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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

CONTINGENT LOAN FOR NATURAL DISASTER AND PUBLIC HEALTH EMERGENCIES

(UR-O1157)

LOAN PROPOSAL

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ABBREVIATIONS

ARL	Automatic redirection list
ASSE	Administración de los Servicios de Salud del Estado [Government Health Services Administration]
BCU	Banco Central del Uruguay [Central Bank of Uruguay]
CARRAD	Comisión Asesora para la Reducción de Riesgos y Atención de Desastres [Risk Reduction and Disaster Response Advisory Committee]
CCF	Contingent Credit Facility for Natural Disaster and Public Health Emergencies
COVID-19	Novel coronavirus disease caused by the SARS-CoV-2 virus
DLSP	Departamento de Laboratorios de Salud Pública [Public Health Laboratories Department]
DRM	Disaster Risk Management
FAE	Fondo Agropecuario de Emergencia [Agricultural Emergency Fund]
FEE	Fondo de Estabilización Energética [Energy Stabilization Fund]
GDP	Gross domestic product
HCEN	Historia Clínica Electrónica Nacional [National electronic medical record]
IDRMP	Integrated Disaster Risk Management Plan
iGOPP	Índice de Gobernabilidad y Políticas Públicas en Gestión de Riesgo de Desastres [Index of Governance and Public Policy in Disaster Risk Management]
IHR	International Health Regulations
JNERR	Junta Nacional de Emergencias y Reducción de Riesgos [National Emergency and Risk Reduction Board]
LIBOR	London Inter-Bank Offered Rate
MEF	Ministry of Economy and Finance
MIRA	Monitor Integral de Riesgos y Afectaciones [Comprehensive risk and impact monitoring system]
MSP	Ministry of Public Health
NIDERMP	National Integrated Disaster and Emergency Risk Management Policy
NPV	Net present value
OVE	Office of Evaluation and Oversight
PCU	Project coordination unit
RTFP	Risk Transfer and Financing Program
SINAE	Sistema Nacional de Emergencia [National Emergency Network]
SNIS	Sistema Nacional Integrado de Salud [Integrated National Health System]
SNRCC	Sistema Nacional de Respuesta al Cambio Climático [National Climate Change Response System]
SNS	Seguro Nacional de Salud [National Health Insurance]
TCR	Tribunal de Cuentas de la República Oriental del Uruguay [Office of the Auditor General of the Eastern Republic of Uruguay]
UTE	Administración Nacional de Usinas y Transmisiones Eléctricas [National Administration of Electric Power Generation and Transmission]
WHO	World Health Organization

PROJECT SUMMARY

URUGUAY
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<table>
<tr><th colspan="6">Financial Terms and Conditions[a]</th></tr>
<tr><td colspan="4" rowspan="2">Borrower: Eastern Republic of Uruguay</td><th colspan="2">Flexible Financing Facility[b]</th></tr>
<tr><td>Amortization period:</td><td>25 years[c]</td></tr>
<tr><td colspan="4" rowspan="2">Executing agency: The borrower, through the Ministry of Economy and Finance</td><td>Grace period:</td><td>5.5 years[c]</td></tr>
<tr><td>Original weighted average life:</td><td>15.25 years[c]</td></tr>
<tr><th>Source:</th><th colspan="2">Amount (US$)</th><th>%</th><td>Disbursement period:</td><td>5 years[d] [e]</td></tr>
<tr><td rowspan="4">IDB (Ordinary Capital)</td><td rowspan="2">Modality II</td><td rowspan="2">100,000,000</td><td rowspan="2">100</td><td>Interest rate:</td><td>LIBOR-based</td></tr>
<tr><td>Inspection and supervision fee:</td><td>[f]</td></tr>
<tr><td rowspan="2">Total available</td><td rowspan="2">100,000,000</td><td rowspan="2">100</td><td>Drawdown fee:</td><td>[g]</td></tr>
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</table>

Project at a Glance
Project objective: The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the public finances. The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures made in support of the population affected by natural disaster and public health emergencies.
Special contractual condition of general eligibility to request disbursements: The approval and entry into force of the program Operating Regulations, under the terms previously agreed upon with the Bank (paragraph 3.5). **Special contractual conditions precedent to each disbursement:** (a) Disbursements under Modality II (natural disasters): (i) that the Bank has verified the declaration of a national emergency due to the occurrence of an eligible natural disaster as defined in the Operating Regulations; (ii) that the Integrated Disaster Risk Management Plan, previously agreed upon with the Bank, is being implemented to the Bank's satisfaction; and (iii) that the Bank has verified the borrower's compliance with the agreed-upon complementary risk retention financing measures and conditions; and (b) Disbursements under Modality II (public health events): (i) that the Bank has verified the declaration of a national public health emergency due to an eligible public health event as defined in the Operating Regulations; (ii) that the borrower has submitted evidence that it is up to date with its progress reporting to the World Health Organization (WHO) on compliance with International Health Regulations (IHR); (iii) the borrower has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific event, in line with WHO/Pan American Health Organization recommendations, to address the event for which it has declared a national public health emergency; and (iv) the Bank has verified the borrower's compliance with the agreed-upon complementary risk retention financing measures and conditions. In addition to the aforementioned contractual conditions precedent to each disbursement, the borrower will have submitted, within 90 calendar days of the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s). In the case of disbursements relating to public health events, the borrower will indicate whether these will come from the Bank's regular lending program with Uruguay, from undisbursed balances from the automatic redirection list (ARL), or from a combination of these two sources. In the case of ARL loans, the request should identify the loans in question and the respective amount to be used (paragraphs 3.6 and 3.7). For the contractual conditions of a fiduciary nature, see Annex III.
Exceptions to Bank policies: None.

Strategic Alignment			
Challenges:[h]	SI ☑	PI ☐	EI ☐
Crosscutting Themes:[i]	GD ☐	CC ☑	IC ☐

[(a)] Financial terms and conditions of the contingent loan under the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (document GN-2999-4), approved by the Board of Executive Directors pursuant to Resolution DE-40/20 of 12 May 2020.

[(b)] 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, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[(c)] Amortization periods, weighted average life, and grace periods are counted from the date of each disbursement.

[(d)] The disbursement period or coverage period (equivalent terms) is renewable for up to five additional years, at the Bank's discretion, following a request by the borrower.

[(e)] Loan disbursements will be contingent upon the Bank's having sufficient resources available from the ARL or the Bank's regular lending program for Uruguay, as applicable, at the time of the disbursement request (paragraph 2.5).

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

[(g)] The fee is not charged if the loan is not used. The Bank will charge a one-time fee of 50 basis points only on the date of disbursement, applicable solely to the amount disbursed against resources from the regular lending program. This fee is applicable to each disbursement. The drawdown fee will be subject to periodic review by the Board of Executive Directors, as with all lending charges. The fee does not apply to amounts disbursed from loans included in the ARL.

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

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. The country's vulnerability to natural disasters and climate change

1.1 Uruguay is exposed to multiple hydro-meteorological and climatological hazards, such as drought, flooding, and frost. Although these hazards have had relatively less impact in Uruguay than in other countries of Latin America and the Caribbean and elsewhere in the world,[1] records of impacts of hydro-meteorological events in recent decades suggest they are increasing in severity and frequency. Between 1967 and 2019 the country experienced 32 severe events, 23 of which have occurred since the year 2000. Although floods are more frequent in relative terms, the events resulting in most damage were droughts, particularly the drought in 2018, which caused losses of US$500 million, equivalent to 0.8% of gross domestic product (GDP), and 1998-1999, which caused estimated losses of US$250 million (1% of GDP) [2].

1.2 Drought is a slow-onset hazard with elevated impacts on both the exposed population and farming activities, which are a mainstay of the Uruguayan economy, accounting for around 13% of the country's GDP and 78% of exports.[2] The impact of drought in Uruguay is also apparent in the drinking water supply and hydroelectric power generation.[3] The assessment of drought risk indicates that in the event of a severe or catastrophic drought there would not only be a significant impact on the country's economy (paragraph 1.7) but, as with other types of natural disasters, it would disproportionately affect the most vulnerable groups, impacting their livelihoods. As the effects of climate change intensify, the impact of drought is projected to become more acute, with an increase in the frequency and intensity of droughts, leading to a 150% increase in the maximum probable loss [3].

