

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

PROGRAM FOR STRATEGIC INTERNATIONAL POSITIONING III

(UR-L1106)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Pablo M. García (TIU/CUR), Project Team Leader; Mario Umaña (INT/TIU); Christian Volpe (INT/INT); Ady Beitler (INT/TIU); Pablo Angelelli (CTI/CUR); Virginia Queijo Von Heideken (CSC/CUR); Yasmin Esteves (INT/TIU); Kevin McTigue (LEG/SGO); David Salazar (FMP/CUR); and Nadia Rauschert (FMP/CUR).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
	A. Background, problems addressed, and rationale	1
	B. Objectives, components, and cost	10
	C. Key results indicators	12
II.	FINANCING STRUCTURE AND MAIN RISKS	12
	A. Financing instruments, amount, and currency	12
	B. Environmental and social safeguards	12
	C. Fiduciary risks	12
	D. Other considerations and risks	12
III.	IMPLEMENTATION AND MANAGEMENT PLAN	13
	A. Execution arrangements	13
	B. Arrangements for monitoring results	14

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) – Summary
Annex II	Policy Matrix

ELECTRONIC LINKS	
REQUIRED	
1. Policy letter	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39297819
2. Matrix of conditions and means of verification	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39115882
3. Results matrix	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39115560
OPTIONAL	
1. Uruguay's financing requirements 2015-2019	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39054008
2. Macroeconomic analysis of investment flows and growth	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37294654
3. Investment promotion mechanisms: Analysis, international evidence, and suggestions	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37297569
4. Economic assessment	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39115940
5. Monitoring and evaluation plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39115948
6. Comparative table	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39115487
7. Using synthetic controls to evaluate an international strategic positioning program in Uruguay	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37312864
8. Bibliography	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39161895

ABBREVIATIONS

AEO	Authorized economic operator
ANII	Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency]
BIPPA	Bilateral Investment Promotion and Protection Agreement
bps	Basis points
CAROU	Código Aduanero de la República Oriental del Uruguay [Customs Code of the Eastern Republic of Uruguay]
CIACEX	Comisión Interministerial para Asuntos de Comercio Exterior [Interministerial Committee for Foreign Trade Affairs]
COMAP	Comisión de Aplicación de la Ley de Inversiones [Investment Act Enforcement Commission]
DNA	National Customs Directorate
DUA	Documento único aduanero [single customs document]
FDI	Foreign direct investment
MEF	Ministry of Economy and Finance
MERCOSUR	Southern Common Market
NFPS	Nonfinancial public sector
NPV	Net present value
OECD	Organization for Economic Cooperation and Development
PBL	Policy-based loan
PEDECIBA	Programa de Desarrollo de las Ciencias Básicas [Basic Science Development Program]
PENCTI	Plan Estratégico Nacional de Ciencia, Tecnología e Innovación [National Strategic Plan for Science, Technology, and Innovation]
R&D	Research and development
UTEC	Universidad Tecnológica del Uruguay
VUCE	Ventanilla única de comercio exterior [single foreign trade window]

PROJECT SUMMARY

URUGUAY PROGRAM FOR STRATEGIC INTERNATIONAL POSITIONING III (UR-L1106)

Financial Terms and Conditions			
Borrower: Eastern Republic of Uruguay		Flexible Financing Facility	
		Amortization period:	20 years
Executing agency: Ministry of Economy and Finance (MEF)		Drawdown period:	3 years ⁽ⁱ⁾
		Grace period:	⁽ⁱⁱ⁾
Source	Amount (US\$)	Weighted average life (in years):	Max. 12.75
IDB (OC):	247 million	Front-end fee:	50 bps
		Commitment fee:	25 bps ⁽ⁱⁱⁱ⁾
Total:	247 million	Inspection and supervision fee:	⁽ⁱⁱⁱ⁾
		Interest rate:	LIBOR-based
		Currency:	U.S. dollars from the Ordinary Capital (OC)
Project at a Glance			
<p>Objective: The general objective of the program is to help consolidate the international positioning of Uruguay by strengthening the legal and institutional framework for attracting investment, improving trade promotion and facilitation, and maximizing the local impact of that positioning. The specific objectives are to: (i) promote the attraction of investments to high value-added sectors; (ii) upgrade trade promotion and facilitation standards; and (iii) improve the development of local capacity to innovate and assimilate technology.</p> <p>Financing instrument: This operation is the third and last in a series of programmatic policy-based loans (programmatic PBLs) and utilizes the deferred drawdown option. Although the programmatic series was originally structured as two operations, the country's financing requirements and precautionary financing policy have put the country's demand for resources at variance with the Bank's response capacity under its annual quota allocations. Consequently, the second operation in the programmatic series was divided into two operations for a total of three in the programmatic series. The first operation (loan UR-L1076), approved in 2013, made progress on a series of key reforms for the country's international positioning. The second operation (loan UR-L1097), approved in 2014, consolidated the specific reforms made under component II of the first operation, and this third operation will consolidate the reforms made under components III and IV. All operations include a component I on maintaining a macroeconomic policy framework consistent with the program objectives.</p> <p>Special contractual conditions: Disbursement of the loan proceeds will be subject to meeting the agreed targets stated in the Policy Matrix (see Annex II). To maintain the integrity of the reform program, this operation includes, as a condition precedent to disbursement eligibility, the requirement that all policy conditions for operation UR-L1097 must be maintained.</p> <p>Exceptions to Bank policies: None.</p>			
<p>Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []</p>			

⁽ⁱ⁾ The operation will use the "policy-based loan with a deferred drawdown option" modality (see document GN-2667-2), which establishes an original drawdown period of up to three years from the date of eligibility for disbursements, with an option for a one time renewal of another three years. The renewal of the drawdown period will be subject to payment of a renewal fee of 50 bps on the undisbursed balance.

⁽ⁱⁱ⁾ The grace period will depend on the amortization schedule agreed upon between the borrower and the Bank when the disbursement request is formalized during the drawdown period.

⁽ⁱⁱⁱ⁾ The commitment fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems addressed, and rationale

1. Introduction

- 1.1 This operation is the third and last in a series of programmatic policy-based loans (programmatic PBLs) to support the efforts of the Eastern Republic of Uruguay to consolidate its strategic international positioning. To that end, progress is being made on a series of reforms whose purpose is to strengthen the legal and regulatory framework to attract investment, promote and facilitate trade, and maximize the local impact of better international positioning. The programmatic series was originally structured as two operations. However, the country's financing requirements and precautionary financing policy put the country's demand for resources at variance with the Bank's response capacity under its annual quota allocations. Consequently, the Bank, in conjunction with the Uruguayan government, decided to divide the second operation originally proposed by the Bank into two operations, so that the country's financing requirements can be met while complying with the Bank's annual quotas. The first operation (loan UR-L1076), approved in 2013, made progress on a series of key reforms for the country's international positioning. The second operation (loan UR-L1097), approved in 2014, consolidated the specific reforms made under component II of the first operation, creating the conditions for their effective implementation. This third operation will consolidate the reforms made under components III and IV of the first operation in the series.¹ Both this and the previous operations utilize the deferred drawdown option; under that option, the country has not yet taken disbursement of the previous operations.

