not yet finished secondary school and lived in a household that was receiving family allowances for “children/teens enrolled in secondary school” reported that they were not attending any school at all. By 2009 that proportion remained virtually unchanged at 23.3%.
- ⁴⁷ Arim, Cruces, and Vigorito (2009), *Programas sociales y transferencias de ingresos en Uruguay: los beneficios no contributivos y las alternativas para su extensión*. ECLAC, Social Policy Series No. 146.
- ⁴⁸ In a very unfavorable environment a student has a 72.6% likelihood of not developing basic science competencies; in a very favorable environment this risk plummets to 7.6% (ANEP, 2007). The disparity is similar in magnitude to the difference in the situation of the countries placing first and last in the test. ANEP (2007), *Uruguay en PISA 2006. Primeros Resultados en Ciencias, Matemática y Lectura del Programa Internacional de Evaluación de Estudiantes*.
- ⁴⁹ Particularly if we compare education system changes to the sweeping reforms enacted with the poverty reduction and health programs. See Carmen Midaglia and Florencia Antfa (2007), “The left wing in office: continuity or change in welfare policies?” *Revista Uruguaya de Ciencia Política* 16/2007 - ICP – Montevideo.
- ⁵⁰ The Online Learning Connectivity Plan (Ceibal Plan) was the outgoing government’s flagship education program, launched toward the end of 2006, to distribute free laptop computers to primary school students and public school teachers. Last year the program was extended to students at the basic secondary level. The new Education Act also opens up new opportunities for education quality improvements. This law creates the Uruguayan Institute for Educational Assessment which, under the Ministry of Education and Culture, is to assess education sector policy and performance, but it brings with it potential rigidities to introduce changes in the education system. The National Public Education Administration (ANEP), an independent agency charged with developing education policy, is governed by a Central Executive Board chaired by the National Director of Public Education. Under the new law, two of the five members that previously were chosen by the Executive Branch will be appointed “by the teaching corps.” This measure came in for criticism from some Uruguayan education specialists who maintain that the unions historically have not backed reforms needed to improve the system (teacher performance assessment, sweeping changes in how schools are managed, compensation system with incentives, and others).
- ⁵¹ Changes are needed in teacher training, adopting new assessment mechanisms, and in the teaching profession (periodic assessments, salaries linked to performance, teachers permitted to teach in one school only, incentives to attract the best teaching corps to the most vulnerable schools).
- ⁵² Greater school autonomy with more management authority for administrators, and school-community integration.
- ⁵³ In the Strategy paper, “Improving public management and sustaining fiscal soundness.”
- ⁵⁴ In the Strategy paper, “Strengthening competitiveness and further integrating Uruguay into the global economy in order to sustain growth.”
- ⁵⁵ In the Strategy paper, “Poverty reduction and social inclusion as a pillar of sustainable growth.”
- ⁵⁶ Summary of paragraph 3.5 of the Strategy.
- ⁵⁷ See paragraphs 3.18 and 3.19 of the Strategy.
- ⁵⁸ Called the “Debt Management Unit.”
- ⁵⁹ Uruguay’s external debt management had previously been shared by the MEF and the Central Bank.
- ⁶⁰ The decision to support the programmatic loan was informed by lessons learned from a set of earlier operations aimed at revamping Uruguayan public management.
- ⁶¹ Technical-cooperation operations UR-T1013 to support SNIP implementation and UR-T1014 to assist in the transition to results-based management.

