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URUGUAY

PROGRAM TO MODERNIZE THE REGULATORY FRAMEWORK FOR INTERNATIONALIZATION

(UR-L1186)

LOAN PROPOSAL

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ABBREVIATIONS

AGESIC	Agencia de Gobierno Electrónico y Sociedad de la Información y del Conocimiento [e-Government and Information Society Agency]
AEO	Authorized economic operator
ANII	Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency]
BCU	Banco Central de Uruguay [Central Bank of Uruguay]
COMAP	Comisión de Aplicación de la Ley de Inversiones [Investment Law Enforcement Commission]
CTI	Competitiveness, Technology, and Innovation Division of the IDB
DDO	Deferred drawdown option
DNA	Dirección Nacional de Aduanas [National Customs Bureau]
EAI	Encuesta de Actividades de Innovación [Survey of Innovation Activities]
ECG	Evaluation Cooperation Group
FDI	Foreign direct investment
IMF	International Monetary Fund
INEGI	Inventario Nacional de Gases de Efecto Invernadero [National Greenhouse Gas Inventory]
INIA	Instituto Nacional de Investigación Agropecuaria [National Agricultural Research Institute]
LAC	Latin America and the Caribbean
LATU	Laboratorio Tecnológico del Uruguay [Technological Laboratory of Uruguay]
MEF	Ministry of Economy and Finance
MGAP	Ministry of Livestock, Agriculture, and Fisheries
MIEM	Ministry of Industry, Energy, and Mining
MRA	Mutual recognition agreement
SNRCC	Sistema Nacional de Respuesta al Cambio Climático [National Climate Change Response System]
NDC	Nationally determined contribution
NFPS	Nonfinancial public sector
OECD	Organisation for Economic Co-operation and Development
OPP	Oficina de Planeamiento y Presupuesto [Office of Planning and Budget]
PBL	Policy-based loan
PBP	Programmatic policy-based loan
R&D	Research and development
RICYT	Red de Indicadores de Ciencia y Tecnología [Network of Science and Technology Indicators]
TFP	Total factor productivity
STI	Science, technology, and innovation
UNFCCC	United Nations Framework Convention on Climate Change
FTSW	Foreign trade single window
WDI	World Development Indicators
WTO	World Trade Organization

UTE	Administración Nacional de Usinas y Trasmisiones Eléctricas [National Administration of Power Plants and Electrical Transmissions]

PROJECT SUMMARY

URUGUAY
PROGRAM TO MODERNIZE THE REGULATORY FRAMEWORK FOR INTERNATIONALIZATION
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Financial Terms and Conditions				
Borrower			**Flexible Financing Facility**[a]	
Eastern Republic of Uruguay			**Amortization period:**	20 years
Executing agency			**Drawdown period:**	3 years
Ministry of Economy and Finance (MEF)			**Grace period:**	[b]
Source	**Amount (US$)**	**%**	**Interest rate:**	SOFR-based
IDB (Ordinary Capital)	155 million	100%	**Upfront fee:**	50 basis points
			Standby fee:	[c]
			Inspection and supervision fee:	[c]
Total	155 million	100%	**Weighted average life:**	12.75 years
			Currency of approval:	U.S. dollars

Project at a Glance
Project objective/description: The program's general objective is to contribute to the consolidation of sustainable economic growth in Uruguay by supporting internationalization policies. The specific objectives are: (i) to consolidate the policy framework and tools for promoting investment and trade; and (ii) to strengthen innovation incentives and conditions for such internationalization. This is the first in a series of two consecutive operations that are technically linked but financed separately under the programmatic policy-based loan modality with a deferred drawdown option.
Special contractual conditions precedent to the first and only disbursement of the financing: The disbursement of the Bank financing at the borrower's request will be subject to fulfillment of the policy reform commitments described in the program components and as established in the Policy Matrix (Annex II) and in the Policy Letter (required link 1), in addition to fulfillment of the other conditions established in the loan contract. This operation has a deferred drawdown option. (See paragraph 3.4.)
Exceptions to Bank policies: None.

Strategic alignment			
Challenges:[d]	SI ☐	PI ☒	EI ☒
Crosscutting themes:[e]	GE ☒ and DI ☐	CC ☒ and ES ☒	IC ☒

[a] Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection 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 of the loan or the last payment date as documented in the loan contract.

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

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

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 The current international context calls for Uruguay to consolidate and continue strengthening its internationalization policies—promoting investments, trade, and productivity through business innovation—so that they can contribute to long-run, sustainable economic growth. The Bank has supported the country through several operations related to strategic international positioning: two series of programmatic policy-based loans with a deferred drawdown option (PBP/DDO): loans 2920/OC-UR, 3418/OC-UR, 4430/OC-UR, and 4857/OC-UR.[1] Although these programs have enabled significant progress in relevant areas,[2] the complexity of current global conditions calls for new tools and policies to sustain and advance the process. For that reason, the current administration of the Government of Uruguay requested a PBP/DDO[3] to strengthen policies for attracting and facilitating investment and exports, as well as for strengthening the innovation ecosystem, to help secure more sophisticated international positioning.

1.2 **Macroeconomic context.** Some of Uruguay's main macroeconomic challenges are to lock in fiscal improvements, continue the implementation of structural reforms, and curb accelerating inflation.[4] These are on top of the COVID-19 crisis, shrinking global demand, and possible hardening of lending terms. Yet even so, the country has made gains in recent years. Uruguay was able to reduce its structural fiscal deficit and public debt, which had increased during the pandemic.[5] It had also accumulated liquidity and ensured contingent lines of credit, which were fully disbursed to mitigate the economic and social impact of the health crisis. In 2020, the government implemented a new fiscal institutional structure, one of the reforms outlined in its economic program, including a fiscal rule and other innovations that have produced positive results,[6] enabling Uruguay to preserve its investment grade rating, improve its outlook, [7] and maintain a low level of country risk compared to the region, issuing debt at favorable rates in international markets.

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1 Approval of this operation would enable the country to keep the government's precautionary financing policy in place.

2 Such as improvements to the investment promotion system and, in trade facilitation, implementation of the foreign trade single window (FTSW), and the Customs Code (CAROU) (see paragraph 1.22).

3 This is the first in a series of two operations.

4 In August 2021, as the economy was improving, Uruguay began to tighten monetary policy with successive interest rate hikes. Even so, annual inflation was at 8% in December 2021 (above the target band of 3% to 7%) and has continued rising in 2022 to 9.5% in August. This is partly the result of global price increases due to pandemic-induced supply chain disruptions.

5 The deficit fell 1.3 percentage points to -3.8% of GDP in 2021. Public debt was 59.9% of GDP in December 2021, 1.6 percentage points lower than at end-2020 (MEF, 2022).

6 World Economic Outlook (2021). Innovations include a five-year rolling projections framework, a structural balance fiscal rule with an indicative spending limit, a limit on the net annual borrowing flow of central government, and publication of the public debt sensitivity analysis.

7 The Fitch rating agency upgraded Uruguay's outlook to stable, after downgrading it to negative in 2018. DBRS also upgraded its outlook to positive.

1.3 **Level of economic activity.** So far this century, Uruguay has managed to increase per capita income and decrease income inequality.[8] However, the economic slowdown since 2015, worsened by the global health emergency, has widened the income gap between emerging and advanced economies. The Uruguayan economy grew 5% annually on average between 2003 and 2014, but just 0.8% between 2015 and 2019.[9] GDP fell 6.1% in 2020, largely as a result of the pandemic, while the labor market declined, and poverty rose. Even though the economy rebounded in 2021—GDP grew 4.4% over the previous year, and the labor market recovered 58,000 of the 60,000 jobs lost in 2020 (98%), thanks to a successful vaccination campaign, policies to sustain economic activity and aid vulnerable businesses and individuals, the completion of certain investment projects, prudent fiscal management, and higher external demand—potential GDP growth for 2021-2030 is just 2.1% according to calculations by the Fiscal Advisory Council.[10]

1.4 **Exports, investments, and total factor productivity (TFP).** Between 2003 and 2019 exports of goods and services grew at an annual cumulative average rate of 5.1% and investment (gross fixed capital formation) at a rate of 5.3%.[11] However, the trend began shifting in 2014: exports expanded at an annual cumulative average rate of 0.4% between 2014 and 2019,[12] while investment contracted at a rate of -5.8% (including a 1.4% rebound in 2019) in the same period.[13] TFP only rose at an annual rate of 0.5% between 2003 and 2019[14] and did not contribute to growth at all from 2015 onward.[15] As a result, TFP has had a limited effect on economic growth, preventing Uruguay from becoming a high income country.

1.5 **Diagnostic assessment of the problem.** The country must overcome several challenges to increase its potential GDP, related to the need for higher levels of investment, production and export sophistication and diversification, the economy's

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[8] Optional link 11.

[9] Uruguay's economy experienced 17 years of uninterrupted growth between 2003 and 2019 with average annual growth (trend) of 3.3%. All factors of production contributed positively to growth in those years, but the greatest contribution was from physical capital. Estimates attribute the growth in trend output as follows: 54% to increased physical capital (1.8 percentage points), 32% to human capital (1.1 percentage points), and 15% to TFP (0.5 percentage points) (optional link 1). The slowdown in growth is partly explained by the fall of the investment/GDP ratio (2010-2014: 22%, 2019: 16%), the reduction in FDI flows, and end of the commodity supercycle (EBP, 2021).

[10] This projection is in line with Uruguay's historical long-run growth rate but would not be enough to close the gap with advanced economies (optional link 11).

[11] BCU (2022).

[12] According to balance of payments data, between 2014 and 2019 goods exports for Latin America and the Caribbean decreased less than Uruguay's (-0.1% annual cumulative average versus -3.3%, respectively), and services exports for Latin America and the Caribbean increased more than Uruguay's (3.1% versus 1.5%, respectively) (World Development Indicators (WDI)).

[13] BCU (2022).

[14] Optional link 1.