2. Macroeconomic context

- 1.2 Emerging from the deep financial crisis of 2001-2002, the Uruguayan economy entered a strongly expansionary cycle. The annual growth rate, which had averaged 2.2% during the second half of the twentieth century, accelerated to an average of 5.6% during the period 2004-2013. However, given the current less favorable conditions both in the region and in the prices of the commodities exported by the country, growth is expected to slow in the coming years. Growth forecasts for 2014 and 2015 are 3.0% and 3.3%, respectively.
- 1.3 In a country with moderate demographic growth, this robust economic performance translated into a sharp increase in per capita output, the purchasing power of which more than doubled from the trough reached during the crisis at the beginning of this century. The sustained economic recovery and the increase in average incomes resulted in significant welfare gains for a population that had been hard hit by the

¹ All the operations in the programmatic series include component I referring to maintenance of a macroeconomic policy framework consistent with program objectives.

crisis. Income distribution, as measured by the Gini index, also improved from 45.5 in 2006 to 38.4 in 2013.²

- 1.4 On the fiscal front, strong economic performance led to an improvement in the public accounts. The primary result rose from a precrisis negative value to an average of 2.7% of GDP between 2003 and 2011. However, the fiscal accounts have deteriorated somewhat since 2012, and the overall fiscal deficit is projected to be 3.3% of GDP in 2014. On the other hand, the nonfinancial public sector's (NFPS) debt shrank from 96% of GDP in 2003 to 43% in 2013. The reduction in the debt was accompanied by an improvement in its currency composition and an extension of maturities. These improvements led the main international risk rating agencies granting investment grade status to Uruguay's debt.
- 1.5 The economic growth observed after 2002 can be explained in part by higher levels of investment. While total investment represented about 15% of GDP before the crisis, it averaged 20.5% after 2004. The increase in investment was driven especially by foreign direct investment (FDI), which after averaging 1.0% of GDP in the period 1992-2003, rose to 5.2% in 2004-2013.
- 1.6 The Uruguayan economy has been experiencing strong, sustained net capital inflows since 2011. The capital and financial account balance averaged 10% of GDP between 2011 and 2013. About one half of the flows targeted to the private sector took the form of FDI, while the flows to the public sector relate mainly to greater interest among nonresident private investors in treasury bills and Central Bank issues in domestic currency. However, in the current international setting, a possible slowdown of the region's economies, falling commodity prices, and a potential rise in U.S. interest rates sound a note of caution regarding the future of private capital flows into the country in the coming years. This demands a redoubling of efforts to consolidate Uruguay's international positioning.
- 1.7 The NFPS's financing requirements in a base scenario similar to the one used by the Ministry of Economy and Finance (MEF) to prepare the 2013 Accountability Law would average close to US\$2.827 billion a year between 2015 and 2019, for about 4.6% of GDP. If the regional environment or international prices should deteriorate, the Uruguayan economy would experience a phase of slower growth, which would result in lower tax revenues and put pressure on public finances. In that less favorable alternative scenario, average financing requirements between 2015 and 2019 would rise to US\$3.434 billion. The proposed operation would represent 8.7% of average annual financing needs in the base scenario, and 7.2% in the downside scenario.³

² Instituto Nacional de Estadística [National Statistics Institute] (INE), Uruguay.

³ [Optional electronic link 1](#) presents a detailed calculation of financing requirements and the different scenarios.

3. Diagnostic assessment of the problem

- 1.8 According to the diagnostic assessment performed at the start of the programmatic series, Uruguay is in an expansive phase of growth with close to full employment. Growth in recent years has exceeded the economy's growth potential, causing certain inflationary pressures. From a structural standpoint, the country is facing the challenge of increasing the potential growth rate of its economy. A detailed growth accounting analysis (see [optional electronic link 2](#)) indicates that, to attain a sustainable growth path and lock in the gains thus far, the country will need to simultaneously both expand and improve its physical and human capital endowment and spur innovation as an effective way of raising productivity and addressing the constraints that could potentially limit the country's sustained economic growth.⁴
- 1.9 In this framework, Uruguay faces the challenge of consolidating a sustained investment process that will improve its relative capital endowment. In a comparison of the capital-to-labor ratio, Uruguay trails well behind other countries of similar relative development.⁵ Estimates made for the proposed program suggest that the additional investment effort (with respect to the historical trend) needed for the country to achieve the long-term equilibrium rate within five years is 3.6% of GDP, which is in line with the government's objective of raising the investment rate to around 25% of GDP (see [optional electronic link 2](#)). Higher investment flows will improve the capital endowment while simultaneously narrowing the productivity gap. The literature shows that productivity improvements are not independent of investments in physical and human capital (Aghion and Howitt, 2009).⁶ Moreover, the process of technological improvement has been driven in many cases by the knowledge embodied in machinery and in imported capital goods (recognizing that the effective incorporation of knowledge will in many circumstances require additional adaptive efforts); or it has been generated through inflows of FDI. It is clear that productivity trends and capital accumulation tend to be complementary and to move in tandem (Arnold and Javorcik, 2009).
- 1.10 **Determinants of investment.** Numerous studies have examined the importance of both economic and political factors in explaining why FDI is attracted to specific countries. On the political front, evidence indicates that stability and institutional quality are determining factors for attracting FDI, and Uruguay compares well in

⁴ A study of the income gap between the United States and Uruguay suggests that in the mid-1980s the productivity gap accounted for 75% of the income differential between the two countries, whereas today it explains just over 50% of the gap. The trend in the income gap is explained primarily by the lower relative factor intensity of the Uruguayan economy, and the bulk of the difference in factor accumulation is explained by the relative decline in the capital-output ratio (see [optional electronic link 2](#)).

⁵ Over the years 2009 to 2011, the capital-labor ratio in Uruguay averaged 17.8% less than what would have been expected as a function of its per capita income (see [optional electronic link 4](#)).

