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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

FINANCIAL PROGRAM FOR PRODUCTIVE DEVELOPMENT II

(UR-L1115)

SECOND INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS FOR FINANCING PRODUCTIVE DEVELOPMENT

(UR-X1011)

LOAN PROPOSAL

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ABBREVIATIONS

BCU	Central Bank of Uruguay
BROU	Banco de la República Oriental del Uruguay
CBA	Cost-benefit analysis
CCLIP	Conditional Credit Line for Investment Projects
DIEA	Oficina de Estadísticas Agropecuarias [Office of Agricultural Statistics]
ESMF	Environmental and social management framework
IRR	Internal rate of return
MGAP	Ministry of Agriculture and Fisheries
NPV	Net present value
PPP	Public-private partnership
SMEs	Small and medium-sized enterprises

PROJECT SUMMARY

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SECOND INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS FOR FINANCING PRODUCTIVE DEVELOPMENT
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Financial Terms and Conditions

Borrower: Banco de la República Oriental del Uruguay (BROU)

Guarantor: Eastern Republic of Uruguay

Executing agency: BROU

Source	Amount (US$)	%
IDB (Ordinary Capital)	50 million	100
Total	50 million	100

Flexible Financing Facility(a)	
Amortization period:	[redacted](*)
Disbursement period:	4 years
Grace period:	[redacted](b)(*)
Interest rate:	[redacted](*)
Credit fee:	(c)
Inspection and supervision fee:	(c)
Weighted average life (WAL):	15.25 years(d)
Approval currency:	U.S. dollar

Project at a Glance

Project objective/description: The general objective of this operation is to promote investment in infrastructure and businesses' productive investments by providing medium- and long-term financing through BROU.

The specific objectives are: (i) to facilitate investments of productive credit for agroforestry enterprises; and (ii) to enable investments in private or public-private productive infrastructure.

This project is the second individual operation under the Conditional Credit Line for Investment Projects (CCLIP) (UR-X1011) approved by the Board of Executive Directors by means of Resolution DE-210/14.

Special contractual conditions precedent to the first disbursement of the loan: Delivery to the Bank of evidence that the program's Operating Regulations, previously agreed upon with the Bank, have been approved and have entered into force (paragraph 3.4).

Special contractual conditions of execution: For special contractual conditions of a socioenvironmental nature, see Annex B to the Environmental Management Report.

Exceptions to Bank policies: None

Strategic Alignment

Challenges:(e)	SI ☐	PI ☑	EI ☐
Crosscutting themes:(f)	GD ☐	CC ☑	IC ☐

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

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

(c) The credit fee and the 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 relevant policies.

(d) The original WAL may be shorter depending on the signature date of the loan contract.

(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

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

(*) At the request of the borrowing country, this information will not be disclosed. The non-disclosure of this information is in accordance with the country-specific information exception in paragraph 4.1 i of the Bank's Access to Information Policy, document GN-1831.28.

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 **Uruguay's economic context.** The Uruguayan economy has accumulated 15 years of uninterrupted growth at an average annual rate of 4.3% between 2003 and 2017, higher than the average of 3.0% recorded in Latin America and the Caribbean. This period of expansion has also seen an increase in the level of international reserves at the Central Bank of Uruguay (BCU) (around 30% of GDP in June 2018), a lengthening of the public debt maturity profile (today at 13 years on average), and a strengthening of prudential regulations for the financial system, which shows high levels of liquidity, high solvency ratios, and low default rates.[1] Since 2012, the main rating agencies have placed Uruguay in the investment grade category and the public debt spread is at historically favorable levels (200 basis points in June 2018). Nevertheless, expected growth for 2018 is below 2%. Currently, Uruguay is facing risks stemming from the slowdown in world trade and financial market volatility, as well as the macroeconomic context and growth challenges in the countries of the region. At the domestic level, there is concern about the fiscal deficit, which remains high and persists despite fiscal consolidation measures implemented by the government in recent years. The reduced fiscal headroom has implications for growth in public investment in infrastructure, which has a strong cyclical component.

1.2 **Diagnostic assessment of growth, investment, and productivity challenges.** To make this growth sustainable,[2] Uruguay faces the challenge of closing the productivity gap that separates it from the advanced economies.[3] Since 2004, all the production factors have contributed to GDP growth in a positive way.[4] However, there is some degree of uncertainty about the low contribution of total factor productivity to the growth and sustainability of the high investment levels of recent years. Indeed, while investment reached record levels of 22.0% of GDP in 2010-2014, it dropped to 16.5% of GDP in 2017. According to the BCU, the main decreases in investment occurred in public investment (30% in 2017) and in gross fixed capital formation of the public sector. Although the distance in kilometers to export hubs (ports and airports) is shorter than in the rest of the region (Uruguay, 78 kilometers, compared with 176 kilometers in average terms for the region and 263 kilometers in developed countries), this does not translate into shorter international transport times (four days for Uruguay, compared with three days for

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[1] According to BCU data, the banking system's liquidity is high (at December 2017, the liquid assets of BROU and the private banks represented 56.7% and 44.6% of liabilities payable within 30 days, respectively). With regard to solvency, the ratio of regulatory capital to capital requirements based on credit, market, operational, and systemic risks stood at 1.8 in March 2018. The overall level of nonperforming loans remains at historically low levels (3.7% in May 2018).

[2] GDP growth in constant terms over the 2012-2014 period was an average of 3.8% per year compared with 1.57% in the 2015-2017 period (BCU National Accounts data).

[3] Total factor productivity relative to the United States in 2013 was 30% lower than in 1960. Inter-American Development Bank (IDB) (2016): *Competitividad e Innovación: Implicancias para Uruguay*, IDB-TN-936. Total factor productivity is the portion of output not explained by factor accumulation.

[4] According to IDB estimates, between 2005 and 2017, the contributions of physical capital, human capital, and total factor productivity to growth were 2.2%, 1.2%, and 0.9%, respectively.

the region, and two days for developed countries, in 2016[5]). These quality deficiencies affect the Uruguayan productive sector's logistics and transportation costs. In particular, as a result of the growing volume of transported goods, adequate connectivity needs to be provided between export production exit terminals and the production units in sectors such as agroforestry. This sector[6] recorded the highest growth in exports in 2015, 25%, primarily in the form of industrial products like wood, pulp, and paper, which represent 17% of the country's goods exports.[7] In addition, the sector accounts for 18.3% of GDP, with the value of forest production at US$437 million in 2017 (BCU) and it is important for the generation of work, with over 19,000 jobs.

1.3 The causes of low productivity include low capitalization of the productive sectors,[8] such as the agroforestry sector, where there is a lack of investment in productive assets like on-farm infrastructure, equipment, and other fixed assets.[9] The agroforestry sector had moderate growth in total factor productivity—a rate of 1.9% between 1980 and 2013—with a slowdown in the last three years (0.7%). The sector is comprised of 1,800 enterprises, 93% of which are micro and small enterprises with fewer than 20 employees.

1.4 Taking into account the infrastructure and capitalization needs of the strategic productive sectors (like agroforestry), as engines of economic growth and productivity improvement, the government has undertaken some initiatives to identify the gaps, both in terms of incentives to capital investments and the development of connected infrastructures. Specifically, one of the areas where the shortage of capital remains visible is in the quality of transportation infrastructure, which is essential to improving logistics services, given that all of the country's logistics chains have a road transportation link. An estimated 90% of freight (tons per kilometer) is transported by land. Regarding infrastructure needs, in 2015 the government formulated a Five-year Infrastructure Plan for the 2015-2019 period, which calls for a total investment of US$12.370 billion (approximately 5% of GDP). Of the total, US$4.230 billion would be earmarked for energy, US$2.360 billion for roads, US$550 million for ports, US$1.360 billion for railroad transport, and US$550 million for water and sanitation. The plan expects the private sector to finance 50% of the investments in the period. Existing infrastructure needs to be improved, in particular the road sector, where there are significant investment gaps

5 See World Bank information referring to the logistics processes faced by exporters and importers: Logistics performance index: Quality of trade and transport-related infrastructure and the index of road, railroad, and port infrastructure quality of the International Monetary Fund in its most recent report, IMF Country Report 17/28.

