

PUBLIC

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

PROGRAM TO SUPPORT FUTURE ENTREPRENEURS

(UR-L1071)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Pablo Angelelli (CTI/CUR) Project Team Leader; María Carina Ugarte (CTI/CUR) Alternate Project Team Leader; Carlos Guaipatin (IFD/CTI); Juan José Llisterri (IFD/CTI); Federica Gómez-Decker (MIF/CUR); Luciana López (Consultant); Javier Cayo (LEG/SGO); Alessandro Maffioli (SPD/SDV); Pablo Puente (FMP/CUR); Gabriele del Monte (FMP/CUR), and Cecilia Bernedo (IFD/CTI).

Under the Access to Information Policy, this document is subject to public disclosure.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, challenges, and rationale	1
B.	Program objectives, components, and costs	8
C.	Key indicators of the program's results framework	11
II.	FINANCING STRUCTURE AND MAIN RISKS	12
A.	Financing instruments	12
B.	Environmental and social safeguard risks	13
C.	Fiduciary risks	13
D.	Other key issues and risks	13
III.	PROGRAM EXECUTION AND MANAGEMENT PLAN	14
A.	Summary of the institutional execution agreement	14
B.	Summary of the agreements for monitoring results	15

ANNEXES	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results matrix
Annex III	Fiduciary agreements and requirements

ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP) IDBDocs36918380
2.	Monitoring and evaluation plan IDBDocs36933729
3.	Environmental and Social Safeguard Classification IDBDocs36992167
4.	Procurement plan IDBDocs37007566
OPTIONAL	
1.	Cost analysis and economic viability of the program IDBDocs36918403 IDBDocs36933711
2.	Yammal, C. and Bello, M. (2012). Estudio sobre generación de capacidades de incubación en Uruguay [Study on the development of incubation capacities in Uruguay] IDBDocs36918404
3.	Rivas, G. (2011). Final evaluation of Programa Emprender IDBDocs36933973
4.	IDB (2012). Fondo Emprender: Nuevas oportunidades para emprendimientos dinámicos en Uruguay [New Opportunities for Dynamic Business Ventures in Uruguay], Knowledge and Learning Sector (KNL) IDB-TN-386. IDBDocs36918406
5.	ANII (2012). Emprendedores innovadores [Innovative Entrepreneurs] IDBDocs36918407
6.	Draft Operating Regulations IDBDocs36933739
7.	Institutional capacity assessment IDBDocs36918408
8.	Vallarino, D. (2012). Estudio sobre dinámica emprendedora y factores críticos [Study on Entrepreneurial Drive and Critical Factors] IDBDocs36768681
9.	CINVE (2012). Analysis of the Programa Emprender evaluation IDBDocs36971977
10.	Report on the Fourth Annual Meeting of the Member Organizations of the Emprender Network. September 2011 IDBDocs36971984
11.	Varela, A. (2012). Radicación de talento emprendedor enfocado en la diáspora uruguaya y de otros países de la región [Establishment of Entrepreneurial Talent Focusing on the Uruguayan Diaspora and Other Countries of the Region] IDBDocs36971953

ABBREVIATIONS

ANII	Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency]
BCU	Banco Central del Uruguay [Central Bank of Uruguay]
BROU	Banco de la República Oriental del Uruguay [Bank of the Eastern Republic of Uruguay]
EA	Encuesta de Actividades de Innovación [Survey on Innovation Activities]
GEM	Global Entrepreneurship Monitor
ICAS	Institutional Capacity Assessment System
INE	Instituto Nacional de Estadísticas [National Statistics Institute]
LATU	Laboratorio de Tecnología de Uruguay [Technology Laboratory of Uruguay]
LIBOR	London Interbank Offered Rate
OECD	Organization for Economic Cooperation and Development
R+D+i	Research, development, and innovation
TEA	Total entrepreneurial activity
WAL	Weighted average life

PROJECT SUMMARY

URUGUAY PROGRAM TO SUPPORT FUTURE ENTREPRENEURS (UR-L1071)

Financial Terms and Conditions				
Borrower: Eastern Republic of Uruguay			Flexible Financing Facility*	
			Amortization period:	25 years
Executing agency: Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency] (ANII)			Original weighted average life (WAL):	15.25 years
			Disbursement period:	5 years
Source	Amount	%	Grace period:	5.5 years
IDB: Ordinary Capital	US\$8,000,000	100	Inspection and supervision fee:	**
Local:	0	0	Interest rate:	LIBOR-based
Total:	US\$8,000,000	100	Credit fee:	**
			Currency:	United States dollars from the Bank's Ordinary Capital
Project at a Glance				
Program objective/description: The general objective of the program is to help boost private investment in innovation activities. The specific objective is to increase the number of new and successful innovative business ventures in Uruguay.				
Special conditions precedent to the first disbursement of the loan: (i) appointment of the managing coordinator for the Emprender Network, in line with the profile previously agreed on with the Bank; (ii) entry into force of the program Operating Regulations; (iii) signature of the cooperation agreement between ANII and the Technological Laboratory of Uruguay (LATU)-Ingenio for the execution of Component 2 activities; and (iv) signature of the execution agreement between the borrower's Ministry of Economy and Finance and the executing agency, to regulate the terms and conditions by which the borrower will transfer the proceeds of the Bank loan to the executing agency (see these conditions in paragraph 2.2).				
Exceptions to Bank policies: None.				
Procurement: Program procurements will be made in accordance with Bank policies (documents GN-2349-9 and GN-2350-9).				
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []				

* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes in the amortization schedule and currency and interest rate conversions, subject in all cases to the final amortization date and the original WAL. In considering such requests, the Bank will take market conditions and operational and risk considerations into account.

** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, challenges, and rationale

- 1.1 The creation of new enterprises, in other words entrepreneurial activity, is important for countries' innovation processes, competitiveness, and growth. By replacing less productive enterprises and tapping opportunities afforded by new technologies, new enterprises play an important role in spurring innovation, generating value, creating jobs, and fostering structural change, all of which contribute to economic development. Because of these effects, most of the countries of the Organization for Economic Cooperation and Development (OECD) have taken action to promote entrepreneurship within the framework of their policies on innovation.¹
- 1.2 Without public support, entrepreneurial activity can develop at a less than optimum level from the economic and social standpoints. Not only do entrepreneurs have to cope with the risks associated with any business, according to economic theory, they frequently have information asymmetries in the startup and initial development stages of their enterprises to be able to access financing. Moreover, some business ventures generate externalities that prevent the entrepreneurs from receiving all the earnings from their businesses; as a result they invest less than the social optimum. These flaws are accentuated in developing countries with small markets, weak institutions, and where demand is not always sufficient to create incentives to invest in new businesses.²
- 1.3 According to the Global Entrepreneurship Monitor (GEM), in Uruguay entrepreneurial activity, defined as the percentage of adult entrepreneurs or owner-managers of new businesses, was stable between 2006 and 2010 (around 12%), and grew to 16.7% in 2011. This places the country among efficiency-based economies,³ albeit at a lower level than other Latin American countries in that category, including Chile (23.7%), Peru (22.9%), and Colombia (21.4%). The most important problem for Uruguay, however, is not the number of enterprises but their quality in terms of growth, exports, and innovation. In this regard, according to the GEM, in Uruguay only 31% of entrepreneurs or owner-managers of new businesses have growth expectations that exceed five employees, only 17% are export oriented, and 30% offer innovative products or services (Table 1.1).

