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The World Bank Group

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Report No. 97063-UY

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

AND MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE ORIENTAL REPUBLIC OF URUGUAY

FOR THE PERIOD FY16-FY20

December 21, 2015

Argentina, Paraguay, and Uruguay Country Management Unit
Latin America and the Caribbean Region

The International Finance Corporation
Latin America and the Caribbean Region

Multilateral Investment Guarantee Agency

The date of the last Country Partnership Strategy FY2010-2015 for Uruguay was October 14, 2010

(Report No 55863-UY)

CURRENCY EQUIVALENTS

(As of November 25, 2015)

Currency Unit= Uruguayan Peso

U$$ 1= 29.6 Uruguayan Pesos

FISCAL YEAR

January 1 to December 31

ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics
ACCE	Procurement and Contracting State Agency (*Agencia de Compras y Contrataciones del Estado*)
ANCAP	National Fuel, Alcohol and Portland Administration (*Administración Nacional de Combustibles, Alcohol y Portland*)
ANII	National Agency for Research Innovation (*Agencia Nacional de Investigación e Innovación*)
ASSE	State Health Services Administration (*Administración de los Servicios de Salud del Estado*)
BCU	Central Bank of Uruguay (*Banco Central del Uruguay*)
BPS	National Social Security Institute (*Banco de Previsión Social*)
CAF	Latin American Development Bank (Formerly the Andean Cooperation Development)
CND	National Development Corporation (*Corporación Nacional para el Desarrollo*)
CPI	Consumer Price Index
CPSCLR	Country Partnership Strategy Country Learning Review
DDO	Draw-Down Option
DINAGUA	National Directorate of Water (*Dirección Nacional de Agua*)
DINAMA	National Directorate of Environment (*Dirección Nacional de Medio Ambiente*)
DPL	Development Policy Lending
ECD	Early Childhood Development
ECH	Continuous Household Survey (*Encuesta Continua de Hogares*)
FDI	Foreign Direct Investment
FEE	Energy Stabilization Fund (Fondo de Estabilización Energética)
GHG	Greenhouse Gas
GoU	Government of Uruguay
IADB/IDB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFI	International Financial Institutions
INAU	Uruguay Institute of Children and Adolescents (*Instituto del Niño y Adolescente del Uruguay*)
INE	National Institute of Statistics (*Instituto Nacional de Estadística*)
INUMET	Uruguayan Institute of Meteorology (*Instituto Uruguayo de Meteorología*)
IPF	Investment Project Financing
IWRMD	Integrated Water Resource Management and Development
LAC	Latin America and the Caribbean

LCI	Low Carbon Intervention
LGBT	Lesbian, Gay, Bisexual and Trans
MEC	Ministry of Education & Culture (*Ministerio de Educación y Cultura*)
MEF	Ministry of Economy and Finance (*Ministerio de Economía y Finanzas*)
MERCOSUR	Southern Common Market (*Mercado Común del Sur*)
MGAP	Ministry of Livestock, Agriculture and Fishing (*Ministerio de Ganadería, Agricultura y Pesca*)
MIDES	Ministry of Social Development (*Ministerio de Desarrollo Social*)
MIGA	Multilateral Investment Guarantee Agency
MSP	Ministry of Public Health (*Ministerio de Salud Pública*)
MTSS	Ministry of Labor and Social Security (*Ministerio de Trabajo y Seguridad Social*)
MVOTMA	Ministry of Housing, Land Planning and Environment (*Ministerio de Vivienda, Ordenamiento Territorial y Medio Ambiente*)
OECD	Organization of Economic Cooperation and Development
OPP	Office of Planning and Budgeting (*Oficina de Planeamiento y Presupuesto*)
OSE	National Water Utility Company (*Obras Sanitarias del Estado*)
PEFA	Public Expenditure and Financial Accountability
PENCTI	National Strategic Plan for Science, Technology and Innovation (*Plan Estratégico Nacional de Ciencia, Tecnología e Innovación*)
PFM	Public Financial Management
PPP	Public Private Partnership
RAS	Reimbursable Advisory Services
R&D	Research & Development
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprises
SNIC	National System of Integrated Care (*Sistema Nacional Integrado de Cuidados*)
SOE	State-owned Enterprise
SOGIE	Sexual Orientation, Gender Identity and Expression
TA	Technical Assistance
UMC	Upper Middle Income Countries
UTE	National Energy Utility (*Administración Nacional de Usinas y Transmisiones Eléctricas*)
WDI	World Development Indicator

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I. EXECUTIVE SUMMARY

1. **Uruguay is a country of about 3.3 million people, which has consistently given high priority to achieving broadly-shared economic growth and a sustainable reduction in poverty.** A strong and progressive social compact has been a defining feature of Uruguayan society and politics, with consistent emphasis placed on protecting vulnerable groups, assuring worker dignity and promoting equitable growth. This compact, combined with rapid economic growth since 2003, has contributed to the development of a sizeable middle class – at 60 percent, the largest in Latin America as a proportion of the population – as well as effective institutions, good governance and, in consequence, a high degree of public trust in Government. The resultant political stability has been a fundamental element of Uruguay's success in attaining its present standards of living.

2. **The relationship between Uruguay and the World Bank Group (WBG) represents value added for both partners, with a focus on innovative solutions.** Uruguay is the highest-income active borrower from the WBG, expressing significant demand for the services of the Group. This pertains in particular to (i) developing innovative financing and knowledge services, which provide solutions based on WBG's experience in other countries; (ii) using integrated services across the World Bank, IFC and MIGA such as on the PPP agenda; and (iii) show-casing Uruguayan development experiences where the WBG can be a platform for dissemination of successful reforms. Similarly, the WBG has a keen interest to continue engaging with this sophisticated client so as to: (i) collaborate with a country that has chosen a model of development geared towards productivity increases and global insertion, and in which equitable development and supporting the bottom 40 percent of the population is a core value; and (ii) partner in the pursuit of innovative development solutions that support Uruguay and generate positive knowledge externalities for the WBG's other clients in LAC and beyond.

3. **A decade of rapid and inclusive economic growth has enabled Uruguay to join the ranks of high-income countries, while successfully reducing poverty.** Following the banking crisis and economic slowdown of 2002, the Uruguayan economy grew rapidly, achieving an annual average rate of 5 percent in the decade between 2003 and 2014. In turn, this enabled the country to achieve a per capita income of US$16,866 -- the highest of all Bank borrowers globally. Moreover, the pattern of growth was inclusive, contributing to a sharp decline in poverty: according to INE, the incidence of moderate poverty fell from 32.5 percent in 2006 to 9.7 in 2014 and extreme poverty declined from (an already-low) 2.6 percent to just 0.3 percent. These strong growth and poverty outcomes were underpinned by the Government's adherence to sound fiscal and monetary policies, a careful expansion of social programs, and a surge in private investment. Favorable external circumstances, such as high prices for Uruguay's commodity exports (albeit offset by high prices in oil and other imports) also contributed to the economic and social outcomes.

4. **In the context of current regional deceleration, the country faces a number of challenges that could threaten continued progress towards poverty reduction and shared prosperity, suggesting that structural measures are needed to consolidate and sustain the**

gains of the past decade. Continuing on the current path will likely yield slower growth in the foreseeable future – in the order of about 2.6 percent in the medium term – given fiscal and social challenges as well as increasing pressure on Uruguay's infrastructure and land/water resources as a result of economic growth and climate change. In an emerging context of rising constraints to greater productivity, Uruguay will need to implement important structural reforms in order to match the high growth rates of the past decade and consolidate its enviable social gains. The gradual aging of the population calls for attention to both the needs of the old and the young. Similarly, strengthening environmental policies and practices will be critical to maintaining Uruguay's competitive edge in terms of agricultural production and exports.

5. **This Country Partnership Framework (CPF) is aligned with Uruguay's 2015-2020 political cycle and selectivity has been exercised in the identification of objectives**. The design of the CPF program responds to the Government's priorities and is also closely coordinated with the programs of Uruguay's other development partners, including IADB and CAF. The program is anchored in the findings of the new Systematic Country Diagnostic (SCD) which was informed by extensive consultations with a wide range of stakeholders. The proposed CPF program is designed to support the Government in its pursuit of six objectives identified in the SCD, grouped into three focal areas – namely, building resilience, rebalancing the social compact, and integrating Uruguay into global markets. During consultations, the Government endorsed the selection of focal areas (CPF's pillars and objectives) and the technical teams closely coordinated with the Bank experts who designed a set of indicators, which are fully owned.

6. **Systematic efforts are required to increase overall resilience to external and domestic shocks, ensure adequate investment in children and youth, and integrate more fully into global markets through increased productivity and innovation**. These priorities are described further below:

- **First, Uruguay's small and open economy is vulnerable to a variety of external shocks, calling for heightened attention to strengthening resilience over the medium-term.** Uruguay currently has fiscal buffers to address emerging spending pressures, but will need to rebuild fiscal space over the medium-term, a challenge in the context of the continent's deceleration. Maintaining a prudent fiscal stance, through gradual fiscal consolidation, reducing pro-cyclicality of fiscal policy, and managing the efficiency of health and social protection spending will be important in the first instance. Strengthening further fiscal management, as well as prioritizing and increasing public spending efficiency to contain public spending will be key to creating the fiscal space needed for increasing investments in critically-needed public goods such as education and infrastructure. In addition, greater attention to the natural resource base, especially water and soil, in the face of climate change would support continued growth and ensure good global citizenship.

- **Second, as the "demographic window of opportunity" is currently at its peak, greater investment in children and youth today will enhance inclusion and provide for a better tomorrow.** Uruguay is already facing the social policy challenge of balancing the needs of the youthful and aging segments of its population. The gradual increase in the proportion of elderly Uruguayans and the concomitant narrowing of the working age population base are increasing the urgency for reform of the education system that could help further strengthen skills and increase worker productivity in the future (as the labor force continues to fall in proportion to elderly dependents). Education reform, a key contributor to increased future earnings, is especially important given that children and youth are currently disproportionately represented amongst the two poorest quintiles of the income distribution.

- **Third, increased productivity and innovation will be crucial for Uruguay's ability to consolidate its position in the world economy going forward**. Uruguay needs to continue integrating into the global economy to gain the economies of scale that support growth. To this end, improving productivity through key reforms in infrastructure, innovation and, as noted above, education will be key. The brisk rate of economic growth has put pressure on the stock of infrastructure and resources available for public investment are small relative to needs while there is limited private sector engagement in infrastructure finance. Meanwhile, the technological advances that placed the country at the cutting edge in agriculture remain confined to a small number of core sectors and enterprises, and strategies/programs need to help expand innovative technologies to a broader swathe of the economy. Furthermore, while Uruguay has long been a leader among comparable countries in terms of education coverage and quality, the country may be losing this edge, as other countries in LAC and Asia have made significant advances.

7. **The new administration has a vision for the next five years and beyond.** The new administration is committed to continuing with the mandate of the Frente Amplio coalition. As such, policy continuity is expected. The Government wants to maintain focus on the social compact, while simultaneously moving more aggressively to unlock the economy's growth potential. High on the new administration's agenda are education and infrastructure reforms, reducing crime and violence, and fostering deeper integration into global markets.

8. **The CPF will feature a mix of instruments with focus on innovation and results**. Uruguay has a continued interest in contingency financing lines from the Bank and is seeking new results-based financing operations in support of some key reforms, in addition to investment lending. Uruguay places an important value on its relationship with the WBG, and the Group is discussing with the GoU to set up a jointly funded advisory service program. In the area of infrastructure financing, the WBG intends to provide a coordinated package of technical and financial assistance. IFC will also remain an active partner, largely focusing on supporting private sector engagement in agriculture and infrastructure. MIGA has no pre-determined envelope for guarantees over the CPF period. However, it is actively seeking opportunities in the infrastructure and financial service sectors via its political risk insurance products---particularly, transfer and convertibility, expropriation and breach of contract, the latter in the context of PPP concessions---and non-honoring/credit guarantees.

9. **The overall risk to achieving CPF objectives in Uruguay is assessed as moderate, with only a few potential risks that could have an impact on the implementation of the CPF.** These risks include: i) potential delays in progress on complex sector reforms given the time needed to build the requisite political and policy consensus that is a hallmark of Uruguayan politics; ii) unanticipated external economic shocks, which could affect stability, although Uruguay's macroeconomic situation is strong; and iii) implementation delays due to limited absorptive and institutional capacity in some sectors, although governance is strong.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

A. Political and Social Context

10. **Uruguay is a strong democracy and reform champion, which is recognized regionally and globally.** Long-term policy choices have generally been based on consensus building and multi-party agreements, for example, in the areas of energy efficiency and logistics. In the last five years, several progressive laws have been passed by the legislature which have made head-lines across the globe – including legalization of same sex marriage, abortion decriminalization, and marijuana legalization.

11. **The country has experienced considerable political stability and policy continuity over the last decade with the election of successive Governments from the Frente Amplio (FA) coalition, which have enjoyed broad popular support**. The 2014 general elections returned the FA to power (for the third consecutive time) in the Presidency and both Houses of Parliament, suggesting continuity in the overall directions of public policy in the medium-term. The President, who already served a first presidential term from 2005-2010, started this new five-year term emphasizing prudence, transparency, and accountability as guiding principles. In terms of sectoral priorities, the administration is expected to deepen its focus on infrastructure and education, where progress has lagged in recent five years. Following the Uruguayan political tradition of consensus building, the new administration has already signaled its intention to developing broad political consensus in support of major reforms in key priority areas such as education, where public demand for improved outcomes is high.

12. **Two fundamental features – a strong social compact and economic openness - underpin Uruguay's successful development trajectory towards reducing poverty and promoting shared prosperity over the past decade.** The first of these is a strong social compact that places high value on poverty reduction, equitable growth and decent labor conditions, coupled with public demand for a strong social welfare system and an important role for the State in service delivery. Significant reforms over the past decade have had important redistributive and social benefits. Alongside the social compact, a decade of high and sustained growth has been instrumental in facilitating advances in shared prosperity and poverty reduction. As a small, open economy, Uruguay's growth was dependent on integration into global markets. Uruguay moved up the value chain with respect to some of its products and also diversified into new products and markets. Today, Uruguay's "brand" is associated with sustainable practices and clean, green, growth, enabling the country to penetrate high-price niche markets through sustainable agriculture practices and low carbon emissions.

B. Poverty and Shared Prosperity

13. **Uruguay has almost eliminated extreme poverty and has decreased moderate poverty significantly.** Over the last 10 years, close to one million Uruguayans have been lifted out of poverty, recouping the ground lost during the banking and economic crisis of 2001-2002. By 2014, only 9.7 percent of the population lived below the official poverty line, less than one third of the level observed seven years earlier. Extreme poverty declined even more, to 0.3 percent, less than one-ninth the rate in 2004, the year in which poverty peaked after the 2001/2002 crisis.

14. **Poverty reduction has been based largely on household income growth, linked specifically to increases in workers' earnings.** Of the total 26 percentage point reduction in Uruguay's moderate poverty headcount, close to 20 points came from income growth, while the remaining 6 points are attributable to improvements in income distribution. The relatively large impact of changes in income distribution (compared with other countries) is explained by the array of reforms instituted in Uruguay over the past ten years -- including a progressive tax reform, expansion of health coverage to virtually all Uruguayans, and reinstatement of the Wage Councils, in which employers, Government and labor unions negotiate wage increases by sector. Rising wages and employment have been critical in the post-crisis poverty decline. Almost 83 percent of the decline in extreme poverty and 60 percent of the reduction in moderate poverty can be attributed to increases in workers' earnings alone. Other factors that underlie the reduction in poverty include increased labor force participation as well as higher public spending on social services and social assistance.

15. **Poverty is primarily an urban phenomenon in Uruguay and affects children and youth.** Rural poverty is significantly lower than urban poverty, as explained further in Box 1, although regional disparities continue, for example, in the department of Maldonado, only 3 percent of the population lived in poverty in 2013, whereas in Montevideo the poverty rate was closer to 16 percent, and in places like Rivera or Artigas it was 18 percent. Although the total population living in poverty has declined substantially, and child's poverty is now less than a half of the 2006 figures, poverty has become more concentrated among children under 18 due to a more rapid decline in poverty among the adult population. In recent years, as many as 44 percent of children aged 14 or under were deprived of at least one basic need, compared to 34 percent for the population as a whole. The higher level of poor in the 0 to 18 year old age group has implications for future generations' opportunities, and for the trend of further reductions in poverty.

16. **Uruguayan households in the bottom two quintiles of the income distribution have experienced faster income growth than the population as a whole.** Income growth among the poorest 40 percent – the WBG's institutional measure of shared prosperity -- has shown a positive trend. Between 2003 and 2012, the real per capita income of the bottom 40 percent grew by more than 7.8 percent annually, while mean income growth was around 4.3 percent. Between 2007 and 2012, the Gini coefficient at the national level fell an impressive 7 points, from 0.45 to 0.38, demonstrating that growth has been accompanied by marked progress in shared prosperity. Although it is the least unequal country in LAC, Uruguay still has higher income inequality than some of the least unequal countries in the OECD.

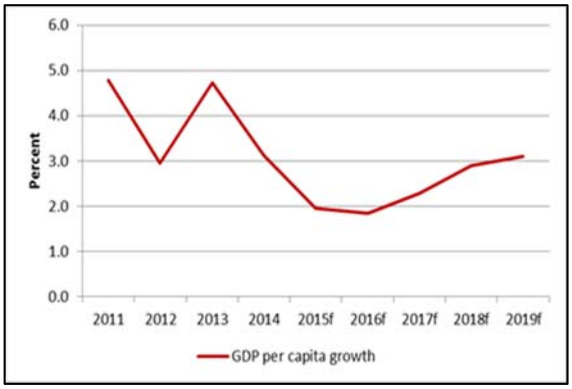
17. **The country with the largest middle class in the region is now facing the challenge of protecting the vulnerable and reaching the chronic poor.** In 2002, 42 percent of Uruguayans were living on incomes between 10 and 50 dollars per person per day – the definition of the middle class used by the World Bank. By 2013, an impressive 60 percent of the population was middle class. The vulnerable – people with incomes between 4 and 10 dollar (PPP) per day – account for 28 percent of the population. The main challenge the country is now facing concerns how to protect this vulnerable group from slipping back into poverty in the event of shocks. Moreover, the country will face the challenges of addressing long-term or chronic poverty. Urban youth and afro-descendants constitute the most vulnerable groups in the country. Many live in households that are

in the lowest income quintile, characterized by low educational attainment, low levels of employment, and relatively high rates of income poverty.

18. **Gender is an important determinant of poverty in Uruguay, especially among youth**. While for boys school dropout and entrance into the labor market are closely related, this holds less so for girls who also often form a new family earlier than boys. Girls from low-income households in particular, tend to start childbearing at younger ages and bear more children than their wealthier peers -- and unlike boys, they tend to drop out of the labor market altogether. Between 1990 and 2009, low-educated girls were at a greater disadvantage than in the past, with unemployment rising among teenage girls and young women. Youth exclusion, particularly girls, with low educational attainment, appears to have worsened over time, and is especially concerning due to inter-generational impacts (affecting their children). Although the number of ninis (youth that neither works nor studies) has fallen in Uruguay, in line with regional trends, the situation is still critical. Overall, 75 percent of all ninis in Uruguay are from a household in the bottom 40 percent of the income distribution, making the phenomenon far more biased towards vulnerable households than in other Latin American countries. These statistics are important because Uruguay can hardly afford to forego the productive contributions of a fifth of its youth.

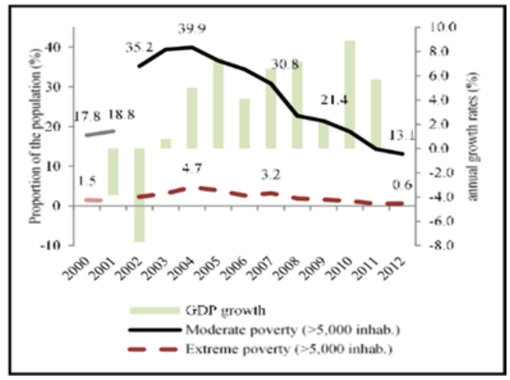
Box 1: Poverty Reduction and Shared Prosperity Trends

Figure 1: GDP per capita growth (with projections)



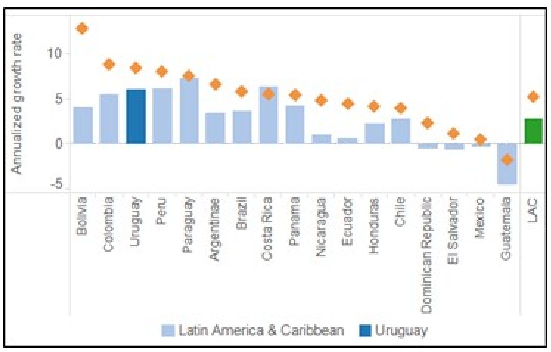
Source: BCU

Figure 2: Falling Poverty rates



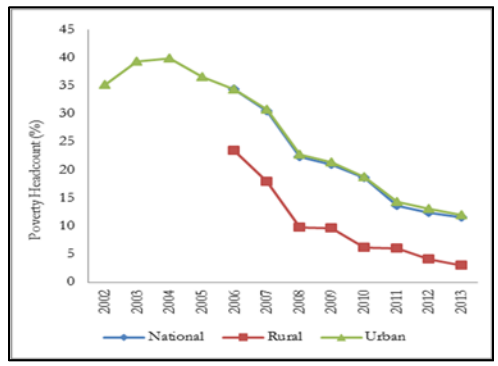
Source: INE 2013[1]

Figure 3: Annualized Growth Rate 2006-2012



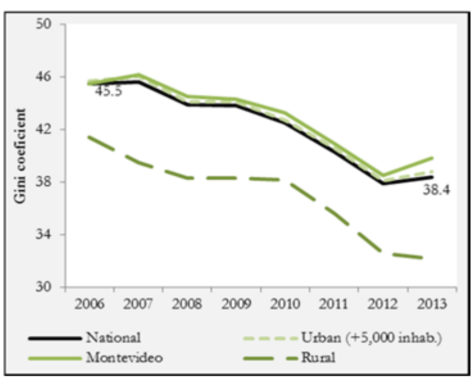
Source: World Bank Global Share Prosperity Database and SEDLAC.[2]

Figure 4: Urban, Rural and National Poverty 2002-2013



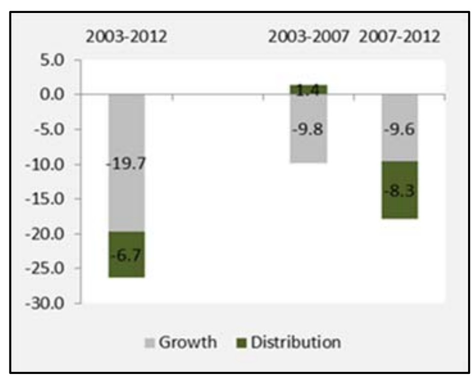
Source: INE

Figure 5: Gini coefficient, Uruguay, 2003–12



Source: WB Calculations based on ECH

Figure 6: Total Changes in Moderate Poverty, Uruguay, 2003–12



Source: ECH

[1] Poverty rates correspond to Montevideo and urban areas with 5,000 inhabitants or more. The poverty headcount series is broken in 2002 due to a methodological survey change introduced by INE.

[2]The orange diamonds represent the annualized growth rate of per capita income for the bottom 40% of the income distribution and the solid bars represent the annualized growth rate of per capita income for the whole population

C. GROWTH WITH SUSTAINABILITY

19. **Uruguay's macroeconomic policy framework remains adequate.** For the last decade, the economy has expanded at an annualized rate of 5.2 percent, one of the best performances in the LAC region. Prudent macroeconomic policies and important structural reforms have supported growth and significant FDI inflows, while a favorable external environment has bolstered exports as an engine of growth. In 2012, Uruguay regained investment grade, which it had lost in 2002. Fiscal consolidation -- achieved through a fiscal framework targeting net debt of the consolidated public sector, inflation targeting and exchange rate flexibility -- has buffered the country from external shocks.

20. **Since 2004, Uruguay has experienced the highest and longest economic expansion in recent history**. A three-year contraction between 1999 and 2001 and the crisis in 2002 were followed by a strong recovery and rapid economic growth, averaging 5 percent per year in real terms between 2003 and 2014 – a rate of growth that was above the country's potential growth rate estimated at between 4 and 3.5 percent for this period. In per capita terms, Uruguay had the second fastest annualized growth rates in the region over this period, exceeded only by Panama. Political stability, prudent macroeconomic policies and important structural reforms have supported growth and attracted significant FDI inflows, while a favorable external environment and a positive productivity shock, especially in agriculture, has boosted export growth. Both domestic and foreign private investment were responsible for the increase in investment, setting the basis for high growth and productivity increases. Investment expanded at a 10.7 percent annual rate over this period, more than double the pace of investment growth in the LAC region.

21. **The rapid increases in private investment reflect the quality of Uruguay's public institutions.** In addition, key are the country's clear and predictable regulatory environment, the Government's prudent macroeconomic policies, as well as the establishment of a relatively attractive investment promotion regime, including pro-active utilization of Free Trade Zones. FDI in Uruguay, which historically was less than 2.5 percent of GDP, stood in 2014 second only to Chile (relative to GDP). Growth in foreign investment was accompanied by technology absorption and know-how, resulting in sharp increases in productivity in some sectors such as agricultural production, processing and exports. Increases in labor force participation and real incomes also supported the process of rapid economic growth. The unemployment rate declined to historically low level (6.6 percent) in 2014, even as labor force participation increased.

22. **Rapid export growth has been accompanied by job creation and facilitated Uruguay's insertion into the global economy at a more rapid pace relative to its neighbors.** In 2000, trade constituted 42 percent of GDP (in real terms), with exports at 20.5 percent of GDP. Over the last decade, exports averaged 26 percent of GDP, while imports and exports combined represented 52 percent of GDP. In this sense, Uruguay has expanded its presence in the world markets more rapidly than its neighbors, Brazil and Argentina. Rapid export growth has been accompanied by job creation. Currently, about 30 percent of jobs are linked to the export sector. The agriculture sector, which accounts for nearly 60 percent of merchandise exports has experienced an outstanding transformation. Upgrading of production technologies and product quality has opened access to markets that pay better prices for higher quality goods. One example is Uruguay's $100

per ton price premium over world beef prices, facilitated by the introduction of traceability technology that enables access to high end markets.