6 Includes various phases of the chain. The primary phase of agricultural production is comprised of agricultural producers of reproductive material, plants and nurseries, and intermediate silvicultural treatments of forests and harvesting. The secondary industrial phase includes wood processing and marketing. The large enterprises are vertically integrated and incorporate logistics, transportation, and associated professional services.

7 Pulp exports represent 81% of the sector's total exports. Average growth in exports between 2013 and 2015 was 10% (source: Ministry of Agriculture and Fisheries Yearbook, 2018).

8 Hernaiz Daniel, Fiorella Pizzolon, Virginia Queijo Von Heideken, Paola Regueira, *Crecimiento Económico y Brechas de Desarrollo en Uruguay*, IDB, Technical Note IDB-TN-816.

9 The rate of growth of gross fixed capital formation in the private sector has been negative in the 2014-2017 period (-6%), in particular with regard to investments in construction and machinery and equipment (-7%, source: BCU National Accounts).

and investments have been carried out more slowly. Total expected investment in this sector stands at US$2.360 billion, of which US$740 million involve eight projects to be financed under the public-private partnership (PPP) modality, and two others, in the amount of US$30 million, in the form of concessions. The most urgent investment needed in the road network (for the next three years) is estimated at almost US$1.200 billion. In the railroad sector, investments for the period are estimated at US$1.360 billion, of which US$825 million would involve the central railroad project, which is also going to be developed through a PPP and is currently in the bid evaluation phase. The public sector and, in particular, the Banco de la República Oriental del Uruguay (BROU), regardless of the infusion of financing, are expected to play a significant role in resource mobilization, providing additionality in the attraction of incentives for private sector investment and through the demonstration effect for other financial institutions in investment finance consortia.

1.5 With regard to identifying capital investment requirements, in strategic sectors like agroforestry, the government plan in the document "Hacia la Estrategia Nacional de Desarrollo de Uruguay 2050"[10] recognizes the need to transform the production matrix. In recent years, plans were developed to improve conglomerates and value chains. Analyses of certain value chains indicate possible constraints on their further development and identify the infrastructures required in rural areas to improve production, marketing, transport, and distribution.[11] With a view to promoting both foreign and domestic investment, decrees were enacted in 2007, 2012, and 2015 issuing regulations under Law 16,906 (1998) for the Promotion and Protection of Foreign and Domestic Investments that allow tax exemptions.[12] Few projects were submitted to the Agroforestry Sector Investment Act Application Commission, which showed an irregular pattern between 2008 and 2015, while projects to expand the industrial phase capacities of foreign enterprises stood out.[13]

1.6 **Causes of the low investment and capitalization levels.** Financial system development is essential to economic growth. The lack of medium- and long-term credit in Uruguay is a barrier to both productive capital investment and long-term basic infrastructure. Access to financing is a critical element in the productivity dynamic in that it facilitates: (i) long-term investment, allowing for the development of investment projects and for improvements in the productive infrastructure of strategic sectors like agroforestry, in which plantations intended for pulp production have an 8- to 10-year production cycle and those intended for quality wood have a 15- to 18-year cycle; (ii) the efficient allocation of savings to the most productive investment, improving the allocation of factors in the economy; and (iii) the adoption of technology and the development of research projects and innovation that enable

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10 See: Hacia una Estrategia Nacional de Desarrollo de Uruguay 2050 [Towards a National Development Strategy for Uruguay 2050].

11 For example: difficulties of access to long-term credit on the part of small and medium-sized forestry enterprises in the wood and citrus sectors. See: *Cadena de Valor (I)* and *Cadena de Valor (II)*, *Gabinete Productivo* [Council of Production-related Ministries], Uruguay, 2009.

12 Decrees 455/007, 002/012, and 335/15 allow tax exemptions on income from economic activities of between 20% and 100% of the invested amount and on capital gains tax related to real estate and civil works, as well as value-added tax recovery for the purchase of materials.

13 The land area declared forest priority (Figure 2) totals 4 million hectares, 24% of the agricultural area. The area planted with trees has multiplied by 30 in the last 25 years. In 2017, the planted area reached over one million hectares (affected area) and the effective planted area is 71,705 hectares, only 6.4% of the affected area.

access to new markets and higher value-added segments in global value chains, as well as crop and activity conversion in the case of the primary sector, and adoption of new technologies and technical-productive capacity.[14]

1.7 **The financial system and medium- and long-term financing.** The level of credit to the private sector in Uruguay is low. Credit to the nonfinancial private sector represents only 24% of GDP (one of the lowest among the countries in the region, with Brazil at 62%, Chile at 112%, Colombia at 47%, Mexico at 35%, Peru at 36%, and the world average at 132% in 2016).[15] The financial system in Uruguay is bank-centric. The capital market (fixed- and variable-income) has limited depth and liquidity and represents less than 2% of GDP (close to 3% if outstanding public debt is included). This is well below the values in peer countries in the region (10% for Argentina, 60% in high middle-income countries[16]). Twelve banking institutions—two of which are public—account for 98% of the financial system's assets. One factor specific to the Uruguayan financial sector is the large share of demand deposits in dollars and the dollarization of banking system assets (55% of loans made in Uruguay are in dollars). As a result, the granting of long-term loans is limited by the mismatches in the liabilities that these loans cause. This situation is further complicated by the tighter capital and liquidity requirements under Basel III, particularly for long maturities.[17]

1.8 Although Uruguayan banks provide for long-term financing of infrastructure in their credit policies and have sufficient liquidity, the domestic banking system's long-term investment absorption capacity is limited because of the perception of high risk and lack of long-term exposure.[18] Nevertheless, there are precedents for bank financing of energy projects with relatively long terms. According to a recent IDB study,[19] on specific occasions, local commercial banks have participated in syndicated loans with 7- to 8-year terms, although it is more common for private banks to participate in short- and medium-term financing to cover cost overruns or working capital (such as bridge loans). The international banks offer longer terms, but the projects in which they have participated in Uruguay typically have exceeded US$100 million.

1.9 **Agroforestry productive sector financing.** The agroforestry sector in particular faces some difficulties in terms of access to credit, stemming from the high costs of

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14 See: Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7)

15 World Bank, World Development Indicators.

16 Op.cit., World Bank.

17 The new liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) are complementary. LCR promotes short-term solidity, while NSFR considers a one-year time horizon. Although Uruguay is not yet fully up-to-date on the Basel III principles, foreign banks are affected by the new rules, and domestic banks are gradually preparing and are monitoring these ratios.

18 In a recent study: "*Lineamientos para impulsar el proceso de profundización bancaria en Uruguay"* BBVA. 2013. This study [Guidelines to promote the process of deepening bank services in Uruguay] identified a series of structural and institutional factors behind the banking system's performance: on the supply side, it mentions inadequate banking infrastructure, regulations, and labor costs. But the emphasis falls on the banking system's risk perception implicit in demand for credit—associated with high levels of informality, with 26% of employment and between 30% and 40% of GDP from the informal sector—and the country's history of macroeconomic and financial instability.

19 See study on "Private financing of infrastructure in Latin America and the Caribbean: Chile, Peru, and Uruguay". IDB, May 2017.

financing and the need to have access to medium- and long-term funds for investment.[20] Some investment challenges faced by the sector, in addition to the increase in production capacity, include: (i) introducing new technologies to improve species durability for outdoor wood use; (ii) fostering investments that promote the production of wood by-products and deepen product diversification; and (iii) reducing logistics and distribution costs. As described above, because of the lead time of the investment projects,[21] medium- and long-term financing is required.