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- ⁶² The previous CPE notes the difficulties encountered by programs that sought to introduce elements of results-based management, because not all the issues that affected their implementation—identified in previous interventions—were addressed: consequently, *“though this program helped institute some results-based accountability routines and indicators by center of activity, little if any use has been made of these indicators for management decision-making or policy evaluation or to produce information about the effectiveness of the reform.”* (Support Document 4 [in Spanish] of the 1991-2004 CPE)
- ⁶³ Both internal, including the Office of the Comptroller General of Uruguay, Auditor General’s Office, and National Budget Unit in the Ministry of Economy and Finance, and external—the General Accounting Office .
- ⁶⁴ See Thematic Note on Competitiveness, December 2004, paragraphs 2.39 and 3.33.
- ⁶⁵ See Thematic Note on Competitiveness, December 2004, paragraphs 2.38, 2.43, and 3.31 to 3.34.
- ⁶⁶ This analysis does not include MIF projects.
- ⁶⁷ By way of joint Bank-government design of a program of demonstration strategic investments in a bid to diversify Uruguay’s tourism offerings, with actions to bolster tourism sector institutions (local government agencies and the new Ministry of Tourism and Sports).
- ⁶⁸ See Thematic Note on Competitiveness (2004), paragraph 3.41 [in Spanish]: *“A cluster approach does not necessarily mean developing specific vehicles to promote clustering; it means reorienting existing microeconomic interventions (innovation grants, encouraging businesses to secure quality certification to international standards, export promotion or training, for instance), by coordinating cluster-needs-specific demand construction. When each industry cluster has developed a strategic business plan and articulated its support requirements the various agencies will work in coordinated fashion.”* With that in mind, the industry clusters program proposed to help each identified cluster develop a Competitiveness Plan, which was to include mapping of the cluster businesses and institutions and an examination of existing coordination issues and bottlenecks to the clusters’ competitiveness. Once the clusters’ requirements had been identified the program resources, as well as government supports, could be better apportioned to help the clusters become more competitive. Project Preparation and Execution Facility UR-L1024 helped fund the program’s design and development of four pilot clusters.
- ⁶⁹ Designers of the livestock products program (UR-0141) drew on the 2000 pilot project that was intended to foster innovation by private players in the chain. Neither the Strategy nor the respective sector note explicitly took up this pilot as a potential action focus.
- ⁷⁰ Herd feeding capacity, management capacity, animal health management, infrastructure upgrades.
- ⁷¹ Development of new products or processes and of new market segments.
- ⁷² From the September 2009 PPMR, which goes on to say [in Spanish]: *“The Agriculture Ministry has expressed concerns—particularly since early 2008—about more and more large-scale agriculture and what this may mean for the rural population, the uprooting of rural families, stewardship of the land, and so on. This often brings with it the uprooting and loss of employment of small-scale livestock farming families who receive offers from large corporations and industry consortia to lease their land.”*
- ⁷³ See December 2004 Thematic Note on Competitiveness, notes authored by Bértola et al. (2004) and Villamil (2005), and the December 2009 Thematic Note on SIT in Uruguay (IDB-TN-125).
- ⁷⁴ The TDP II was designed to support implementation of the National Strategic Plan for Science, Technology, and Innovation (PENCTI) and the institutional reforms that led to the creation of the Interagency Innovation Bureau (GMI) and the National Research and Innovation Agency (ANII) and the revamping of the National Council on Science and Technology (CONACYT).
- ⁷⁵ This analysis does not include projects in the area implemented by the ANII or the MIF.
- ⁷⁶ See Thematic Note on Competitiveness, December 2004, paragraph 3.65.
- ⁷⁷ Policy development, specialized public or private agencies and support-program implementing agencies, and private business service providers.
- ⁷⁸ Particularly Chile and Argentina.
- ⁷⁹ See Thematic Note on Trade and Integration (IDB, 2004), paragraph 5.14.

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- ⁸⁰ The goal for overland transport was to make the road system more efficient, particularly the major corridors. The prime focus for port infrastructure was the need to increase the canal's access capacity and the number of terminals.
- ⁸¹ In its mention of energy infrastructure the Strategy noted that the Bank could assist the government to chart a long-range energy strategy to complement the usual investment loans.
- ⁸² This comes out in the Strategy support documents themselves: "*Uruguay has a well developed road network in good repair and a port sector that is being modernized and expanded, but there are shortcomings in its railroad system, airport cargo capacity, and transport logistics industry*" (see Thematic Note on Competitiveness [in Spanish], December 2004, paragraph 2.35).
- ⁸³ The World Bank also provided financial support to the country for overland transport, but its focus was rural access.
- ⁸⁴ See Pereyra (2007) for a discussion of public-private partnering in road finance in Uruguay.
- ⁸⁵ This was the case notably in the energy sector, potentially the country's biggest infrastructure bottleneck and the sector where the Strategy had proposed possible Bank support to improve planning and private-sector engagement. According to an OVE evaluation (RE-326, 2007) of energy sector reform operations, Uruguay is one of the countries where such reforms did not prosper, of the universe of six countries where the IDB was a leading provider of this type of lending.
- ⁸⁶ The World Bank provided an energy sector loan to boost the demand and competitive supply of energy-efficient goods and services. That project is implementing actions on various fronts, among them regulation, supply support, and direct investments in energy efficiency. In addition, the Energy Efficiency Fund has been launched and commercial banks are expected to start providing guarantees and hence examine possible credit lines.
- ⁸⁷ A Project Preparation and Execution Facility (PROPEF) (UR-L1023) was approved in 2006 to prepare this operation, specifically to fund consultant services to design the program (regulatory issues, assessment of demand for financial and ancillary services, intermediaries assessment, operating regulations); carry out priority projects (direct supply, development of instruments, infrastructure, institution-strengthening); fund workshops; purchase infrastructure, and other items. However, the proposal for loan UR-L1010 noted only that "*the government is moving forward with a number of pilot projects in an effort to cover the various target groups. These projects are to be used as a learning opportunity and as a basis for rectifying or adjusting the microfinance strategy.*" In contrast to the other documents for loans with an associated PROPEF that were reviewed for this evaluation, that operation's value-added contribution and lessons learned were not specified. A technical-cooperation operation now under way is producing studies on a grid connection to Brazil to address Uruguay's energy problem.
- ⁸⁸ The aim of the TC is to help build up institutional capacity to integrate financial regulation and oversight, bolster prudential regulation, and protect competition, in an environment in which consolidation of oversight functions within the Central Bank has strongly impacted that agency's organization structure, since processes and information systems have to be unified, objectives recharted, and resources reassigned.
- ⁸⁹ The first operation prescribes a set of disbursement conditions, with the understanding that a second operation would be processed once the authorities achieved stated indicative targets. It had been expected that the second programmatic loan would be prepared in the following 12 months, but the start of the electoral cycle and the change in administration altered that timeline.
- ⁹⁰ Of the set of challenges identified in the thematic notes and the Strategy, the Program proposed Bank support for the concerns that were not being addressed in other projects and for which there was political backing. Hence, in the business climate area, the Program sought to support reforms to enhance market efficiency by lowering barriers to competition, strengthening legislation governing business restructurings, and streamlining bureaucratic requirements. In the area of competitiveness support institutions it proposed actions to improve the coordination, interface, and efficiency of the country's array of private-sector support initiatives. On the export and investment promotion side the Program proposed to help enhance supports for businesses in the export, science and technology, and quality spheres and spur private investment by expediting investor access and revamping the rules and procedures in place.