¹ Thurik, R. and S. Wennekers (2004). Entrepreneurship, Small Business and Economic Growth. *Journal of Small Business and Enterprise Development*. 11(1): 140-149. Series: International Studies in Entrepreneurship. Vol. 9. Åsa Lindholm Dahlstrand and Lois Stevenson (2007). *Linking Innovation and Entrepreneurship Policy*.

² Kantis, H. (2008). *Aportes para el diseño de Programas Nacionales de Desarrollo Emprendedor en América Latina [Contributions to the Design of National Entrepreneurship Development Programs in Latin America]*. IDB.

³ Porter *et al.* (2002) classify countries in accordance with three possible development stages: factor-based, efficiency-based, and innovation-based.

**Table 1.1: Entrepreneurship indicators
(2011 or latest year available)**

Indicator	Uruguay	Chile	Colombia	Peru
Percentage of the population ages 18 to 64 who are entrepreneurs or owner-managers of a new business (total entrepreneurial activity–TEA).	16.7	23.7	21.4	22.9
Percentage of TEA that expects to employ at least 5 people in the future.	31.0	40.0	46.0	26.0
Percentage of TEA that indicates that its products or services are new to at least some customers.	30.0	90.0	72.0	79.0

Source: GEM, see www.gemconsortium.org.

- 1.4 Other business indicators also suggest a problem of quality in Uruguayan enterprises. For example, according to the National Statistics Institute (INE), in 2010, 97% of existing businesses had less than 20 employees, which indicates that most businesses are unable to grow into medium-sized firms.⁴ Moreover, Uruguayan enterprises are characterized by weak performance in terms of innovation. According to ANII's surveys on innovation in the industry and service sectors, Uruguayan businesses invest 1.6% of their sales in innovation activities, far below similar indicators for the OECD countries (Sweden 5.6%, France 3.6%, United Kingdom 3.8%).⁵
- 1.5 Three broad categories of factors affect the number and quality of new enterprises in an economy: (i) basic factors, such as the quality of institutions, macroeconomic stability, education, and infrastructure; (ii) enabling factors, which include smooth operation of the labor, goods, and financial markets, as well as the quality of technical and higher education; and (iii) specific factors, which include: (a) cultural values, (b) specialized entrepreneurial training services and support, (c) availability of financing for new enterprises, and (d) public policies that promote entrepreneurship. According to the assessment, Uruguay rates favorably in terms of basic and enabling factors, but has weaknesses in the specific factors, as explained in more detail below.⁶
- 1.6 **Cultural values.** In societies where entrepreneurship is a cultural value, entrepreneurship is considered a desirable career option, being an entrepreneur is considered a factor in social status, and the media cover and highlight the importance of entrepreneurs. In the case of Uruguay, two Bank studies conducted at

⁴ According to the OECD study "Entrepreneurship at a Glance 2012," in most of the OECD countries, enterprises with more than 20 employees represent more than 3% of all existing enterprises.

⁵ IDB (2011). The Imperative of Innovation. Creating Prosperity in Latin America and the Caribbean.

⁶ The Uruguayan economy performed well at the macroeconomic level in recent years (positive growth rates and low unemployment). In addition, in 2012, the country showed improvements in the World Bank's *Doing Business* indicators, especially the indicator on starting new businesses (for more information see [Valarino, D. \(2012\)](#)).

the beginning of the last decade showed that the low social value attributed to entrepreneurs was an obstacle to more vigorous entrepreneurial activity.⁷ That scenario has been changing thanks to the efforts of Programa Emprender (ATN/ME-10146-UR), which was financed by the Multilateral Investment Fund (MIF) and included financial support and technical assistance for the different stages of the entrepreneurial process.⁸ Nonetheless, creating cultural values that promote or contribute to entrepreneurial and innovative attitudes among the population is a long-term challenge, and as indicated in the GEM indicators, there are still gaps in Uruguay that need to be bridged.⁹

- 1.7 **Specialized entrepreneurial training and support services.** Access to quality support services (training, mentoring, consulting services, etc.) is key to enable entrepreneurs to move forward in the design, launching, and development of their businesses. The number of institutions that provide this type of service in Uruguay has increased considerably in recent years. In 2004, a Bank study found only three organizations that supported entrepreneurship (Fundación FUNDASOL, Endeavor Uruguay, and the Ingenio business incubator);¹⁰ now, more than 15 organizations are engaged in this type of activity. With the support of Programa Emprender, these institutions were organized into a network (Red Emprender) that helped specialize their services in the stages of the value chain of entrepreneurial support (see Table 1.2), in which they had the strongest competencies. For example, Ingenio gave up preincubation activities to concentrate its services exclusively on incubation services; it now receives enterprises preincubated by other specialized organizations.¹¹
- 1.8 However, even though improvements were made in terms of specialization, almost 70% of the network's member organizations concentrate their support in the early stages of the value chain (idea, design, gestation), with less capabilities available to

⁷ IDB (2004) Thematic note on Uruguay's competitiveness. Kantis, H. (2005). *Empresarialidad y contexto emprendedor en Uruguay* [Entrepreneurship and the Entrepreneurial Context in Uruguay].

⁸ Vallarino, D. (2012) found an increase in the number of news articles on entrepreneurship in the country's graphic and audiovisual media, and that many of these articles sprung from institutions associated with Programa Emprender.

⁹ The GEM measurements show that in Uruguay, the adult population (ages 18 to 64): (i) ranks entrepreneurship low as a career option (58% vs. 72.9% in Chile, 89.9% in Colombia, and 84.8% in Peru); (ii) considers that being a successful entrepreneur increases a person's social status (58.7% vs. 69% in Chile, 78.7% in Colombia, and 81.7% in Peru); and (iii) perceives that the media pays attention to entrepreneurship (32.5% vs. 69.7% in Chile, 67.4% in Colombia, and 78.1% in Peru). Source: GEM. 2011 Global Report, available at www.gemconsortium.org.

¹⁰ Kantis, H. (2005).

¹¹ Existing preincubators in Uruguay originated in universities and their objective is to help university students, graduates, and post-graduate students develop and transform their thesis business ideas and projects into enterprises. Many of the projects and enterprises that enter the Ingenio incubator come from those preincubators.

support the enterprises' startup and initial growth stages¹² (see Table 1.2). Moreover, entrepreneurs perceive an overlapping of activities and consider support to be of low intensity, variable quality, and too short in terms of duration.¹³ This suggests that flaws still exist in the coordination process that impede greater specialization of the network's member institutions, and that these flaws could be dealt with through a public intervention to give continuity to the the efforts of Programa Emprender.¹⁴

Table 1.2: Entrepreneurship support value chain and key services

Stage	Training and motivation	Design and gestation	Startup	Initial development
Activities and services	Awareness and origination workshops for entrepreneurs; brainstorming workshops; idea and business plan competitions	Assessment of the business' potential, exploratory study of new areas, access to networks of contacts, trials and pilot tests, technical validation, commercial validation, preincubation.	Support for implementing business plans, preparation of prototypes, mentoring and tutoring networks, incubation.	Seed funding and access to investors, networks of contacts, highly specialized consulting services, specific training

Source: Programa Emprender www.emprender.com.uy.