23. **However, Uruguay is vulnerable to exogenous weather shocks and on the macroeconomic and fiscal side, to global and regional volatility.** Part of the Uruguay brand is clean and green exports to high-value markets. Ensuring the sustainable management of natural resources wealth (water, soil, air, and biodiversity) is therefore key to future growth and livelihoods. Sustainable intensification of resource use is a Government priority and is being implemented in some areas, and the low carbon economy has been a source of significant innovation and productivity for the country. Pressures nevertheless remain in terms of water availability and quality, soil erosion, biodiversity loss, coastal zone erosion, among others. Another strain on sustainability comes from the fiscal side in a generally volatile global and regional environment, even more so in the context of the current regional deceleration. A strong social compact and a large middle class with a preference for generous social benefits mean more pressure on public spending. This is further magnified by the large role played by the State. Prudent macroeconomic management and sustainable debt levels will be a prerequisite to safeguarding the advances made on poverty reduction and shared prosperity.

D. RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

24. **Growth decelerated to 3.5 percent in 2014, and weakened further in the first half of 2015 to 2.1 percent year-on-year, reflecting both soft domestic demand and less favorable regional and global conditions**. On the supply side, continued dynamism in the telecommunication sector and important private investments in manufacturing (cellulose) supported growth in 2014, while improved rainfall boosted hydropower output. Construction was the only sector that contracted in 2014. Growth deceleration was broad in the first half of 2015, with one notable exception in the manufacturing sector, supported by the cellulose production. The construction output contraction worsened further in the first half of 2015 and activity in the trade and tourism services also contracted. Meanwhile, a drought negatively impacted growth.

25. **Private consumption was the largest contributor to growth in 2014, supported by high levels of employment and real income growth, but decelerated sharply in the first half of 2015**. Private consumption was undermined by the marked depreciation in the peso and by the confidence effects of a sharp deceleration in demand for durable goods. Meanwhile, investment has contracted in the first half of 2015, after expanding close to 4 percent in 2014. Slower investment and private consumption have resulted in a marked deceleration of imports. Furthermore, lower imports of oil and refined products also contributed to slower import growth. The current account deficit declined to 4.4 percent of GDP in 2014 and to 3.6 percent in the first eight months of 2015 while it was still largely financed by FDI inflows. Capital and financial inflows that had exceeded the current account deficit led to an increase in international reserves to $17.6 billion, or 30.8 percent of GDP in 2014, but there has been a reversal of flows recently, with international reserves falling to $16.4 billion by September 2015. The Central Bank of Uruguay has intervened to smooth the exchange rate volatility while also repaying some titles in USD.

26. **Therefore, growth is expected to decelerate to below 3 percent annual average over the 2015-2019 period, a more sustainable level albeit slightly below potential.** As a small and

open economy, Uruguay faces challenges and downside risks to growth stemming from an unfavorable external environment, and, in particular, from weak demand for its exports from main trading partners Argentina, Brazil, and China. Furthermore, monetary policy tightening in the USA could affect global liquidity, increase borrowing costs and capital outflows from emerging markets. The recent developments in Brazil, including the sharp depreciation of the Brazilian Real pose challenges to the sectors, for which Brazil represents an important market. Moreover, private consumption growth is expected to weaken on account of weak job creation and real wage increases. Meanwhile, the pass through of sharply lower international oil prices to consumers will be gradual, as the Government is seeking to shore up the finances of the State-owned petroleum company ANCAP. Thus, the impact on consumption is expected to be more gradual. Currently, consumer oil prices in Uruguay are the highest in the region. Meanwhile, the contribution of public spending to growth will decline as the Government is seeking to reach its fiscal consolidation target by 2019, which would require containing spending, prioritizing investment, and increasing SOEs' contribution to the structural public sector balance.

27. **The overall less supportive external environment, with lower commodity prices, is stalling the acceleration in export growth**. Lower agricultural export prices and tightening global financing conditions are expected to affect investments. Despite Montes del Plata pulp mill production, the contribution to growth of exports is expected to average only 1.3 percentage points, as some of Uruguay's main economic partners are in recession (Brazil and Venezuela), struggling to grow (Argentina), or experiencing a growth decelerating (China). Continued dynamism is expected in selected areas, including in non-traditional services, such as audiovisual, software and R&D biotechnology, and global services exports. Import growth will slow below the 2006-2014 period on account of weak domestic demand and expenditure switching. The slowdown in fiscal spending, especially with respect to SOE investments, will also contribute to this slowdown. The current account deficit is expected to narrow further over the 2015-2018 period, with adjustments coming from both the private and public sector, and will continue to be largely financed by FDI inflows.

28. **A tight monetary policy did not bring inflation within the target range and expectations are for stable, albeit above-target, inflation**. Since the beginning of 2011, the annual inflation rate has been stable but above the upper limit of the target range of the Central Bank due to a combination of factors including high food and fuel prices between 2010 and early 2013, currency depreciation, and, more recently, price pressures associated with strong domestic demand. After rising to nearly 10 percent in early 2014, annual consumer price inflation (CPI) eased to 7.4 by February 2015. Nevertheless, and notwithstanding softer domestic demand, inflation reaccelerated to above 9 percent by the third quarter of 2015, due to pass through of the weaker peso to consumer prices, and non-tradable inflation above 10 percent. Administrative measures and lower increases in administered prices have contributed to the temporary deceleration in inflation, however core inflation remains high, around 10 percent. Bringing inflation to the mid-point of the target range requires a comprehensive effort that would include tightening macroeconomic policies, reducing the backward-looking indexation of wages, strengthening the Central Bank's influence on inflation expectations through improved communication and enhancing the autonomy of the Central Bank. The Government is also considering new price agreements with entrepreneurs, similar to those implemented in August and September 2015, to help keep inflation in check.

29. **Fiscal accounts have been well managed, however, fiscal space gradually declined as spending on social programs and health rose.** Fiscal policy has been slightly pro-cyclical and the structural deficit has widened. The non-financial public sector deficit averaged 2.7 percentage points of GDP over the 2012-2014. Lower fiscal revenues from SOEs together with higher transfers and pensions contributed to the deterioration of the public sector primary balance in 2014. The consolidated public sector deficit rose to 3.4 percent of GDP in 2014, a 1.1 percentage point deterioration from 2013. The higher budget deficit is explained in part by a decline in fiscal revenues from SOEs of 0.6 percent of GDP and by an increase in transfers of 0.3 percent of GDP. Meanwhile, the aggregate deficit of the SOEs stood at 0.5 percent of GDP in 2014, a slight improvement over 2013. The fiscal consolidation needed to stabilize public debt will present some challenges as the economy is expected to decelerate and grow below potential. The new administration is committed to fiscal consolidation, targeting a primary surplus of 1 percent of GDP by 2019 and an overall consolidated public sector deficit of 2.5 percent of GDP, to ensure the sustainability of public finances and has a proven track record of fiscal prudence. The Government expects to achieve this by increasing the contribution of the SOEs to the structural public sector balance by 1 percentage point of GDP to 3.3 percent. Fiscal consolidation could prove more challenging as growth decelerates, especially if it translates in a worsening in labor markets and weak private consumption. In this environment increasing public spending efficiency and further prioritizing public spending have become more critical for making possible an increase in the provision and quality of public goods and services, while containing spending growth.

30. **Uruguay has built important buffers in the last five years to reduce its vulnerability to external shocks and these buffers will continue to help mitigate potential external shocks.** Strong growth and a pro-active debt management have decreased debt-to-GDP ratios to 58.4 percent of GDP in 2014 from 75 percent of GDP in 2006. Meanwhile, the consolidated net public sector debt, adjusting for reserve requirements stood at 33.3 percent of GDP. The currency and interest rate risk have been reduced along with the declining share of foreign currency denominated debt in total public debt (53 percent in 2014). The Government has been prefunding its debt payments for at least the next 12 months, having access to liquid assets equivalent of 5.3 percent of GDP. The Government has also engaged in liabilities management, on the external capital markets as well as domestically together with the BCU, to reduce the rollover risk.

Table 1. Uruguay: Macroeconomic and Social Indicators

(in percent, unless otherwise indicated)

	2011	2012	2013	2014	2015 f	2016 f	2017 f	2018 f	2019 f
Income and Economic Growth									
Real GDP growth	5.2	3.3	5.1	3.5	2.1	2.3	2.7	3.3	3.5
GDP per capita growth	4.8	3.0	4.7	3.1	1.7	1.9	2.3	2.9	3.1
GDP per capita (current US$)	14,484	15,225	16,686	16,866	15,929	16,178	16,849	19,150	22,481
GDP per capita, PPP (current international $)	17,645	18,558	19,594	-					
Private Consumption, real growth	7.2	5.0	5.2	4.2	2.5	2.8	2.9	3.3	3.4
Gross Fixed Capital Formation, real growth	7.0	18.5	4.3	2.6	-5.3	2.5	5.3	6.2	6.7
Public	-9.9	1.5	13.3	19.9					
Private	11.5	22.2	2.7	-0.8					

Money and Prices									
Inflation, consumer prices (end of period)	8.6	7.5	8.5	8.3	9.5				
Inflation, consumer prices (period average)	8.1	8.1	8.6	8.9	8.8	8.6	7.5	7.3	7.0
Exchange Rate									
Nominal (period average)	19.3	20.3	20.5	23.2	27.2	29.6	31.3	30.5	28.6
Nominal (end of period)	20.0	19.3	21.4	24.1	28.5	27.1	26.9		
Real Effective Index (2005=100) 1/	101.0	105.4	109.5	108.2	113.2	112.1	110.6		
Fiscal (% of GDP)									
Consolidated Public Sector Revenues	27.8	27.7	30.0	28.9	28.4	28.4	28.8		
SOEs' current primary balance	1.1	0.8	1.5	1.5	1.6	1.7	1.7	1.8	1.9
Consolidated Public Sector Expenditures	28.7	30.4	32.3	32.2	31.6	31.3	31.5	31.5	31.5
Public Investment	2.7	2.8	3.4	3.2	2.6	2.7	2.9	2.7	2.7
Current primary balance BCU, BSE and Local Governments	0.2	0.1	0.0	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2
Public Sector Primary Balance	1.9	-0.2	0.4	-0.5	-0.2	0.0	0.1		
Interest payments	2.8	2.5	2.8	2.8	3.2	3.3	3.3	3.3	3.4
Public Sector Overall Balance	-0.9	-2.7	-2.4	-3.4	-3.1	-2.9	-2.7	-2.6	-2.5
Debt									
Gross	57.9	60.6	57.6	58.4	60.3	62.2	62.6	62.9	62.8
Net				33.2	34.8	36.8	37.5	37.8	37.8
External Accounts									
Export of goods and services, real growth	5.8	3.1	0.2	1.9	2.9	2.3	3.8	4.0	4.5
Import of goods and services, real growth	12.5	13.5	3.5	0.5	-1.0	3.5	5.4	6.0	6.4
Merchandise exports (FOB current US$ billion)	9,274	9,916	10,256	10,379	10,118.3	10,561.4	11,111.0		
Merchandise imports (FOB current US$ billion)	10,704	12,277	11,608	11,298	10,754.6	10,896.6	11,342.3		
Net services (current US$ million)	1,519	1,074	141.4	30.8	416.7	112.4	-214.6		
Current account balance (BOP current US$ million)	-1,374	-2,691	-2,924	-2,623	-2,523.4	-2,624.2	-2,899.7		
% of GDP	-2.8	-5.2	-5.2	-4.6	-3.6	-3.5	-3.7		
Foreign Direct Investment, net inflows (current US$ million)	2,510.9	2,689.1	2,769.5	2,688.8	1,958.8	2,008.1	2,203.4		
Population, Employment and Poverty									
Population total (millions) 3/	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.5	3.5
Unemployment rate	6.3	6.5	6.5	6.6	7.2	7.4	7.3	7.0	6.9
Poverty headcount ratio (% of population)									
National poverty line 5/	13.7	12.4	11.5	9.7					
US$ 1.25 a day (PPP)	0.3	0.3	0.3	0.3	0.3	0.2			
US$ 2.5 a day (PPP)	-	2.5	2.3	2.2	2.1	2.0	2.0		
US$ 4 a day (PPP)	8.6	8.2	7.8	7.4	7.2	7.0	6.7		
Gini coefficient	0.403	0.379	0.384	0.381					
Life Expectancy	76.4	76.6	76.8	76.9	77.1	77.3			
Others:									
GDP (current UY$ billion)	942.4	1,045.4	1,159.6	1,333.9	1,481.3	1,642.8	1,817.2	2,018.0	2,236.9
GDP (current US$ billion)	48.8	51.5	56.6	57.4	54.5	55.5	58.1	66.3	78.1

Sources: BCU, INE, MEF, WDI

1/ Positive variation means appreciation

2/ Central Government and BPS

3/ Estimates are for June of each year

E. KEY DEVELOPMENT CHALLENGES

31. **The Systematic Country Diagnostic (SCD) identifies three important challenges facing Uruguay** as the country seeks to sustain the gains achieved to date, and continue to progress rapidly towards reducing poverty and promoting inclusive growth.

32. **Challenge 1: Rebalancing the social compact by strengthening inclusion and equality of opportunity.** Poverty is more prevalent among children than adults, with negative implications for the long-run social mobility, equality of opportunities and outcomes, as well as the sustainability of the country's achievements in poverty reduction and shared prosperity. The poor school quality and low perceived relevance to the working world are reflected in high numbers of secondary school drop-outs, which is particularly high among youth from the lower quintiles of the income distribution. Some leave to join the labor force, while others join the ranks of "ninis" – namely, the 13.5 percent of young people between 14 and 24 years, who do not study, do not work, and are not looking for a job (this percentage is significantly larger among those aged 18 to 24). Most of the ninis are concentrated in the two lowest income quintiles and gender plays an important role (see for more details Box No. 2). In 2010, only 25 percent of 15-17 year-olds in the lowest income quintile completed lower secondary education, as opposed to 85 percent of those in the top quintile. Even fewer, just 7 percent of 18-20 year-olds in the lowest income quintile completed upper secondary school, compared to the 57 percent in the top quintile. Despite Uruguay's low rates of income poverty and generally high degree of social inclusion, the young are disproportionately represented among the poor and the unemployed. In 2011, 17.4 percent of those aged 14-24 were unemployed, compared to just 3.8 percent of those over 25, reflecting a difficult transition from education to the labor market, originated in a complex set of concurrent causes. This exclusion not only threatens the stability of the social compact, but undermines the country's future growth prospects, through its likely dampening effects on future productivity of the labor force. Within about a decade, Uruguay's working population will begin to shrink due to the country's advanced demographic transition. The remaining, smaller, labor force will need to be more skilled and more productive as the elderly dependency ratio rises. The younger generations are thus precisely the group that Uruguay must invest in for the future. A reformed educational system and a focus on youth employability will be critical factors in this respect.

33. **Challenge 2: Sustaining growth with productivity and deeper integration into global markets.** To sustain economic growth, Uruguay needs to increase productivity and deepen the participation in the international markets. First, the advantage that Uruguay had attained with respect to other countries in Latin America, in terms of universal primary school and increased years of education, has vanished as the rest of the countries caught up and Uruguay stalled. The inadequate endowment of human capital affects the ability to innovate, absorb, and adopt new technologies. Second, Uruguay lags with respect to its peers in terms of innovation and spending on Research and Development, key factors in sustaining productivity convergence. It ranks at number 86 in innovation in the Global Competitiveness Report (2014-2015) and spends relatively little on innovation, 0.4 percent of GDP on Research and Development (which is significantly less than the OECD average of 2.2 percent), and below some Latin American countries with lower GDP per capita. Third, the deterioration and demand on Uruguay's transport infrastructure, most importantly its road network, has significantly outstripped the fiscal resources available for maintenance, and in some cases, development. It is estimated that the volume of merchandise

transported, largely on the road network, grew by 180 percent between 2000 and 2011. This is undermining Uruguay's competitiveness and its efforts to emerge as a regional logistics and transport services hub. The quality of the road and railroad infrastructure rank 90th and 103rd out of 144 countries, respectively, in the World Economic Forum's 2014 Global Competitiveness Index. The key binding constraint to improving the transport network and logistics services is the availability of resources allocated to the sector. Private sector investment has so far been leveraged only to a very limited extent.

Box 2. Moving towards gender equality and social inclusion over the past decade

Gender Equality and Development. Uruguay has made significant progress in moving towards gender equality over the past decade, with specific efforts taken to strengthen the national legislative and institutional framework for the promotion of gender equality. While progress has been achieved (especially with regard to endowments and economic opportunities), it has been uneven across different socio-economic groups -- with poor, rural, young, and afro-Uruguayan women consistently being worse off and facing persistent challenges on some dimensions of gender equality. The country stands out as a leader in the Latin America and Caribbean (LAC) region in terms of sexual and reproductive health indicators, such as low maternal mortality rates (14 per 100,000 live births compared to 80 for LAC, 2012). However, in some key areas, Uruguayan women's welfare lags behind the averages for Upper Middle Income Countries (UMCs) and even LAC. For example, while Uruguayan female labor force participation rate (55.6 percent) exceeds the LAC average (53.2 percent), it continues to lag behind the UMC average (59 percent, 2012). Furthermore, women are more likely to be unemployed compared to men and earn less money for their work. Finally, women in Uruguay face particular challenges with regards to manifestations of the lack of agency. For instance, the adolescent pregnancy rate (58 per 1,000 adolescent women, 2013) is double the UMC average and women's representation in politics is low. Only 16 percent of parliamentary seats are occupied by women in Uruguay, versus average representation of 22 and 24 percent for UMC and LAC respectively. Domestic violence – one of the starkest manifestations of the lack of agency – is also an issue of particular concern with 45 percent of women reporting violence by a partner at some point in their lives (see annex 6 for a summary of gender issues in Uruguay).

Sexual Orientation, Gender Identity and/or Expression (SOGIE) and Development. Lesbian, Gays, Bisexual and Trans[3] (LGBT) people's rights in Uruguay are the most liberal in Latin America and among the most liberal in the world. Same-sex behavior has been legal since 1934, anti-discrimination laws have been in place since 2003, gays and lesbians are allowed to serve openly in the military and jointly adopt children since 2009, civil unions for same-sex couples and civil marriages have been allowed since 2008 and 2013 respectively, and Trans people can change their legal name and sex on legal documents. In addition, sexual diversity is one of the transversal policies of the new Administration's program for 2015[4]-2020. Despite these efforts, LGBT people are still targeted for exclusion based on homophobia and/or transphobia and there is some evidence of violence on the grounds of SOGIE.[5] The national Government is actively fighting these inequalities through a variety of anti-discrimination actions, not only through the legislation reforms mentioned above, but also through focused public policies like the homophobia and transphobia-free health centers initiative that is being developed by the Ministry of Health, or the different programs under the Ministry of Social Development targeted to Trans people (the most vulnerable group among LGBT) like their incorporation as beneficiaries of the *Tarjeta Uruguay Social* welfare program. Nevertheless, some challenges remain ahead, mainly related to reducing the remaining levels of discrimination against LGBT people and eliminating material barriers for LGBT people to get access to a set of rights and public services and addressing the lack of statistical data on LGBTI[6] people, that could help the Government to evaluate the impact of the policies that are being implemented and the design of future interventions.

Source: Staff elaboration

[3] Trans is a term used in Uruguay to include travesties, transsexual and transgender people (Sempol, 2012)

[4] Percent of discrimination complaints received between 2007 and 2013 by State dependencies were related cases were discrimination was based on SOGIE (MIDES, 2014).

[5] Social violence based on SOGIE is still problematic, in particular against Trans women (Sempol, 2014 and MIDES, 2014).

[6] LGBTI includes Intersex people. Unfortunately there are neither official data about this population in Uruguay nor public policies targeted to individuals in this group.

34. **Challenge 3: Building resilience to face external economic volatility and extreme weather events.** Given its continued vulnerability to external economic shocks, Uruguay needs to continue its prudent fiscal stance, and use appropriate policies to further build economic resilience as well as sophisticated instruments (for more details see Box No. 3). A stronger fiscal position would not only reduce vulnerability to risks—especially in the context of a less positive external environment and regional deceleration—but also help protect continuity of necessary social spending associated with the social compact in the event of a shock. Second, and equally important, the green growth and sustainable natural resource management require special emphasis on use of water and soil resources. The availability of reliable and high quality water resources plays a central role, including environmental and economic services such as fisheries, tourism, and biodiversity, agricultural and industrial uses, hydropower, and drinking water and sanitation. Currently, a weak management framework and inadequate enforcement of existing environmental legislation are contributing to deterioration in the quality of surface water (streams, rivers, lagoons, and reservoirs). Water and soils are key resources that, if mismanaged, may become binding constraints to growth. Soils are particularly important for agricultural and forest productivity. For example, the share of total arable land for soya increased from 2 percent in 2000 to almost 50 percent by 2011.

Box. 3 Uruguay's use of sophisticated instruments to increase resilience and fight vulnerability

Uruguay is highly vulnerable to weather related shocks given the importance of agriculture for the economy and the strong reliance on hydropower. Its economy is thus very exposed to weather changes, like droughts, which have a negative impact on GDP growth. In drought years, costs of energy production increase dramatically and so does reliance on alternative and more expensive energy sources such as oil and natural gas. The GoU has developed a risk management strategy to mitigate these negative effects, combining structural policies to reduce weather related risks through diversification, making it more resilient to weather and oil price shocks. UTE (Uruguay's State-owned public electric company) and the GoU have built reserve funds for the purpose of offsetting unexpected additional costs generated by weather shocks like the Energy Stabilization Fund (FEE), which builds buffers in periods of favorable weather conditions and finances additional electricity costs when needed.

The GoU with support from the World Bank, hedged UTE's financial exposure to low rainfall and high oil prices through a weather derivative instrument of $450 million, the largest that the markets had seen to that date. The World Bank's involvement also helped transfer know how and strengthen data collection protocols, both of which have served to crowd in market participants. This operation provided cost certainty to the electricity company, protect consumers from the risk of high and volatile electricity costs, and provided budget stability. In addition, the WB recently approved for the first time a fully contingent IPF operation for $200 million. This aims to mitigate the effect of adverse weather conditions on the public sector accounts, which is filling a gap in the GoU's risk management strategy and is expected to generate fiscal savings. The operation consists of contingent financing to the CND (National Development Corporation) that will on-lend the proceeds to the FEE.

In addition, the Ministry of Agriculture and Livestock, with support of the WB, is elaborating a National Agricultural Information System (SNIA, for its Spanish acronym) to use as an integrated decision support system, as well as a climate smart planning tool for farmers. SNIA offers several tools that will increase farmers' access to georeferenced weather, water, vegetation, and soil information to support decision making at a policy and farm levels. Examples of such tools include an early-warning drought monitoring system for livestock management, a precision agrochemical remote control system, integrated rural risk assessments, development of soil and land use plans, and current and projected water demand analysis for irrigation needs. The Government has also coupled this State-of-the-art tool with a new law requiring producers farming more than 100 hectares of land to prepare soil-use and soil-management plans to use with SNIA. The required soil-management plans and environmental information provided by SNIA will help Uruguayan producers accurately make smarter decisions, such as determining planting and sowing times, water storage, etc. In addition, wide Internet coverage across Uruguay, combined with SNIA, allows agricultural technicians to submit all of their data electronically, thus reducing transaction times.

In order to continue improving design of financial tools to hedge weather extremes and use them more efficiently, Uruguay needs a significantly stronger capacity to monitor hydro-meteorological parameters. Uruguay's hydromet services require a modernization plan based on three pillars: (i) institutional and human resources development; (ii) observation, forecasting, and ICT equipment upgrade; (iii) enhancement of service delivery for end users. An ongoing Bank-executed technical assistance aims to develop a roadmap for transforming INUMET into a meteorological agency in par with the best in the world. Better performing hydromet services would lead to reducing economic losses from weather-related events and increased productivity and predictability for some of the main drivers of Uruguay's economy. Studies in comparable countries show that US$1 invested in hydrological and meteorological (hydromet) services gives back socio-economic returns ranging from 4 to 15 times the investment cost.

Source: Staff elaboration

III. WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

A. LESSONS LEARNED FROM THE PREVIOUS COUNTRY PARTNERSHIP STRATEGY

35. **During the 2010-2015 CPS the WBG and the Uruguayan Government made use of the full array of financial instruments and services available and helped design a new one (fully contingent investment lending) to address specific country issues.** Thus innovation and added value have been key factors in Uruguay's relationship with the WBG. Under the new CPF, the WBG will seek to continue providing innovative solutions to Uruguay and concentrate its support to high-priority areas as they derive from the SCD and Government strategy. For instance, the Bank may help the Government in pursuing complex reforms in the area of education, PPPs or innovation.

36. **Capacity building and focused technical and implementation support had a strong positive impact during the CPS period and are among the critical factors that ensure sustainability of results and institutional change**. While Uruguay has substantial capacity, the Government has expressed its appreciation of the complementary role that the WBG played in bringing to bear its global expertise in the effort to customize solutions and respond to its most complex challenges. Of particular meaning were the Bank Group's efforts to provide customized support in addressing Uruguay-specific issues in areas such as agriculture and climate change, health and social protection. Under the new engagement the WBG should continue to provide implementation support and strive to attract top global expertise such as in the area of infrastructure financing or education quality.

37. **The Bank is recognized as a valuable knowledge partner**. The new CPF engagement framework seeks to lay out a clear knowledge agenda that would prioritize and sequence interventions with additional emphasis on a tailor-made, strategic, jointly developed and cofinanced ASA. It should look into attracting new partners in academia, beyond Uruguay, and further tapping into the expertise of the WBG's new global practices. It will also emphasize sharing Uruguay's experience with other countries generating positive global spillovers.

38. **Impact evaluations at project level had a clear demonstration effect.** An important challenge for the new strategy would be to sustain the impact assessment and ensure that all projects clearly define their baselines at the design stage, with less and simplified indicators. The focus on indicators during implementation support is sometimes perceived as the ultimate project goal and this should be avoided.

