URUGUAY

Systematic Country Diagnostic Update

World Bank Group

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Acknowledgments

The Systematic Country Diagnosis (SCD) Update for Uruguay is the result of a team effort of the Uruguay country team of the World Bank Group. Members of the team from all global practices and the International Finance Corporation (IFC) contributed to the preparation of the document in a strong collaborative process through multiple rounds of substantive inputs, participation in consultations, advice, and feedback. In addition, the team benefited greatly from conversations with national authorities, development partners, and stakeholders throughout the preparation of the document. The report was completed in January 2022 amid the uncertainty surrounding the COVID-19 outbreak. The focus of the report is on medium- to longer-term development challenges in Uruguay, rather than contemporaneous macroeconomic developments. Consequently, the report emphasizes how the COVID-19 pandemic context exposes existing vulnerabilities and illustrates the importance of tackling relevant structural constraints within the identified pathways and priority areas for achieving the twin goals.

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Abbreviations and Acronyms

ANEP	National Administration of Public Education
BCU	Central Bank of Uruguay
GDP	gross domestic product
GVC	global value chain
HLO	high-level outcome
IC	institutional constraint
INEEd	National Institute for Educational Evaluation
LPI	logistics performance index
MEF	Ministry of Economy and Finance
Mercosur	Southern Cone Common Market
NAP	National Plan of Adaptation to Climate Variability and Climate Change in the Agricultural Sector
NDC	Nationally Determined Contributions
OECD	Organisation for Economic Co-operation and Development
PISA	Program for International Student Assessment (OECD)
SCD	Systematic Country Diagnostic
SOE	state-owned enterprise
UTE	National Administration of Power Plants and Electrical Transmissions

Executive Summary

1. Key constraints and opportunities for reducing poverty and boosting shared prosperity sustainably in Uruguay remain in line with those identified in the Uruguay's Systematic Country Diagnostic (SCD1; World Bank 2015b), published in 2015. This SCD Update captures recent developments -notably adverse global conditions and the COVID-19 pandemic- and adds new analytical findings on key constraints to inclusive growth.

2. During the prolonged SCD1 period (2003-2014), Uruguay was experiencing substantial inclusive growth, sustained by the country's fundamentals and improved policies in an environment of favorable external conditions. The average gross domestic product (GDP) growth rate in the decade up to 2014 was 5 percent. Inflation was low by historical standards. Exports more than doubled and diversified away from the region, and the poverty rate had fallen to an historical low. This positive outcome was buttressed by Uruguay's fundamental characteristics—a small, open economy with a strong social compact— combined with favorable external conditions, improved macro-fiscal management, reduced financial and trade exposure to volatile neighboring economies, and effective social policies.

3. In line with the region, the end of the commodity price boom ushered in a period of lower growth rates and less poverty reduction, accompanied by rising debt and fiscal deficits. Export prices and economic growth among main trading partners had already started to decline by 2012–13. As a result, GDP growth decelerated significantly, from 3.2 percent in 2014 to 0.5 percent in 2018 and 0.35 percent in 2019, the lowest level since 2002. Productivity stagnated, and trade growth stalled. The fiscal deficit widened continuously, and public debt grew. The reforms that generated strong and inclusive growth after the 2002 crisis were no longer sufficient to generate quality jobs and adequate incomes, notably, among the poor and vulnerable. Unemployment rose from a low of 6.3 percent in 2011 to 8.9 percent in 2019, and poverty slightly increased. With varying intensities and specificities, these general trends are shared by the other countries in the region.

4. **Although the COVID-19 pandemic exacerbated these trends and pushed the economy into the first recession since 2003, the strengths and structural challenges analyzed in SCD1 have not changed dramatically**. In SCD1, incipient waning economic growth and challenges to the financial sustainability of social outcomes already showed the need to reinvigorate Uruguay's development model. Proposed priorities in SCD1 remain largely relevant in the current context though progress in some cases slowed or was obstructed by the COVID-19 pandemic, for example, in accumulation and effective use of human capital.

This SCD Update substantiates the continuing relevance of SCD1 priorities under four main development challenges:

5. **First, creating the conditions for a more competitive and integrated economy**. Alongside with other countries in the region, Uruguay's productivity has stalled since SCD1. The country lags with respect to structural peers in trade integration, and its exports have stagnated over the past years, alongside a greater concentration of products and markets, with limited participation into global value chains (GVC). Competition is also restricted, and despite some improvements, the country performs below the average in Latin America and among OECD countries on logistics, according to the World Bank Logistics Performance Index (LPI). These factors affect the incentives for firms to be more productive through access to larger output and input markets and more stringent competitive pressures. There are also barriers to knowledge and factor accumulation through, for example, small and shallow credit markets and rigid labor institutions. Reforms along these dimensions will also require the management of potential trade-offs between efficiency gains and the social compact by emphasizing equity and exploiting potential spillovers, notably, in women's economic empowerment.