1.3 **Climate Change.** Climate change is a phenomenon of particular relevance for Uruguay. Climatic anomalies produced by global warming are likely to affect production sectors, the availability of water resources, and public health. Projections indicate that, if emissions continue to rise throughout the twenty-first century (Representative Concentration Pathway (RCP) scenario 8.5), annual temperatures could rise by up to 5.2°C by the end of the century [4], resulting in an increase in climate variability and both the frequency and intensity of extreme weather events such as severe droughts. This would have an impact on crop yields through accelerated soil erosion, affecting water availability and use, and increasing the pressure of pests and diseases [5]. The estimated costs of the impacts in 2050 stand at around 10% of 2008 GDP and 25% of GDP by 2100 [6]. In light of these risks, the country has advanced its institutional capacity-building

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1 Uruguay ranks 97th among the countries hardest hit by climate phenomena over the period 1999-2018 [1]. See Bibliography.

2 Estimates based on Central Bank of Uruguay (BCU) 2019 data for agrifood chains.

3 According to figures from the National Administration of Electric Power Generation and Transmission (UTE), approximately 80% of Uruguay's power generation is hydroelectric. In the event of a severe shortage of rainfall, the UTE resorts to thermal power generation. This results in higher production costs, a financial burden for the UTE and consumers, and a contingent liability for the public finances.

by setting up the National Climate Change Response System (SNRCC), drawing up the National Climate Change Response Plan in 2010, and the National Climate Change Policy in 2017 [4].

1.4 **Gender and natural disasters.** Disasters tend to have a disproportionate impact on the most vulnerable population groups [7], who have more limited means of coping with such events, especially in developing countries [8]. In Uruguay, marked differences in employment opportunities and participation in decision-making place women in a more vulnerable position.[4] Accordingly, it is essential to adopt disaster risk mitigation measures that focus on gender and vulnerable populations so as to mitigate the potential impact on the most vulnerable groups, including women.

2. The country's vulnerability to public health events

1.5 Uruguay is also exposed to public health events. Although historically no significant events have been recorded, the country's exposure was revealed by the arrival of COVID-19, the disease caused by the SARS-CoV-2 virus, which was declared a pandemic by the World Health Organization (WHO) on 11 March 2020. With the confirmation of the first cases of COVID-19 in Uruguay, a national health emergency was declared on 13 March 2020.[5] Since then, the government has been implementing the National contingency plan for infection (COVID-19) by the novel coronavirus (SARS-CoV-2), which envisages measures for surveillance, diagnosis, infection control, health care, risk communication, and coordination between government agencies and with the private sector for each stage of the pandemic. The health care results achieved so far show these measures to have been effective. Uruguay is one of the countries with the lowest levels of confirmed cases and cumulative deaths from COVID-19 (63.7 and 1.39 per 100,000 inhabitants, respectively) [9]. Nevertheless, the Public Health Ministry's Epidemiology Department continues to carry out COVID-19 pandemic surveillance and prevention activities, in view of the spread of the outbreak in the region, along with other infections, particularly vector-borne diseases such as dengue fever and leishmaniasis, cases of which have occasionally been recorded arising in Uruguay as well as being transmitted from certain areas of neighboring countries (Argentina and Brazil) where they are considered endemic.

3. Financial vulnerability to natural disasters and public health events

1.6 Despite the encouraging results of the country's handling of the health crisis, economic vulnerabilities existing prior to the COVID-19 pandemic persist and have been exacerbated by the outbreak. Since 2015, economic growth has been slowing (averaging 1.3% annually) and in 2019 it stood at 0.2%. Although the fiscal deficit has remained around 2% over the last few years, it rose to 4.3% of GDP in February 2020 (adjusted for extraordinary factors). The Ministry of Economy and Finance (MEF) projects a deficit of 6.7% of GDP for 2020. Owing

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4 Uruguay comes in 57th out of 160 countries on the Gender Inequality Index. United Nations Development Programme (UNDP), 2018.

5 Decree 93/020.

to the impact of the pandemic, GDP is expected to contract by 4.5% in 2020, recovering in 2021 with growth of 4.3% [10].

1.7 In this context of fiscal constraint, a severe natural disaster or a nationwide epidemic outbreak represents a major contingent fiscal liability for the country, as the resulting large-scale financing needs for emergency response would complicate the government's efforts to achieve fiscal consolidation and jump-start economic activity. According to a Bank study, a 100-year drought would generate losses of US$800 million [3] (equivalent to 1.4% of 2019 GDP).

1.8 Similarly, future pandemics could also cause significant contingent fiscal liabilities. For example, the extraordinary public expenditures on health and other measures associated with reduced economic activity due to the COVID-19 pandemic are estimated at US$768 million (approximately 1.6% of GDP) [11]. These natural disaster and public health risks underscore the need to continue building fiscal resilience.

4. Natural disaster risk management in Uruguay

1.9 The country's flagship regulation on disaster risk management (DRM) is Law 18,621 of 2009, which created the National Emergency Network (SINAE) and its 2020 regulations.[6] Under this law, the SINAE consists of the executive branch, the National Emergencies Department, the Risk Reduction and Disaster Response Advisory Committee (CARRAD), ministries, autonomous agencies, and decentralized services, together with departmental emergency committees. In this context, the National Integrated Disaster and Emergency Risk Management Policy (NIDERMP) for 2019-2030 was approved in 2020.

1.10 The diagnostic assessment of Uruguay's DRM is documented in the Integrated Disaster Risk Management Plan (IDRMP) (paragraph 2.7). The IDRMP includes activities aligned with the NIDERMP to help the country achieve improvements on its five strategic pillars (Annex I of the program Operating Regulations) (paragraphs 1.11-1.15). These activities will be monitored by means of annually updated indicators. The diagnostic assessment of the strategic pillars of the country's DRM is summarized below:

1.11 **Governance and development of the governing framework.** Law 18,621 establishes a framework of responsibilities for DRM at both national and departmental level. Subsequently, the National Emergency and Risk Reduction Board (JNERR) was created by Law 19,355 of 2015 as a collective interagency decision-making body, broadening the reactive approach to emergencies to a more comprehensive approach incorporating risk reduction. The country also has a General SINAE Coordination Protocol [12] (paragraph 3.2).

1.12 **Risk identification and awareness.** The country has a comprehensive risk and impact monitoring system (MIRA), developed and run by SINAE, which optimizes data collection on emergency events and enables real-time hazard monitoring. MIRA combines information from various sources to produce a comprehensive analysis of risks and impacts, particularly meteorological alerts and warnings, information on vulnerable population groups, and records of events, and impacts

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[6] Decree 065/2020 of 17 February 2020.

on people and property. In terms of challenges, it should be noted that MIRA's performance needs further improvement in order to reach the whole population and other State agencies.

1.13 **Disaster risk reduction** A number of national public investment projects exist in Uruguay to mitigate climate risk, such as the flood-defense levee project. Meanwhile, the Bank, through a US$20.5 million loan (2647/OC-UR), has helped mitigate the impact of the frequent floods in Montevideo by financing resilient infrastructure: construction of underground pipes and water storage tanks, benefiting over 1,500 families and improving the whole city's flood resilience. Additionally, in 2016 housing construction regulations were approved, establishing requirements to reduce vulnerability to natural hazards. Although these initiatives to reduce risks in zones affected by disasters have been put in place, these actions need to be expanded to other areas exposed to climate risks.

1.14 **Emergency preparedness.** An early-warning system is in operation enabling models to be developed of the basins of the Yi and Cuareim rivers enabling evacuation forecasts to be made 72 hours in advance. This model is also planned to be developed for the Santa Lucía river basin next year. The MIRA system has visual displays with georeferenced information for different types of emergencies. The country still needs to improve operations in cases of emergency, for example, by training rescue teams and running drills or simulations with the involvement of multiple institutions.

1.15 **Financial risk management.** A major step forward on this issue was the creation of the Agricultural Emergency Fund (FAE) in 2008, to support farmers impacted by climate emergencies. Uruguay also has an Energy Stabilization Fund (FEE), which was set up to reduce the impact of water shortages on the financial position of the National Administration of Electric Power Generation and Transmission (UTE) and the public finances in general. Although it has these mechanisms (paragraph 2.10), the country is expected to continue strengthening its financial management of these risks, through: (i) the implementation of the National Disaster Prevention and Response Fund (FNPAD), created by Law 18,621 to address prevention, mitigation, response, and rehabilitation activities for which the SINAE is responsible; and (ii) the development and implementation of a comprehensive financial strategy enabling the country to optimize the use of risk retention and transfer instruments. Against this backdrop, Uruguay has requested support from the Bank through this contingent loan enabling it to structure ex ante financial coverage to respond to emergencies, which constitutes a priority for the country.

5. Public health risk management in Uruguay

1.16 The most recent assessment of compliance with the International Health Regulations (IHR) found that Uruguay has a medium level of preparedness and capacity to detect, assess, notify, and respond to public health risks and events.[7] Against this backdrop, when COVID-19 reached the country, the Ministry of Public Health (MSP) launched the national contingency plan, updating prevention and control, surveillance, and laboratory diagnosis measures and guidelines to manage the response. Interagency coordination followed the procedures established in the SINAE's general coordination protocol.

