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# URUGUAY

# INVESTMENT, TRADE, AND INNOVATION FRAMEWORK MODERNIZATION PROGRAM II

**(UR-L1156)**

## LOAN PROPOSAL

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CONTENTS

| ANNEXES | |
|---|---|
| Annex I | Summary Development Effectiveness Matrix |
| Annex II | Policy Matrix |
| Annex III | Results Matrix |

| REQUIRED LINKS | |
|---|---|
| 1. | Policy letter |
| 2. | Means of verification |
| 3. | Monitoring and evaluation plan |

| OPTIONAL LINKS | |
|---|---|
| 1. | Comparative matrix - Tranches I and II |
| 2. | Diagnostic assessment of the Uruguayan external sector |
| 3. | Growth accounting study 1960-2018 |
| 4. | How Effective is Investment Promotion? Firm-level Evidence |
| 5. | Impact assessment of investment promotion reforms, 2013-2017 |
| 6. | Impact assessment of trade facilitation reforms, 2012-2018 |
| 7. | Impact assessment report on instruments that promote business innovation. ANII (2017) |
| 8. | Financing needs, 2019-2023 |
| 9. | Innovative entrepreneurs assessment report. ANII (2017) |
| 10. | Activities monitoring report. ANII (2018) |

## ABBREVIATIONS

| | |
|---|---|
| ANII | Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency] |
| bps | Basis points |
| CINVE | Centro de Investigación Económica [Center for Economic Research] |
| DNA | Dirección Nacional de Aduanas [National Customs Bureau] |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| FDI | Foreign direct investment |
| GCI | Global Competitiveness Index |
| ICTs | Information and communications technologies |
| IMF | International Monetary Fund |
| LAC | Latin America and the Caribbean |
| LIBOR | London Interbank Offered Rate |
| MERCOSUR | Southern Cone Common Market |
| MSMEs | Micro, small, and medium-sized enterprises |
| NDC | Nationally determined contribution |
| NFPS | Nonfinancial public sector |
| OECD | Organisation for Economic Co-operation and Development |
| PENCTI | Plan Estratégico Nacional de Ciencia, Tecnología e Innovación [National Strategic Plan for Science, Technology, and Innovation] |
| R&D | Research and development |
| R&D&I | Research, development, and innovation |
| SMEs | Small and medium-sized enterprises |
| SNTPC | Plan Nacional de Transformación Productiva y Competitividad [National Plan for Productive Transformation and Competitiveness] |
| UNCTAD | United Nations Conference on Trade and Development |
| UTEC | Universidad Tecnológica del Uruguay [Technological University of Uruguay] |
| VUCE | Ventanilla única de comercio exterior [one-stop window for foreign trade] |
| WEF | World Economic Forum |
| WTO | World Trade Organization |

# PROGRAM SUMMARY

## URUGUAY
## INVESTMENT, TRADE, AND INNOVATION FRAMEWORK MODERNIZATION PROGRAM II
## (UR-L1156)

<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><th colspan="3">Borrower</th><th colspan="2">Flexible Financing Facility[a]</th></tr>
<tr><td colspan="3">Eastern Republic of Uruguay</td><td>Amortization period:</td><td>20 years</td></tr>
<tr><th colspan="3">Executing Agency</th><td>Drawdown period:</td><td>3 years</td></tr>
<tr><td colspan="3">Eastern Republic of Uruguay, through the Ministry of Economy and Finance</td><td>Grace period:</td><td>[b]</td></tr>
<tr><th>Source</th><th>Amount (US$)</th><th>%</th><td>Interest rate:</td><td>LIBOR-based</td></tr>
<tr><td rowspan="3">IDB (Ordinary Capital):</td><td rowspan="3">250 million</td><td rowspan="3">100</td><td>Front-end fee:</td><td>50 bps</td></tr>
<tr><td>Standby fee:</td><td>[c]</td></tr>
<tr><td>Inspection and supervision fee:</td><td>[c]</td></tr>
<tr><td rowspan="2">Total:</td><td rowspan="2">250 million</td><td rowspan="2">100</td><td>Weighted average life:</td><td>12.75 years</td></tr>
<tr><td>Approval currency:</td><td>United States dollar</td></tr>
<tr><th colspan="5">Program at a Glance</th></tr>
<tr><td colspan="5">Program objective/description: The program's general objective is to modernize the regulatory and institutional framework for investment, trade, and innovation with a view to consolidating sustainable economic growth in Uruguay. Its specific objectives are to: (i) increase investment and international trade by modernizing the regulatory and institutional framework for investment and trade; and (ii) strengthen incentives for investment in innovation.<br><br>This is the second in a series of two consecutive loan operations that are technically linked but financed independently under the programmatic policy-based loan modality with a deferred drawdown option.</td></tr>
<tr><td colspan="5">Special contractual conditions precedent to the sole disbursement of the loan: The disbursement of the Bank loan proceeds, made at the request of the borrower, will be subject to the fulfillment of the policy reform measures described in the program components and set forth in the policy matrix (Annex II) and the policy letter, in addition to other conditions set forth in the loan contract (paragraph 3.3).</td></tr>
<tr><td colspan="5">Exceptions to Bank policies: None.</td></tr>
<tr><th colspan="5">Strategic Alignment</th></tr>
<tr><td>Challenges:[d]</td><td colspan="4">SI ☐   PI ☑   EI ☑</td></tr>
<tr><td>Crosscutting themes:[e]</td><td colspan="4">GD ☐   CC ☑   IC ☑</td></tr>
</table>

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

[b] The grace period will depend on the amortization schedule agreed upon between the borrower and the Bank when the disbursement request is formalized during the drawdown period.

[c] The standby fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

[d] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[e] GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

# I. DESCRIPTION AND RESULTS MONITORING

## A. Background, problem addressed, and rationale

1.1 Uruguay currently faces the challenge of making its economic growth sustainable. Accordingly, it will need to strengthen its long-term policies for promoting investment, trade, and innovation. In this context, this operation is the second in a series of programmatic policy-based loans to support the Uruguayan government's efforts to consolidate and sustain a set of reforms to modernize the regulatory investment, trade, and innovation framework in a more adverse international climate.[1]

1.2 **Economic context.** Uruguay's economy experienced 16 years of uninterrupted growth between 2003 and 2018 at an average annual rate of 4.1%, which is above the 2.8% average for the region of Latin America and the Caribbean.[2] During this period, Uruguay recovered from a financial crisis in 2002, navigated the global crisis of 2008, and successfully managed regional macroeconomic tensions and imbalances.[3] However, due to a less favorable external environment, the country's growth has slowed to an average annual rate of 1.6% in the past four years, and its labor market has deteriorated.[4]

1.3 Exports and investment have driven growth, although not in equal measure. Between 2003 and 2018, exports of goods and services increased at an average annual rate of 6.1% while investment grew at an average rate of 5%. In addition, total factor productivity increased 0.5%. However, starting in 2015, investment began to contract at an average annual rate of -7.3% and total factor productivity growth shrank to 0.2%. These trends are occurring in a less favorable regional and global context, characterized by greater uncertainty and a reconfiguration of international economic relations, resulting in lower prices for commodity exports, a drop in global foreign direct investment (FDI), and a slowdown in the growth of Uruguay's principal trade partners.[5]

1.4 The fiscal deficit presents another macroeconomic challenge. The overall public sector fiscal deficit was 4.5% of GDP.[6] Although Uruguay's debt sustainability indicators are adequate, public debt has been trending upward since 2014. At year-end 2018, nonfinancial public sector (NFPS) debt accounted for 52% of GDP. The debt had a good profile in terms of currency composition and maturity limits,[7] and the leading risk-rating agencies accorded

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[1] The first operation in the series (4430/OC-UR), approved in November 2017, furthered a set of key reforms for Uruguay's positioning in the global marketplace.

[2] At nearly US$17,000, Uruguay's per capita GDP is among the highest in the Latin America and the Caribbean region, and the country has a relatively equitable distribution of income (Gini coefficient of 0.38 in 2018). All of the factors of production contributed positively to economic growth in the 2003-2018 period. All told, 53% of GDP growth was due to the increase in physical capital, 33% to human capital, and 14% to total factor productivity (optional link 3).

[3] Although the country maintains important linkages with neighboring economies, it has shown to be less dependent on the region, perhaps due to changes in the export sector, as well as to regulatory and economic policy changes that improved its macroeconomic stability. Preliminary results show that after the 2002 economic crisis, Uruguay's GDP would have become less volatile (by approximately 50%), upon controlling for the volatility in Argentina and Brazil. This could be the first positive evidence to support the theory of decoupling the Uruguayan economy from its neighbors' performance (IDB and CINVE, 2019).

[4] The employment rate fell from 60.4% to 57.2% and unemployment rose from 6.6% to 8% between 2014 and 2018 (National Statistics Institute, 2019).

[5] ECLAC (2019) and Everett (2019).

[6] For the rolling year ending in February 2019, below 2003 levels (96% of GDP).

[7] The proportion of NFPS foreign-currency debt fell from 93% in 2003 to 55% in 2018, and the average maturity limit almost doubled, from 7.4 to 12.3 years in the same period (for central government debt).

investment-grade status to Uruguay. Inflation, in turn, remained under control in the period, although mostly at levels above the Central Bank's 3%-7% target range. As of March 2019, annual inflation was 7.8%. In a base case similar to the one used by the International Monetary Fund (IMF), the financing needs of the NFPS are expected to reach an annual average of US$4.088 billion between 2019 and 2023, or approximately 6.1% of GDP.

1.5 Although Uruguay has made progress on strengthening its institutions and improving its economic resilience,[8] it is still vulnerable to exogenous changes in the international context, and is facing several challenges in terms of internationalization. It therefore needs to take specific actions to consolidate its international positioning and support the modernization of the regulatory and institutional framework for investment, international trade, and innovation, which are pillars of its model for future economic development.