6. **Second, transforming the education system to promote better outcomes and more labor market–relevant learning**. In the context of an aging population and rapid technological change, an upgrade in human capital is needed to raise productivity, support lifelong learning, and improve equity in

access to economic opportunities. The quality of education is suboptimal relative to peers. Completion rates of lower and upper secondary education remain unsatisfactory and have increased slowly over the past decade compared to other countries in the region. Recognizing existence of equity challenges in education, Uruguay has invested importantly in targeted programs. However, remaining inequities in learning outcomes across socioeconomic groups generate low social mobility. Reforms in the education system are key not only to performing at a level commensurate with the needs of the country, but also to addressing the lack of opportunities, so important for improving social inclusion.

7. **Third, improving performance in the delivery of services, such as water, sanitation, and electricity**. Infrastructure challenges are heterogeneous across sectors. New analytics since SCD1 have shed light on key outcomes and constraints of the water and sanitation, and electricity sectors. While access to basic infrastructure is nearly universal in Uruguay--except in sanitation, where only 60 percent of the population has access to a sewerage network--the country is lagging peers in several quality and efficiency dimensions of key infrastructure services. Consumer prices are punishingly high across the water sector and for residential consumers of electricity. While the efficiency and quality of power services are in line with other Latin American countries, they are below structural peers.

8. **Fourth, promoting inclusive and climate resilient green growth**. Uruguay has been relatively successful in achieving progress toward environmental goals, but it would benefit from an increase in resilience of the agricultural sector in the face of climate shocks. The reliance on the agriculture, livestock, and forestry development model has taken a toll on soil and water resources. Pollution, associated with agricultural production and urban expansion, have had detrimental effects on tourism, coastal fisheries production, and potable water supply. In addition, although the electricity generation matrix is dominated by renewables, there is a need to bring the land and marine transport sector, now largely dependent on carbon-based fuels, in line with the country's climate-related decarbonization targets. Growth opportunities could be enhanced by expanding access to green markets through low-impact sustainable agriculture and tourism, and by protecting natural resources.

9. **Social and economic inclusion emerge as crosscutting key elements of policy priorities identified in this SCD Update.** In a context in which growth will need to rely more on internal factors (more rapid capital accumulation, greater labor force participation, reduced gender gaps and higher productivity), failing to include all population groups can result in economic and human costs not only among vulnerable households, but also for the country as a whole. This highlights the importance of identifying specific areas where policy makers can improve efficiency and equity simultaneously. This is particularly relevant in a country such as Uruguay, where, because progress in poverty reduction has been significant, addressing the living conditions among individuals who remain excluded from services, spaces, or markets becomes even more urgent.

10. **The SCD Update also provides a transversal institutional lens that analyzes the underlying determinants of the country's development challenges providing an integrated approach to strengthening institutional capital**. Two factors motivate this approach: First, while improvements in the quality and access of services and finance are critical for development, it is necessary to complement sectoral reforms with transversal measures tackling institutional determinants common across economic agents, as well as the nature of governance (World Bank 2017). Second, an assessment of the progress in institutional strengthening is imperative for World Bank engagement with graduation discussion income (GDI) countries[1]. The commitment recognizes the importance of closing gaps in governance and institutional capacity—along with access to global capital markets, and addressing public good challenges, such as Climate Change--for GDI countries to converge with high income countries.