1.17 **Epidemiological surveillance system.** Six health centers, distributed throughout the country (three in Montevideo and three elsewhere), are involved in conducting sentinel surveillance of severe acute respiratory infection (SARI) and influenza-type illness (ILI) in Uruguay. These sentinel centers gather information from patients, notify cases through the MSP hospital infections surveillance computer system and send respiratory samples to the Public Health Laboratories Department (DLSP), where the virological diagnosis is conducted. This sentinel surveillance was stepped up with the COVID-19 outbreak and samples were also studied for coronavirus. Additionally, cases of suspected COVID-19 are notifiable as they are considered public health events of national importance.

1.18 **Health service provision.** In all, 98.7% of Uruguay's population has health coverage from a service provider in the Integrated National Health System (SNIS).[8] National Health Insurance (SNS) is one of the key instruments of the SNIS. In 2018, it covered more than 2.5 million people (74% of the population), making Uruguay one of the countries of Latin America with the widest health insurance coverage.[9] According to MSP information, the SNIS currently has 822 intensive care beds, 7,550 intermediate care beds, and 1,460 basic care beds. These are levels that place Uruguay among the countries with the highest hospital capacity per 100,000 inhabitants in the region.

6. Risk financing and transfer programs for natural disaster and public health emergencies

1.19 The Bank has been providing support for the countries to make financial management of disaster risks more effective. In the period 2007-2008, the Bank developed an integrated financial approach to disaster risk management to help countries improve their financial planning (document GN-2354-7). This approach aims to support borrowing member countries in the design and implementation of natural disaster risk transfer and financing programs.

1.20 Within this strategic framework, in 2009, the Bank created the Contingent Credit Facility (CCF) for Natural Disaster Emergencies (document GN-2502-7). The Facility's aim is to provide the countries with significant liquid resources in the immediate wake of a natural disaster. Having thus far approved 13 loans from

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7 The IHR, which dates from 2005, is an agreement by the 196 members of the WHO to work together to prevent and respond to public health risks. The IHR annual report assesses 13 dimensions of country capacity and response to public health events. In the case of the COVID-19 pandemic, the WHO estimated that Uruguay has level-3 preparedness and response status (with 1 being the lowest and 5 the highest). The SPAR platform reports country-specific capacities for each dimension of preparedness and response.

8 Encuesta Continua de Hogares 2017 [Ongoing household survey, 2017].

9 No differences are observed in the relative participation of males and females.

the Facility, in recent years the Bank has made significant progress in enhancing the region's financial resilience in the face of disasters. In 2020, in response to the COVID-19 pandemic, the scope of the Facility was expanded to include public health risks (document GN-2999-4), which are a major source of contingent fiscal liabilities.

1.21 Risk transfer and financing programs (RTFPs) recognize the existence of budgetary and financial constraints, which mean that no single instrument can efficiently cover all levels or layers of risk on its own [13]. Accordingly, when designing RTFPs, reserve funds should be used to cover the risks associated with high-recurrence, smaller-scale events. In contrast, for more severe but lower probability events, the use of long-term contingent debt and risk transfer instruments, such as insurance and/or catastrophe bonds, is recommended [14].

1.22 **Potential benefits.** The benefits of focusing on RTFPs for the emergency phase have been shown to outweigh the potential costs. RTFPs enable countries to obtain financial coverage that benefits the general population, regardless of whether the risks actually materialize, and this type of financing is more efficient in terms of both the direct costs and the savings that it generates. This is achieved by reducing governments' liquidity gap that results from the combination of increased expenditures, reduced revenues [15], and incremental access restrictions and borrowing costs.

1.23 In other words, the availability of ex ante financial coverage partially reduces the risk of worst-case scenarios for the event's impact on the public accounts and the vulnerable population by fast-tracking resources to meet the costs of the emergency response. This has been verified by the Bank [16] and other multilateral organizations, such as the International Monetary Fund (IMF) [17], which confirm that the existence of financial coverage to provide liquidity following severe events ensures more stable long-term economic growth. This is because it makes resources rapidly available to address the needs of the population affected by the emergency, while meeting financing requirements to cover unforeseen expenses.

7. The operation in the Bank's sector and country strategy

1.24 **IDB actions and support in the sector.** The Bank has been taking concrete steps to strengthen borrowing member countries' disaster risk management (DRM). Specifically, the Bank has been supporting countries through: (i) a diagnostic assessment of disaster risk governance in 2014 applying the Index of Governance and Public Policy in DRM (iGOPP) and advisory support on the regulations under Law 18,621 (ATN/MD-13090-RG); (ii) emergency financial assistance to support emergency response activities after the floods in 2015 (ATN/OC-15516-UR) and 2016 (ATN/OC-15555-UR); (iii) improved quality and usefulness of the information on the occurrence of drought impacts (ATN/OC-17023-RG); and (iv) preparation of the country disaster risk profile to quantify the likely loss due to drought (ATN/MD-15800-RG). The lessons learned from these interventions highlight the importance of appropriate procedures for the use of the loan proceeds (paragraph 3.4).

1.25 **IDB actions and support in the public health sector.** In the public health area, the Bank has been supporting the process of strengthening e-health in Uruguay, particularly with the development of national electronic medical records (HCEN) through the "E-Government Management Project in the Health Sector" (UR-X1009, 3007/OC-UR, 4300/OC-UR). One of the lessons learned during the COVID-19 pandemic in Uruguay is that e-health tools are a key pillar of the response to health emergencies, avoiding overloading in-person health care services, reducing the risks of contact with health care personnel, while also helping manage physical and human resources to care for both moderate and critical cases. HCEN's potential for population monitoring will be strengthened by the third operation under the CCLIP (UR-X1009), currently in preparation, which will complete the process of structuring clinical data across all SNIS service providers.

1.26 **Complementarity with other Bank operations.** The proposed operation dovetails with and complements the comprehensive support the Bank has been providing the Uruguayan government in the adoption of sustainable fiscal policies and a precautionary debt management strategy. One of the objectives of Uruguay's debt management policy in recent years has been to protect against the possible cessation of international credit market flows. One of the pillars of this policy has been the signing of contingent credit lines with international organizations. The Bank has been an essential partner in the implementation of this policy, enabling it to provide immediate support during the COVID-19 pandemic with the disbursement of US$1,050,750,000 from five policy-based loans (PBLs) approved with a deferred disbursement option (3418/OC-UR, 3365/OC-UR, 3627/OC-UR, 4430/OC-UR, and 4857/OC-UR). In addition, the IDB approved two operations in response to the fiscal and social effects of the COVID-19 pandemic in Uruguay: "Emergency Support for Vulnerable Populations Affected by Coronavirus" (5105/OC-UR), and "Program to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused by COVID-19 in Uruguay" (5034/OC-UR).

1.27 **Good practices and lessons learned in the CCF framework.** The Bank has been supporting borrowing member countries in the design and implementation of financial strategies for disaster risk management. In this connection, it has approved 13 loans from the CCF, with three disbursements totaling US$256 million[10] (3670/OC-EC, 4331/OC-DR, and 4853/OC-BH). The design of this operation has incorporated the lessons learned from each of these approved loans: (i) strengthening of the coordination and execution mechanism between the executing agency, the SINAE, and the MSP; and (ii) the establishment of operating rules to ensure the effective and efficient supervision and execution of these operations. With the CCF expanded to include public health risks, the Bank has also gained experience from the preparation of three CCF loans with COVID-19 coverage (operation GY-O0006 and the amendments DR-X1011 and EC-O0006) and a CCF operation with public health risk coverage (operation PR-O0006). These include the importance of clarifying interagency coordination for public health emergencies

[10] Total outstanding contingent loans currently stand at US$1.911 billion and the disbursed total at US$241 million (August 2020).

(paragraph 3.3) and specifying the country's legal framework and procedures for declaring a national public health emergency.

1.28 The relevance and effectiveness of the instrument have been verified and supported by recent experiences and documented in the report "Country Program Evaluation: Ecuador 2012-2017," prepared by the Office of Evaluation and Oversight (OVE) [18], and in the OVE-validated project completion report of the operation to respond to the emergency caused by the Manabí earthquake in 2016 (3670/OC-EC). The main lessons learned that were incorporated in this project include: (i) the contracting of an independent reasonable assurance audit mitigates the risk of the loan proceeds being used in a way that contravenes the Bank's eligibility criteria; and (ii) cross-sector coordination limitations require actions to strengthen interagency coordination mechanisms during execution of the operation (paragraphs 3.2 and 3.3).