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- ⁹¹ The duplication risks were already mentioned in the TDP II project profile document.
- ⁹² An external evaluation commissioned by the Bank came to a similar conclusion. As Oddone (2009) notes, this Program focus area appears to have been pieced together to pool all the issues that did not fit into the other two main focus areas devised (public management and fiscal sustainability, and poverty and social inclusion)—hence the loose tie-in of operations to objectives.
- ⁹³ Which was logical: the program was approved in July 2005, the Strategy in March 2006.
- ⁹⁴ The technical-cooperation funds paid for consulting services for institutional strengthening of the ministry for policy development, human resources management, critical administrative processes reengineering, and IT services management.
- ⁹⁵ The funding was used to train Uruguayan professionals in Chile and in Uruguay to design a social protection survey.
- ⁹⁶ Focuses of the studies funded were poverty and the existing social safety net, social expenditure analysis, and a labor market diagnostic.
- ⁹⁷ At virtually the same time the World Bank approved an operation to assist policy actions in the areas of pensions, education, and health.
- ⁹⁸ The evaluation team looked at Bank social-sector PBLs over the 2004-2006 span, including the Uruguay program approved in 2005. The others were PE-0247, NI-0183, HO-0212, HO-L1009, GU-0175, DR-0150, and AR-0290.
- ⁹⁹ Programs GU-0175 and DR-0150 pursued target outcomes using centralized beneficiary registers. The conditions in HO-L1009 (which complemented HO-0212) and NI-0183 pertained to headcount of the programs' poor benefit recipients. PE-0247's target was a reduction in the programs' leakage rate. Program AR-0290 mentioned only the use of a socioeconomic assessment form and set beneficiary targets for some programs.
- ¹⁰⁰ The operation required presentation of some facets of the evaluation design (key questions, econometric tools to be used, and others) and, subsequently, a baseline report and basic impact measurement tabulations one year into the program.
- ¹⁰¹ This is particularly important considering that the Bank's own staffers were skeptical about the program's success. The borrower's evaluation (Annex 2 to the Project Completion Report) contains the following comments [in Spanish]: "*An institutionally complex relationship on both organizations' part ... at the project's outset based on a degree of Bank 'lack of confidence' in us regarding the ability to deliver the PANES, carry it through in every respect: including run time (two years), countrywide coverage from the outset, accurate policy targeting, and producing an evaluation design that was in every respect up to international standards. And a measure of disbelief that the institutional apparatus could be created and solidified simultaneously.*"
- ¹⁰² Societal changes over the past 30 years "have concentrated poverty among the younger generations (families with children, adolescents, and young people) while creating large disparities in access to social welfare and development opportunities between age groups. Those who have benefited the least from growth and suffered the most from crises have been individuals between the ages of 0 and 17." See *Observatorio de los Derechos de la Infancia y la Adolescencia en Uruguay 2009*, UNICEF.
- ¹⁰³ This situation led to the creation of a new Ministry of Social Development (MIDES), with the objective of coordinating social policies, implementing in the short term an emergency policy for the most vulnerable (PANES), and taking over responsibility for strategic management of social policies from the Budget and Planning Office of the Presidency. There were other institutions with responsibilities, such as the Instituto del Niño y Adolescente del Uruguay [Institute for Children and Adolescents] (INAU) for children and family, as well as very strong actors for children and adolescents (ANEP), which had to be coordinated to improve the response quality of the government's entire institutional structure, and especially to minimize the oversight and execution roles that those organizations played. "Until 2004 Uruguay's social policy consisted of more than 80 programs... These myriad programs were designed and administered in turn by a multitude of government institutions without effective interagency coordination at the sector or national level," Project Completion Report, October 2010.