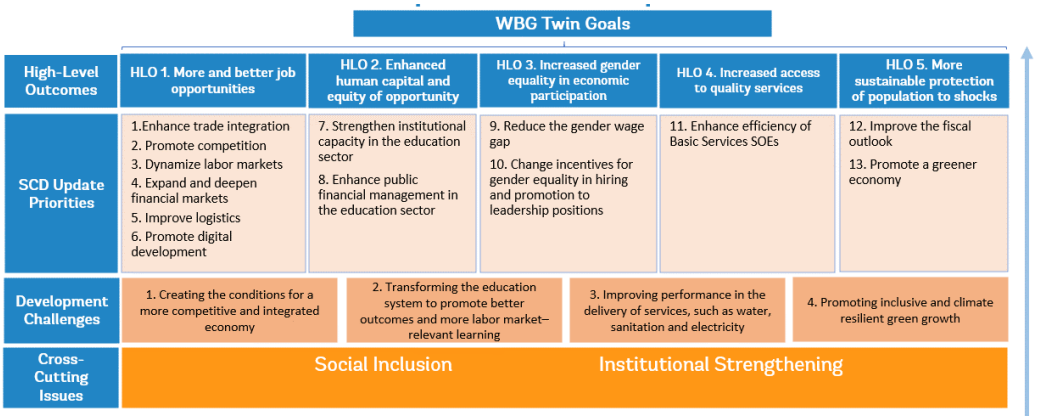
11. **This institutional benchmarking exercise highlights Uruguay's progress in building political, social, and labor market institutional capital relative to comparator countries, but constraints remain in areas linked directly to the development challenges identified.** Specifically, the country's institutional capital would benefit from strengthening core public sector management institutions, the architecture of market institutions related to business and trade, the corporate governance of state-owned enterprises

(SOEs) and public utilities, and financial institutions. Recent reforms have started to produce tangible results, but important gaps remain across these transversal areas.

12. **Thirteen priorities stand out to address the most binding development challenges and enhance Uruguay's capacity to sustain improvements in the well-being of the poor and most vulnerable people**: enhancing trade integration; promoting competition; dynamizing labor markets; expanding and deepening financial markets; improving logistics; promoting digital development; strengthen institutional capacity in the education sector; enhance public financial management in the education sector; reducing gender wage gaps; changing incentives for gender equality in hiring and promotion to leadership positions; enhancing efficiency of basic services' SOEs; improving the fiscal outlook; and promoting a greener economy.

13. **These priorities are linked to five desired High-Level Outcomes (HLOs)**. Defined as the desired long-term development outcomes expected to be achieved when the related priorities are addressed, the following HLOs are expected to be the outcome of relevant multisectoral interventions in Uruguay: 1) more and better job opportunities; 2) enhanced human capital and equality of opportunity; 3) increased gender equality in economic participation; 4) increased access to quality services; and 5) more sustainable protection of the population to shocks (see Figure 1).

Figure 1. High Level Outcomes in the Uruguay SCD Update



1. Growth, shared prosperity, and sustainability since 2014

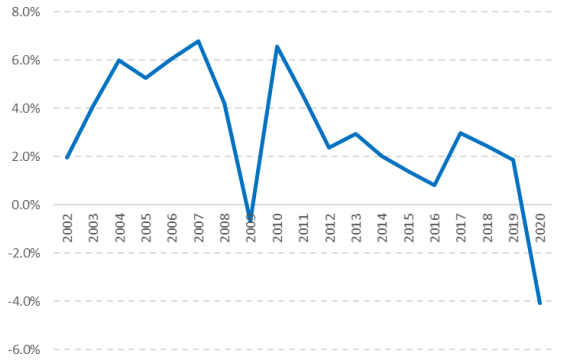
1.1 Despite progress, headwinds have exposed bottlenecks in structural growth

14. **The COVID-19 shock interrupted the longest economic growth spell in Uruguay's history.** Between 2002 and 2019, GDP per capita increased 80 percent (in real purchasing power parity terms), more than in most peer countries and only behind the Dominican Republic, Panama, and Peru in the region. The poverty rate fell from 32.5 percent to 8.8 percent in 2006–19.[2] The country achieved high-income status, and sovereign credit risk was upgraded to investment grade. Improvements of macroeconomic policies, implemented after the 2002 crisis, contributed to this robust growth performance and helped increase resilience. Inflation remained below 10 percent, relatively low by historical standards, and inflation volatility subsided.

15. **However, the country's inclusive growth model has shown signs of vulnerability since SCD1.** The deterioration in external conditions revealed increasingly binding domestic constraints. Aside from the global financial crisis, the external environment started to deteriorate in 2012, at the end of the period analyzed in SCD1. The weighted average GDP growth rate of Uruguay's main trading partners fell from 4.8 percent in 2003–11 (which includes the international financial crisis) to 2.1 percent in 2012–19 and to −4.1 percent in 2020 (Figure 2). Export prices dropped 15.3 percent in 2012-19. The GDP growth rate in Uruguay felt the impact, particularly since 2015, falling from 3.2 percent in 2014 to 0.5 percent in 2018 and 0.35 percent in 2019 (Figure 3), and productivity stagnated.[3] The unemployment rate rose from a low of 6.3 percent in 2011 to 8.9 percent in 2019, and the poverty reduction process stalled. The fiscal deficit