1.29 **Strategic alignment of the operation.** The project is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and is aligned with the Social Inclusion and Equality development challenge, as it will improve vulnerable people's resilience to natural disasters, epidemics, and pandemics as they will benefit from financial coverage through the loan to strengthen the government's capacity to help people affected by adverse events of this kind, who are often from the most vulnerable groups, confront and recover from such events. The project is also aligned with the crosscutting area of climate change, as part of the climate change adaptation strategy, since it increases the ex ante financial coverage available to the country in the event of a severe or catastrophic natural disaster. According to the joint methodology of the multilateral development banks for estimating climate finance, and as established in the procedures for the processing of sovereign guaranteed operations, the operation is estimated to contain 100% climate finance, corresponding to coverage of natural disasters under Modality II. These resources contribute to the IDB Group's target of increasing the funding of climate-change-related projects to 30% of all operation approvals by the end of 2020.

1.30 The operation is also aligned with the Corporate Results Framework 2020-2023 (document GN-2727-12) by directly contributing to the indicator of beneficiaries of enhanced disaster and climate change resilience (Contributions to Development Results). This is because it increases the number of people that gain enhanced resilience to natural disasters, epidemics, and pandemics by benefiting from the ex ante financial coverage provided by the loan. The operation is also consistent with the Bank's Disaster Risk Management Policy (document GN-2354-5); the Climate Change Sector Framework Document (document GN-2835-8) by helping to improve the financial management of climate and disaster risks in the country; and the Health and Nutrition Sector Framework Document (document GN-2735-7), by increasing funding to the public health system for the management of future pandemic and epidemic outbreaks.

1.31 The operation is also aligned with the IDB Country Strategy with Uruguay 2016-2020 (document GN-2836), which lists climate change adaptation and mitigation and environmental sustainability among its crosscutting action areas.

Lastly, the operation is included in the Update of the Annex III of the 2020 Operational Program Report (document GN-2991-3).

1.32 **Gender perspective.** In addition, the operation contributes to the crosscutting theme of gender equity and diversity, since gender will be mainstreamed in the country's disaster risk management, by including this topic in training workshops aimed at the institutions comprising the SINAE, among the activities included in the IDRMP (paragraph 1.34).

B. Objectives, components, and cost

1.33 The general objective of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the public finances. The specific objective is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures made in support of the population affected by natural disaster and public health emergencies.

1.34 The operation provides additionality by helping to enhance the country's comprehensive disaster risk management through improvements in the five strategic pillars of the IDRMP (paragraphs 2.7 and 2.8). The plan's activities are aligned with the country's priorities as set out in the NIDERMP (paragraph 1.9), which were agreed upon between the government and the Bank. In view of the issues described in paragraph 1.4, the gender equity approach will be fostered, particularly through training workshops for the institutions comprising the SINAE on the preparation of the response.

1.35 **Sole component.** The proposed operation consists of a sole US$100 million component that will structure stable, efficient, and rapidly accessible ex ante financial coverage to provide timely funding for the extraordinary expenses that are likely to occur during severe natural disaster and public health emergencies.

1.36 Operation disbursements will be made under the CCF[11] Modality II to provide funding for the extraordinary public expenditures that are likely to occur during severe or catastrophic natural disaster (paragraph 2.3) or public health (paragraph 2.4) emergencies.

1.37 To assess the country's financial needs for dealing with emergencies caused by severe or catastrophic natural disasters or public health events, the Bank analyzed the exposure and vulnerability to such events, and their historical impact, factoring in the effects of climate change.[12] Based on this analysis, the loan amount was set at US$100 million, which is within the limits established for CCF operations under Modality II (document GN-2999-4, paragraph 4.5). The financial terms and conditions applicable to these resources are as indicated in document GN-2999-4 and are included in this proposal's project summary.

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[11] The CCF provides coverage through two modalities. Modality I covers low probability, rapidly evolving, natural hazards with severe or catastrophic impact through predefined, measurable parametric triggers. The objective of Modality II is solely to cover events that are not covered by Modality I.

[12] Evidence of Uruguay's exposure and vulnerability to droughts, epidemics, and pandemics, as well as to the effects of climate change, are documented in sections I.A.1 and I.A.2.

1.38 **Beneficiaries.** The potential beneficiaries of the project are the entire population of Uruguay, in particular the affected populations that receive emergency assistance under the proposed coverage.

C. Key results indicators

1.39 To measure achievement of the project's overall objective (paragraph 1.34), the following impact indicators will be monitored: (i) ex ante financial coverage relative to the maximum probable expenditure during emergencies caused by catastrophic natural disasters covered by the project; and (ii) ex ante financial coverage relative to the maximum probable expenditure during nationwide public health emergencies covered by the project.

1.40 To measure achievement of the operation's specific objective (paragraph 1.34), the following outcome indicators will be monitored: (i) the amount of ex ante financial coverage available to the country for emergency response to natural disaster or public health emergencies; (ii) the beneficiaries of the ex ante financial coverage available for natural disasters or public health emergencies; (iii) the spread between the financial cost of the IDB loan and the cost of Uruguay's long-term commercial external sovereign debt; (iv) the financial savings ratio should an eligible event occur: cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in net present value (NPV) terms; and (v) the speed of access to the funds following the occurrence of an eligible event: number of days between the eligibility verification request and the availability of the funds.

1.41 **Economic analysis.** The economic analysis of the project uses a cost-effectiveness analysis methodology to evaluate a scenario in which the full financial coverage provided by the US$100 million contingent loan would be used following the occurrence of a catastrophic natural disaster and public health event during the coverage period.[13] The NPV of the cost of financing the IDB loan was compared with the cost of issuing bonds, under the following assumptions: (i) interest on the Bank loan is set at the London Interbank Offered Rate (LIBOR); and (ii) the issuance of 10-year bonds, based on the country's current risk premium in the international sovereign debt market. The two NPVs were calculated using a 12% discount rate. The results show that the contingent loan granted by the Bank is 68.6% of the cost of issuing debt, which makes it a much more efficient option in terms of both the financial cost and how quickly the resources can be made available.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

2.1 The operation will consist of an investment loan from the Bank, to be issued under the CCF (document GN-2999-4), for up to US$100 million under Modality II for natural disasters and public health events. The borrower, acting through the MEF, will serve as executing agency. All disbursements will be made

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[13] Two other scenarios were evaluated, and the results obtained indicate that the contingent loan would still be the most efficient option for the country. See Economic Analysis (optional link 1).

from the Bank's Ordinary Capital resources. The funds will come either from the regular lending program or from available undisbursed balances of investment loans already approved and identified in the automatic redirection list (ARL),[14] or from a combination of the two.

2.2 Contingent loans made under the CCF contain specific financial terms and conditions (as described in the project summary) to adequately support the country at the critical time of an emergency caused by severe events, when public finances are impaired. The specific terms and conditions include the following: (i) the amortization periods, weighted average life, and grace periods are counted from the date of each disbursement of the loan; (ii) the Bank will charge a one-time 50 basis point disbursement fee (reviewed periodically) at the date of each disbursement, applicable only to the amount disbursed from the Bank's regular lending program with Uruguay (i.e. not funded from the ARL); and (iii) the resource availability period (disbursement period) is five years, which can be renewed for up to a further five years, at the Bank's discretion and following a request by the borrower.[15] In the event of renewal, the amortization periods, weighted average lives, and grace periods will be calculated as of the effective date of renewal.

2.3 **Eligible events under Modality II for natural disasters.** The loan will provide natural disaster coverage under Modality II of the CCF. Specifically, eligible events will be droughts resulting in a declaration of a national emergency. Specific issues related to the legal framework, scope, and procedure for declaring national emergencies due to drought are elaborated upon in the program Operating Regulations.

2.4 **Eligible events under Modality II for public health events.** The loan will provide CCF Modality II coverage for pandemics and epidemics that result in a declaration of a national public health emergency. Specific issues related to the legal framework, scope, and procedure for declaring national public health emergencies are elaborated upon in the program Operating Regulations. The loan may not be used for the current COVID-19 pandemic outbreak because the latter does not qualify as an eligible event under the scope of CCF Modality II (document GN-2999-4, paragraph 3.16). Nonetheless, future pandemics or epidemics may be eligible, including those caused by the novel coronavirus, SARS-CoV-2.

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14 The ARL includes the Bank's investment loans in effect with the country that have balances available for disbursement. In these cases, the remaining balances can be automatically redirected following an event (Annex I of document GN-2999-4, paragraph 4.12). The ARL was agreed upon between the borrower and the Bank, based on the following criteria: (i) the government's priorities in the context of a potential emergency; and (ii) the status of project execution and performance. In consultation with the borrower, the ARL will be periodically updated to include new loans. If a public health event is declared eligible by the Bank and the resources disbursed come in whole or in part from ARL balances, the Bank will update the project management systems to reflect the corresponding changes in the selected loans. It should be noted that the ARL funding alternative is not applicable to Modality II for natural disasters.