[15] In 2014, as TFP stagnated in Uruguay and grew in the United States, Uruguay's TFP was 67% of U.S. TFP (benchmark for the technological frontier) (PWT 10, Groningen Development Center). Despite recent economic development, Uruguay still has been unable to bridge the income gap with the United States, and relative GDP per capita today is lower than in 1960 due to poor TFP performance. Compare this to Finland and South Korea, which increased their TFP relative to the United States from 50% to 69%, and from 20% to 63%, respectively, in the past 40 years. Sustaining recent TFP growth is central to maintaining economic development in the long term (IDB, 2016).

capacity to create quality jobs, and TFP. The country must confront all this and reduce greenhouse gas emissions in relation to GDP, to meet its sustainability goals. These issues are interrelated because evidence suggests that internationalized economies grow faster overall, have higher TFP growth specifically, and create more high-quality jobs.[16] The challenges are even greater given the global disruption created by the pandemic, trade and policy tensions between countries, and the reconfiguration of global and regional value chains.

1.6 Accordingly, although Uruguay offers a stable institutional, political, and social environment for attracting investors, and therefore developing exports, there are significant constraints on realizing that potential, particularly in relation to market failures that limit the level and sophistication of internationalization of the economy, business innovation, local research and development, and availability of human capital.

1.7 **Although external sales of services (especially nontraditional services) have increased,**[17] **the level and degree of diversification of exports and foreign direct investment (FDI) remain limited.** When compared internationally, in 2019, the intensity and diversity of Uruguay's exports was lower than expected for its level of economic development.[18] FDI is still concentrated in terms of sectors[19] and geographic origin.[20] Given the enormous potential of multinational firms[21] to significantly contribute to international productivity and competitiveness of Uruguay's economy,[22] this acts as a constraint on sophistication of the productive and export matrix and diversification of its products and markets.[23] [24]

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16 Development in the Americas: Trading Promises for Results. What Global Integration Can Do for Latin America and the Caribbean, IDB (2019).

17 Services exports have increased, especially for nontraditional services (other than transportation and tourism), which have grown faster than average, reaching 44% of total services exports in 2019 (Uruguay XXI, 2020).

18 Optional link 11.

19 The sectors that attracted the most investment flows from 2012 to 2020 were finance and insurance (41%), manufacturing (30%), and trade (15%) (Uruguay XXI, 2022).

20 Spain (18%), Argentina (15%), Finland (10%), Brazil (9%), Switzerland (7%), United States (7%), and Chile (6%). Spain, Argentina, and Finland alone make up 42% of FDI stock.

21 Multinational companies in Uruguay contribute substantially to the domestic economy. They represent 1% of businesses, are responsible for more than 15% of domestic purchases and sales, and have more suppliers and purchasers than their domestic counterparts (Carballo, Marra de Artiñano, Ottaviano and Volpe, 2021). Additionally, 73% of multinational subsidiaries in Uruguay operate in sectors classified as having low or medium-low CO_2 emissions (optional link 11).

22 Carballo et al., in Mesquita, Moreira, and Stein (2019).

23 Uruguay's main export products are primary products and manufactures made from natural resources (beef, cellulose, soy, dairy products) (Uruguay XXI, 2021). The country is well positioned in terms of technological infrastructure—crucial to attracting investment and exporting services—but businesses lag behind when it comes to technology use (90th out of 139 countries on the Network Availability Index), which restricts productivity and the technological sophistication of exports, limiting access to larger, more sophisticated markets.

24 Uruguay's targeting index for its strategy to promote exports and investments is smaller than its regional peers and advanced economies (Volpe, 2021). Empirical evidence shows that targeted strategies are more effective at attracting multinational firms and increasing exports through better matching of domestic firms and their foreign buyers (Buss et al., 2022), resulting in increased sophistication of traded goods.

1.8 **Uruguay faces a highly competitive international landscape, and problems with administrative costs and lack of information still persist, affecting its ability to secure high value-added investment projects.** Protectionist measures and the value placed on proximity and resilience in global and regional value chains have increased, while global FDI flows have ebbed.[25] Regulatory and procedural costs and information problems (plus market failures associated with data spillage) still limit potential FDI inflows.[26] These costs and problems can be reduced by facilitating and encouraging trade and investment. Available evidence suggests that such measures have a significant, positive effect on foreign businesses setting up operations, expanding, and staying in the country, and on the export growth of domestic firms.[27] This is especially important in a small country that has a structurally small productive base and a predominance of short value generation chains.

1.9 **Uruguay still faces regulatory challenges to expanding investments that would drive more sophisticated international integration, especially in high value-added sectors.** The country has advanced reforms in investment promotion and attraction, consisting of reformulation of its overall system of investment incentives,[28] [29] introduction of several sector-level incentive regimes,[30] adaptation of international taxation standards to favor the investment climate,[31] and the signing and ratification of bilateral investment treaties, treaties for the promotion and

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[25] In 2017-2020 growth was 15.3% (UNCTAD). In the period 2015-2019, Uruguay's median FDI/GDP was ahead of only three countries in South America and the OECD.

[26] In 2019 the cost of opening a business in Uruguay (24% of per capita income) was eight times higher than the OECD country average, registering a property was 67% more expensive, property registration took just under three times as long, and it took 74% longer to get a construction permit (World Bank, 2019). Lengthy registration and certification processes can mean delays in investment projects, reducing their net present value even to the point that it outweighs the tax benefits offered by countries like Uruguay, which makes the benefits less efficient at attracting investments (optional link 4). Public policies should lower the costs associated with trade and investments, to avoid suboptimal levels of investment (Volpe and Sztajerowska, 2019 and Blyde et al., 2014).

[27] Volpe, Carballo, and Blyde (2019). The literature shows that FDI plays a key role in growth because it increases a county's capital stock and drives innovation through technology transfer, technical capacity, and productivity (Alfaro et al., 2007 and Javoricik, 2013). Linkages with multinational enterprises have a vertical spillover effect on domestic suppliers that leads to an improved export profile. However, this does not happen automatically (due to market failures) and requires policies that promote specific investments to maximize potential gains and are adapted to the receiving country and the type of investment. In Uruguay, the evidence reveals that encouraging investment increases the likelihood that multinational enterprises establish and expand subsidiaries (optional link 5).

[28] Expected in Law 16906.

[29] In 2013-2019, an average of 432 businesses per year received promotion of their investment projects through the Investment Law Enforcement Commission (COMAP).

[30] Shared services centers (Decree 251/014) and global services (Decree 281/019). Uruguay also changed its free trade zone regulations (Law 15921), in place since the 1980s, concentrated on large investments, global services, and logistics (Law 19566 and Decree 309/018). According to the free trade zone census, economic activities in these areas accounted for 5% of GDP and almost a third of the country's exports, while employing 15,200 workers in 2019.

[31] Law 19484 and Decree 77/017, Convention on Mutual Administrative Assistance in Tax Matters (Law 19428) and Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Sharing (Law 19814).

protection of investments, and double taxation agreements.[32] This progress has been expressly recognized in an exhaustive review of Uruguay's investment policies by the Organisation for Economic Co-operation and Development (OECD).[33] However, full accession to the OECD Declaration on International Investment and Multinational Enterprises requires measures for implementation of these policies.[34] Uruguay must also continue to encourage internationalization of the economy in high value-added sectors such as renewable energy, information and communication technologies, audiovisual technologies, and life sciences. These sectors have room to grow as targets for investments due to market opportunities and their capacities. The objective is to support the country in moving up the value chain, expand the creation of skilled jobs, and target sustainable growth[35] through promotional tools and incentives that solve information problems and, as a result, drive the use of more efficient and sustainable technologies to ensure access to more selective markets and position the country as an environmentally responsible investment destination.[36] There are also opportunities to continue expanding the coverage of the treaties signed with important markets for the promotion and protection of investments, as well as double taxation agreements. These will reduce transnational regulatory costs by lowering the fixed cost of entry for multinational firms, which are areas where the country is making progress.[37]

1.10 **Uruguay has positioned itself as a regional leader in the energy transition and climate transparency and has moved to adopt international environmental protection standards, which is an advantage amid newly heightened global competition to attract investors.** Uruguay has almost entirely decarbonized its energy matrix by diversifying energy sources (96.7% of electric power was generated from renewables between 2016 and 2020). This has made its energy

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32 Assessment of the impact of reforms prompted by programs 2920/OC-UR and 3418/OC-UR suggests that average FDI stock was 7.2 percentage points higher than it would have been without the policy reforms, meaning that they are at least partially responsible for the improved outcomes (optional link 6).

33 The OECD Investment Committee recommended that the Council invite Uruguay to become the fiftieth adherent to the Declaration in recognition of its "impressive progress in the quest for investment policy reforms to improve the business climate and encourage investment's contribution to the economy and social and environmental progress," OECD (2022).

34 Some of the OECD (2021) recommendations are establishing a national point of contact, improving the quality of the regulatory framework and procedures to increase transparency and the effectiveness of public administration, which will contribute to mobilizing private investment (World Bank (2020).

35 The Government of Uruguay, through MIEM, determined which strategic sectors to prioritize. OCO Global's growth and competitiveness analysis (optional link 2) agrees with these choices because of their potential contribution to Uruguay's sustainable growth, considering the country's objectives, investors' objectives (location as a port of entry into Latin America and the Caribbean, reliable workforce, quality considerations are more important than cost), and what the country offers (a workforce that is highly technically skilled and educated, largely bilingual, and highly productive).