1.6 **Assessment of the problem.** Uruguay has shown significant dynamism in the past 16 years. Between 2004 and 2018, its share of global trade increased.[9] In that same period, goods exports tripled from US$3 billion to US$9 billion, and service exports quadrupled from US$1.1 billion to US$4.9 billion. Furthermore, investment rose 125%, reaching US$9.832 billion in 2018.[10] However, starting in 2015, this trend in investment and FDI changed, and they both decreased.[11] Against this backdrop, the country continues to face challenges that it must address with regard to the internationalization of its economy.[12]

1.7 **The level of exports remains relatively low and the export concentration is high.** Uruguay's exports have increased by an average of 22% of GDP over the last five years, which is six percentage points below the average for the region.[13] Most of Uruguay's exports are natural-resource-intensive commodities and agroindustrial products:[14] in 2018, cellulose, beef, soybeans, and dairy products made up 50% of the country's exports.[15] The main destination markets for its goods exports are China (26%), the European Union (18%), Brazil (12%), the United States (7%), and Argentina (5%).[16] Foreign sales are increasingly concentrated in large, mostly foreign-capital companies,[17] and the number of internationalized small and medium-sized enterprises (SMEs) has decreased (by 15% in the past decade), which can partly be explained by the pattern of positioning, which is

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8 Reflecting its robust institutions, prudent policies, and large financial buffers (IMF, 2019).

9 From 2004 to 2017, Uruguay's share of global exports of goods and services rose from 0.04% to 2.5%.

10 Measured as gross fixed capital formation.

11 In line with what has occurred in the region, FDI in Uruguay has decreased (ECLAC, 2018). In 2017, Uruguay's central bank adopted the new methodology of the Balance of Payments (sixth edition) to estimate FDI. Since then, the data are net flows, meaning negative values. In 2018, net FDI in Uruguay was -US$626 million, principally as intra-company loans (-US$3.191 billion), Uruguay XXI (2019).

12 Evidenced by the degree and persistence of sector concentration.

13 Project team estimates, based on the World Development Indicators.

14 The level of export sophistication remains low.

15 The top 10 export products accounted for 48% of exports in 2004-2005 and 62% in 2017-2018. New goods like soybeans and cellulose have made a marked entrance into the export market; in 2003, Uruguay did not sell these products abroad at all, but by 2017-2018 they made up almost 30% of exports. Exports of these products did not increase as much in the other South American countries. In 2018, China purchased 35% of Uruguay's cellulose, 45% of its beef (chilled or frozen), and 85% of its soybeans, reinforcing the country's customary specialization.

16 Includes duty-free zones. Uruguay exports to 145 countries, but the level of concentration of destinations has increased. Approximately 25% of exports of goods receive preferential treatment.

17 In 2003-2004, the largest ten companies accounted for goods 29% of exports of goods, and in 2017-2018, for 39% of total exports.

increasingly natural-resources based. Almost 30% of total exports in 2018 were services, of which 60% were traditional services; within the nontraditional services, global services stand out,[18] as they have helped diversify export offerings, steer the country towards alternative markets, and increase specialization (optional link 2).[19]

1.8 **Concentration and insufficient investment.** Investments in Uruguay are highly concentrated.[20] From 2012 to 2018, the financial, primary, and manufacturing sectors attracted the most investment flows (48%, 14%, and 14%, respectively). In 2017, the main foreign investment flows were from Argentina (18%), Spain (17%), Panama (9%), and the United States (8%).[21] Although the number of multinational companies in Uruguay more than doubled between 2004 and 2018, they currently make up only 1% of all companies operating there. Nevertheless, multinationals account for more than 15% of domestic purchases and sales, have more suppliers and buyers, and manage higher sales volumes than their domestic counterparts.[22] In relative terms, the ratio of FDI inflows to GDP has slipped below the average for the region. Specifically, between 2013 and 2017, these flows amounted to 2% of GDP in Uruguay, but averaged 3.8% for the countries of the Latin America and the Caribbean region. The insufficient foreign investment and concentration of FDI in certain sectors are weaknesses that must be addressed (optional link 2).

1.9 **Low levels of innovation, especially in the private sector.** In Uruguay, investment in research and development (R&D) has been driven mainly by public investment. In 2017, it reached 0.49% of GDP, below the Latin American and Caribbean region and Organisation for Economic Cooperation and Development (OECD) averages of 0.8% and 2.5%, respectively. Private investment fell from 38% of total investment in 2005 to 24% in 2017.[23] Specifically, fewer than 10% of Uruguayan companies invest in R&D, while the corresponding figure for the OECD countries is 20%.[24] Studies show that the main obstacles Uruguayan companies face to investing in innovation are related to the institutional environment, e.g. regulatory climate; limited institutional capacity, especially, stringent regulations governing collaboration with industry and the lack of research geared towards national challenges; the market's limited size and dynamism; obstacles to innovators taking ownership of the results of their innovations; lack of funding and human capital for R&D&I;[25] and information asymmetries, as well as combinations of these). Long-term policies that facilitate capacity building are needed to close this innovation gap.

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[18] Traditional global services are tourism and transport, and nontraditional services include professional and consulting services (e.g. legal and financial), shared services centers, and telecommunications and ICT services. The latter include specialized offerings and mainly target the U.S. market.

[19] Uruguay has been included in the global trend towards increasing trade in services, which appears be more dynamic than trade in goods, although in most countries there is still more of the latter.

[20] In relative terms, Uruguay's sector concentration of FDI is higher than the average for the group of 16 Latin American countries for which information is available, measured using the Herfindahl index (optional link 2).

[21] Uruguay XXI (2019).

[22] Volpe et al. (2019): *La IED, encadenamientos y desempeño de las firmas domésticas. El caso de Uruguay* (presentation at Ridge, 2018).

[23] ANII indicators bulletin (2019).

[24] The typical Uruguayan company invests 1.27% of sales in innovation, far less than 3.67% invested by companies in OECD countries. (Country Development Challenge, 2019).

[25] These latter shortcomings are being addressed by the Business Innovation and Entrepreneurship Project (4329/OC-UR). Burkstein et al. (2018).

1.10 According to the World Economic Forum's Global Competitiveness Index (WEF/GCI, 2018), Uruguay, which ranks 70th out of 140 on that index, has a limited capacity for innovation, which decreases its potential for converging to the production frontier[26] and of absorbing the advantages of FDI. Although the country is well-positioned in terms of technology infrastructure,[27] it lags behind in companies' use of technology, ranking 90 out of 139 countries on the Networked Readiness Index. This further restricts its productivity and the technological sophistication of its exports, limiting knowledge-intensive and high productivity sectors and hampering access to sophisticated, larger markets.

1.11 **The importance of investment, trade, and innovation.** Trade and FDI can promote countries' economic growth through different channels. Trade can lead to productivity gains—resulting from productive firms' improved competitiveness and expansion—and increased capital accumulation, due to higher profitability in competitive sectors. At the level of firms, trade can increase productivity and innovation, since it facilitates access to knowledge, inputs, and an expanded market.[28]

1.12 Evidence shows that FDI plays a key role in the growth of developing economies, boosting capital stock while driving innovation through the transfer of technology and technical capacity, which redound to improved productivity.[29] FDI also provides access to international marketing networks that are key to the export process and critical to small, open economies like Uruguay's. The literature shows that linkages with multinational firms have a vertical spillover effect on domestic supplier companies, giving them an improved profile for and orientation to exporting.[30] However, market failures and friction mean that the benefits of FDI are not automatic. Thus, to maximize potential gains, policies that promote specific investments in accordance with the receptor country's characteristics and the type of investment are required.[31] According to the literature, investment-promoting incentives have proven to be effective in developing countries when they center on strategic sectors,[32] are implemented in activities with more potential for supply chains in the local economy,[33] are provided in the presence of conglomerates (maximizing their efficiency),[34] and when the business climate is attractive.[35]

[26] Uruguay is the country with the highest level of ICT adoption in the region, close to economies like China and Switzerland and ranked 12th out of 140 countries. However, this did not translate into greater innovation.

[27] Uruguay stands out due to its broad connectivity and Internet penetration. All told, 90% of households have access to fiber optics networks, which ensure rapid download speeds. It is the first country in the Latin America and the Caribbean region on Cisco's digital readiness ranking and in e-services, and it is a member of the Digital 9, the world leaders in digital government and development.

[28] Document GN-2715-6 (Integration and Trade Sector Framework Document).

[29] Alfaro et al. (2007) and Javorcik (2013).

[30] Aghion et al. (2009), Airtken et al. (1997), Greenaway et al. (2004), Hardin et al. (2012), Alfaro et al. (2009). Muendler et al. (2012), and Basvic (2011) conclude that FDI generates spillover through the turnover of highly qualified personnel and the creation of new businesses by employees of multinationals. Javorcik et al. (2009) note that companies that supply multinationals often have higher sales, more employees, are more capital intensive, and pay higher wages.

[31] Echandi, Krajcovicova, and Zhenwei (2015).

[32] Harding et al. (2011) show that, in the United States, targeted sectors received 155% more FDI.

[33] Blomstrom and Kokko (2003), Javorick and Spatareanu (2006).

[34] An increase of 10 multinational companies operating in a given location increases the probability that it will be chosen as a location by 1032%, since companies seek proximity with other foreign enterprises in the same industry and subsidies are critical for attracting them, especially in developing countries. Devereux et al. (2007).

[35] James (2013).

1.13 Uruguay has strong political and social stability as well as a reliable institutional framework,[36] all of which are determinants of FDI.[37] However, the most salient economic factors for attracting investment include the availability of factors of production and human capital, the capacity for technology absorption, local research and development efforts, sector-specific incentives,[38] access to markets, trade agreements,[39] and international investment agreements,[40] where there is still room for improvement.

1.14 Generally speaking, trade facilitation initiatives and the simplification of administrative procedures for trade flows, together with the resulting faster processing times, help increase and diversify trade.[41] Trade facilitation positively correlates with the FDI received.[42] Uruguay therefore has the opportunity to improve its international image and optimize the time required for foreign trade operations. The country is ranked 62nd out of 140 countries on the WEF's Global Competitiveness Index 2018.[43] Its main problems include excessive bureaucracy, slow and costly foreign trade procedures, difficulty identifying markets, limited capacity, and a lack of business innovation capacity. Uruguay is also ranked 66th out of 140 countries on the WEF's Enabling Trade Index 2016, below Pacific Alliance countries such as Chile (21st), Mexico (51st), and Peru (54th).[44]

1.15 There is robust evidence of the relationship between investment in innovation and productivity and economic growth.[45] Specifically, the empirical evidence based on the most recent survey of innovation activities in Uruguay suggests that innovation, productivity, and competitiveness form a virtuous circle. Comparison of Uruguayan companies that invested in innovation in the 2013-2015 period with ones that did not shows that the former have experienced higher growth in productivity (3.5%), exports (14%), sales (7.8%), and

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36 According to the WEF's Global Competitiveness Index 2018, Uruguay (together with Chile) leads the region in the institutional pillar (it is ranked 34th out of 140 countries). Furthermore, it ranks first in the region for political stability, according to the World Governance Indicators; rule of law, according to the World Justice Project, corruption perception, according to Transparency International; and full democracy, according to the Economist Intelligence Unit.