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- ¹⁰⁴ The note said [in Spanish]: “*In future operations the Bank should consider using the project as a design tool, which would entail pursuing a single purpose and addressing a specific problem.*”
- ¹⁰⁵ A new phase of support for secondary education was recently approved (December 2010) in continuation of the MEMFOD program.
- ¹⁰⁶ Notably restrictions on private investment, regulatory shortcomings, and weak management capacity in State providers.
- ¹⁰⁷ Operations during the review period that addressed urban quality of life issues were the Montevideo Sanitation Program (UR-L1005), Ciudad de la Costa Integrated Sanitation Program (UR-L1017), the first Neighborhood Improvement Program loan (UR-L1009), continuation of the Program for Integration of Irregular Settlements (UR-0123) approved in 1999, Montevideo Urban Transportation Program (UR-L1025), and a Project Preparation and Execution Facility for the Metropolitan Montevideo Solid Waste Management Program (UR-L1019).
- ¹⁰⁸ The December 2004 PPMR for loan UR-0123 states [in Spanish]: “*Some core envisaged actions have yet to be taken, such as improving the targeting and coordination of government urban poverty reduction policies and changes in urban development regulations and institutional mechanisms in the housing sector and land market. So long as domestic policies remain uncoordinated it will be difficult to sustain the Program actions. The latter are constrained by the fact that the Program for Integration of Irregular Settlements does not have the institutional authority to deliver many of the activities that could keep unplanned settlements from forming, despite the studies and work it is doing to that end.*”
- ¹⁰⁹ In the housing sphere, the Institutional Strengthening of the Ministry of Housing operation (UR-T1032) was intended to fund housing supply and demand studies for National Housing Directorate decision-making, and studies to gain a better understanding of the existing unregulated settlements and the outcomes of the Bank-funded Program for Integration of Irregular Settlements (PIAI) which addressed the problem of those communities from three dimensions: social, housing, and urban infrastructure. The Bank thereby assisted in the evaluation of the PIAI (UR-0123) and design of the program’s continuation (UR-L1009). On the transportation side, the Bank provided funding (UR-T1015) to help prepare the Montevideo Urban Transportation Program (UR-L1025) with transportation demand modeling, traffic simulations, and other program preparation inputs.
- ¹¹⁰ From an interview with sanitation sector authorities. The World Bank loan is perceived to have been extremely successful, following three fruitless OSE restructuring attempts in years past.
- ¹¹¹ The cancelled technical-cooperation (TC) operations (UR-T1009, UR-T1003, UR-T1028) totaled US\$587,000, 4.9% of total TC approvals in the review period.
- ¹¹² Trade, capital markets, microenterprise, tourism, and the environment.
- ¹¹³ To do this exercise by strategy focus area the evaluation team looked at the following sectors: For poverty and social inclusion: urban development and housing, education, social investment, water and sanitation, and health. For competitiveness and international positioning: agriculture and rural development, trade, capital markets, preinvestment and multisector credit, science and technology, energy, industry, microenterprise, private sector development, transportation, and tourism. Lastly, to make that classification match the Strategy content we examined foreign-trade related projects classified by the Bank as modernization of the State operations (UR-L1037, UR-0104, UR-L1015, UR-0078).
- ¹¹⁴ Calculated using a binary variable that takes the value 1 when the actual percent disbursed is less than the programmed percent and 0 in the opposite scenario. The programmed-disbursement proportion is a metric that uses parameters estimated from Bank data, so they already incorporate Bank average slippages. In other words, this indicator is not based on the nominal disbursement arrangements the Bank plans with the borrowing country at the start of each project.
- ¹¹⁵ With standard deviations of just 0.09 and 0.06, respectively.
- ¹¹⁶ These execution indicators were affected by problems inherent to the portfolio inherited from the previous period. In the case of investment loans, the execution delays were due to operational design problems, which led to restructuring. In the case of PBLs, the delays were associated with the country’s strategic response to the lack of adequate contingent financial instruments at the Bank.