1.10 **Infrastructure financing.** The legal and institutional framework of private infrastructure financing is comprised of three main laws that, together with their respective decrees, regulate the sector: the PPP Act of 2011, the Public Works Concession Act of 1984, and the Trust Act of 2003.[22] Local banks' participation in infrastructure finance is meager.[23] The reasons behind this lack of participation are:(i) lack of experience with project finance (typically, in private energy projects, foreign investors (sponsors) bring in foreign banks and financing in dollars); (ii) the new Basel III rules strongly penalize long-term financing, requiring more guarantees and capital and funding reserves—and the BCU sets risk limits by project/sector value and by business group; and (iii) the exchange risk stemming from mismatches between assets and liabilities, in the case of financing in dollars. Derivatives (swaps, options) that could cover the exchange risk for terms as long as those required to finance infrastructure do not exist in Uruguay. The IDB has played an essential role in private infrastructure financing in the country. The set of private or public-private infrastructure projects financed by the IDB Group has involved the financing and/or mobilization of resources valued at over US$700 million. The IDB developed a Conditional Credit Line for Investment Projects (CCLIP) with BROU, in the amount of up to US$250 million, with the objective of promoting infrastructure investment (UR-X1011). The first individual operation (3396/OC-UR), in the amount of US$125 million, financed the construction of power generation plants using renewable energy sources. IDB Invest, for its part, has financed several infrastructure operations with the private sector and has developed some innovative experiences to finance them. Some of the most outstanding cases include: (i) the Campo Palomas wind energy plant, for which a B bond was issued in 2016; (ii) the Jacinta plant renewable energy project, for which IDB Invest structured a B bond in the amount of US$65 million in 2017, sold to the special purpose corporation and later offered to institutional investors through a private placement; the construction of the Del Litoral and El Naranjal renewable energy plants, for which a senior loan in the amount of US$103 million was structured, with US$5.4 million funded with IDB Invest capital and the rest through a bond issue in the private market; and (iii) the Melo-Tacuarembó electricity transmission line, which was the first project involving public-private collaboration developed in Uruguay's electricity transmission sector. In 2017, the pension fund administrators, which are entities that manage workers' pension plans, set up a fund in the Asset Management Corp. of the Development Bank of Latin America, in the amount of US$350 million to finance PPP projects. There are high expectations that this fund will be able to finance a significant share

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[20] See optional link Annual progress and foreign trade outlook - forest products.

[21] The cycle of the eucalyptus is 10 years and that of the pine is 18 years.

[22] See optional link: Study on the financing of concessions and public-private partnerships in Uruguay.

[23] See study on "Private financing of infrastructure in Latin America and the Caribbean: Chile, Peru, and Uruguay". IDB, May 2017.

of the infrastructure projects that the country needs, although additional resources will be required to finance all the projects that the government has on the agenda.[24]

1.11 **Public banks.** BROU is the largest public bank in Uruguay, with 45% of the Uruguayan financial sector's total assets (US$17.402 billion). It provides 45% of total loans to the nonfinancial sector (US$4.765 billion) and holds 45% of the banking sector's deposits (US$15.000 billion in 2018). BROU is seeking to develop its capacities to enable it to more efficiently enter the private or public-private infrastructure project financing market. BROU has experience in executing infrastructure with the IDB; the first operation under the CCLIP provided financing to electricity companies through Power Purchase Agreements. BROU has financed infrastructure projects, especially in the wind energy sector, for a maximum term of 18 years and subordinated debt of up to 10 years.

1.12 **BROU's role in long-term financing.** Currently the Uruguayan government has a large portfolio of infrastructure projects and PPPs that are at the bid evaluation stage or at the final phase of negotiation and already provisionally awarded. Specifically, three road projects are already provisionally awarded and are being negotiated in the financial close process. There are another three road projects and a central railroad project for which bids are being evaluated. Moreover, the government has other projects in the final study phase that will be financed through concessions, such as the expansion of the Port of Montevideo and the development of new terminals and logistics centers. In summary, existing demand for 2019-2020 focuses on eight projects that are at a rather advanced stage of structuring and close to being financed.[25] With resources from the program, BROU is expected to play an essential role in: (i) the leveraging of resources and the demonstration effect for other financial institutions; and (ii) long-term financing (15 years or more, particularly), in one or two of these operations. In turn, BROU, as a public development bank, has been meeting the unmet demand of the agroforestry sector, with a view to the country's agricultural development, by providing resources, among others, to enterprises in the chains, for all agricultural sectors, including forestry. Since the beginning of the 1990s, when the government pushed forward the Forest Development Act, BROU has met the demand for financing from forestry enterprises that have made the sector into one of Uruguay's main exporters.

1.13 **Bank experience in the country and the region.** On 15 December 2014, the Bank's Board of Executive Directors approved the first operation under a Conditional Credit Line for Investment Projects (CCLIP) (UR-X1011) in the amount of up to US$250 million. The first individual operation 3396/OC-UR was for US$125 million. The CCLIP's objective is to help correct the deficit observed in the capitalization of the economy and facilitate productivity growth. These objectives are being pursued by providing long-term financing—the absence of which is one of the main obstacles to investment—through BROU. Execution of the first loan under the CCLIP left lessons that were effectively considered in the planning of the proposed operation, such as: (i) include effective supervision of the financial conditions under which resources are provided to end beneficiaries, to avoid market distortions and ensure that additionality is not exhausted; (ii) ensure BROU's institutional capacity to

[24] See optional link: Study on the financing of concessions and public-private partnerships in Uruguay.

[25] For details related to the Uruguayan government's PPP projects and concessions, see optional link: Study on the financing of concessions and public-private partnerships in Uruguay.

effectively evaluate and monitor the loans, including risk management practices; (iii) establish relationships and commit to the use of resources within BROU to stimulate high quality execution of the program, with support from staff specifically responsible for program areas; (iv) foster a formal monitoring and evaluation system for local capacity to develop and for the importance of accountability to be understood; and (v) related to the previous item, systematically gather, manage, and maintain data on the program.[26]

1.14 The project also reflects lessons learned from Rural Productive Development Program I (loan 2595/OC-UR), the objective of which was to help improve the incomes of small- and medium-scale farmers, by increasing their productivity through the adoption of new technologies, in particular: (i) the need to seek operational scales and to pursue integration of the producers into value chains; and (ii) solutions planning to address the constraints on access to financing.

1.15 In the context of PPPs, the Bank has successfully executed several programs in the region; specifically, the experiences with Colombia, Brazil, and Peru—to strengthen organizational structures and capacity for preparing PPP projects—stand out. Some of the operations from which this program has drawn design lessons, especially in the area of institutional strengthening needs, are: loan 2079/OC-CO, the objective of which was to consolidate and strengthen regulatory framework processes and the institutional capacity of public agencies involved in the PPP sphere, and support for Lima's Metro Line 2 (3376/CH-PE; 3376A/OC-PE). In Uruguay, the IDB Group has directly financed some PPP and concession projects, primarily in the electricity sector (wind energy). It has also provided support through technical cooperation operations, such as for preparing PPP support plans (ATN/ME-12386-UR) and strengthening the project analysis capacity of the PPP Unit in the Ministry of Economy and Finance.

1.16 **Empirical evidence.** Interventions aimed at improving access to credit are expected to lead to an increase in investments in productive assets at the different stages of the forestry chain. Loans have a transformational impact on the economic activity of enterprises, an essential condition for increasing income. There is ample evidence of the impact of greater access to financing in terms of productivity and income in the agroforestry sector. Moreover, investments in roads are considered a key instrument of economic development. By reducing transportation costs, road improvements are expected to generate greater economic and commercial activity. Investments in transportation infrastructures affect input and product market prices and can have impacts on the intensity of land use and stimulate diversification and off-farm income-generating opportunities (see: Empirical evidence).

1.17 **Strategic alignment.** The operation is included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2). It is aligned with the IDB Country Strategy with Uruguay (2016-2020) (document GN-2836) under the strategic objective of increasing medium- and long-term financing. It is also aligned with the Update to the Institutional Strategy 2010-2020 (document AB-3008), specifically the development challenge of increasing productivity and innovation by means of leveraged investment for infrastructure projects through the program, and

[26] To this end, BROU's technical capacity will be strengthened through a technical cooperation operation in preparation (UR-T1181).

the crosscutting theme of climate change,[27] since about 30% of the resources under the operation are invested in climate change mitigation activities, according to the Joint Report on Multilateral Development Banks' Climate Finance. These resources contribute to the IDB Group target of increasing financing for projects related to climate change to 30% of all operation approvals by 2020. Moreover, it is aligned with the Corporate Results Framework 2016-2019 (document GN-2727-6), through the results indicators of: (i) roads built or upgraded; and (ii) beneficiaries with improved access to formal financial services.