36 The certifications or incentives for internationalization are one example.

37 Empirical evidence suggests that double taxation agreements are tied to a 5 to 6 percentage point increase in the likelihood of receiving FDI from the country of origin, either in the form of additional FDI stock (10%) or the presence of multinational subsidiaries (3%) (Development in the Americas: Trading Promises for Results. What Global Integration Can Do for Latin America and the Caribbean, IDB (2019)); Egger and Merlo, 2012; Marra de Artiñano et al., 2019). Uruguay has a small web of double taxation agreements relative to its level of economic development (optional link 11).

matrix more robust,[38] and the country more attractive for investors seeking to lower their environmental impact.[39] Uruguay is pursuing its second energy transition, to electrify other consumer and productive sectors such as transportation, so that it can meet the targets set under the Paris Agreement on climate change. This offers an opportunity to attract investment in renewable energy sectors, like green hydrogen and electric mobility, and in sectors that value and use renewable energy as a differential productive input and contribute to further decarbonization of the energy matrix, to shrink their carbon footprint. This will require several kinds of incentives to encourage their use, such as: (i) pilot initiatives for green hydrogen development, (ii) nationwide energy efficiency projects, and (iii) development of tools to attract companies that prioritize sustainability, renewable energy use, and low-carbon technology adoption. One of the Government of Uruguay's guiding principles is building climate and environmental sustainability into its economic policies and planning of its public finances as crosscutting themes,[40] in line with international recommendations. Additionally, since 2020, the new structure and operation of the Ministry of Environment mean that there is an opportunity to improve coordination among the entities involved in making sustainable investments. This requires sustainability objectives to be considered when designing all economic policy measures, moving beyond the bounds of purely environmental sector policies. A road map is needed to turn the idea of sustainability into a concrete action plan that includes different steps, initiatives, and measures. Many government entities have been actively participating in global initiatives to mobilize domestic and global action against climate change since 2020.[41]

1.11 **Turning Uruguay's climate policies into a comparative advantage for attracting fresh capital means mainstreaming them to leverage synergies and avoid inconsistencies.** Uruguay has a sturdy structure of climate institutions and a national climate change policy, which are key aspects of a national strategy for sustainable productive development. Through the National Climate Change Response System (SNRCC), each relevant ministry or government institution determines the measures that are combined to set the country's mitigation and

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38 National Energy Balance (2022).

39 OECD (2017) recommends a combination of structural reforms for growth with climate change policies and an enabling environment for investment, and anticipates that preventing climate harm will lead to gains in growth (a net positive effect of 4.7% by 2050 in G20 countries, compared to a baseline scenario with no climate measures). The report recommends grounding this concept of sustainability in a tangible action plan that includes various steps, initiatives, and measures (OECD, 2012). Evidence also indicates that global companies are redirecting FDI to sustainable investments as a response to heightened critical awareness of sustainable economic development since the COVID-19 crisis (World Bank, 2021).

40 Article 533 of the Budget Act establishes this principle as a commitment of the Executive Branch: "Create the tools and adopt the criteria necessary to incorporate national objectives for mitigation of greenhouse gas emissions and climate change adaptation into revenue and expenditure policies. These objectives should also be included in economic policy analysis and design and planning of public finances." The Budget Act is a crucial part of the action plan to be developed by the Government of Uruguay, to communicate its main objectives, plans in different sectors, and the tools it will use to achieve them to the country.

41 For example, the BCU joining the Network for Greening the Financial System (NGFS).

adaptation targets, as reflected in the Nationally Determined Contribution (NDC).[42] The NDC targets and progress toward them can be tracked in real time via a dashboard—launched by the SNRCC and the e-Government and Information Society Agency (AGESIC)—which is recognized internationally as a model to replicate. Although Uruguay made these investments to strengthen its report to the United Nations Framework Convention on Climate Change (UNFCCC), the challenge remains of bringing these institutions to bear, to: (i) effectively mainstream the climate agenda in public investment; (ii) leverage the country's extremely solid reporting and verification capacity to attract new capital flows and investments. The Ministry of Economy and Finance (MEF), Ministry of Environment, Ministry of Industry, Energy, and Mining (MIEM), and Ministry of Livestock, Agriculture, and Fisheries (MGAP) are playing an increasingly important role in the national climate agenda and the SNRCC, with a focus on opportunities to grow and attract investors that will ensure a fair transition. Uruguay already has adequate climate institutions but needs to continue moving forward with additional policies such as strengthening the organizational structure, incentivizing the effective mainstreaming of climate issues across all the economy's productive sectors—turning the NDC into an economic planning document[43]—and ensuring that measures to spur growth square with long-term climate objectives. To do so, sector-specific policies and action plans (incentivizing the use of more efficient and sustainable technologies) will play a key role in ensuring access to more selective markets[44] and positioning the country as an environmentally responsible investment destination.

1.12 **Uruguay needs to consolidate progress on trade facilitation by further deepening the interoperability of its foreign trade systems.** It still faces significant trade integration challenges. The country has made considerable changes to promote and facilitate trade,[45] adapting technologies to digitalize customs forms and procedures,[46] and launching initiatives to make crossborder shipping easier. These kinds of innovations, by shortening customs processing times by 10%, could lead to an almost 20% increase in export value and 18%

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[42] Some of these reforms were driven by programs 4430/OC-UR and 4857/OC-UR, such as the establishment and implementing regulations for the National Environment, Water, and Climate Change System (Law 19335 and Decree 172/2016), ratification of the Paris Agreement (Law 19439), approval of the first NDC (Decree 310/2017), and development of the country's National Climate Change Policy.

[43] Linking climate change with productivity (Cardenas, Bonilla and Brusa (2021)).

[44] There is evidence that adopting environmental standards has a positive impact on international positioning. Blyde (2021) assessed the impact of ISO 14001 environmental certification on exports and found a 4% positive effect on the likelihood of certified companies exporting.

[45] Uruguay ranks sixth in Latin America and the Caribbean on the OECD Trade Facilitation Indicators, below Chile, Costa Rica, and Colombia, and seventh among high-income non-OECD economies, below Hong Kong, Singapore, and Cyprus. Uruguay surpasses larger economies on the information availability indicator and has opportunities for improvement in formalities – documents (amount and time), formalities – automation (risk management), and formalities – procedures (customs office).

[46] Some of these reforms were promoted by programs 2920/OC-UR and 3418/OC-UR, such as ratification of the WTO Trade Facilitation Agreement (Law 19414), implementation of the FTSW (Law 19149/013), approval of the new Customs Code (Law 19276), and modernization of customs operations inspections through AEOs. An impact assessment of the trade facilitation reforms put into practice under the programmatic series (2920/OC-UR and 3418/OC-UR) reveals that they made it possible shorten customs processing times for foreign trade operations and, consequently, contributed to increasing the country's imports and exports (optional link 7).

increase in exports by weight, among other benefits.[47] Even so, there is still room for progress on information exchange between inspection agencies through mutual recognition agreements (MRAs) for authorized economic operators (AEOs)[48] and foreign trade single windows (FTSWs). There is also still more room to align local regulations with international agreements to optimize customs regulations, shorten foreign trade operation times, eliminate regulatory inefficiencies, increase e-commerce and trade in services, and expand regional process interoperability for goods and services. Evidence shows that trade facilitation policies can lower procedural and regulatory administrative costs that impact foreign trade.[49]

1.13 **Market failures that restrict innovation capacity affect the development of high value-added sectors and their internationalization.** Innovation contributes to lower costs, heightened competitiveness, and access to more complex international markets.[50] Scaling also enables more sophisticated innovative projects. Some of the obstacles to greater development of innovation are limited human capital dedicated to research in the business sector[51] and low levels of investment in research and development (R&D), which has averaged 0.39% of GDP in the last 10 years, lower than average for Latin America and the Caribbean (0.63%).[52] The current administration has made explicit the interplay, as well as the differentiation, between research and innovation, with special emphasis on innovation. Tools to lessen barriers to research and innovation are available but relatively limited when compared internationally.[53] These policy instruments cover just 6.6% of innovative companies, restricting convergence on the productivity frontier and the capacity to absorb FDI's potential benefits. Uruguay ranks 104th out of 134 countries in emerging technology investments. Failure to coordinate within the innovation ecosystem affects the technological sophistication of exports, the presence of high value-added sectors, and access to more demanding markets.[54]

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47 Volpe (2016).

48 Carbello et al., 2016 shows how exporting companies with AEO certification both in their country (NEEC) and in the United States (C-TPAT)—which could be considered a proxy for an MRA—obtain greater positive impact on exports than companies with the NEEC certification alone, which may indicate that the combination of AEO programs yields additional benefits.

49 Integration and Trade Sector Framework Document.

50 In Uruguay, there is a virtuous circle of innovation, productivity, and competitiveness, according to the latest Survey of Innovation Activities. When Uruguayan companies that invested in innovation in 2013-2015 are compared to similar companies that did not invest, the first group had higher productivity growth (3.5%), export growth (14%), sales growth (7.8%), and employment growth (4.3%) in the same period (CTI Technical Note, IDB (2019)). Moreover, companies that invest more in R&D in Uruguay have been concentrated in dynamic innovation sectors (67% in information and communications technologies, the chemical industry, and the food industry) and are largely microenterprises and small businesses (60%), medium-sized enterprises (23%), large companies (13%), and the rest are unclassified (optional link 8, ANII, 2018).

51 Uruguay has 1.4 researchers for every 1,000 inhabitants (among the economically active population) compared with 2.9 in Argentina, 6.3 in Spain, and 9.6 in Portugal (Network of Science and Technology Indicators (RICYT), 2019)

52 RICYT: R&D expenditure in relation to GDP.

53 When direct subsidies to companies and tax incentives to encourage innovation are taken into account, Uruguay invests only 0.014% of GDP in such tools, much lower than Chile (0.020%), Mexico (0.060%), and Brazil (0.110%), and far below developed countries like Korea (0.35%) (IDB, 2019).

54 Goettsch et al. (2021) and MIEM (2017). Some of these failures were addressed by program 4329/OC-UR).

1.14 **A shortage of talent and the need to align capacity with private sector demand both limit the internationalization of high value-added sectors.**[55] Limited human capital is one of the country's main barriers to internationalization and growth.[56] This is principally due to low demographic growth, an aging population and the end of the demographic dividend,[57] and stagnant graduation rates.[58] The shortage of technical and professional talent is even more dire considering the skills needed for high-value sectors,[59] necessitating reforms to adapt employment conditions and reallocate resources to attract highly skilled workers. Given global trends in automation and digital transformation, addressing the quality and relevance of training is paramount, as is reskilling to support internationalization in these sectors—where the risk of automation is considerably less—and the creation of sustainable jobs. In these sectors, the most influential factor in investment decisions is the availability and quality of workers with specific knowledge and experience. This is more important than labor regulation flexibility or the strength and size of the labor market (optional link 3). Information asymmetries slow the diffusion of technologies into production, and failure to coordinate training and demand for human capital limits the country's attractiveness as a destination for investment in high value-added sectors. This calls for tools to build local capacity and skills and attract talent to narrow the gap.