⁶ See IDB (2011); Crespi G. and Zúñiga P (2010); and López A. et al. (2010) for examples from Latin America.

both areas.⁷ Among the most relevant economic factors, the domestic market has traditionally been considered the predominant one, along with the availability of factors of production.⁸ More recently, growing importance has been attached to so-called “cluster economies” as an important consideration in firms’ decisions on locating their activities. In addition to the importance of such factors as communications infrastructure and business networks, special value is attached to the technological and innovative capacities and skills of the local setting.⁹

- 1.11 For their part, governments have negotiated a series of bilateral investment treaties and double taxation treaties intended to send investors a clear signal that they will enjoy the protection of international law in the event of disputes and to mitigate the risk of double taxation for foreign entities. Such agreements have proven to be significant factors in explaining FDI flows, as they create predictable, transparent rules for the treatment of investments.¹⁰ At the same time, a series of studies has analyzed the influence of policy variables, such as tax rates or the granting of incentives. On the first point, evidence points to a negative link between the level of taxes and the inflow of investment.¹¹ As to the second, evidence suggests that incentives play a secondary role in investment location decisions, as the potential host regions have already been “filtered out” (in transnational firms’ decision-making processes) by means of other fundamental variables (resources, market, strategic assets, etc.).¹²

4. Main challenges identified

- 1.12 Although Uruguay has succeeded in improving its international positioning in recent years, it still faces a series of challenges to consolidate that trend.
- 1.13 **Investment concentration.** The country shows a high degree of investment concentration, making it necessary to promote more investment activity in sectors

⁷ See Campos and Kinoshita (2003); Kahai (2004); Bénassy-Quéré et al. (2005; 2007); Busse and Hefeker (2007); Daude and Stein (2007); Naudé and Krugell (2007); Ali et al. (2010); Biglaiser and Staats (2010).

⁸ Wheeler and Mody (1992); Hanson (2001); and Campos and Kinoshita (2003) find empirical evidence of the importance of the domestic market as well as labor availability, while Owen (1982), Clark et al. (1989), and Shatz and Venables (2000) also demonstrate the significance of the factor endowment. In addition, the review by Holland et al. (2000) attaches prime importance to the size of the market and its growth potential, with factor costs second in importance.

⁹ See Head et al. (1995); Barrell and Pain (1999); Campos and Kinoshita (2002, 2003); Nonnemberg and M. J. Cardoso de Mendonça (2004); and Li and Park (2006).

¹⁰ For a survey of evidence on this topic, see Sauvants and Sachs (2009). Studies showing that double taxation treaties and/or bilateral investment treaties promote greater levels of FDI include Banga (2003); Neumayer and Spess (2005); Neumayer (2007); Siegmann (2008); Desbordes and Vicard (2009); Barthel et al. (2010).

¹¹ See Root and Ahmed (1978); Grubert and Mutti (1991); Loree and Guisinger (1995); Hanson (2001); Bénassy-Quéré et al. (2001a; 2001b); Demekas et al. (2007); Coelho (2010); Feld and Heckemeyer (2011).

¹² According to the survey by Ginevičius and Šimelytė (2011), the literature supports the idea that the major incentives affecting FDI inflows involve more fiscal than financial benefits. Studies along these lines include Goolsbee (1998), Buettner and Ruf (2007), Miyagiwa and Ohno (2009), and Havranek and Irsova (2010).

with high value-added. In the period 2008-2012, the primary sector and construction (including hotels and restaurants) represented 53.7% of total FDI received by the country, while industry accounted for just 10.8%. During this time there was a further concentration of FDI in the primary sectors and in natural resource intensive industries, a trend first noted in the 1990s (Bittencourt et al., 2009). In addition, the most significant amounts of investment were excessively concentrated in a few large-scale paper and forestry projects. The concentration of investment can be seen in the sharp growth of the construction sector's share of total FDI, which rose from 11% in 2001-2005 to more than 32.2% in the years 2008-2012. This reflects the construction and installation of pulp mills as well as the boom in real estate investment in Punta del Este. The sector concentration of FDI is compounded by the concentration of investment sources: MERCOSUR has substantially increased its share, representing 47% of total FDI inflows in 2012, with Argentina alone accounting for 36.5% in that year, or 2.0% of GDP.

- 1.14 **Improving the international perception.** Although Uruguay has succeeded in attracting significant investment flows in recent years, there is still room for improvement in terms of international perception. For example, in the Global Competitiveness Index 2014-2015 published by the World Economic Forum, Uruguay ranks 80th out of 144 countries, Although it has improved in the past year, it still trails other countries of the region such as Brazil (56) or Peru (61), and even countries of similar size, such as Chile (34), and Costa Rica (54). The World Bank's Doing Business 2014 report shows something similar, ranking Uruguay 88th out of 189 economies reviewed. The main problems cited in these rankings are excessive red tape, sluggish foreign trade procedures, difficulty of the education system to turn out the skills needed for industry, and low capacity for business innovation. In short, the variables of time, cost, and complexity of the business climate in Uruguay offer a window of opportunity for promoting public policies that will facilitate the development of FDI and foster its sustainable growth.
- 1.15 **Optimizing foreign trade operations.** Uruguay has gradually succeeded in consolidating itself as a regional logistics hub. Its unique location as the gateway to MERCOSUR, together with its promotional regimes, have created an enabling environment to attract investments targeting the regional market. However, the country must continue to reduce the excessive red tape plaguing customs procedures and shorten the time required to process export, import, and transit operations. In the 2014 Logistic Performance Indicator, Uruguay ranks 91st out of 160 countries studied, behind the other MERCOSUR countries: Brazil (65), Argentina (60), and Paraguay (78). The greatest opportunities for improvement lie in customs clearance and control.
- 1.16 **Weak capacities for business innovation.** In absolute terms, investments in research and development (R&D) have grown in Uruguay in recent years (from US\$110 million in 2008 to US\$199 million in 2011), but they remain low in relation to GDP. In 2011, Uruguay invested 0.4% of GDP in R&D, less than Argentina (0.6%), Brazil (1.2%), and the countries of the Organization for

Economic Cooperation and Development (OECD) (2.2%). Moreover, while a typical Uruguayan company invests 1.6% of sales in innovation, the average for the region is 2.5%, and 3.7% for the OECD. The most salient factors that could explain the low investment in R&D and innovation include: (i) policies to support innovation that are still in their infancy and pay little attention to business segments with high potential for innovation, such as new businesses; (ii) lack of coordination and avenues for cooperation between businesses and R&D centers; and (iii) lack of advanced human capital.