15 Extension of the loan coverage period is subject to the IDRMP's remaining in force and progressing to the Bank's satisfaction and/or the country progress report to the WHO on compliance with the IHR being up to date (Annex I of document GN-2999-4, paragraph 4.9).

2.5 Loan disbursements will be contingent upon the availability, at the time of a disbursement request, of sufficient resources from the ARL or from resources allocated to the Bank's regular lending program with Uruguay, as applicable. If sufficient resources are not available at the time of the disbursement request, the Bank may disburse up to the maximum amount of available resources. In the event that no funds are available, the Bank will not be obligated to make any disbursements for as long as and to the extent that no resources are available. Once this situation has ended as determined by the Bank, it will notify the borrower.

2.6 **Disbursement limits per event.** The maximum amount that may be disbursed for each eligible event is subject to the lower of the following limits: (i) the available undisbursed balance of coverage, and (ii) the limit for each disbursement method set forth in the program Operating Regulations.

2.7 **Integrated Disaster Risk Management Plan (IDRMP).** As an eligibility condition, the CCF provides that all of the Bank's borrowing member countries may receive financing through natural disaster coverage, provided they have an IDRMP that is satisfactory to the Bank. The IDRMP seeks to promote the effective development of a national comprehensive disaster risk management policy. To that end, the project team performed a diagnostic assessment of disaster risk management in Uruguay (paragraphs 1.9-1.15) and agreed with the government on general targets for 2020-2025 and annual IDRMP indicators based on the 2019-2023 National Integrated Disaster and Emergency Risk Management Policy (NIDERMP). The IDRMP, as agreed upon between the government and the Bank, is documented in Annex I of the program Operating Regulations. Consequently, Uruguay complies with the aforementioned eligibility requirement.

2.8 In order to maintain the loan's natural disaster coverage, the country must ensure that the IDRMP continues to be implemented to the Bank's satisfaction, by making progress toward fulfillment of the targets established therein. To monitor such progress, annual progress indicators are defined for each of the strategic pillars of the plan. The progress monitoring exercises will be carried out annually. For the first of these, annual indicators were agreed upon and are specified in Table 1 of Annex I to the program Operating Regulations. Satisfactory execution of the plan will be determined by verifying that the country has made significant progress on all of the agreed-upon progress indicators. For subsequent annual verification periods, new progress indicators will be defined, in coordination with the government, as appropriate.

2.9 **International Health Regulations (IHR).** The CCF states that, to receive funding through public health coverage, countries must be up to date with their reporting of IHR compliance to the WHO.[16] As noted in paragraph 1.16, Uruguay satisfies

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16 The report on compliance with the IHR recommendations is updated annually through the State Party Annual Reporting Platform (SPAR), which scores the 13 dimensions of preparedness and response to public health events. The instrument monitors 24 indicators that seek to measure the countries' state of progress in each of these capacities. The annual update of this report is mandatory for all 196 member countries and must be submitted to the WHO by October each year. For further information, see Guidance Document for the State Party Self-Assessment Annual Reporting Tool.

this requirement for access to public health coverage under the CCF. During the contingent loan coverage period, the Bank will monitor the country's annual compliance with reporting to the WHO on its capacity and response to public health events under the IHR.

2.10 **Complementary risk retention mechanisms.** Uruguay has two mechanisms to cover disaster risks and public contingencies in the health sector.[17] The first of these is the Agricultural Emergency Fund (FAE), created by Article 207 of Law 18,362 of 2008 and administered by the Ministry of Livestock, Agriculture, and Fisheries (MGAP), which funds support for farmers affected by emergencies caused by drought. Each year this fund receives an allocation (approximately US$1.1 million) and additional transfers may also be made when the fund has insufficient liquidity to address the emergency situation.[18] Uruguay also has an Energy Stabilization Fund (FEE), created by Article 773 of Law 18,719 of 2010, set up to reduce the impact of water shortages on the public electricity utility's financial position and on the public finances in general. This fund is sustained by variable contributions depending on the hydrological conditions and hydroelectric power observed in relation to pre-established parameters. The fund's resources are drawn upon when the hydroelectric power generation observed falls short of that initially expected. As of October 2020, the FAE had resources of US$8 million, while the FEE had resources of US$46.6 million. These funds play an essential role in minimizing the fiscal risk of adverse climate events, particularly drought.

B. Environmental and social risks

2.11 In accordance with the provisions of Directive B.13 of the Environment and Safeguards Compliance Policy (document GN-2208-20, Operational Policy OP-703), this operation does not require classification. As any resources disbursed under this loan may only be used to finance extraordinary public expenditures incurred during an emergency, and because the MEF, as executing agency, guarantees that the use of the funds will comply with the country's environmental and social legislation, no negative environmental or social impacts are anticipated. Moreover, the loan contract includes a list of the types of expenses that cannot be financed with the loan proceeds (negative list). Examples of such expenses are those associated with permanent infrastructure reconstruction.

C. Other key issues and risks

2.12 **Internal process risks.** There is a medium-high risk that insufficient information on the expenses incurred and shortcomings in the required documentation could make it impossible to verify eligible expenses. As a result, expenses could be rejected because they do not meet the eligibility criteria, thereby delaying the disbursement of funds to respond to the emergency. To mitigate this risk: (i) the

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[17] In April 2020, the government created the COVID-19 solidarity fund through Law 19,874 of 2020. The fund is administered by the MEF, and an estimated US$768 million will be channeled through it for the health response to the current COVID-19 emergency, together with other activities relating to the reduction in economic activity, such as sickness and unemployment insurance.

[18] FAE resources may be used by means of a declaration of agricultural emergency.

executing agency will ensure the traceability of the budgetary records by means of budgetary and extra-budgetary items that enable identification of the source of funding used to cover emergency-specific expenses, and (ii) the Bank will require use of the loan proceeds to be verified by an independent firm of auditors acceptable to the Bank (paragraph 3.11).

2.13 **Institutional risk.** There is a medium-high risk that, owing to delays in the relevant interagency communications and coordination, resources disbursed for an eligible event will not be used within the stipulated disbursement period for the CCF (paragraph 3.10), thus making the emergency response less effective. As mitigation measures, the Bank will: (i) provide technical support to the MEF, including training workshops to strengthen its capacity to execute the loan, as part of the project supervision and implementation process; and (ii) promote institutional arrangements and coordination between the MEF and the institutions tasked with responding to natural disaster and public health emergencies (paragraph 3.4). These efforts, backed by the government's determination to strengthen its capacity to prepare for and respond to natural disaster (paragraph 1.9) and public health (paragraph 1.16) emergencies, will help mitigate the risks identified and contribute to program sustainability.

2.14 **Sustainability.** The ex ante financial coverage provided by this operation, together with the country's determination to upgrade its comprehensive disaster and public health risk management through the NIDERMP 2019-2030 and the strengthening of public health emergency preparedness and response, through its commitment to make progress in the IHR framework, will bolster the government's capacity to manage these risks. It will also make it possible to finance the extraordinary public expenditures needed to provide a timely response to future emergencies caused by natural disasters or public health events (paragraphs 2.3 and 2.4). This will mitigate the potential impact on the population, as well as on the public finances and economic activity. In addition, activities aimed at improving the country's health sector preparedness and response capacities with respect to the COVID-19 pandemic will also contribute to program sustainability (paragraph 1.5).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower will be the Eastern Republic of Uruguay. The executing agency will be the borrower through the Ministry of Economy and Finance (MEF). The contingent loan proceeds will be disbursed to the MEF. Under MEF coordination, the proceeds of the contingent loan will be drawn down by the public sector institutions responsible for budget execution during natural disaster or public health emergencies. Through the project coordination unit, the executing agency will be tasked with: (i) overall project coordination; (ii) processing and handling disbursement requests with the Bank; (iii) coordinating follow-up of the monitoring, evaluation, and justification requirements for drawing down the loan resources; and (iv) making sure the project's objectives and terms and conditions are fulfilled.

3.2 **Interagency coordination for natural disaster emergencies.** The MEF, acting through the national emergency network SINAE, will coordinate with other institutions responsible for responding to disaster emergencies. The executive branch is responsible for top-level management of the SINAE and it convenes and chairs the National Emergency and Risk Reduction Board (JNERR). The national management of SINAE is responsible for coordinating and guiding response activities. At the operational level, the country has developed a general coordination protocol for the SINAE during emergency response, regulating the responsibilities, actions, and procedures the government is to adopt to respond to an emergency, according to its expected level of impact.