37 Campos and Kinoshita (2003), Kahai (2004), Bénassy-Quéré et al. (2005; 2007), Busse and Hefeker (2007), Daude and Stein (2007), Naudé and Krugell (2007), Ali et al. (2010), Biglaiser and Staats (2010).

38 Campos and Kinoshita (2002, 2003), Nonnenberg and Cardoso de Mendonça (2004), and Li and Park (2006).

39 Levy Yeyati et al. (2003), Medvedev (2012).

40 Neumayer et al. (2005), Falvery et al. (2017). Integration agreements, especially more extensive ones, tend to favor trade and investment. They are also associated with higher levels of FDI in the extensive and intensive margins. Mesquita (2018).

41 Volpe et al. (2015) conclude that shorter customs processing times are associated with increased imports and exports for Uruguayan firms.

42 Olofsdotter et al. (2013); Global Alliance for Trade Facilitation (2017).

43 And 85 of 140 economies on the Logistics Performance Index and 95 of 190 on the Ease of Doing Business Ranking (2019).

44 The Global Enabling Trade Report 2016.

45 Instruments that foster innovation are needed to address such issues as companies being unable to take full ownership of the benefits of innovation, information asymmetries in access to funding, and technological and business uncertainties associated with innovation and coordination failures.

employment (4.3%),[46] which should translate into increased public revenue.[47] However, coverage of business innovation instruments remains limited (9%),[48] meaning that they need to be strengthened and adapted to firms' changing needs.

1.16 In recent years, the Uruguayan government has implemented a set of reforms to modernize its institutions and policies on investment, trade facilitation, and innovation for the long term, strengthening the regulatory and institutional framework and generating specific instruments to efficiently promote it. Uruguay made progress in these areas under the first operation in this programmatic series (4430/OC-UR; optional link 1). To consolidate the achievements made to date and cushion the negative impacts of changes in the international economic context, the Uruguayan government has committed to furthering the development of second-generation reforms to more efficiently meet its increasing international obligations regarding compliance with trade facilitation, environmental stewardship,[49] and fiscal transparency[50] standards.

1.17 **Progress made on investment and pending challenges.** Under the first operation of this programmatic series (4430/OC-UR), the Uruguayan government has made significant reforms to modernize conditions for local and foreign investment, and to make its policies, objectives, and instruments comprehensive.[51]

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[46] These results are in line with the ones obtained in other similar assessments performed on other Latin American and Caribbean countries with levels of development and productive structures similar to Uruguay's. Country Development Challenge (2019) and optional link 7.

[47] This increase in government revenue should, in the medium term, balance out the resources invested in the instruments to foster business innovation. ANII's budget has remained stable over the past five years, tailoring the instruments around US$40 million. According to the ANII assessment of innovative enterprises (2017), US$19 come back as taxes for every dollar invested in innovative enterprises. Furthermore, the elasticity of the Uruguay tax authority's gross collections in response to changes in GDP averaged 1.15 from 2007 to 2013, meaning that any change in GDP leads to a bigger change in the authority's gross collection (Uruguay National Chamber of Commerce and Services, 2014).

[48] Fifty percent of innovative Korean companies are covered by some type of business innovation instrument. Uruguay invests 0.014 of a percentage point of its GDP in direct subsidies and tax incentives to foster innovation in companies, far less than Chile (0.020), Mexico (0.060), Brazil (0.110), and Korea (0.35). Country Development Challenge (2019).

[49] Although the relationship between trade and climate change is complex, countries like Uruguay have the potential to shift their export matrix towards products that are produced with fewer greenhouse gas emissions and for which there is still an attractive business niche (Cosbey, 2008). Environmental provisions have taken on importance in international trade instruments, as they curb the temptation for companies to move production facilities in member countries to other countries with less restrictive environmental regulations (Trade and environment, World Trade Organization).

[50] The Uruguayan government even committed to furthering additional reforms beyond the indicative commitments considered in the design stage of the first operation in the programmatic series (optional link 1).

[51] Uruguay has a system of special regimes for stimulating investment, notably: the Investment Promotion Act, duty-free zones, industrial parks, duty-free airports and ports, temporary admission system, public-private partnerships, and sector-specific arrangements.

1.18 As regards the institutional framework, Uruguay created the National System for Productive Transformation and Competitiveness (SNTPC, Law 19,472),[52] which represented a step forward in coordinating policies and instruments among the various government agencies responsible for international positioning, productive development, and innovation.[53]

1.19 With regard to investment promotion, Uruguay has notably adapted promotional regimes to foster investments with higher value added (Circular 1/16). The investment promotion system[54] for shared services centers was expanded, to encourage multinationals to locate in Uruguay for the provision of global services (Decrees 330/016 and 361/017). The Uruguayan government has signed and ratified a bilateral investment treaty with Japan (Law 19,470),[55] adding to the 35 investment promotion and protection agreements and five new double taxation agreements (Law 19,393, Law 19,403, Law 19,404, and Law 19,457), for a current total of 22.[56]

1.20 With regard to improving compliance with international standards of transparency and the international exchange of financial and tax information, Uruguay has maintained the policy it started more than a decade ago.[57] Under the first operation of this series, two new treaties were signed and three more ratified, for a total of fifteen tax information exchange treaties.[58] Uruguay's signing and ratification of the OECD Convention on Mutual Administrative Assistance in Tax Matters in 2016 signifies the country's closer alignment with policies on international tax transparency[59] and asset laundering prevention (Law 19,484). Uruguay has also modernized its regulatory framework for the implementation of public-private partnership initiatives (created by Law 18,786/011) through regulatory decrees to shorten timelines, streamline procedures (Decree 313/017), and promote projects (Decree 43/016) that increase investment in physical infrastructure. In this context, several public initiatives have been carried out for public-private partnership projects.

[52] Dated 23 December 2016. The SNTPC is made up of the Ministerial Cabinet for Productive Transformation and Competitiveness, Secretariat for Productive Transformation and Competitiveness, the advisory councils, National Development Agency, ANII, Uruguay XXI, the National Institute for Employment and Professional Training, National Cooperative Institute, National Development Corporation, National Climate Change Response System, National Agricultural Research Institute, and the Technological Laboratory of Uruguay. One of its aims is to steer the promotion of FDI towards ensuring the investment contributes as much as possible to the country's productive development objectives, emphasizing spillovers in technology, innovation, quality employment, and institutional capacity building.

[53] Effective, inclusive, and sustainable international positioning requires defining and implementing a trade and investment policy agenda focused on reducing the costs of trade, for which coordinated efforts on several fronts are needed. Empirical evidence suggests that there are complementarities among the programs for promoting innovation and the ones for promoting exports (Álvarez et al., 2014).

[54] Law 16,906, which created the Investment Act Enforcement Commission, for presenting investment projects and obtaining tax benefits and exemptions. In 2018, the regime supported projects by foreign companies (30%), principally Mexico, Chile, and France, in the food industry, trade, and telecommunications sectors.

[55] Uruguay continues to participate in the investment dispute resolution system administered by the International Centre for Settlement of Investment Disputes.

[56] In 2011, after Uruguay had signed agreements with 18 countries, the OECD took it off the grey list of countries that do not adhere to tax information exchange standards. Some of the double taxation agreements and tax information exchange agreements signed by Uruguay have not entered into force because the mechanisms established in the texts have not yet been verified (e.g. double taxation agreement with Paraguay and tax information exchange agreement with Brazil, both of which Uruguay has signed and ratified into law).

[57] Likewise, to continue improving its international perception and business climate, the country has made progress towards improving its defense of competition system, coming into line with international leaders.

[58] In 2015, Uruguay passed the Phase 2 review of the OECD Global Forum on Transparency.

[59] Facilitates the automatic sharing of information at the multilateral level without a prior legal order.

1.21 Uruguay is highly vulnerable to the impacts of climate change[60]—which is especially challenging for an agroexport country—but contributes only a low percentage of greenhouse gas emissions to the global total. In the past few years, Uruguay has modernized its regulatory and institutional frameworks to address climate change challenges. Under the first operation of the series, it created and regulated the National Secretariat for the Environment, Water, and Climate Change (Law 19,335 and Decree 172/2016), ratified the Paris Agreement (Law 19,439), approved the country's first nationally determined contribution (NDC)[61] (Decree 310/2017), and formulated its national policy on climate change.[62]

1.22 An impact assessment of the reforms implemented by the Uruguayan government in the 2013-2017 period and fostered by IDB programs (2920/OC-UR and 3418/OC-UR)[63] suggests that the average FDI stock was 7.2 percentage points higher than what it would have been without the policy reform program. That is to say, the relative improvements are at least partially due to the reforms that were implemented (optional link 5).

1.23 However, Uruguay still faces challenges to consolidating and implementing the reform process to prioritize investment flows directed at strategic productive sectors, which will make it possible for the country to close the productivity gap and strengthen its productive matrix. Specifically, the country will need to implement a mechanism for coordinating policies, institutions, and instruments for international positioning, innovation, and the business climate, to increase investment and improve the quality thereof,[64] while strengthening the strategy for promoting investments that foster the creation of supply chains, higher value added, employment, and exports (paragraph 1.12). The country will also need to make progress on updating the NDCs and implementing sector policies and action plans to incentivize the use of more efficient and sustainable technologies, to ensure access to more selective markets and position itself as a destination for environmentally responsible investments. Uruguay must also take action to continue expanding the coverage of agreements signed with important markets. For international fiscal transparency, the country must flesh out its legal framework with the necessary regulations on identifying company shareholders and the exchange of tax information, to bring it into line with international standards on asset laundering.

1.24 **Progress and pending challenges in trade.** Uruguay has gradually succeeded in establishing itself as a regional logistics hub. Its privileged location and promotional regimes offer a favorable climate for attracting investment to the regional market.

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60 With fragile ecosystems and urban areas prone to extreme events like droughts, floods, cold snaps and heat waves, heavy rains, and severe storms. According to climate scenarios for the next 50 years, Uruguay will likely face higher temperatures, increased annual precipitation, and more frequent and intense extreme weather events.

61 NDCs are the main instrument for compliance with the commitments taken on under the United Nations Framework Convention on Climate Change. Specifically, Uruguay commits to reduce, by 2025, carbon dioxide ($CO_2$) emissions by 24%, nitrous oxide ($N_2O$) emissions by 48%, and methane ($CH_4$) emissions by 57%, from 1990 levels, per unit of GDP.