- 1.9 In addition, for the network to continue strengthening services to the currently underserved stages (just a few organizations offer services for the startup and initial development stages), new incubation capacities need to be developed. While Ingenio is currently the only consolidated incubator in the country, its infrastructure and human resources are insufficient to cope with the amount and variety of business ideas and projects from the preincubators and research and technology centers. For example, in 2010 and 2011 an average of 75 projects were preincubated annually, while Ingenio only has capacity to work with 19 projects, revealing unmet demand in incubation services.
- 1.10 A last point to note regarding the Emprender Network is that the vast majority of its member organizations are located in Montevideo. Only two are outside the metropolitan area despite the fact that, according to INE, 40% of Uruguayan enterprises are located outside the capital. In addition, evidence suggests that the entrepreneurial projects from outside the capital that have sought financial support

¹² Red Emprender (2011) Informe de la 4ta. Jornada Anual de las Organizaciones Miembros de la Red Emprender [Emprender Network (2011). Report of the Fourth Annual Meeting of Member Organizations of the Emprender Network].

¹³ Yammal, C. and Bello, M. (2012). Estudio sobre generación de capacidades de incubación en Uruguay [Study on the Creation of Incubation Capacities in Uruguay] ([see optional electronic link 3](#)).

¹⁴ Programa Emprender provided subsidies to the network's member institutions to cover part of the cost of their activities and services in support of entrepreneurs.

from ANII are of lower quality than those from Montevideo,¹⁵ which may be due to the lower availability of support services for entrepreneurial activities. This suggests that the territorial perspective should be included to strengthen the network, in particular for areas that offer greater potential for new business ventures (i.e., agroindustrial enterprises in the coastal area, tourism in the eastern part of the country).

- 1.11 **Support for entrepreneurs abroad.** Potential entrepreneurs living abroad are another segment for which support services need to be strengthened. A large group of young, highly educated people live outside of Uruguay in a small number of countries. The largest communities of Uruguayan migrants are in Argentina (111,222), Spain (99,666), and the United States (47,772). Of these, 55% are between 20 and 30 years of age. The educational level of Uruguayans residing in the United States of America and Spain is higher than that of the population in the country. While in Uruguay 5.7% of the population has a university degree, that percentage climbs to 8.2% among Uruguayans in the United States, and 13.7% among those in Spain. While certain basic and enabling factors could attract the diaspora to undertake entrepreneurial activity in Uruguay, the specific negative factors mentioned earlier could discourage them. In other words, while significant potential appears to exist, better services are needed to attract entrepreneurs living abroad and help them set up business in the country.¹⁶
- 1.12 **Specialized financing for new enterprises.** The availability of specialized financing, or smart capital, from venture capital funds and private investor networks is of key importance for new enterprises to be able to successfully navigate the early stages of growth, when it is more difficult to obtain funds from traditional sources, such as banks. In Uruguay, Fondo Emprender is the only one whose mission is to finance new enterprises. It was created in 2007 under the auspices of the National Development Corporation (CND), the Technology Laboratory of Uruguay (LATU), the MIF, the Andean Development Corporation (CAF), and administered by Prosperitas Capital Partners (PCP). An investors network associated with the Fund also has the aim of supporting new businesses. While Fondo Emprender's investment experience was successful (see paragraph 1.15), it also revealed the critical importance for a small fund (US\$1.5 million) such as itself to have MIF support to cover management costs.
- 1.13 **Public policy promoting entrepreneurship.** While an analysis of the situation in Uruguay shows some successful experiences fostering entrepreneurship, these experiences were designed and run as independent operations, not as part of a set of complementary interventions. This has not led to the development of an efficient

¹⁵ Yammal, C. and Bello, M (2012) have shown that ANII's project rejection rate is higher outside the capital than in Montevideo.

¹⁶ Varela, A. (2012). Radicación de talento emprendedor en Uruguay y otros países de la región [Establishment of Entrepreneurial Talent in Uruguay and Other Countries in the Region] ([see optional electronic link 12](#)).

nationwide support for entrepreneurship. Nor has a source of medium-term financing been developed to date to support entrepreneurship, and no public institution has been charged with coordinating development in this subject area.

- 1.14 **Previous Bank interventions.** Since the beginning of last decade, the Bank has supported various initiatives to foster entrepreneurship. In 2001, with MIF support (ATN/ME-7423-UR), the LATU and ORT University created the Ingenio incubator, which focuses on innovative projects with high growth potential. Ingenio belongs to LATU, a non-state entity under public law with a long history of providing technological services to Uruguayan companies. Ingenio's performance indicators show that it has been an effective tool in contributing to the creation of enterprises. Between 2001 and 2011, Ingenio provided specialized advisory services to 75 enterprises, of which one third successfully entered the market. Ingenio's results have been consolidating and improving over time. Currently, its project selection committee meets about six times a year, with three to four projects reviewed each time; of these, two or three are accepted. Ingenio graduates between six and eight companies per year. Ingenio is the benchmark for the region, and has helped create new incubators in El Salvador, Panama, and Paraguay.
- 1.15 The second experience was the MIF's Programa Emprender, which showed the importance of using a comprehensive approach to foster entrepreneurship. As mentioned earlier, the Emprender Network grew out of Programa Emprender. It links institutions that, between 2006 and 2011, provided specialized services to more than 400 entrepreneurs and contributed to the creation and consolidation of approximately 80 new dynamic business ventures.¹⁷ The program also supported the creation of Fondo Emprender, and a network of private investors. By mid-2011, Fondo Emprender had reviewed 500 projects, 28 of which were submitted to the investment committee. Of those, 24 received financing for a total of US\$1.1 million. In addition, five businesses received US\$788,600 in funding from private investors.¹⁸ A recent evaluation of the beneficiary businesses showed a positive relationship between financing from Fondo Emprender and exports. In other words, the likelihood of the companies exporting would increase when financing was obtained from the Fund.¹⁹
- 1.16 The third Bank-supported experience was the lines of support to young entrepreneurs and new enterprises administered by ANII, which began in 2009 with a Bank loan (Technology Development Program II, loan 2004/OC-UR). There has been sustained demand for these lines, and support was provided to 46 projects

¹⁷ Rivas, G. (2011). Evaluación final del Programa Emprender [Final Evaluation of Programa Emprender] ([see optional electronic link 4](#)).

¹⁸ IDB (2012). El Fondo Emprender: Nuevas oportunidades para emprendimientos dinámicos en Uruguay [The Emprender Fund: New Opportunities for Dynamic Business Ventures in Uruguay]. Knowledge and Learning Sector (KNL) IDB-TN-386 ([see optional electronic link 5](#)).