39. **The Bank should focus on supporting complex reforms in areas where it has global knowledge and expertise.** During the CPSCR consultations, various stakeholders identified the agenda of productivity as the key one in which the WBG can provide guidance. In this regard, under the new CPF, the Bank Group may wish to push the frontier of testing interesting ideas with a willing and able partner like Uruguay. In addition, coordinated Bank Group assistance can be strengthened in some areas where there is good synergy and potential for boosting results, such as PPPs.

B. SELECTIVITY FILTERS

40. **Filtering the program design through alignment, consistency, and WBG comparative advantages ensures selectivity.** These are as follows: (i) alignment with the Government's program and demand for WBG support by Government, taking into account the available lending envelope; (ii) consistency with the priority areas identified through the SCD; and (iii) the WBG's comparative advantage in developing global and innovative solutions through exploiting the synergies between the institution's public and private sector arms (IBRD, IFC and MIGA).

41. ***Selectivity Filter 1: Alignment with Government Program.*** The CPF program builds on the Government program and priorities, as it was decided through a process of productive dialogue and on-going consultation both at the highest level of the administration and with a broad set of stakeholders. Consultations between the Government and the WBG have also helped clarify the areas, in which the WBG can make the greatest contribution(s), taking into account the programs of other development partners. The Government's priorities are reflected in the new five-year budget law which focuses on eight key points: (i) maintaining macroeconomic balance through fiscal deficit reduction and inflation control; (ii) encouraging private investment, through strengthened incentives: (iii) strengthening international integration and expansion of markets; (iv) promoting value chains and incorporation of innovation and technology; (v) expanding investment in infrastructure with a new emphasis on private sector; (vi) strengthening and streamlining the national care system: (vii) increasing investment in education (to 6 percent of GDP); and (viii) protecting the environment, with a special focus on water resources.

Box. 4: Government priorities as reflected in the 5-year budget discussions

The budget is still being discussed in the Parliament at the time of the CPF drafting. In general, the administration expects a growth of 2.7 percent over the 2015-2019 period and a moderate international condition so internal demand would be the motor of growth in 2016 and 2017, even though demand growth rates are reduced versus previous years. The Budget Law also proposes changes to the debt ceiling, a reduction to 50% from 100% in cases of extraordinary conditions. One of the main goals of the budget is to reach a gradual improvement of a 1 percentage point in the consolidated public sector deficit (after interest payments), starting from 3.5 percent of GDP in 2014 to 2.5 percent of GDP by 2019. The budget also expresses the expectation of reaching a primary surplus of 1% of GDP by the end of the period (2019), which implies an improvement of 1.6% of GDP throughout the five years. The Government is also seeking an increase of SOEs contribution to the public accounts to 3.3 percent of GDP by 2019. The main priorities of this budget are education, National Care System, infrastructure, health, public security and decentralization. The budget foresees an increase in the total spending, of which 40% will be destined to education (expecting to reach to 6% of GDP by 2019), 14% will be designated to the National Care System, 10% for infrastructure, 7% for health, 6% for Public Security, 5% for INAU and the Criminal System for the Youth (SIRPA), and 4% for decentralization and local Government.

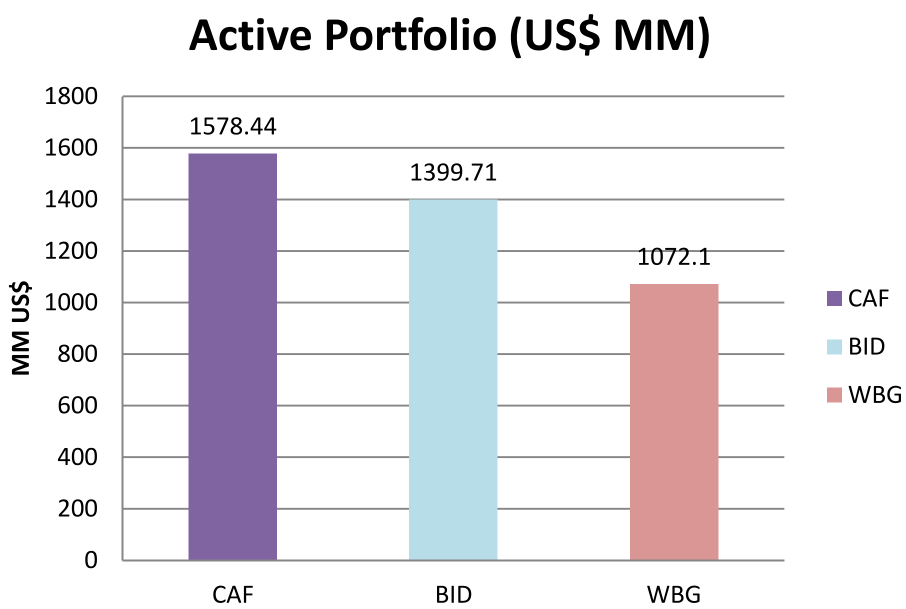
The National Care System, a flagship of Vázquez' mandate, is a transversal policy which involves concerted action from different institutions, therefore the budget assignations will be distributed to different agencies. It targets the most vulnerable such as very young children, older population and the disabled, including the care providers, who are mostly women. The original budget anticipated an allocation of UY$ 1.102 million in 2016 and UY$ 1.914 for 2017, but after intense negotiations it has now been cut, and $200 million have been reallocated to other sectors (mainly education). More than 50% of these funds will be distributed to support the early childhood agenda (Plan CAIF, INAU, etc.).

The Government also promoted a bill on a National System of Competitiveness. The bill promotes coordination between the organizations that have a role in increasing the competitiveness of productive factors through incorporation of technology and innovation and increase quality of human capital with aim to sustain economic growth. The system will include several organizations such as ANII, Instituto de Promoción de Exportaciones de Bienes y Servicios, Gabinete Ministerial de Competitividad, Secretaría de Competitividad, in between others.

42. ***Selectivity Filter 2: Focus on ways to sustain the social compact and sustaining growth.*** The SCD identifies and analyzes several priorities, including ways to help sustain the social compact, by strengthening inclusion and equality of opportunity, and boosting productivity and competitiveness to accelerate growth. Sustaining the social compact requires addressing childhood poverty and tackling youth exclusion, *inter alia*, by increasing the focus on the early childhood programs for lower income households (bottom 40 percent) and reducing middle and high-school dropout rates. The SCD stresses the need to refocus the social compact on children and youth, so as to ensure a solid foundation for an increasingly aging society. Sustaining growth requires emphasizing education, boosting innovation, improving connectivity and logistics through infrastructure upgrading and enhancing Uruguay's integration into the global economy. It also requires addressing potential binding constraints to green growth and natural resource management, in particular through focused attention on better management of water resources. In addition, the SCD identifies a number of knowledge gaps, which will need to be addressed to support the design of future programs and monitor results. These include the following: i) challenges to boosting productivity, innovation and integration into global value chains in a small country; ii) impact of MERCOSUR on Uruguay's trade diversification and alternative options; iii) the impact of Uruguay's demographic transition on the social compact; iv) diagnostic of youth exclusion, unemployment and poverty, including a gender gap analysis; v) exploration of the labor force characteristics of high-growth sectors; vi) wage and productivity linkages at sector and firm level; vii) factors hindering innovation spillovers across sectors; and viii) natural resource accounting.

43. ***Selectivity Filter 3: WBG's comparative advantage with focus on innovation, source of global knowledge, and State-of-the-art financial instruments***. The Uruguayan Government has expressed strong appreciation for the ability of the WBG to contribute to innovative viable solutions for complex development challenges. In addition, our institution has been able to draw on global knowledge and appropriately tailor it to the Uruguayan context. It has also commended the WBG's capacity for working across the public and private sectors in a coordinated manner, especially on PPPs. As under the past strategy, proposed engagements aim to prioritize knowledge creation and transfer rather than financial transfer alone. A Bank Group approach has already been proven effective and positioned the institution as a trusted partner, delivering targeted interventions in specialized areas, innovating, and complementing the efforts of the Government and of other development partners, especially IADB and CAF, with a strong portfolio of projects in Uruguay. In some areas, in which our partners are leading the dialogue (urban, crime and violence and citizen security to name a few), the WBG will not concentrate its support. In specific areas, in which the complexity of reforms requires concerted action on behalf of all the IFIs (education, infrastructure), the WBG will closely coordinate with the other partners. The WBG already supported Government's important agenda of infrastructure financing through PPPs, focusing on the establishment of an appropriate legal and regulatory framework. Going forward,

the emphasis will shift towards the need for supporting specific transactions, for which close cooperation between IBRD, IFC and MIGA will be key.



C. PROPOSED WBG COUNTRY PARTNERSHIP FRAMEWORK (2016-2020)

44. **The CPF is organized into three strategic pillars: building resilience to shocks, rebalancing the social compact and integrating into global value chains.** The CPF supports a set of six objectives that complement each other and are: (i) aligned with the Government priorities, (ii) informed by the SCD, and (iii) reflecting the WBG's comparative advantage.

- ***Pillar I focuses on building resilience to economic and weather vulnerabilities***. Uruguay is a small open economy that needs to integrate into the global markets to achieve the economies of scale necessary to support higher productivity; but this openness exposes the country to external economic vulnerabilities. The CPF proposes to support the improvement of efficiency of public expenditures and investment prioritization, with special focus on SOEs. This will help build macroeconomic sturdiness and enable the State to better address external risks, while delivering on its commitments to growth and inclusion. The significant role that natural resources play in the economy magnify the potential threats from resource mismanagement and weather events, such as droughts and floods. The CPF program under Pillar I will therefore focus on improved management of water and soil resources that have come under stress from economic development and increased climate volatility, a fundamental step in addressing this emerging, binding constraint to Uruguay's successful branding as a clean-green economy (known as '*Uruguay natural*').

- ***Pillar II supports Government efforts to refocus the social compact on the young.*** This, in turn, will involve a concerted emphasis on pre-school education (as a contribution to breaking barriers to social mobility) and on upgrading primary and secondary education to bring these in line with standards seen in other high-income countries. Attention would also be paid to skills training with a focus on bridging the gap between jobs and schooling, from a gender-informed perspective.

- ***Pillar III bolsters Uruguay's continued integration into the global economy*** through support in areas aimed at boosting production, productivity and sustaining Uruguay's competitiveness with regard to exports. In this regard, the CPF program will help improve logistics, transport infrastructure and services and support capacity for innovation. With respect to logistics, attention will be paid to issues of efficiency (costs and reliability) but also safety concerns, a key element of public welfare.

45. **The objectives under the three pillars are highly complementary.** The emphasis on growth with sustainability and attention to natural resources consolidates Uruguay's green branding as a modern and sustainable economy. The education and skills agenda is key to achieving greater inclusion, but at the same time it is supporting productivity and competitiveness and preparing Uruguay for the aging of its population as demographic transition proceeds. Similarly, the attention to infrastructure and innovation foreseen under Pillar III will help boost productivity, competitiveness and trade, thereby complementing efforts under Pillars I and II.

46. **The CPF is aligned with the WBG's twin goals by protecting past gains and helping to lay a firm foundation for further progress.** Attention to the inclusion of individuals/households in the two bottom income quintiles permeates all the pillars. As the economy slows down, concerns about the social compact are addressed though an increased emphasis on improving the efficiency of public expenditures, and attention to the employability of the young through better skills. Emphasis on early education and the welfare of the young and enhanced access to and better quality of education are relevant to inclusion as well as to bolstering the productive capacity of the economy for the long-haul. Resilience at the macro-level is complemented with resilience at the micro-household level through a concerted focus on the welfare of the young. The CPF agenda on innovation can focus on supporting SMEs, which will have also an important impact on job creation, poverty reduction and inclusion.

47. **In developing the CPF, the WBG has taken into account the specific requests made by the Government, with focus on developing innovative solutions to respond to complex challenges**. The dialogue with the Government was framed within the context of the SCD analysis and focused on identifying the results and objectives where the Government was confident that the Bank Group could play a valuable role. As part of the consultations, the WBG teams engaged in dialogue with counterparts from MEF, OPP and various sector ministries, as well as a broad set of stakeholders. The Government emphasized that the WBG should concentrate its efforts on complex reform areas, pioneering solutions and customizing advice and instruments to fit the country's specific and most complex needs. Timing the CPF consultations when the five year budget was defined proved to be useful, especially framing the discussions in the context of overall IFI support. A discussion on new instruments was initiated given the well-established partnership between the country and the WBG, specifically on the RAS instrument. In addition, Uruguay was

selected as one of the twenty-six countries for consultations on the new Bank-wide Gender Strategy (see Annex 6 for an overview of gender issues in the country). A first series of round-tables with the Government, private sector, civil society organizations, international institutions and parliamentarians -- as well as targeted consultations on the subject of sexual minorities' rights -- were critical elements of the CPF process to date. During consultations, the Government endorsed the selection of focal areas (CPF's pillars and objectives) and the technical teams closely coordinated with the Bank experts who designed a set of indicators, which are fully owned.

Box 5: Consultations on the CPF in Uruguay

Consultations regarding the World Bank Group's Country Partnership Framework for Uruguay were held in Montevideo during the month of July 2015 and again in October, 2015 with various stakeholders, including the civil society. A workshop included representatives of civil society, think tanks, private sector, international organizations, parliamentarians, NGOs and the Government. The discussion confirmed the priority sectors identified by the CPF, with focus on productivity, education and infrastructure. The chief concern of the attendees was related to improving Uruguay's productivity levels, and above all, a need to develop and apply a reliable methodology to measure sectorial productivity. The role of the WBG was perceived as important in this area, as stakeholders identified a lack of technical know-how in the subject and/or the existence of "barriers" the Bank could help tackle. In the education area, a reform was considered necessary, although the specific role of the WBG was less clear. The need for prior political agreement was deemed vital. Diverse opinions converged on the need to foster positive attitudes towards labor among youth and children, the importance of ethics and good character. International insertion was also a topic discussed (especially by the private sector representatives), mentioning the need for a clearer definition of Uruguay's stand on international commercial policies and agreements, in a context in which "competitors are moving ahead". Finally, another issue on which the civil society agreed referred to WBG's support to narrow the infrastructure gap and enhance competitiveness. Other recommendations included the need to support territorial development through better decentralization, the importance of monitoring, evaluation and data sharing, and further develop citizen engagement initiatives.

48. **Selectivity means that some SDC priorities are not addressed by the CPF and some past areas of strong engagement are phased out**. Broader areas such as macroeconomic stability, fiscal tightening and public sector reform feature prominently in the SCD. Based on the Government requests, however, the proposed support under the CPF will be narrowly focused on strengthening the efficiency of expenditures, improving selection and implementation of investment projects and supporting the SOEs. In areas like education and skills, innovation, water, and logistics there is a strong alignment between the Government and SCD priorities and the CPF objectives; however, selectivity is necessary within each priority. The support offered by the other development partners, the specific requests by the Government and the capacity of the WBG to deliver with existing instruments and a limited envelope are also key drivers of selectivity. For example, in the areas of innovation or infrastructure, the breadth of the CPF engagement is limited because other development partners (IADB, CAF, etc.) are also actively engaged. Close coordination with our partners is sought in all areas and specifically in education, given the complexity of the reforms and the complex political economy surrounding them and in infrastructure, given the scale of the financing needs. While WBG's support in the health and social protection sectors is continuing through on-going engagements, new financing is not expected in these sectors. The gradual phasing out of the Bank engagement in these latter areas reflects the Government's request and the fact that major reforms have already been successfully delivered. Provided there is no dramatic change in circumstances, there may be a continuing need

for limited support in well-defined, specialized areas in these sectors that could be provided on a just-in-time basis through RASs or other ASA (rather than lending), aligned to future Government requests.

49. **The CPF program is intended to be implemented over a five-year period (aligned with Uruguay's political cycle) and has been designed to address emerging priorities.** The CPF presents an ambitious but achievable set of objectives in support of a Government program, which aims to maintain momentum on growth and inclusion by revitalizing the core factors that contributed to success in the past. These include the social compact, productivity increases, attention to natural resources, and access to new markets. In some cases new tools may be employed in delivering the CPF program (such as RASs), while in other areas the intent is to scale-up previous successful efforts (e.g., in transport or education). The PPP approach to infrastructure financing is new to Uruguay and the challenge will be to effectively advance this agenda in a context that includes a multitude of actors and stakeholders with focus on specific transactions. Supporting innovation -- and in particular seeking to extend the success of the agriculture sector to other sectors and firms -- is experimental and most likely will have to be adapted as implementation proceeds. If continued dialogue with the Government opens new areas of engagement, the WBG will introduce revisions to the CPF within the context of the periodic Learning and Progress Review.

Box 6. WBG Ongoing Portfolio and Technical Assistance

IBRD's portfolio has been innovative in the use of the full range of available financing instruments. It consists of 9 operations with a total commitment of US$964m of which five are traditional investment loans, and the remaining four include a PforR in the roads sector, two DPL DDOs and one IPF, with fully contingent financing. The DDOs and the fully contingent IPF account for more than 70 percent of the portfolio in terms of commitments.

The recently approved IPF with contingent financing is the first of its kind in the Bank and provides insurance coverage to support the country's Energy Stabilization Fund, with the aim of mitigating potential deficits caused by additional cost in energy generation. The DPLs contribute to reducing macroeconomic vulnerabilities, while the IPFs support improvements in the health and education sectors, management of natural resources and climate smart agriculture, and modernization of the public sewerage system. Uruguay is among the top users of IBRD risk management products and the Treasury Department has executed a weather derivative with the national electricity company (UTE). An umbrella TA project provides capacity building support to a number of Government agencies: tax administration, social services, health and education sectors, and the statistics institute. A Low Carbon Development Flagship Study identified opportunities for reducing emissions that could be carried out at low cost, without compromising development or growth. The study evaluated a series of policies and investments, focusing on promising Low Carbon Intervention (LCI) including estimating the potential reduction of GHG emissions and the direct financial cost and benefit and co-benefits of carrying out these LCIs in 4 main sectors (Agriculture, Energy, Waste Management and Transport). The analysis validates several policies, such as increased afforestation and wind energy development, which have been shown to have very large potential for emission reduction at low or negative costs to the economy.

IFC's engagement focuses on activities with strong development and regional integration impact. The priority sectors are infrastructure (barge transport, IT services, and renewable energy), the financial sector (banking), and agribusiness (food production), with SMEs being a cross cutting theme. Current IFC investment portfolio in Uruguay is US$160m. It supports the development of barge operations in the Paraguay-Parana river system, and as well as urban revitalization and SME business opportunities in tourism. In the agri-business sector IFC has been financing dairy, fruit and vegetables initiatives in irrigation, and construction of industrial processing and packing plants.

MIGA has no current portfolio. One important project (Botnia South America, $300m, signed in FY2007) was cancelled in FY2015 due to a business decision (the client determined that risks had decreased, and decided insurance was no longer needed). The guarantee to Oy Metsä-Botnia Ab of Finland (via Argentina) covered its equity investments in a green field pulp mill, a free trade zone, and plantations in Uruguay. The coverage, for a period of up to 15 years, aimed to protect the investments against the risks of expropriation, war and civil disturbance, and breach of contract. The project represented the largest foreign investment in Uruguay's history at the time. While MIGA has no pre-determined envelope for guarantees over the CPF period, it is actively seeking opportunities in the infrastructure and financial service sectors via its political risk insurance products---particularly, transfer and convertibility, expropriation and breach of contract, the latter in the context of PPP concessions---and non-honoring/credit guarantees.

Source: Staff elaboration

PILLAR 1 – BUILDING RESILIENCE TO SHOCKS

50. **The SCD highlights two types of risks that could impinge negatively on Uruguay's development path**. As previously mentioned, the first of these are macroeconomic and fiscal risks, to which most small open economies are exposed. The second main risk pertains to increasing strain on natural resources. Uruguay has increasingly been taking actions to build resilience in each of these two areas. First, sound macroeconomic management has supported strong sustained growth and regained the country's debt investment grade status, which facilitates access to more affordable finance and continued improvement of the debt profile of the country. Second, the country has been designing and implementing a resilience strategy over the past ten years trying to encompass all economic activities and focusing on the sustainable management of natural resources, especially water and soil. Agro activities in particular are viewed only through the sustainability lens. Also, the country is poised for the potential development of extractive industries, and there are new challenges associated with climate change, such as the increased variability of weather patterns. The engagement under this pillar will focus on two objectives.

Objective 1: Increase the efficiency of public investment and strengthen management of selected SOEs

- *SOEs consolidated fiscal savings of 1 percentage point of GDP by 2019, relative to 2014 and four management contracts between MEF/OPP and key SOEs are in place.*

51. **Uruguay has provided solid macroeconomic foundations for growth over the past decade, including building buffers to mitigate vulnerabilities.** However, in a markedly less favorable regional and global environment, with lower commodity prices, weak external demand, and increased uncertainty regarding capital flows, economic growth is decelerating significantly. Weaker economic performance is likely to expose some weaknesses. First, macroeconomic management has been pro-cyclical, which, in turn, limits the room for policy maneuver as economic growth is decelerating, reducing job creation and putting added pressure on fiscal accounts (especially for social transfers, but also through lower growth in direct and indirect taxes).

In conjunction with large spending rigidity, this reduces the fiscal space for public investment, thus limiting Government's capacity to address medium-term needs such as closing the infrastructure gap. Indeed, the public sector's structural primary surplus has been declining and turned into a deficit in 2013. This mostly reflects the diminishing primary surplus at the consolidated central Government level, mainly due to higher expenditures, and a lower primary surplus at State-Owned Enterprises (SOEs). Given the importance of SOEs for the Uruguayan economy, including for competitiveness but also for the consolidated public sector balance, it is important to ensure their efficiency and efficacy in service provision. Proposed solutions include new institutional and legal arrangement and fiscal and debt management tools.

52. **Uruguay can act on several fronts. Gradually moving away from pro-cyclical fiscal policy and locking into a counter-cyclical stance would enhance macroeconomic management.** Improving the efficiency of public expenditure and strengthening the management of public enterprises can be important steps in that direction. In addition, the country could pursue important opportunities in the oil, gas, and mining sectors, which would provide new financial resources for economic development. To this end, it will be important to strengthen the institutional and regulatory framework and establish good governance structures to avoid the "resource curse" risks and their unwanted macroeconomic impacts. Strengthening fiscal buffers to manage downturns and unexpected events would further enhance macroeconomic resilience.

53. **The Government is committed to maintaining a prudent macroeconomic stance and enhancing the resilience of the consolidated fiscal accounts.** In this regard, the Government places priority on increasing the efficacy and efficiency of expenditures including through better management of SOEs, improvements in the selection and implementation of investment projects and strengthening the overall working of the budgetary process. The Government has reflected this vision in the five-year budget that will accompany this Presidential period.

54. **The CPF program will support the efforts of the Government with respect to fiscal management, focusing on improving public expenditure efficiency and bettering public investment practice.** In doing so, the CPF will support strengthening the management of selected SOEs that complement the efforts in the other objectives of the program. Such approach will not only enhance efficiency, but contribute to the achievement of the overall program. The WBG will build on successful experience and the accumulated knowledge gained during the FY10-FY15 CPS in supporting institutional reform in the public sector and expects to bring to bear relevant international experience in the reform and streamlining of public programs. The approach selected will seek to contain the risks implicit in advancing a complex agenda.

55. **WBG assistance could involve new DPL support or technical assistance loans as well as additional ASA.** In addition, the WB will continue the dialogue on fiscal management, especially with respect to the role of the fiscal rule and the creation of buffers to manage shocks. The expected outcome of this objective would relate to efficiency of expenditures in selected sectors, improvements in project selection, monitoring and evaluation of investments, and improved performance of selected SOEs. The IADB is also a major player in the area of public sector reform, fiscal policy and macroeconomic stability while CAF will stand ready to help in terms of advancing the SOE agenda.

Objective 2: Increase the sustainability and efficient use of resources

- *Percentage of hectares where sustainable land use management practices are adopted increases from 32% to 55%*
- *Net water withdrawals measured in Million m^3 do not increase by more than 1.1%*

56. **Over the last decade, export led growth in Uruguay has been driven by agriculture and forestry.** As previously mentioned, Uruguay has been successfully executing a 'green' branding strategy for natural resources based exports. The resulting intensification of water and soil use nonetheless threatens resource sustainability and marketing opportunities. Uruguay is one of the most environmentally conscious countries in the region and sustainable green growth is key to successful value addition to many primary products that are being exported to high value markets across the globe.

57. **The Government has a unique vision as to how, through advanced technology, Uruguay can maintain its high quality water and soil resources ('Uruguay Natural').** In particular, the Ministry of Agriculture is championing this vision by building a broad coalition of stakeholders. The vision addresses important challenges summarized by the SCD regarding water and soil resources management. These include fragmented institutional oversight, weak enforcement of regulations, deterioration in the quality of surface water (streams, rivers, lagoons, and reservoirs) due to increasing pressure on water resources from both point source (industrial and municipal discharges) and non-point source (agricultural and urban sources) pollution– combined with the weak water integrated resources management and a lack of enforcement of existing environmental legislation. Important progress is also needed to improve soil management, through the creation of public access to information on soil quality as well as mandating improved land use planning. Coordination among institutions with a relevant mandate in the areas of water and soil management is also a particular challenge.

58. **The focus of the CPF will be on sustainable intensification of water and soil resources use.** The WBG will promote resilience of water-related sectors to climate variability and climate change by supporting Integrated Water Resources Management and Development (IWRMD) in rural and urban areas (tackling both qualitative and quantitative dimensions) through improved institutional coordination that valorizes economic opportunities and enhances natural resources, and in particular soil, management through promotion of climate-smart agriculture. Moreover, improving efficiency in water use is a key challenge, addressing the wastewater challenges together with reducing industrial pollution in the interior departments. Indeed, addressing underlying water challenges (many of which will be exacerbated by climate change) will require improving efficiency in water use, addressing industrial and domestic pollution, better controlling storm water runoff, and developing a systematic approach to irrigation and dam management. Complementing these efforts, the Government and the Bank will also work in concert to improve the monitoring of weather parameters (rainfall, temperature, wind etc.) which are critical to the development of adequate responses to hydro-meteorological hazards and climate change.