62 A strategic and programmatic instrument prepared by the National Climate Change Response System, approved by the National Environmental Cabinet, and meant to strengthen Uruguay's visibility and international positioning with regard to climate change.

63 Like these reforms, the ones proposed in this programmatic series are designed to reduce the costs of investment and information and to improve the design of relevant public policies to amplify their effects.

64 This implies optimizing incentives, focusing efforts on high-potential sectors, improving the business climate, and adapting instruments.

1.25 In terms of trade liberalization, after a long period marked by very limited progress on signing free trade agreements, Uruguay recently took steps toward signing MERCOSUR-European Union Strategic Association Agreement. Uruguay will need to continue working to improve access to foreign markets by signing additional trade agreements.

1.26 The implementation of the one-stop window for foreign trade (VUCE), created by Law 19,149/013,[65] is noteworthy for trade facilitation and promotion. The VUCE optimizes and electronically consolidates information and documentation at a single point of access for all foreign trade procedures.[66] Since its inception, and under the first operation of the programmatic series, a number of government agencies and foreign trade operators have entered into agreements to implement processes through the VUCE platform. In addition, since enacting the new Customs Code pursuant to Law 19,276,[67] the Uruguayan government has made progress on multiple fronts in terms of customs procedures and in bringing the customs regime into line with MERCOSUR guidelines and international best practices, introducing tools for modernizing controls over customs operations, such as the authorized economic operators.[68] Furthermore, the entry into force of certain aspects of the customs regime was modified (Law 19,394). Uruguay also ratified the World Trade Organization Trade Facilitation Agreement[69] (Law 19,414), which entails the adoption of international best practices for trade facilitation. Lastly, an impact assessment of the trade facilitation reforms that were implemented under the programmatic series (2920/OC-UR, 3418/OC-UR)[70] shows that they reduced customs processing times for foreign trade operations and consequently helped boost the country's imports and exports[71] (optional link 6).

1.27 Despite this progress, Uruguay still faces significant trade integration challenges. Above all, it needs to focus on consolidating trade facilitation reforms, in line with the requirements of the Trade Facilitation Agreement,[72] to optimize market access by, among other actions, ratifying the pending free trade agreements, ensuring the VUCE's interoperability with its regional counterparts, adapting the requirements to facilitate the export procedure for micro, small, and medium-sized enterprises (MSMEs), and strengthening the regulatory customs regime.

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[65] The existing empirical evidence suggests that these types of trade facilitation initiatives have a significant, positive effect on imports and exports. Volpe (2016).

[66] In 2018, the VUCE processed 120 authorizations and certificates issued by 19 public bodies integrated into the platform. The weighted average approval time was 23.9 hours and the average cost saved is estimated to be US$20.10 (taking into account man-hours, paperwork, and transportation).

[67] Supported by operation 2920/OC-UR.

[68] There are currently 50 authorized economic operators—including exporters, importers, freight forwarders, customs brokers, depositaries, duty-free zone users, cargo terminals, port operators, duty-free zones and carriers—with shorter processing times and less frequent inspections of their shipments (National Customs Agency, 2018). Evidence shows that firms certified as authorized economic operators experience higher import and export growth. Carballo et al. (2016) and Volpe (2016).

[69] The Trade Facilitation Agreement and its annexation to the Protocol Amending the Marrakesh Agreement adopted on 27 November 2014.

[70] Like with these reforms, the main purpose of the ones to be implemented under this series is reducing the costs of trade.

[71] That is to say, the time needed in customs to perform the necessary controls on goods imports and exports decreased 25.6% and 23.4% respectively between 2012 and 2018, and the reforms led to an average increase in imports of 1.9% and in exports of 1.4%.

[72] Entered into force in February 2017.

1.28 **Progress and pending challenges in innovation.** The Uruguayan government has made several efforts to improve its performance in research, development, and innovation (R&D&I). Under the first operation of the programmatic series (IDB program 4430/OC-UR), the country enacted reforms to update the implementing regulations for the National Strategic Plan for Science, Technology, and Innovation (PENCTI).[73] The country also expanded its regime for promoting investments for innovation and technological development projects (Decree 330/016) and for matching foreign companies with local suppliers. It also promoted business innovation instruments out of the National Research and Innovation Agency (ANII), mainly focused on developing specialized human capital and the ties among academia, business, and government (this included the approval of two sector funds for technological innovation and numerous projects to promote the patenting of inventions). Furthermore, it modernized the specialized regulations on technology capacities to expand training for specialized human resources, approving five plans for specialized technology careers in specific productive areas at the Technological University of Uruguay (UTEC) and developing training programs and courses for scientists under the Program to Develop the Basic Sciences (PEDECIBA). These reforms were also furthered by other Bank programs (4329/OC-UR and 4658/OC-UR).

1.29 In this context, and given the acceleration and increasing complexity of technological change, business innovation models are being transformed; therefore, Uruguay must generate and adapt its incentives, making them more specific in order to promote investment in business R&D&I.[74] With respect to innovation, the country must continue to foster the creation of tools and programs that boost the impact of investment in development and promote synergy among the academic sector, productive sector, and FDI, as well as digital technology-based solutions, crucial to increasing the efficiency of processes and improving productivity[75] while expanding the base of innovative companies. In this respect, the redesign and implementation of supplier development instruments and programs (to foster linkages among local and foreign companies), international positioning of MSMEs (allowing them to incorporate capacities and operate in foreign markets), support for incubating enterprises, scholarships (oriented towards companies' needs), and incentives for co-investment in innovative enterprises are extremely important to encouraging business innovation, as are sector funds that improve the production-related applicability of the knowledge generated[76] (paragraph 1.15). These instruments must be easily accessible—through platforms—and address the challenges that companies face.[77]

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[73] The PENCTI establishes the country's strategic vision and principal objectives in science, technology, and innovation, with the aim of training talent in the medium and long term with instruments that bring together academia, business, and the government.

[74] Optional link 7.

[75] The McKinsey Global Institute (2017) estimates that the adoption of artificial intelligence-based technologies can generate an annual productivity gain of 0.8% to 1.4%.

[76] An assessment conducted by the María Viñas Fund found that around 40% of projects had social and productive uses, and the remaining projects needed additional support or resources to make progress to that end (ANII, 2016). Therefore, the application forms for these projects must include strategies for transferring the knowledge generated to the productive sector.

[77] Although ANII instruments have shown to have a positive impact, leveraging the companies' investment in R&D by an average of 230% more than in nonbeneficiary companies (optional link 7), the lessons learned—in particular the importance of the instruments meeting companies' innovation needs, from generating capacities to developing prototypes and introducing them to the market—must be incorporated in the process of redesigning the instruments.

1.30 Public policy for investment and trade could lead to greater business innovation through access to a wider market and better channels for technology transfer. Innovation policies can also lead to smarter international positioning through efficient coordination among businesses, academia, and government, and among local and foreign companies. This will require specific instruments designed to improve technological capacities and promote the incorporation of specialized human resources in businesses.

1.31 **Program rationale.** In a country with a small domestic market, a structurally limited productive base, and predominantly short value chains, attracting investment and achieving international positioning require effective, modern policies to draw potential investors and facilitate trade.[78] In turn, to maximize the impact of investments, Uruguay must bolster innovation and technological capacities, thus helping to develop skills, disseminate knowledge, and strengthen the academia-business-government relationship. This strategy will make it possible to: (i) increase investment flows; (ii) improve the export profile; and (iii) enhance the innovation of Uruguayan businesses.

1.32 In this context, the program strategy is to act simultaneously on a set of crosscutting factors aimed primarily at improving interagency coordination and adopting international best practices in investment, trade, and innovation. This will be complemented with specific actions to boost investment and promote trade facilitation, as well as to improve innovation in businesses and technology absorption as effective mechanisms for attracting investment and maximizing its impact within the economy. These reforms will help close gaps in the current and concentrated investment profile, moving Uruguay gradually toward a more diversified economy in which FDI serves as a catalyst. The program strikes a good balance between policymaking and policy implementation, creating a framework conducive to addressing the challenges that Uruguay faces in making coordinated progress towards promoting investment, international positioning, and innovation.

1.33 **Program beneficiaries.** The program's direct beneficiaries are businesses in economic sectors that receive the greatest FDI flows, and businesses that are internationalizing. Export companies and companies that invest in R&D&I will also directly benefit.[79]

1.34 **Coordination with other Bank projects.** This program is part of the comprehensive support for investment, trade, and innovation that the Bank has been providing to the Uruguayan government. This means that extensive knowledge is available on the type of reforms to be implemented and on synergies with other Bank initiatives. The following programs are particularly noteworthy: (i) with regard to promoting investment: the Program for Strategic International Positioning (2920/OC-UR, 3365/OC-UR, and 3418/OC-UR); the Program to Support Global Export Services (2590/OC-UR); and Uruguay Global: Promoting Digital Skills for Internationalization (4658/OC-UR), which promotes Uruguay's international positioning, the generation of local capacity, the alignment of the public-private promotion strategy with the proposed improvements to the regulatory framework and business environment in order to help attract investment in the global services sector; (ii) with regard to climate change: Support for the Institutional Strengthening of the National Secretariat for the Environment, Water, and Climate Change (ATN/OC-15788-UR); and the support of NDC Invest for developing studies that will make it possible to foster synergies with the

78 See Kats (2012).

79 According to the impact assessment of ANII business innovation instruments (optional link 7), the companies that most invest in R&D are concentrated in innovation-intensive sectors (67% in ICTs and the chemical and food industries) and are mostly micro and small-sized (60%), medium-sized (23%), and large enterprises (13%), with the remaining percentage unclassified (optional link 10).

private sector in connection with the NDCs (ATN/MC-15367-RG); and (iii) with regard to innovation: the Business Innovation and Entrepreneurship Project I and II (4329/OC-UR), which focuses on early financing for innovation and the supply of advanced human capital; the Innovation Program for Productive Development (3315/OC-UR), which supports innovation projects in export sectors or sectors with high export potential.