1.18 The program is aligned with the Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (document GN-2710-5), in that it promotes access to infrastructure services and innovative mechanisms for infrastructure financing and leverages private sector participation through the use of PPPs to implement program-supported infrastructure projects in Uruguay, making it possible to mitigate the risks that could inhibit participation by international funders. Lastly, it is consistent with: (i) the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), by promoting productive sector access to finance, thereby increasing its productivity; and (ii) the Transportation Sector Framework Document (document GN-2740-7), by promoting infrastructure with better coverage, quality, capacity, and efficient connectivity.

B. Objectives, components, and cost

1.19 The general objective of this operation is to promote investment in infrastructure and businesses' productive investments by providing medium- and long-term financing through BROU.

1.20 The loan will be used to finance productive capital investment in strategic sectors like the agroforestry sector, and investment in productive infrastructures through private finance arrangements (concessions or PPPs).

1.21 The specific objectives are: (i) to facilitate investments of productive credit for agroforestry enterprises; and (ii) to enable investments in private or public-private productive infrastructure. To this end, the second program has two components:

1.22 **Component I. Financing for productive investment loans in agroforestry through BROU (about US$15 million).** This component is aimed at funding BROU to finance medium- and long-term productive investment loans to agroforestry enterprises. Accordingly, productive activities requiring medium- and long-term investments will be financed. Activities eligible for financing may include investments to boost the productivity of agroforestry enterprises, such as the purchase of land, capital goods and machinery, and freight vehicles.[28]

[27] Total climate finance has been estimated at US$15 million for all of Component I (see: Estimate of the climate change financing contribution).

[28] Including investments in: (i) improvement plans, aimed at boosting competitiveness and/or productivity indicators; (ii) innovation and technological development projects; (iii) commercial expansion projects; (iv) programs to control and address environmental and social impacts; (v) finance aimed at improving product marketing; and (vi) investment in fixed assets connected to the production, marketing, and service delivery processes of the beneficiary enterprises, such as land, movable and immovable property, modernization, machinery, equipment, software, vehicles, quality certifications, licenses, patents, health registrations, and other investments geared towards increasing productivity.

1.23 **Eligibility criteria for Component I**. For Component I, eligible enterprises will be those in the primary agroforestry sector in forested land that complies with the Equator Principles and/or Forest Law 15,939, which prohibits logging in native forests,[29] and those in industries associated with the agroforestry chain in the production, marketing, and services phases[30] (see the program's Operating Regulations).

1.24 **Component II. Financing for private and/or public-private productive infrastructure works (about US$35 million).** This component will be aimed at financing productive infrastructure operations that will be financed under PPPs, concessions, or other financial structures.

1.25 **Eligibility criteria for Component II.** Investments under this component will finance infrastructure works in the transportation and logistics sector, including road, railroad, or port projects.[31] Given the size of the investments in relation to the BROU contribution, no ceiling is established for the amount of the financing, but investments may be made in projects cofinanced with other financial institutions (see the program's Operating Regulations). Various financial instruments or financing arrangements may be structured that foster the leveraging of resources of the associated works such as guarantees and/or structured finance arrangements.[32] To this end, the Bank is processing the approval of a technical cooperation operation to support BROU's institutional strengthening (UR-T1181), which will help BROU with the structuring of a unit devoted to PPP project finance and will serve to support the development of financial mechanisms and instruments used in the execution of the second component. Together with the IDB's PPP Unit, a training plan for the BROU PPP Unit is being implemented, with a view to strengthening project financial analysis capacity.

C. Key results indicators

1.26 The provision of medium- and long-term financing through BROU is expected to have impacts in the form of increased productivity, exports, and infrastructure quality. The following impact indicators are proposed to measure them: (i) agroindustrial GDP (includes agroforestry sector); and (ii) the Logistics Performance Index—quality of infrastructure related to trade and transportation. Moreover, given the operation's specific objectives—first, to facilitate investments of productive credit for agroforestry enterprises and associated industries, and second, to enable investments in private or public-private productive infrastructure—increases in agroforestry production and in the flow of travelers are additional expected outcomes. To measure them, the following outcome indicators are proposed: (i) forestry exports with the free-trade zone; (ii) total wood production of agroforestry sector projects; (iii) difference in the duration of medium- and long-term loans with respect to the system (agroforestry projects); (iv) total annual average daily traffic along routes 14 and 15; (v) financial

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29 Uruguay's Nationally Determined Contribution has an unconditional target of maintaining 100% of the 2012 area of forest plantations for shade and shelter use (77,790 hectares) and a conditional target of increasing the 2012 area of forest plantations for shade and shelter use by 25%, including silvopastoral systems (97,338 hectares).

30 No limit on the size of the enterprises has been imposed. They can be small, medium-sized, or large.

31 Works to be financed may include construction, modernization, expansion, and maintenance of transportation and logistics infrastructure.

32 See optional link: Study on the financing of concessions and public-private partnerships in Uruguay.

leverage (transportation infrastructure projects); and (vi) difference in the duration of medium- and long-term loans with respect to the system (transportation infrastructure projects).

1.27 **Beneficiaries.** The program beneficiaries are agroforestry sector enterprises and associated industries (1,800), in that the program promotes the development of productivity and growth in the sector's exports. The sector employs a total of 19,000 workers, of whom 13,000 work in silviculture, 3,500 in processing industries (sawmills and panel mills), and 2,500 in the pulp industry (paper, cardboard, and chips).[33]

1.28 Moreover, investments in infrastructure will benefit citizens and enterprises in the areas of influence of the potential infrastructure works (roads and railroads). According to the last population census conducted by the National Statistics Institute (INE) in 2011, the local population along one of the roads (circuito 5 road corridor) numbers 193,951 inhabitants (6% of the national population). One of the country's 12 free-trade zones (Florida) is located along the road and there are 210 enterprises conducting logistics activities for the entire region that, according to 2012 INE data, directly employ 496 workers. The railroad is expected to encourage more intensive use of existing demand for freight and to capture new freight, benefiting the enterprises located in the area of influence. There are various agricultural, mining, industrial, and forestry enterprises along the central line from the Port of Montevideo to Rivera and its nearby area of influence, some of which already use the railroad. The supply of this mode of transportation can therefore improve substantially with lower costs.

1.29 **Economic analysis.** The cost-benefit analysis performed ex ante shows how, for the projection period, the discounted benefits resulting from the increase in agroforestry production and vehicular traffic exceed the discounted costs. The positive sum of the net present values (NPVs) of the two program components' annual benefit flows comes to US$100,292,181.[34] The economic analysis that underpins the proposal shows two typical models: one intervention of support for the railroad investment in Component II, coupled with financing for the investment in agroforestry enterprises (Component I); and a second model of investment in road infrastructure. Individually, the two groups of prototype projects are profitable. In the first case, the internal rate of return (IRR) is 52.78%, and in the second, 93.53%. The weighted IRR for the entire program is 74.51%.

1.30 The benefits are calculated based on the generation of the ultimate benefits of the investments in road transportation infrastructure from the economic value of the increase in vehicular traffic, and from the increase in agroforestry production stemming from the financial support for sector enterprises and the investment in railroad infrastructure (see Program economic analysis). The results of the analysis are robust: sensitivity to critical variables was tested. Even in a conservative scenario—in which the project only increases vehicular traffic in the terms presented in the road project prefeasibility report (IRR: 48,56%; NPV: US$35,077,403) and the agroforestry sector's wood production only increases from the action of sector

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[33] Source: Uruguay XXI, Forestry Sector.