¹⁹ Cinve (2012). Análisis de la evaluación del Programa Emprender [Analysis of the evaluation of Programa Emprender] ([see optional electronic link 10](#)).

between 2008 and 2011. A study by ANII on the projects supported during the 2008-2009 period reported the following outcomes: (i) 30 of a total of 86 projects submitted were approved (33% approval rate); (ii) of these, 22 projects (88%) have completed execution; (iii) only five businesses closed down after the intervention, for a survival rate of 77%; and (iv) 296 jobs and exports totalling US\$3,121,000 were generated.²⁰

- 1.17 The most important lessons learned from these experiences were taken into account in designing this program. They include: (i) following a comprehensive approach, acting simultaneously in each stage of the entrepreneurial process and addressing factors that have a negative impact, from cultural factors that affect the entrepreneur's initial motivation to the development of specialized support services for consolidating the business; (ii) tapping existing capacities for entrepreneurship support, focusing on the best way to coordinate them and strengthening weak areas; and (iii) involving the private sector in all entities that support entrepreneurship.
- 1.18 **Program strategy.** Based on the experiences, the lessons learned, and the capacities developed through the previous successful initiatives financed by the MIF and the Bank (see paragraphs 1.14, 1.15, and 1.16), this program will support the government in creating a new strategic framework to support entrepreneurship that will include actions to address the specific factors identified that limit the creation and consolidation of new, quality enterprises in Uruguay. Component 1 will tackle the following challenges: (i) continue strengthening cultural values that encourage entrepreneurship; (ii) design a comprehensive action plan that helps put in place a national entrepreneurial policy; and (iii) strengthen coordination and specialization of the institutions in the Emprender Network. For its part, Component 2 will address the following challenges: (i) generate capacities to support entrepreneurial activity in the startup and consolidation stages, especially through the creation of business incubators; (ii) improve the geographic coverage of support services for entrepreneurship; (iii) encourage and support Uruguayans living abroad in setting up enterprises in the country; and (iv) finance the early stages involved in creating and consolidating new enterprises. Finally, since it will be led by the National Research and Innovation Agency, the program will help consolidate a single entity to coordinate actions in support of entrepreneurship in Uruguay.
- 1.19 **Strategic alignment.** The program is aligned with the 2011-2015 Country Strategy with Uruguay (document [GN-2626](#)), specifically the objectives of the science and technology area, with regard to promoting private investment in research and development, and establishing regional centers to meet business needs for technical services (see paragraphs 3.13.i and 3.13.iv). It is also included in the 2012 Operational Program Report (document GN-2661-4), which highlights its contribution to the GCI-9 targets associated with small and vulnerable countries, and financing for micro, small, and medium-sized productive enterprises.

²⁰ ANII (2012). Emprendedores innovadores [Innovative Entrepreneurs] ([see optional electronic link 6](#)).

B. Program objectives, components, and costs

- 1.20 **Objectives.** The general objective of the program is to increase private investment in innovation activities. The specific objective is to increase the number of new and successful innovative business ventures in Uruguay.
- 1.21 **Component 1. Support for entrepreneurial culture (US\$1 million).** The objective of this component is to promote an entrepreneurship culture, coordinate and further specialize the Emprender Network, and contribute to the adoption, in the medium-term, of a policy on entrepreneurship. This component will finance the following: (i) awareness and communication activities to introduce the program and spur entrepreneurial drive; (ii) development and support projects for potential entrepreneurs, to be implemented by the institutions in the Emprender Network; (iii) design of a comprehensive action plan based on the lessons learned from the program and that contributes to the adoption, in the medium term, of a policy on entrepreneurship; and (iv) consulting services for managing the Emprender Network. The program Operating Regulations will detail the beneficiary selection criteria and outline the operation of this component.
- 1.22 **Awareness and communication actions.** Annual campaigns will be financed to raise awareness and communicate information on entrepreneurial activity, targeting the population at large, and young people in particular. The Emprender Network's website will be enhanced to enable new entrepreneurs and other persons interested in entrepreneurial activity to learn about the support and training services available, as well as good practices and business lessons. The program will be able to reach agreements with the institutions that form part of the Emprender Network so they can contribute case studies of successful entrepreneurs, as well as with the media to create special sections to specifically cover entrepreneurial news in the press and the audiovisual media. The aim is to sensitize 10,000 people, 55% of whom will be women.
- 1.23 **Development projects.** Annual announcements will be made for the purpose of selecting an estimated 40 projects from institutions that support entrepreneurial development; the selected projects will receive grants of up to US\$8,000. The grants may be used to finance activities: (i) to heighten awareness of the entrepreneurial culture, (ii) to support the design and gestation of new businesses, and (iii) to preincubate companies. These activities should target the general public and people planning to launch a company, a part of them specifically designed to promote entrepreneurship among women. The following criteria will be used to select the projects: (i) the proposing institutions' experience with entrepreneurial development; (ii) the consistency of the proposed work plan; (iii) the expected outcomes and impact; and (iv) the counterpart contribution.
- 1.24 **Action plan for entrepreneurial development.** Support will be provided for designing an action plan for promoting entrepreneurship. This plan will take into account the experiences and lessons learned from implementing the program itself. Studies will also be financed to analyze and monitor the entrepreneurial ecosystem

- in Uruguay, the findings of which will serve as inputs for the design of policy proposals.
- 1.25 **Management of the Emprender Network.** A full-time team of consultants with demonstrated experience in entrepreneurial development will be hired to take charge of the following activities associated with the Emprender Network: (i) organize annual meetings to strengthen coordination among participating institutions; (ii) organize annual competitions for business ideas and business plans; (iii) contract and supervise awareness and communications actions; (iv) contract and supervise projects to support potential entrepreneurs to be implemented by institutions in the Emprender Network; (v) systematize information on all program activities and outcomes; and (vi) monitor the database of the program's entrepreneurs and businesses.
- 1.26 **Component 2. Support for the initial development of business ventures (US\$6.6 million).** The objective of this component is to strengthen capacities for supporting and financing new business ventures. This component will finance the following: (i) generation and strengthening of incubation capacities; (ii) attracting entrepreneurs to Uruguay; (iii) grants to allow for and accelerate the initial development of new enterprises; and (iv) grants to institutions that mobilize private financing for and provide expert support to new enterprises. The program Operating Regulations will detail the beneficiary selection criteria and outline the operation of this component.
- 1.27 **Generation and strengthening of incubation capacities.** The program will finance the design, implementation, and strengthening of up to five business incubators,²¹ two of which will be located outside the Department of Montevideo. The objective of the incubators will be to support the development of sustainable and successful enterprises in terms of value creation, sales, and employment. An estimated 82 companies are expected to be incubated over the life of the program.
- 1.28 To receive support, incubators must submit to ANII a work plan that specifies targets in terms of companies incubated and graduated, as well as a breakdown of the procurements to be financed by the program. ANII will evaluate these plans taking into account the following conditions and criteria: (i) quality of the incubator's management and technical team; (ii) consistency of the plan of activities; (iii) expected impact and financial sustainability of the incubator; (iv) legal status of the proponent; and (v) that it has its own property or is allowed to use the property for at least 10 years as of when it receives program support.
- 1.29 Program support will consist of financing to cover the cost of key personnel of the selected incubators (manager and project executives) and a grant of up to US\$200,000 per incubator during the life of the program. The grant funds may be

²¹ For the purposes of this program, "incubator" is defined as a private organization that offers a physical or virtual space for new entrepreneurs, providing them with comprehensive and ongoing services over time, tailored to their different stages of development. During the preparation stage, a study was conducted that found potential demand for eight incubators throughout the country ([see optional electronic link 3](#)).

used for the following categories, among others: (i) conditioning of physical space; expenditures on infrastructure and equipment; (ii) technical advising for incubated companies; (iii) mentoring services; (iv) business feasibility studies; and (v) operating costs.