- 1.17 To these structural problems must be added the challenge already discussed, related to the international setting. The slow recovery of economic activity in developed countries, coupled with a possible slowing of growth in the region's main economies and a potential increase in the U.S. interest rate, present a challenge for the sustainability of current investment levels.¹³ The challenges identified here are not the only ones, but they are the greatest ones. Other challenges include the need to upgrade the underlying infrastructure, particularly energy, and to provide greater access to financing.¹⁴

5. Recent government progress and pending challenges

- 1.18 The Government of Uruguay has committed to pursuing a series of reforms to consolidate a long-term sustained investment process. The most prominent reforms undertaken are to: (i) adjust the different promotional regimes to optimize their impact and promote higher value-added investments; (ii) meet international standards for the sharing of financial and fiscal information, to ensure that the country continues to move forward through the various phases of the peer review process in the Global Forum on Transparency and Exchange of Information for Tax Purposes; (iii) create a regulatory framework that allows risks to be shared between the public and private sectors in large infrastructure projects; (iv) take steps to modernize trade facilitation practices and update customs regulations; and (v) implement policies on technological innovation, to deepen the development impact of FDI. Good progress has been made in each of these areas under the first operation in the programmatic series. However, it is still necessary to address a series of challenges related both to consolidating the reforms promoted under the

¹³ According to the July 2014 World Economic Outlook, the developed economies are expected to grow by 1.8% in 2014 and 2.4% in 2015. For the region, the August 2014 LatinFocus Consensus Forecast projects a GDP variation of -1.0% in 2014 and 1.0% in 2015 for Argentina, and 1.0% and 1.5%, respectively, for Brazil. According to the United States Federal Reserve, the target Fed funds rate will begin to rise gradually in 2015.

¹⁴ Bittencourt and Reight Lorenzi (2009), employing the growth diagnostic methodology, identify the challenges mentioned as priorities and also emphasize the need to improve underlying infrastructure. Ruiz (2014) notes the importance of infrastructure, especially power infrastructure, as the main target of investment demand in the coming years.

- first operation and, in particular, to creating the conditions necessary for their effective implementation.¹⁵
- 1.19 In relation to investment promotion activities, progress was made under the first operation in the programmatic series in adapting the investment promotion regime to encourage projects geared toward quality jobs, technological innovation, and the use of clean technologies. A number of agreements were signed on investment protection, double taxation, and sharing of tax information, to make investments more predictable and facilitate tax treatment. This was supplemented with the adoption of the regulations necessary for the identification of owners of corporations, enabling the country to successfully complete phase II of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. Lastly, enabling regulations were issued to facilitate implementation of the law on public-private participation.
- 1.20 The main pending challenges in this area include the need to approve the regulations governing the changes in the investment promotion regime to facilitate its implementation. In addition to these challenges, it is necessary to move ahead with the actual enactment of the agreements on investment protection and double taxation that have already been negotiated, and to approve the regulations necessary to set a strict deadline for instituting the rules for the identification of owners of corporations.
- 1.21 In trade promotion and facilitation, the groundwork has been laid to establish a single foreign trade window (VUCE), making it possible to automate foreign trade management. A new Customs Code of the Eastern Republic of Uruguay (CAROU) was drafted that consolidated different foreign trade regulations, adapting them to international best practices, and making customs treatment consistent with the new MERCOSUR regulations. Regulations were approved to modernize customs operations control, progress was made, in particular, on mandatory use of the digital single customs document (DUA) for transit and import operations; use of the electronic seal was extended to container operations; rules were established to implement verification of goods based on risk management; and “authorized economic operator” (AEO) status was instituted.¹⁶
- 1.22 The pending challenges include the need to provide a legal foundation for the VUCE and, in particular, enable the National Customs Directorate (DNA) to meet the demands arising from implementation of the new CAROU, the preparation of which was included in the first operation of the programmatic series, and which is expected to be enacted during the proposed operation. The new CAROU entails a

¹⁵ The comparative table (see [optional electronic link 6](#)) lists the commitments included in the first operation of the programmatic series, as well as the indicative commitments expected for its continuity, and the status of each commitment.

¹⁶ AEO status is established in the regulatory framework of the World Customs Organization and enables companies certified by customs, following a comprehensive audit, to benefit from simplified customs procedures on the basis of their performance in complying with the law and other requisites to be established in the regulations.

paradigm shift in Uruguay's foreign trade operations, since it includes provisions to harmonize the regulations governing primary customs zones with the port and free airport regimes, optimizes the regime governing infractions, incorporates a complete and self-contained regime governing the actions of customs brokers, and specifies new powers for the DNA. The effective implementation of CAROU is a challenge for the DNA, which will have to adapt its operations to meet these demands. The challenge is especially great, given that despite the progress made in recent years, the DNA's organizational capacity is still limited, and it is understaffed and has a weak incentive system. It is also necessary for the DNA to adapt the regulations so it can implement the changes required for the modernization of customs controls, such as mandatory use of the digital DUA for exports, to ensure that all foreign trade operations are included. Similarly, use of the electronic seal should be extended to operations involving loose freight, and regulations need to be drafted to ensure effective implementation of the risk management system and the AEOs.

- 1.23 With regard to improvements in innovation capacities, under the first operation in the programmatic series progress was made in establishing management agreements between the executive branch and the National Research and Innovation Agency (ANII) that establish goals, resources, and monitoring and evaluation mechanisms for implementing the National Strategic Plan for Science, Technology, and Innovation (PENCTI), and a series of instruments were designed to promote innovation. The necessary conditions were also created to promote the establishment of two sector funds to spur research and innovation through linkages between academia and business. Lastly, a regulatory framework was put in place to promote the training of specialized human resources through the founding of the Universidad Tecnológica del Uruguay (UTEC) and the adoption of management commitments between the Ministry of Education and Culture (MEC) and the Basic Sciences Development Program (PEDECIBA) for advanced human resources training.
- 1.24 The challenges in this area are associated with the fact that ANII has focused mainly on promoting business innovation at existing companies while neglecting new ones (which are usually associated with FDI). This has made it necessary to extend the actions planned under PENCTI to new undertakings. A need was also detected to continue strengthening the linkages between the business and academic worlds, moving from simple cooperation schemes (one company and one R&D center) to more complex ones, where cooperation extends to networks of multiple stakeholders in the private sector, academia, and the public sector, or even the establishment of new centers to benefit all the players in a given medium- or high-technology sector. Lastly, human capital formation at the technical and advanced levels needs to continue, so it must be assured that UTEC has the necessary regulatory framework to set up its operating structure, establish specific technical study programs, and create decentralized regional centers, and progress must be made on agreements with advanced countries to train human resources in priority areas at the best international academic centers.