59. **The WBG will continue implementation of TA activities and include new ones under the integrated water management programmatic approach, structured in two stages.** The team will continue providing specific sectorial technical assistance in response to the various requests formulated by different GoU's institutions (MGAP, MVOTMA, DINAGUA, DINAMA, OSE, INUMET and others) related to the "Water for Uruguay" Government's goals. The WBG will also continue and deepen its engagement in the agriculture and water sectors, through the existing operations and a potential follow up operations. The expected outcome of this objective is more resilient use of water and soil resources. For water resources it would be captured by the percentage of net water withdrawals and/or the number of basins with integrated water resources management plans adopted. More resilient use of soil resources would be captured by the total number of hectares with improved soil management plans. The IADB and CAF also have a large presence in these sectors.

PILLAR 2 – REBALANCING THE SOCIAL COMPACT

60. **Uruguay's prevailing social protection model is recognized as one of the most advanced in LAC, and at par with OECD countries.** It nonetheless faces challenges arising from the need to increase attention to children and youth from poor households, rather than maintaining the current heavy emphasis on the elderly vis-a-vis other vulnerable groups. As previously mentioned, despite Uruguay's excellent track record in reducing poverty and raising the incomes of the bottom 40 percent, some groups – notably children and youth – continue to be disproportionately represented among the poor. More importantly, the potential for breaking out of poverty is dampened by the low educational attainment of children from poorer households, whom have significantly higher rates of school drop-out compared with children from higher income households. In this context -- and given the Government's strong commitment to improving opportunity and equity for the most vulnerable – there is a need for concerted efforts to improve access to quality education and expand early childhood development programs aimed at the bottom 40 percent in particular. This reprioritization is of particular importance given that ongoing population aging will increase the relative proportion of elderly versus the working age population – making it imperative that the productivity of the future workforce is maximized. A second major challenge concerns devising social protection strategies/programs to protect the sizeable non-poor but vulnerable population from falling back into poverty in the event of economic shocks.

61. **Improving opportunities and fair chances for the most vulnerable is one of the highest priority of the current administration.** As such, two of the most important challenges will be improving access to quality education and early childhood development for vulnerable groups and better coordination among main transfer programs, while simultaneously ensuring the fiscal sustainability of the programs for the elderly. The political economy of these reforms is complex, and the Government is working to build a consensus on the best approach(es) to moving forward on this agenda.

Objective 3: Promote early childhood development of the bottom 40 percent (B-40)

- *Increase enrollment in initial education (3 year olds of total population) from 69% (2014) to 80-85% (2019)**

**Use gender disaggregated data to track this indicator if available*

- *Reduce the percentage of women between 18 and 29 years old from bottom two quintiles, with at least one child with less than 4 years old (who do not study, do not work and are not looking for a job) from 64% to 61-59% (ECH).*

62. **Tackling youth exclusion emerges as a key priority for the country in the SCD.** Large inequalities in educational attainment and school quality persist and are linked to income and socio-economic background. The disadvantages start early on in life and are related to limited assets and opportunities available to children in poor households. Children with limited development support in the early years are more likely to drop out of school, thereby forgoing acquisition of the skills needed for active participation in the labor markets. This is especially true in Uruguay, where markets are becoming more demanding in terms of skills. Indeed, school drop-out rates are particularly high among youth from the lowest two quintiles of the income distribution. The LAC phenomenon of "ninis", youth who are neither in school nor at work, is a particular challenge in Uruguay.

63. **There is gender parity in terms of primary school completion rates, but boys face challenges in terms of post-primary education retention.** The ratio of female to male enrolment in secondary education shows a gap favoring girls (114 in 2010), and there is evidence that this gap is growing and only increases with higher educational levels. Strikingly, the ratio of female to male enrolment in tertiary education is 173. Thus, girls stay in school longer than boys, and obtain higher levels of education on average. In addition to women having a higher participation rates than their male counterparts in higher education, more women have a professoriate degree in education, while more men achieve a technical University degree.

64. **High secondary school dropout rates are a particular problem in Uruguay.** When considering the reasons for the difficulty to retain boys in post-primary education, data from the 2012 household survey shows that the majority of adolescents declare to abandon secondary schooling due to a lack of interest (47.6%). Apart from schools finding it difficult to captivate boys and girls interest, there are also differences along the lines of gender. Boys abandon their schooling due to economic pressure (32.6% boys and 21.3% girls), and girls leave formal education because of adolescent pregnancy (14.6%) and family-related reasons which are mostly linked to the care of children and elderly (6.1%) – reflecting entrenched gender roles and social norms that govern responsibility for care and assign "acceptable" work for men and women.

65. **The new Government's flagship program, Sistema Nacional Integrado de Cuidados (SNIC), aims to undertake reforms that lower the costs associated with caregiving and generate public services of good quality by stimulating the supply side.** This is an important step towards higher social mobility, but more efforts will be necessary through poverty alleviation programs, education, and other policy areas. Given the multitude of actors involved (MIDES, MSP, MTSS, OPP, BPS, MEC, ASSE, INAU, INE and MEF), coordination and leadership is essential. The initiative will target some of the most vulnerable groups in society, including children, people with disabilities, the elderly population and care-takers.

66. **The CPF will support the social mobility agenda with a specific focus on youth and children, especially facilitating early childhood (children 0-3 years) development through improving urban habitat conditions and facilitating parents' entry in the formal labor market to increase their lifetime opportunities.** The impact of such programs on women's ability to participate in the labor force, augmenting their incomes, could be a significant positive spillover deriving from this support. Guarding against fragmentation of programs will be important, as well as a focus on monitoring and evaluation of services and outcomes.

67. **Specific support for this objective will be delivered through ASA and potentially though RASs, as well as through the existing projects and through a proposed new lending operation in support of education reform, which would target critical institutional steps in improving living conditions for children and early childhood education.** The expected outcomes of this objective are increased number of pre-school children involved in the education system, improved living condition for poor children and their families, and, over the longer term, increased labor force participation among young women. The IADB has a long standing track record providing support to Uruguay Crece Contigo, the leading ECD program in Uruguay.

Objective 4: Strengthen quality of and access to education to prepare B-40 to acquire marketable labor skills

*Increase the percentage of teenagers between 15 and 17 years old who attend a formal education institution from 80% in 2014 to 87-92% in 2019 (ECH). *Use gender disaggregated data to track this indicator if available*

68. **Adequate education and skills are essential to maintain growth and achieve inclusion in the broader context, in which upgrading of Uruguay's human capital is the foundation of achieving and sustaining the twin goals**. In the last five years, as other countries have been making rapid progress, Uruguay's lead with respect to the rest of Latin America in educational achievements has been closing. Skills shortages reportedly are beginning to affect the productivity and competitiveness agenda. While some of these shortages reflect inadequacies in vocational and training institutions, they are also reflective of deeper problems in quality and scope of formal education. Several programs target at-risk youth (Compromiso Educativo, Tránsito, CERCANÍAS), but there is a high degree of fragmentation, overlapping objectives, and weak articulation with the educational system or with labor markets.

69. **With the current administration, education reform reemerges as a priority, reflecting the broad consensus in the society for a deep educational policy modernization program to help improve Uruguay's educational outcomes that spans across various issues, from redefining the curricula to assuring compliance with standards of infrastructure, technology, equipment, materials, and school management.** The WBG stands ready to support Uruguay in implementing an educational improvement agenda, the details of which will be defined in the next period of time, though broad consultations. Potential focus on the program could be on reforming the pre tertiary school system, while helping make secondary education universal, in order to boost cognitive as well as social skill development of children and youth with focus on the B-40.

70. **Existing and new analytical advice, technical assistance and also a new lending operation (potentially a PforR) could focus and accompany the reform path.** Its details are

currently shaped up by stakeholders through intense negotiations and consultations. The program could include activities aimed at improving quality and equity, modernizing and reviewing the curricula, enhancing teacher training (also from a gender perspective) and education, and improving the system of teacher assignments to schools. In addition, the WBG could analyze and address gender biases in the curricula and support the development of active policies that promote and facilitate the school to work transition, enhance the chances of finding quality jobs for youth, particularly those in the bottom 40%. These policies could combine efforts to ensure that most students complete secondary education, the promotion of technical education, employment services such as technical and on-the-job-training and labor market intermediation. The expected outcome of this objective is improved retention rates in secondary education. An additional outcome could be a smoother integration of the bottom 40% youth into the labor market. Close coordination with the other IFIs (especially IADB) in this area will help mitigate the risks associated with delivering a complex reform within a complex political economy context.

PILLAR 3 – INTEGRATING INTO GLOBAL VALUE CHAINS

71. **Uruguay's small economy needs to continue integrating into the global economy to gain the economies of scale that support increases in productivity.** Uruguay has already charted this path and made considerable process, especially in the agriculture sector, where reforms and focus on innovation will continue to be important in the next period, as they have been in the past. Identifying and addressing both the economy-wide and industry-specific policies and regulatory changes that would enable the implementation of a global integration strategy remains a critical policy priority for Uruguay. The country's road towards greater integration into regional and global value chains and a more favorable repositioning of its products and services mix within these markets will require a multipronged strategy. An important dimension of this strategy is related to the knowledge intensification of the traditional resource-based exports. On the services side, further specialization into high-value will be also important. FDI can play a key role in helping Uruguay attain these goals. Therefore, Uruguay should review its FDI vision and strategy in order to have in place the right mix of policies and instruments that will enable the country to attract, facilitate and retain the type of FDI that could help expand markets, connect to value chains, and bring more innovation and technology to the local economy. This should translate into a concrete reform agenda with specific actions that could be implemented within Uruguay's political calendar, the result of which can be objectively measured.

72. **There are several challenges. First, the country needs to close a significant infrastructure gap.** Efforts to sustain growth should rely on transport infrastructure upgrade and logistics services improvement in which the private sector could play a decisive role with public-private partnerships. Second, a weak alignment between the labor market demand and skilled workers to increase productivity requires attention, as addressed by pillar two. Third, Uruguay will need to invest in consolidating the foundations of innovation, especially the spread of already positive experiences to small and medium enterprises and to other sectors than agriculture. Failure to address these bottlenecks could not only slow-down a growth path already affected by exogenous circumstances, but could undermine the sustainability of Uruguay's recent economic and social gains.

Objective 5: Make logistics and transport networks safer and more efficient

- *Reduction of at least 5% over 2014 annual average values in operating cost per ton - km for timber from one place (TBD) in Tacuarembó to Punta Pereira, excluding costs in marketing, collection or warehousing.*
- *Size of investment implemented as PPP increases: number of PPP transactions increased from 1/0 (2015) to 4 (2019).*

73. **In order to sustain growth and increase competitiveness, the country will require substantial investment in infrastructure, especially roads and logistics, but also encompassing ports, railway, or waterborne transport.** Uruguay's recent growth patterns, while commendable, have put stress on available infrastructure assets and threatens the path of productivity increases. The rising costs of transportation point to improved road maintenance as an emerging concern among several competing infrastructure investment needs (in railway, ports, etc.). As identified by the SCD, the poor quality of a significant portion of the road network is leading to increased user costs in terms of time and operating costs, affecting both competitiveness and Uruguay's aspiration to become a regional logistics and transport services hub. For example, a third of the soya price travelling from farm to the port goes to logistics, compared to a fourth in Argentina.

74. **The main constraint to improving and, in some cases, expanding infrastructure has been financing.** Private investment in infrastructure is at the top of the Government agenda as the administration is seeking to augment limited public funds through private capital and innovative financial instruments. Public funding is, and will remain, core to transport infrastructure financing, while the WBG can focus on facilitating increased engagement of the private sector in closing the infrastructure gap. An area of significant importance is related to road safety, Uruguay leading the statistics related to road accidents in the region. The WBG has significant experience on this topic and lessons of experience from award-winning projects in the region can be shared with the authorities.

75. **The WBG will provide support in this area by building on existing engagements and focusing on** (a) developing the capacity of the Government for designing and implementing PPPs; (b) strengthening public investment management (as supported in pillar I) to create a strong pipe-line of feasible projects; (c) finding creative solutions to facilitate new infrastructure financing, including the bundling of infrastructure asset classes and developing sources of revenue from taxes and user fees and (d) improving the regulatory framework on logistics to reduce costs and improve safety. IFC is already supporting the private sector in the transport industry through a substantial river barge investment, and is exploring further financing opportunities, including projects linked to the country's PPP program. MIGA remains open to supporting private sector investment opportunity in the infrastructure space, primarily via its political risk insurance (i.e., breach of contract coverage) and its non-honoring of a financial obligation coverage.

76. **To deliver its program the WBG will rely on lending, technical assistance, financial services such as partial bank guarantees, and IFC investment and advisory services.** In addition, the WBG will support Uruguay in packaging and attracting private sector financing for the construction and maintenance of logistics infrastructure. In 2015, a first-time WBG

coordinated (Bank, IFC, and MIGA) high level seminar provided targeted technical assistance to key counter-parts across several ministries (MEF, OPP, Transport, CND, etc.) on the subject of PPPs. The financing needs are considerable, and the Government is exploring the possibility of pool financing between the IFIs with additional contribution from the private sector. The expected outcome of this objective is increased competitiveness through reduction of infrastructure bottlenecks measured by a reduction in cost of logistics as part of overall price of goods for export. The IADB and CAF play a substantial role in this sector, which commands close coordination of all activities among the three IFIs.

Objective 6: Increase Research and Development (R&D) opportunities to facilitate integration into global value chains

- *Percentage of private expenditures on R&D increased by at least 10 percentage points.*

77. **Uruguay has already achieved progress inserting itself into the global economy and it is at the forefront of the Latin American continent especially in terms of the agriculture sector.** As capacity to innovate has been concentrated in a few areas, the critical mass of innovating enterprises remains low. Large segments of sectors and companies are still operating at lower levels of efficiency. As a small economy, Uruguay will need to keep up its efforts of moving up the value chain, relying on the sectors/companies that are already using their comparative advantage to achieve excellence (e.g. agro-business). At the same time, increased attention to low technology firms, including SMEs, will help them increase competitiveness and create better jobs through innovation.

78. **Increasing competition and shifting market share towards more efficient producers is critical for the country, as shown by the SCD.** Competition in input (upstream) markets, such as transportation, financial services, energy, telecommunications, and construction services, is a key driver of efficiency and productivity growth in downstream sectors—the users of these inputs. The capacity to reap the full benefits of trade integration also depends on ability to reallocate resources efficiently. Well-functioning labor and product markets improve the ability to continuously reallocate resources towards their effective use, with positive implications for trade and growth. Similarly, well-functioning financial systems can promote trade and growth by reducing information and transactions costs, providing appropriate incentives for business governance, facilitating access to technology and easing external financing constraints that impede firm growth and the efficient allocation of resources. Another driver can be a focus on replicating successful experiences, for instance, in agribusiness, where product upgrading and innovation are essential to grow market share and capture new export markets. This is especially true in the areas of fruits and vegetables, dairy and meat where Uruguay is already a successful exporter, but where the expansion of traceability and green label systems will play an important role to increase profitability and productivity of these industries. This will also require the expansion of farmer networks, linked through cooperatives and lead firms to be better positioned to upgrade their processes and products in line with global market requirements.

79. **Overall Uruguay lags with respect to its aspirational peers in terms of Research and Development, a key variable for the agenda of productivity and competitiveness.** Closing the technology and innovation gap, improving production and marketing processes as well as firm

managerial capacity, cultivating entrepreneurship and adaptability, ensuring adequate access to finance, as well as upgrading institutions and markets will be all pre-requisites to advancing this agenda. In emerging non-traditional industries such as IT and electronics, new companies and industries need to establish themselves in relatively sophisticated markets, having to rely on innovative approaches. Central to the these efforts will be ANII, the Innovation Agency, and the "*Plan Estratégico Nacional de Ciencia, Tecnología e Innovación*" (PENCTI), which fosters knowledge creation and innovation, by targeting SMEs; development of human capital linked to science, technology and innovation; increased investments in scientific and technological infrastructure; increasing financing for innovations and integrating Uruguay in science and technology global networks.

80. **The WBG aims to support the administration's efforts through targeted technical assistance, through the existing investment operation supporting ANII as well as through existing and new IFC investments in support of larger private agribusiness operations to increase their ability to reach individual farms.** The CPF could focus its support on selected aspects of this agenda with attention to increasing research and development and improving product market regulations to facilitate innovation spillovers across sectors. To deliver its program, the WBG would continue working with the GoU through the existing Innovation IPF and explore the interest to develop a follow up operation. The expected outcome of this objective is increasing ANII's contribution to technology absorption in the private sector as measured by an increase in technology content of exports beyond the agriculture sector. The WBG would complement the IADB as the leading IFI working in the area of innovation in Uruguay.

D. IMPLEMENTING THE 2016-2020 COUNTRY PARTNERSHIP FRAMEWORK

81. **The CPF will cover a five year period to be aligned with the political cycle and feature a mix of financial, knowledge, and convening services with focus on innovation and results.** Uruguay has a continued interest in overall contingency financing lines from the Bank of around USD750 million. A renewal of a contingent line could support core Government reforms in the areas of strengthening macroeconomic management and increasing public expenditure efficiency as well as SOEs. The CPF foresees new results-based financing operations of around USD200 million, which the Government would be using to implement central reforms in such areas as innovation, education, transport or logistics. Finally, the CPF, at the Government's request, foresees focused investment project financing in the range of USD200-300 million, including in areas such as agriculture and integrated water resource management. In order to leverage Bank advisory support and expertise, the Government and the Bank are considering a jointly-funded advisory service program after the Chilean-WBG RAS model. The strategic use of RASs being explored would help provide knowledge in specialized areas and attests the value that the country places on its relationship with the WBG. The RAS instrument may also be used to provide specialized advice on complex reform areas and issues, on which the WBG may serve as a sounding board. In the area of infrastructure financing, the WB is coordinating a package of technical and financial assistance with close involvement of IFC and MIGA.

82. **IFC is expecting to remain an active partner especially in terms of supporting private sector engagement in agriculture and infrastructure. MIGA, though it has no pre-determined CPF portfolio, is actively seeking opportunities.** The IFC portfolio is relatively

small due to the small market size but opportunities for large scale transformational programs in infrastructure may create the necessary conditions to scale up its support. Assuming normal market conditions, IFC would expect to provide additional, new commitments in the amount of USD150-250 million during the CPF period. MIGA has no pre-determined envelope for guarantees over the CPF period, but it is actively seeking opportunities, including ways that could boost SME financing. All potential financing amounts provided in the CPF document are indicative in nature, as the volumes will depend on market conditions and country demand, overall performance in the course of the CPF period, as well as global economic developments (which affect IBRD's financial capacity and demand by other Bank borrowers).

83. **In terms of country systems, Uruguay has already a solid basis to further develop strong, reliable and transparent financial management and procurement systems.** Modernizing and developing new tools continues to be a challenge as the country moves from having developed a strong legal framework into implementation. The creation of the Procurement and Contracting State Agency (ACCE for its initials in Spanish) is working towards strengthening the management and transparency of the procurement systems (through standard bidding documents for example) and technology, training the staff and improving access to information with the goal of making all processes and contracts public. Public financial management (PFM) in Uruguay is sound, reliable and with a robust level of transparency**.** Notwithstanding, there is room for improvement, particularly with regards to flexibility and efficiency, as well as advancing the open contracting agenda, in which the authorities have expressed an interest. A review of the Uruguay public financial management (PFM) system following the Public Expenditure and Financial Accountability (PEFA) methodology was completed in 2012. Following the findings of this assessment, Uruguay sought to link better Government policies and strategies with annual budget through the introduction of 17 programmatic areas in the previous five-year budget along with improvements in the access to and quality of public services through specific reforms centered on E-Government. Throughout the CPF period, the Bank will seek to support Government efforts aimed at modernizing its PFM processes and institutions with particular attention given to the strengthening of linkages between core PFM systems and delivery of public service through the State Owned Enterprises (SOEs). The Bank will continue to support the Government's efforts through technical assistance funded by a combination of WB budget, trust funds and counterpart resources (RASs).

IV. MANAGING RISKS TO THE CPF PROGRAM

84. **Risk to achieve CPF results is assessed as moderate, with only a few potential risks that could have an impact on the implementation of the CPF.** These risks include: a complex political and sector environment, which could impact some of the most difficult reforms planned by the Government, such as the ones in the education sector; an uncertain global and regional environment, as seen by the recent regional deceleration although the macroeconomic and fiscal situation of the country remains strong; and limited absorptive and institutional capacity in some areas, although the institutional capacity overall is high and the governance levels are robust.

Table 2. Risk in Uruguay

Risk Categories	Rating (H, S, M, L)
1. Political and governance	M
2. Macroeconomic	M
3. Sector strategies and policies	S
4. Technical design of project or program	L
5. Institutional capacity for implementation and sustainability	M
6. Fiduciary	L
7. Environment and social	L
8. Stakeholders	L
Overall	M

85. **With respect to sector strategies and political risk, the Government faces some challenges in implementing its most complex reform agenda, although the governance risk in the country is very low.** The ruling coalition holds the majority in the Parliament, which should ease the task of gathering support for the proposed reform agenda. The consensus building culture of the country will require that important policies have the backing of all major political actors and society at large. Within the Frente Amplio coalition, a multitude of views could mean that reaching consensus around the proposed reforms takes time. A current public debate on the subject of Trade in Services Agreements, Sistema de Cuidados or education reforms are examples that reaching political consensus within the coalition is a complex process, not without obstacles. The most complex reform agendas for the administration are uncontestably in the education and SOE sectors, where different important actors (e.g., for the education, teachers' unions) play an important role. As seen in the recent discussions on the margins of the budget proposal, getting these stakeholders' full support and ownership over the proposed reforms is vital to proceeding with an ambitious and transformational program. The President and his administration will need time to build broad support needed in the Parliament and beyond. Even then, there is some risk that important laws may confront challenges during the enforcement phase. For example, during the last administration, a record high number of laws were found unconstitutional by the Supreme Court. This could affect the implementation pace and timeline of the WBG's proposed program, especially in the education and SOE sectors. To the extent possible, the WBG has already attempted to mitigate this risk by focusing on a selected number of key reforms and broadening the consultations with all important stakeholders. MEF and OPP, together with sectoral ministries,

are nurturing frank and transparent dialogue with core stakeholders about the necessary reforms. At the same time, the Government is actively encouraging the IFIs to coordinate their support across all sectors and especially in the most complex areas such as education and infrastructure where the reforms are most urgent.

86. **High volatility, regional deceleration and a lower growth scenario in the country could affect the country's overall macroeconomic or fiscal stability.** As already stated, Uruguay is a small and open economy, vulnerable to global and regional shocks. It is making efforts to continue its prudent macro and fiscal stance, build reserves and focus on increasing productivity and competitiveness to break through in new markets. Uruguay's policy to build contingent lines of credit, supported also by the WBG's contingency loans and insurance mechanisms, is a good strategy in the case of a financial crisis or facing climate change variability, which could cushion the impact on the overall economy. While requiring spending restraint in the short-run, a fiscal consolidation may be necessary to ensure the sustainable provision of public services. In case of a further deterioration of the fiscal situation, WBG projects could be impacted through scarce resources for operating budgets that are needed to accompany programs as for example in education or infrastructure. This risk is considered moderate as the Government has been building contingencies to mitigate potential negative macroeconomic shocks, including with WBG support and advice, on necessary measures to respond to vulnerabilities.

87. **Finally, Uruguay also faces some institutional risks due to limited institutional capacity in a few sectors, although governance levels are robust.** Experience has shown that WBG interventions, whether project financing or ASA have not been implemented as fast as desired due, in part, to limited implementation capacity of public institutions in some areas (for example in the health sector). In other sectors (for example innovation), young institutions (such as ANII) did not have an extensive track record or solid experience needed to drive complex reforms. In other sectors (for example environment), a multitude of agencies and institutions with different degrees of capacity made coordination more difficult. With this in mind, the CPF has tried to set ambitious yet realistic targets and implementation timelines and the WBG will continue to work with the Government to ensure that the design of its operations fully take into account lessons learned. The Government has been institutionalizing capacity building in many areas. The WBG will continue to work closely with the Government and the project implementing institutions to provide highly appreciated capacity building. Fiduciary risks are deemed low and governance indicators are some of the strongest in the region. In a few areas, such as contracting, arrangements appear to be cumbersome, and institutional capacity can be further strengthened on the PFM or procurement side, where there is a plan to offer additional capacity building support. The Government is addressing issues to improve public financial management systems and facilitate timely and reliable accounting and budgeting records, control, and reporting. In particular the Government has been looking at simplification of required procedures. The WBG will complement those efforts working closely with MEF and OPP as well as with sector ministries to strengthen their M&E functions

ANNEX 1. RESULTS MONITORING MATRIX

Pillar 1 -Building resilience to shocks

Uruguay is exposed to a variety of shocks that can divert the country from its development path. The SCD highpoints two types of risks. First, the macroeconomic risks that are particularly high for a small and open economy. Second, Uruguay's growth strategy has been intensive in the use of natural resources, stressing land and water. Uruguay has been very proactive in building resilience in these two areas.

Objective 1: Increase the efficiency of public investment and strengthen management of selected SOEs

Uruguay has made significant advances in building and maintaining solid macroeconomic foundations for growth. To increase the effectiveness of fiscal policy in promoting long-term growth with social inclusion while maintaining a prudent fiscal stance, rigidity of expenditures could be lessened and strong buffers could be promoted while governance of SOEs could be improved with focus on fiscal savings, investment prioritization and strengthening management practices.