3.3 **Interagency coordination for public health emergencies.** For public health events, the MEF, with the support of the SINAE and the MSP, will coordinate with other relevant actors, such as departmental emergency committees, departmental health departments, and the Government Health Services Administration (ASSE). At the operational level, the coordination procedures follow the same SINAE general coordination protocol. This envisages coordination and linkage mechanisms for this type of event, which have been used to manage the COVID-19 pandemic response.

3.4 **Coordination mechanism for drawing on the loan proceeds.** To ensure timely execution of loan proceeds channeled to emergencies, a coordination and execution mechanism, headed by the MEF, will be set up to facilitate the flow of funds to the public sector agencies tasked with executing the resources. This mechanism is described in detail in the program Operating Regulations, and the Bank will monitor its implementation by the MEF immediately following a contingent loan disbursement. The mechanism should consider the following processes, at a minimum: (i) planning and identification of expenditures; (ii) technical review of prioritized expenditures; (iii) monitoring and execution; (iv) fiduciary arrangements; and (v) verification of eligibility and reporting on the use of resources.

3.5 **Special contractual condition of general eligibility to request disbursements. A special contractual condition of general eligibility to request disbursements will be the approval and entry into force of the program Operating Regulations, under the terms previously agreed upon with the Bank.** These regulations contain all operational provisions relating to the supervision and administration of the loan, as well as disbursement requests and the use of loan proceeds. The program Operating Regulations will include: (i) the reference framework, including the interagency coordination mechanism; (ii) the operational provisions; (iii) the terms and conditions of coverage under Modality II; (iv) the Integrated Disaster Risk Management Plan (IDRMP); (v) the automatic redirection list (ARL); (vi) templates for requesting advances of funds and reimbursement; (vii) an example of an indicative list of potential eligible expenses for future pandemics; and (viii) the list of excluded expenses (negative list).

3.6 Special contractual conditions precedent to each disbursement. The special contractual conditions precedent to each disbursement are as follows: (a) Disbursements under Modality II for natural disasters: (i) that the Bank has verified the occurrence of an eligible event due to an eligible

natural disaster as defined in the program Operating Regulations; and (ii) that the IDRMP, previously agreed upon with the Bank, is being implemented to the Bank's satisfaction (paragraph 2.7); and (iii) that the Bank has verified fulfillment by the borrower of the agreed complementary measures and conditions for risk retention financing; and (b) disbursements under Modality II for public health events: (i) that the Bank has verified the declaration of a national public health emergency due to an eligible public health event as defined in the program Operating Regulations; (ii) that the borrower has submitted evidence that it is up to date with its progress reporting to the World Health Organization (WHO) on compliance with International Health Regulations (IHR); (iii) that the borrower has submitted evidence to the Bank's satisfaction that it has a national preparedness and response plan for the specific event, in line with WHO/Pan American Health Organization recommendations, to address the event for which it has declared a national public health emergency; and (iv) that the Bank has verified the borrower's compliance with the agreed-upon complementary risk retention financing measures and conditions.

3.7 **In addition to the aforementioned contractual conditions precedent to each disbursement, the borrower will have submitted, within 90 calendar days of the occurrence of an eligible event, one or more disbursement requests specifying the amount(s) of such disbursement(s). In the case of disbursements relating to public health events, the borrower will indicate whether these will come from the Bank's regular lending program with Uruguay, undisbursed balances from the ARL, or from a combination of these two sources. In the case of ARL loans, the request should identify the loans in question and the respective amount to be used**. These contractual conditions were established as standard conditions for the execution of contingent loans in the CCF policy document (document GN-2999-4).

3.8 Every disbursement of the loan will be made in accordance with the loan's financial terms and conditions established in the project summary, regardless of whether the funds are drawn in whole or in part from the regular loan program, loans on the ARL, or a combination of the two.

3.9 **Eligible expenditures.** The loan proceeds may be used to finance extraordinary public expenditures that occur during emergencies resulting from eligible events and which satisfy the following requirements, according to document GN-2999-4 (paragraph 4.20(c)), namely that they: (i) are not explicitly excluded in the loan contract (negative list); (ii) are legal under the laws of the Eastern Republic of Uruguay; (iii) are directly or indirectly related to the emergency caused by the natural disaster or public health event for which the financing has been provided; (iv) have verifiable, documented, and clearly registered procurement and payments; and (v) have been adequately dimensioned and priced. Examples of types of expenditures that might be eligible are: (i) emergency medical equipment; (ii) vaccines and medications; (iii) foodstuffs for affected populations; (iv) temporary shelters; and (v) temporary rehabilitation of infrastructure and reconnection of basic services.

3.10 The Bank will recognize up to 100% of the cost of eligible expenditures effectively incurred and paid by the borrower as of the day on which the borrower declared the emergency due to the eligible event and for up to 180 calendar days immediately thereafter. Upon formal request from the borrower, the Bank, at its sole discretion, could extend this period for an additional 90 days (document GN-2999-4, paragraph 4.20(f)). In all aspects of procurement and contracting, this operation will be governed by the rules set forth in the CCF policy document (document GN-2999-4). The borrower will use its national legislation on goods procurement and the contracting of works or services, as applicable to extraordinary fiscal expenditures in natural disaster or public health emergencies (Annex III).

3.11 **Reasonable assurance audits.** The Bank will require independent verification of expenditures financed by the loan, in order to assess compliance with the eligibility criteria specified in the loan contract and in the program Operating Regulations. This independent reasonable assurance verification will be performed by a firm of auditors acceptable to the Bank. The MEF will be responsible for hiring the auditors and will initially assume the costs (document GN-2999-4, paragraph 4.20(b)), which are, nonetheless, eligible to be financed from the loan proceeds.

3.12 **Justification of the use of resources.** The borrower, acting through the MEF, will produce a Consolidated Report on the Appropriate Use of Resources to justify the use of the funds disbursed. This report will be submitted to the Bank within 365 calendar days from the declaration of emergency due to the eligible event for which the Bank has disbursed the resources in question. It will also be accompanied by the final report of the reasonable assurance audit, which the borrower will have commissioned for the concurrent expenditure review. Once the Consolidated Report on Adequate Use of Resources has been submitted, the Bank will determine the total amount of expenses that are eligible for financing. If there are unjustified or ineligible expenses, the Bank may require the Borrower to repay the unjustified amount.

3.13 If necessary, as noted in document GN-2999-4, within a period not exceeding two years after each disbursement, the Bank, at its sole discretion and without cost to the borrower, may conduct subsequent audits to verify the appropriateness of the expenses declared as eligible, the findings of which may support an eventual request for reimbursement of amounts that have been deemed ineligible for financing.

B. Summary of arrangements for monitoring results

3.14 During the natural disaster coverage period of the contingent loan, the Bank will periodically monitor progress in implementing the IDRMP and will make annual evaluations thereof (see monitoring and evaluation plan). If, as a result of these assessments, the Bank finds that on the basis of the indicators established for this purpose, the IDRMP is not progressing satisfactorily, the borrower will be notified of the specific actions that must be taken within a maximum period of 90 days from the day of the issuance of the notification in order to maintain eligibility for natural disaster coverage. Once this period has elapsed, if the Bank should find that the recommended remedial actions have not been taken adequately and in full, it may, upon formal notification to the borrower, suspend the borrower's eligibility to receive disbursements of the contingent loan for natural disaster coverage until the shortcomings have been properly remedied. Notwithstanding the foregoing, as set forth in document GN-2999-4 (paragraph 4.25), once natural disaster coverage has been triggered, it would remain active for the duration of the period established in the contract, unless the Bank formally notifies the borrower of coverage suspension.

3.15 **Monitoring and evaluation.** As indicated in the monitoring and evaluation plan, the loan is evaluated following the occurrence of an eligible event that results in a disbursement. The evaluation methodologies consist of a reflexive approach and an ex post cost-effectiveness analysis. In the former, the evaluation would focus on the efficiency of the loan over the entire period of coverage provided and on whether the speed with which the country accessed the loan resources is adequate. In the second, the evaluation would compare the NPV cost of the funds disbursed against the cost of other sources of financing, thus making it possible to estimate the financial savings ratio for the country. In addition, a qualitative evaluation has been included to analyze the contribution made by the IDRMP to enhancing the country's disaster risk management.