[34] Considering the proportional value of the IDB's investment in these projects.

enterprises (IRR of 93.53%; NPV: US$59,839,604)—the program would still have an NPV of US$94,917,008. The discount rate used to value project flows was 12%.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The program will be financed with resources from the Bank's Ordinary Capital, under the Flexible Financing Facility. This is a global credit program comprised of US$50 million to finance the components described above. The distribution by investment category and source of financing is shown in Table 1.

Table 1. Costs and financing (in millions of U.S. dollars)

Investment category	IDB	%
Component I. Financing for productive investment loans in agroforestry through BROU	15.00	30
Component II. Financing for private and/or public-private productive infrastructure works	35.00	70
Total	50.00	100

2.2 The proceeds from this operation will be committed and disbursed over a four-year period from the entry into force of the loan contract (see Table 2). The rationale for the disbursement period stems from the technical characteristics of the financial support project and BROU's experience with the previous operation.

Table 2. Disbursement schedule (in millions of U.S. dollars)

	Year 1	Year 2	Year 3	Year 4	TOTAL
IDB	7.50	12.50	15.00	15.00	50.00
Total	15%	25%	30%	30%	100%

2.3 **Compliance with the eligibility criteria of the second operation under the CCLIP.** This project is the second individual loan operation to be approved under the CCLIP (UR-X1011) approved by the Board of Executive Directors by means of Resolution DE-210/14. The second individual operation complies with the eligibility criteria established in document GN-2246-11 for individual operations, to wit: (i) the operation falls under the sectors and components defined in the CCLIP; (ii) the operation is included in the country program document GN-2915-2; (iii) the executing agency remains an integral and sustainable part of the institution managing the sector; (iv) the executing agency is the same one as that of the previously approved operation (3396/OC-UR), performance of the previous project has been satisfactory to date and it is likely to achieve its development objectives, and over 50% of the previous operation's resources have been disbursed (in this case, 82.4%); and (v) the borrower and the executing agency have complied with the contractual conditions of the loan contract and with the Bank's disbursement and procurement policies. The operational and financial reports that BROU has been delivering in a timely manner demonstrate an acceptable quality standard with respect to financial administration and project operational control.

B. Environmental and social risks

2.4 The operation involves financial intermediation. Accordingly, it is governed by Directive B.13 of the Environment and Safeguards Compliance Policy (operational policy OP-703), since it is a flexible lending instrument and thus does not require classification, since the project cannot be classified ex ante. Related projects may have negative local environmental and social impacts that vary by project and sector. In any event, BROU will evaluate each project and will need to obtain the Bank's no objection for projects in Category "A" and the first two in Category "B",[35] pursuant to the IDB's socioenvironmental categorization guidelines. To ensure adequate environmental management, it has been agreed that the environmental and social management system (ESMS) implemented in the previous operation (3396/OC-UR) will be updated, so that it can apply to the new types of works. This ESMS will be part of the program's Operating Regulations and will also include tools, procedures, and requirements necessary to ensure that the appropriate environmental measures are adopted and implemented in order to comply with national regulations and the Bank's safeguards policy. This system will be applicable to all the operations financed by the program.

2.5 In addition, an environmental and social management framework (ESMF) has been prepared to ensure the operation's sustainability. It will be an annex to the program's Operating Regulations and its final version has been published on the Bank's website. Additional information on environmental and social considerations can be found in the Environmental and Social Management Report.

C. Other project risks

2.6 **Development.** Two development risks have been identified: (i) that there may be delays in the projects given the relative technical specificity and number of permits and studies required for this type of works, for national and local security and environmental reasons, or because of slow economic growth. This risk is classified as high. Accordingly, specific mitigation actions are provided for during monitoring of the operation with BROU. These include meetings with its technical units and periodic reports called for in the monitoring and evaluation plan, the program's Operating Regulations, and the ESMF, which will make possible early detection of delays in obtaining the results and reaching the targets and of any need to adapt the schedule for measuring outcome indicators to the new project timetables, since the portfolio will be actively managed; and (ii) that the investors in the financed projects are not able to repay their respective subloans. This risk is classified as medium. Mitigation actions are provided for during monitoring of the operation with BROU. These include meetings with its technical units and periodic reports called for in the monitoring and evaluation plan, the program's Operating Regulations, and the ESMF, which will make it possible to detect implementation problems early and mitigate the risks, since the portfolio will be actively managed. In addition, the technical cooperation operation being prepared (UR-T1181) will be undertaking the

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35 The no objection will be required for the first two Category "B" projects because: (i) the agroforestry and pulp and wood sectors represent new areas of work for the Bank and BROU (previously they had worked on Renewable Energy — Wind) that involve different and potentially more significant impacts, which justifies the monitoring and supervision of those projects; and (ii) it provides an opportunity to create capacity and transfer knowledge to BROU.

institutional strengthening of BROU to effectively evaluate and monitor the subloans, including risk management practices.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower and executing agency will be BROU, with the Eastern Republic of Uruguay as guarantor. BROU will execute the program within the framework of its current organizational structure. It will be responsible for channeling program resources for operations under Components I and II. To do so, BROU has undertaken to manage this second financing program, including the planning, origination, marketing, structuring, coordination, operational follow-up, legal monitoring, accounting and financial supervision, monitoring, and evaluation functions, and any other functions necessary to duly manage this program. For program execution, BROU will have its institutional structure, which has clearly defined and duly formalized systems and processes. It also has qualified staff to carry out its functions. As part of the first operation, the Bank performed an assessment of BROU's execution capacity, analyzing its structure, organization, and processes. The findings of the analysis showed BROU's systems to be appropriate and reliable. BROU has the experience of executing the first individual Financial Program for Productive Development under the CCLIP, 3396/OC-UR, the implementation of which has been satisfactory throughout. For this operation, BROU will have specialists on the environment and technical and financial areas from the BROU business unit. In turn, the IDB will provide specific training on the structuring of PPPs as part of the technical assistance.

3.2 **Strategic coordination with other government agencies.** BROU has been coordinating its engagement in the sectors that most affect the country's productive development with other government agencies. For Component I, BROU will coordinate with the Ministry of Agriculture and Fisheries. For Component II, it will coordinate with the Ministry of Economy and Finance's PPP Unit, which has been its main ally in the conception of PPP projects.

3.3 **Scope of the program Operating Regulations.** The program Operating Regulations establish the terms and conditions that will govern execution of the second individual operation under the CCLIP for the financing of investment projects for productive development, the financing of which will be carried out in accordance with the loan contract. The eligibility criteria, the use of resources, the mechanisms for allocating resources for eligible operations, and the characteristics of the loans and conditions for eligible operations are all described therein. The ESMF will be included as an annex to the Operating Regulations.

3.4 **The delivery to the Bank of evidence that the program Operating Regulations, previously agreed upon with the Bank, have been approved and have entered into force will be a special contractual condition precedent to the first disbursement of the loan.** The rules governing execution of the second program under the CCLIP and eligibility of individual loans and their characteristics are established in the program Operating Regulations agreed upon by the Bank and BROU, in accordance with the policies and standards of BROU and the Bank and the country's laws and financial practices.

3.5 **Procurement.** As this is a primarily demand-driven operation, no procurement of works, goods, services, or consulting services under the program have at present been identified. Customary practice and the Bank's policies will be applied, however, when it is determined whether the end borrowers are private or public entities. When the end borrowers are private entities, they will use the market's standard procurement procedures acceptable to the Bank, in accordance with Appendix IV of the Bank's Procurement Policy. When the end borrowers are public entities other than those envisaged in paragraph 3.12 of the Procurement Policies, the respective sections of the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9) or the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9) will apply.

3.6 **Disbursements and reimbursement of expenditures.** For the use of funds, BROU will set up a special account in the program's name at the Central Bank of Uruguay (BCU). The principle disbursement method envisaged will be the reimbursement of payments made, which will consider reimbursing BROU for any loans made as a charge against the program, on a semiannual basis. However, the executing agency may also choose to request advances of funds based on its liquidity needs, to which end it will have to submit loan programming.