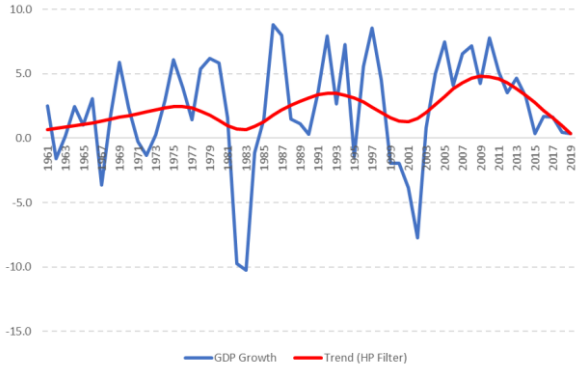
has also widened, and public debt grew from 51.4 to 60.5 percent of GDP. The pandemic dramatically compounded these effects, with the economy dropping 5.9 percent in 2020, the first negative annual GDP growth rate since the 2002 crisis (−7.7 percent). Although lower than in the recent past, the inflation rate is still one of the highest in the region.[4]

Figure 2. GDP growth, Uruguay´s main trading partners, 2002–20, %



Source: Estimates based on WDI; Uruguay XXI.
Note: Weighted average (by share of merchandise exports) of GDP growth in 10 main trading partners over the period.

Figure 3. GDP growth and trends, Uruguay, 1961–2019, %



Source: World Bank based on 2021 data of World Development Indicators.

16. **GDP growth deceleration was widespread on both the demand and supply sides** (Figure 4 and Figure 5). On the demand side, the deceleration of GDP growth was driven mostly by the declining contribution of private consumption, negative contributions from gross capital formation in most years starting in 2015, and export stagnation. On the supply side, the contributions to GDP growth of all major service categories showed a significant fall across the period, with a strong fall in 2020 given the large proportion of activities in the services sector sensitive to social distancing. Manufacturing and construction also showed decreasing contributions, though to a lesser extent. Yet, construction has shown some recovery recently under the influx of major investments, and even became the only sector to show positive growth in 2020.

Figure 4. GDP growth decomposition, by demand components, 2010–20, %

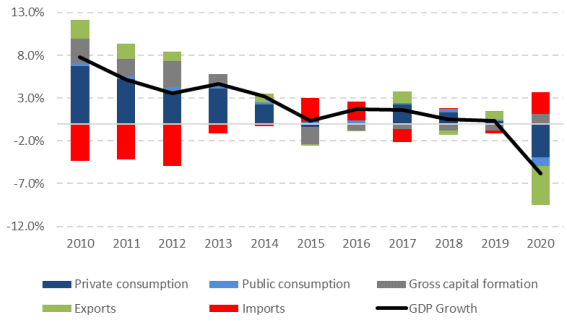
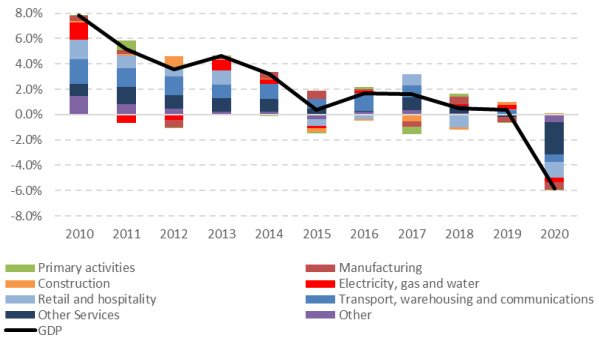


Figure 5. GDP growth decomposition, by sector 2010–20, %



Source: World Bank calculations based on data of Central Bank of Uruguay.

Note: Figures up to 2016 correspond to base 2005 of National Accounts, while base 2016 was used for the period 2017-2020. A consistent series covering the whole period is not yet available. Non-profit organizations are included in private consumption in base 2005 and in public consumption in base 2016. For base 2005, "Other" refers to financial intermediation services indirectly measured and net taxes on production. In base 2016, it only includes net taxes on production.