6. The program's strategy

- 1.25 As stated at the out of the programmatic series, in a country with a small domestic market, a structurally limited productive base, and the predominance of short value chains, the potential to attract investment depends heavily on the outlook for penetrating external markets and on the consistency between policies for attracting investments, sector incentives, and export promotion and facilitation. In turn, to maximize the impact of investment the country will have to establish the conditions for promoting the dissemination of knowledge, skills, and innovation as an integral part of broader strategies for productive and industrial development. This strategy will make it possible to both increase investment flows and improve exports and, to the extent that investments are targeted to higher value-added sectors, improve the export profile.¹⁷ In Uruguay in 2013, 62% of exports were by foreign-owned companies, and the technological content of those exports was higher than for national industrial exports.¹⁸
- 1.26 In this context, and with due regard for the problems mentioned above, the strategy of the entire program is to act simultaneously on a set of crosscutting factors that affect the country's attractiveness for investment in the broad sense and at the same time, bearing in mind the small size of the domestic market, move forward with a series of actions to improve trade facilitation and promotion standards so as to ensure that FDI in the country will have maximum access to third markets. This will be supplemented with specific actions to improve business capacities for innovation and assimilation of technology as an effective mechanism for attracting investment and maximizing its impact within the economy.¹⁹

7. The country's and the Bank's strategies

- 1.27 The program is consistent with the Bank's country strategy with Uruguay (2010-2015) (document GN-2626), as it seeks to improve the country's international positioning through the attraction of more FDI, including investment in sectors that export high value-added goods. The program will also contribute to the lending program priorities of the Bank's Ninth General Capital Increase (GCI-9) (document AB-2764) for: (i) support for small and vulnerable countries; and (ii) competitive regional and global integration through support for export and investment promotion, trade facilitation, and the implementation of trade and investment agreements (document GN-2733). The program will also contribute to the regional goals of: (i) trade openness (trade as a percent of GDP); and (ii) intraregional trade in Latin America and the Caribbean as a percent of total merchandise trade and will

¹⁷ The literature shows a positive impact of FDI on exports in the receiving countries as a result of the greater export orientation of local companies (Aitken, Hanson, and Harrison, 1997; Greenaway, Sousa, and Wakelin, 2004) and of an improved composition of their export baskets (Harding and Javorcik, 2012).

¹⁸ For a detailed analysis of the technological component of exports see Uruguay XXI (2014).

¹⁹ The set of investment promotion actions included in the program were evaluated through a study conducted for the preparation of this program, which assessed the impact such actions have had in countries where they have been implemented (see [optional electronic link 3](#)).

contribute to the following outputs: (i) regional and sub-regional integration agreements and cooperation initiatives supported; and (ii) number of crossborder and transnational projects supported, as defined in the Results Matrix (see [required electronic link 3](#)). It should be noted that this program forms part of the comprehensive dialogue that the Bank conducts with the country in the area of investment promotion and trade facilitation, covering technical assistance, financial and nonfinancial support, and synergies with other Bank initiatives. This has yielded a thorough understanding of the kind of reforms to be included in the program.

B. Objectives, components, and cost

- 1.28 The general objective of this series of programmatic operations is to help consolidate the international positioning of Uruguay by strengthening the legal and institutional framework for attracting investment, improving trade promotion and facilitation, and maximizing the local impact of that positioning. The specific objectives are to: (i) promote the attraction of investments to high value-added sectors; (ii) upgrade trade promotion and facilitation standards; and (iii) improve the development of local capacity to innovate and assimilate technology. As noted above (see paragraph 1.1), this operation consolidates the reforms established in components III and IV of the first operation in the programmatic series, whereas operation UR-L1097 addressed the reforms under component II.²⁰
- 1.29 **Component I. Macroeconomic framework.** The objective of this component is to ensure a macroeconomic context consistent with the program's objectives and with the guidelines established in the sector policy letter.
- 1.30 **Component II. Investment promotion.** The actions under this component were part of the previous operation UR-L1097.
- 1.31 **Component III. Trade promotion and facilitation.** The objective of this component is to contribute to consolidation of the trade promotion and facilitation policy implemented by the Government of Uruguay by building country capacity in export promotion and trade facilitation through the following public policy reform measures: (i) enactment of the new CAROU and adoption of measures for its effective enforcement, adapting the DNA's operations to the new CAROU, specifically, ordering the administrative reorganization of the DNA and creation of effective incentives for better staff performance; (ii) extension of use of the digital DUA to export operations, to ensure that all foreign trade operations are included; (iii) implementation of use of the electronic seal in transit operations for container freight; (iv) implementation of a specialized risk management unit within the DNA; (v) issuance of a specific rules governing Authorized Economic Operators and their

²⁰ The operation proposed here complies with virtually all the indicative commitments envisaged in the first operation of the programmatic series. [Optional electronic link 6](#) includes a comparative table that presents the activities established in the original policy matrix and the policy matrix of the second and third program. The rationales for the changes in the original commitments are also provided, where applicable. These changes pose no risk whatsoever to fulfillment of the program objectives.

- use in import, export, and transit operations; (vi) approval of a VUCE charter, conferring legal authority and enabling implementation of foreign trade procedures; and (vii) signature of an agreement between the Ministry of Foreign Relations and Uruguay XXI to launch a pilot project to establish an export assistance office abroad.
- 1.32 **Component IV. Enhancing innovation capacities.** This component will contribute to building local capacities for innovation and assimilation of technology. To meet this objective, the following public policy reforms will be instituted: (i) signature of a management agreement between the executive branch and ANII under the PENCTI that includes, in addition to actions to promote research, human capital formation, and business innovation, a specific section on activities to foster the development of innovative new companies. Specifically, this new section will establish new instruments to build entrepreneurial capacity in the population and to support the early stage development of innovative startups through specialized incubation services, seed capital, and private investment funds; (ii) enactment of the laws and regulations necessary to promote coordination between business and academia through the creation or strengthening of collaborative networks and sector technology centers. Specifically, partnerships will be promoted between groups of firms and research centers to solve technology problems and spur high-impact process and product innovations in strategic sectors of the economy; (iii) enactment of the law to provide funding and authorize UTEC to launch its human resource development and research activities, meeting the needs of the private sector; (iv) enactment of the laws and regulations to establish a Regional Technical Institute and create courses of technical study for human resource development with an impact on new technology adoption in agricultural and production-oriented activities; and (v) signature by ANII of training agreements with foreign research centers, universities, and specialized institutions for advanced training of Uruguayan professionals abroad, especially in those areas in which there is demand from technology firms and research and development institutions, and the university system still has no academic offerings.
- 1.33 **Condition precedent.** To maintain the integrity of the reform program, this operation includes, as a condition precedent to disbursement eligibility, the requirement that all policy conditions for operation UR-L1097 must be maintained.
- 1.34 **Economic analysis.** The project team performed an economic analysis of the program's costs and benefits. The analysis focused on estimating the impact that the program would have on average wages in the economy and the labor productivity gains induced by larger investment flows. The analysis was based on an economic growth model calibrated specifically for Uruguay, estimating different capital accumulation scenarios (see [optional electronic link 4](#)).
- 1.35 According to the analysis, the net present value (NPV) of the benefits under the base scenario, using a discount rate of 12%, is estimated at US\$793 million. Nine alternative scenarios were then analyzed to examine the robustness of the estimates. The NPV of the benefits is positive in all cases studied, ranging from

US\$44 million to US\$1.465 billion, from the downside to upside scenarios. It should be noted that other economic benefits were not quantified, leaving room to suppose that the results of the evaluation could be even more robust.