3.7 **Disbursement mechanism.** Disbursements will be made based on actual demand received by BROU in the form of financing requests under the two components. The IDB will disburse proceeds to BROU to finance direct loans via reimbursements or advances of funds, in accordance with the IDB's customary practice, on the basis of portfolio programming or of the portfolio taken on by BROU. Disbursements will be verified ex post and will be subject to in situ review of the operations granted based on a representative sample.

3.8 **Use of program recoveries.** Program recoveries—such as loan cancellations or advance payments of subloans granted with program resources—that the borrower receives during the original disbursement period or its extensions and that accumulate in excess of the amounts necessary for loan servicing will be used to finance new operations consistent with the program's general objective.

3.9 **Auditing.** BROU, as an institution, will deliver its financial statements to the Bank once they have been posted on its website and delivered to the BCU. The program's financial statements will be audited in accordance with the terms of reference previously approved by the Bank. Annual and final audit reports will be delivered up to 120 days after the end of the period, fiscal year, and last disbursement date, respectively.

3.10 **Commitment on encumbrances.** For this operation, at BROU's request, some changes in the wording of the contractual clause regarding the borrower's commitment on encumbrances, envisaged in the General Conditions of the loan contract, have been agreed upon. Instead of undertaking to create collateral security on its assets in favor of the Bank, in the event that assets are given as collateral for external debts with third parties, BROU will assume a limited commitment with the Bank, pursuant to which it may set up certain types of encumbrances to secure external loans without having to set up equivalent encumbrances in favor of the Bank. This particularity is considered acceptable given the nature of BROU, a State-owned financial institution autonomous of the State's industrial and commercial

domain, which operates as both a development and a commercial bank, and borrows funds in local and international markets, with local and international financial institutions (paragraph 1.11). The standard commitment on encumbrances would constitute a significant constraint on BROU activities, compared with traditional development banks. In addition, BROU is a well-established and financially autonomous institution, with ample operational and financial capacity with respect to the obligations it assumes with the Bank, and this matter is not expected to affect BROU's repayment capacity.

B. Summary of results monitoring arrangements

3.11 **Monitoring.** With regard to the monitoring of this second individual operation, there is an agreement between the IDB and BROU (borrower and executing agency) that calls for using the Results Matrix to guide the monitoring of information and evaluate the previously indicated impacts and outcomes. Program monitoring will be done through semiannual reports prepared by the executing agency, which will take as a benchmark the commitments set out in the Results Matrix and the reports indicated in the General Conditions.[36] Moreover, the Bank will conduct periodic visits to follow up on and monitor program execution.

3.12 **Evaluation.** In this second individual operation, a midterm evaluation is proposed, to be conducted 24 months after entry into force of the loan contract, or when 50% of the loan proceeds have been disbursed, whichever occurs first. The evaluation will consider fulfillment of intermediate targets. Moreover, BROU will submit a final evaluation report to the Bank, six months from the end of the disbursement period, containing pertinent information to evaluate fulfillment of the objectives and behavior of the indicators.

3.13 As a final evaluation methodology, an ex post cost-benefit analysis (CBA) for its main component (representing 70% of the total amount of the operation) is proposed, which also addresses the needs of the counterpart to reduce the complexity of execution and the costs associated with the operation. The ex post CBA can be considered a reassessment of the ex ante CBA since the magnitudes actually involved are already known. From the foregoing, it is clear that the key elements of the proposed ex post CBA are similar to those of the ex ante CBA, with the additional element that now the projections of the project considered will be replaced with actual values at the end of the operation. The final report that includes the ex post economic evaluation will serve as input for preparing the project completion report.

3.14 **Information.** In accordance with legal obligations on the keeping of records, BROU will compile and store the information, indicators, and parameters, including annual plans, the midterm review, and the final evaluation, necessary for the preparation of the project completion report and the ex post evaluation by the Bank.

[36] BROU will deliver loan execution reports within 60 calendar days from the end of each six-month period (August and February). See the program Operating Regulations.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	**Yes**	
Development Challenges & Cross-cutting Themes	**-Productivity and Innovation -Climate Change and Environmental Sustainability**	
Country Development Results Indicators	**-Roads built or upgraded (km)* -Beneficiaries of improved access to formal financial services (#)***	
2. Country Development Objectives	**Yes**	
Country Strategy Results Matrix	**GN-2836**	**Increase medium -and long-term financing.**
Country Program Results Matrix	**GN-2915-2**	**The intervention is included in the 2018 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**9.6**	
3.1 Program Diagnosis	**3.0**	
3.2 Proposed Interventions or Solutions	**3.6**	
3.3 Results Matrix Quality	**3.0**	
4. Ex ante Economic Analysis	**9.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**3.0**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**0.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**8.5**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**6.0**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium**	
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		
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	**Yes**	**With the technical cooperation UR-T1181 the BROU will be supported in the structuring of a division that will focus on financing for PPP projects and that will serve to support the development of the mechanisms and financial instruments that will be used in the implementation of the second component. Additionally, with the technical cooperation RG-T3273 and together with the PPP Unit of the IDB a plan for skills building for the new BROU PPP division with the aim of strengthening the financial analysis capacity of these projects.**

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

Despite sustained economic growth in Uruguay from 2005-2017, it was mainly due to accumulation of labor and capital and not gains in productivity. Also, investment has been decelerating. This project for $50MM is the 2nd operation in a CCLIP and seeks to enhance productivity catalyzing investment through long term financing in 2 veins: (1) to the strategic agroforestry sector and (2) to infrastructure. (1) The agroforestry sector has shown a decline in its productivity in the last 3 years. The sector accounts for 15% of GDP and provides 19,000 jobs. It is composed of 1,800 firms of which 93% are MSMEs. The MSMEs in this sector face challenges characteristic of small firms when they seek longer term financing and additionally challenges specific to the sector given the long-term required for the growth of some species. In Uruguay, credit to the private sector only represents 24% of GDP, one of the lowest in the region. Moreover, available credit is mostly short term given that 55% of loans are in dollars and dollar deposit liabilities of the banks are mainly demand deposits. (2) The lack of availability of long-term credit also limits large infrastructure investments. The agroforestry sector as well as others depend on the quality and availability of infrastructure to transport freight. The distance to export nodes in Uruguay is lower given its smaller size than in other countries this does not translate to lower overall transport times (4 days in Uruguay vs. 3 in the region and 2 in developed countries). Toward these two ends aimed at enhancing productivity, the project is focused on two specific objectives: (i) facilitating productive investments to agroforestry firms and (ii) enabling investments in public private infrastructure. The Results Matrix adequately captures project benefits like for examples increments in wood production, agroforestry exports, financing terms, and average daily transit in benefitted areas amongst others. The cost-benefit analysis shows the project is a net benefit to society. At closure, this analysis will be reassessed substituting assumptions with realized values in a cost-benefit analysis ex-post.

RESULTS MATRIX

Program objective:	The general objective of this operation is to promote investment in infrastructure and businesses' productive investments by providing medium- and long-term financing through BROU. The specific objectives are: (i) to facilitate investments of productive credit for agroforestry enterprises; and (ii) to enable investments in private or public-private productive infrastructure.

EXPECTED IMPACT

Indicator	Unit of measure	Baseline	Baseline year	Interim target	Interim year	Final target	Final year	Means of verification	Comments
Impacts (connected to the general objective): Increases in productivity, exports, and quality of infrastructure.									
Impact 1. Agroindustrial GDP (includes agroforestry sector).	US$ million (2005 constant prices)	64,435	2017	64,438	2020	64,442	2022	Ministry of Livestock and Fisheries (MGAP) – Office of Agricultural Statistics (DIEA) Agricultural Statistics Yearbook.	The indicator is the sum (at constant 2005 prices) of agricultural GDP (42,028 pesos) and the GDP of industries associated with the agriculture sector[1] (22,408). To establish the target, the agroindustrial GDP has been estimated using a linear regression model with the series available for 2010-2017. An adjusted R-squared of 0.41 yields a coefficient of 716.86 statistically significant to 90%. Considering the average for that period of 62,737.25, there would be an annual increase in agroindustrial GDP of 1.14, meaning, without the program the agroindustrial GDP would be 64,440.72. Considering a conservative program effect of 0.36, the target established for 2022 would be reached.