1.35 **Lessons learned.** The program incorporates the lessons learned from the aforementioned operations on the execution of policy-reform initiatives, strategic coordination with multiple actors, and measures with a high reform impact. These lessons include: (i) from the Program to Support Global Export Services (2590/OC-UR), the need to have policies promoting investments targeted to high-value-added sectors, and for those policies to comply with international requirements; (ii) from the Business Innovation and Entrepreneurship Project (4329/OC-UR), the importance of prioritizing projects that encourage ties between foreign companies and local suppliers, as well as the need to modernize regulations for developing technological capacities and specialized human resources through international cooperation agreements for scholarships for postgraduate study abroad in strategic areas adapted to the needs of the business sector; and with regard to the sector funds, the importance of the ANII holding ongoing dialogues with sector bodies such as ministries, agencies, and institutes, with specific thematic agendas to promote multisector collaboration and address priority sector issues through more specific and relevant instruments.

1.36 **The Bank's additionality.** The Bank has been supporting the Uruguayan government in developing the reforms included in this program through the first operation of the programmatic series, whose objective was to modernize policies and institutions with regard to investment, trade facilitation, and innovation in the medium term, focusing on strengthening the regulatory and institutional framework and generating specific instruments for promoting it. The first operation made it possible for the Bank to develop an ongoing dialogue with the Uruguayan government, capturing the medium- and long-term nature of the country's efforts to reform policy and fostering implementation through the actions taken and new knowledge acquired during execution. This program complements and coordinates a number of IDB Group investment programs and technical-cooperation operations now in execution and closing, as it seeks to boost the impact of the interventions as a whole. The Bank thus contributes its regional experience in policy reforms for modernizing the regulatory and institutional framework to promote investment, trade, and innovation. Meanwhile, the coordination of actions in different sectors has helped make investment and foreign trade policy more comprehensive, which is also a fundamental milestone towards mainstreaming the climate agenda. This coordination between policy reform instruments and investment and technical cooperation programs makes it possible to implement mechanisms to capitalize on the opportunities created by the promoted policy reforms. It also makes it possible to enhance the operation's impact through the implementation of the country strategy with Uruguay, provided that the strategic approach allows for maximizing the synergy of the various financing modalities. For example, the business innovation support instruments introduced by the ANII through operation 4329/OC-UR will leverage private investment that benefits from the implementation of instruments for coordinating business, academia, and FDI like the ones proposed herein. Moreover, through this

programmatic series, the Bank will generate evidence from quasi-experimental evaluations of the impact of the policy reforms on FDI[80] and investment in innovation.

1.37 **Strategic alignment.** The operation was included in the 2019 Operational Program Report (document GN-2948) and is aligned with the IDB Country Strategy with Uruguay 2016-2020 (document GN-2836) under the strategic pillar of productivity and competitiveness—insofar as it provides support for the policy of integrated and comprehensive international positioning and for promoting innovation—as well as with the priority areas of integrated and coordinated international positioning and promotion of innovation; and the strategic objectives of diversifying export markets and promoting business innovation. The operation is aligned with the Update to the Institutional Strategy 2010-2020 (document AB-3008) inasmuch as it contributes to the challenge of: (i) economic integration, by promoting international positioning through the signing of treaties to promote investment and trade; and (ii) productivity and innovation, by facilitating financing for investment in business R&D&I. It is also aligned with the crosscutting themes of: (i) climate change and environmental sustainability, by promoting the climate change mitigation and adaptation policies set out in the country's NDC. Approximately 7.14% of the operation's resources are allocated for policies that promote climate change adaptation and mitigation measures, in accordance with the multilateral development banks' joint methodology for tracking climate finance. These resources contribute to the IDB Group target of increasing climate finance lending to 30% of its approvals by year-end 2020.[81] Moreover, the operation is aligned with the crosscutting theme of (ii) institutional capacity and the rule of law, by promoting measures to consolidate and modernized the institutional and regulatory framework of investment and trade. In addition, the program contributes to the indicators of the Corporate Results Framework 2016-2019 (document GN-2727-6), in particular to MSMEs financed; regional, subregional, and extraregional integration agreements and cooperation initiatives supported; and public agencies' processing times of international trade of goods and services. The program will contribute to the Sector Strategy to Support Competitive Regional and Global Integration (document GN-2565-4), and it is consistent with the Integration and Trade Sector Framework Document (document GN-2715-6), specifically with the need for programs and policies to attract investment and facilitate trade, as well as policies in support of national systemic competitiveness. It is also consistent with the guidelines for updating the Innovation, Science, and Technology Sector Framework Document (document GN-2791-8), with regard to the business climate for private-sector development.

## B. Objectives, components, and cost

1.38 The program's general objective is to modernize the regulatory and institutional framework for investment, trade, and innovation in order to consolidate sustainable economic growth in Uruguay. The specific objectives are to: (i) boost investment and international trade by modernizing the regulatory and institutional framework for investment and trade; and (ii) strengthen incentives for investment in innovation. To achieve these objectives, the program includes the following components:

1.39 **Component I. Macroeconomic sustainability.** This component aims to ensure a macroeconomic environment consistent with program objectives and the policy letter.

80 No examples analyzing the impact of programs or policies on the FDI received by a Latin American or Caribbean country have been found in the literature. Thus, the use of a synthetic control group in the analysis for Uruguay constitutes a methodological contribution.

81 2018 Joint Report on Multilateral Development Banks Climate Finance.

1.40 **Component II. Modernization of the regulatory and institutional framework for investment and trade.** This component aims to consolidate a process of wide-ranging sector regulatory reforms to help modernize the overall policy framework for investment and trade. It includes the following reforms: (i) approval and implementation of the institutional structure that will manage the SNTPC, to promote the coordination of the investment, trade, and innovation policies; (ii) strengthening of the regime for promoting investment to attract investment projects with high value added, aligning the level of private investment with the country's development objectives and the generation of supply chains; (iii) establishment of programmatic instruments that adopt the international best practices for mitigating and adapting to climate change planned in the first NDC, and approval of a strategy to implement Uruguay's Paris Agreement NDC; (iv) signing and ratification of an investment agreement with MERCOSUR; (v) legislative ratification of the free trade agreement signed with the Republic of Chile; (vi) legislative ratification and entry into force of a double taxation agreement, and expansion of the double taxation agreement system in Uruguay; (vii) legislative ratification of at least one tax information exchange agreement; (viii) implementation of regulations on identifying the shareholders of corporations and/or on the exchange of tax information, and approval of a legal instrument and regulations to strengthen the institutional framework for preventing asset laundering and the corresponding obligations of the parties; (ix) approval of basic guidelines for implementation of a plan for interoperability with other VUCEs in the region; expansion of the use of the VUCE in collaboration with the various stakeholders in the foreign trade community; expansion of the use of the consolidated customs document and the authorized economic operators system; implementation of the use of a digital certificate of origin, and creation of a special regime to facilitate the export process for micro, small, and medium-sized enterprises; (x) strengthening of Customs Code regulations with a focus on implementation of special regimes, and design of an innovative framework to incentivize special trade facilitation regimes through the VUCE; and (xii) adoption of technical recommendations related to trade facilitation promoted by the World Trade Organization.[82] Although some conditions of this component were modified from the indicative commitments planned for this second operation of the programmatic series, with the aim of making them more precise and to incorporate recent regulatory and institutional advancements on investment and trade, this only enhanced the originally proposed conditions, and the scope of the objectives and the expected results were not affected (optional link 1).

1.41 **Component III. Modernization of incentives for productive innovation.** The objective of this component is to modernize the framework of incentives for investment in innovation, making it possible to develop local capacity and optimize its impact on the national economy. The following reforms will be fostered: (i) updating of targets in the framework of the management agreement between the Executive Branch and the ANII; (ii) approval of tools to provide public goods for competitiveness and to promote territorial competitiveness; (iii) development of the internationalization program for small and medium-sized exporting enterprises; (iv) redesign of the instrument to support the business incubator platform; (v) redesign of scholarship programs to orient them to the needs of business; (vi) development of an instrument for projects to install or improve capacity for innovation in businesses—management of innovation or placement of specialized human resources; (vii) implementation of the instrument for incentives for co-investment in innovative startups; (viii) launch of the instrument for patenting inventions, which promotes protection of the

[82] These measures complement the trade facilitation efforts made by the government to date described in paragraph 1.26.

results of research and development performed by companies or public and private institutions; (ix) expansion of the sector funds instrument to bolster engagement among academia, the productive sector, and FDI;[83] and (x) expansion of the UTEC's educational offerings and geographical coverage. The launch of the instrument for patenting inventions and the expansion of the sector funds instrument were added as program commitments in this second operation, bolstering the creation of specific instruments for promoting business through academia-business-government ties. This strengthened the condition and did not affect the scope of the objectives or the expected results (optional link 1).

1.42 These reforms will be implemented using public instruments such as laws, decrees, agreements, regulations, agendas, circulars, or other analogous measures. Each reform, depending on the area involved, has an entity responsible for its approval (Executive Branch, ANII, National Development Agency, Uruguay XXI, UTEC), as described in the means of verification matrix (required link 2).

## C. Key results indicators

1.43 The results matrix (Annex III) serves as the framework for measuring the program's development effectiveness. The outputs listed in this matrix replicate the structure of the policy matrix (Annex II), which is aligned with the program's specific development objectives.

1.44 The impact indicators are the: (i) FDI growth rate; and (ii) increase in private investment in innovation. Fulfillment of the program's outputs for strengthening the regulatory and institutional framework for investment and trade policies will help achieve the expected outcome indicators, increase in number of foreign companies operating in the country, and increase in the number of export firms. In turn, fulfillment of the program's outputs for modernizing the framework of incentives for innovation and technology absorption will encourage growth of the investment leveraged by the companies that access the innovation instruments. These results are consistent with those of the first operation in the programmatic series.

1.45 **Economic analysis.** Based on the recommendations of the Office of Evaluation and Oversight (OVE) made in its 2011 Evaluability Review of Bank Projects[84] and on the results of the review of evaluation practices and standards for policy-based lending conducted by the Evaluation Cooperation Group (made up of the independent evaluation offices of the multilateral development banks)[85] set forth in paragraph 2.6 of document GN-2489-10 (Update to the Development Effectiveness Framework for Sovereign Guaranteed Operations), which indicates, *inter alia*, that it is not necessary to include an analysis of efficiency in the use of financial resources,[86] it was decided that an economic analysis would not be performed for this type of loan, as reported to the Board of Executive Directors. Accordingly, this operation does not include an economic analysis, and thus none was used

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[83] The aforementioned instruments operate through an open window in which companies can apply for partial subsidies (all require a counterpart percentage from the beneficiary companies).