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- ¹¹⁷ Primarily administrative support and financial and accounting management.
- ¹¹⁸ The Bank's costing systems still have weaknesses that make it hard to precisely calculate these costs.
- ¹¹⁹ This government decision came out of the new Debt Management Unit, as part of its strategy to manage government liabilities with the prospect of issuing sovereign debt in an environment of global market liquidity. The payment to the IMF was US\$628 million; US\$400 million was paid to the IDB (loan 1417/OC-UR) and US\$114 million to the World Bank (loan 7138), saving the government some US\$24 million.
- ¹²⁰ At end-2009 31% of Uruguay's overall public sector debt was owed to official creditors (US\$4.523 billion), the balance to private creditors (US\$8.979 billion). US\$4.394 billion of the total official debt was owed to multilaterals. The outstanding IDB balance at December 2009 was US\$1.828 billion—42% of the nation's official external debt and 13% of its external public debt stock.
- ¹²¹ Something Economy Ministry officials acknowledged in interviews. See note 1.
- ¹²² Referencing that recommendation, the Strategy proposed tying funding to performance by means of a programmatic loan to enhance public spending efficiency. However, the aim, in addition to bringing in results-based public management, was to have the Bank deliver support for this purpose by way of results-based PBLs/PBPs. In 2005-2009, following the 2002 crisis and the Bank's delivery of heavy emergency lending support, the plan was to refinance those loans which, it was recommended, would have outcome-tied components.
- ¹²³ After Chile and Paraguay.
- ¹²⁴ Number of signed projects.
- ¹²⁵ One performance indicator is the percent of successful innovation projects. According to the loan document, success was to be measured against the technology, economic, and commercial objectives of each project. An independent firm would be hired for the assessment.
- ¹²⁶ Because they were not indicators per se or because no baseline or specific targets were given.
- ¹²⁷ Where results indicators were missing for 36% of items, poorly defined for 34%, and well defined for 30%.
- ¹²⁸ Because there was no project associated to the priority focus area, because neither the Strategy nor the associated projects had provided results metrics, or because the metrics were poorly defined.
- ¹²⁹ In 28% of cases there was no outcome indicator; 5% lacked baseline and targets; in 19% positive achievements were recorded, in 13%, neutral or negative outcomes, and in 34% there was no information on the current situation.
- ¹³⁰ According to the IMF, three fourths of the debt overperformance in the first three years of the administration's term was due to better-than-projected growth and a more appreciated peso-dollar exchange rate. See IMF (2008), paragraph 19.
- ¹³¹ June 2009 PPMR.
- ¹³² World Bank (2005), *Uruguay. Poverty and Social Impact Assessment of the Tax Reform*. Report No. 44939-UY. Poverty Reduction and Economic Management Unit, Latin America and the Caribbean Region.
- ¹³³ Cecilia Llambí, Silvia Laens, Marcelo Perera, and Mery Ferrando (2008), *Assessing the Impact of the 2007 Tax Reform on Poverty and Inequality in Uruguay*. CINVE – Centro de Investigaciones Económicas. Uruguay.
- ¹³⁴ Based on microsimulations, the 2008 World Bank study focused on the poverty and inequality impacts of changes introduced in 2007 that directly affected household disposable income. This study found an income redistribution effect: whereas the pre-reform system had been virtually inequality-neutral, the new system is slightly progressive, albeit with a relatively mild income distribution impact. The study also concludes that the reform has had a poverty reduction impact, owing to price reductions following the lowering of VAT rates. The CINVE assessment, based on a static general equilibrium model, found that the full reform had positive effects on reducing poverty incidence, the income gap, and severity of poverty, owing near exclusively to the introduction of the individual income tax. The study also found a reduction, albeit more modest, in Gini inequality indicators.

¹³⁵ June 2009 PPMR.

¹³⁶ Paragraph 1.16 of loan document UR-L1021.

¹³⁷ A year into its term the government created the Interagency Commission on Foreign Trade Affairs (CIACEX), with a mandate to devise core work areas for boosting trade and coordinate the work of the country's various trade development agencies.

¹³⁸ Prepared by the World Bank.

¹³⁹ The same number used as a baseline for one of the project's results indicators, according to the PPMR.

¹⁴⁰ This same increase explains why Uruguay dropped more than ten slots in the ranking between 2009 and 2010. It is worth noting that Uruguay's "number of days to start a business" indicator had held relatively stable, in absolute terms, in the last three rankings.

¹⁴¹ Around 71% of the total subsidy amount went to finance projects that delivered direct support for innovation in individual businesses, which accounted for close to 50% of total project approvals. Management and quality were the focus of many projects. The sectors receiving support were information and communication technologies, food industries, chemical and pharmaceutical industries, and manufacturing industries.

¹⁴² A. López and G. Svarzman (2007), "Subprograma de Apoyo a la Innovación y Mejora de la Competitividad de las Empresas (Programa de Desarrollo Tecnológico-PDT, Uruguay): Una Evaluación de sus Beneficios Sociales a Través de Estudios de Casos." Mimeo.

¹⁴³ Cenit-CPA Ferrere (2010), "Evaluación de Impacto de un Programa de Financiamiento Público a Actividades de Innovación en Uruguay – Programa de Desarrollo Tecnológico." Mimeo.

¹⁴⁴ As the study noted [in Spanish]: "*Though it is difficult to compare the magnitude of the effects (since each study uses different techniques), we can posit that in the case of Brazil, firms that participate in the Fund for Science and Technology Development (FNDCT) program spend an estimated 50% to 90% more on R&D than nonrecipient firms, whereas in the Program to Support Technology Development in Uruguayan Businesses (ADTEN) the increases are lower, ranging from 28% to 39%. A study on grants in Argentina estimates that businesses that received the grant spent 54% to 79% more on innovation than businesses that did not receive grants. Compare these numbers to the 76% reported here, which clearly is on a par with estimates for other similar programs.*"

¹⁴⁵ B. Hall and A. Maffioli (2008), *Evaluating the Impact of Technology Development Funds in Emerging Economies: Evidence from Latin America*. OVE Working Paper 01/08.

¹⁴⁶ Execution of the program began in 2009 and the disbursement rate as of March 2011 was 30%, compared with a cumulative rate of 10.5% in 2010.