17. **Lower GDP growth translated into a deterioration in fiscal accounts in the face of stable revenues, rigid expenditures, and spending pressures.** Since 2015, the increase in current spending as a

share of GDP has accelerated. This has been driven mainly by spending on pensions, education, health care, and, most recently, interest payments, partially offset by a decline in capital expenditure. As a result, the fiscal deficit of the nonmonetary public sector rose from 1.9 percent in 2015 to 3.9 percent in 2019, the highest increase since 1989.[5]

18. **Prudent fiscal management mitigated the impact of the COVID-19 shock on fiscal accounts.** In 2020, the fiscal deficit of the nonmonetary public sector reached 5.4 percent of GDP. The net direct costs associated with the pandemic, as measured by the COVID-19 Fund, amounted to nearly 1.1 percent of GDP. The indirect costs such as forgone revenue and the denominator effect (drop in GDP due to COVID) may explain an additional 2.1 percentage points in the rise in the fiscal deficit in 2020 (World Bank 2022). This implies that the Government made a substantial fiscal consolidation effort in 2020, as reflected in the 3.2 percent fall in non-COVID-19 primary expenditures. Despite a strong COVID-19 spike in 2021 that generated net direct costs estimated at 1.7 percent of GDP, savings in non-COVID expenditure, together with economic recovery, should leave the country in a good position to improve fiscal accounts going forward as COVID-related measures are gradually phased out.

19. **Although low growth and the fiscal deterioration led to an increase in public debt, strong public asset and liability management helped limit debt service costs.** The gross debt of the nonmonetary public sector rose substantially from 51.4 percent of GDP in 2013, the lowest point in the series, to 60.5 percent in 2019, while net debt (discounting assets) grew from 40.6 percent to 51.2 percent of GDP over the same period. Gross debt compared particularly high with some regional peers like Chile (28 percent) or Peru (27 percent) and structural peers like New Zealand (32 percent) and Australia (47 percent).[6,7] Despite volatility, the external sector displayed a solid performance up to the COVID-19 shock. The flexible exchange rate regime has been the first line of defense against external shocks, coupled with improved financial regulation after the 2002 crisis. Further, large international reserves provided the Central Bank of Uruguay (BCU) with substantial liquidity to help the economy adjust to the shocks. In 2020, the current account deteriorated to 0.7 percent of GDP deficit, as the large fall in exports (19 percent in US dollars) was not offset by the drop in imports (14.6 percent).

20. **The good macroeconomic performance of external accounts has mitigated two important structural problems.** First, the country's integration in the global economy is limited and has stagnated over the last decade. The share of trade in GDP increased significantly to a maximum of 65 percent in 2008 with the surge in commodity prices, exceeding that of its regional, structural, and aspirational peers on average. Yet, the trend reverted with the growth deceleration in partner countries, the fall in commodity prices, and the relative appreciation of the Uruguayan peso, to reach less than 50 percent in 2019, which is far below many of the country's comparators. Second, savings and investment, the underlying determinants of the current account balance, remain low. Between 2003 and 2012, investment grew on average by more than 10 percentage points, twice the rate of private consumption, fueled by foreign direct investment. The share of investment over GDP nearly doubled, from 12 percent in 2002 to a high of 22 percent in 2012. Investment promoted economic diversification and productivity growth. Beginning in 2012, the investment rate decreased gradually to 15.4 percent of GDP in 2019 and remains lower, on average, than that of regional and structural peers or OECD countries. The country also has a chronically low savings rate, which has never exceeded 20 percent of GDP.

1.2. Improvement in poverty and inclusion stalled with the deceleration of growth.

21. **The achievements in reducing poverty and enhancing inclusion have been significant, but progress has slowed since 2014 and has shown an incipient reversal since 2018.** The monetary poverty rate measured by the national poverty line fell by almost half in 2009–13 to reach 11.5 percent. The poverty rate continued to decrease until 2017, when it reached 7.9 percent, but subsequently showed an incipient reversal (8.1 percent and 8.8 percent in 2018 and 2019, respectively). This is consistent with the observed trend under the international poverty line of 5.5 dollars per person per day (purchasing power parity 2011) (Figure 6). Similarly, in 2014–19, the real per capita income of the bottom 40 grew at only 0.3 percent annually, one of the lowest rates among comparators, while growth of the middle class decelerated

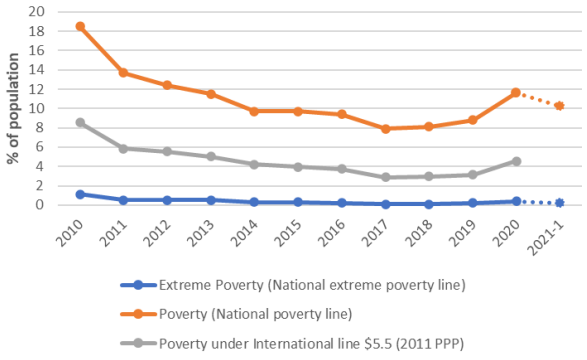
significantly: between 2013 and 2019, only 177,000 Uruguayans joined this group, compared with 439,000 between 2009 and 2013. Still, the middle class in Uruguay remains the largest in the region, representing over two-thirds of the population.[8]