CPF Objective Indicators	WBG Program
1.1 SOEs consolidated fiscal savings of 1 percentage point of GDP by 2019, relative to 2014 (baseline) AND four management contracts between MEF/OPP and key SOEs are in place Baseline: 2.3% of GDP (2014)* Target: 3.3% of GDP (2019)** *This represents the contribution of SOEs to the structural fiscal balance of the consolidated public sector, before transfers and taxes, and corrected for the change in ANCAP stocks and the under/over cost of producing electricity and flows to/from FEE **These fiscal savings would exclude/ would be adjusted for the Change in stocks of ANCAP, and the extra/lower cost of supplying electricity.	*On-going* • UY Institutions Building TAL (P097604) • UY OSE Sustainable and Efficient (P118064) • Public Sector Management and Social Inclusion Development Policy Loan (P131440) • DPL - 2nd Programmatic Public Sector, Competitiveness and Social Inclusion Development Policy Loan with deferred drawdown option. (P123242) • TA - PA Climate-smart Agriculture and IWRM (P146365) *Potential/Planned New* • DPLs • Technical assistance loans. • ASA

Objective 2: Increase the sustainability and efficient use of resources	
Export led growth in Uruguay has been driven by the agricultural and forestry sector in the past decade. Part of it is due to the intensification of the use of soil and water, but also to the 'green' branding of Uruguay's natural resource based products. The SCD has identified important challenges for soil and water resource management. The WBG will promote resilience to water related sectors to climate variability and climate change by supporting the Integrated Water Resources Management and Development (IWRMD) in rural and urban areas. Addressing underlying water challenges (many of which will be exacerbated by climate change) will require improving efficiency in water use, addressing industrial and domestic pollution, better controlling storm water runoff and developing a systematic approach to dam management. Moreover, the soil- and biodiversity-conservation agenda is key. As part of the resilience agenda, there is a need for joint water and soil action.	
CPF Objective Indicators	**WBG Program**
2.1 Percentage of hectares where sustainable land use management practices are adopted increases Baseline: 32% (2015) Target: 55% (2021) *2.2* Net water withdrawals measured in Million m^3 do not increase by more than 1.1% Baseline: 4323 Million m^3 (2014) Target: 4372 Million m^3 (2020) *Reflects a 90% adoption rate for natural grasslands ('campo natural')	*On-going* • Sustainable Management of Natural Resources and Climate Change (P124181) • Drought Events Impact Mitigating Investment Project Financing (P149069) • REDD + Program Development (P151978 Uruguay FCPF REDD Readiness Preparation) • The Extractives Industries Technical Assistance Fund (EI-TAF) $340k, 2014 *Potential/Planned New* • Investment loans • RAS • ASA

Pillar 2 - Rebalancing the social compact	
Despite Uruguay's noteworthy poverty reduction, the increase on the incomes of the bottom 40% of the population and the strong cohesion in the society, important vulnerabilities are still present such as low educational attainment for poor households (mostly in Montevideo). One of the highest priorities of the current administration is to improve opportunities and fair chances for the most vulnerable. The country needs to improve the access to quality education and early childhood development for vulnerable groups, increase public spending efficiency in educations and other social sectors and improve coordination among main transfer programs as well as ensuring fiscal sustainability of the programs for the elders.	
Objective 3: Promote early childhood development of the bottom 40 percent (B-40)	
The SCD identified as a key priority for the country the reduction of youth exclusion as large inequalities in educational attainment and school quality persist and these are linked to income and socio-economic background. CPF will support social mobility agenda with specific focus on youth and children, supporting early childhood development activities, improving urban habitat conditions and facilitating parents' entry in formal labor markets.	
CPF Objective Indicators	**WBG Program**
3.1 Enrollment in initial education (3 year olds of total population) * Baseline: 69% (2014) Target: 80-85% (2019) **Use gender disaggregated data to track this indicator if available* *3.2* Reduce the percentage of women between 18 and 29 years old from quintiles 1 & 2, with at least one child less than 4 years old who do not study, work and are not looking for a job because they dedicate their time to take care of children or older/disabled people in their home ** Baseline: 64% (average 2013-2014) Target: 61-59% (average 2019-2020) *Monitor educativo from MEC **ECH from 2019 and 2020	*On-going* • UY Non Communicable Diseases Prevention Project (P050716). *Potential/Planned New* • ASA • RASs
Objective 4: Strengthen quality of and access to education to prepare B-40 to acquire marketable labor skills	
Adequate education and skills are essential to maintain growth and achieve inclusion, upgrading Uruguay's human capital and sustaining the reduction of poverty and augmenting shared prosperity. The WBG will support the Government in implementing an educational improvement agenda through analytical advice, technical assistance and lending operations. The focus will be on boosting cognitive as well as social skill development of children and youth, by concentrating on reforming the basic school system, while helping make secondary education universal.	
CPF Objective Indicators	**WBG Program**
4.1 Increase the percentage of teenagers between 15 and 17 years who participate in formal education* Baseline: 80% (2014) Target: 87-92% (2019)	*On-going* • Support to Uruguayan Public

*ECH *Use gender disaggregated data to track this indicator if available	Schools Project (P126408) *Potential/Planned New* • PforR • ASA

Pillar 3: Integrating into global value chains

As a small economy, Uruguay has the need to integrate into the global economy, so as to gain the economies of scale needed to support increases in productivity. There are several focus areas. The first area is to reduce the infrastructure gap. The second focus area is the weak alignment between labor market demand and skilled workers. Continuing with the third priority area is to continue with the sophistication of the productive function, focusing on the foundations of innovation.

Objective 5: Make logistics and transport networks safer and more efficient

If Uruguay aims to sustain growth and increase competitiveness, the country requires substantial investment in infrastructure, especially in roads (also ports and trains, etc.) and in logistics as current level and quality of infrastructure threatens productivity. The main constraint has been financing, and the new Government has placed infrastructure investment as one of its main priorities. The WBG will support these efforts by focusing on building the capacity for PPP, strengthening public investment management and thinking about new infrastructure financing.

CPF Objective Indicators	WBG Program
5.1 Reduction of at least 5% over 2014 annual average values in operating cost per ton - km for timber from one place (TBD) in Tacuarembó to Punta Pereira, excluding costs in marketing, collection or warehousing .* Baseline: 58 US$/ton (2014)* Target: 49 US$/ton (2020) * Said cost will be calculated in indexed units, using World Bank's VOC software. The survey will be annual and will be entrusted to a technical team of the National Direction of Planning and Logistics from the Ministry of Transport and Public Works (DINAPLO - MTOP) and the National Institute of Logistics (INALOG). *5.2* Size of investment implemented as PPP increases Baseline: 0 or 1 (2015)* Target: 4 (2020)** *Measured as contracts signed and financing letters provided by the private Banks	*On-going* • Road Rehabilitation and Maintenance Program (P125803) *Potential/Planned New* • PforR • Technical Assistance • IFC + MIGA Support

Objective 6: Increase Research and Development (R&D) opportunities to facilitate integration into global value chains

There is a need to continue on innovation and value chains in traditional exports, both in agribusiness and non-traditional sectors which provide a high added value. Uruguay lags with its aspirational peers in terms of innovation and R&D, which are key variables for productivity and competitiveness. CPF supports selected aspects of this agenda with attention to the increase in the competitiveness of SMEs

and their exporting capacity by supporting innovation and technology absorption, facilitating innovation spillovers across sectors, enhancing market competition in key input markets and increase access to finance. A critical component for a greater integration of Uruguay in global value chains is the continuous improvement of its traditional products to increase market share and attract new export markets. This will also require the expansion of farmer networks, linked through cooperatives and to lead companies to be better positioned and to improve their processes and products based on the needs of the global market. The WBG aims to support this effort through technical assistance and loans as well as IFC investments to support large private agribusiness operations and the ability of these to reach individual farms.	
CPF Objective Indicators	**WBG Program**
6.1. a. Percentage of private expenditures on R&D increased by at least 10 percentage points. Baseline: 14.3% (2014) Target: 24.3% (2020)	*On-going* • UY Promoting Innovation to Enhance Competitiveness (P095520) *Potential/Planned New* • ASA/TA • MIGA support • IFC investments

ANNEX 2. URUGUAY – CPS COMPLETION AND LEARNING REVIEW (CPSCLR) FY 2010-2015

CPS August 18, 2010 Report No. 55863-UY
CPSPR June 13, 2013 Report No. 78273-UY

Contents

ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics
ANII	National Agency for Innovation (*Agencia Nacional de Innovación e Investigación*)
APL	Adaptable Program Loan
BCU	Central Bank of Uruguay (*Banco Central de Uruguay)*
BPS	National Social Security Institute *(Banco de Previsión Social)*
CAF	Latin American Development Bank *(Formerly de Andean Cooperation Development)*
CONALOG	National Logistics Commission *(Comisión Nacional de Logística)*
CPF	Country Partnership Framework
CPI	Consumer Price Index
CPPR	Country Portfolio Performance Review
CPS	Country Partnership Strategy
CPSPR	Country Partnership Strategy Progress Report
DDO	Draw-Down Option
DPL	Development Policy Loan
E&S	Environmental and Social
ECLAC	Economic Commission for Latin America and the Caribbean
FEE	Energy Stabilization Fund
ESW	Economic and Sector Work
FDI	Foreign Direct Investment
FONPLAT	La Plata Basin Development Bank *(Fondo Financiero para el Desarrollo de la Cuenca del Plata)*
FSAP	Financial Sector Assessment Program
FTS	Full-time School
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GEMLOC	Global Emerging Markets Local Currency Bond Program
HDB	*Hidrovia do Brasil*
IBRD	International Bank for Reconstruction and Development
IBTAL	Institutions Building Technical Assistance Loan
IDB / IADB	Inter-American Development Bank
IDF	Institutional Development Fund
IFC	International Financial Corporation
INALOG	National Institute of Logistics
INE	National Statistics Institute
IPF	Investment Project Financing
LAC	Latin American and Caribbean Region
MEF	Ministry of Economy and Finance (Ministerio de Economía y Finanzas)
MERCOSUR	Southern Common Market *(El Mercado Común del Sur)*
MGAP	Ministry of Livestock, Agriculture and Fishing *(Ministerio de Ganadería, Agricultura y Pesca)*
MIDES	Social Development Ministry *(Ministerio de Desarrollo Social)*
MIEM	Ministry of Industry, Energy and Mining *(Ministerio de Industria, Energía y Minería)*
MSMEs	Micro, Small and Medium Enterprises

MSP	Public Health Ministry *(Ministerio de la Salud Pública)*
NCD	Non Communicable Diseases
NEP	National Equity Plan
NLTA	Non-Lending Technical Assistance
NRM	Natural Resource Management
OSE	National Water Utility Company *(Obras Sanitarias del Estado)*
PAHO	Pan American Health Organization
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PforR	Program for Results
PPP	Public-Private Partnership
PSIA	Poverty and Social Impact Analysis
SFLAC	Spanish Fund for Latin America and the Caribbean
SID	Sustainable Industrial Development
SIIAS	Social Areas Integrated Information System
SIIF	Financial Management Information System
SINARE	National Firm Registry System
SMEs	Small and Medium Enterprises
SOE	State-owned Enterprise
SNIA	Sistema Nacional de Information Agropecuaria
SSKE	South-South Knowledge Exchanges
TA	Technical Assistance
TF	Trust Fund
TRE	Treasury
TSA	Treasury Single Account
UTE	National Energy Utility *(Administración Nacional de Usinas y Transmisiones Eléctricas)*
UY	Uruguay
WHO	World Health Organization
YOY	Year-on-Year

I. INTRODUCTION

1. This Country Partnership Strategy Completion and Learning Review (CPSCLR) is a self-evaluation by the World Bank Group (WBG) team of its performance in implementing the Country Partnership Strategy FY10-15 (Report No. 55863-UY). It evaluates the CPS program performance in achieving the expected outcomes; the design and implementation of the program, as well as its contribution to the twin goals of eradicating extreme poverty and boosting shared prosperity. The CPSCLR uses the results framework updated during the CPS Progress Report (CPRSPR) to validate the achievements. The lessons learned section benefits from the consultations with stakeholders held during the preparation of this report.

2. Overall progress toward achieving the CPS outcomes was *satisfactory*. The CPS was jointly prepared by the World Bank and International Finance Corporation (IFC) in collaboration with the Government of Uruguay. The CPS provided opportunities for innovation and a flexible knowledge-focused partnership structured around four pillars: (a) reducing macroeconomic vulnerability and strengthening public sector administration; (b) competitiveness and infrastructure; (c) agriculture, climate change and environment; (d) promoting social inclusion and equity. IFC's activities complemented the IBRD program with a focus on: (a) financial services; (b) agribusiness; (c) competitiveness; and (d) education. While most of the CPS outcomes have been achieved the expected results could have been more ambitious for a country with the potential and capacity of Uruguay.

3. World Bank Group performance in design and implementing the strategy was *good.* The program was well aligned with Uruguay's five-year political cycle and the country priorities, and became a testing ground for a variety of new IBRD instruments, such as the Program for Results (PforR), a weather derivative hedging, and the first ever investment project with fully contingent financing. The CPS was flexible and highly responsive to the country's demands delivering higher than planned IBRD financing of $1,057 million. The IFC provided $141.8 million during the period. The WBG pushed the innovation agenda with a partner which was already at the forefront of modern development practices and looking for alternative solutions to challenges through a combination of lending and a knowledge program commensurate with a sophisticated economy open to learning from the global experience.

II. CPS PROGRAM PERFORMANCE

COUNTRY CONTEXT

4. Uruguay's economic growth in the last decade was inclusive leading to significant reduction in poverty and expansion of shared prosperity. The Uruguayan annual GDP growth was sustained at 5.4 percent during 2007-2014 and Uruguay outperformed most of its structural peers and aspirational comparators[7] as well as comparator countries in LAC. Improvements in fiscal

[7] Structural peers were selected based on criteria of GDP per capita, FDI as a share of GDP, credit rating higher than BBB-, and include: Croatia, Dominican Republic, and Costa Rica. Aspirational peers were selected based on criteria of GDP per capita, strong GDP growth, high investment ratios, and include: Estonia, Hong Kong, SAR, China, Korea, Singapore, Taiwan, China, and Panama.

sustainability, proactive management of financial vulnerabilities, and consolidation of flexible exchange rate regime with price stability and a policy of tax incentives for private investment were notable policies that have created an environment conducive to growth. In July 2013 Uruguay was classified as a high-income country with a GNI per capita of US$13,580. The Government's strategy to mitigate risks arising from deterioration in global economic conditions, and climate change was well implemented by building resilience through intensified hedging and protection from shocks using various instruments, including those offered by the Bank.

5. Uruguay has fostered a social model combined with significant income distribution policies and expanded social protection bringing the same benefits to those who are not in the formal economy. The incidence of moderate poverty dropped from 32.2 percent in 2006 to 9.7 percent in 2014, and extreme poverty declined from 2.6 percent to 0.3 percent. The participation of the poorest quintile in total income increased from 8.7 percent to 10 percent between 2008 and 2013. According to World Bank calculations 57 percent of the Uruguayans belonged to the middle class in 2012 and this stands out as the highest ratio in LAC.

CPS Program Overview

6. The impressive economic performance and pro-poor policy orientation provided excellent conditions for the good partnership between the Bank and Uruguay to develop a well-focused flexible program, design new instruments and pilot innovative practices. During the CPS period Uruguay turned into a global showcase and model for replication in areas such as climate smart agriculture, social safety and insurance, and climate-related risk management. The key reason why Uruguay has become a testing ground for new ideas lies in the country's desire to modernize, the consistent development trajectory and sound policy decision-making carried forward by successive Governments under a clearly defined growth framework. In this favorable environment and interest to experiment, the WBG and the Government were able to jointly push the innovation boundaries. Thus Uruguay took advantage of IBRD's local currency financing to reduce currency risk in its sovereign debt portfolio and converted IBRD loans into Uruguayan pesos via the swap market. A weather derivative transaction with Uruguay's power utility (*Administración Nacional de Usinas y Trasmisiones Eléctricas*", UTE) hedging the exposure to low rainfall and high oil prices was designed for the first time for a Bank client. The IPF contingency financing (P149069) to support the Energy Stabilization Fund (FEE, in Spanish) in mitigating adverse climate shocks in the context of energy diversification is another "first" in the Bank to pioneer an insurance coverage. The process of creation of the FEE was supported by an energy efficiency GEF project.

Progress by Strategic Engagement Themes

7. The program was implemented through a small number of operations which were designed to complement each other and be flexible enough to tackle issues across sectors. The Development Policy Loans (DPLs) and Institutional Building Technical Assistance Loan (IBTAL) supported progress in all four pillars in addressing public management and strengthening capacities across the program. Specific investment project financing was used to tackle sectoral issues. Progress towards achieving program objectives is rated as *satisfactory*. Follows a summary of performance by CPS pillars:

Pillar 1 - Reducing Macroeconomic Vulnerability & Strengthening Public Sector Administration

8. The CPS sought to support the Government's efforts to improve fiscal results and bring them to those prior to the 2009 crisis, and to reduce the external debt burden particularly in foreign currency. Uruguay continued its steady macroeconomic performance and the Government took additional measures to reduce vulnerability and manage currency risks using the latest Bank Treasury products. Three DPL operations (P116215, P131440 and P123242) complemented by the Institutional Building Technical Assistance Loan (IBTAL P097604 and its AF P097604) and a series of knowledge services supported the Government in its efforts to reduce the macroeconomic vulnerabilities. The reform's objective was to improve the efficiency of public sector administration, making it more transparent, and flexible, and moving towards a performance-oriented budget approach. The package of DPLs and IBTAL responded to specific policy priorities in the health, education and social safety sectors. IBTAL helped build capacity of the various agencies (tax administration, social protection, statistics institute, sectoral ministries) in monitoring and evaluation of the activities supported by DPLs including in human resources, information systems, auditing, business intelligence, taxpayer risk management, and taxpayer services. In addition it supported institutional strengthening, development of the regulatory framework, enhancing corporate transparency, introduction of reporting standards and control processes and the design of an integrated, inter-institutional information system that brings together data on beneficiaries of social programs. The assessment of the social system impact has been showcased in LAC and beyond. An innovative investment with full contingency financing enhances the functioning of the Energy Stabilization Fund (FEE in Spanish) and is aimed to mitigate the effect of adverse weather conditions on public sector accounts and to enhance the efficiency of its risk management framework at a critical transition period to a more diversified and cleaner energy matrix.

9. Uruguay is among the top users of IBRD risk management products and services and one of the few countries to have signed a Master Derivatives Agreement to execute hedging transactions with the Bank. Uruguay has taken advantage of IBRD's local currency financing capabilities to support the Government's objective of reducing currency risk in their sovereign debt portfolio and in 2011 converted IBRD loans for a total of US$150 million into Uruguayan pesos through the first local currency financing via the swap market. In addition, the WB Treasury executed in December 2013 a $450 million weather derivative transaction with UTE to hedge their exposure to potential low rainfall and high oil prices affecting the cost of power generation and the fiscal position of the GoU.

10. Knowledge services focused on analyzing the fiscal sustainability of the country's inclusive growth agenda. The Public Expenditure Review (P124430) identified the main fiscal risks at the sector level and options to safeguard long-term fiscal sustainability. The Policy Notes (P147070) presented a diagnosis of the macro-fiscal situation and capital market regulations, monetary policy and inflation. Analysis of the sovereign debt market, budgeting and the policy making process through the Gemloc TAs (P124409 and P130237) supported the design and initial stages of the roadmap for developing Government debt markets.

11. Improvements in public administration were notable. Moving towards results-based budgeting remains a priority for the Government. The GoU has adopted output and outcome indicators for twenty nine selected expenditure programs in seven priority areas, as evidenced by the updated Volume II of Budget Law, the 2013 *Rendición de Cuentas* presented in June 2014. It has undertaken 10 Design-Implementation-Results evaluations (DID in Spanish) of key public interventions. It has also simplified the Treasury payment system, increasing the share of payments conducted via bank accounts while reducing the number of accounts held by the Central Government. Significant progress has been made in the e-Government agenda, with the number of public administration transactions available to be completed on-line increasing further to 323, far exceeding the medium-term target set at 50.[8] The electronic document and signature law (Ley N. 18600[9]) was passed and an electronic workflow tool was introduced in the Ministry of Industry, Energy and Mining and the Ministry of Public Health. The WBG accompanied these efforts through the DPL triggers and IBTAL. The Public Expenditure and Financial Accountability (PEFA; P125366) recognized the merits of a comprehensive and transparent budgeting process since the introduction of the five-year programmatic budget in 2010 even though some challenges remain[10].

Pillar 2 –Competitiveness & Infrastructure

12. The program proposed by the CPS aimed to foster competitiveness and financial sector development and strengthen infrastructure, particularly land transport infrastructure, the efficiency of the Public Sewage Works Administration (OSE, in Spanish); and quality of the electricity supply and energy efficiency. The outcomes have been mostly achieved.

13. Addressing competitiveness, Uruguay modernized the stock exchange with support from the Bank, which resulted in the increase of the total number of new private sector issuances (including stocks, corporate bonds and financial trusts). The establishment of the *Comisión Nacional de Logística* (CONALOG) and then the creation of the National Institute of Logistics (INALOG) (Ley N° 18.697[11]), as well as the Competition Commission have been critical in providing the institutional backbone for improving competitiveness. In addition, regulations for the new Bankruptcy Law (Ley N.18387)[12] were formulated. The Bank looked at wages and productivity developments in specific sectors to provide practical advice on the relationship between wages and productivity in the context of the current collective wage bargaining system (P143607). A trade and competitiveness review (P106723) analyzed Montevideo's potential to become regional trade hub, and recommended upgrading of the national logistics system to increase trade and reduce shipping costs. The expectation that 50 percent of beneficiaries would use debit cards to access family allowances by end 2014 was not met partly because there was not

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[8] AGESIC, the agency in charge of developing e-government has also received support from other international financing institutions, which offered an additional boost to their activities and could partially explain the exceeding targets.
[9] http://www.parlamento.gub.uy/leyes/AccesoTextoLey.asp?Ley=18600&Anchor=
[10] PEFA recommended revamping of the Financial Management Information System (New SIIF) (including the Treasury Module); improving the public sector accounting and financial reporting processes and procedures and completing implementation of the Treasury Single Account (TSA). At present the Government does not prepare comprehensive financial statements compliant with international standards, and instead limits annual financial information to the Annual Budget Execution Reporting, Rendición de Cuentas (RC).
[11] http://www.parlamento.gub.uy/leyes/AccesoTextoLey.asp?Ley=18697&Anchor=
[12] http://www.parlamento.gub.uy/leyes/AccesoTextoLey.asp?Ley=18387&Anchor=

sufficient buy-in and also due to the fact the Social Security Bank had not issued all the debit cards. The Development of Financing Options for Public Private Partnerships in the Roads Sector TA (P128686) found potential financiers for PPPs. Other TAs supported the design of the Railway Regulator (P133277), as part of the railway reform, as well as Uruguay's road safety agenda.

14. IFC supported the competitiveness agenda by helping formalize and professionalize SMEs, and increase the number of financial access points. Of its current $14 million portfolio in financial markets, IFC's largest investment ($10 million) in retail payments aimed to increase transparency in distribution channels. An equity investment in Scanntech rolled-out a technology platform connecting independent stores with global consumer products companies, financial and telecommunications firms, and Government services currently supporting 208 jobs, 69 of which for women. Scotiabank Uruguay (formerly NBC Uruguay) supports rural agricultural supply chains by improving access to long-term finance for the base of the pyramid. As of end-2013, Scotiabank Uruguay reaches more than 14,000 smallholder farmers and agri-SMEs with a total loan volume of $155 million. With the same client, IFC also set up a trade finance line to provide short-term financing for the country's rapidly expanding trade flows. Through Pestana Uruguay, IFC provided a $9 million loan to support urban revitalization and SME business opportunities through tourism in Montevideo. In addition to employment generation, value added services include knowledge transfer to make the project property a green building and improvement of E&S standards, in conjunction with IFC Advisory's Pro-Hotel program in Brazil.

15. The infrastructure objectives covered a wide variety of outcomes, both of institutional character and physical upgrading and maintenance. During the CPS period, the Bank helped to upgrade several bridges on MERCOSUR corridors, to maintain more than 430 km of paved national roads, rehabilitate 130 km of national highways, and maintain more than 9,000 km of rural roads. The Transport Infrastructure Maintenance and Rural Access Project (P057481) also introduced cost-efficient performance-based highway maintenance contracts. The Roads Rehabilitation and Maintenance Program (P125803) was the first PforR operation in the LAC region and is highly appreciated by the Government as it also provides the opportunity for joint financing with the Latin American Development Bank (CAF), the IDB and Fondo Financiero para el Desarrollo de la Cuenca del Plata (FONPLAT). This operation covers the maintenance of the whole national highway network (about 8,700 km) and includes the rehabilitation of about 500 km of roads. Infrastructure was further supported by IFC through the development of a barge operation in the Paraguay-Parana river system in South America to facilitate the transport of iron ore between Brazil and Paraguay with a committed long-term financing of $74 million (of which $30 million is in mobilization). The single largest investment program on the river and IFC's largest investment in the country is expected to deploy 8 convoys in the river system with an estimated annual capacity of over 3 million metric tons and create 200 jobs.

16. The Bank and the Public Sewage Works Administration (OSE in Spanish) have a long standing successful history. The previous engagement focused on infrastructure while the current one is building institutional capacity through the Sustainable and Efficient OSE Project (P118064) and the OSE Modernization and Systems Rehabilitation Project (APL2) (P101432) which together have become critical for OSE's adoption of modern practices in customer service (e.g. introducing 24 hour customer service call centers, interventions to support the unbilled water program, energy efficiency, management of wastewater and sludge, and protection of water sources). Water for

Uruguay (P146365), an analytical program that provides technical assistance and advisory services ranging from climate smart agriculture, to urban water, to dam safety regulations and pollution control, is one of the most important vehicles for looking comprehensively at a critical resource for the economy.

17. The originally proposed energy sector investment operations were dropped at the request of the Government but a GEF-funded operation (P068124) contributed to the institutionalization of energy efficiency practices within the Uruguay power utility (UTE), as well as to the drafting and approval of the Energy Efficiency (EE) law (Ley N 18597)[13] and its regulatory decree, which provided the legal basis for the National EE Plan and the setting up of "Uruguayan EE and Savings Trust Fund".

Pillar 3 – Agriculture, Climate Change, and Environment

18. Uruguay has become a champion of climate smart agriculture and the Bank has found the perfect partner in piloting new initiatives. The Government has developed a comprehensive strategy for adaptation of agriculture to climate change as well as mitigation efforts through reduction of the climatic footprint of agriculture (which dominates Uruguay's carbon emissions profile). The efforts under the Government program follow principles of "sustainable intensification" and focus on conservation of soils, waters, and biodiversity while further increasing Uruguay's integration with international markets and participation of the family farming sub-sector with modern value chains. Under this strategy, a Sistema Nacional de Información Agropecuaria (SNIA) was set up as an advanced agricultural decision support system which will allow public and private sector decision makers to take evidence-based decisions using biophysical, climatic, structural, and economic data curated from a network over more than 20 participating ministries and agencies. In addition, a world class livestock tracking system has been introduced which provides traceability certification and has gained Uruguay access to the world's most demanding consumer markets. These efforts have been supported by the Sustainable Management of Natural Resources and Climate Change Project (P124181) which has also enhanced sector and enterprise resilience by supporting climate smart agricultural on farm investments and updated information and cartographics made available to the general public. The partnership has fostered biodiversity awareness in the public and private sectors resulting in conservation practices taken up by the majority of agricultural producers which ultimately leads to improvements in soil quality, better rural water protection and management, the control of invasive wildlife species, and native forest/species conservation.