¹⁴⁷ Uruguay faces restrictions of different degrees and natures when prioritizing efforts to diversify production and develop its export base, such as: the lack of a suitable supply of skilled labor, which means that major efforts must be pursued in human capital formation; lack of sufficient energy resources to support the cost and energy efficiency requirements of an undertaking of this nature; the existence of a gap in physical infrastructure that is still wide and requires heavy investments that cannot be provided by the public sector alone; the quality and quantity of the information backing research and the knowledge of current and future market conditions and of data on the adoption and adaptation of production technology; the lack of scale to enable integrated companies to tap opportunities for integration into global markets, etc. These restrictions are in constant flux, as is the macroeconomic framework in which they exist, which creates uncertainty for the Bank's Program to the extent that the changes that require permanent changes in the system of incentives are not updated. The projects supported by this Program not evaluated solely on the basis of their cost-effectiveness, independently of the investment promotion systems.

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- ¹⁴⁸ As laid out in the original loan proposal the project consisted of three components and nine subcomponents: (i) institutional strengthening of the Customs Bureau (DNA), with five subcomponents; (ii) upgrading of the DNA's physical plant and equipment, with two subcomponents; and (iii) adjustment of rules and procedures and new technology procurement and installation, with two subcomponents. That structure translated into the 16 components or projects mentioned, with roughly 800 activity focuses and tasks, which is the structure with which the project's executing agency was supposed to work. The loan contract was amended and the project components reconfigured into: (i) strengthening of control processes employing smart risk assessment, with four subcomponents; (ii) support to achieve the trade transaction efficiency objective, with a single subcomponent; and (iii) DNA institutional strengthening, with seven subcomponents.
- ¹⁴⁹ One example is the controversy triggered following the Customs Commissioner's disagreement with the judiciary about customs crimes (contraband). In brief, customs clients think the DNA is overzealous in opening containers—many of them in transit—at the first suspicion of irregularities; this raises confidence concerns about the logistics industry and the positioning of the port of Montevideo as a way station and handling center for goods heading to other countries. Customs users argue, for instance, that if customs officers suspect contraband in in-transit containers they should notify the destination countries' customs service and not intervene directly (see newspaper *El País*, 29 July 2009).
- ¹⁵⁰ F. López and A. Maffioli (2008), *Technology Adoption, Productivity and Specialization of Uruguayan Breeders: Evidence from an Impact Evaluation*. OVE Working Paper 07/08.
- ¹⁵¹ Average road asset value is defined as the average of minimum road asset value (cost of building infrastructure in its worst acceptable state) and maximum road asset value (cost of building completely new infrastructure). Considering that aggregate transport costs (infrastructure maintenance and vehicle operation) are kept low when road asset value is slightly above average road asset value, the program's goal is to keep the ratio of road asset value to average road asset value above 1.0.
- ¹⁵² Some of the midterm review findings came up in the November 2009 interview with DIPRODE authorities but, in the end, the OVE team did not have access to the document, having been told in April 2010 that the only document available was preliminary and that it was considered unsatisfactory.
- ¹⁵³ See PACC [Programa de Competitividad de Conglomerados y Cadenas Productivas] (2009), *Insumos para políticas de competitividad y conglomerados. Lecciones aprendidas 2006-2009*.
- ¹⁵⁴ According to PACC (2009) [in Spanish], the plan is to use a “set of metrics to compare ‘beneficiaries’ and a ‘control group’ wherever possible and, in every case, compare the ‘before program’ and ‘after program’ situation.” Cluster-specific studies are to be commissioned as well.
- ¹⁵⁵ See Annex III: Bank's Action in Poverty and Social Inclusion, which contains more detailed information on the points made in this section of the CPE.
- ¹⁵⁶ At the beginning of the programming period, conditions in the country were as follows: the economy had stabilized, with the country having emerged intact from the 2002 crisis and several years of GDP shrinkages and entered a period of recovery with solid growth prospects in a favorable external environment. This trend continued when the new government took office in 2005, with the country locking in progress on the back of a solid financial and fiscal position reinforced by expansive growth. Growth only slowed in 2009 as a result of the financial crisis in the developed world. The country did a good job of withstanding and absorbing this shock and was able to resume a strong growth path. In 2005 in the social sector, the country faced significant structural poverty and growing social fragmentation that took the greatest toll on the country's youth and on its most disadvantaged families, who increasingly lived on the urban fringe. In addition, public interventions were very fragmented and social policies were not well coordinated, which tended to limit their effectiveness and quality. Bank-supported projects, which were generally well targeted to these problems, did not escape this institutional weakness and fragmentation, in a context in which the crisis had imposed budget constraints and ceilings that prevented the expected levels from being executed.
- ¹⁵⁷ Prevent the spread of vulnerabilities that affect children, reduce the number of poorly educated adolescents or adolescents expelled from basic education, ensure that extreme poverty among the elderly does not rise and that poor families do not become fragmented or continue to be marginalized, etc.
- ¹⁵⁸ This situation led to the creation of a new Ministry of Social Development (MIDES), with the objective of coordinating social policies, implementing in the short term an emergency policy for the most vulnerable