[1] Including: production, processing, and conservation of meat and meat products; processing of dairy products; manufacturing of textile and leather products; and manufacturing of wood and paper products (except furniture and printing).

Indicator	Unit of measure	Baseline	Baseline year	Interim target	Interim year	Final target	Final year	Means of verification	Comments
Impact 2. Logistics Performance Index: quality of infrastructure related to trade and transportation.	(1= low to 5= high)	2.795	2016	2.820	2020	2.856	2022	World Bank Logistics Performance Index surveys[2]	The round of surveys in 2009 covered over 5,000 evaluations of countries through almost 1,000 freight forwarding services. The respondents evaluate eight markets on six basic dimensions, on a scale of 1 (worst) to 5 (best). The markets were chosen on the basis of the most important export and import markets of the respondent's country, selected at random and, for landlocked countries, by the neighboring countries that connect them to international markets.[3]

EXPECTED OUTCOMES

Indicator	Unit of measure	Baseline	Baseline year	Interim target	Interim year	Final target	Final year	Means of verification	Comments
Outcomes (connected to specific objective 1): Increase in agroforestry exports and production.									
Outcome 1. Forestry exports with the free-trade zone.[4]	US$000	1,674,437	2017	2,100,000	2020	2,753,780	2022	MGAP DIEA Agricultural Statistics Yearbook. Prepared by the Forestry Directorate, based on Urunet / BCU data.	The indicator reflects the following products: raw timber, sawn timber, manufactured products, wood pulp. To establish the target for this indicator, forestry exports have been estimated using a linear regression model with the series available for 2012-2017. An adjusted R-squared of 0.86 yields a coefficient of 129329.3 statistically significant to 95%. Considering the average for the period of 1,341,006, there would be an annual increase in forestry exports of 9.64, meaning, without the program exports would reach 1,835,853. Considering a conservative effect of the program of 1.5, the target established for 2022 would be reached.

2 In association with academic institutions, private companies, and individuals involved in international logistics.

3 The details of the methodologies for the surveys can be found in the Arvis et al. report entitled "Connecting to Compete: Trade Logistics in the Global Economy (2010)". The respondents evaluated the quality of trade and infrastructure related to transportation (for example: ports, railroads, highways, and information technology), on a scale ranging from 1 (very low) to 5 (very high). The scores of all respondents are averaged. Given the qualitative nature of the indicator, it is difficult to estimate its growth rate, but Argentina's score on that indicator (2.856) could be used as a proxy, given the significant trade flow (imports and exports) and its similarities from the standpoint of economic structure.

4 The figures include exports of round wood to the free-trade zones of Fray Bentos and Conchillas, but do not include wood pulp exports from those free-trade zones.

Indicator	Unit of measure	Baseline	Baseline year	Interim target	Interim year	Final target	Final year	Means of verification	Comments
Outcome 2. Total wood production from agroforestry sector projects.	000 m^3	12,405	2018	13,750	2020	15,457	2022	BROU reports and MGAP DIEA Agricultural Statistics Yearbook.	To establish the target for this indicator, total (coniferous and non-coniferous) timber extraction has been estimated using a linear regression model with the series available for 2010-2017. An adjusted R-squared of 0.60 yields a coefficient of 699.31 statistically significant to 95%. Considering the average for the period of 12,405 as the baseline, an annual increase in wood production of 5.34% in thousands of cubic meters would be reached without the program. Taking as a benchmark the impact of IMPLAN multipliers for the industry (railroad)—direct and indirect (1.3) and induced (0.3)—on production, as a result of program support for agroforestry industries, there would be a total coefficient of 1.6 to multiply the cubic meters that would be obtained at the end of the program if that program had not taken place.[5] Conservatively, only the effect of the agroforestry enterprises has been incorporated, since the railroad would not be fully operational in 2022.
Outcome 3. Differential in the duration of medium- and long-term loans with respect to the system (agroforestry projects).	Years	8	2018	10	2020	12	2022	BROU reports and IDB internal reports.	This indicator seeks to quantify the effect of the program on the extension of the length of medium- and long-term loans, with respect to the length of loans offered by the financial system for agroforestry projects.

5 See: Ozbay et al. (2015). Impact of the Rail Grants Program (FHWA-NJ-2015-002).

Indicator	Unit of measure	Baseline	Baseline year	Interim target	Interim year	Final target	Final year	Means of verification	Comments
Outcomes (connected to specific objective 2): Increase in the flow of travelers in the intervention area.									
Outcome 1. Total annual average daily traffic along routes 14 and 15.	Number of vehicles	3,684	2014	3,700	2020	3,948	2022	Reports of the Corporación Nacional para el Desarrollo (CND) on the routes 14 and 15 road corridor, BROU reports, and IDB internal reports.	Annual average daily traffic (AADT) is defined as the total volume of vehicular traffic at a point or on a section of a road during a specific period of time, which is more than one day and less than or equal to one year, divided by the number of days included in the measurement period. The calculation included route 14 (sections 303+N1, N2, N3, 304, and 305) and route 15 (sections 310 and 311) based on data from the CND's prefeasibility report.[6] The baseline for the indicator is AADT (normal traffic) before the project (3,684) and the target adds the AADT (traffic generated) after the program-supported road infrastructure project is executed (264).[7]
Outcome 2. Financial leverage (transport infrastructure projects).	US$ millions	35	2018	70	2020	105	2022	BROU internal reports	This indicator refers to mobilization of bank resources for transport infrastructure projects.
Outcome 3. Differential in the duration of medium- and long-term loans with respect to the system (transport infrastructure projects).	Years	8	2018	11	2020	15	2022	BROU reports and IDB internal reports	This indicator seeks to quantify the effect of the program on the extension of the length of medium- and long-term loans, with respect to the length offered by the financial system for transport infrastructure projects.

6 The adoption of this transport infrastructure project as a prototype is based on the following arguments: (i) the amount of the investment and the kilometers of highway can be considered a typical project in the pipeline that BROU handles under this project heading; and (ii) this project presents a prefeasibility report with detailed information about its technical characteristics, making it possible to take a robust measurement at the outcomes level and in terms of economic and social benefits, as detailed in the next footnote.

7 The indicator serves as a basic input for the calculation in the cost-benefit analysis of the differential in the value of time of passengers making work-related trips on routes 14 and 15, between the scenarios "without" and "with" increased traffic as a result of the project (see the annex to the Cost-benefit analysis for more details on the calculations and assumptions). It is important to note that in the scenario without the project, increases in vehicular traffic are not considered because there is no prior information for estimating the trend.

OUTPUTS

Output	Unit of measure	Baseline	Baseline year	2019	2020	2021	2022	Final target (2022)	Means of verification	Comments
Component I. Financing for productive investment loans in agroforestry through BROU										
Output 1. Total amounts of loans disbursed to enterprises for productive investment projects in the agroforestry and agroindustrial sector financed with program resources.	US$ million	0	2018	2.5	2.5	5	5	15	BROU public reports and IDB internal reports	The indicator will measure the total amounts of agroforestry and agroindustrial projects that receive medium- and long-term loans from BROU with the program's Component I resources and begin their implementation. The quantity injected has been chosen as the output because a smaller number of enterprises is expected to be served and the information on the average loan amount is uncertain subject to future demand.
Component II. Financing for private and/or public-private productive infrastructure works										
Output 2. Total amounts approved through the program for private and/or public-private infrastructure projects.	US$ million	0	2019	5	10	10	10	35	BROU public reports and IDB internal reports	The indicator will measure the total amounts of private and/or public-private productive infrastructure projects that receive financial support from BROU with the program's Component II resources and begin their implementation. The quantity injected has been chosen as the output because the number of private or public-private projects is subject to demand and a lower number is anticipated.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Uruguay
Project number:	UR-L1115
Title:	Financial Program for Productive Development II – Second Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) for Financing Productive Development (UR-X1011).
Executing agency:	Banco de la República Oriental del Uruguay (BROU)
Prepared by:	Emilie Chapuis and Abel Cuba (FMP/CUR)

I. EXECUTIVE SUMMARY

1.1 This operation is a global credit program is part of a CCLIP in the amount of US$250 million. This operation in the amount of US$50 million, 100% financed with funds from the Bank, is the continuation of the first loan, the total cost of which was US$125 million. The borrower and executing agency will be BROU and the guarantor will be the Eastern Republic of Uruguay.