C. Key results indicators

- 1.36 To measure the effectiveness of the reform measures over the medium term, a results matrix was prepared, indicating the expected impacts, outcomes, and outputs of the program (see [required electronic link 3](#)). The impact indicators considered are the growth in the investment rate and the increase in exports. The principal outcome indicators include improvement in the overall business competitiveness indicator, reduced times and costs involved in exporting and importing, and increased investment in R&D.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments, amount, and currency

- 2.1 This operation is structured as a programmatic policy-based loan with a deferred drawdown option. The program follows the guidelines and directives established in the New Lending Framework (document GN-2200-13); in “Policy-based loans: Guidelines for preparation and implementation” (document CS-3633-1); and in the “Proposal to Establish Contingent Lending Instruments of the IDB” (document GN-2667-2). The amount of this operation will be up to US\$247 million. It is the third of three consecutive operations, independently financed but technically interrelated. The Policy Matrix sets out the commitments of this third operation, which generally consolidate and implement the reforms included in the previous operations.

B. Environmental and social safeguards

- 2.2 The evaluation of the potential environmental impact of the operation under Directive B.13 of the Bank’s Environment and Safeguards Compliance Policy (Operational Policy OP-703) indicated that the operation does not require classification.

C. Fiduciary risks

- 2.3 The operation presents no risks with regard to its financial execution, since the technical conditions for disbursement will have been substantially fulfilled before submission to the Bank’s Board of Executive Directors.

D. Other considerations and risks

- 2.4 There are three categories of risk associated with the proposed structural changes and the targets for this programmatic operation, which were evaluated by the project team on the basis of the likelihood and impact of their occurrence: (i) macroeconomic and fiscal sustainability risks; (ii) public management risks; and (iii) sustainability risks. In the first category, the team identified the macroeconomic instability that might be induced by external factors such as the current slowdown

- in the regional economies, the fall in the prices of the main export commodities, and a potential rise in the United States interest rate. This risk is mitigated by the government's prudent fiscal policy and its precautionary financing policy (of which this program is an integral part).
- 2.5 Regarding the risks identified under the second and third categories, there is the possibility of opposition from certain sectors that consider themselves affected by the reforms, particularly in the area of trade facilitation, as the reforms to be implemented in this area will make the system more efficient and are bound to affect certain links in the logistics chain. The government is paying special attention to publicizing the measures, their timetable, and their impact so that those potentially affected can adapt to the changes. In terms of operating capacity, the underlying risk is that the reforms (particularly enactment of the new customs code) will generate greater demand on the DNA, which has limited operating capacity. These risks will be mitigated through a series of reforms included in the present program. Lastly, there is the underlying risk associated with the broad interagency coordination needed for effective implementation of the reforms envisaged in the program, especially considering the coming changeover to a new administration. To address that risk, the operating capacity of the Interministerial Committee for Foreign Trade Affairs (CIACEX) will be strengthened under program 2590/OC-UR, now in execution, in addition to maintaining an ongoing dialogue with the elected authorities.
- 2.6 **Policy Letter.** The Policy Letter submitted by the Government of Uruguay establishes: (i) the national government's commitment to the objectives and activities envisaged under this program; and (ii) emphasizes the consistency between the policies to be supported through the program and the country's international positioning strategy.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Execution arrangements

- 3.1 The borrower will be the Eastern Republic of Uruguay and the executing agency will be the Ministry of Economy and Finance (MEF). The executing agency will have the following responsibilities: (i) coordinating the activities of the various institutions responsible for the adoption of measures or the technical implementation of activities; (ii) monitoring the activities called for in this operation; (iii) maintaining official communication with the Bank; (iv) preparing the necessary reports within the established timeframes agreed upon with the Bank; and (v) mitigating risks and effectively resolving problems arising during program execution.
- 3.2 To coordinate the different entities involved, the executing agency will centralize information on the various program activities at the MEF's Directorate of Multilateral Agencies, which in turn will coordinate technically with CIACEX,

which is responsible for coordinating all policies relating to export and investment promotion in the country.

B. Arrangements for monitoring results

- 3.3 Program monitoring will consist of verification of the policy measures agreed upon as conditions. The executing agency will provide the source information required to verify compliance with the progress indicators for the program, and regular monitoring will be conducted as described in [optional electronic link 5](#). The regulatory and institutional reforms called for in the program will constitute a policy intervention at the national level, and consequently will affect the economy as a whole. In order to evaluate the aggregate impact of that intervention on attracting investment and on the country's international trade, the "synthetic control" method will be used (see, for example, Abadie et al., 2010). This involves using a combination of countries unaffected by similar reforms to construct a comparison group. The impact of the reforms is identified by contrasting the actual performance of the economy subject to intervention in the dimensions of interest with the counterfactual given by the performance of the synthetic control. A specific evaluation will also be performed to examine the program's impact on foreign trade, using the difference-in-differences method (see [optional electronic link 5](#)).