- 1.30 **Support for entrepreneurs living abroad.** The program will finance promotional activities and technical assistance outside of Uruguay in order to identify and generate interest among high-potential entrepreneurs, Uruguayan or of other nationalities, whose projects are in the early stages of development. The aim is to encourage them to set up business in Uruguay, and to use Uruguay as a platform for their global businesses. Entrepreneurs interested in doing business in Uruguay and selected by the program will receive a grant of up to US\$40,000 to partially cover the initial cost of setting up their business in the country. Some 20 business ventures led by entrepreneurs living abroad are expected to receive support. They will be selected on the basis of the following criteria: (i) the degree of innovation, or product or service differentiation, offered by the proposed business venture; (ii) its growth and export potential; and (iii) the experience and capacities of the entrepreneur or business team.
- 1.31 **Grants for young entrepreneurs and enterprises.** This subcomponent will give continuity to the current ANII-administered lines of support for entrepreneurs and new companies. Grants will be received under the open window modality and will cover up to 80% of the costs of business startup and implementation projects, for a maximum US\$25,000 per year.²² Business ventures that implement their projects successfully (i.e., complete the activities and achieve the proposed objectives) could be eligible for a second round of similar support. Individuals or recently created national companies (less than 18 months since their first billing) are eligible to apply for funding. An estimated 108 projects will receive support, selected in accordance with the following criteria: (i) their objective is to create, start up, or launch a new company; (ii) the project is based on innovative products, processes, or business models; and (iii) the experience and capacities of the entrepreneur or team of entrepreneurs. The terms and conditions of the grants, as well as the lists of selected entrepreneurs, will be published by ANII and the participating incubators on their respective websites.
- 1.32 Entrepreneurs and enterprises that wish to obtain such support are to be presented to ANII by a sponsoring nonprofit agency with demonstrated capacities to support business ventures; together with ANII, the agencies will monitor the approved projects. In addition, the entrepreneurs and enterprises accepted by the program-supported incubators may directly access a grant with the same characteristics.

²² Because of information failures and externalities, there is no appropriate supply of credit for the early phases of business development. To address this problem, many countries in the region (Argentina, Chile, etc.) and in the OECD implement grant mechanisms such as those provided for in this program.

- 1.33 **Support for management of private investment in new business ventures.** An announcement will be issued to select and support agencies that finance early stages of new business ventures with high growth potential. This may include seed capital or venture capital funds, as well as private investor networks. The support will consist of a grant for up to US\$50,000, which will be renewed annually for a maximum of four years provided they can certify that they have committed at least US\$300,000 in private investments in each fiscal year. The grants may be used to cover operating expenses, investor mobilization, support for entrepreneurs, searches for mentors for the entrepreneurs, and other activities to increase the flow of projects that can be financed. Should any of the selected administrators fail to commit the aforementioned amount in private investments during a given year, it will cease to be eligible for assistance the subsequent year. Agencies will be selected on the basis of the following: (i) their background in financing new business ventures, (ii) expected outcomes and impact; and (iii) counterpart contribution.
- 1.34 **Program costs.** The total cost of the program will be US\$8 million, to be financed by the Bank.

Table 1.3: Budget

	Investment category	Total	%
I	Component 1. Support for entrepreneurial culture	1,000,000	13
	1 Sensitization and communication actions	300,000	
	2 Development projects	300,000	
	3 Action plan for entrepreneurial development, and management of the Emprender Network	400,000	
II	Component 2. Support for the initial development of business ventures	6,600,000	82
	1 Generation and strengthening of incubation capacities	2,000,000	
	2 Support for entrepreneurs living abroad	1,200,000	
	3 Grants for young entrepreneurs and enterprises	3,000,000	
	4 Support for management of private investment in new business ventures	400,000	
III	Audit, monitoring, and evaluation	250,000	3
IV	Contingencies	150,000	2
	TOTAL	8,000,000	100

C. Key indicators of the program's results framework

- 1.35 **Expected impact.** The program is expected to help increase the number of new successful and innovative companies in the country, bringing about, in the medium term, greater investments by the private sector in innovative activities of budding enterprises. This will be evaluated in accordance with the indicators in the program's results matrix (see Annex II). With regard to impact, the performance of investments in innovation activities of companies under five years of age will be

measured. With regard to Component 1 outcomes, performance will be measured in terms of the percentage of adult entrepreneurs or owner-managers of new businesses based on opportunity, especially for women, and percentage of the population that considers entrepreneurship a desirable career option. With regard to Component 2, performance will be based on the number of enterprises that receive program support that: (i) create more than five jobs; (ii) have annual sales of more than US\$30,000, and are growing; (iii) invest in research, development, and innovation (R+D+i); and (iv) export. The evaluation strategy includes a study to measure program impact on beneficiary entrepreneurs as compared to a control group relative to such variables as revenues, sales, employment, exports, and investment in R+D+i.

- 1.36 **Key indicators.** In accordance with the expected impact and outcomes, the main output indicators include: (i) people sensitized and trained through the program; (ii) business ideas and business plans initiated, (iii) institutions participating in the Emprender Network and development projects financed by this program through them; (iv) action plan for supporting business ventures, arrived at by consensus by the Emprender Network and endorsed by ANII; (v) projects financed to support incubators; (vi) businesses incubated and graduated; (vii) business venture projects that receive grants; (viii) business ventures abroad attracted to and established in the country; and (ix) investor funds and/or networks that received support.
- 1.37 **Economic viability and robustness of program benefits.** An economic analysis was performed of the program's main interventions, and potential benefits were estimated on the basis of background information provided by ANII and the Fondo Emprender. The analysis examined the effects program support (specifically Component 2) would have on entrepreneurs and enterprises with regard to sales and job creation. Findings indicate that, if Component 2 targets are met, a positive net present value equivalent to US\$3 million will be obtained, and each dollar invested will generate a social benefit of US\$0.56. It was also estimated that the supported projects could generate approximately 1,500 jobs. The sensitivity analysis showed that these positive results are maintained with changes in critical variables such as the termination, survival, and growth rates of the projects and business ventures that receive support.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The project is structured as an investment loan and will be executed over a five-year period.
- 2.2 **The following are the special conditions precedent to the first disbursement: (i) appointment of the managing coordinator for the Emprender Network, according to the profile previously agreed on with the Bank; (ii) entry into force of the Operating Regulations; (iii) signature of the cooperation agreement between ANII and LATU-Ingenio for executing the activities of**

Component 2; and (iv) signature of the execution agreement between the borrower's Ministry of Economy and Finance and the executing agency, to regulate the terms and conditions according to which the borrower will transfer the proceeds of the Bank's loan to the executing agency.

- 2.3 **Retroactive financing.** The Bank may recognize, chargeable to the financing, expenditures for hiring the consultants for the program's management team, as well as for the initial awareness and communication activities described in Component 1, provided they total up to US\$300,000 and were made after 9 May 2012 (date the project profile of this operation was approved) but before the loan approval date. These expenditures will be recognized so long as they were made in accordance with procedures consistent with Bank policy governing retroactive expenditures (OP-504).

B. Environmental and social safeguard risks

- 2.4 Pursuant to the Bank's Environment and Safeguards Compliance Policy (OP-703), this was classified as a Category "C" operation. The activities to be financed under the program are mainly in the form of technical assistance and projects to support institutions and entrepreneurs, and are not expected to have negative environmental and social impacts. The Operating Regulations include a chapter with guidelines for environmental and social analysis of the projects to be financed by the program.