Development Effectiveness Matrix		
Summary	**UR-O1157**	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	**-Social Inclusion and Equality -Climate Change**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	**-Beneficiaries of enhanced disaster and climate change resilience (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-2836**	**Cross-cutting area of adaptation and mitigation of climate change and environmental sustainability**
Country Program Results Matrix	**GN-2991-3**	**The intervention is included in the 2020 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**8.1**	
3.1 Program Diagnosis	**2.5**	
3.2 Proposed Interventions or Solutions	**1.6**	
3.3 Results Matrix Quality	**4.0**	
4. Ex ante Economic Analysis	**10.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**2.0**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**2.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**9.5**	
5.1 Monitoring Mechanisms	**4.0**	
5.2 Evaluation Plan	**5.5**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium Low**	
Environmental & social risk classification	**B.13**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.**
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Evaluability Note: The project is a Contingent Loan for Natural Disasters and Public Health Emergencies in the Oriental Republic of Uruguay. The general objective of the project is to help mitigate the impact that a natural disaster or a public health event of severe or catastrophic magnitude could have on public finances. The specific objective is to improve the financial risk management of natural disasters and public health risks by increasing stable, cost-efficient and rapid access to contingent financing to cover extraordinary public expenditures directed to the care of the population affected by emergencies caused by natural disasters and public health events.

The documentation is well structured, with a good diagnosis of the country's vulnerability to natural disasters and climate change, as well as to public health events. The negative effects that these events have on the country, their population, the economy, and the fiscal resources are properly documented. The project will provide coverage for droughts, pandemics, and epidemics that result in a declaration of national emergency. The proposed intervention is clearly linked to the identified problems and factors. The results matrix reflects the general and specific objective of the program and captures a good vertical logic. The output, result and impact indicators have baseline values and targets, and sources of information.

The project includes an ex ante cost-effectiveness analysis and a monitoring and evaluation plan in line with DEM guidelines and the characteristics of contingent loans for natural disasters and public health emergencies. The economic analysis shows that the operation is efficient with a Net Present Value of the loan granted by the Bank that is 68.6% of the cost of the next likely alternative, which makes it a more cost-efficient option. The monitoring and evaluation plan proposes a reflexive evaluation and an ex post cost-effectiveness analysis.

The three risks identified in the risk matrix seem reasonable, one is classified as Low and two as Medium-High. The medium-high level risks include mitigating actions, responsible parties, and dates or triggers.

RESULTS MATRIX[1]

Project objective:	The **general objective** of the project is to help buffer the impact that a severe or catastrophic natural disaster or public health event could have on the public finances. The **specific objective** is to improve the financial management of natural disaster and public health risks by increasing stable, cost-efficient, and rapidly accessible contingent financing to cover extraordinary public expenditures made in support of the population affected by natural disaster and public health emergencies.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline	Expected year of achievement	Target	Means of verification	Comments
General development objective: To buffer the impact of a natural disaster or severe public health event on Uruguay's public finances						
Indicator 1: Ex ante financial coverage relative to the maximum probable expenditure[2] during emergencies caused by catastrophic natural disasters covered by the project.	%	2[3]	5	27[4]	Ministry of Economy and Finance (MEF)	The indicator measures Uruguay's ex ante financial coverage as a percentage of the maximum probable expenditure incurred addressing emergencies caused by catastrophic natural disasters.
Indicator 2: Ex ante financial coverage relative to the maximum probable expenditure[5] during nationwide public health emergencies covered by the project.	%	0	5	42[6]	MEF	The indicator measures Uruguay's ex ante financial coverage as a percentage of the maximum probable expenditure incurred in addressing nationwide public health emergencies.

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[1] See Annex II of monitoring and evaluation plan for a detailed description of the formulas and sources of information used to calculate the indicators in this matrix.

[2] Calculation based on the occurrence of a catastrophic natural disaster once in every 100 years, according to estimates reported in Disaster Risk Profile for Uruguay.

[3] Uruguay has US$8 million available through the Agricultural Emergency Fund (FAE) to address natural disaster and public health emergencies.

[4] This target value assumes that no severe or catastrophic event occurs during the contingent loan coverage period but is adjusted for inflation and exchange rate variations.

[5] Calculation based on a simulation of a COVID-19-like pandemic affecting 10% of the country's population and the average costs associated with testing to identify and provide care for COVID-19 patients requiring intensive and moderate care.

[6] This target value assumes that no public health event occurs during the contingent loan coverage period but is adjusted for inflation and exchange rate variations.

SPECIFIC DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Specific development objective: To improve the financial management of natural disaster and public health risks, by increasing stable and efficient contingent financing to cover extraordinary public expenditures in support of the population affected by natural disaster and public health emergencies.										
Indicator 1. Availability and stability: Increase in the country's ex ante financial coverage for extraordinary expenses during emergencies caused by natural disasters or public health events.										
Amount of ex ante financial coverage available to the country for emergency response to natural disaster or health emergencies.	US$ million	8	108	108	108	108	108	108	MEF	This indicator quantifies Uruguay's total ex ante financial coverage for financing extraordinary public expenditures associated with responding to natural disaster or public health emergencies. The amount includes coverage from this loan as well as other ex ante financing (e.g. reserve funds).
Indicator 2. Vulnerable people who become more resilient to natural disasters, epidemics, and pandemics as a result of the ex ante financial coverage provided by the contingent loan.										
Beneficiaries[7] of ex ante financial coverage available for natural disasters or public health emergencies.	Thousands of people	1.2	16.3	16.3	16.3	16.3	16.3	16.3	MEF	This indicator measures the maximum number of people who could benefit from the country's ex ante financial coverage for natural disaster and public health emergencies.

[7] This estimate assumes average financial coverage per person of US$6,619, of which US$1,200 corresponds to the amount for natural disasters (equivalent to the minimum support provided by the FAE) and US$5,419 corresponds to public health events (average cost of caring for a patient with a COVID-19-like illness), and available ex ante financial coverage of US$108 million (US$8 million from FAE and US$100 million from the contingent loan).

Indicators	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Indicators 3 and 4. Financial cost: Contingent financial coverage is cost-efficient.										
Spread between the financial cost of the IDB loan and the cost of Uruguay's long term commercial external sovereign debt.	Basis points	41[8]	Cost diff.	Cost diff.	Cost diff.	Cost diff.	Cost diff.	At least 40	IDB Finance Department (FIN) Refinitiv Eikon MEF	This indicator compares the financial cost of the IDB loan and Uruguay's long-term commercial external sovereign debt.
Financial savings ratio should an eligible event occur: cost of funds disbursed by the IDB relative to the cost of issuing sovereign debt, expressed in net present value terms.	%	31.4[9]	20	20	20	20	20	20	FIN Refinitiv Eikon MEF	This indicator will measure the country's financial savings rate when the proceeds of the Bank loan are disbursed, following the occurrence of an eligible event. It is calculated using the cost-effectiveness analysis methodology.
Indicator 5. Speed of access: Contingent financial coverage is efficient in terms of the speed with which the country can access loan funds to cover potential emergency expenses.										
Speed of access to the funds following the occurrence of an eligible event: number of days between the eligibility verification request and the availability of the funds.	Days	90[10]	30	30	30	30	30	30	FIN MEF	The indicator will measure the number of days elapsing between the date on which the country submits an eligibility verification request and the date on which the Bank notifies the country that the loan funds are available to it.

8 See Project economic analysis (Optional link 1).

9 A cost-effectiveness analysis comparing the net present value of the cost of finance of the IDB loan with the cost of bond issuance was used. See the project's economic analysis (Optional link 1).

10 The figure represents the average time it takes to authorize and arrange a sovereign bond issue on the international market for a country that performs this type of operation intermittently. The baseline is subject to revision based on future issues.

Outputs

Indicators	Unit of Measurement	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of Verification
Sole component: Contingent loan from the Bank to cover extraordinary public expenditures during natural disaster or public health emergencies.									
Coverage under Modality II for natural disasters and public health events.	US$ million	0	100	100	100	100	100	100	MEF

Country: Uruguay **División:** CMF **Operation number:** UR-O1157 **Year:** 2020

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: The borrower, through the Ministry of Economy and Finance (MEF)

Operation name: Contingent Loan for Natural Disaster and Public Health Emergencies

I. EXECUTING AGENCY'S FIDUCIARY CONTEXT

1. Use of country systems in the project

☒ Budget	☒ Reports	☒ Information system	☒ National competitive bidding
☒ Treasury	☐ Internal audit	☒ Shopping	☐ Other
☐ Accounting	☒ External control	☐ Individual consultants	☒ Other: Procurement according to GN-2999-4

2. Fiduciary execution mechanism

☒	Specific features of fiduciary execution	The executing agency will be the Ministry of Economy and Finance (MEF). The operation will consist of an IDB investment loan of up to US$100 million through the Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) (document GN-2999-4) under Modality II. Additionally, Uruguay's country system for public procurement was validated for use on 26 February 2020. The nature of the loan is such that laws and regulations applicable to procurement under national emergency rules will apply, together with other applicable rules in the country. Through the project coordination unit (PCU), the MEF will be responsible for coordinating and articulating activities relating to disbursement management, accountability, and submission of reports on the use of the funds provided by the Bank. The program Operating Regulations will describe the roles and responsibilities of the entities involved in loan execution.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The MEF is the central government department responsible for administration of the public sector budgetary process, application and administration of tax-related legal provisions, tax collection and control; administration of the State Treasury, public credit and government accounting; formulation and management of internal and external public sector borrowing policy and the government's fiscal policy; and liaising with national and international financial institutions on the government's behalf. The MEF is also the executing agency for loan and technical cooperation operations funded by international organizations, with the support of the project coordination unit, which reports to the Multilateral Organizations Department and the MEF secretariat, which is currently managing loans 3398/OC-UR, 3161/OC-UR, and 4705/OC-UR. The MEF will manage specific budgetary allocations and items for this program and payments through the special account. It will be responsible for preparing and

	reporting the program's financial information, managing disbursements with the IDB, and submitting the audited and unaudited financial accounts required. The MEF and the PCU have sufficient experience and capacity to ensure effective and transparent financial execution of the loan proceeds.