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives		Aligned	
Lending Program	(i) Lending to small and vulnerable countries, (ii) Lending to support regional cooperation and integration.		
Regional Development Goals	(i) Trade openness (trade as a percent of GDP), (ii) Intraregional trade in LAC as a percent of total merchandise trade, and (iii) Foreign direct investment net inflows as a percent of GDP		
Bank Output Contribution (as defined in Results Framework of IDB-9)	(i) Individuals benefited from programs to promote higher labor productivity, (ii) Regional and sub-regional integration agreements and cooperation initiatives supported, (iii) Cross-border and transnational projects supported (infrastructure, and customs, etc.)		
2. Country Strategy Development Objectives		Aligned	
Country Strategy Results Matrix	GN-2626	(i) Increase services exports, (ii) Improve public administration, and (iii) Increase private sector contribution to investment in research and development	
Country Program Results Matrix	GN-2756-2	The project is included in the 2014 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability		Highly Evaluable	Weight
		9.0	10
3. Evidence-based Assessment & Solution		8.4	33.33%
3.1 Program Diagnosis		1.8	
3.2 Proposed Interventions or Solutions		3.6	
3.3 Results Matrix Quality		3.0	
4. Ex ante Economic Analysis		10.0	33.33%
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		2.5	
4.2 Identified and Quantified Benefits		2.0	
4.3 Identified and Quantified Costs		2.0	
4.4 Reasonable Assumptions		2.0	
4.5 Sensitivity Analysis		1.5	
5. Monitoring and Evaluation		8.6	33.33%
5.1 Monitoring Mechanisms		2.0	
5.2 Evaluation Plan		6.6	
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood		Low	
Identified risks have been rated for magnitude and likelihood		Yes	
Mitigation measures have been identified for major risks		Yes	
Mitigation measures have indicators for tracking their implementation		Yes	
Environmental & social risk classification		B.13	
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/PDP Criteria)	Yes	Financial management: (i) Budget, (i) Treasury, (iii) Accounting and reporting, (iv) External control, and (v) Internal audit.	
Non-Fiduciary	Yes	Statistics National System	
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The impact evaluation will provide evidence of the impact of aggregate reforms on Foreign Direct Investment using the synthetic control methodology. This evidence is innovative in the existing literature on the topic.	

This project is the 3rd and final in a programmatic series. The project proposal documents the need for Uruguay to maintain sustained investment levels given the expectation of less favorable conditions in the country's main exports as well as a deceleration in growth in 2014 and 2015 of around 3%. Given that it is a country with a small internal market and a productive base that is structurally reduced (for example, the primary sector and construction accounted for more than 50% of FDI), the attraction of investment depends strongly on the perspective of the capacity of external market penetration for the FDI that reaches the country and also the coherence between the policies for investment attraction, the promotion an facilitation of exports, sectorial incentives, as well as conditions that favor innovation. As evidence of the necessity to facilitate trade the POD cites the Logistic Performance Indicator that ranks Uruguay as 91 amongst 160 countries despite being a regional hub.

In this context, the program aims at a series of reforms on transversal factors that will attract investment and facilitate and promote commerce to optimize the access to external markets for the FDI that finds a home in the country. Moreover, this is complemented by concrete actions that seek to improve business capacity for innovation and technological absorption given that for example investment in R&D amounted to 0.4% of GDP in 2011. The results matrix reflects the objective and activities of the project and has a clear vertical logic. The indicators are SMART and one of the upper level indicators is aligned to the Country Strategy. The results metrics are apt to measure investment relative to GDP, exports, and average FDI.

The cost benefit analysis is consistent with the logic and is based on clearly outlined assumptions. The level of investment on which the benefits in the analysis are based features in the Results Matrix as a target. The documentation includes a monitoring and evaluation plan that describes the implementation of a quasi-experimental evaluation that will utilize a synthetic control methodology. This will shed light on the aggregate impact of this type of reform.

POLICY MATRIX

POLICY REFORMS AND OBJECTIVE	PROGRAM I COMMITMENTS	PROGRAM II COMMITMENTS	PROGRAM III COMMITMENTS
Component I: Macroeconomic framework			
Stable macroeconomic framework for promoting investment and exports.	Maintain a framework of macroeconomic policies consistent with program objectives.	Maintain a framework of macroeconomic policies consistent with program objectives.	Maintain a framework of macroeconomic policies consistent with program objectives.
Component II: Investment promotion			
Adapt the investment promotion regime to encourage investments in sectors with high value-added.	Issue general regulations for the Investment Law Enforcement Commission (COMAP) specifying scoring criteria for investment projects submitted under the new regime.	Issue and implement methodological guidelines for the COMAP on calculating indicators in the agricultural, capital market, and tourism sectors for the purpose of evaluating projects under the framework of the investment promotion regime.	
Attract foreign direct investment through the host government's commitment to respect international standards of protection and nondiscrimination vis-à-vis investors from third countries.	<p>Publication in the Official Gazette of the law ratifying the Bilateral Investment Promotion and Protection Agreement (BIPPA) with India.</p> <p>Publication in the Official Gazette of the law ratifying the BIPPA with Chile.</p>		
Pursue the negotiation of double taxation treaties as a mechanism for attracting investment by allowing investors to deduct taxes paid in Uruguay from those owed in their home country, even if the project enjoys tax exemptions in Uruguay under the promotion regime; at the same time, make more transparent the tax system under which the investments are made.	<p>Submission to Parliament of a bill ratifying the Double Taxation Treaty with Argentina.</p> <p>Submission to Parliament of a bill ratifying the Double Taxation Treaty with Finland.</p> <p>Submission to Parliament of a bill ratifying the Double Taxation Treaty with South Korea.</p> <p>Submission to Parliament of a bill ratifying the Double Taxation Treaty with Malta.</p> <p>Publication in the Official Gazette of the law ratifying the Double Taxation Treaty with Portugal.</p> <p>Publication in the Official Gazette of the law ratifying the Double Taxation Treaty with Ecuador.</p> <p>Publication in the Official Gazette of the law ratifying the Double Taxation Treaty with India.</p>	<p>Enactment of the law ratifying the Double Taxation Treaty with Argentina.</p> <p>Enactment of the law ratifying the Double Taxation Treaty with Finland.</p> <p>Enactment of the law ratifying the Double Taxation Treaty with South Korea.</p> <p>Enactment of the law ratifying the Double Taxation Treaty with Malta.</p> <p>Enactment of the law ratifying the Double Taxation Treaty with Portugal.</p> <p>Enactment of the law ratifying the Double Taxation Treaty with Ecuador.</p> <p>Enactment of the law ratifying the Double Taxation Treaty with India.</p>	