19. IFC complemented the support for agribusiness with projects in the dairy, fruits and vegetables industries, and pulp mills. The Conaprole project supported the largest dairy farmer's cooperative in Uruguay in boosting exports and improving the efficient use of energy and water. Conaprole was supporting 1,750 direct jobs, employing 253 women, and provided access to credit for close to 2,000 farmers. Through its advisory services, Conaprole provided technical training to 360 dairy farmers, increasing milk productivity by 38 percent. The Milagro project supports the irrigation of citrus plantations, enlargement of fruit packing plants, and the construction of a

[13] http://www.parlamento.gub.uy/leyes/AccesoTextoLey.asp?Ley=18597&Anchor=

packing and industrial processing plant. To date, Milagro supports 571 jobs, out of which 208 employ women.

20. The Bank's knowledge services contributed to the development of a Low Carbon Growth Strategy (P125103) covering four key emitting economic sectors (agriculture, energy, transport, waste management) and provided the respective training to Government officials. Work on weather index insurance (P126442) provided the background for developing an innovative (vegetation-density dependent) insurance index enhancing technological and economic resilience of drought affected herders. Under the umbrella of a four-sector programmatic approach for improved water management in Uruguay (P146365), the Bank assisted with technical inputs to the formulation of the National Irrigation Strategy which fed into the amendment of the current law. A study on integration of public policies risk management (P117123) contributed to mainstreaming flood risk reduction approaches across institutions, and raising awareness. It was instrumental in drafting urban drainage regulations and national guidelines for the development of flood risk maps.

Pillar 4 – Inclusion and Equity

21. Social inclusion and equity have been at the center of attention of consecutive Governments who have successfully implemented programs to reduce poverty and nearly eradicate extreme poverty. The CPS aimed to support the Government to increase access and impact of the social protection policies by expanding coverage to all vulnerable populations. It focused on improving social inclusion through measures to enhance the quality of health, education and social protection. Through the DPL-DDO projects (P123242, P131440) the World Bank has supported the Government in its efforts to improve social inclusion strengthen social protection, enhance coverage, improve efficiency of health services, and improve equity and quality of the education system. The progress recorded to date with respect to the social inclusion front is significant. Health coverage has been increased further to 69 percent of the population and is already exceeding the medium-term target of 60 percent.

22. The social protection system in Uruguay is comparable to some of the OECD countries. Major achievements have been the family allowance program, improving the coverage and the monitoring of delivery of social services. The system seeks to monitor beneficiaries and the impact of the programs. The Social Development Ministry (in Spanish MIDES) conducts household visits on a continuous basis to improve targeting of social programs by updating the registry of beneficiaries of the Plan Equidad. Census data is being used to identify areas with insufficient coverage for these programs, and the indicators of critical deficiencies (marginalization) have been updated. The most recent efforts identified 24,242 households which did not qualify for benefits while 1,845 households saw their benefits reduced, and 10,216 were identified as qualifying for an increase in benefits. Meanwhile 23,630 households that qualified for the benefits but did not received them were identified. Several agencies provide inputs and currently the social program beneficiary databases are updated regularly and the procedures to refine targeting schemes by the Social Development Ministry (MIDES) were completed. With support from IBTAL the program also developed the integrated social policy beneficiary database (SIIAS). Phase III of the development of SIIAS has started; currently 13 entities have full access, and three more entities have recently gained access (UTE, OSE and the Municipality of Maldonado). The Social Programs

Assessment (P124259) and the Public Expenditure Review on Pensions (P124430) developed policy recommendations on sustainability of the social systems under different scenarios related to the country demographics.

23. The health sector engagements focused on increasing the coverage of the Integrated National Health System, development of the National Health Insurance and a strategy to combat Non Communicable Diseases (NCD) (P050716), given the high level of burden of disease as a result of NCD. The Bank assisted the GoU to successfully increase the national health insurance coverage and the access to quality health care; improving percentage of NCD patients under regular care and the percentage of patients in public health care using electronic medical records (EMR). NCD prevention initiatives strengthened the Public Health Ministry’s (MSP) capacity to address the country's epidemiological profile, by supporting the development of the First National Health Promotion and Prevention Strategy, the completion of the Second National Health Risk Factor Survey, the first National Burden of Disease Study and the National Health Expenditure Survey. The increase in mammogram screening to 20 percent (12.2 percent in December 2014) was not achieved partially due to perceptions after a controversial international discussion on the subject.

24. While Uruguay has achieved universal primary education the final outcomes in Uruguay are hampered by high repetition and dropout rates and low quality of education. The CPS was set to support the efforts to increase equity, quality and efficiency of the preschool and primary education, and improve academic achievements through the consolidation of the full-time schooling system (FTS), mostly in the poorest households contributing to increasing total FTS enrolment in the two lowest income quintiles. In 2013 the proportion of students enrolled in FTS with test scores corresponding to the national learning evaluation level 2 reached 41.3 percent in math and 48.2 percent in reading (against a 2016 target of 45 percent and 52 percent respectively).The Ceibal Plan supports school age children with personal computers under the One Laptop per Child program (P123155). Given the division of labor among development agencies agreed with Government, the Bank has focused its support on primary education only (Third Basic Education Quality Improvement project P070937) while the need for a comprehensive education strategy may have been more effective.

III. WORLD BANK GROUP PERFORMANCE

25. The WBG performance during the CPS period has been good. The proposed lending package and the analytical program have been largely delivered and most of the targets have been met or will be met by the closing date of the active portfolio. As previously mentioned, some instruments used in Uruguay stand out as pioneering interventions introduced for the first time in the Bank, fitting the country’s specific financing preferences. The quality of the portfolio was very good and the execution has been characterized as effective and fully aligned to the country’s demands.

Design and Relevance

26. Building on positive results from the previous CPS, the engagement during the past five years was a consistent continuation and presented a suitable opportunity to innovate through a flexible program design, exploring new areas for cooperation at the request of Government and addressing priorities as they arise with the aim to further consolidate economic reforms and enhance social outcomes. Such an approach was particularly relevant for a high-income/middle class economy such as Uruguay's as it offered all the conditions for using local expertise and experience, knowledge and potential. The mix of instruments and their complementarity is considered of particular value by the Government.

27. The strategy was designed through a series of consultations with the GoU. At mid-point (CPSPR #78273-UY) the results framework was revised, eliminating some of the original outcomes, in order to adjust to the changing context. Indicators on fiscal deficit reduction, credit/GDP and increased capital market activity were dropped because outcomes were not directly influenced by Bank operations. The strategy enjoyed full Government ownership and the relationship was based on very clearly expressed preferences for areas and modes of support where ideas conceptualized in Uruguay were developed jointly. With hind sight, the results framework does not appear to have been ambitious enough for an IBRD country with considerable capacity and the Bank could have pushed further in setting bolder targets, but the Government exercised caution in its conservative estimates, hence some of the results were overachieved. On the other hand, some outcomes were not anticipated and included in the results framework so this CPSCLR contains an additional outcome related to the achievements in education and innovation.

28. The flexibility of the CPS was demonstrated in the implementation process through a program which followed broad engagement areas and use of innovative products when the demand and opportunity arose. The IBRD envelope was envisaged to reach US$700 million in commitments through two DPLs for US$100 million each and US$500 million in IPFs. During the CPS period the Bank increased its lending reaching a total of US$1,057 (see Annex 2.2).

29. Portfolio monitoring was planned to occur on a biannual basis and was complied with for most of the period. The WBG and GoU made a conscious effort to use the Country Portfolio Performance Reviews to enrich the dialogue on specific issues in addition to the routine review which has been carried with all three WBG agencies (IBRD, IFC and MIGA) participating.

30. As indicated in the CPS the Bank continued its collaboration with development partners to ensure synergies and complementarity. The Government was particularly eager to promote partner coordination, and while it sometimes posed challenges and delays, the WBG played its convening role particularly in the preparation of policy notes on topics selected by Government. The Roads Rehabilitation and Maintenance PforR program provided opportunities for parallel financing with IDB, CAF and FONAPLATA, which has been highly appreciated. The success of the climate smart agriculture program is the result of the fruitful cooperation between the Bank and the FAO which has provided technical expertise and has been a key partner.

Alignment with the WBG Corporate Strategy

31. The program in Uruguay reflects the type of support the WBG can provide to a country with a clear path of development whose own efforts to end poverty and boost shared prosperity have already shown results. While the support for boosting shared prosperity and eradicating poverty was not specifically articulated in the CPS, the WBG program offered interventions with direct and indirect links to the corporate goals. In education, the Bank supports the construction and maintenance of 40 full time schools to children whose communities lack basic infrastructure. In agriculture, the CPS was fully consistent with the WDR on Agriculture for Development (2008). Financing to farmers' groups provides tools for climate change adaptation at the micro level and the development of agriculture information system which makes information available to all farmers. The innovation project provided scholarships but also fostered partnerships between the productive and the academic sector setting the ground for synergies within sectors.

32. In the social sector the Bank's work was critical in targeting the specific disadvantaged groups that were left out of the system. The operation on mitigating the impact of drought on energy production and fiscal risk, as well as the contingent support to the FEE, provide guarantees to the GoU which in case of emergency can protect the vulnerable from shocks by keeping electricity prices from suddenly rising due to external factors.

Program Implementation

33. The portfolio disbursement ratio was uneven with some years considerably higher due to the DPL disbursements (Table 1). The current active portfolio of nine operations (2 DPL DDOs and 7 IPFs including a PforR project) has been performing well with projects rated at least MS on their IP and DO. During the CPS period nine lending operations closed with satisfactory or moderately satisfactory Implementation Progress (IP) and Development Objective (DO) ratings (see Annex 2.4). The country´s average approval to effectiveness lag is currently 3.73 months, one of the lowest in LAC. There were no issues with financial management or safeguards and technical assistance was provided on procurement to all PIUs on a regular basis.

Table 1. IBRD Portfolio Performance during CPS FY10-15

Fiscal year	2010	2011	2012	2013	2014	2015
# Proj	8	8	8	9	8	9
IBRD Net Comm Amt	285.3	285.3	534.3	790.4	530.4	964.4
# Prob Proj	0	1	0	1	1	0
# Proj At Risk	0	1	0	1	1	0
Proact Proj			1		1	1
IBRD Undisb Bal	118.2	77.3	348.8	734.4	445.0	853.2
Tot Undisb Bal	123.7	80.2	349.2	734.4	445.0	853.2
Tot Disb	1,754.4	2,189.7	1,921.1	560.4	853.6	1,112.3
Disb in FY	41.3	43.5	43.2	19.2	29.3	48.1

Source: Business Warehouse (October 1, 2015).

34. IFC's committed portfolio in Uruguay during the period reached US$113 million, more than $30 million bigger than in FY10, of which US$95 million is outstanding (disbursed). The portfolio consists of 6 different clients in 6 industries. Disbursement rates have increased continuously since FY11 (Table 2; Annex 2.5).

Table 2. IFC Portfolio Performance during CPS FY10-15

IFC	FY10	FY11	FY12	FY13	FY14	FY15
Number of Projects	1	2	1	4	2	0
Commitments	3.3	15.5	0	113	10	0
Mobilization	-	-	-	30.0	-	-
Own account + Mob	3.3	15.5	0	143	10	0
Portfolio (net commitments)	92.4	41.3	33.3	139.1	163.5	112.7
Outstanding portfolio (exposure)	86.4	32.2	33.3	41.1	119.3	95.1
DOTS Development Outcome (% successful)	67%	100%	100%	100%	n/a	50%

Advisory Services and Analytics

35. The GoU emphasized their interest in knowledge and know-how transfers. There was in principle agreement to embark on a limited number of tasks that would further help in enhancing poverty reduction activities and shared prosperity. The ASA program (see Annex 2.3) was expected to be systematized in a framework agreement and undergo bi-annual reviews. This did not materialize but the Bank made an effort to respond through a range of products relevant to the country's needs and context. The Bank has provided a more comprehensive package through programmatic approach (PA), comparative analysis and specific recommendations for policymaking, especially through the most recent policy notes presented to the new Government taking office in March 2015. Following its approach of promoting synergies among development partners, the GoU requested that the notes be prepared in conjunction with IDB and CAF. The findings were presented in a joint discussion to the entire Cabinet.

36. Global and regional reports of special relevance to the country in areas such as road safety, health promotion and prevention of NCD; human resources in heath; energy efficiency, teacher's policies, financial crisis preparedness and entrepreneurship were presented at the "Sobremesas" lunch discussions initiated by the Country Office. These served as a knowledge forum for Uruguay's most prominent academics, think-tanks, policy makers, civil society representatives, and experts, and became a "trademark" for outreach across the country and for building partnerships.

37. Uruguay has become a leader in South-South knowledge exchanges (SSKE) both learning and sharing its practices which have become best practices sought by other countries. The Bank facilitated Uruguay's participation in 17 South-South initiatives on a variety of subjects such as: road maintenance and performance-based contracts with Morocco; ICT in education with Armenia; information systems in agriculture with Mexico, and risk management with regional

counterparts. Uruguay benefited from the experience of other countries participating in workshops and networking activities particularly with Argentina in areas such as infrastructure, road safety and irrigation. In the area of irrigation, Uruguayan experts participated in exchanges with Spain and Morocco. Uruguay, through Bank facilitation, has become a host country for a number of global conferences (e.g. World Climate Research Forum Conference 2014; International Conference on Climate Services 2015).

Risks

38. Risks under the program were identified as low, and continued to be managed successfully in the light of volatile global and regional economic developments. The Government strategy to mitigate risks arising from global market deterioration was well implemented by building resilience through intensified hedging and protection from shocks using various instruments and putting the Bank to the test. The demand required the Bank to design a brand new instrument of fully contingent investment operation to support the Energy Stabilization Fund, which posed some risks and challenged the teams to act very swiftly and in a coordinated fashion to meet the deadlines set by Government. The Government's awareness of increased risks from unpredictable rainfalls and severe droughts that would threaten agricultural production and require additional energy imports brought about intensified efforts to beef up resilience. The Bank was an instrumental partner in supporting these efforts through a specific operation addressing climate smart agriculture and a weather derivative transaction.

39. Political risk was low and the election period and the transition to the new Government had no impact on the Bank program which continued uninterrupted performance. At the same time the Government requested that the WBG work jointly with IDB and CAF on a set of policy notes, which was a challenging task, requiring the concerted effort by all agencies.

IV. LESSONS LEARNED AND RECOMMENDATIONS

40. A number of lessons that have been derived from the implementation of the Uruguay CPS and informal unstructured interviews with Government, PIUs and NGO representatives are summarized below. The results matrix contains some project specific conclusions which are not repeated in this section of the report.

41. **The Bank should continue to use a mix of analytical and financing instruments in providing transformational support under the new CPF.** The WBG and the Government were in agreement on the need to search for new instruments that best fit the Uruguayan context. The package of DPLs and a TA project (IBTAL) has proved to be very successful with the DPL triggers supporting policy actions and IBTAL building the necessary capacity to implement them, complemented by the analytical groundwork. This package of analytical, financial and technical support seems appropriate and under the new CPF the WBG should continue this trend and work with Government to design new instruments based on demand. The Bank may look into areas which did not get sufficient traction in the past; for instance, it may help articulate a more

ambitious innovation and education strategy which is critical to Uruguay's development where the quality is not at the level of a higher income country.

42. **Institutionalization of capacity building is necessary for the sustainability of all reforms**. Capacity building and focused technical and implementation assistance has been of specific benefit during the CPS period and is one of the critical elements that ensures sustainability of results. This has been recognized by all PIUs and ministries which report to have adopted international practices in their processes and internal culture as well as within the organizational structure. The partners have particularly appreciated the engagement of top-notch Bank experts, who provided focused support and were dedicated to Uruguay-specific issues (e.g. procurement). In the next stage of engagement, the WBG should seek to continue with capacity building, providing sufficient funds for implementation support and attracting the best specialists to work on the program. As Government activities are each time more sophisticated, to build human capital capabilities becomes a critical issue, especially for deepening the reform process.

43. **Maximizing the impact of analytical and knowledge work will benefit from a strategic framework**. The idea of reimbursable analytical service (RAS) did not materialize under the CPS and the new engagement framework should seek to elaborate a knowledge agenda that would prioritize and sequence interventions with additional emphasis on a tailor-made jointly developed and co-financed ASA. Activities that have had most impact are those that provide the analysis, concrete recommendations and can lead to specific interventions (e.g. Low Carbon Growth study or Climate-Smart Irrigation Strategy). Tapping into the new global practices and further sharing Uruguay's experience can be beneficial for both the country and the WBG, which is being challenged to innovate in response to demands.

44. **The results framework should focus on impact and strive to link the CPF objectives with measurable outcomes to ensure successful evaluation**. Impact evaluations at project level played an important demonstration effect. Various assessments (e.g. the evaluation on the impact of water and sanitation over the overall health of the population) have provided concrete evidence on the impact of the operations. An important feature for the new strategy would be to have fewer but better defined objectives. The focus on indicators during implementation support is sometimes perceived by the client as the ultimate project goal. Instead, attention should be more on sustainable results.

45. **Selectivity, prioritization, innovation and complementarity will be critical for the WBG to remain a relevant player.** The Government clearly indicated its preferences for partnering with the various IFIs (WBG, IADB and CAF) depending on their respective experience. During the CPSCLR consultations, several areas for additional support were identified, such as secondary education, productivity, PPPs, among others. In this regard under the new CPF the Bank Group could suggest new areas of engagement. Uruguay's specific demand for developing new instruments (fully contingent IPF) has provided an ideal opportunity for innovation which should be sustained as it has a wider impact on Bank services to its clients. In addition, coordination with IFC and MIGA can be strengthened in areas where there is good synergy and potential for boosting results.

ANNEX 2.1. CPS Results Matrix Evaluation

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
PILLAR 1 - REDUCING MACROECONOMIC VULNERABILITY & STRENGTHENING PUBLIC SECTOR ADMINISTRATION				
1. Reduce Macroeconomic Vulnerabilities				
Gradually reduce public sector indebtedness and improve public debt profile.	The net public debt ratio decreases from its 2009 baseline of 37 percent of GDP to 23.3 percent in 2015	**Achieved.** Net public debt as a share of GDP decreased to 20.7 percent in 2015 (Q1).	**<u>Financial Services:</u>** **Ongoing:** Programmatic Public Sector, Competitiveness and Social Inclusion DPL II/DDO (P123242) (FY12) (Closing date: Extended for three years to June 25 2018). IP: S, DO: S Public Sector Mgt. and Social Incl. DPL/DDO (P131440) (Closing date: 30-Jun-16) IP: S, DO: S IBTAL and AF (P097604) FY 07 and FY12. (Closing date: 31-Aug-2015) IP: S, DO: S Drought Events impact Mitigation Investment Project (P149069) **Completed:** Programmatic Public Sector, Competitiveness and Social Inclusion DPL I (FY11) P116215 Closing date: 31-Dec-11 ICR Rating:	The Institutions Building TAL (P097604) has provided the technical underpinning for the implementation of the reforms envisaged by the DPLs. As such it is considered an indelible part of the package and has managed to provide the needed impact evaluations and capacity building including coordination among several agencies. Programmatic approach to financing and technical assistance has been a successful model that can be replicated in the new CPF. DPL-DDOs are highly valued by the Government as support to policy reforms The use of IBRD risk management products has provided the GoU with the necessary guarantees and has become a good example of how the Bank can support higher income clients through new instruments.
	The foreign currency-denominated Central Government public debt share declines to 55 percent or less of the total outstanding debt from its 2009 baseline of 56.7 percent.	**Achieved**. The share of foreign currency denominated debt has declined continuously to 47.9 percent in 2011 and 42.7 percent in 2012, and was 51% in 2015 (Q1) The Public Expenditure Review (P124430) identified the main fiscal risks at the sector level and options to safeguard long-term fiscal sustainability. The Global Emerging Markets Local Currency Bond Program (Gemloc) TA (P124409 and P130237) supported authorities in the design and initial stages of implementation of a roadmap for developing Government debt markets.		

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
			Conversion of IBRD loans into local currency via swap market (TRE) 2011 Weather derivative hedging of UTE (TRE) 2013 **Knowledge Services:** Gemloc Uruguay Country Policy II (P130237) FY13 (P124409) GCMSM Gemloc Uruguay Country Policy Preview UY Public Expenditure Review FY12 (P124430) ESW The Public Expenditure and Financial Accountability (PEFA; P125366) Macro-Monitoring and Financial Notes FY10 (P117387) ESW Macro-Monitoring and Financial Notes FY15 (P147070) ESW	. Analytical pieces are most valuable when they provide the background and evidence for policy implications and can substantiate a credible well-designed reform program. The results framework under the new CPF should seek outcomes that can be more easily certifiable.
2. Public Sector Modernization				
Introduction of a performance oriented budgeting	5-year budget for 2010-2014 is prepared with a programmatic classification (early 2011).	**Achieved**. 2010-2014 budget was prepared with a programmatic classification. The 2015-2019 budget is prepared following the same format.	**Financial Services:** **Ongoing:** Programmatic Public Sector, Competitiveness and Social Inclusion DPL II/DDO	The PEFA underlined that while the multi-year framework of Uruguay's budget system is exemplary in some ways, the absence of an annual budgeting makes it impossible to rate various PEFA indicators which are

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
	Define output and outcome indicators for at least 9 priority areas (2009 baseline: 0).	**Achieved.** The number of priority areas for which output and outcome indicators have been identified increased to 7 priority areas and there are 29 programs with outcome indicators in place.. There are five additional programmatic areas (non-priority ones) for which indicators have been defined.	(P123242) (FY12) (Closing date: 25 June 25 2018). IP: S, DO: S Public Sector Mgt. and Social Incl. DPL/DDO (P131440) (Closing date: 30-Jun-16) IP: S, DO: S IBTAL and AF (P097604) FY 07 and FY12. (Closing date: 31-Aug-2015) IP: S, DO: S	measured annually. Despite this limitation, the PEFA recognizes that Uruguay's budget mechanism is comprehensive and transparent, clearly reflecting Government policies and strategies since the introduction of the five-year programmatic budget in 2010. (Report No: ACS4022).
Deepen e-Government reforms to enhance efficiency and transparency	Rise in number of GoU processes started and completed electronically to 25 (2009 baseline: 20).	**Achieved.** The electronic document and e-signature law (Ley N. 18600[14]) was passed and the number of public administration transactions available on-line grew to 323 (April 2015) exceeding the mid-term target of 50 (baseline: 20 transactions Dec 2009). The electronic workflow tool was introduced in the Ministerio de Industria, Energía y Minería and in the Ministerio de Salud Publica. Budget execution reports are submitted to Congress electronically. The number or rapid evaluations (DID) conducted has increased to 11 (from 8). There are significant achievements in promoting e-Government which were not anticipated at the design of the CPS. The Public Expenditure and Financial Accountability (PEFA; P125366) review recognized the merits of a comprehensive and transparent	**Completed:** Programmatic Public Sector, Competitiveness and Social Inclusion DPL I (FY11) (P116215) Closing date: 31-Dec-11 **<u>Knowledge Services:</u>** Public Expenditure and Financial Accountability (PEFA) (P125366) ESW FY13	Careful selection of indicators and targets should be considered to better measure progress and achieve realistic end-results.

[14] http://www.parlamento.gub.uy/leyes/AccesoTextoLey.asp?Ley=18600&Anchor=

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
		budgeting process which reflects Government policies and strategies since the introduction of the five-year programmatic budget in 2010		
Public procurement is made more efficient and transparent through a properly functioning regulatory agency and the upgrading of the public procurement software.	A procurement regulatory agency to strengthen procurement systems is created and operational and software for the Registry of Government Suppliers is developed.	**Achieved**. The procurement regulatory agency (*Agencia de Compras y Contrataciones Estatales*) was created in 2012 and the Registry of Gov. Suppliers (Registro Único de Proveedores del Estado)is effective and interconnected to the State Procurement System. Software for the Registry of Gov. Suppliers has been completed and is now in use.		
PILLAR 2 –COMPETITIVENESS & INFRASTRUCTURE				
1. Fostering Competitiveness and Financial Sector Development				
Streamline administrative processes for firm creation.	Reduction in the number of days to create a firm (Baseline: 65 days according to 2010 Doing Business - DB).	**Achieved**. The number of days to start a business fell significantly to 7 days in 2011 (2012 DB) and remained at 6.5 days in 2014 (2015 DB). The Government reported it has declined to 5 days in 2015. Well below LAC average of 30.1 days, and	**Financial Services:** **Ongoing:** Programmatic Public Sector, Competitiveness and Social Inclusion DPL II/DDO	

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
		even better than the OECD countries (9.2 days). Although not directly attributable to WBG, the number of registered companies has increased (122,758 in 2011 vs. 150,966 in 2012) according to data from the National Statistics Institute. IFC: Client Scotiabank: supports rural agricultural supply chains by reaching 14,452 smallholder farmers and agri-SMEs with a total agribusiness loan volume of $ 155 million. With the same client, IFC also set up a trade finance line. IFC: Client Scanntech rolled-out a technology platform connecting independent stores with global consumer products companies, financial and telecommunications firms, and Government services currently supporting 208 jobs, 69 of which for women. IFC provided a $9 m. loan for a business hotel to support urban revitalization, employment generation and SME business through tourism in Montevideo. Through Pestana Uruguay, IFC supports the recovery of a national historical monument. The projects counts on creating 100 new jobs (60 for women); $2.2 m in new purchases from domestic	(P123242) (FY12) (Closing date: 25-Jun-18 IP: S, DO: S Public Sector Mgt. and Social Incl. DPL/DDO (P131440) (Closing date: 30-Jun-16) IP: S, DO: S IBTAL and AF (P097604) FY 07 and FY12. (Closing date: 31-Aug-2015) IP: S, DO: S **Completed:** Programmatic Public Sector, Competitiveness and Social Inclusion DPL I (P116215) FY11(Closing date: 31-Dec-11) **IFC:** NBC Uruguay CL (29934) Scotiabank Uruguay SA Scanntech (34301) SCANNTECH **Knowledge Services:** UY Wages and productivity TA (P143607) FY14 Doing Business Reform Memorandum FY12 Productivity and Competitiveness Policy Notes (P147070) EW FY15	

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
		suppliers, and on generating $600,000 in additional revenues.		
Enhance access of low income households to financial services.	Increase the share of family allowance beneficiaries that receive allowances via debit cards to 50 percent (from 0 at mid-2012)	**Not Achieved**: Despite this and the fiscal incentives for using electronic payments the number of AFAM (family allowances) non-contributive beneficiaries that have opted for debit card payments has declined slightly to 14 percent as of December 2014. The decline is partly explained by the fact that BPS (Social Security Bank) has not issued all the card requested by beneficiaries.	**<u>Financial Services:</u>** **Ongoing:** Public Sector Mgt. and Social Incl. DPL/DDO (P131440) (Closing date: 30-Jun-16) IP: S, DO: S IBTAL and AF (P097604) FY 07 and FY12. (Closing date: 31-Aug-2015) IP: S, DO: S **IFC:** NBC Uruguay CL (29934) Scotiabank Uruguay SA **<u>Knowledge Services:</u>** Capital Markets Policy Note (P117387) FY09-10 Government Domestic Debt Market TA Financial Sector Assessment Program (FSAP) Update (P131610) FY13 ESW Financial Sector Assessment Program (FSAP) Update (P130894) FY12 ESW National Financial Capability Survey (P145815) FY13 ESW	
	Number of electronic Points of Sale (POS) available in the country increases by 80 percent, from 13,000 in mid-2012.	**Achieved**: Number of POS available in the country increased to 37,300 (April 2015) exceeding mid-term target of 23,400		
Stock exchange operations are rendered more transparent and efficient through computerization.	The Stock Exchange Register (*Registro del Mercado de Valores)* is computerized. 70 percent of all public securities are in electronic format.	**Achieved**. The *Registro* is computerized and 93 percent of all public securities are in electronic format. The modernization of the stock exchange resulted in the increase of the total number of new private sector issuances (including stocks, corporate bonds and financial trusts) from 8 (Dec 2009) to 58 (Mar 2014).		