1.15 **Additionally, although Uruguay is better positioned than other countries of the region in terms of women's labor participation, gender gaps persist (optional link 10).** In the second half of 2021, the employment rate for women in Uruguay was 49.7%, 12.4 percentage points lower than for men (62.1%). Closing the gender gap, particularly in highly specialized areas, could translate to productivity gains. The income gap is almost 20%.[60] Women are concentrated in less dynamic productive sectors, and this labor segregation is linked to lower income, higher rates of informality, and lower educational requirements, resulting in gender gaps. For example, STEM fields employ the least women (31.2%) despite near-zero unemployment rates (under 5%) and the highest pay. Women have leadership roles at just 35% of micro, small, and medium-sized enterprises, and men's entrepreneurial activity is twice as high as women's.[61] [62] According to IDB estimates, gender inequalities could be reallocating country's the economic growth.[63]

1.16 Facing these challenges requires acting on the key issues affecting the economy's competitiveness. Specifically, this means lessening the obstacles limiting its attractiveness as a destination for sustainable investment, strengthening human capital, and promoting productive differentiation through innovation, which will

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55 World Economic Forum, 2020.

56 Economic Growth and Development Gaps in Uruguay. Multidimensional Review of Uruguay, OECD.

57 Fifteen percent of the population is older than 65 (2020), 2050 projection: 22% (INE).

58 Office of Planning and Budget (OPP).

59 Di Capua, Queijo, and Rucci (2020); Ravillard, Ortega, Paramo, Chueca, Weiss, and Hallack (2021).

60 For every Ur$100 earned by men, women earn Ur$80.2.

61 MIEM (2017).

62 The gender gap in rural employment is 27.4%, and 33% of women permanent workers in those areas identify as "unpaid family workers," compared to 10% of men (MGAP (2022)).

63 IDB (2022). Gender inequalities could be costing Uruguay 16.5% of GDP. Just closing the gap in highly skilled jobs could lead to GDP gains of 11%.

enable participation in more sophisticated segments of global and regional value chains.

1.17 **The program's strategy.** The program seeks to drive policies that will promote investment and trade on the one hand, and business innovation and human capital development on the other. Together, these will contribute to more sophisticated international positioning and maximize impact within the economy. This will be done by taking action simultaneously on a range of crosscutting factors and specific measures aimed mainly at improving Uruguay's internationalization. These reforms will help to continue closing the existing gaps between the current, concentrated investment and export profile, moving gradually toward a scenario in which exports from high value-added sectors are a driving force of a more diversified economy. The program thus balances policy-making with policy implementation actions, creating an enabling environment for collectively addressing Uruguay's challenges as a sustainable investment destination, to elevate its international positioning, as well as its challenges related to business innovation and skilled talent. Thus, whereas the first tranche in the series promotes commitments supporting the policy framework and laying the groundwork for the country to achieve sustainable growth, the second tranche builds on and supplements the first, with the indicative commitments delivering on the realization, implementation, and continuity of the promoted reforms.

1.18 In terms of policies to improve the regulatory framework and development of tools to increase investment and trade, this program will support reforms to: (i) consolidate the institutional framework for investment and trade in accordance with best practices for economic sustainability that facilitate private investment vehicles and are aligned with the country's development and climate objectives; (ii) empower internationalization in high value-added sectors using tools to encourage increased export sophistication; (iii) consolidate climate change policy to position Uruguay as a destination for environmentally responsible investments; (iv) encourage investment through the commitment to respect international levels of reciprocal protection and nondiscrimination against third-country investors, and to sign and ratify bilateral treaties to avoid double taxation; (v) adopt policy instruments to promote e-commerce and trade in services; and (vi) promote the convergence of local laws and regulations with international agreements regarding trade facilitation by optimizing customs regulations, eliminating regulatory inefficiencies, and expanding regional process interoperability.

1.19 The program will encourage policies for business innovation and human capital that: (i) increase the impact of innovation on internationalization; (ii) promote synergy between academia, business, and FDI with an emphasis on high value-added sectors by creating innovative companies and capabilities geared toward the needs of global companies; (iii) develop tools to nurture and attract talent, startups, and resourcing; and (iv) promote women's economic self-reliance by focusing on training and employment.

1.20 **The program's beneficiaries.** The program's direct beneficiaries will be companies based in Uruguay, or establishing themselves there, that receive greater FDI flows, especially those in high value-added sectors such as information and communication technology, audiovisual technology, life sciences, and renewable energy. Also benefitting directly will be Uruguay-based startups and companies with

export potential that invest in R&D and those investing, exporting, and availing themselves of the incentives in this operation.

1.21 **The Bank's experience and lessons learned.** The Bank has provided sustained support for the government's precautionary borrowing strategy. Uruguay has made extensive use of the PBP/DDO instrument as a fast-disbursing credit line enabling it to better manage liquidity based on market conditions. As a result, Uruguay was able to disburse US$1,050,750,000 in 2020 through operations under this instrument to meet its financing requirements. The Bank has a long history of working with the Government of Uruguay to provide broad support for its integration into the global marketplace through operations for international positioning, export and investment promotion, trade facilitation, and promotion of innovation with various multisector instruments. This has given the Bank a deep understanding of the kinds of reforms Uruguay wants to pursue, and dialogue has been ongoing about medium- and long-term reforms, such as the PBP/DDO Program for Strategic International Positioning (loans 2920/OC-UR, 3365/OC-UR, and 3418/OC-UR), the PBP/DDO Investment, Trade, and Innovation Framework Modernization Program (loans 4430/OC-UR and 4857/OC-UR), the Program to Support Global Export Services (loan 2590/OC-UR), and the Program for Business Innovation and Entrepreneurship Program II (loans 4329/OC-UR and 4847/OC-UR). This program incorporates lessons learned from these operations and adds value by building on and coordinating actions under way with different sectors and government actors, to keep the overall reform program[64] on track through investment and technical cooperation operations, so as to optimize opportunities resulting from the policy reforms (as described in paragraph 1.22); and the need to train specialized talent in strategic sectors through scholarships for master's degrees and postgraduate studies abroad as intended in this operation.

1.22 **Complementarity with other Bank operations.** The Bank's value-added is seen in its support for Uruguay in attracting investments, attracting and training advanced digital skills for knowledge-intensive sectors, climate change, and encouraging business innovation through various lending instruments. This operation complements the Bank's investment and technical cooperation operations now in execution with the Government of Uruguay: Uruguay Global: Promoting Digital Skills for Internationalization (loan 4658/OC-UR) (related to fulfillment of policy condition 3.3.2); the Program to Promote the Adoption of Digital Technologies in Uruguay's Agriculture Sector (loan 5566/OC-UR), building innovation capacity for climate change adaptation at the National Research and Innovation Agency (ANII), MGAP, and the National Agricultural Research Institute (INIA) (policy condition 3.2.7); technical cooperation operation ATN/OC-19356-UR, providing technical support to the Government of Uruguay to create a road map for mainstreaming climate change policy in economic policy (policy condition 2.1.3); technical cooperation operations ATN/OC-17723-UR and ATN/OC-18386-RG) on sustainable energy and electromobility, supporting the creation of the National Green Hydrogen Strategy through the Interagency Group (one of the program II triggers, policy condition 2.2.2); and loan UR-L1177, which will build on and

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64 The program promotes reforms concerning the MEF (APC, DNA), MIEM, the Ministry of Environment, ANII, and others.

supplement the actions supported by this operation to promote investments in energy efficiency and electromobility, such as issuing energy efficiency certificates and making more electric vehicle charging stations available (contributing to policy conditions 2.2.4 and 2.2.5); as well as operations related to attracting investments and talent to high value-added sectors (loan UR-L1181), business innovation (loan 5565/OC-UR) (policy conditions 3.2.2 and 3.2.3); and technical cooperation operations ATN/OC-19541-UR and ATN/AC-19523-UR and credit line UR-O1160 (policy commitments 2.3.2 and 2.3.3), which will facilitate implementation of the reforms supported by this program.

1.23 **Strategic alignment.** The program is aligned with the IDB Group Country Strategy with Uruguay 2021-2025 (document GN-3056), contributing to the priority area of sustainable productive development with a focus on promoting strategic sectors with high value-added by emphasizing development and adoption of digital and green technologies, value chains, promotion and diversification of imports and investment, incentives for business innovation, and the creation of quality jobs; as well as to the strategic objectives of increasing innovation and improving international trade positioning. It is also aligned with the second Update to the Institutional Strategy (document AB-3190-2), specifically the challenges of productivity and innovation, by promoting reforms to foster business innovations such as artificial intelligence capabilities, circular economy projects, and tools to enable synergies between academia, local industry, and FDI; economic integration, by promoting reforms such as bilateral treaties on investment and double taxation; with the crosscutting themes of climate change, by promoting the creation of a road map for mainstreaming climate and environmental policy, institutional capacity, by promoting the publication of annual plans for public procurement, and gender equality, by promoting reforms to incentivize gender mainstreaming in employment and training policy. The program is aligned with the IDB Group Corporate Results Framework 2020-2023 (document GN-2727-12) under the following indicators: (i) regional integration agreements and cooperation initiatives supported, (ii) agencies with strengthened digital technology and managerial capacity, (iii) micro, small, medium enterprises financed. It is consistent with the sector framework documents for Integration and Trade (GN-2715-11), Innovation, Science, and Technology (GN-2791-10), Labor (GN-2741-12), Skills Development (GN-3012-3), Gender and Diversity (GN-2800-8), and Climate Change (GN-2835-8); as well as with the IDB Group Climate Change Action Plan 2021-2025 (document GN-2848-9); and the Employment Action Framework with Gender Perspective. Since some of the planned policy measures under this first operation support the advancement of climate change mitigation and adaptation agendas in Uruguay, the climate finance percentage is 41.86% according to the joint methodology of the multilateral development banks. The operation is included in the 2022 Operational Program Report (document GN-3087).

