



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 04-Oct-2022 | Report No: PIDC34945



BASIC INFORMATION

A. Basic Project Data

Country Uruguay	Project ID P179367	Project Name Uruguay Green and Resilient Growth DPL (P179367)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Feb 02, 2023	Practice Area (Lead) Environment, Natural Resources & the Blue Economy	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Economics and Finance	Implementing Agency Ministry of Economics and Finance		

Proposed Development Objective(s)

The Program Development Objective is to promote i) greening of the economy, and ii) stronger and more resilient growth.

Financing (in US\$, Millions)

SUMMARY

Total Financing	350.00
------------------------	--------

DETAILS

Total World Bank Group Financing	350.00
World Bank Lending	350.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

- The COVID-19 pandemic had a significant impact on the people and the economy, interrupting the country's longest economic growth spell, which was already showing signs of exhaustion.** Between 2002 and 2019, Uruguay's GDP per capita increased by 153 percent (real PPP) only behind Panama and Peru in the region. Reforms implemented



after the 2002 crisis to improve the macroeconomic policy framework, sound debt management, and reduced exposure to neighboring economies contributed to this robust performance. By the end of the period, however, the growth engine began showing signs of exhaustion in the face of more adverse conditions such as lower commodity prices, a series of climate events (e.g., the 2017 drought), and severe recessions in Argentina and Brazil. The pandemic and unfavorable weather conditions led to a 6.1 percent fall of GDP in 2020. The country's pre-existing wide social safety net was reinforced with emergency measures to target the poor and vulnerable, as well as to help firms survive the shock. The country implemented a rapid and comprehensive vaccination campaign early in 2021 one of the most successful in the world, contributing to a rebound in economic activity. GDP expanded 4.4 percent in 2021, and the recovery continued into 2022. The need to reignite a robust and sustainable growth process to build resilience became self-evident in the face of large and recurrent external shocks. This operation supports measures in that agenda.

2. Uruguay's macroeconomic policy framework is deemed adequate for this operation. GDP growth is expected to moderate in the second half of 2022, and to gradually converge closer to its potential growth rate going forward under the baseline scenario. Inflation will remain high in 2022, but ease going forward as the contractive monetary policy stance affects expectations and commodity prices moderate. Fiscal accounts are projected to improve in 2022 and beyond, with primary expenditures capped by potential economic growth as established in the fiscal rule. The current account deficit is expected to narrow this year to 0.9 percent as the trade balance surplus increases. The narrowing current account deficit is expected to be more than met by foreign direct investment, even as it normalizes to lower levels after the large pulp plant investment finalizes. International reserves are expected to remain above the IMF's adequacy range.

Relationship to CPF

3. The proposed operation is fully aligned with the FY23-FY26 Country Partnership Framework recently approved (n.b. estimated Dec. 2022). The framework included Higher Level Outcomes (HLO) which this operation supports including HLO-1 of Increased Low Carbon Growth and Resilience to Climate Change, under which its objective 1 focuses on "Greening of the Economy" which this DPL support through Pillar 1 with several actions including the updated of Uruguay's climate commitments as a basis and roadmap for green growth, while the native forests and marine protected areas actions protect the terrestrial and marine natural resources to retain blue and green carbon, soil nutrients, and avoid runoff to protect drinking water supplies, surface, and groundwater quality. It also supports Objective 2 to improve capacity for disaster-risk management through social resilience actions such as remote medical services and utility resilience actions such as supporting renewable energy and stronger networks with universal energy access and energy efficiency. HLO-2 on "More and Better Job Opportunities" which seeks the creation of inclusive markets under its objective 4 is integrated into Pillar 2 on resilience and inclusion through the actions on trade and competitiveness ensuring greater market access and diversified exports (including green certified exports).

C. Proposed Development Objective(s)

4. The proposed standalone DPL supports the government's forward-looking program advancing ESG oriented policies for sustainable economic growth and resilience. The Project Development Objective is to promote i) greening of the economy, and ii) stronger and more resilient growth. These policy reforms follow Uruguay's vision for sustainable, inclusive economic growth and development in the face of climate and other global challenges and shocks, including the lessons learned from the COVID-19 pandemic, recent recurrent droughts, and global instability linked to international crises and conflict. The policies supported by the operation seek to follow a green-growth paradigm that generates high quality goods and services for global markets while protecting natural resources, with greater inclusion of women and underserved populations. It also seeks to generate resilience of



public and private systems and services, to ensure that the economic growth is supported by a safety net that minimizes social and environmental impacts, facilitating access to goods and services under changing conditions.