4. Fiduciary risks and response to risk

Area	Risk	Level of risk	Risk response
Internal processes	There is a medium-high risk that insufficient information on the expenses incurred and shortcomings in the required documentation could make it impossible to verify eligible expenses. As a result, expenses could be rejected because they do not meet the eligibility criteria, thereby delaying the disbursement of funds to respond to the emergency.	Medium-high	a. The executing agency will ensure traceability of the budgetary record through budgetary and extrabudgetary items that enable the source of financing used to cover emergency-specific expenses to be identified. b. The Bank will require the independent verification of the use of the loan proceeds by an independent audit firm acceptable to the Bank.

5. Policies and guidelines applicable to the operation: Financial Management Policy for IDB-financed Projects (document OP-273-12) and the fiduciary control requirements and procedures established in document GN-2999-4.

6. Exceptions to policies and guidelines: In accordance with the provisions established in document GN-2999-4, the procurement of goods, works and services financed by CCF operations will be subject to the borrower's own rules and regulations on the acquisition of goods, works and services for emergencies, as dictated by the applicable local public administration regulations.

II. Considerations for the Special Provisions of the Loan Contract

Special contractual conditions for general eligibility: That the Bank has given its no objection to the terms of reference for contracting an audit firm or the Office of the Auditor General of the Eastern Republic of Uruguay (TCR) to carry out an independent verification of the use of the disbursed funds.
Special contractual conditions during program execution: For each eligible event, that the borrower has submitted, within no more than 45 calendar days of the date of the first disbursement for said event, evidence of the contracting of an independent audit firm or the TCR, for the independent verification of the use of the disbursed funds. This period may be extended by up to 15 additional days with the prior written agreement of the Bank.
Exchange rate: For purposes of accountability, the exchange rate used will be that prevailing on the effective date on which the executing agency, or any other individual or entity to which the authority to incur expenses has been delegated, makes the respective payments or transfers (Article 4.10(b)(ii) of the General Conditions of the loan contract).

Auditing: Through the executing agency, the borrower will submit to the Bank, within no more than 365 calendar days from the declaration of the emergency caused by an eligible event, a consolidated report on the appropriate use of the loan proceeds accompanied by a final reasonable assurance report issued by the external auditor or the TCR, contracted in accordance with the terms of reference and within the timeframes previously agreed upon with the Bank. Notwithstanding the foregoing, the Bank may ask for audited partial reports on the progress of execution of the expenditures.

III. Agreements and Requirements for Procurement Execution

☒	Use of country systems	**Country procurement system.** In accordance with document GN-2999-4, the Bank's Policies for the Procurement of Goods and Works (document GN-2349-15), Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), and their periodic updates, are not applicable to CCF loans. Instead, under its sole responsibility, the borrower will apply its own rules and regulations on procurement of goods, works and services in cases of emergency, as dictated by applicable local regulations and laws.
☒	Records and files	The executing agency will keep its records independently, in digital and physical files for the minimum period established in the loan contract, and have procedures and instructions for their proper maintenance. The Bank may verify the standards of organization, control, and security of the records at any time.

IV. Agreements and Requirements for Financial Management

☒	Programming and budget	The MEF, as executing agency, is responsible for managing the necessary allocations and procedures relating to the budget and financial quotas in coordination with the various relevant institutions. The various items involved in the execution of the loan will ensure MEF guidelines are followed in the budgetary treatment defining the creation of a budgetary code associated with the loan. This code will be used to identify payments made to address the emergency by funding source. The program Operating Regulations cover issues of coordination and interrelation between the executing agency and the entities implementing the emergency-response activities.
☒	Treasury and disbursement management	Once eligibility criteria have been met for the disbursement, the borrower will submit a formal disbursement request to the Bank within 90 calendar days of the start of the eligible event. **Disbursement methods.** Disbursements will be made in U.S. dollars in the forms envisaged in document OP-273-12, by submission of formal requests by the PCU. **Advances of funds.** A specific bank account will be opened at the Central Bank of Uruguay (BCU) from which the necessary funds will be transferred to the independent individual accounts at the Banco de la República Oriental del Uruguay in the name of the various entities involved in the emergency response. These entities will send the MEF detailed reports on the use of the resources. These reports will be used as the basis for the submission of expense justifications to the Bank. The percentage to be accounted for prior to requesting a further disbursement is set at 60% in view of the complexity of compiling documents and the potential dispersal of expenses.

		Reimbursement of expenses. For reimbursement of expenses the MEF will submit a statement of expenses incurred based on detailed reports from the implementing entities. **Eligibility of expenditures.** The loan proceeds may be used to finance expenses that: (i) are not explicitly excluded in the relevant loan contract (negative list); (ii) are legal under the laws of Uruguay; (iii) are directly or indirectly related to the emergency caused by the eligible event for which the financing has been provided; (iv) have verifiable, documented, and clearly registered procurements and payments; and (v) have been adequately calculated in terms of dimensions and price. **Considerations for the final justification of the use of the proceeds.** The borrower will submit the final justification of the use of the contingent loan proceeds under the facility by means of a Consolidated Report on the Appropriate Use of Funds, which will be submitted to the Bank in writing within 365 calendar days of the declaration of the emergency caused by the eligible event for which the loan proceeds were disbursed, accompanied by the program audit report. Among other points, the borrower will confirm that the expenses submitted to the Bank do not have financing from other sources.
☒	Accounting, information systems, and reporting	The PCU will use the Integrated Financial Information System (SIIF) for program budget execution, financial execution, and accounting records. Accounts will follow the modified cash basis and International Public Sector Accounting Standards will be applied. Additionally, the PCU may use the SPI system, which is integrated with the SIIF and enables the reports required by the Bank to be issued. **Financial reports.** Financial reports will be prepared in U.S. dollars and on a cash basis. Expense reports relating to the emergency will be prepared based on SIIF information.
☒	Internal control and internal audit	Project execution will abide by the internal control structure established in the program Operating Regulations. The country's internal control subsystem will not be used.
☒	External control: external financial audits and project reports	**Audited financial statement.** Through the executing agency, the borrower will submit to the Bank within no more than 365 calendar days from the declaration of the emergency caused by the eligible event, a final reasonable assurance report issued by the TCR or an external audit firm in the country deemed eligible by the Bank. The audit will be contracted by the MEF with proceeds from the IDB loan, in accordance with the terms of reference, selection method, and timeframes previously agreed upon with the Bank. The borrower will complete the hiring of the independent audit firm or the TCR no later than 45 days after the first disbursement has been made. The audit firm must produce a Final Reasonable Assurance Report, which will constitute an essential requirement for the submission by the borrower to the Bank of the final justification of use of the resources within 365 calendar days after the declaration of the emergency caused by the eligible event. The Bank may request partial audit reports on the progress of expense execution which may accompany the submission of partial accounts. In addition, the Bank, at its entire discretion and at no cost to the borrower, may verify the adequacy of the declared eligible expenditures by means of independent external audits. Such audits will be carried out no later than two years after the end of the disbursement period of the corresponding Contingent Facility Loan. If, as a result of any of the Facility Loan audits, the Bank detects that Facility Loan proceeds have been used to finance ineligible or in appropriate expenditures, the Bank may request that the borrower immediately remedy the situation or reimburse the disputed amounts.

☒	Financial supervision of the project	Financial supervision will take place through visits, working meetings, and review of the assurance reports and other audited financial reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

RESOLUTION DE-___/20

Uruguay. Loan UR-O1157 to the Eastern Republic of Uruguay. Contingent Loan for Natural Disaster and Public Health Emergencies

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 Contingent Loan for Natural Disaster and Public Health Emergencies. Such contingent loan will be for the amount of up to US$100,000,000 from the resources of the Bank's Ordinary Capital, subject to the availability of resources from the regular lending program with the Eastern Republic of Uruguay or from the Automatic Redirection List, as the case may be, 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 _______ 2020)

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UR-O1157