22. **Similar to many Latin American countries, the pandemic and the associated economic fallout resulted in a rise in the poverty rate.** The poverty rate rose from 8.8 percent in 2019 to 11.6 percent in 2020.[9] The recent publication of biannual official estimates shows 10.2 percent poverty rate in the first semester of 2021. Had it not been for safety nets and additional transfers deployed in response to COVID-19, the poverty rate would have reached 14.9 percent in 2020 (World Bank 2022). Uruguay's stimulus package (nearly 2.2 percent of GDP[10]) lagged most regional counterparts. Yet, Uruguay was in a relatively good position to deploy quick, effective measures at comparatively low extra costs, given the social safety net, relatively high labor formality rate, strong health sector, and comparatively good welfare indicators (World Bank 2022). The Government's flagship cash transfer programs—*Asignaciones Familiares–Plan de Equidad* and *Tarjeta Uruguay Social*—and other direct transfer programs contribute heavily to inequality reduction. Close to half the benefits go to families in the bottom quintile of the income distribution, and another 22 percent go to the second quintile.

23. **Unlike pre-2014, the overall contribution of labor income to poverty and inequality reduction fell severely in 2014–19** (Figure 7). The unemployment rate reached an average of 8.9 percent in 2019 before rising to 10.3 percent in 2020 because of the effects of the pandemic. Informality was at 38 percent among workers ages 14–24, compared with 23 percent among other workers. Unemployment was 23.9 percent in 2019 among young men and 32.8 among young women and rose to 29.2 percent and 38.6 percent, respectively, in 2020 after the onset of COVID-19. In a context of weak labor market outcomes and improved social transfers, pensions have gained relevance in recent years and become the most important income source associated with poverty reduction.

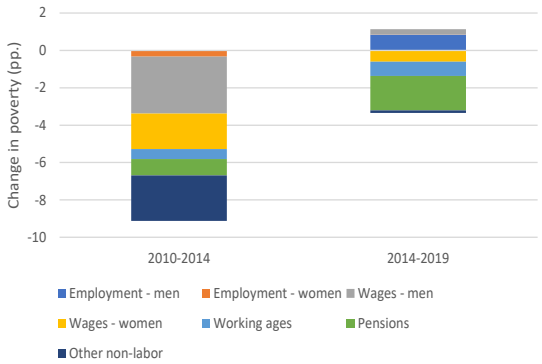
24. **Despite positive results in poverty reduction, there are persistent gaps across geographical areas, race, and age**. The share of the population living below the national poverty line is significantly higher in the north of the country and in some neighborhoods of Montevideo. It is also higher among children and youth. The rate among the Afro-descendant population was 19.2 percent in the first semester of 2021, compared to 10.2 percent for the overall population. In both 2008–13 and 2013–19, poverty reduction rates were lowest among children and the population in Montevideo. The Afro-descendant population experienced a slightly higher reduction in poverty rates than the national average in 2013–19, with no significant differences during 2008–13.[11]

Figure 6. Poverty and extreme poverty, 2010–21



Source: National Institute of Statistics and own estimation based on SEDLAS (CEDLAC and World Bank)

Figure 7. Changes in poverty, by income source

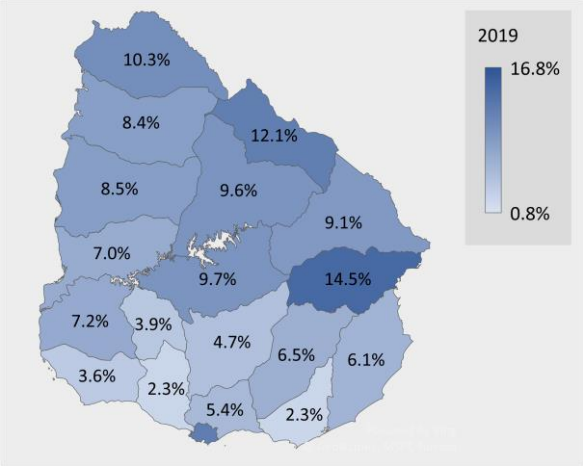


Source: Based on data of CEDLAS.