B. Objective, components, and cost

1.24 The program’s general objective is to contribute to the consolidation of sustainable economic growth in Uruguay by supporting internationalization policies. The specific objectives are: (i) to consolidate the policy framework and tools for promoting investment and trade; and (ii) to strengthen innovation incentives and conditions for such internationalization.

1.25 **Component 1. Macroeconomic framework.** Ensure a stable macroeconomic framework conducive to achieving the program objectives and consistent with the guidelines in the Policy Letter (required link 1).

1.26 **Component 2. Consolidate the policy framework and development of tools for promoting investment and trade.** This component will support policy reforms and the development of tools contributing to modernize the overall policy framework for investment and trade with emphasis on high value-added sectors and sustainability criteria. It will include the following reforms: (i) implement the OECD Guidelines for Multinational Enterprises to consolidate the institutional framework for investment in line with best practices for economic sustainability; (ii) adopt structures for companies and trusts that incorporate positive environmental, social, and climate impact into the corporate purpose; (iii) adopt a crosscutting approach to climate and environmental sustainability in the formulation of economic and public finance policies, both domestically and internationally; (iv) publish annual plans for public procurements of goods and services of government public administrations, to encourage efficiency and transparency for an enabling investment climate; (v) strengthen the investment promotion system to encourage investment in clean technologies, which contribute to more environmentally sustainable production, and align private investment levels with the country's development and climate goals; (vi) design and implement a program to develop a first green hydrogen pilot (H2U Program), to be promoted internationally, contributing to the decarbonization of the energy and productive matrix both nationally and globally; (vii) create a specific support program for biotechnology companies to create new lines of business and strengthen their existing ones; (viii) promote use of electricity from renewable primary sources through a national certification system; (ix) incentivize investment in the electric mobility sector using tax incentives; (x) promote internationalization of the audiovisual sector and local capacity-building through the Uruguay Audiovisual Program; (xi) approve the agreement with the Green Climate Fund on Uruguay's privileges and immunities; (xii) adopt a climate change strategy that establishes the country's long-term climate vision; (xiii) present transparency measures and reports on compliance with international climate commitments; (xiv) approve bilateral investment agreements to stimulate investment flow and reciprocal protection of investments; (xv) sign and ratify bilateral treaties to avoid double taxation and facilitate tax information exchange frameworks with two countries; (xvi) agree on a legal framework establishing e-commerce policies and principles in MERCOSUR; (xvii) agree on a legal instrument deepening trade ties and stimulating regional trade in services, establishing clear and predictable rules for its growth; (xviii) establish information technology mechanisms to identify foreign AEOs on customs declarations; (xix) implement exit records automation for movements of uniform customs documents for imports across land borders with green channel; (xx) incorporate the transit of goods for registration, analysis, quality control, and/or payment to and from free trade zones into the digital uniform customs documents system; (xxi) adopt the common nomenclature of MERCOSUR adapted for the harmonized system (Amendment VII); and (xxii) adopt the WTO's technical recommendations on trade facilitation by ratifying two customs cooperation agreements.

1.27 **Component 3. Strengthen innovation incentives for internationalization.** The objective of this component is to strengthen the framework of incentives for investing in business innovation[65] for internationalization of the economy in high value-added sectors. The supported reforms will include the following: (i) sign a management commitment between the executive branch and ANII to promote the impact of investment on innovation for sustainable internationalization; (ii) redesign the instrument for implementing innovation for business internationalization projects; (iii) promote capacity-building in the use of artificial intelligence (AI) through a collaborative research program focused on applying AI to geospatial data to develop smarter regional systems for crisis management and building environmental and health resilience; (iv) establish a fund to support projects for research and innovation in the circular economy; (v) adopt a resolution to promote projects for innovation in the financial system; (vi) establish a collaborative platform for development of innovation studies with a sustainability focus; (vii) redesign scholarship programs geared toward high value-added sectors; (viii) sign an agreement to establish an open competitive scholarship program for master's and postgraduate studies that promotes synergy between academia and the productive sector; (ix) approve a sector fund to finance green hydrogen research, innovation, and training projects contributing to speed the energy transition and market development; (x) approve the expansion of an instrument to support projects requiring collaboration between academia and the productive sector; (xi) approve the resolution to continue tax benefits for businesses investing in R&D; (xii) build partnerships to solidify support for research and innovation between public and private institutions and the productive sector; (xiii) facilitate recognition of foreign certificates for access to higher education studies and approve regulations for the recognition of certificates issued abroad; (xiv) expand the program to attract innovative foreign startups that can then internationalize from Uruguay; (xv) approve active employment policies, emphasizing entry or reintegration into the labor market and the promotion of training and vocational education; and (xvi) promote women's economic self-reliance.

1.28 These reforms will be implemented through public instruments such as laws, decrees, agreements, resolutions, acts, regulations, minutes, notices or analogous methods, and each reform will have an entity responsible for its approval based on the relevant area (executive branch, MEF, MIEM, National Customs Bureau (DNA), ANII) (required link 2).

C. Key results indicators

1.29 The Results Matrix is the framework for measuring the program's development effectiveness. The Results Matrix outputs replicate the structure of the policy matrix (Annex II), which is aligned with the program's specific development objectives.

1.30 The Results Matrix (Annex III) identifies the expected outcomes and outputs of implementation of the policy measures supported by the program as a whole and this first operation. The indicators for measuring the general objective are: (i) foreign direct investment (FDI) stock/GDP; (ii) exports of goods and services; and (iii) total factor productivity (TFP). The indicators for measuring the specific objectives are: (i) the number of businesses opting to be scored on the clean technologies indicator

[65] Foreign and local companies based in Uruguay.

when using the investment promotion system; (ii) the number of climate measures included in the second NDC; (iii) the number of double taxation agreements ratified; (iv) the proportion of businesses that innovate in new products; and (v) the proportion of businesses that export. The identified risks are: (i) that a deterioration in global economic conditions may reduce the impact of the planned reforms; and (ii) that the approval of any of these reforms may be delayed (Appendix I).

1.31 **Economic analysis.** Based on the recommendations of the Office of Evaluation and Oversight (OVE) in its Evaluability Review of Bank Projects 2011[66] and the results of the Review of Good Practice Standards for the Evaluation of Policy-based Lending, prepared by the Evaluation Cooperation Group (ECG) comprised of the independent evaluation offices of multilateral development banks,[67] as described in paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations (document GN-2489-5), indicating, inter alia, that there is no need to include an analysis of efficiency in the use of financial resources, it was decided not to perform an economic analysis for loans of this type, as reported to the Bank's Board of Executive Directors. Thus, this loan operation does not include an economic analysis and, consequently, the economic analysis is not considered for purposes of measuring the evaluability score in this program's Development Effectiveness Matrix (DEM).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

2.1 This program is the first operation in a series of programmatic policy-based loans (PBP) with a deferred drawdown option (DDO). The series consists of two consecutive operations that are technically linked but financed separately because they seek to promote medium-term reforms. The second operation will further advance work begun under the first operation. This modality was selected as an instrument to support sector reforms and institutional and regulatory changes because of its effectiveness in dealing with policy challenges. The Bank's relevant experience contributes to implementation of the policy reforms it has been advancing, together with the Ministry of Economy and Finance (MEF), for several years through different PBP/DDOs as well as investment operations. This modality also reinforces the dialogue between the Bank and the Government of Uruguay, capturing the medium- and long-term nature of the country's policy reform efforts. The Bank's experience in other public policy reform programs using the DDO modality show the advantages of this lending instrument, since it allows countries to access and use resources as they see fit, as well as make adjustments to reforms based on previous operations. Using this instrument, which acts as an insurance policy, is fully consistent with the Government of Uruguay's debt management policy,

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[66] Document RE-397-1: "Currently, Economic Analysis section is computed as the maximum between the CBA (cost benefit analysis) and the CEA (cost effectiveness analysis). Yet neither a CBA nor a CEA is applicable to PBLs (policy-based loans) and PBPs (programmatic policy-based loans)." Working Group on Public Sector Evaluation, 2012. According to the ECG, PBLs should be evaluated according to their relevance, effectiveness, and sustainability. Efficiency has not been included as a criterion because the scale of PBLs is linked to the size of a country's financing gap and is thus independent of the program benefits.

[67] ECG (2012).

characterized by the precautionary diversification of financing sources. This enables the country to access finance at sustainable costs, especially during times of regional and international financial volatility.

2.2 **Dimensioning.** The amount of the operation will be US$155 million, financed from the Bank's Ordinary Capital resources. The program will be structured according to the guidelines and directives in the New Lending Framework (document GN-2200-13), Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2), and the Proposal to Establish Contingent Lending Instruments (document GN-2667-2). The dimensioning of the program satisfies the criteria set in document CS-3633-2, paragraph 3.27(b), which states that the amount of this operation is justified by the "fiscal resource needs experienced by a country in a broad sense." The net financing needs of the nonfinancial public sector (NFPS)[68] in a base scenario similar to the one used by the IMF, are an estimated US$3.825 billion per year on average between 2022-2025, or approximately 5.6% of GDP. This first operation represents 4% of the NFPS financing needs for an average year between 2022-2025 (optional link 9), and 26% of multilateral financing for Uruguay in 2022.

B. Environmental and social safeguard risks

2.3 The operation is outside the scope of the Bank's Environmental and Social Policy Framework because it is not expected to have significant and direct negative impact on the environment or natural resources of the country.

C. Fiduciary risks

2.4 The operation poses no fiduciary risks for its execution. The operation's resources will be transferred to the treasury single account to cover the borrower's needs, which has adequate country systems for financial management, including internal and external control.