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
2. Infrastructure Strengthening				
Develop an institutional framework for coordinating logistics management across public and private sector. .	The National Logistics Institute is created. .	**Achieved**. National Logistics Institute (*INALOG*) was created by by Law No.18.697 on November 11, 2010. The transition from the National Commission of Logistics (and ad-hoc body) to INALOG, was part of the actions identified under the program of the first DPL (P116215). Once the Parliament promulgated its creation law, INALOG started operating at the end of 2011. In the past four years the institute has been focusing on developing unified logistic statistics, supporting public educational programs on logistics, promoting Uruguay as a logistics hub in the region, US and Europe and has started studying specific export supply chains to identify potential efficiency gains for national producers. The WBG has exchanged information in reference to the Logistics Performance Index and has provided technical support when INALOG applied to a Multi-Donor Trust Fund for Sustainable Logistics (MDTF-SL) in 2015. A programmatic set focused Pro Growth Public Policies and Competitiveness PA (P147054) looked at wage negotiations and producer price formation, trade outcomes, competition regulation framework, and product market	**<u>Financial Services:</u>** **Ongoing:** Programmatic Public Sector, Competitiveness and Social Inclusion DPL II/DDO (P123242) (FY12) (Closing date: 25-Jun-18 . IP: S, DO: S Global Partnership for Output-Based Aid Grant (TF014103 or) (Closing Date: 30-Jun-2016) **IFC:** HDB Barging (31445) Girocantex S.A. Scanntech (34301) SCANNTECH **Completed:** Transport Infrastructure Maintenance and Rural Access project (P057481) (Closing date: 31-Jul-11) (ICR Rating: MS) **<u>Knowledge Services:</u>** Rail sector regulation (P133277) FY15 TA Regional Farm to Markets logistics Programmatic Approach (P145360)	

tcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
	regulation and derived policy recommendations and a Trade and Competitiveness review (FY10 P106723) analysed Uruguay's potential to become regional trade hub. Recommendation: upgrading the national logistics system to increase trade and reduce shipping costs. The Development of Financing Options for Public Private Partnerships in the Roads Sector TA (P128686) found potential financiers for PPPs and identified some of the risks and mitigations measures that could be applied. TA supported the design of the Railway Regulator (P133277). IFC: Girocantex barge operations in the Paraguay-Parana river system. The project is expected to contribute significantly to the national logistics framework by deploying 8 convoys in the river system with an estimated annual capacity of over 3 million tons and 200 create jobs.	Soybean Logistics Chains (P154137), FY15 TA Trade and Competitiveness FY10 (P106723) EW Capacity Building Program on PPP (SFLAC)	
east 35 percent of ional Road work is in good of y good condition 2015 as measured the International ughness Index	**Achieved** In 2012, 42 percent of Road Network was in good/very good condition which is expected to be maintained over the coming two years. New indicators will be available in December 2015. There has not been an update on the indicator	**<u>Financial Services:</u>** **Ongoing:** Uruguay Road Rehabilitation and Maintenance Program for Results (P125803) (FY13) DO: MS, IP:S	Transport Infrastructure Maintenance and Rural Access project (P057481 ICR and Results Brief) • Fast-track preparation projects should be flexible in design to become quickly operational.

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
	(IRI) (Baseline: 46 percent in 2009[15]).	validate road condition has been out of service the past two years. The Transport Infrastructure Maintenance and Rural Access project (P057481) upgraded five bridges on MERCOSUR corridors; rehabilitated approximately 130 km of national highways and helped maintain more than 430 km of paved national roads and 9,000km of rural roads.	**<u>Knowledge Services:</u>** Development of Financing Options for Public Private Partnerships in the Roads Sector TA (PPIAF)	• Engineering designs should been undertaken prior to project approval. • Promoting sector work program and effective donor coordination are critical. The Bank did not finance many of the works originally included in the Project which were executed through alternative sources. This approach was adapted to rehabilitation and maintenance works, which require regular and predictable funding. • Ensure adequate financing for maintenance. Bank support ought to facilitate a broader policy dialogue on better sustainability of road maintenance financing.
Efficiency improvements in water utility (*OSE*) management lead to an increase in access to sewerage services and reduction in water losses. .	9224 additional families connected to the sewerage network.	**Achieved** 12,037 additional families connected to the sewerage network OSE adopted modern practices in customer service i.e. introducing 24 hour customer service call centers; corporate management, environmental management.	**<u>Financial Services:</u>** **Ongoing:** OSE Sustainable and Efficient (P118064) (Closing dates: 28-Feb-2018) (FY13) IP: S, DO: S Sewerage Access in Uruguay Study (TF) **Completed:**	The OSE Modernization and Systems Rehabilitation project (APL2) (P101432 ICR0002601) shows that: Selection of APL instrument and experienced PIU played a key role in the project's full disbursement and on-time completion. Advanced procurement and institutional reform studies before effectiveness helped with rapid take off.

[15] The "Road rehabilitation and maintenance program" with bank support (PforR) is expected to ensure that the condition of the National Road Network remains above a given threshold (35 percent). This is deemed to be the best achievable outcome at network level when compared not only to the past declining trend but also to the counterfactual situation prevailing in the absence of support to the Program.

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
		Water for Uruguay PA (P146365) provides an analysis of climate smart agriculture, urban water, dam safety regulations and pollution control.	OSE Modernization and Systems Rehabilitation project (APL2) (P101432) (Closing date: 31-Mar-13)	Focusing on best practices is oftentimes more important than focusing on numeric results. APL2 played a key role in supporting OSE's adoption of best practices in customer service, corporate management, environmental management and NRW.
Increase demand and supply of energy efficient goods and services and contribute to energy savings	Market share of energy efficient appliances reaches 10 percent (residential and commercial) and 60 percent (municipal lighting).	**Achieved.** Market share of energy efficient appliances increased to 18 percent (residential and commercial) and to 63 percent (municipal lighting). The results were monitored via surveys and registration of new household appliances. EE practices were institutionalized within the UTE. The EE law which was drafted and approved (Ley N 18597) in September 2009 and its regulatory decree in 2012, provided the legal basis for National EE Plan and the setting up of the "Uruguayan EE and Savings Trust Fund". This Fund is now the beneficiary of the newest IPF 100% contingent loan, aiming at mitigating droughts' impacts in the Uruguayan economy. The ESW on Low-Carbon Growth Strategies for the Uruguayan Economy (P125103) proposed 66 measures, of	**Completed:** Energy Efficiency GEF (P068124) (Closing date: 31-Dec-2011)	Sustainable Energy Efficiency (Report No: ICR00002288) shows that: • Outreach activities play an essential role in raising awareness. Promoting changes in consumer behavior was achieved by seeking public support to disseminate information on EE at different levels (schools and the general public) and different media (such as TV/radio spots) complemented by publications and courses. • International cooperation can leverage project results. The Uruguay EE project is a good example of how lessons from other agencies and interactions with other countries can be incorporated into the learning process. • Monitoring and evaluation of energy efficiency measures is difficult. A simple measure of energy consumption may not reflect EE measures adequately, e.g., when introducing EE for air

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
		these half represent zero cost and half of the potential emission cuts.		conditioning in public buildings, better insulation allows installing more units for the same budget, thereby increasing the overall comfort, without necessarily reducing total energy use.
PILLAR 3 – AGRICULTURE, CLIMATE CHANGE, AND ENVIRONMENT				
1. Agriculture and Climate Change				
Develop an integrated and publicly accessible climate and agriculture information and decision support system.	Climate and agricultural information and decision support system (SNIA) is operational.	**Achieved.** Uruguay's Sistema Nacional de Information Agropecuaria (SNIA), is recognized as one of the most advanced emerging agricultural decision support systems globally. Whereas the first data products are ready for use, the Ministry will be launching the system this CY15. Biodiversity awareness was promoted in the public and private sectors resulting in conservation practices taken up by more than 100 agricultural producers; which ultimately led to enhanced soil quality, better irrigation, rehabilitated native forest and alien species control, and the conservation of 243 native species. The programmatic approach on Climate-smart Agriculture and Water Resource Management (IWRM) for Uruguay (P144985) provided technical and legal inputs for the National Irrigation	**<u>Financial Services:</u>** **Ongoing:** Sustainable Mgmt. of Natural Resources and Climate Change Project (P124181) (Closing date: 03/01/2017) DO: MS, IP: MS. Adaptation Fund: Building Resilience to Climate Change and Variability in Vulnerable Smallholders Project (blended with Sustainable Mgmt. of Natural Resources and Climate Change Project) (ongoing) Montevideo Landfill Gas Recovery TF (TF011148 or P127455) FY12 (Closing date 30-Jun-2018) Wind Farm at Caracoles Hill TF (P127455 and TF602001) (Closing Date 30-Jun-2018)	The Sustainable Mgmt. of Natural Resources and Climate Change Project (P124181) affirms that: • Multi-cycle consistency and continuity of policy priorities enhances widespread sector understanding of and trust in conservation principles. • The presence of a client-owned consistent Theory of Change benefits a consistent design and implementation of sector programs. The Natural Resources and Biodiversity Mgmt. (NRM) Project (P070653) recommends that: • Use a transparent demand-driven approach. to ensure ownership, addressing real on-farm needs, and cost-effective/sustainable investments; • Output vs. Outcome Indicators and Targets. Ex-post reviews

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
		Strategy, it helped to amend the current law on the subject. The Integration of Public Policies Risk Management (P117123) study contributed to mainstreaming flood risk reduction across institutions, and raising awareness. It developed a draft Flood Risk Management regulation, a preliminary draft of urban drainage regulation and national guidelines for the development of flood risk maps.	**IFC:** Conaprole WMP (31556) Cooperativa Nacional De Productores De Leche Milagro S.A.- San Miguel Uruguay S.A. (26890) Milagro S.A.-San Miguel Uruguay S.A. **Completed***:* Natural Resources and Biodiversity Mgmt. Project (P070653) (Closing date: 31-Aug-12) (ICR Rating: S) **<u>Knowledge Services:</u>** Family Agriculture FY10 (P112046) ESW ESW on Low-Carbon Growth Strategies for the Uruguayan Economy (P125103) FY15 AAA on Weather Index Insurance to Cover Grassland Production in Uruguay (P126442) FY13 TA on Climate-Smart Agriculture Water Management. (FY13) TA (P144985) Uruguay Policy Notes (MST) (P147070) FY15 ESW Scoping Mission for IUWM (P148321) FY15 TA	highlighted the importance of KPIs with outcome-focused indicators and targets for more effective measure of project impacts. KPIs and IOIs should be rational and consistent with project objectives; • Detailed design of the subproject cycle, as well as the frequency/timing/budget of calls for proposals should be addressed during preparation and validated during the initial stages of implementation to avoid credibility issues within the beneficiary community to manage expectations; • Effective dissemination strategy of PPR demonstrated the importance of a communications team responsible, a communication plan suited to the project. • Well focused and high quality analytical work can have substantive impact even 5 years after completion. The Family Agriculture ESW is now among UY's priorities for sustainable intensification to address the specific needs of the family farming segment through specific policies The Low-Carbon Growth Strategies for the Uruguayan Economy (P125103) considers that:
Promote environmentally sustainable and economically viable production systems in small and medium-sized farms.	Improved Natural Resources Management (NRM) and biodiversity conservation practices adopted by at least 5,000 small and medium-sized farms, covering an area of at least 800,000 hectares. .	**Achieved**. 6,459 small and medium-sized farms have adopted farm-level NRM and biodiversity conservation practices, covering 881,882 hectares, representing 24.1 percent of total small and medium-sized farms in UY. The ESW on Low-Carbon Growth Strategies for the Uruguayan Economy (P125103) proposed 66 measures, of these half represent zero cost and half of the potential emission cuts. The AAA on Weather Index Insurance to Cover Grassland Production in Uruguay (P126442) emphasized the importance macro scale the insurance scheme can work well to reduce Government uncertainty on approving insurance payments to drought affected herders.		

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
		IFC's investments in two of the largest agricultural producers in Uruguay applies and strengthens industry E&S standards: • Conaprole: supported Uruguay's largest dairy farmers' cooperative, reaching 1,997 farmers with credits and 360 with technical training (increasing milk productivity by 38 percent), and supporitng1, 750 jobs, out which 253 employ women as of 2013. • Milagro: the project supports the irrigation of citrus plantations, enlargement of fruit packing plants, the construction of a packing and industrial processing plant. It focuses on cleaner production offering guidance on industrial waste treatment equipment and the potential opportunity for carbon credits. To date, Milagro supports 571 jobs, out of which 208 employ women.	Dam safety regulatory framework development (P148330) FY15 TA	• A series of low cost/high impact measures that can be implemented in agriculture and energy to the productive efficiency of the economy and improve competitiveness and increase key exports. A close cooperation and coordination within the WBG is critical to provide a package of services in a country like Uruguay with clearly defined development agenda.
PILLAR 4 – INCLUSION AND EQUITY				
1. Support National Plan for Social Equity				
Rendering social policies more effective in promoting inclusion by improving	Main social transfer programs (Family allowances and *Tarjeta Uruguay Social*) are based on	**Achieved**: The registry of beneficiaries is updated regularly. The Ministry of Social Development (MIDES) visits households across the country to verify	**<u>Financial Services:</u>** **Ongoing:** Programmatic Public Sector, Competitiveness and Social	Social Programs Assessment ESW (P124259) expressed that:

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
targeting and coordination of information on beneficiaries of social programs.	regularly updated beneficiary registers.	the conditions to qualify for the programs are met. After visiting 134.869 households, it updated information for 99,500 beneficiary households of AFAM-PE and incorporated 10,000 new households to the program). As for the Tarjeta Uruguay Social, 24,242 households were identified as receiving the card for which they did not qualify, while 1,845 had their benefits reduced. Meanwhile 10,216 households that qualified but did not receive benefits were included in the program. Furthermore 23,630 households should have been receiving the benefit but were not and they have been added (12,814 for TUS Doble and 10,816 for TUS Simple). Census data is being used to identify areas with insufficient coverage, and the indicators of critical deficiencies (marginalization) have been updated. The Social Programs Assessment ESW (P124259) and the Public Expenditure Review on Pensions (P124430) delivered policy recommendations on the sustainability of the pension system under different scenarios related to the demographics of the country.	Inclusion DPL II/DDO (P123242) FY12 (Closing date: 25-Jun-18. IP: S, DO: S Public Sector Mgt. and Social Incl. DPL/DDO (P131440) (Closing date: 30-Jun-16) IP: S, DO: S IBTAL and AF (P097604) FY 07 and FY12. (Closing date: 31-Aug-2015) IP: S, DO: S Institutional Strengthening to Promote Equitable Access of Society to the Legal System (TF97964 or P012188) FY11 (Closing date: 20-Dec-13) **Completed:** Programmatic Public Sector, Competitiveness and Social Inclusion DPL I (FY11) (P116215) (Closing date: 31-Dec-11) ICR Rating: **IFC:** Milagro S.A.- San Miguel Uruguay S.A. (26890) Milagro S.A.-San Miguel Uruguay S.A. **<u>Knowledge Services:</u>** Social Programs Assessment ESW (P124259) FY14 Policy Notes (P147070) FY15 Social Programs Assessment ESW (P124259) FY14	• The engagement strategy based on defining areas of joint work with clients functioned well. • A programmatic model is the preferred option , as it takes a while to identify areas of interest and define the operational framework for the project, but once this was achieved the collaboration between Bank team and Government was excellent and activities were promptly implemented.
	The Integrated System of Information of the Social Areas (SIIAS) is fully operational, giving at least nine	**Achieved**. The Integrated System of Information of the Social Areas (SIIAS) is fully operational for 13 participating central Government institutions.		

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
	participating institutions full access to data on beneficiaries of all groups of social programs managed by these institutions.		Public Expenditure Rev. on Pensions (P124430) ESW FY12	
2. Health Sector Reforms				
Strengthen measures aimed at preventing non-communicable diseases. *(Originally, the outcome targeted the "increase share of cases diagnosed and under follow up…", but it has been refocused to prevention).*	Increase percentage of women aged 50-69 and covered by the public provider (ASSE) who had a mammogram in a given year to 20 percent. (Baseline 2009: 7.8 percent) *(The baseline was adjusted with updated data and the deadline "by 2012" was eliminated).*	**Not Achieved**. The percentage was 12.20 percent as of December 2014. Controversial international discussion upon convenience of mammogram screening occurred during 2010 to 2103 affecting social perception on the matter [16]. Notwithstanding, ASSE continued its efforts to improve capability to deliver higher quality preventive care in mammograms, and had installed across the country a digital technology network for mammography.	**<u>Financial Services:</u>** **Ongoing:** Non Comm. Disease Prevention (P050716) FY08 (Closing date: 31-Dec-2015) Programmatic Public Sector, Competitiveness and Social Inclusion DPL II/DDO (P123242) FY12 (Closing date: 25-Jun-18. IP: S, DO: S Public Sector Mgt. and Social Incl. DPL/DDO (P131440) (Closing date: 30-Jun-16) IP: S, DO: S **<u>Knowledge Services:</u>** Human Development Reforms FY10 (P106878) NLTA.	The Non communicable dieses project in the October 2014 CPPR expressed that: Advisory and technical discussion on international evidence for public health policy should be maintained, with appropriate input from other agencies of the UN system, such as: PAHO - WHO , ECLAC, IDB , etc. The Human Development Reforms (P106878) NLTA, proposed analysis on price efficiency; service provider programs and registry of medicines. Health Reform Assessment (ESW) FY12 (P112077) focuses advice in the Insurance Plan Benefits governance mechanism and the Policy Notes (P147070) FY15 identified critical areas to sustain and improve health
	Significant increase in the proportion of newborns with disabilities being monitored by early detection and	**Achieved**. 75.6 percent new-borns with disabilities monitored by early detection and treatment units as of December 2011. These monitoring and treatment units have been institutionalized inside the		

[16] http://www.medscape.org/viewarticle/433989; http://www.cancer.org/cancer/news/mammogram-controversy-artificial-study-says

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
	treatment units. (Baseline 2006: 0).	Social Security Bank's Laboratory and in recent years more diseases have been added in the group of diseases of neonatal mandatory screening.	Integration of Public Policies Risk Management (P117123) FY11. Health Reform Assessment (ESW) FY12 (P112077). Public Expenditure Review FY12 (P124430) ESW. Policy Notes (P147070) FY15.	sector reform processes, being relevant (i) investment needed to improve human capital capabilities into the MOH; (ii) information system and (iii) extension of NCD prevention strategy.
Gradual increase of coverage of the National Health Insurance, including retired workers, and spouses and domestic partners of public and private sector workers. *(This outcome was rephrased but the objective is unchanged).*	National health insurance covers at least 60 percent of population, from 43 percent at end-2009. *(This indicator emerged in the CPSPR taking into account the extension of the Health insurance).*	**Achieved**. National Health Insurance coverage increased to 69 percent (data December 2014. Improvement in access to quality health care, is reflected in the percentage of ASSE's patients using electronic medical records, from 40.8 % in Dec 2013 to 67% in December 2014. The Health Reform Assessment (ESW) (P112077) identified courses of action to improve management of the Integrated Plan of Health Assistance.		
3. Education				
Contribute to the consolidation of the Full-Time school program by building and rehabilitating full-time schools and improving learning outcomes in these schools.	Reaching an enrolment of 47,000 student places in Full Time Schools (2009 Baseline: 37,600).	**Achieved.** The number of students enrolled in FTS has reached 45,223 in 205 schools (March 2015) from 31,754 in 135 schools (2010). The indicator on the amount of places created is no longer being monitored; Bank and Government teams have instead chosen to measure the number of students enrolled.	**<u>Financial Services:</u>** **Ongoing:** Support to Uruguayan Public Schools Project (P126408) FY12 (Closing date: 31-May-17) IP: S, DO: S Programmatic Public Sector, Competitiveness and Social Inclusion DPL II/DDO (P123242) FY12 (Closing date: 25-Jun-18 . IP: S, DO: S	Third Basic Education Quality Improvement Project (P070937 Report No: ICR2595) recommends that new operations: • Strengthen quality assurance mechanisms, by having in-service training mandatory for Full Time School (FTS) teachers and administrators as a condition for FTS eligibility as well as finding ways to reduce staff rotation in newly established schools.

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
	Reduction in the gap in repetition rates in 1st grade between 1st and 2nd quintiles of Full Time Schools and the 5th quintile of all urban school to 5.7 percent (Baseline 6.8 percent in 2011).	**Achieved.** The reduction gap reached 4.8 percent. (April 2015). This is a significantly greater reduction from the desired outcome, achieving the goal 2 years before the ongoing project's plans.	Public Sector Mgt. and Social Incl. DPL/DDO (P131440) (Closing date: 30-Jun-16) IP: S, DO: S **Closed:** Third Basic Education Quality Improvement Project+ Additional Financing (P070937) FY02(Closing date: 31-Dec-10) (ICR rating: MS) **<u>Knowledge Services:</u>** UY One Laptop per Child AAA (P123155) Policy Notes (P147070) FY15 Poverty and Gender Analysis (P151132) FY15	• Bridge outcome measurement techniques so that ensure that Government officials, administrators and society at large are able to monitor the quality of learning outcomes over the medium and long term. There is still the need to move forward on developing more reliable information systems, monitoring and evaluation tools with a greater focus on outcomes. • Evaluate cost and impact of the different components of the FTS model in order to optimize the roll-out plan for future expansion The One laptop per Child (P123155 Completion summary) study conclusion on the importance of "student-centered approach" may be considered for possible future intervention.
	Increase in the proportion of students enrolled in 6th grade in Full Time School with test scores corresponding to or higher than the National Learning Evaluation's Level Two to 45 percent in Mathematics and 52 percent in Reading in 2016. (Baselines: 41.3 percent in Math and 48.2 percent in Reading in 2013). *In Progress Report, the goals set were for 2016, not 2015; baselines and goals have been corrected with available information*).	**Partially Achieved.** Proportion of students enrolled in 6th grade in Full Time Schools with test scores corresponding to or higher than the National Learning Evaluation's Level Two reached 41.3 percent in Math and 48.2 percent in Reading in 2013. (P126408 March 2015 ISR).		

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
	Original baselines: 32 percent in Math and 52 percent in Reading in 2013).			
Strengthen the country's capacity to generate, transfer and adapt knowledge and technology. *Neither the CPS nor the CPSPR created outcomes through which to measure country´s progress in Bank funded innovation programs. This indicator and outcomes have been added in order to report on the operation results.*	The institutional framework for science, technology transfer, and innovation (STI) has been strengthened	**Achieved** The National Innovation Agency (ANII) is currently monitoring 35 sectoral indicators based on reliable methodologies. 120 research subprojects in priority areas were implemented with research and activities in environment, health, social inclusion and other areas with high social impact. 1,083 scholarships have been awarded to young researchers. Number of graduates from domestic masters and PhD programs reach 806. In addition, 5 graduate programs have been created and 21 have been strengthened. 19 Alliances (public-private research consortia) have been created, developing innovations related to biotechnology, animal and human vaccines, eco-friendly cultivations, among others. All studies have used open access publications to disseminate findings. Sector Technology Centers have been set up for companies and academic to exchange knowledge and technology. TA looked into wages and productivity (P143607) contributed to the	**<u>Financial Services:</u>** UY Promoting Innovation to Enhance Competitiveness (P095520) FY07 (Closing date: 12-Jun-15) IP: S, DO: S **<u>Knowledge Services:</u>** Wages and Productivity (P143607)	

Revised CPS Outcomes	Outcome Indicators	Status and Evaluation Summary	Bank Program Instruments	Lessons and suggestions for the new CPF
		understanding of the effects of wage variations and productivity variations to specific sector competitiveness.		