C. Fiduciary risks

- 2.5 A risk management workshop was held during the analysis mission, with the participation of ANII and the Bank, which concluded that the risk level of the operation was low. The workshop identified fiduciary risks associated with ANII's lack of experience with Bank procurement policies, and possible conflicts of interest on the selection committees, as well as in ANII as a whole. In addition, although the institutional capacity assessment of the executing agency included some recommendations, none are considered of sufficient importance to place in doubt its ability to successfully implement the program.²³ To mitigate the risks identified and address the recommendations of the Institutional Capacity Assessment System (ICAS), ANII will: (i) create an Internal Audit Unit, which will report to the ANII board of directors; (ii) strengthen the work team by hiring and/or training, with ANII's own resources, staff with administrative and procurement experience in order to cope with the needs stemming from this operation; and (iii) implement a staff certification mechanism to prevent possible conflicts of interest in the program's selection processes and in ANII as a whole.

D. Other key issues and risks

- 2.6 The following nonfiduciary risks were identified: (i) the small size of the market and the possible stiffening of export barriers by Uruguay's main markets, as well as the possibility of flagging economic growth; and (ii) the possibility that the

²³ See summary of the institutional capacity assessment report ([optional electronic link 8](#)).

institutional platform proposed by the program is unable to provide sufficient, sustainable, and long-term support services to entrepreneurs and nascent enterprises. These risks will be mitigated by: (i) the priority given, in the processes to call for and select business venture proposals, to those that are more heavily focused on exports; and (ii) in selecting the institutions that will participate in the program, proactively searching for institutions with proven experience working with the private sector and with business ventures, and that can develop a sound sustainability plan for providing services over the medium and long terms.

III. PROGRAM EXECUTION AND MANAGEMENT PLAN

A. Summary of the institutional execution agreement

- 3.1 The borrower will be the Eastern Republic of Uruguay. The executing agency will be the National Research and Innovation Agency (ANII), a non-state public agency created by Law 18,084 in 2008. ANII's mission is to execute the State's political-strategic guidelines for research and innovation by promoting, coordinating, and strengthening the capacities of the national innovation system to achieve productive and social development in the country. Because of its legal standing, ANII can work with the flexibility needed by private sector development programs. ANII is governed by a seven-member board of directors who represent the public sector, academia, and the private sector; one serves as the chair. General management of ANII is the responsibility of an executive secretary who reports to the board of directors. The executive secretary oversees two areas (operations, administration and finance) and six units (information technologies, evaluation, international cooperation, institutional communication, human capital management, and process monitoring and management). ANII has a staff of 50 permanent professionals and executes an annual budget of US\$32 million, which includes national resources and financing from international organizations.
- 3.2 ANII has prior experience with Bank projects. It has been executing the Technology Development Program II (loan 2004/OC-UR) since 2009, and in 2010 a regional technical cooperation operation was launched, entitled Cooperation System on Operational Information and Industrial Property (ATN/OC-11910-RG). Both operations are performing well.
- 3.3 A team made up of regular ANII staff and program-hired consultants specialized in entrepreneurial activity (see paragraph 1.25) will be responsible for conducting the activities under the program's components; this team will report to the Executive Secretary. It will receive support from ANII's operations area for processes relating to announcements, evaluation, procurement, and technical monitoring of the different types of projects envisaged under the program. All projects will be subjected to a technical and economic assessment, and final approval will be the responsibility of the ANII board of directors, or whoever it should appoint. ANII will sign an agreement with the LATU-Ingenio incubator (see paragraph 2.2) whereby the latter will contribute its knowledge and good practices for generating

and strengthening incubation capacities (see paragraphs 1.27, 1.28, 1.29) and for implementing actions to attract business ventures from abroad (see paragraph 1.30). ANII's administration and finance office will be responsible for the fiduciary management of the program; it will be strengthened by hiring consultants with ANII's own resources (see paragraph 2.5). The fiduciary agreements for the program are outlined in Annex III.

B. Summary of the agreements for monitoring results

- 3.4 **Monitoring and evaluation.** Monitoring and evaluation activities will be the responsibility of ANII, which will carry them out with a specialized team, in coordination with the member institutions of the Emprender Network and the program-supported incubators and funds administrators. The midterm evaluation will be performed at 24 months, and the final evaluation at 60 months. In addition, ANII will submit semiannual reports on the activities listed in each annual work plan, and on the fulfillment of the results matrix indicators.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The operation contributes to the lending objective "lending to small and vulnerable countries".		
Regional Development Goals	The operation contributes to the regional development goal "Percent of firms using Banks to finance investments".		
Bank Output Contribution (as defined in Results Framework of IDB-9)	The operation contributes to the output "Micro/small/medium productive enterprises financed".		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2626	The operation contributes to Increase private investment in R&D.	
Country Program Results Matrix	GN-2661-4	The operation is included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.6		10
3. Evidence-based Assessment & Solution	7.2	25%	10
4. Ex ante Economic Analysis	8.5	25%	10
5. Monitoring and Evaluation	8.6	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood		Low	
Environmental & social risk classification		C	
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury and External control. Procurement: Information system, Shopping method.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	The operation will incorporate indicators to measure results by gender. Instruments will also be adapted to the needs of enterprises led by men and women.	
Labor			
Environment			
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	Econometric techniques will be applied to measure the impact of the services provided by the program in the creation and development of new businesses. This evaluation will help fill an important knowledge gap about the effectiveness of entrepreneurship promotion programs in Latin America.	

The project is aligned with IDB priorities. The intervention contributes to the objective of lending to small and vulnerable countries. It also contributes to the regional goal "percentage of firms using banks to finance investments", and with the product "micro, small and medium productive enterprises funded". The project is also aligned with the objective of the country strategy to increase private contribution to Research & Development.

The general objective of the program is to increase private investment in innovation activities. The specific objective is to increase the number of new innovative and successful ventures in Uruguay. The project document and its annexes provide a clear justification for the intervention and clearly identify the potential beneficiaries. Although the project's logic is clear and the document discusses the available evidence on the potential effectiveness of the intervention, the dimensioning of the problems and proposed solution could have been discussed more clearly. The metrics are well defined and the results matrix includes valid indicators with baselines and goals at all levels (although the indicators for component two could have been more specific).

The project's economic analysis is complete and includes a sensitivity analysis. Some of the assumptions about the relationship between private and social benefits could have been drafted with greater precision.

The monitoring and evaluation plan is complete and in accordance with Bank's standards. Experimental methods are proposed to evaluate the impact of the interventions included in the project. The risk matrix describes the risks in terms of magnitude and probability, identifies mitigation measures and defines a metric for monitoring their implementation.

RESULTS MATRIX

General and specific objectives	The general objective of the program is to help boost private investment in innovation activities. The specific objective is to increase the number of new and successful innovative business ventures in Uruguay.
--	--

IMPACT INDICATORS

Impact	Unit of measure	Baseline	Target 2017	Means of verification/Observations
1. Investment in innovation in companies under five years of age	Thousands of pesos	1,009,300	1,059,765	Source: ANII's Survey on Innovation Activities (EAI) in the Industry and Services Sectors. The 2007-2009 EAI was used as the baseline. The 2016-2018 EAI will be used for the 2017 target. For a preliminary estimate in 2017, direct investments in innovation by program beneficiaries can be calculated.

OUTCOME INDICATORS

Outcomes	Unit of measure	Baseline	Target 2015	Target 2017	Means of verification/Observations
Component 1: Support for entrepreneurial culture					
1. Percentage of the population between 18 and 64 years of age who are entrepreneurs or owner-managers of a new business based on opportunity.	Percentage	8.72		9.15%	GEM database. The baseline is the average of the indicator for the 2006-2010 period.
2. Percentage of women in the population between 18 and 64 years of age who are entrepreneurs or owner-managers of a new business.	Percentage	8.12		8.52	GEM database. The baseline is the average of the indicator for the 2006-2010 period.