D. Other key risks and issues

2.5 The following economic and financial environment risk was identified as medium-high: (i) decreased capital inflows due to external factors. This risk is being mitigated by the measures taken by the Government of Uruguay and promoted by this program, to stimulate investment and employment, policies to attract investments, and the precautionary debt management policy.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower will be the Eastern Republic of Uruguay. The executing agency will be the Eastern Republic of Uruguay, acting through the Ministry of Economy and Finance (MEF), which has prior experience executing this kind of operation and will coordinate with the participating institutions.

[68] Financing needs in a certain year are defined as the financial deficit projected by the IMF plus debt repayments in that year. It is assumed that the government will cover those needs by issuing new debt (payments of new interest and principal repayments are included in the projection), disbursements from multilateral agencies, and, to a lesser extent, use of international reserves.

No fiduciary risks have been identified that would adversely affect the execution of this operation.

3.2 The executing agency will have the following responsibilities: (i) maintain and deliver to the Bank reports and evidence that policy commitments have been met, and any other report required by the Bank in the agreed time and conditions; (ii) coordinate among the different entities responsible for the adoption of measures or for the technical execution of activities; (iii) monitor the planned activities under this operation; (iv) mitigate risks and effectively resolve any problems that arise during program execution; and (v) once the disbursement of each operation has been made, collect information on the necessary performance indicators to evaluate program results.

3.3 **Coordination mechanism.** To coordinate among the different participating entities, the executing agency will centralize information related to the different program actions at the MEF's Office of Multilateral Agencies. It will also create venues for dialogue to ensure strategic coordination of the program's stakeholders, activities, and policies.

3.4 **Special contractual conditions precedent to the sole disbursement of the financing. The disbursement of the Bank financing at the borrower's request will be subject to fulfillment of the policy reform commitments described in the program components and as established in the Policy Matrix (Annex II) and in the Policy Letter (required link 1), in addition to fulfillment of the other conditions established in the loan contract.** Fulfillment of these conditions will be confirmed via the instruments identified in the Policy Matrix (Annex II), means of verification matrix (required link 2), and monitoring and evaluation plan (required link 3). Under the deferred drawdown modality used in this operation, the availability period is three years,[69] as long as program policy conditions are maintained, including condition related to macroeconomic sustainability.

B. Summary of monitoring and evaluation arrangements

3.5 **Monitoring.** The program will be monitored through verification of the policy measures established in the monitoring and evaluation plan. The executing agency and Bank will meet regularly to track the results of the operation. The executing agency will provide the Bank with all necessary information to measure achievement of targets and provide timely information regarding progress.

3.6 **Evaluation.** The planned policy reforms will constitute an intervention at the national level that affects the economy as a whole. The synthetic control method may be used to evaluate the operation's impact on the country's internationalization. This consists of using a cohort of countries not affected by similar reforms as a control group. The impact of the reforms is found by comparing the actual performance of the treated economy in areas of interest against the counterfactual of the control group's performance. For reforms with delimited beneficiary groups, and to the extent that the necessary applicability conditions are present, alternative quasi-experimental methods will be used, such as difference-in-differences with propensity score matching at baseline, comparing outcomes for businesses

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69 With an option for a renewal of another three years (document GN-2667-2).

receiving support from the new instruments introduced and a group of similar control businesses. To evaluate the intervention's impact on innovation, quasi-experimental difference-in-differences methods with propensity score matching at baseline will be used, comparing increased investment in innovation and work productivity of businesses receiving support from the new instruments introduced and a group of similar control businesses (required link 3).

IV. POLICY LETTER

4.1 The Policy Letter (required link 1) reiterates the commitment of the Government of Uruguay to the program objectives and actions. The Bank and Government of Uruguay have agreed on a Policy Matrix (Annex II) describing the policy actions and commitments to be assumed under this programmatic operation.

Development Effectiveness Matrix		
Summary	UR-L1186	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	**-Productivity and Innovation -Economic Integration -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	**-Micro / small / medium enterprises financed (#) -Regional integration agreements and cooperation initiatives supported (#) -Agencies with strengthened digital technology and managerial capacity (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-3056**	**GN-3056 y Párrafo 1.21**
Country Program Results Matrix	**GN-3087-2**	**The intervention is included in the 2022 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		**Párrafo 1.21**
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**7.2**	
3.1 Program Diagnosis	**0.9**	
3.2 Proposed Interventions or Solutions	**3.5**	
3.3 Results Matrix Quality	**2.8**	
4. Ex ante Economic Analysis	**N/A**	
5. Monitoring and Evaluation	**8.8**	
5.1 Monitoring Mechanisms	**4.0**	
5.2 Evaluation Plan	**4.8**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium Low**	
Environmental & social risk classification	**N.A.**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.**
Non-Fiduciary	**Yes**	**Statistics National System.**
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

The Regulatory Framework Modernization Program for Internationalization (UR-L1186) has as a general development objective to contribute to the consolidation of sustainable economic growth in Uruguay through support to internationalization policies. The specific development objectives are to: (i) consolidate the regulatory framework and tools to support investment and sustainable trade; and (ii) to strengthen incentives and conditions for innovation for said internationalization. The program's diagnostics proposes as a general problem the level and sophistication of the economy's internationalization. As determinants, the operation proposes administrative costs, and a lack of information that affect the country's ability to attract investment projects; challenges in terms of regulatory framework and trade facilitation; and market failures that limit innovation capacity. To address this, the program seeks to support normative reforms to modernize the investment and trade policy framework, and to strengthen incentives for innovation geared towards internationalization.

The project's vertical logic has opportunities for improvement to ensure the project's evaluability. The results matrix has SMART indicators that can help measure the scope of objectives.

The monitoring and evaluation plan proposes three evaluation strategies: (i) synthetic controls and (ii) differences in differences with propensity score matching to capture contributions to the general development objective; and (iii) a before-and-after analysis to evaluate achievements in specific development objectives. In the case of (ii), the plan does not contemplate a sample identification. A question remains as to whether the timing of data collection will be consistent with the program's timing.

POLICY MATRIX

Objective:	The general objective is to contribute to the consolidation of sustainable economic growth in Uruguay by supporting internationalization policies. The specific objectives are: (i) to consolidate the policy framework and tools for promoting investment and trade; and (ii) to strengthen innovation incentives and conditions for such internationalization.

Components/ Policy objectives	Programmatic I Policy conditions	Fulfillment status of Programmatic I conditions*	Programmatic II Triggers
Component 1: Macroeconomic framework			
1.1 Stable macroeconomic framework to drive investment and exports.	1.1 Maintain a macroeconomic policy framework consistent with the program objectives and the guidelines in the sector policy letter.	Fulfilled.	Maintain a macroeconomic policy framework consistent with the program objectives and the guidelines in the sector policy letter.
Component 2: Consolidate the policy framework and development of tools for promoting investment and trade			
2.1 Consolidate the institutional framework for investment in accordance with best practices for economic sustainability.	2.1.1 Implement the OECD Guidelines for Multinational Enterprises to consolidate the institutional framework for investment in line with best practices for economic sustainability.	Fulfilled. Q4 2022.	Form the PNC advisory committee.
	2.1.2 Adopt structures for companies and trusts that incorporate positive environmental, social, and climate impact into the corporate purpose.	Fulfilled. Q2 2022.	Pass a Sustainable Circular Economy Law.
	2.1.3 Adopt a crosscutting approach to climate and environmental sustainability in the formulation of economic and public finance policies, both domestically and internationally.	Pending. (expected Q4 2022).	Make progress on implementing the road map for mainstreaming climate and environmental policy in Uruguay's economic policy. Issue climate change index-linked bonds (BIICC) (sovereign sustainability-linked bonds) tied to the country's Nationally Determined Contribution (NDC) objectives with an ad hoc reporting mechanism on the bond's objectives.

* This information is merely indicative as of the date of this document. In accordance with document CS-3633-2, "Policy-based Loans: Guidelines for Preparation and Implementation," fulfillment of all conditions for disbursement, including maintaining an appropriate macroeconomic environment, will be verified by the Bank when the Borrower requests disbursement and duly reflected in the disbursement eligibility memorandum.

Components/ Policy objectives	Programmatic I Policy conditions	Fulfillment status of Programmatic I conditions*	Programmatic II Triggers
	2.1.4 Publish annual plans for public procurements of goods and services of government public administrations, to encourage efficiency and transparency for an enabling investment climate.	Fulfilled. Q4 2021.	Publish annual plans for public procurements of goods and services that meet requirements of Decree 339/2021.
2.2 Empower investment in high value-added sectors using tools to encourage increased export sophistication.	2.2.1 Strengthen the investment promotion system to encourage investment in clean technologies, which contribute to more environmentally sustainable production, and align private investment levels with the country's development and climate goals.	Fulfilled. Q1 2022.	Implement digitalization in the presentation of projects to the Investment Law Enforcement Commission (COMAP).
	2.2.2 Design and implement a program to develop a first green hydrogen pilot (H2U Program), to be promoted internationally, contributing to the decarbonization of the energy and productive matrix both nationally and globally.	Fulfilled. Q3 2022.	Create an interagency group for the National Green Hydrogen Strategy.
	2.2.3 Create a specific support program for biotechnology companies to incentivize the development of new lines of business and strengthen their existing ones through targeted support.	Fulfilled. Q2 2022.	Approve new projects in the Biotechnology Fund.
	2.2.4 Promote use of electricity from renewable primary sources through a national certification system.	Fulfilled. Q3 2021.	Launch the system for Renewable Energy Certificates via an electronic accreditation mechanism through the Ministry of Industry, Energy, and Mining (MIEM) and the National Administration of Power Plants and Electrical Transmissions (UTE).
	2.2.5 Incentivize investment in the electric mobility sector using tax incentives.	Fulfilled. Q4 2021.	Design an electric mobility training program for people in the automotive sector.
	2.2.6 Promote internationalization of the audiovisual sector and local capacity-building through the Uruguay Audiovisual Program.	Fulfilled. Q2 2022.	Consolidate the results of audiovisual productions made with support from the Uruguay Audiovisual Program.
2.3 Consolidate a climate change policy to position Uruguay as a destination for environmentally responsible investments.	2.3.1 Approve the agreement with the Green Climate Fund on Uruguay's privileges and immunities.	Fulfilled. Q2 2021.	Implement agreement between Uruguay and the Green Climate Fund.