Key Results

5. The overall result will be to support Uruguay's green and resilient growth by promoting (i) the greening of the economy, and (ii) stronger and more resilient growth. Key results under Pillar 1 include the update of the Nationally Determined Contributions (NDCs) to the United Nations Framework for (UNFCCC), promotion of native forest conservation, creation of marine protected areas (MPAs), investment in renewable energies, increase certified organic production, and promotion of innovation on the green hydrogen production. Pillar two targets results that include enhanced trade and diversification of export markets (including green certified exports), market competition and a more robust financial system, while building resilience in the health safety network, though increase teleconsultations and new food regulations in schools for development of healthy environments and making the power sector more resilient through energy losses reduction, universal access to electricity and subsidy decrease.

D. Concept Description

6. The proposed standalone DPL supports the government's forward-looking program advancing policies that promote the greening of the economy and strengthen Uruguay's economic and social resilience to shocks. These policy reforms follow Uruguay's vision for sustainable, inclusive economic growth and development in the face of climate and other global challenges and shocks, including the lessons learned from the COVID-19 pandemic, recent recurrent droughts, and global instability linked to international crises and conflict. The policies supported by the operation seek to follow a green-growth paradigm that generates high quality goods and services for global markets while protecting natural resources, with greater inclusion of women and underserved populations. It also seeks to generate resilience of public and private systems and services, to ensure that the economic growth is supported by a safety net that minimizes social and environmental impacts, facilitating access to goods and services under changing conditions.

7. Pillar 1 seeks to promote the greening of the economy through policy actions that generate global public goods (GPGs). These GPGs include blue carbon and conservation of biodiversity through the expansion of marine protected areas, green carbon and globally important biodiversity through protection of native forests and grasslands through tax incentives, as well as the promotion of agro-ecology and organic agriculture which will increase the potential of Uruguay's products to reach new and premium niche markets, that are already showing success for exports of organic beef.¹ Protecting and improving management of the marine and land/soil resource base of the country is also critical to ensure long-term economic growth by sustaining fisheries and reducing soil runoff to maintain crop productivity and reduce surface water pollution. Such pollution causes algae growth that has closed beaches for tourism, while also impacting coastal fisheries and potable water sources. This pillar also advances production and access to energy from sources that are renewable, including sub-regional access through exports.

8. Pillar 2 helps to promote stronger, more resilient growth through actions that enhance competitiveness, economic diversification, and development. The growth slowdown heading into the COVID-19 pandemic along with climate related incidents that include droughts in the productive areas of the country have stressed the importance of a stronger and more diversified economy to better cope with shocks. The measures included under this pillar support (i) a more competitive environment, through a strengthened competition framework, (ii) easier access to

¹ <https://www.inac.uy/innovaportal/v/9894/14/innova.front/programa-de-carne-natural-certificada-del-uruguay---pcncu>



imported food through reduction in tariffs and trade facilitation measures that diversify the input and goods markets that Uruguay depends on, promoting competitiveness and decreasing risks from relying on fewer providers, (iii) a deeper financial sector to effectively promote and intermediate savings in domestic currency and help smooth shocks, (iv) remote access to health services to promote greater resilience in the face of emergencies and improved citizen health for longer and better productive lives, reducing stress on health systems and better coping with the end of the demographic transition, and (v) energy efficiency for increased availability of services while ensuring that the systems are not overloaded and energy companies are able to respond to demand adequately on sound financial footing. Access to services for all, especially lower-income households, can have important impacts on increasing resilience of the most vulnerable groups of society through better quality of life and greater opportunities for development and economic activities.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

9. This DPF supports actions that are expected to generate global public goods and have positive effects on poverty reduction and distributional outcomes over the medium to long term. The overall reform package supported is expected to contribute to enhancing the possibilities of sustainable growth and improved capacities of the government to respond to future shocks, that, in general, affect disproportionately the most vulnerable groups of the society.

Environmental, Forests, and Other Natural Resource Aspects

10. The Prior Actions (PA) supported through the Uruguay DPL are likely, in aggregate, to have a positive impact on Uruguay's environment, forests, or other natural resources. Actions under two of the policy areas supported by the operation (PA 4, 6, 7 and 13) may result in potential indirect negative environmental effects, however the national legal framework incorporates the necessary mitigation measures for their adequate management

CONTACT POINT

World Bank

Francis V. Fragano, Fernando Mauro Giuliano
Sector Leader

Borrower/Client/Recipient

Ministry of Economics and Finance

Implementing Agencies



Ministry of Economics and Finance
Valerie Stahl
Director for Multilateral Organizations
valerie.stahl@mef.gub.uy

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Francis V. Fragano, Fernando Mauro Giuliano
----------------------	---

Approved By

Country Director:	Jordan Z. Schwartz	06-Dec-2022
-------------------	--------------------	-------------