POLICY REFORMS AND OBJECTIVE	PROGRAM I COMMITMENTS	PROGRAM II COMMITMENTS	PROGRAM III COMMITMENTS
<p>Promote the approval of agreements for the exchange of tax information to make the tax system more efficient and to improve the investment climate in general.</p>	<p>Submission to Parliament of a bill ratifying the Agreement for the Exchange of Tax Information with the Federal Republic of Brazil.</p>		
	<p>Submission to Parliament of a bill ratifying the Agreement for the Exchange of Tax Information with the Kingdom of Denmark.</p>	<p>Enactment of the law ratifying the Agreement for the Exchange of Tax Information with the Kingdom of Denmark.</p>	
	<p>Submission to Parliament of a bill ratifying the Agreement for the Exchange of Tax Information with the Kingdom of Norway.</p>	<p>Enactment of the law ratifying the Agreement for the Exchange of Tax Information with the Kingdom of Norway.</p>	
	<p>Submission to Parliament of a bill ratifying the Agreement for the Exchange of Tax Information with the Faroe Islands.</p>	<p>Enactment of the law ratifying the Agreement for the Exchange of Tax Information with the Faroe Islands.</p>	
	<p>Submission to Parliament of a bill ratifying the Agreement for the Exchange of Tax Information with Greenland.</p>	<p>Enactment of the law ratifying the Agreement for the Exchange of Tax Information with Greenland.</p>	
	<p>Publication in the Official Gazette of the law ratifying the Agreement for the Exchange of Tax Information with Sweden.</p>	<p>Enactment of the law ratifying the Agreement for the Exchange of Tax Information with Sweden.</p>	
	<p>Publication in the Official Gazette of the law ratifying the Agreement for the Exchange of Tax Information with Iceland.</p>	<p>Enactment of the law ratifying the Agreement for the Exchange of Tax Information with Iceland.</p>	
<p>Improve the investment climate by achieving greater international fiscal transparency.</p>	<p>Publication in the Official Gazette of the law regulating the identification of holders of bearer shares and requiring them to register with the Central Bank of the Eastern Republic of Uruguay.</p>	<p>Approval of an executive decree setting a strict deadline for identification of corporate shareholders with bearer shares.</p>	
	<p>Issuance of the executive decree regulating the registration of holders of bearer shares and requesting reports from foreign tax authorities.</p>		
	<p>Issuance of the executive decree setting a time limit for registration with the tax administration of all transfers of participations in commercial corporations, except tradable shares.</p>		
	<p>Issuance of the executive decree adjusting regulations to practices of the Global Forum on Transparency and Exchange of Information for Tax Purposes.</p>	<p>Approval of an executive decree granting better procedural guarantees to the holders of tax information required by foreign tax agencies.</p>	

POLICY REFORMS AND OBJECTIVE	PROGRAM I COMMITMENTS	PROGRAM II COMMITMENTS	PROGRAM III COMMITMENTS
Implement a new regulatory framework for promoting investment in the country's physical infrastructure through public-private partnerships.	Issuance of the executive decree regulating the law on public-private participation facilitating its implementation and the execution of contracts signed under the regime.		
	Issuance of the executive decree regulating private initiative and competitive dialogue with the State on public-private participation projects.		
Component III: Trade promotion and facilitation			
Simplify customs processes, procedures, and requirements for import, export, and transit of goods.	Signature of the Phase II charter of the VUCE project by the MEF, the Ministry of Foreign Relations, the National Director of Customs, and the Secretary of CIACEX.		Enactment of the law approving the VUCE charter, conferring legal authority and enabling implementation.
Optimize customs regulations, eliminating regulatory inefficiencies, facilitating intra-zone trade, and fostering greater regional trade integration.	Submission to Parliament of the bill for the new Customs Code of Uruguay.		Enactment of the new Customs Code of Uruguay.
			Approval of the executive decrees and customs directives adapting the operation of the DNA to the Customs Code and ordering its administrative reorganization and the creation of effective incentives for better staff performance.
Modernize customs controls.	Issuance of the regulation approving the pilot plan for implementing the digital DUA for transit operations at all customs offices in the country.		Issuance of directives by the DNA issue to extend the mandatory use of the digital DUA for export operations.
	Issuance of the regulation extending application of the digital DUA pilot plan for imports, and its operating annex.		
	Issuance of the regulation on control of customs transit operations using the electronic seal, expanding its scope to cover transit of containers within the country and extending its scope to the country's customs brokers, and its operating annex.		Approval of the regulations to implement use of the electronic seal in container or loose freight.
	Inclusion of the risk management system in the draft Customs Code, specifying that it must use data processing techniques and be based on criteria for identifying and assessing risks.		Implement a unit specializing in customs investigation and intelligence within the DNA, with a specific risk management mandate in line with the new Customs Code of Uruguay.

POLICY REFORMS AND OBJECTIVE	PROGRAM I COMMITMENTS	PROGRAM II COMMITMENTS	PROGRAM III COMMITMENTS
Streamline customs inspection of goods at the border, in line with international best practices.	Include the status of Authorized Economic Operator in the draft Customs Code.		Issuance of specific rules governing Authorized Economic Operators and their use in import, export, and transit operations.
Generate new and more effective instruments for promoting exports and investments abroad.	Approval of the minutes of the CIACEX ministerial meeting indicating priority for trade promotion offices abroad.		Signature of an agreement between the Ministry of Foreign Relations and Uruguay XXI to launch a pilot project to establish an export assistance office in New York City.
Generate specific mechanisms for promoting reinvestment by firms already located in the country.	Approval of the minutes of the CIACEX ministerial meeting agreeing to creation of the investment after-care unit under Uruguay XXI.		
Component IV: Enhancing innovation capacities			
Boost the impact of FDI on national development.	Memorandum of understanding between the executive branch and ANII, establishing: (a) management targets; (b) resources for implementing the PENCTI; (c) monitoring and evaluation mechanisms.		Signature of management agreements between the executive branch and ANII under the PENCTI that include a section on business innovation associated with undertakings.
	ANII approval of the general conditions for creation of the “Fondo Orestes Fiandra” for financing established medium-sized and larger firms with an innovative profile.		
	Preparation of the general conditions for a program of subsidies for the filing of patents by small and medium-sized enterprises in the biotechnology, pharmaceuticals, electrical and electronic, ICT, and machine tool sectors.		
Promote synergy between the academic sector, local industry, and FDI.	ANII approval of at least two sector funds for technological innovation, for business-academia consortia, geared to priority sectors of the PENCTI.		Approval of the guidelines for promoting technological networks and centers to foster business innovation through cooperation with multiple businesses and private institutions.
Strengthen the regulatory framework for the generation of technological capacities.	Ratification of the law creating the Universidad Tecnológica del Uruguay (UTEC).		Adoption of measures by UTEC to establish a regional technical institute and to approve technical study programs with an impact on the modernization of agricultural activities.

POLICY REFORMS AND OBJECTIVE	PROGRAM I COMMITMENTS	PROGRAM II COMMITMENTS	PROGRAM III COMMITMENTS
	Memorandum of understanding between the Ministry of Education and Culture and PEDECIBA to provide more advanced training.		Enactment of the law endowing the UTEC with financial resources and governing its operations.
	ANII approval of the general conditions for subsidizing technical assistance from foreign experts for local firms.		Signature by ANII of at least eight training agreements with foreign universities and research centers.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/___

Uruguay. Loan ___/OC-UR to the Eastern Republic of Uruguay
Program for Strategic International Positioning III

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Eastern Republic of Uruguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Program for Strategic International Positioning III. Such financing will be for an amount of up to US\$247,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ _____ 20__)