25. **Although estimates for the first half of 2021 indicate recent improvement in welfare, persistent territorial disparities were reinforced by the uneven economic and social effects of COVID-19 across regions and municipalities.** Departments in the north of the country and the capital Montevideo historically display the highest incidence of poverty. In Montevideo, the northern municipalities are

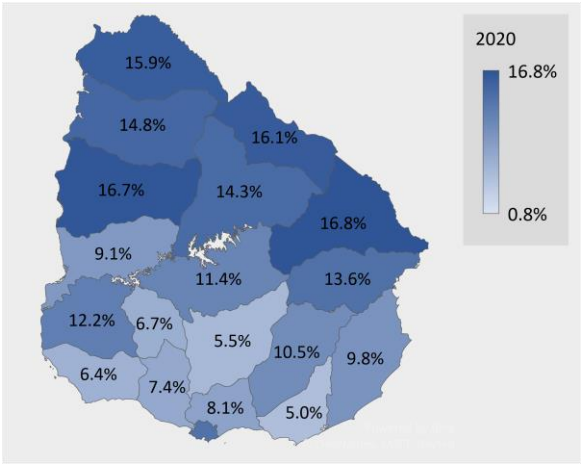
characterized by concentrations of poverty, while the southern municipalities display low poverty incidence. Despite the implementation of timely measures to help mitigate the negative effects of the pandemic on welfare, poverty rates increased nationally, and the geographical pattern was reinforced nationwide (Map 1 and Map 2).[12]

Map 1: Poverty rates, by department, 2019



Source: Own elaboration based on National Institute of Statistics.
Note: The poverty rate was 12.2 percent in Montevideo.

Map 2: Poverty rates, by department, 2020



Source: Own elaboration based on National Institute of Statistics.
Note: The poverty rate was 13.6 percent in Montevideo.

26. **Barriers to social inclusion represent constraints on future growth.** Gender gaps in labor market participation and women's limited involvement in entrepreneurship constrain growth. While Uruguay has made significant advances in equity and social mobility, gaps in well-being across population groups persist. For instance, individuals are twice as likely to be poor in woman-headed households (11 percent) than in man-headed households (5.8 percent). The poverty rate among Afro descendants is 19.2 percent, almost twice the national average. Although they account for only 8 percent of the population, Afro-Uruguayans represent almost a quarter of the poor. In Montevideo, more than 31 percent of people with severe disabilities have at least one unmet basic need, compared with 26 percent of people without disabilities (World Bank 2020c).

27. **The demographic dividend provides a critical window of opportunity to improve human capital, raise productivity, and strengthen public finances.** Population aging is raising concerns about the sustainability of improvements in well-being and the degree of intergenerational equity created by transfers through the social protection system. Productivity gains are fundamental to preparing for population aging. Further, a sustained increase in women's participation in paid work would delay the moment when the economic dependency ratio will bottom out and start rising again.

1.3 A sustainable trajectory for growth will come from Uruguay's commitment to further mitigate the effects of climate change

28. **Since SCD1, the country has made progress toward more sustainable growth.** Over the past decade, Uruguay has made strides in diversifying the electricity matrix toward greener sources more quickly than regional and structural peers. Between 2012 and 2018, the country added 1.8 gigawatts of electric power, of which 1.5 gigawatts were contributed by wind energy projects and 0.2 gigawatts by solar energy projects.[13] With 96 to 98 percent of electricity now generated from renewable sources, the country is on pace to achieve carbon neutrality by 2050. Emissions per capita have been stable, at about 1.8 tons since 2014.[14] This is much lower than most regional and structural peers. The country also has sufficient installed capacity to meet internal demand and to export electricity to its neighbors.

29. **Uruguay continues to be vulnerable to multiple environmental shocks, including climate change**. The country faces two types of environmental threats: growing pressures from anthropogenic

activities (for example, soil degradation and water pollution) and persistent, small- and medium-scale weather-related shocks that have become more frequent and intense. These two threats are related and tend to amplify each other. Moreover, the country's high urban density and heavy economic exposure to climate patterns exacerbate the impact of these shocks on people, the economy, and the environment.

30. **Severe drought has caused substantial economic loss**. Drought affects agricultural yields and meat production in the country's extensive livestock farming system. The 2017–18 drought was particularly damaging to agricultural production: the Agricultural Programming and Policy Office estimates that the forgone revenue from grain production exceeded US$510 million (around 0.8 percent of GDP) in 2018, nearly 23 percent higher than the levels of financing the Central Government received from all multilateral development banks that year. The poor performance of the agriculture sector rippled through the entire economy, affecting other sectors, such as trade, manufacturing, and transport. The Agricultural Programming and Policy Office estimates average direct and indirect losses from drought at US$383 million and US$1.2 billion, respectively, over a period of 30 years (OPYPA 2018), or a total of 2.5 percent of GDP. More recently, in 2020, the severe drought led the primary sector to contract by 0.4 percent.