(PANES), and taking over responsibility for strategic management of social policies from the Budget and Planning Office of the Presidency. There were other institutions with responsibilities, such as the Instituto del Niño y Adolescente del Uruguay [Institute for Children and Adolescents] (INAU) for children and family, as well as very strong actors for children and adolescents (ANEP), which had to be coordinated to improve the response quality of the government's entire institutional structure, and especially to minimize the oversight and execution roles that those organizations played. Program activities had to do with coordinating the social safety net for families with children and adolescents under the age of 18 who were in a position of educational, health, or social vulnerability. The basic milestones began with PANES (with its Citizen Income Program), between 2005 and 2007, and the tax reform (second half of 2007), which were revamped in 2008 with the formulation and implementation of the Equity Plan, coordinated over the medium term with the new Family Allowances System and the creation of the National Comprehensive Health System and particularly the National Health Fund (three out of four of the beneficiaries registered between December 2007 and March 2008 were children and adolescents).

¹⁵⁹ Amarante, Vigorito, and Burdín, "Evaluación Cuantitativa del Impacto del Panes. Primer Informe de Avance." Mimeo. In their preliminary evaluation of PANES, based on data gathered from October 2006 to March 2007, the authors maintain that the program may have improved school attendance of girls aged 6 to 13, even though the attendance tracking systems may have become laxer. According to the authors: "*School attendance is a typical counterpart commitment in conditional cash transfer programs. In Uruguay, school attendance has been a requirement for the Family Allowance System since its advent in 1942. However, since the system's expansion in 2004 attendance tracking has become laxer. In the case of PANES there are no clear data to show if the school attendance tracking goal was achieved or about the age bracket to which this requirement applied.*"

¹⁶⁰ R. Arim, G. Cruces, and A. Vigorito (2009), *Programas sociales y transferencias de ingresos en Uruguay: los beneficios no contributivos y las alternativas para su extensión*. ECLAC, Social Policy Series No. 146.

¹⁶¹ F. Borraz and N. González (2009), "Impact of the Uruguayan Conditional Cash Transfer Program." *Cuadernos de Economía* 46 (November), 243-271.

¹⁶² The 2002 crisis hit hard, further worsening conditions of exclusion and vulnerability. The program provided the country with a resource stream that it otherwise did not have at that time.

¹⁶³ At the time of the 2005 change in administration, the project had executed just 26% of its resources and US\$20 million of the original amount had been cancelled for fiscal reasons. It thus made sense to extend the operation.

¹⁶⁴ Since its reformulation, the Bank-supported project has adopted a methodology that brings rigor and prevents discretionary action. Activities that could be financed and sustained were planned, establishing limits and controls that have led to greater efficiency and incorporating stakeholders. The project has become a government program, with the project execution unit functioning as a government agency.

¹⁶⁵ There were plans to relocate families to nearby areas due to zoning or environmental reasons, as well as the creation of border areas to limit the growth of settlements.

¹⁶⁶ Through a review of urban development policies, the creation of a rent guarantee fund, institution-strengthening, and a monitoring system.

¹⁶⁷ With approval of the 2006 National Budget, execution responsibilities were transferred to the Ministry of Housing, Land Development, and Environment (MVOTMA) and the balance of US\$57 million was reformulated for a three-year execution period. The reprogrammed deadlines were met. The external evaluation of the program was positive, so negotiations for a new loan operation were initiated, resulting in the approval of UR-L1009 (as the first loan under the CCLIP) in 2008.

¹⁶⁸ The municipal governments (especially Montevideo) ended up allocating more resources to advance their local development agendas and gave funding priority to participatory action plans intended to improve the social-urban fabric of the irregular settlements. However, there are still weak municipal governments and MVOTMA has limited leadership capacity. The policy initiatives do not adequately address the specificities of the issue.

¹⁶⁹ This was incorporated into the new loan, which will support an improvement in the housing supply (serviced lots, with basic housing, a rental guarantee fund, and comprehensive urban interventions to restore neighborhood density with new housing), providing more funding for the components to prevent the growth of irregular settlements.

¹⁷⁰ This was another lesson learned for the second operation, which established a package of service infrastructure (transportation and roads, sanitation, electricity connections, drinking water) and a budget cap per family based on cost parameters, leaving a balance to be used on needs defined by the beneficiaries.

¹⁷¹ To ensure conditions that prevent a return to irregular development is a pending task for public policies, which need to be integrated to guarantee that the change can be absorbed by the resources allocated. This aspect was not analyzed in the evaluation of the results of the first irregular settlement integration program, nor was it identified as a risk for the sustainability of program results. The field analysis confirms that this aspect is one of the main concerns of the public authorities.