Outcomes	Unit of measure	Baseline	Target 2015	Target 2017	Means of verification/Observations
3. Percentage of the population between 18 and 64 years of age that considers entrepreneurship a desirable career option.	Percentage	67.13		70.5%	GEM database. The baseline is the average of the indicator for the 2006-2010 period.
Component 2: Support for the initial development of business ventures					
4. New successful enterprises created and/or accelerated by the program.	Enterprises	0	10	50	Source: Database of enterprises that received support or were incubated. To be considered successful, enterprises supported by the program have at least four employees, annual sales exceeding US\$30,000, and spend on innovation.
5. Private investment mobilized by the program for business ventures.	Dollars	0	600,000	1,000,000	Source: Database of the incubators.

OUTPUT INDICATORS

Outputs	Unit of measure	Baseline	2013	2014	2015	2016	2017	Total	Observations and means of verification
Component 1: Support for entrepreneurial culture									
1. Action plan for entrepreneurial development approved.	Report	0	1					1	Minutes of the ANII board of directors. The plan will be endorsed at first annual meeting of the Emprender Network and approved by the ANII board of directors.
2. People sensitized and trained in entrepreneurship.	People	15,000	2,000	2,000	2,000	2,000	2,000	10,000	Source: Database of people sensitized and trained. The baseline pertains to Programa Emprender (2008-2011).
3. Percentage of women sensitized and trained in entrepreneurship.	Percentage	53	55	55	55	55	55	55	Source: Database of people sensitized and trained. The baseline pertains to Programa Emprender (2008-2011).
4. Number of media campaigns conducted	Media campaign	NA	1	1	1	1	1	5	At least 80% of the budget earmarked for the campaign has been disbursed.
5. Business ideas	Business ideas	600	120	120	120	120	120	600	Database of business ideas
6. Business plans	Business plans	150	30	30	30	30	40	160	Database of business plans

Outputs	Unit of measure	Baseline	2013	2014	2015	2016	2017	Total	Observations and means of verification
7. Number of competitions held for business ideas and plans.	Competitions	2	2	2	2	2	2	10	Final reports of the competitions. Ideas and plans will be posted online. The competitions will be national in scope.
8. Number of meetings held of the Emprender Network.	Meetings	1	1	1	1	1	1	5	Minutes of the meetings describing outcomes achieved as well as attending institutions and representatives.
9. Collaborating institutions and members who participate in the annual activities of the network.	Institutions	45	45	46	47	47	48	48	Source: Database of institutions that promote entrepreneurial activity and minutes of annual meetings. The baseline pertains to Programa Emprender (2011). In 2011 45 institutions participated in the activities of the Emprender Network.
10. Number of projects to promote entrepreneurship financed in member institutions of the Emprender Network.	Projects financed	N/A	8	8	8	8	8	40	Projects that received at least one disbursement. Up to US\$10,000 per project. At least one project to promote women's entrepreneurship.
Component 2: Support for the initial development of business ventures									
11. Number of projects financed to generate and strengthen incubation capacity.	Projects financed	1	3	1	1	0	0	5	ANII project database. Projects that received at least one disbursement.
12. Number of companies accepted by program-supported incubators.	Enterprises	10	12	16	18	18	18	82	Database of incubated projects. Projects accepted by the incubator selection committees.
13. Number of projects of entrepreneurs living abroad supported to set up their business in Uruguay.	Projects financed	0	0	5	5	5	5	20	ANII project database. Projects that received at least one disbursement. Up to US\$40,000 per project.
14. Number of business start-up and launch projects financed.	Projects financed	50	15	21	23	23	26	108	ANII project database. Projects that received at least one disbursement. Up to US\$25,000 per project. Includes new projects + renewals.
15. Number of projects financed to support management of investment funds.	Projects financed	0	0	2	0	0	0	2	ANII projects database. Projects that received at least one disbursement. Up to US\$50,000 per project. Project support will be renewed annually.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Uruguay
Project number: UR-L1071
Name: Program to Support Future Entrepreneurs
Executing agency: National Research and Innovation Agency (ANII)
Prepared by: Pablo Puente and Gabriele M. del Monte

I. EXECUTIVE SUMMARY

1. The Country Financial Accountability Assessment (CFAA) performed for Uruguay in 2005 was used as the country's fiduciary framework for determining the program's fiduciary agreements and requirements. The assessment of public finance management (using PEFA, the Public Expenditure and Financial Accountability methodology) was completed in 2011, the final results of which are expected to become available in 2012.
2. Uruguay's fiduciary risk is considered low; this means that the likelihood of public or donor funds being used for unauthorized purposes is low. Overall, public financial administration in Uruguay is considered responsible and transparent, although excessively bureaucratic. As for public procurement, although the country has a recognized legal and institutional framework and a sound legal foundation, its weaknesses have an impact on effectiveness and drive up costs. Studies conducted in 2005 and 2008¹ show that corruption is not perceived as a problem. Procurement-related risk in Uruguay is considered "medium."
3. The total cost of the program is an estimated US\$8 million, financed entirely by the IDB. The borrower and guarantor of the operation will be the Eastern Republic of Uruguay, and the executing agency will be the National Research and Innovation Agency (ANII), which will be responsible for the execution of all program components, the administration of the operation's resources, and the timely processing of the local counterpart contribution.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

ANII has prior experience with IDB projects. Since 2009 the Bank has been executing the loan of the Technology Development Program II (2004/OC-UR), which has a base of

¹ Country Procurement Assessment Report (CPAR); Program to Implement the External Pillar of the Medium-term Action Plan for Development Effectiveness (PRODEV).

background information on fiduciary management, as well as on internal and external control. Also, in the design stage, the institutional capacity assessment (ICAS) of ANII was updated, yielding a very satisfactory score. For these reasons, ANII is considered to pose a low level of risk in fiduciary matters.

This notwithstanding, ANII has agreed to further strengthen its control structure and environment by adopting some measures recommended as a result of the ICAS assessment, including hiring and/or training personnel in procurement under the Bank's policies, and establishing periodic staff certification processes to prevent conflicts of interest among its staff, especially in the selection committees and in ANII as a whole.

ANII is a non-state entity under public law, which gives it special features relative to its management environment and action. With regard to country systems or their equivalents, it would be likely to use the following, among others:

- a. Budget: Once the loan is approved, the Ministry of Economy and Finance (MEF) will be asked to include the program's budgetary credit in the national budget.
- b. Treasury: In order to manage program resources, an account will be created at the Central Bank of Uruguay (BCU), with working accounts in dollars and in local currency. The ANII (board of directors) will authorize payments.
- c. Accounting and financial reports: Accounting software offering comprehensive administrative management will be used: it works with multiple currencies, produces periodic financial reports in several currencies, and enables bank and investment reconciliation.
- d. Internal control: ANII operates within a sound internal control environment, as the ICAS findings have shown. In addition, an Internal Audit Unit will be created in the short term.
- e. External control: The program's financial statements will be audited by a private external audit firm acceptable to the Bank.
- f. Procurement procedures: As executing agency of the technical-cooperation operation for the Cooperation System on Operational Information and Industrial Property (ATN/OC-11910-RG), the executing agency and its staff have prior experience processing procurements and contracts in accordance with IDB rules. The ICAS-SABS (goods and services administration system) yielded a score of 92%, which means low risk. No specific problems requiring immediate action are evident. However, before initiating procurements under the loan, it is recommended that a workshop be held on the ex post review method in order to disseminate and standardize criteria. ANII has reported that it intends to strengthen the administrative aspects of procurements/finances.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

Because the program is considered **low risk** in fiduciary terms, ANII will need to take few but specific mitigation measures in order to strengthen the control environment and

ensure efficient and effective administration of program resources. See the financial supervision plan at the end of this Annex III.