[84] Document RE-397-1: "Currently, [the] Economic Analysis section is computed as the maximum between the [cost/benefit analysis] and the [cost-effectiveness analysis]. Yet neither a [cost-benefit analysis] nor a [cost-effectiveness analysis] is applicable to [policy-based loans]."

[85] Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group (2012).

[86] According to the Evaluation Cooperation Group, policy-based loans must be evaluated according to their relevance, effectiveness, and sustainability. Efficiency is not included as a criterion, since policy-based loan amounts are tied to the country's financing needs, independent of the project benefits.

for the purposes of determining the program's development effectiveness matrix evaluability score.

# II. FINANCING STRUCTURE AND MAIN RISKS

## A. Financing instruments

2.1 This is the second in a series of two consecutive loan operations that are technically linked but financed independently under the programmatic policy-based loan modality, in accordance with the updated guidelines for preparing and implementing policy-based loans (document CS-3633-2). The program also follows the guidelines of the New Lending Framework (document GN-2200-13) and the Proposal to Establish a Set of Contingent Lending Instruments of the IDB (document GN-2667-2). This modality, as an instrument to support sector reforms and institutional and regulatory changes, was selected for its effectiveness in addressing policy challenges and for the experience provided by the Bank for the agenda of policy reforms that the Ministry of Economy and Finance has been implementing since the previous administration. This modality also strengthens the dialogue between the Bank and the Uruguayan government by reflecting the medium- to long-term nature of the country's policy reform efforts. The programmatic policy-based loan modality has encouraged the implementation of policy reforms on the basis of ongoing developments and new knowledge gained during execution.

2.2 The cost of this second operation is US$250 million, charged to the Single Currency Facility of the Bank's Ordinary Capital. This and the previous operation use the deferred drawdown option.[87] Under this option, the country has still not made the disbursement of the first operation effective. This modality makes it possible to facilitate policy dialogue between the country and the Bank, and to offer the timelines necessary for implementing the reforms. Bank experience with other policy-based programs, such as the Program for Strategic International Positioning, also implemented under the deferred drawdown option, illustrates the advantages of this financing instrument in terms of giving countries access to resources and allowing them to choose the best time to use them, while making it possible to modify the reforms based on prior operations. The use of this instrument, which functions like an insurance policy, is fully consistent with the Uruguayan government's debt management policy, characterized by the precautionary diversification of financing sources. This gives the country financing at sustainable costs, especially during times of regional and international financial volatility.

[87] With a disbursement period of up to three years (document GN-2667-2).

2.3 The scaling of the program is consistent with the criteria set forth in document CS-3633-2 (paragraph 3.27(b): "fiscal resource needs experienced by a country in a broad sense"). The borrowing needs of the NFPS,[88] in a base case similar to the one used by the IMF, are expected to reach an annual average of US$4.088 billion between 2019 and 2023, or approximately 6.1% of GDP. This second operation represents 6.1% of the financing needs of the NFPS for an average year between 2019 and 2023, and 13% of the average annual fiscal deficit in the 2019-2023 period (optional link 8).

## B. Environmental and social risks

2.4 In accordance with Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), and in view of the results of the safeguard policy filter, this operation does not require classification. No environmental or social risks are associated with the program. The program does not finance physical investments, nor does it entail activities with negative repercussions on natural resources.

## C. Fiduciary risks

2.5 The operation does not entail risks for financial execution, as the technical conditions for disbursement will have been substantially fulfilled before it is submitted to the Bank's Board of Executive Directors. The proposed financial instrument provides fungible resources that are not tied to specific expenditures. As a result, the operation is deemed not to entail fiduciary risks, as the borrower, which will be receiving the resources, has sound country systems in place for financial management.

## D. Other risks

2.6 Two macroeconomic and fiscal sustainability risks were identified: (i) decreased capital inflows due to external factors; and (ii) a more compromised fiscal situation. These risks are mitigated by the measures to stimulate investment and employment taken by the Uruguayan government and promoted by this program, which are associated with the policy for attracting investment and the precautionary debt management policy.

# III. IMPLEMENTATION AND MANAGEMENT PLAN

## A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower is the Eastern Republic of Uruguay, and the executing agency is the Eastern Republic of Uruguay, acting through the Ministry of Economy and Finance. The executing agency will have the following responsibilities: (i) coordinate the entities responsible for adopting measures or for the technical execution of activities; (ii) monitor activities for this operation; (iii) provide evidence that the policy commitments have been fulfilled; (iv) mitigate risks and effectively resolve any problems

[88] Annual borrowing requirements are defined as the fiscal deficit projected by the IMF plus amortizations for the year. The assumption is that the Uruguayan government will cover these needs by issuing new debt (for which the payment of new interest and amortizations is simulated), borrowing from multilateral agencies, and, to a lesser extent, drawing on international reserves. For the first time ever, the Uruguayan government issued, in 2017, two global bonds in local currency for a total of US$2.350 billion at rates of around 8%; in 2018, a global bond in dollars for US$1.750 billion maturing in 2055 at an annual rate of around 5%; and in January 2019, a dollar-denominated bond for US$1.250 billion. It also has extensive international reserves (US$16.400 billion, representing 28% of GDP), and contingent credit lines for US$2.425 billion, of which US$800 million (33%) are with the IDB and the rest with the World Bank (US$260 million), Development Bank of Latin America (US$750 million), and the Latin American Reserve Fund (approximately US$470 million).

arising during program execution; and (v) once each operation has been disbursed, gather information on performance indicators in order to evaluate program results.

3.2 To coordinate the various entities involved, the executing agency will centralize information related to the various program activities in the Ministry of Economy and Finance's Office for Multilateral Institutions. It will also create venues for dialogue to ensure strategic coordination of the program's stakeholders, activities, and policies.

3.3 **Special contractual conditions precedent to the first disbursement of the loan: The disbursement of the Bank loan proceeds, made at the request of the borrower, will be subject to the fulfillment of the policy reform measures described in the program components and set forth in the policy matrix (Annex II) and the policy letter, in addition to other conditions set forth in the loan contract.** Fulfillment of these conditions will be verified using the instruments identified in the policy matrix (Annex II), the means of verification matrix (required link 2), and the monitoring and evaluation plan (required link 3).

## B. Summary of results monitoring arrangements

3.4 The program's monitoring and evaluation plan (required link 3) is based on the indicators and targets specified in the following instruments: (i) policy matrix (Annex II); (ii) means of verification matrix (required link 2); and (iii) results matrix (Annex III). These instruments set forth the key parameters for monitoring and evaluating program results. The executing agency will be responsible for monitoring and following up on the outcomes of the operation, in coordination with the Bank. It will provide the Bank with all the information necessary to measure the progress and completion of the operation.

3.5 For monitoring purposes, the program will use data from the country statistics system provided by the Central Bank of Uruguay. Data provided by the National Customs Bureau (DNA) and the ANII will also be used.

3.6 The regulatory and institutional reforms called for in the program will constitute a policy intervention at the national level and consequently will affect the economy as a whole. To evaluate the operation's impact on investment and trade, the possibility of using the synthetic control method will be considered. This method entails using a combination of countries without similar reforms as a control group for comparative purposes. The effects of the reforms are identified by comparing the actual performance of the economy subject to intervention in the areas of interest against the counterfactual performance shown by the synthetic control group. For reforms with clearly defined groups of beneficiaries (like trade) and subject to verification of applicability, alternative methods such as the difference-in-differences method, or a combination of difference-in-differences and matching, will be used. To evaluate the intervention's impact on innovation, quasi-experimental difference-in-differences methods will be used with statistical pairing at the baseline, comparing increased investment in innovation and work productivity of businesses supported with the new instruments against a control group of similar businesses (required link 3).

# IV. POLICY LETTER

4.1 The Uruguayan government and the Bank agreed on the policy commitments that this program will support. These commitments are reflected in the policy matrix (Annex II), the results matrix (Annex III), and the policy letter sent by the Ministry of Economy and Finance to the Bank, confirming the course of this policy and the commitments assumed under the program.

| Development Effectiveness Matrix | | |
|---|---|---|
| **Summary** | **UR-L1156** | |
| *I. Corporate and Country Priorities* | | |
| **1. IDB Development Objectives** | | |
| **Development Challenges & Cross-cutting Themes** | **-Productivity and Innovation<br>-Economic Integration<br>-Climate Change and Environmental Sustainability<br>-Institutional Capacity and the Rule of Law** | |
| **Country Development Results Indicators** | **-Micro / small / medium enterprises financed (#)*<br>-Micro / small / medium enterprises provided with non-financial support (#)*<br>-Regional, sub-regional and extra-regional integration agreements and cooperation initiatives supported (#)*<br>-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*<br>-Business environment reforms enacted (#)*<br>-Projects supporting innovation ecosystems (#)*<br>-Amount of international trade promoted (US$)*<br>-Companies supported in innovation activities (#)*<br>-Amount of FDI promoted (US$)*** | |
| **2. Country Development Objectives** | | |
| **Country Strategy Results Matrix** | **GN-2836** | **GN-2836 y párrafo 1.37 del POD** |
| **Country Program Results Matrix** | **GN-2948** | **The intervention is included in the 2019 Operational Program.** |
| **Relevance of this project to country development challenges (If not aligned to country strategy or country program)** | | **Parrafo 1.37** |
| *II. Development Outcomes - Evaluability* | | **Evaluable** |
| **3. Evidence-based Assessment & Solution** | **9.4** | |
| **3.1 Program Diagnosis** | **2.4** | |
| **3.2 Proposed Interventions or Solutions** | **4.0** | |
| **3.3 Results Matrix Quality** | **3.0** | |
| **4. Ex ante Economic Analysis** | **N/A** | |
| **5. Monitoring and Evaluation** | **9.3** | |
| **5.1 Monitoring Mechanisms** | **2.5** | |
| **5.2 Evaluation Plan** | **6.8** | |
| *III. Risks & Mitigation Monitoring Matrix* | | |
| **Overall risks rate = magnitude of risks*likelihood** | **Low** | |
| **Identified risks have been rated for magnitude and likelihood** | **Yes** | |
| **Mitigation measures have been identified for major risks** | **Yes** | |
| **Mitigation measures have indicators for tracking their implementation** | **Yes** | |
| **Environmental & social risk classification** | **B.13** | |
| *IV. IDB´s Role - Additionality* | | |
| **The project relies on the use of country systems** | | |
| Fiduciary (VPC/FMP Criteria) | **Yes** | **Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.** |
| Non-Fiduciary | **Yes** | **Statistics National System.** |
| **The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:** | | |
| **Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project** | | |