ANNEX 2.2 Planned vs Delivered Lending Operations

CPS PLANS						
Planned Loans		**US$ (M**		**Status**	**US$ (M)**	
FY		**IBRD**			**IBRD**	
2010	Development Policy Lending (DPL)	100		**Approved:** First Programmatic Public Sector, Competitiveness and Social Inclusion DPL(P116215) (Approved FY10)	100	
	Subtotal	**100**		***Subtotal***	**100**	
2011	Development Policy Lending (DPL)	100		**Approved:** 2nd. Programmatic Public Sector, Competitiveness and Social Inclusion Development Policy Loan with Drawdown Option (P123242) (Approved FY11)	260	
	Integrated Agricultural Development and Natural Resources Management	40		**Approved**: Sustainable Management of Natural Resources and Climate Change (P124181) (Approved FY11)	49	
	Drinking Water Systems (OSE)	40		**Approved**: OSE Sustainable and Efficient (P118064) (Approved FY12)	42	
	Improvement of Primary Education	40		**Approved:** Support to Uruguayan Public Schools Project (P126408) (Approved FY12)	40	
	Subtotal	**220**		***Subtotal***	**391**	
2012 - 2015	Transport Infrastructure Modernization	TBD		**Approved**: Road Rehabilitation and Maintenance Program for Results (P125803) (Approved FY12)	66	
	Health Sector Support	TBD		**Dropped:** On-going project Non-Communicable Disease Prevention (P050716) extended		
	Output-based Loan for Social Sectors and Human Opportunities	TBD		**Dropped:** Support provided through DPLs	-	
	Sustainable Industrial Development	TBD		**Dropped**: IDF project has been approved instead	-	
	Energy Sector Strengthening	TBD		**Dropped**	-	
	Energy Efficiency	TBD		**Dropped:** Energy Efficiency GEF project successfully completed in 2011 (P068124)	-	
	Subtotal	**380**		***Subtotal***	**66**	
CPS PROGRESS REPORT PLANS						
	IBTAL (Additional financing)	TBD		**Approved:** Institutions Building Technical Assistance Loan Additional Financing (P097604) (Approved FY11)	10	
	Public Sector and Social Inclusion DPL	260		**Approved:** Public Sector and Social Inclusion DPL (P131440) (Approved FY12)	260	
	Subtotal	***260***		***Subtotal***	***270***	
Additional CPS Lending Deliveries						
2010				**Added:** Third Basic Education Quality Improvement Project (P070937)	***29.9***	
2015				**Added:** Drought Events Impact Mitigating Investment Project Financing (P149069)	200	
	Subtotal			***Subtotal***	***229.9***	
TOTAL CPS Plans		**700**		***ACTUAL CPS***	***1056.9***	

ANNEX 2.3. Planned Non lending Services and Actual Deliveries

CPS PLANNED DELIVERIES (2010-2015)		ACTUAL DELIVERY	Delivery Date
2011 and 2012	Reform of housing policies	2010 - Housing finance policy TA (P109825)	14-Aug-2009
	Strengthening of Plan Ceibal by means of international best practices.	2013 - One Laptop per Child ESW (P123155)	28-Apr-2013
	Social Policy Assessment.	2014 - Social Programs Assessment ESW (P124259) (Promised under 2013 CPS PR deliveries)	13-Oct-2013
		2010 - Family Farm Development EW (P112046)	12-Aug-2010
	Review of public expenditures on the social sectors	2012 - Public Expenditure Review ESW (P124430) (Promised under 2013 CPS PR deliveries)	29-Apr-2013
		2013 - Public Expenditure and Financial Accountability Review (PEFA) ESW (P125366)	23-Jun-2013
	Monitoring social policy results with the Human Opportunity Index	2011 - Opportunities and Informality ESW (P115026)	25-Mar-2011
	Health Reform	2011 - Health Insurance Reforms NLTA (P106878)	30-Jun-2010
		2012 - Health Sector Study ESW (P112077)	30-Nov-2012
	Mitigation and adaptation to climate change effects in the rural sector	2011 - Public Policy Integration on Risk Management for Threats of Water Origin NLTA (P117123)	31-Dec-2010
		2013 - Policy and Regulatory Capacity-building NDVI Insurance NLTA (P126442) (Promised under 2013 CPS PR deliveries)	13-Jun-2013
		2014 - Low Carbon Growth Study (P125103) (Promised under 2013 CPS PR deliveries)	11-Jan-2015
		2014 - Water for Uruguay PA (P146365) (Promised under 2014 CPS PR deliveries)	22-Apr-2016
		• (P148321) UY Scoping Mission for Integrated Urban Water Management	10-Jun-2015
		• (P148331) UY Improvement of Pollution Control	30-Apr-2015
		2015 - Promoting Sustainable Industrial Development NLTA (P127980) (Promised under 2014 CPS PR deliveries)	31-Oct-2013

CPS PLANNED DELIVERIES (2010-2015)		ACTUAL DELIVERY	Delivery Date
	Further strengthening business and investment climate	2010 - UY Trade and Competitiveness ESW (P106723)	10-Jun-2010
		2011 - Local capital market development NLTA (GEMLOC) (P124409)	30-Jun-2011
		2013 - Local capital market development II NLTA (GEMLOC II) (P130237) (Promised under 2013 CPS PR deliveries)	25-Jun-2013
		2014 - Wages and Productivity NLTA (P143607) (Promised under 2013 CPS PR deliveries)	10-Jul-2013
		2014 - Financial Sector Assessment Program ESW (P131610) (Promised under 2013 CPS PR deliveries)	24-May-2013
		2013 - Capacity-building Activities for the Ministry of Economy and Finance on PPPs NLTA (P125481)	20-Jun-2013
		2013 - Development of Financing Options for PPP in Roads Sector NLTA (P128686)	20-Jun-2013
		2014 - Designing the Uruguay Rail Sector Regulator NLTA (P133277) (Promised under 2013 CPS PR deliveries)	14-Sep-2014
		2015 - Capacity Building for Oil and Gas Sector (P152060)	*19-Jun-2015*
	Other deliveries	2013 - Financial Capability Survey TA (P123472)	*26-Jun-2013*
		2015 - Uruguay Policy Notes (MST) (P147070)	*10-Jun-2015*
		2015 - Policy Note on Extractives TA (P150700)	*16-Jun-2015*
		2010 - Policy Notes EW (P117387)	*19-May-2010*
		2010 - FIRST #9030 Montevideo Crisis Preparedness TA (P118903)	*09-Nov-2009*
		2014 - Strengthening Country Impact-Evaluation (P109973)	*05-May-2014*

ANNEX 2.4. Projects that closed during CPS

P Number	Project Name	Loan Number	Amount	Approval Date	Closing Date	IP	DO	ICR rating	IEG ICR rating
P095520	UY Promoting Innovation to Enhance Competitiveness	IBRD 74450	26	1-May-07	12-Jun-15	**S**	MS	N/A	N/A
P101432	OSE Modernization & Systems Rehabilitation Project APL2	IBRD 74750	50	28-Jun-07	31-Mar-13	S	S	S	MS
P070937	Third Basic Education Quality Improvement Project	IBRD 77890	29.9	20-Oct-09	31-Dec-12	S	S	MS	MS
P070653	Integrated Natural Resources and Biodiversity Management Project	IBRD 73050	30	9-Jun-05	31-Aug-12	S	S	S	MS
P106724	Second Programmatic Reform Implementation DPL	IBRD 76670	400	3-Feb-09	22-Jan-12	S	S	S	S
P116215	First Programmatic Public Sector, Competitiveness and Social Inclusion DPL	IBRD 79530	100	14-Oct-10	31-Dec-11	S	S	S	S
P057481	Transport Infrastructure Maintenance and Rural Access	IBRD 73030	70	9-Jun-05	31-Jul-11	S	S	MS	MS
P070937	Third Basic Education Quality Improvement Project	IBRD 71130	42	25-Apr-02	31-Dec-10	S	S	S	MS
P074543	Foot & Mouth Disease Emergency Recovery Loan	IBRD 74210	6.5	19-Dec-06	31-Dec-09	S	S	S	S
	TOTAL		754.4						

ANNEX 2.5. IFC Projects

Client	Industry Group Sector	Measure Names	Project ID	Project Name	AGG (Top N)	Measure Values
Girocantex	Infrastructure	Key Metric	31445	HDB Barging	1	74,000,000
Conaprole	Agribusiness & Forestry	Key Metric	31556	Conaprole WMP	2	30,000,000
Scanntech	Other CTT Sectors	Key Metric	34301	Scanntech	3	10,000,000
Surinor	Consumer & Social Services	Key Metric	31786	Pestana Uruguay	4	9,000,000
Scotia Uru	Financial Markets	Key Metric	29934	NBC Uruguay CL	6	15,000,000
Scotia Uru	Trade Finance (TF)	Key Metric	25938	GTFP Scotia Urug	7	3,880,971

ANNEX 3. SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT

AS OF DATE 10/29/2015

Indicator	FY13	FY14	FY15	FY16
Portfolio Assessment				
Number of Projects Under Implementation [a]	9.0	8.0	9.0	9.0
Average Implementation Period (years) [b]	2.7	3.8	3.9	4.2
Percent of Problem Projects by Number [a, c]	11.1	12.5	0.0	0.0
Percent of Problem Projects by Amount [a, c]	3.2	9.2	0.0	0.0
Percent of Projects at Risk by Number [a, d]	11.1	12.5	0.0	0.0
Percent of Projects at Risk by Amount [a, d]	3.2	9.2	0.0	0.0
Disbursement Ratio (%) [e]	25.3	19.8	25.5	9.7
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	50	5
Proj Eval by OED by Amt (US$ millions)	2,778.4	220.0
% of OED Projects Rated U or HU by Number	8.2	0.0
% of OED Projects Rated U or HU by Amt	7.4	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY)
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP)
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year. Investment projects only.
f. *All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects, which exited during the fiscal year.

ANNEX 4. OPERATIONS PORTFOLIO (IBRD/IDA AND GRANTS)

AS OF 10/29/2015

Closed Projects	**63**
IBRD/IDA *	
Total Disbursed (Active)	138.23
of which has been repaid	7.76
Total Disbursed (Closed)	1,565.28
of which has been repaid	1,169.92
Total Disbursed (Active + Closed)	1,703.51
of which has been repaid	1,177.68
Total Undisbursed (Active)	824.72
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	824.72

Active Projects		**Last PSR**								**Difference Between Expected and Actual Disbursements** [a]/	
		Supervision Rating			**Original Amount in US$ Millions**						
Project ID	**Project Name**	**Development Objectives**	**Implementation Progress**	**Fiscal Year**	**IBRD**	**IDA**	**Grants**	**Cancel.**	**Undisb.**	**Orig.**	**Frm Rev'd**
P123242	UY 2nd Prog PubSct, Comp&Soc DPL/DDO	S	S	2012	260.0	0.0		0.0	260.0	0.0	0.0
P149069	UY Drought Events' Impact Mitigating Fac	S	S	2015	200.0	0.0		0.0	200.0	0.0	0.0
P097604	UY Institutions Building TAL	MS	S	2007	22.1	0.0		0.0	5.9	-4.1	0.8
P050716	UY Non Comm. Disease Prevention	MS	MS	2008	25.3	0.0		0.0	5.5	5.5	4.4
P118064	UY OSE Sustainable and Efficient	MS	MS	2013	42.0	0.0		0.0	34.8	0.0	0.0
P131440	UY-Public Sct Mgt & SocInclusion DPL/DDO	S	S	2013	260.0	0.0		0.0	260.0	0.0	0.0
P125803	UY Road Rehabilitation and Maintenance P	MS	MS	2013	66.0	0.0		0.0	24.7	0.0	0.0
P126408	UY Support to Public Schools Proj	MS	S	2013	40.0	0.0		0.0	8.9	-2.8	0.0
P124181	UY Sust.Mgmt Nat Res & Climate Change	S	MS	2012	49.0	0.0		0.0	25.0	21.0	13.1
P123242	UY 2nd Prog PubSct, Comp&Soc DPL/DDO	S	S	2012	260.0	0.0		0.0	260.0	0.0	0.0
Overall Result					**964.4**	**0.0**		**0.0**	**824.7**	**19.6**	**18.2**

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

ANNEX 5. IFC COMMITTED AND DISBURSED OUTSTANDING INVESTMENT PORTFOLIO

AS OF 09/30/2015

(IN US$ MILLIONS)

		Committed					Disbursed Outstanding				
FY Approval	**Company**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Participant**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Participant**
FY12	CONAPROLE	13.00	0.00	0.00	0.00	0.00	13.00	0.00	0.00	0.00	0.00
FY13	GIROCANTEX	74.00	0.00	0.00	0.00	30.00	65.34	0.00	0.00	0.00	26.49
FY09	MILAGRO	3.85	0.00	0.00	0.00	0.00	3.85	0.00	0.00	0.00	0.00
FY14	SCANNTECH	0.00	10.00	0.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00
FY11	SCOTIA URU	1.88	0.00	0.00	0.00	0.00	1.88	0.00	0.00	0.00	0.00
FY12	SURINOR	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Portfolio:		**97.73**	**10.00**	**0.00**	**0.00**	**30.00**	**84.07**	**10.00**	**0.00**	**0.00**	**26.49**

ANNEX 6. GENDER ANALYSIS[17]

1. **Uruguay has made significant progress over the last decade in promoting gender equality**, especially with regard to endowments, economic opportunities and agency. However, there are still challenges to be addressed in order to reduce the gender gap in several dimensions. In preparation for the Country Partnership Framework (CPF) process, this annex summarizes a policy note on gender and social inclusion, as well as in-country gender consultations held with stakeholders.

2. **Legal and institutional Framework**: Uruguay has ratified major international human rights instruments on the rights of women to establish the basis of a legal framework aiming to protect and promote women's rights and gender equality in Uruguay. In parallel, over the last decade, laws have been amended and new laws have been implemented by the Uruguayan Government in order to promote gender equality in the areas of political participation, gender violence, equality and nondiscrimination, sexuality and reproduction, family relations, labor market and social security, and in access to justice.

3. **The Women's National Institute of the Ministry of Social Development was created in 2007**. The Institute formulates and implements social inclusion policies that promote equality of opportunity between women and men under the legal framework of law No. 18.104 and the *National Plan for Equal Rights and Opportunities* 2007-2011 (*PIODNA*, for its acronym in Spanish).

4. **In terms of gender equality in endowments, specifically education and health, Uruguay has made clear progress particularly in sexual and reproductive health outcomes**. With regards to education, literacy rates have been historically high for both men and women (literacy is virtually universal at 98% in 2012), but there are gender inequalities in terms of educational attainment. The national average shows that there is gender parity in primary enrolment, but boys face challenges in terms of post-primary education retention. This trend is similar to the LAC region, where the gender gap in favor of girls grows as well with increasing levels of education. When considering the reasons for the difficulty to retain boys in post-primary education, dropout rates are a problem in Uruguay. Data from 2012 showed that in addition to a lack of interest in school, a higher share of boys abandon schooling due to economic pressure compared to girls (32.6% versus 21.3% respectively), while among girls adolescent pregnancy is a significant motive for leaving formal education (14.6%). In addition, there are substantial educational differences across various dimensions such as location of residence (in the departments of Tacuarembó, Lavalleja, Rivera and Cerro Largo boys lag behind with lower primary school completion rates compared to girls); income levels (with the poor showing overall lower levels of schooling); and race (with afro-Uruguayans consistently showing lower educational attainment in comparison to the rest of the population.

5. **Uruguay stands out in the LAC region for improving sexual and reproductive health indicators over the last decade**. Women's health scores better than both LAC and Upper Middle

[17] All data used in this annex are taken from the World Bank's *World Development Indicators* unless cited otherwise.

Income Countries (UMC) averages for maternal mortality. In 2012 Uruguay achieved an impeccable rate of maternal coverage with 100% of births attended by skilled health staff and 96% women received prenatal care, both contributing to the successful reduction of maternal mortality (14 deaths per 100,000 live births versus the LAC average of 80 deaths per 100,000 live births). In parallel, Uruguay has advanced a progressive sexual and reproductive health agenda with (i) the legalization of abortion in 2012, (ii) assisted reproduction with equal access to IVF and surrogacy in 2013, (iii) and the creation of homophobia and transphobia-free health centers initiatives for the *Lesbian, Gays, Bisexual and Trans* population (LGBT).

6. **Despite women's achievements in education, challenges persist regarding their economic opportunities**. Women participate less in the labor market, earn lower wages, and suffer from higher unemployment and informality rates compared to their male counterparts. In Uruguay, women ages 15 and above have made clear progress in the labor market with participation rates reaching 55.6% in 2012 a rate higher than the average for the LAC region (51.3%), but lagging behind UMC average (59%). The total unemployment rate for Uruguay has dropped from 11% in 2006 to 6.6% in 2013, and according to the latest data available this is below the average for the LAC region (8% in 2013). At the same time, female unemployment is higher than male unemployment rates (8% for women versus 5% for males in 2013), which are slightly below the LAC average (8.4% in 2011). Moreover, the gender gap widens when unemployment among youth is analyzed. In Uruguay, the unemployment rate for young girls was 24% and 16% for young boys in 2013, which is higher than the LAC youth average rate (14%). Additionally, over the past decade, there has been a persistent gender wage gap between men and women. While women were making 68% of their male counterparts in 2000, they are now making 69% (data from PLB, 2012). Gender disparities in the labor market are highly related to women's difficulty to balance work and care giving. Uruguayan women provide more unpaid work than men. According to data from ECLAC (2010) men spent more time than women on weekly productive work (an average 25 hours for men and 19 hours for women), while women spent more time on unpaid work (an average 35 hours for women versus 13 hours for men). The new Government's flagship program, *Sistema Nacional Integrado de Cuidados (SNIC)*, now under discussion in the legislature, aims to expand current services for child-care, elder-care and disabled care, and the re-allocation of women's time and the expansion of employment opportunities for women in the care area, in a regulated and well paid manner.

7. **In terms of the third dimension of gender equality, Uruguayan women face key challenges in terms of lack of agency[18]**. This is manifested in low levels of female political participation, the prevalence of gender-based violence (including sexual minorities), and persistent teenage pregnancy rates.

8. **Women in Uruguay remain under-represented in the Government**. In the 2010-2015 administration women held 12% of parliament seats which is clearly lower than the LAC region (24 percent) and UMC (22 percent). It has been noted that female political participation was expected to increase, mainly as an effect of the 2009 quota law which mandated to have 1/3 representation of women on election lists of both the Senate and Chamber of Deputies, at the primary, national and departmental elections in October 2014. Although the percentage of elected

[18] Agency is defined as an individual´s ability to make effective choices and to transform those choices into desired outcomes.

women increased from 12 percent to 16 percent, Uruguay continues to backslide with one of the lowest female political participation in the region.

9. **Domestic violence continues to be a key problem which Uruguayan women suffer from.** Violence has been recognized by the United Nations as a public health problem, a violation of women's rights and a barrier for economic development. Law No 17.514 on Domestic Violence (2002) and the formation of the *National Council against Domestic Violence* (CNCLVD for its acronym in Spanish) and the creation of the first *National Plan Against Domestic Violence* (2004-2009) introduce a legal framework that address this issue. The law is currently under amendment and proposes to continue to include prevention, attention and rehabilitation for the victims, but also go beyond immediate help to victims' by addressing the eradication of violence across generations. According to data from Uruguay's first gender-based violence survey (GBV, 2013) 24% of women in Uruguay reported sexual, physical, economic or psychological violence by their partner within the last 12 months (women ages 15 and above), while 45% of women reported that they experienced domestic violence by their partner at some point in their lives (women ages 15 above). The same survey indicates that there is a gap across generations: 34% of girls under the age of 15 reported physical, psychological or sexual violence by a family member during their childhood, and 10% of women over the age of 65 reported physical or psychological violence by a family member during old age.

10. **The adolescent fertility rate has decreased over time** from 65 births per 1,000 women aged 15-19 years old in 2000 to 58 in 2013. This rate is below the LAC average (71 births per 1,000 women aged 15-19 years old for 2010), but almost double the UMC average of 30 in 2010. Teenage pregnancy is not evenly distributed amongst different ethnic and socio-economic groups, thus indicating that the phenomenon is correlated with social exclusion and lack of economic opportunities. According to the national survey, the portion of pregnancy women aged 15-19 years old is higher among afro-Uruguayans and in rural areas than in urban areas.

11. **Sexual minorities' rights are among the most liberal in both Latin America and the world but the LGBT population faces key challenges**. Same-sex behavior has been legal since 1934, anti-discrimination laws have been in place since 2003, gays and lesbians are allowed to serve openly in the military and jointly adopt children since 2009 civil unions for same-sex couples and civil marriages have been allowed since 2008 and 2013 respectively, and Trans people can change their legal name and sex on legal documents. Despite these efforts, LGBT people are still targeted for exclusion driven by homophobia and /or transphobia, and there is some evidence of violence on the grounds of sexual orientation, gender identity and expression (SOGIE). The national Government is actively fighting these inequalities through a variety of anti-discrimination actions, not only through the legislation reforms mentioned above, but also through focused public policies like the homophobia and transphobia-free health centers initiative that is being developed by the Ministry of Health, and different programs under the Ministry of Social Development targeted to Trans people (the most vulnerable group among LGBT) like their incorporation as beneficiaries of the *Tarjeta Uruguay Social* welfare program.

12. **The WBG in partnership organized in-country consultations in preparation of the Country Partnership Framework.** Sectorial meetings with the following groups were organized: (i) international donor community that include international cooperation organizations; (ii) private

sector which included representatives of business and production sectors; (iii) civil society and think tanks; (vi) Government officials working on issues of gender, poverty, education, etc; (vii) and members of the parliament. The consultations showed high levels of consensus on development priorities and challenges faced by Uruguay. The main priorities are reflected in the three dimensions of gender equality: (i) endowments: particularly the quality of education, content and curriculum, teacher training to remove teacher bias, education for future and current employers and entrepreneurs, education and training to policy makers; (ii) economic opportunities: installing the long-awaited National Care System, and (iii) agency: mainly in increasing work on domestic violence prevention and sanction.

Table: Key gender indicators comparing Uruguay and LAC

	Uruguay	**LAC**
Endowments		
Education		
Ratio of female to male primary enrolment (percent)	96.58 (2010)	96.86 (2011)
Ratio of female to male secondary enrolment (percent)	113.73 (2010)	107.10 (2011)
Ratio of female to male tertiary enrolment (percent)	172.67 (2010)	126.78 (2011)
Literacy rate, adult female (percent of female ages 15 and above	98.66 (2012)	90.93 (2011)
Literacy rate, adult male (percent of male ages 15 and above	94.10 (2012)	92.22 (2011)
Literacy rate, youth female (percent of female ages 15-24)	99.29 (2012)	97.33 (2011)
Literacy rate, youth male (percent of males ages 15-24)	98.63 (2012)	96.78 (2011)
Health		
Maternal mortality ratio (modeled estimate, per 100,000 live births)	14 (2013)	80 (2010)
Births attended by skilled health staff (percent of total)	99.5 (2012)	90.12 (2010)
Pregnant women receiving prenatal care (percent)	96.2 (2007)	96.17 (2009)
Economic Opportunities		
Labor participation rate, female (percent of female population	55.6 (2012)	51.17 (2011)
Labor participation rate, male (percent of male population)	73.5 (2012)	78.65 (2011)
Ratio of female to male labor force participation rate (percent) (national estimate)	75.6 (2012)	65.48 (2011)
Unemployment, female (percent of female labor force) (national estimate)	8.21 (2013)	8.45 (2011)
Unemployment, male (percent of male labor force) (national estimate)	5.01 (2013)	5.53 (2011)
Unemployment, youth female (percent of female labor force ages 1524) (national estimate)	24.03 (2013)	18.19 (2011)
Unemployment, youth male (percent of male labor force ages 15-24) (national estimate)	15.84 (2013)	12.36 (2011)
Agency		
Adolescent fertility rate (births per 1,000 women ages 15-19)	57.86 (2013)	68.02 (2012)
Proportion of seats held by women in national parliaments (percent)	16.2 (2014)	24.81 (2013)

Source: World Development Indicators.


IBRD 33507
URUGUAY
SELECTED CITIES AND TOWNS
DEPARTMENT CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
DEPARTMENT BOUNDARIES
INTERNATIONAL BOUNDARIES
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BRAZIL
ARGENTINA
URUGUAY
ATLANTIC OCEAN
Río de la Plata
ARTIGAS
SALTO
PAYSANDU
RIO NEGRO
SORIANO
COLONIA
FLORES
SAN JOSE
FLORIDA
DURAZNO
TACUAREMBO
RIVERA
CERRO LARGO
TREINTA Y TRES
LAVALLEJA
ROCHA
MALDO-NADO
CANE-LONES
MONTEVIDEO
Bella Unión
Javier de Viana
Artigas
Baltasar Brum
Belén
Constitución
Biassini
Salto
Chapicuy
Quebracho
El Eucalipto
Paysandú
Guichon
Tres Arbeles
San Javier
Young
Fray Bentos
Mercedes
Dolores
José E. Rodo
Cardona
Carmelo
Colonia del Sacramento
Juan l. Lacaze
Rosario
San José de Mayo
Canelones
Trinidad
Durazno
Florida
Pueblo del Carmen
Paso de los Toros
Blanquillo
Piedra Sola
Tambores
Tacuarembó
Rivera
Masoller
Tranqueras
Minas de Corrales
Ansina
Vichadero
Aceguá
Melo
Kilómetro 329
Rio Branco
Santa Clara de Olimar
Tupambae
Vergara
Treinta y Très
Cebollatí
Sarandí del Yí
José Pedro Varela
Cerro Colorado
Fray Marcos
Minas
Mariscala
Aiguá
Pirarajá
Lazcano
Velazquez
Castillos
Chuy
La Coronilla
Rocha
La Paloma
San Carlos
Maldonado
Punta del Este
Atlantida
MONTEVIDEO
Cerro Catedral (514 m)
Lago Artificial de Rincón del Bonete
Laguna Negra
Laguna de Castillos
Laguna Merín
Lagoa Mirim
Lagoa Mangueira
Cuchilla de Haedo
Cuchilla Grande
Negro
Uruguay
Cuareim
Yaguarón
To Uruguaiana
To Curuzú Cuatiá
To Alegrete
To Rosário do Sul
To Federal
To Villaguay
To Gualeguaychú
To Bagé
To Pelotas
To Rio Grande
58°W
57°W
56°W
55°W
54°W
53°W
59°W
30°S
31°S
32°S
33°S
34°S
35°S
0 25 50 75 100 Kilometers
0 25 50 75 Miles
OCTOBER 2004