Components/ Policy objectives		Programmatic I Policy conditions		Fulfillment status of Programmatic I conditions*	Programmatic II Triggers
		2.3.2	Adopt a climate change strategy that establishes the country's long-term climate vision and contribution to meeting the Paris Agreement targets.	Fulfilled. Q1 2022.	Presentation of the second NDC.
		2.3.3	Present transparency measures and reports on compliance with international climate commitments.	Fulfilled. Q1 2022.	Update of NDC dashboard to report progress on climate indicators.
2.4	Encourage investment through the commitment to respect international levels of reciprocal protection and nondiscrimination (against third country investors).	2.4.1	Approve bilateral investment agreements with three countries to stimulate investment flow and reciprocal protection of investments.	Fulfilled. Q1 2022.	Expand the range of international investment treaties.
2.5	Sign and ratify bilateral treaties to avoid double taxation and facilitate tax information exchange frameworks with two countries.	2.5.1	Sign and ratify bilateral treaties to avoid double taxation and facilitate tax information exchange frameworks with two countries.	Fulfilled. Q4 2021.	Increase the number of treaties to avoid double taxation and facilitate tax information exchange frameworks by at least one.
2.6	Adopt policy instruments to promote e-commerce and trade in services.	2.6.1	Agree on a legal framework establishing e-commerce policies and principles in MERCOSUR, to harness the economic potential and opportunities provided by e-commerce; and improve consumer protection in e-commerce by incorporating regional policies into the national legal system.	Fulfilled. Q4 2021.	Complete legislative approval of the MERCOSUR Agreement on Electronic Commerce.
		2.6.2	Agree on a legal instrument deepening trade ties and stimulating regional trade in services, establishing clear and predictable rules for its growth, to open up trade between signatory countries.	Fulfilled. Q1 2022.	Complete legislative approval of the First Additional Protocol on Trade in Services to the Economic Complementation Agreement No. 72.
2.7	Promote the convergence of local regulations with international agreements regarding trade facilitation by optimizing customs regulations, eliminating regulatory inefficiencies, and expanding regional process interoperability.	2.7.1	Establish information technology mechanisms to identify foreign authorized economic operators on customs declarations for imports or on maritime, air, or land freight manifests.	Fulfilled. Q3 2021.	Incorporate new export, import, and transit processes into the foreign trade single window (FTSW).

Components/ Policy objectives	Programmatic I Policy conditions	Fulfillment status of Programmatic I conditions*	Programmatic II Triggers
	2.7.2 Implement exit records automation for movements of uniform customs documents for imports across land borders with green channel.	Fulfilled. Q2 2021.	Incorporate measures to promote automation of land operations.
	2.7.3 Incorporate the transit of goods for registration, analysis, quality control, and/or payment to and from free trade zones into the digital uniform customs documents system.	Fulfilled. Q1 2022.	Make transit more flexible to allow multiple movements of goods under a single declaration for bulk goods and products made in free trade zones.
	2.7.4 Adopt the common nomenclature of MERCOSUR adapted for the harmonized system (Amendment VII) in compliance with World Customs Organization recommendations for process integration.	Fulfilled. Q4 2021.	Advance FTSW interoperability with other windows of the region.
	2.7.5 Adopt the WTO's technical recommendations on trade facilitation by ratifying two customs cooperation agreements.	Fulfilled. Q3 2021.	Expand the catalogue of customs cooperation treaties.
Component 3: Strengthen innovation incentives for internationalization			
3.1 Increase the impact of investment on innovation for internationalization.	3.1.1 Sign a management commitment between the executive branch and the National Research and Innovation Agency (ANII) to promote the impact of investment on innovation for sustainable internationalization.	Fulfilled. Q1 2022.	Sign new management commitment between ANII and the executive branch.
	3.1.2 Redesign the instrument for implementing innovation for business internationalization projects, whether for products (goods and services) or business processes.	Fulfilled. Q3 2022.	Approve projects for implementation of innovation.
	3.1.3 Promote capacity-building in the use of artificial intelligence (AI) through a collaborative research program focused on applying AI to geospatial data to develop smarter regional systems for crisis management and building environmental and health resilience.	Fulfilled. Q4 2021.	Approve AI projects for crisis management and building resilience.
	3.1.4 Establish a fund to support projects for research and innovation in the circular economy.	Fulfilled. Q3 2021.	Approve projects of the fund for research and innovation in the circular economy.

Components/ Policy objectives	Programmatic I Policy conditions	Fulfillment status of Programmatic I conditions*	Programmatic II Triggers
	3.1.5 Adopt a resolution to promote projects for innovation in the financial system.	Fulfilled. Q1 2022.	
3.2 Promote synergy between academia, business, and foreign direct investment.	3.2.1 Establish a collaborative platform for development of innovation studies with a sustainability focus.	Fulfilled. Q3 2021.	Implement programs under the Newlab initiative with the Government of Uruguay.
	3.2.2 Redesign scholarship programs geared toward high value-added sectors, including renewable energy, biodiversity, biotechnology, and the environment.	Fulfilled. Q1 2022.	Launch scholarships focused on addressing the challenges of the private-sector.
	3.2.3 Sign an agreement to establish an open competitive scholarship program for master's and postgraduate studies that promotes synergy between academia and the productive sector.	Fulfilled. Q3 2021.	
	3.2.4 Approve sector fund to finance green hydrogen research, innovation, and training projects contributing to speed the energy transition and market development.	Fulfilled. Q1 2022.	Sign agreement among ANII, MIEM, and the Technological Laboratory of Uruguay (LATU) for the Green Hydrogen Program.
	3.2.5 Approve the expansion of an instrument to support projects requiring collaboration between academia and the productive sector.	Fulfilled. Q2 2021.	Launch new sector funds.
	3.2.6 Approve the resolution to continue tax benefits for businesses investing in research and development (R&D).	Fulfilled. Q1 2022.	Approve R&D investment projects.
	3.2.7 Build partnerships to solidify support for research and innovation between public and private institutions and the productive sector.	Fulfilled. Q3 2021.	Launch the Program to Support Research and Innovation in Food and Human Health.
3.3 Develop tools to nurture and attract talent, startups, and resourcing.	3.3.1 Facilitate recognition of foreign certificates that demonstrate secondary educational attainment to allow access to higher education studies, and recognition and/or revalidation of degrees, certificates, or diplomas earned abroad.	Fulfilled. Q2 2022.	Implement recognition of educational certificates issued abroad.
	3.3.2 Expand the program to attract innovative foreign startups to Uruguay that create quality jobs, generate domestic sales and/or exports; and expand knowledge transfer and strengthening of	Fulfilled. Q3 2021.	Approve Proyecta Uruguay projects.

Components/ Policy objectives	Programmatic I Policy conditions	Fulfillment status of Programmatic I conditions*	Programmatic II Triggers
	the national innovative entrepreneurship ecosystem.		
3.4 Promote women's economic self-reliance through training and employment policies.	3.4.1 Approve active employment policies to support access to paid work for vulnerable segments of the population, including women, emphasizing entry or reintegration into the labor market and the promotion of training and vocational education.	Fulfilled. Q3 2021.	
	3.4.2 Promote women's economic self-reliance.	Fulfilled. Q2 2021.	Implement gender-related measures proposed by the National Gender Committee.

RESULTS MATRIX

Project objective:	The general objective is to contribute to the consolidation of sustainable economic growth in Uruguay by supporting internationalization policies. The specific objectives are: (i) to consolidate the policy framework and tools for promoting investment and trade; and (ii) to strengthen innovation incentives and conditions for such internationalization.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline		Final target		Means of verification	Notes
		Value	Year	Value	Year		
Uruguay's average foreign direct investment (FDI) stock/GDP over the past five years with respect to a comparable group of countries.	Number	1	2016-2020	1.25	2023-2027	Central Bank of Uruguay (BCU), World Development Indicators (WDI)	This indicator is the five-year average of FDI stock/GDP with respect to the comparable group of countries. The five-year average is used to avoid discrete jumps caused by large investment projects. Attribution is determined with respect to the control group, which will come from the impact estimation based on the synthetic control method. This may be adjusted at the time of evaluation. The target is consistent with the Impact Assessment of Investment Promotion Reforms 2013-2017 (optional link 6), which uses the synthetic control group instrument as the evaluation method to obtain an initial group of comparable countries. "The results suggest that average FDI stock in the period was 42.9% of GDP, 7.2 percentage points higher than the Uruguay synthetic scenario without the program. The sensitivity analyses and placebo tests confirmed these results." Although the reforms are not the same as this operation, they have several similarities, so Crescenzi et al. (2021) and Hannan (2017) could be regarded as references.

Indicators	Unit of measure	Baseline		Final target		Means of verification	Notes
		Value	Year	Value	Year		
Average exports for the past five years with respect to a comparable group of countries.	Number	1	2016-2020	1.05	2023-2027	BCU, WDI	The indicator is the five-year average of goods and services exports with respect to the comparable group of countries. The five-year average is used to avoid discrete jumps in the series. Attribution is determined with respect to the control group of countries, which will come from the impact estimation based on the synthetic control method. This may be adjusted at the time of evaluation. The share of foreign companies in Uruguayan exports rose from 24% in 2003 to 70% in 2018. FDI inflows led to a transformation of the export basket, diversifying destination markets, and reducing regional dependence.
Total factor productivity (TFP) (expressed as the ratio of the beneficiary firms average and the comparable nonbeneficiary firms average).	Percentage	100	2020	113	2027	Survey of Innovation Activities (EAI)	The target is consistent with the impact assessment of the program to support business innovation (Bukstein et al., 2020), which reports a 28% positive impact on TFP identified through propensity score matching between 2009 and 2018. Evaluation of this indicator will be causal via difference-in-differences and propensity score matching (link 3).