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

***The project "Program for the modernization of the investment, trade and innovation framework II (UR-L1156)" is the second operation in a programmatic policy-based loan series that has, as a general objective, the modernization of the normative-institutional framework for investment, trade and innovation, in order to consolidate sustainable economic growth in Uruguay. The specific objectives are: (i) to increase investment and international trade through the modernization of the normative institutional framework for investment and trade; and (ii) the strengthening of incentives for investment in innovation.***

***The project identifies the high degree of concentration of exports and investment, as well as low levels of investment and innovation as the key problems that it will attempt to address, with the aim of attaining sustainable growth. In order to do so, the program relies on three components, which focus on maintaining macroeconomic stability, reforming the relevant normative and institutional framework, and improving incentives for innovation. However, in some cases there is a lack of quantification of the determinants of some of the identified problems and of the beneficiaries. The program has SMART indicators to measure the expected impacts and results, as well as to monitor the implementation of the products to be generated during the program.***

***Given the lack of relevant evidence for the effectiveness of this type of programs in the region, and the government's desire to conduct an evaluation with attribution, the project includes an impact evaluation for components II and III based on a non-experimental methodology. However, a more detailed explanation of the methodology, in particular for one of the components, is needed. The M & E plan provides the financial costs associated with each of the products and includes a budget to monitor all the indicators.***

# POLICY MATRIX

**Objective:** The program's general objective is to modernize the regulatory and institutional framework for investment, trade, and innovation with a view to consolidating sustainable economic growth in Uruguay.

| Components/policy objectives | Policy conditions – Tranche II | Status of fulfillment – Tranche II* conditions |
|---|---|---|
| **Component I. Macroeconomic sustainability** | | |
| Stable macroeconomic framework for promoting investment and exports | 1. Maintenance of a macroeconomic policy framework consistent with program objectives and the guidelines set forth in the sector policy letter | Fulfilled |
| **Component II. Modernization of the regulatory and institutional framework for investment and trade (international positioning)** | | |
| Adaptation of the institutional framework to coordinate and optimize the functioning of government entities for productivity, investment, trade, development, and innovation | 2. Approval and launch of the institutional structure that will manage the National Plan for Productive Transformation and Competitiveness (SNTPC) | Fulfilled<br>(first quarter, 2019) |
| Promotion of investments in high value-added sectors | 3. Sector-based strengthening of the investment-promotion regime, by aligning the level of private investment with Uruguay's development objectives and/or including criteria for developing supply chains | Fulfilled<br>(fourth quarter, 2018) |
| Promotion of a state-of-the-art climate change policy that positions Uruguay as a destination for environmentally responsible investments | 4.1 Establishment of programmatic instruments that follow international best practices in climate change mitigation and adaptation as described in the nationally determined contribution (NDC – implementation of the NDC), focusing on:<br>4.1.1 Climate change adaptation measures and plans, pursuant to Article 7 of the Paris Agreement on adaptation commitments and the NDC<br>4.1.2 Alignment of the legal framework with international instruments for environmental conservation | Fulfilled<br>(third quarter, 2018) |
| | 4.2 Approval of a strategy for implementing Uruguay's first NDC under the Paris Agreement presented to the United Nations Framework Convention on Climate Change | Fulfilled<br>(fourth quarter, 2018) |
| Attraction of FDI through the receiving State's commitment to uphold international levels of protection and nondiscrimination toward investors from third countries | 5. Signing and ratification of investment agreement with MERCOSUR | Fulfilled<br>(third quarter, 2018) |
| Attraction of FDI through access to tariff-free foreign markets from Uruguay, on the basis of free trade agreements | 6. Legislative ratification of the free trade agreement signed with the Republic of Chile | Fulfilled<br>(fourth quarter, 2018) |

| Components/policy objectives | Policy conditions – Tranche II | Status of fulfillment – Tranche II* conditions |
|---|---|---|
| Attraction of investment due to the opportunity to deduct taxes paid in Uruguay in the country of origin, even if the project receives tax exemptions in Uruguay under the promotion regime | 7.1 Legislative ratification and entry into force of the double taxation agreement with the Republic of Chile | Fulfilled (fourth quarter, 2017) |
| | 7.2 Expansion of arrangements for double taxation agreements in Uruguay | Fulfilled (fourth quarter, 2018) |
| Attraction of investment due to the possibility of streamlining the taxation process | 8. Legislative ratification of at least one tax information exchange agreement | Fulfilled (fourth quarter, 2017) |
| Improve the investment climate by through greater international fiscal transparency | 9.1 Implementation of regulations on identifying the shareholders of corporations and/or on the exchange of tax information | Fulfilled (fourth quarter, 2018) |
| | 9.2 Approve legal instrument and regulations to strengthen the institutional framework for preventing asset laundering and the corresponding obligations of the parties | Fulfilled (fourth quarter, 2018) |
| Simplify procedures and requirements for importing and exporting goods, as well as for clearing goods through customs | 10.1 Approval of basic guidelines for implementation of a plan for interoperability with other one-stop windows for foreign trade (VUCEs) in the region | Fulfilled (first quarter, 2019) |
| | 10.2 Make progress on using the VUCE in collaboration with the various actors in the foreign trade community | Fulfilled (fourth quarter, 2018) |
| | 10.3 Adapt requirements for facilitating export procedures for micro and small enterprises, lowering barriers for them | Fulfilled (second quarter, 2019) |
| Optimize customs regulations, by eliminating regulatory inefficiencies, facilitating intraregional trade, and moving toward greater regional integration of trade | 11.1 Strengthening of the Customs Code regulatory regime with a focus on implementing special regimes: (a) Expand use of the consolidated customs document; (b) Implement the use of the digital certificate of origin; (c) Expand the authorized economic operators system. | Fulfilled (fourth quarter, 2018) |
| | 11.2 Design of an innovative framework to incentivize special trade facilitation regimes through the VUCE | Fulfilled (third quarter, 2018) |
| Bring local regulations into line with international trade facilitation agreements | 12. Adoption of technical recommendations on trade facilitation promoted by the World Trade Organization, focused on the ratification of customs cooperation agreements | Fulfilled (fourth quarter, 2018) |
| **Component III. Modernization of incentives for productive innovation** | | |
| Promote the impact of investment on national development | 13.1 Updating targets in the management agreement between the executive branch and the National Research and Innovation Agency (ANII) | Fulfilled (first quarter, 2018) |
| | 13.2 Approval of tools to provide public goods for competitiveness and to promote territorial competitiveness | Fulfilled (second quarter, 2019) |
| | 13.3 Development of the internationalization program for export firms | Fulfilled (first quarter, 2019) |

| Components/policy objectives | Policy conditions – Tranche II | Status of fulfillment – Tranche II* conditions |
|---|---|---|
| Promote synergies between academia, local industry, and FDI | 14.1 Redesign of the instrument to support the business incubation platform | Fulfilled (fourth quarter, 2018) |
| | 14.2 Redesign of scholarship programs to orient them to the needs of business | Fulfilled (fourth quarter, 2018) |
| | 14.3 Development of an innovation management instrument for businesses | Fulfilled (fourth quarter, 2017) |
| | 14.4 Implementation of the instrument to incentivize co-investment in innovative startups | Fulfilled (fourth quarter, 2018) |
| | 14.5 Launch of the instrument for patenting inventions, which helps protect the findings of research and development performed by companies or public and private institutions | Fulfilled (first quarter, 2018) |
| | 14.6 Expansion of the sector funds instrument to foster the relationship among academia, the productive sector, and FDI | Fulfilled (fourth quarter, 2018) |
| Strengthen the regulatory framework for developing technological capacities | 15. Expansion of educational offerings and/or geographical coverage of the Universidad Tecnológica del Uruguay (UTEC) | Fulfilled (third quarter, 2018) |

* This information is merely indicative as of the publication date of this document. In accordance with document GN-3633-2 (Policy-based Loans: Guidelines for Preparation and Implementation), compliance with all of the conditions specified for disbursement, including the maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank at the time of the borrowers' request for the corresponding disbursement and will be appropriately reflected in the disbursement eligibility determination memorandum.

# RESULTS MATRIX

| | |
|---|---|
| **Program objective:** | The program's general objective is to modernize the regulatory and institutional framework for investment, trade, and innovation with a view to consolidating sustainable economic growth in Uruguay. Its specific objectives are to: (i) increase investment and international trade by modernizing the regulatory and institutional framework for investment and trade; and (ii) strengthen incentives for investment in innovation. |

## EXPECTED IMPACT

| Indicators | Unit of measurement | Baseline | | Final target | | Source/means of verification | Comments |
|---|---|---|---|---|---|---|---|
| | | Value | Year | Value | Year | | |
| Average foreign direct investment (FDI) growth rate for the past five years compared with comparator group of countries (as weighted in the synthetic control group) | Ratio of Uruguay's cumulative average growth rate to the weighted average growth rate of the comparison group countries | 0.42 | 2013-2017 | 1 | 2018-2022 | Central Bank of Uruguay<br>National Accounts Report | The ratio compares the cumulative average growth rate of FDI for the past five years in Uruguay against the weighted average growth rate of FDI for the comparator group of countries. According to United Nations Conference on Trade and Development (UNCTAD), the cumulative average annual growth rate of FDI in Uruguay was 2.29% between 2013 and 2017, lower than the weighted control group's cumulative annual average of 5.48% in the same period. The target of reaching the comparator group's level of cumulative annual growth should be reasonable for Uruguay. The attribution is established by comparison with the control group of countries set for estimating the impact of the intervention under the synthetic control method, which can be adjusted at the time of evaluation (optional link 5). |
| Beneficiaries' investment in innovation compared to the control group | US$ | 44,393 | 2015 | 142,058 | 2022 | Panel of companies applying for National Research and Innovation Agency (ANII) support in the Annual Innovation Survey<br>2013-2015/<br>2016-2019/<br>2020-2023 | The indicator consists of the average investment per company in innovation activities.[1] The attribution is established by comparing the investment in innovation activities made by ANII-supported companies against the investment made by a control group using the difference-in-differences and propensity score matching methods (optional link 7). |

[1] The supported companies' investment in innovation activities increased by an average of 280% more than the companies that did not receive support, according to the quasi-experimental impact assessment (optional link 7).