¹⁷² Two risks that are not independent of each other stand out. First, resettlement. As the program advances, the solution requires resettlement of the population to apply rational urban solutions to the zone (sometimes affecting between 30% and 40% of families in a zone). The project reduced its participation in resettlement from 25% in the first operation to 10% in the new program, and also established caps on the amount per resettlement (US\$20,000) when the solutions are costing US\$35,000. This has been singled out as lowering standards that make works more expensive and as removing incentives to remain within these limits. It is difficult to evaluate this aspect with the information on hand. What is certain is that both the government and the Bank are revising the standards in a country with Uruguay's development level to find cost-efficient solutions for sociourban integration. A fiscal risk is unavoidable. Second, the differences observed between the prices established by the office and the prices bid by contractors, the heavy demand in the construction sector, low idle capacity, and very low unemployment, make it easy to pick and choose works. This phenomenon directly effects expectations for the results of social policies, which are addressing the problem but are at a disadvantage.

¹⁷³ The most important reason for the Bank's participation is that, without these resources, the departmental governments would not finance infrastructure, given the pressure of operating costs in a context of scarce resources. The program allowed investments to be financed and the departmental governments prefer to finance them with the Bank because they value the technical contribution to enhance their management.

¹⁷⁴ The change in the formula for distributing proceeds from the program and from the Fund for Development of the Interior (FDI) will help to achieve greater horizontal equity among the municipalities outside the Montevideo metropolitan area. Second, direct benefits were expected from the physical investments that represent more than 80% of program expenditures, estimated to benefit a total of 95,000 families directly and indirectly, 48,000 of which are located in areas with UBNs. Political changes in the national and departmental governments could possibly pose the risk of a change in priority of the components and problems in execution.

¹⁷⁵ With regard to the investment component, it was originally planned that the investments per departmental government would be executed in three stages. The first was for 50% and to proceed to the second for 30%, it was expected that the first stage would be completed and that the evaluation of the results of a series of indicators linked to progress in fiscal and tax management would be good. The same applied to the remaining 20%. The contractual amendment meant that although the first stage had not been completed at the time, the indicators were eliminated and approval was given to departmental government projects to the extent that the governments participated in management commitments with the executive branch. The management commitments contributed to the difference between the percentage of resources to be transferred in the 2005-2009 national budget (3.33% of national revenues) and the floor established for that redistribution (N\$3,400). The difference was credited to the departmental governments that complied with the management commitments. This was applied in 2006/2007. Starting in 2008, the 3.33% was higher than N\$3,400, so that the commitments no longer played a role.

¹⁷⁶ Each action was a project with its logical framework. Sixty-four institutional strengthening projects were presented with more than 400 contracted items and 55 investment projects with 55 contracts in a very short period of time.

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- ¹⁷⁷ See the program status report, Montevideo, 24 December 2010. Up to that time, 84% of program resources out of a total of US\$66.8 million had been executed.
- ¹⁷⁸ To comply with this objective, four specific objectives were established: (i) to make the first three years of high school (grades 7 to 9) universal, thereby completing the nine years of compulsory schooling; (ii) to transform grades 7 to 9, laying the groundwork for institutional and curricular reform; (iii) to strengthen the teacher training system; and (iv) to improve ANEP's management.
- ¹⁷⁹ As mentioned in the report on the general evaluation of program results and management of November 2009, "...the situation cannot be attributed to poor program management. It has to do with problems in the goals themselves given that their attainment depends on an additional series of variables that are beyond the control of the program...".
- ¹⁸⁰ This meant that it was the stakeholders in ANEP (CODICEN, Deconcentrated Councils, and Teacher Training Institute) who devised the policies and actions to be carried out under the program. Officials from the different ANEP bodies were responsible for adapting the new practices and management tools supported by the project to their levels.
- ¹⁸¹ Structured into four components: (i) comprehensive prevention and care projects that accounted for 56% of the total financing of US\$40 million, which had six subcomponents: (a) comprehensive model for children under four and their families, which received 32% of total financing; (b) comprehensive model for children between four and 12 years of age and their families; (c) comprehensive model for adolescents between 13 and 17 years of age and their families; (d) comprehensive model for the prevention of teenage pregnancy; (e) comprehensive model for street children and adolescents; (f) family services for victims of child and sexual abuse; (ii) community participation and development that accounted for 15% of total financing, intended to promote community participation through local networks as a means of providing comprehensive care for the target population at the zonal level; (iii) institutional strengthening (6% of the total) to build the capacity of public bodies and participating civil society organizations; and; (iv) social communication (1.5%) to raise awareness and disseminate the rights of children and adolescents in society.
- ¹⁸² The basic contents did not change. This, together with the construction of a strategic future vision based on the National Child and Adolescent Strategy, assured the continuity of actions beyond the change of authorities in March 2010, a context that supports a new operation with the Bank.
- ¹⁸³ INFAMILIA facilitated intersector coordination of programs that take on a new identity in the wake of solutions that are shared institutionally and are therefore implemented with greater efficiency, financing part or all of them. The Bank's flexible acceptance of the proposed program changes contributed positively to heightening that efficiency.