The ICAS of the executing agency yielded some recommendations, but none of major importance that would raise doubts about its ability to successfully implement this program. Even so, ANII has decided to take certain actions that were suggested for strengthening its structure and internal control, which will benefit it and mitigate some residual risks for the program. These actions can be summarized as follows: (i) creation of an Internal Audit Unit, which will report to the ANII board of directors; (ii) strengthening of the work team by hiring and/or training personnel to cope with the increased workload generated by the loan; and (iii) implementation of a periodic staff certification mechanism, for the purpose of avoiding possible conflicts of interest in the program's selection processes, and throughout ANII as a whole.

IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACTS

Based on the level of risk established for the program, the minimum agreements and requirements to be considered in the special conditions are:

- Creation of an Internal Audit Unit that reports to the board of directors, and that ensures the soundness and reliability of the internal audit function of the executing agency.
- The exchange rate, for rendering accounts in dollars, will be the exchange rate on the effective payment date.
- Audited financial statements are to be submitted at the close of each year, beginning in 2013 and throughout the execution period; the external audit should be performed by a private firm acceptable to the Bank.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

The procurement policies that apply for this loan are documents GN-2349-9 and GN-2350-9.

1. Procurement execution

- 1.1 Before beginning with procurement, the procurement plan for the first 18 months should be entered in the Procurement Plan Execution System (SEPA) and kept up to date by the program executing unit.
- 1.2 The relevance of expenditures, i.e., the terms of reference, technical specifications, bidding data sheets, and budget, is the responsibility of the sector specialist of the program, and the prior no objection of the sector specialist will always be required to initiate the procurement, regardless of the review method to be used (ex ante or ex post).

2. Procurement of works, goods, and nonconsulting services:² Contracts subject to international competitive bidding (ICB) will use the standard bidding documents issued by the Bank. Bids subject to national competitive bidding will use bidding data sheets satisfactory to the Bank.

2.1 Notwithstanding IDB policies on the matter, direct contracting may be used for technically simple and lower-cost inputs and services up to a maximum of US\$5,000, or its equivalent, per item. For amounts higher than that, the procurement process will use the corresponding competitive method.

2.2 The construction of works is not provided for with the loan proceeds.

3. Procurement, selection, and contracting of consultants

3.1 **Consulting firms** will be selected and hired in accordance with Bank policies. Complex procurements are not envisioned for this stage.

3.2 **Selection of individual consultants:**³ Part of the technical-administrative staff of the program executing unit (3 people) will be hired via direct contracting, pursuant to document GN-2350-9.

4. Training: Direct contracting will be used when the individual value of each procurement process is less than US\$5,000. For higher amounts, the procurement process will use the relevant competitive method.

5. Advance procurement/retroactive financing:

5.1 At present, the possibility exists of retroactive financing for the individual consultants hired for the program executing unit.

6. Table of threshold amounts for Uruguay (US\$000)

Works			Goods ⁴			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International advertising	Short list 100% national
≥ 3,000	250-3,000	≤ 250	≥ 250	50-250	≤ 50	> 200	≤ 200
Threshold amounts for ex post review (project UR-L1071)							
Works		Goods and consulting services		Consulting firms and individual consultants			
• N/A		• Shopping up to US\$50,000 • ICB up to US\$250,000		• Firms, with quality and cost-based selection (QCBS) up to US\$200,000 (national public calls) • Letter of invitation up to a value of US\$50,000 per contract			

7. Major procurement processes: The loan's procurement processes are listed in the procurement plan in the required annex to the program's proposal for

² 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 similarly to goods.

³ Pursuant to Section V of the Bank's policies in document GN-2350-9, it is not necessary to use the short list or the standard request for proposals.

⁴ Includes nonconsulting services.

operations development (POD). For the most part, they are not technically complex, nor do they involve procedures that warrant special attention. They are summarized below:

Type of expenditure		
Procurement category	Amount financed by the Bank	Total project amount
Nonconsulting services	US\$280,027	US\$280,027
Consulting services (firms + individuals)	US\$843,337	US\$843,337
Transfers	US\$2,337,120	US\$2,337,120
Unallocated (for 2015-2017)	US\$4,539,516	US\$4,539,516
Total	US\$8,000,000	US\$8,000,000

8. **Procurement supervision:** Essentially, the ex post review method will be used.
9. **Records and files:** There are no special provisions. A dedicated file system will be established; procurements for Component 2 processed by the Dirección Nacional de Infamilia (DNI) will be backed up in the executing agency's records.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

1. Programming and budget

Demonstrating the initial allocation of local counterpart funds by the executing agency (inclusion in its annual work plan and annual budget) will be part of the process to meet the conditions precedent, and will take place annually thereafter (before the February closing).

2. Accounting and information systems

The program's financial statements should be produced in accordance with International Financial Reporting Standards accepted by the Bank in its financial management policy; it is a requirement that they be audited annually by a private firm acceptable to the Bank.

3. Disbursements and cash flow

To make use of the funds, ANII should create a special account in the Central Bank of Uruguay, in the name of the program; it will also open one or more working accounts (dollars and Uruguayan pesos) in the Banco de la República Oriental de Uruguay (BROU) for making payments.

Disbursements will be made by means of advances, based on the program's actual liquidity needs, backed by a financial and disbursement projection for the next six months. Funds will be replenished once accounts have been rendered for at least 80% of the previous advance. Required documentation to be submitted includes accounting forms, financial planning spreadsheets, and bank reconciliations of the funds.

4. Internal control and external audit

Operating Regulations will be drawn up and will cover, among other things, procurement and payment procedures, accounting, the documentation files, as well as topics related to control, such as authorization levels, and periodic bank and investment reconciliations.

The program's external audit reports and the review of disbursement processes and requests should be submitted each fiscal year during the disbursement stage, before 30 April of the next year. International auditing standards (IAS) and the Bank's guidelines for this purpose should be taken into account.

5. Financial supervision plan

The supervision plan will consider the following:

- A financial visit is planned for the first year of execution. Among other things, emphasis will be placed on checking the processes, the quality and timeliness of accounting records, and the supporting documentation files.
- Disbursement requests will be reviewed ex post, and will be verified by the external auditor, along with annual reports.
- The terms of reference will include that the external auditor update the ICAS (management and control systems), and also validate implementation of the recommendations currently before the executing agency, as well as recommendations made in the future.
- Prior to loan eligibility, a startup workshop will be held to provide training to the members of the program executing unit on the use of the different fiduciary tools.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/12

Uruguay. Loan ____/OC-UR to the Eastern Republic of Uruguay
Future Entrepreneurs Support Program (PAFE)

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 future entrepreneurs support program (PAFE). Such financing will be for an amount of up to US\$8,000,000 from the Ordinary Capital resources of the Bank, 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 ____ 2012)

LEG/SGO/CSC/IDBDOCS: 37044434
Pipeline No. UR-L1071