Specific Development Objectives

Indicators	Unit of measure	Baseline		Final target		Means of verification	Notes
		Value	Year	Value	Year		
Specific objective 1: Modernize the policy framework and tools for promoting investment and trade							
Number of businesses opting to be scored on the clean technologies indicator when using the investment promotion system.	Number	582	2021-2022	632	2025	COMAP Registry of Companies	Annualized value of the monthly median of businesses opting to be scored on the clean technologies indicator when submitting their project to COMAP. The monthly median is used to avoid fluctuations and atypical values in the series. After the last changes were made to the system (Decree 268/020), the monthly median grew 4.3% from 46.5 in the previous rolling year to

Indicators	Unit of measure	Baseline		Final target		Means of verification	Notes
		Value	Year	Value	Year		
							May 2021 to 48.5 in the year to May 2022. This growth rate is expected to double by the end of the period. Thus, in annualized terms, the number of businesses would grow from 582 to 632 per year in the last year. At the end of three years and assuming uniform growth, the total number of additional businesses would be 100. Since the amendments of the Decree were implemented in 2020, the baseline includes historical data from 2021-2022 (once growth was observed between the rolling years). The program will promote the regulation of evaluation criteria for projects under the investment promotion system by changing the project evaluation methodology to prioritize clean technologies, in order to increase impact in terms of development objectives and generate a significant positive effect on the value-added of the economy (2.1.1). The target reflects the learning process of the businesses in the presentation for access to the benefit.
Number of climate measures included by the country in the second Nationally Determined Contribution (NDC).	Number	0	2020	40	2025	NDC	Some of the policy reforms promoted (2.1.3, 2.3.1, 2.3.3, and 2.3.4) contribute to incorporating measures into the NDC in accordance with the Paris Agreement.
Number of double taxation agreements ratified.	Number	23	2020	26	2025	Laws passed	The program will promote sending the double taxation treaties to the General Assembly (2.5.1). Between 2009 and 2019, the country signed two agreements to avoid double taxation per year on average (MEF).
Specific objective 2: Strengthen innovation incentives and conditions for internationalization							
Proportion of businesses that make innovations in new products (expressed as the difference between the proportion of beneficiary businesses and	Percentage	0	2020	29	2025	Survey of Innovation Activities (EAI), 2025	The indicator is related to reform 3.1.2, which seeks to redesign the instrument for implementing innovation projects, whether for products (goods and services) or business

Indicators	Unit of measure	Baseline		Final target		Means of verification	Notes
		Value	Year	Value	Year		
comparable nonbeneficiary businesses).							processes, for internationalization (required link 3).
Proportion of businesses that export (expressed as the difference between the proportion of beneficiary businesses and comparable nonbeneficiary businesses).	Percentage	0	2020	30	2025	Survey of Innovation Activities (EAI), 2025	The indicator is related to reform 3.1.2 (required link 3).

OUTPUTS

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Final target[1]	Means of verification	Notes[1]
Component 2: Consolidate the policy framework and development of tools for promoting investment and trade									
Decree implementing the contact point for implementation of the OECD Guidelines for Multinational Enterprises.	Document	0	2020	1	0	0	1	Executive branch decree	
Law creating corporations for collective benefit and interest ("empresas BIC").	Document	0	2020	1	0	0	1	National law promulgated by executive branch	
Regulatory decree on corporations for collective benefit and interest.	Document	0	2020	1	0	0	1	Executive branch decree	
Act approving the proposed road map for mainstreaming sustainability in economic policy, which enables implementation of Article 533 of the Budget Act.	Document	0	2020	1	0	0	1	Administrative order	
Decree implementing regulations for the creation and publication of annual procurement plans for goods and services of government agencies.	Document	0	2020	0	1	0	1	Executive branch decree	
COMAP regulation approved, outlining the core operating criteria for clean technologies.	Document	0	2020	1	0	0	1	Regulation	
MIEM, LATU, and ANII agreement to design and manage the "Green Hydrogen Sector Fund" program.	Document	0	2020	1	0	0	1	Signed agreement	
Act approving the bidding conditions for the 2022 Biotechnology Fund Challenge.	Document	0	2020	1	0	0	1	Administrative order	
Decree tasking the MIEM with instituting the national certification system for renewable energies.	Document	0	2020	1	0	0	1	Executive branch decree	
Decree setting rates for the IMESI excise tax on electric vehicles.	Document	0	2020	1	0	0	1	Executive branch decree	

[1] The outputs are measured from the first year because all of the reforms are expected to be completed in that time. However, since the DDO is being utilized, outputs will be tracked during the entire period that the program is active. This monitoring will be as indicated in link 3.

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Final target[1]	Means of verification	Notes[1]
Presidential resolution approving contributions for the Uruguay Audiovisual Program.	Document	0	2020	1	0	0	1	Presidential resolution	
Law approving the agreement between Uruguay and the Green Climate Fund on Uruguay's privileges and immunities.	Document	0	2020	1	0	0	1	Law promulgated by executive branch	
Text of Uruguay's Long-Term Climate Strategy presented under the UNFCCC.	Document	0	2020	1	0	0	1	Document	
Text of the 1990-2019 National Greenhouse Gas Inventory (INEGI) presented by Uruguay at the UNFCCC Conference of Parties.	Document	0	2020	1	0	0	1	Document	
Investment protection agreements ratified.	Document	32	2020	1	1	0	34	Law promulgated by executive branch	
Double taxation agreements signed.	Document	25	2020	1	1	0	27	Law promulgated by executive branch	
MERCOSUR e-commerce agreement signed.	Document	0	2020	1	0	0	1	International agreement signed by Ministry of Foreign Relations	
Executive branch proposed law ratifying the MERCOSUR e-commerce agreement.	Document	0	2020	1	0	0	1	Proposed law sent to legislature	
Decree incorporating Resolution 37/19 of the Common Market Group "Consumer Protection for e-Commerce" into national legislation.	Document	0	2020	1	0	0	1	Executive branch decree	
Text of the Montevideo Protocol Amendment on Trade in Services with MERCOSUR incorporated into national legislation.	Document	0	2020	1	0	0	1	Proposed law sent to legislature	

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Final target[1]	Means of verification	Notes[1]
National Customs Bureau (DNA) resolution on identification of foreign authorized economic operators on digital uniform customs documents for imports and on maritime, air, or land freight manifests.	Document	0	2020	1	0	0	1	DNA resolution	
DNA resolution on exit records automation for movements of uniform customs documents for imports across land borders with green channel.	Document	0	2020	1	0	0	1	DNA resolution	
DNA resolution on incorporating the transit of goods for registration, analysis, quality control, and/or payment to and from free trade zones into the digital uniform customs documents system.	Document	0	2020	1	0	0	1	DNA resolution	
Decree adopting the common nomenclature of MERCOSUR.	Document	0	2020	1	0	0	1	Executive branch decree	
Current agreements on customs cooperation.	Document	16	2020	2	0	1	19	Law promulgated by executive branch	
Component 3: Strengthen innovation incentives for internationalization									
Signed management commitment between the executive branch and the National Research and Innovation Agency (ANII).	Document	0	2020	1	1	1	1	Signed management commitment between the executive branch and ANII	
Approved redesign of the instrument for implementing innovation.	Document	0	2020	1	0	0	1	ANII order	
Approved regional call for collaborative research proposals on using artificial intelligence for crisis management and building resilience.	Document	0	2020	1	0	0	1	ANII order	
Approved bidding conditions for projects for research and innovation in the circular economy.	Document	0	2020	1	0	0	1	ANII order	
BCU board resolution extending its NOVA financial innovation program for a new term.	Document	0	2020	1	0	0	1	BCU board meeting minutes	

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Final target[1]	Means of verification	Notes[1]
Memorandum of understanding to establish a four-year collaborative platform to develop innovation studies.[2]	Document	0	2020	1	0	0	1	Agreement with the conditions of Newlab Studios Uruguay agreed between MIEM and Newlab	
Signed agreements between ANII and Chevening to establish scholarship programs geared toward strategic sectors, including renewable energy, biodiversity, biotechnology, and the environment.	Document	1	2020	1	1	1	4	ANII administrative order	
Signed agreement between ANII, INIA, and Universidad Tecnológica del Uruguay to expand ANII's scholarship program for master's and postgraduate studies that promotes synergy between academia and the productive sector.	Document	0	2020	1	0	0	1	Signed agreement	
Order approving a program to finance green hydrogen research, innovation, and training projects.	Document	0	2020	1	0	0	1	ANII order	
Order approving a program to support projects requiring collaboration between academia and the productive sector.	Document	0	2020	1	0	0	1	ANII order	
Ministry resolution allowing tax benefits to be approved for businesses investing in research and development (R&D) in conjunction with technology centers and/or universities.	Document	0	2020	1	0	0	1	Ministry resolution	
Signed agreement between MGAP, MSP, INIA, and the Universidad de la República Medical School under the Program to Support Research and Innovation in Food and Human Health.	Document	0	2020	1	0	0	1	Signed agreement	

[2] Newlab is a global community of experts and innovators promoting the global innovation economy. Newlab will develop programs that utilize the resources and experience of public and private sector partners to support innovative technologists, engineers, and entrepreneurs developing transformative solutions for key civic and industry challenges.

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Final target[1]	Means of verification	Notes[1]
Law implementing regulations for active employment policies.	Document	0	2020	1	0	0	1	Law promulgated by executive branch	
Decree facilitating recognition of foreign certificates that demonstrate secondary educational attainment to allow access to higher education studies, and approved regulation on procedures for recognition and/or revalidation of degrees, certificates, or diplomas earned abroad.	Document	0	2020	1	0	0	1	Executive branch decree	
Expansion of the program to attract innovative foreign startups.	Document	1	2020	1	0	1	2	ANII order	
Executive branch resolution approving the National Gender Plan in agricultural policy.	Document	0	2020	1	0	0	1	Document	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Uruguay. Loan ____/OC-UR to the Eastern Republic of Uruguay. Program to Modernize the Regulatory Framework for Internationalization

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 aimed at cooperating in the execution of the Program to Modernize the Regulatory Framework for Internationalization. Such financing will be in the amount of up to US$155,000,000, 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 ___ ____________ 2022)

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