1.2 The Fiduciary Agreements and Requirements established for this program are based on an institutional assessment of the executing agency performed in September 2014, using the Institutional Capacity Assessment System. According to that methodology, it was determined that the fiduciary risk was low. They are also based on the executing agency's level of performance during execution of the first loan, 3396/OC-UR, in which, as documented in the operation's project monitoring report, the execution level was satisfactory. Lastly, the executing agency's institutional capacity level was deemed satisfactory and the associated fiduciary risk is therefore low, given that: (i) this new operation is the second loan under the CCLIP modality; (ii) the execution conditions identified in operation 3396/OC-UR will remain identical during execution of this new loan, including the staff in charge of executing the operation; and (iii) the performance of the executing agency, which has experience with the Bank's policies, has been satisfactory.

A. The executing agency's fiduciary context

1.3 BROU was founded in 1896 and has been operating without interruption since then. It is considered Uruguay's largest bank and the one with the most customers; it is owned by the State. Headed by a Board, the bank has a structure with clearly-defined functions to fulfill its missions, including the Office of the General Manager, a Commercial Office, a Resources Management Office, and an Accounting Office.

1.4 For program execution, BROU will use its institutional structure, which has clearly defined and duly formalized systems and processes. Its staff is qualified to perform its functions. The program will be dealt with in the same way as operation 3396/OC-UR, currently being executed with satisfactory results, as evidenced in the project progress reports and external auditing reports.

II. Fiduciary Risk Evaluation and Mitigation Actions

2.1 As the program is considered low risk in fiduciary terms, it will require minimal monitoring actions to strengthen the control environment and ensure effective and efficient administration of the resources. No execution difficulties are envisaged, considering that the financing is focused on credit components, which will follow the usual approval and execution channels within the institution.

III. Considerations for the Special Provisions of the Contracts

3.1 **Exchange rate:** For dollar-based accounting, the exchange rate on the effective payment date will be used.

3.2 **Auditing of financial statements:** Annually within 120 days following the close of BROU's fiscal year and during the loan disbursement period, financial statements will be delivered to the Bank, duly audited by an independent auditing firm acceptable to the Bank and with terms of reference agreed upon with the Bank. The last report will be delivered within 120 days following the date stipulated for the final disbursement of the financing.

IV. Agreements and Requirements for Procurement

4.1 As this is a primarily demand-driven program, no procurement of works, goods, services, or consulting services has been identified so far. When the end subborrowers are private entities, they will use standard private sector or commercial practices acceptable to the Bank, in accordance with paragraph 3.12 of the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9). When the end subborrowers are public entities, the respective sections of the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9) or the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-9) will apply.

4.2 **Execution of procurement.** As appropriate, before carrying out any procurement processes, the executing agency will present the procurement plan to the Bank for prior approval, with details indicating: (i) contracts for goods and services required to carry out the program; (ii) proposed methods for the procurement of goods and the selection of consultants; and (iii) procedures applied by the Bank for contract supervision. The borrower will update the procurement plan at least every 12 months and as required by the program. Any proposal to revise the plan will be submitted to the Bank for approval.

4.3 Section 5.1 notwithstanding, should it become necessary for a public entity to undertake any procurement with the loan proceeds, these Fiduciary Agreements and Requirements for procurement establish the applicable provisions:

a. **Procurement of works, goods, and nonconsulting services:**[1] Contracts arising from the program and subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be executed using bidding documents satisfactory to the Bank.

b. **Consulting firms:** These will be selected and contracted in accordance with Bank Policies. Internationally advertised calls (values greater than US$200,000) will be subject to ex ante review.

c. **Selection of individual consultants:** In accordance with Bank Policies set forth in document GN-2350-9, Section V, no shortlist is required and the standard request for proposals is not used.

A. Advance procurement/Retroactive financing

4.4 **Retroactive financing.** No retroactive financing is anticipated under this new loan.

Table 1. Thresholds for Uruguay (U.S. dollars)

Works			Goods and services			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International advertising	100% national shortlist
≥3,000,000	≤3,000,000 ≥250,000	≤100,000	≥250,000	≤250,000 ≥50,000	≤50,000	≥200,000	≤200,000

B. Main procurement processes

4.5 No procurement is planned to be undertaken by the executing agency. When the end borrowers are private entities, they are to use the market's standard procurement procedures acceptable to the Bank, in accordance with Annex IV to the Bank's Procurement Policies.

C. Procurement supervision

4.6 The initial review method is ex post, subject to amendment by agreement, which will be reflected in the procurement plan. ICB and consulting service contracts for over US$200,000 will be reviewed ex ante.

4.7 Ex post review reports do not envisage physical inspection visits,[2] given the low risk the executing agency represents and the nature of the activities.

V. Financial Management Agreements and Requirements

A. Programming and budget

5.1 The programming of program resources will be managed through BROU's integrated management system, following the institutional guidelines to that effect.

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[1] Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9), paragraph 1.1: Nonconsulting services will be treated in the same way as goods.

[2] The inspection will verify the existence of the procurement, leaving verification of quality and compliance with specifications to the sector specialist.

In consideration of the specific characteristics set out in the program components, for the programming of the use of resources, the provisions of the program Operating Regulations will be followed, based on credit beneficiaries' demand.

B. Accounting and information systems

5.2 BROU has an integrated financial information system, in which it manages institutional accounting. The system will also be used to record program transactions, to which end ledger accounts will be opened that make it possible to identify the Bank's funding line and the use of resources. Program financial statements will be issued in accordance with International Financial Reporting Standards accepted by the Bank in its Financial Management Policy.

C. Disbursements and cash flow

5.3 For the use of funds, BROU will set up a special account specifically in the name of the program at the Central Bank of Uruguay. The main disbursement method planned will be the reimbursement of payments made, which will consider reimbursing BROU for any loans made as a charge against the program, on a semiannual basis. However, the executing agency may also choose to request advances of funds based on its liquidity needs, to which end it will have to submit loan programming.

D. Internal control and external auditing

5.4 Program execution is embedded in BROU's organizational structure. Accordingly, institutional procedures for the management of loan proceeds will be followed. With regard to the use of resources, the program Operating Regulations will establish, among other things, credit approval and analysis procedures, eligible guarantees, and use of recoveries. Accountability, record keeping, and control issues (authorization and periodic bank account and investment reconciliation) will also be included.

5.5 Annual financial audit reports and evaluations of the respective internal control will be delivered, for every fiscal year during the disbursement phase, prior to 30 April of the following year. The financial audit report at the close of the project will be delivered within 120 days after the date of the last disbursement. The contracting of the audit firm and the terms of reference for that purpose will follow the Operational Guidelines for Financial Management (document OP-273-6). The costs of the audit may be financed with proceeds from the loan.

E. Financial supervision plan

5.6 The supervision plan will include the following:

a. For the first year of execution, a financial visit is planned.

b. Disbursement requests will be reviewed ex post, and verified by the external auditor, together with the delivery of annual reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Uruguay. Loan ____/OC-UR to Banco de la República Oriental del Uruguay
Financial Program for Productive Development II. Second Individual
Operation under the Conditional Credit Line for
Investment Projects for Financing Productive
Development UR-X1011

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 Banco de la República Oriental del Uruguay, as Borrower, and with the Eastern Republic of Uruguay, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Financial Program for Productive Development II, which constitutes the second individual operation under the Conditional Credit Line for Investment Projects for Financing Productive Development UR-X1011, approved by Resolution DE-210/14, on December 15, 2014. Such financing will be in the amount of up to US$50,000,000, 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 __ ____________ 2018)

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Pipeline: UR-L1115