## EXPECTED OUTCOMES

| Indicators | Unit of measurement | Baseline | | Final target | | Source/means of verification | Comments |
|---|---|---|---|---|---|---|---|
| | | Value | Year | Value | Year | | |
| **OUTCOME 1: Modernization of the framework for investment and trade policies** | | | | | | | |
| Foreign companies located in the country | Number | 1,614 | 2018 | 1,672 | 2022 | Uruguay XXI census of foreign companies and Dun and Bradstreet WorldBase database | According to a study by the IDB's Integration and Trade Sector, the assistance provided by Uruguay XXI is associated with a 1.1% increase in the probability that a multinational company will establish itself in Uruguay. Applying this percentage annually to the initial stock of 1,614 foreign companies located in Uruguay should result in some 1,670 foreign companies by 2022 (assuming there are no changes in 2019, otherwise the final figure would be 1,678). Uruguay XXI facilitates investment and performs policy advocacy to that same end, work that is similar in nature to the reforms proposed under this operation (optional link 4). |
| Goods export companies | Number | 1,836 | 2018 | 1,960 | 2022 | Customs Bureau (DNA) | From 2000 to 2018, the average annual growth rate in the number of export companies was 1.6%. According to the estimates of an IDB Integration and Trade Sector study, a reduction in customs processing times should make it possible to increase that growth rate by 2.8%. Applying this higher rate annually to the initial value for 2018 yields an increase of 124 export companies in the period. The attribution is because the faster customs processing times translate into an increased number of export companies.<br>Source: DNA (2015), page 135. |

| Indicators | Unit of measurement | Baseline | | Final target | | Source/means of verification | Comments |
|---|---|---|---|---|---|---|---|
| | | Value | Year | Value | Year | | |
| **OUTCOME 2: Modernization of local capacity for innovation and technology absorption** | | | | | | | |
| Investment leveraged in the beneficiary companies[2] of innovation instruments | US$ | 1,818,427 | 2016-2018 average | 5,455,280 | 2022 | Project progress and completion reports | The average of the past three years is used for the indicator. The attribution is established through comparison against the control group, as set forth in the monitoring and evaluation plan (see required link 3). The baseline is the 2016-2018 average counterpart executed by companies supported by ANII under the financed projects. The growth rate should be maintained and the target for the end of the program is based on that assumption. |

## OUTPUTS

| Outputs | Unit of measurement | Baseline | Baseline year | Year 1 | Year 2 | Year 3 | Final target[3] | Means of verification | Comments[4] |
|---|---|---|---|---|---|---|---|---|---|
| **COMPONENT II. Modernization of the regulatory framework for investment and trade** | | | | | | | | | |
| National Plan for Productive Transformation and Competitiveness approved | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Document approved by the Ministerial Cabinet of the National System for Productive Transformation and Competitiveness | |
| Decree ordering modifications to regulations for stimulating investment under the Investment and Industrial Promotion Act issued, modifying the regime under Decree 2/012 | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Executive Branch decree | |
| Decree facilitating a smooth transition from the current investment promotion and tax benefit regime (Decree 143/018 or the last one in force before publication thereof) issued | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Executive Branch decree | |

2 Companies that leverage investments in innovation through the sale of new products and the increased reach of innovation in the international market, and improve their performance (optional link 9 and optional link 7).

3 Final target is 2022.

4 Outputs are measured at year 1 since all reforms should have been implemented by then. However, since this operation uses the deferred drawdown option, outputs will be monitored throughout the entire active period of the program. This monitoring will be conducted as set forth in the monitoring and evaluation plan (required link 3).

| Outputs | Unit of measurement | Baseline | Baseline year | Year 1 | Year 2 | Year 3 | Final target[3] | Means of verification | Comments[4] |
|---|---|---|---|---|---|---|---|---|---|
| National Adaptation Plan for Climate Change Resilient Cities prepared | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Project document | |
| Law approving the amendment to the Kyoto Protocol on climate change | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Law enacted by the Executive Branch | |
| Law approving the amendment to the Montreal Protocol on substances that deplete the ozone layer, aligned with the objectives of the Paris Agreement | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Law enacted by the Executive Branch | |
| Administrative order of the National Climate Change Response System specifying the steps for implementing the National Policy on Climate Change and the first NDC | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Administrative order of the Ministry of Housing, Land-use Planning, and the Environment | |
| Law ratifying the protocol on intra-MERCOSUR cooperation and investment facilitation | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Law enacted by the Executive Branch | |
| Law ratifying the free trade agreement with the Republic of Chile | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Law enacted by the Executive Branch | |
| Double taxation agreements in force | Document | 20 | 2017 | 1 | 1 | 0 | 22 | Law enacted by the Executive Branch | |
| Tax information exchange agreements in force | Document | 14 | 2017 | 1 | 0 | 0 | 15 | Law enacted by the Executive Branch | |
| Decree establishing certain changes to the current regulation of Law 19,484 | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Executive Branch decree | |
| Comprehensive Law on Asset Laundering | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Law enacted by the Executive Branch | |
| Decree regulating Law 19,574 | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Executive Branch decree | |
| Guidelines for interoperability with other approved one-stop windows for foreign trade (VUCE) in the region | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Document approved by Uruguay XXI | |
| Interoperability action plan with Chile | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Document agreed upon by the parties | |
| Technical cooperation agreements to launch online procedures for central government agencies through the VUCE | Document | 19 | 2017 | 4 | 1 | 1 | 25 | Agreements signed | |

| Outputs | Unit of measurement | Baseline | Baseline year | Year 1 | Year 2 | Year 3 | Final target[3] | Means of verification | Comments[4] |
|---|---|---|---|---|---|---|---|---|---|
| Draft law creating a special regime for exports from micro and small enterprises sent to Parliament | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Draft law | |
| General regulations incorporating the use of the digital consolidated customs document for operations involving merchandise with revisable prices | Document | 0 | 2017 | 1 | 0 | 0 | 1 | National Customs Bureau resolution | |
| Resolutions that stipulate the digital certificate of origin control and receipt procedure (for merchandise under Partial Economic Complementation Agreements (ACE) 2, 18, 25, and 57) | Document | 0 | 2017 | 1 | 0 | 0 | 1 | National Customs Bureau resolution | |
| Resolution incorporating beneficiaries into the authorized economic operators regime | Document | 0 | 2017 | 1 | 0 | 0 | 1 | National Customs Bureau resolution | |
| Amended VUCE law including the possibility for the VUCE to be a channel for customs declarations under specific regimes | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Law enacted by the Executive Branch | |
| Law that gives the Executive Branch, after announcing the activity, the power to waive fees and taxes on imports of inputs destined for prototyping or small production runs associated with the technological innovation of the electronics or robotics sector, and to not require the customs broker's mandatory involvement in the corresponding customs operations, within the limits and under the conditions established in the regulations | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Law enacted by the Executive Branch | |
| Decree regulating Law 19,592 | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Executive Branch decree | |
| Law ratifying the Customs Cooperation Agreement between Mexico and Uruguay | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Law enacted by the Executive Branch | |

| Outputs | Unit of measurement | Baseline | Baseline year | Year 1 | Year 2 | Year 3 | Final target[3] | Means of verification | Comments[4] |
|---|---|---|---|---|---|---|---|---|---|
| Decree approving the Sixty-second Additional Protocol to ACE 35, which incorporates the Agreement for Cooperation, Exchange of Information, Data Consultation, and Mutual Assistance, signed 30 May 2018 by the states parties of MERCOSUR and the Republic of Chile | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Executive Branch decree | |
| **COMPONENT III. Modernization of incentives for productive innovation** | | | | | | | | | |
| ANII-Executive Branch management commitment signed | Document | 0 | 2017 | 1 | 1 | 1 | 3 | Management commitment signed | |
| Regional Public Goods for Competitiveness Program conditions | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Conditions published on the ANII website | |
| Draft law granting a tax credit to private companies that invest in R&D activities sent to Parliament | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Draft law | |
| Business competitiveness centers inaugurated in departments | Number | 0 | 2017 | 2 | 1 | 0 | 3 | Centers inaugurated | |
| Program for innovative government procurement launched to improve the public sector's efficiency and service quality through the incorporation of innovative goods and services, and to stimulate scientific-technological development and innovation at the national level | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Program published | |
| Program for the Technological Adaptation of small and medium-size enterprises (SMEs), Industrial Extension Center | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Conditions published on the ANII website | |
| National Suppliers Development Program launched | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Conditions published on the National Development Agency (ANDE) website | |
| ProExport+ program launched | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Program conditions published by Uruguay XXI | |
| Biotechnology startup incubator program | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Conditions published on the ANII website | |

| Outputs | Unit of measurement | Baseline | Baseline year | Year 1 | Year 2 | Year 3 | Final target[3] | Means of verification | Comments[4] |
|---|---|---|---|---|---|---|---|---|---|
| Program of scholarships geared to businesses' needs | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Conditions published on the ANII website | |
| Business innovation internship implementation instrument, redesigned | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Conditions published on the ANII website | |
| Instrument for available co-investment instrument operating | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Conditions published on the ANII website | |
| Patenting instrument operating | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Conditions published on the ANII website | |
| Sector funds to encourage the relationship between academia and the productive sector up and running[5] | Number | 13 | 2017 | 2 | 0 | 0 | 15 | ANII administrative order | |
| Approval of the information technology degree program | Document | 0 | 2017 | 4 | 2 | 0 | 6 | UTEC board of directors certificate | |
| Inauguration of the new Universidad Tecnológica del Uruguay (UTEC) headquarters in Uruguay | Headquarters | 3 | 2017 | 1 | 1 | 0 | 5 | UTEC board of directors certificate | |
| Creation of the "Agro-environmental Engineering" career track, with the academic board in charge of designing the plan of studies | Document | 0 | 2017 | 1 | 0 | 0 | 1 | UTEC board of directors certificate | |
| Resolution creating the Regional Program Executive Committee for Advanced Technical Training on ICTs, Entrepreneurship, and Innovation, as well as the advisory and follow-up committee for the program | Document | 0 | 2017 | 1 | 0 | 0 | 1 | Executive Branch resolution | |

5 Recipients of these sector funds are chosen through calls for research proposals geared towards problem solving, training resources, or developing research capacity in certain areas. See: Evaluation of ANII Sector Funds (2015).

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Uruguay. Loan ____/OC-UR to the Eastern Republic of Uruguay
Investment, Trade and Innovation Framework
Modernization Program II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Eastern Republic of Uruguay, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Investment, Trade and Innovation Framework Modernization Program II. Such financing will be for the amount of up to US$250,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ____________ 2019)

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UR-L1156