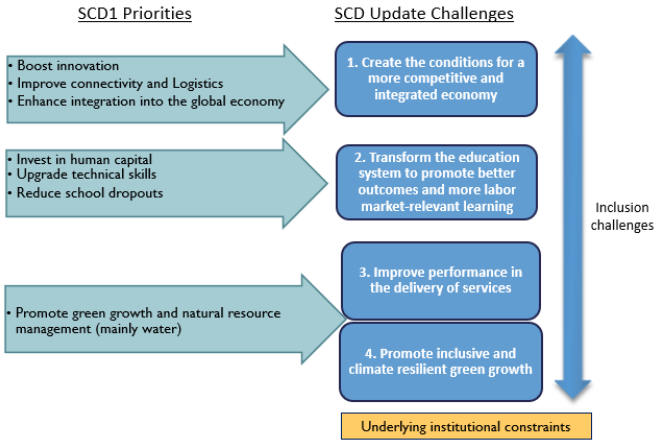
31. **Floods are becoming more frequent and more intense**. According to the National Emergency System, 87,557 people were displaced from their homes because of adverse weather-related events, mostly floods, in 2015–19 (SINAE 2020). Some areas of the country are particularly vulnerable to such catastrophes. The forced evacuations and damage resulting from these events have had a significant impact on well-being and on the economy. Floods are poised to become more frequent and intense in the future. By 2050, Uruguay is projected to experience a rise of about 100 millimeters in annual average precipitation, as well as an increase in rainfall variability. Annual losses from floods are expected to grow from US$64.2 million currently to US$352.8 million in 2030.[15]

32. **Such climate shocks are a significant threat to the country's ambitions for the agricultural sector, the main export engine.** The agricultural sector is responsible for almost 80 percent of the country's merchandise exports and represents an average of 8 percent of GDP and 14 percent of total employment (OPYPA 2018). The Government has set the ambitious goal of increasing agricultural production, while preserving natural capital. In 2019, it formally adopted the National Plan of Adaptation to Climate Variability and Climate Change in the Agricultural Sector (NAP). The plan builds on a robust analysis of climate-related shocks to various agro-value chains in Uruguay, sets long-term objectives, and presents a shorter, five-year action plan.

2. Development challenges

33. **Starting from SCD1 priorities and considering recent developments and new analytical findings, this SCD Update identifies four binding development challenges** (Figure 8).

Figure 8. From SCD1 Priorities to SCD Update Development Challenges



34. **First, Creating the conditions for a more integrated and competitive economy.** The economy has been continuously losing dynamism since SCD1, reflected in stagnating Total Factor Productivity and decreasing integration into the global economy. This development challenge groups related priorities identified in SCD1 which have become more pressing: boost innovation, improve connectivity and logistics, and enhance integration into the global economy. Recent analytics argue for tackling two additional binding constraints: the low levels of domestic competition, and barriers to women's economic participation that cause suboptimal use of talent.

35. **Second, transforming the education system for labor market-relevant learning outcomes.** Despite progress in curbing school dropout and improving learning results, Uruguay has not been able to close the gaps vis-à-vis its structural peers. In a context of an aging population and rapid technological change, there is ample consensus that a substantial upgrade in human capital is needed to increase productivity and improve equity in the access to economic opportunities. The COVID-19 pandemic has stressed this need.

36. **Third, improving quality and delivery of basic services, such as water, sanitation and electricity.** New analytics since SCD1 have shed light on key outcomes and constraints of the water and sanitation, and electricity sectors. While access to basic infrastructure is universal in Uruguay (except for sanitation), the country lags its peers in several dimensions of the quality and efficiency of key infrastructure services. A large share of these services is provided by public utilities that operate nationwide and that play a significant role in the economy. While the solutions for bridging the quality and efficiency gaps in infrastructure service delivery are sector specific, they are connected to a broader agenda of institutional strengthening in the corporate governance of SOEs.

37. **Fourth, promoting inclusive and climate resilient green growth.** The urgency and demands for climate action have increased since SCD1, making this area of focus more prominent in this SCD Update. While Uruguay has made progress toward environmental goals compared with other countries in the region, it would benefit from boosting the resilience of the agricultural sector to climate shocks. It should seize opportunities for growth by expanding access to green markets through low-impact sustainable agriculture and the protection of its natural resources. Uruguay also has a long way to go in terms of decarbonizing transport.

38. **Reforms to tackle these challenges would not result in lasting change without addressing the underlying institutional constraints.** Supporting Uruguay's transition toward a new growth model based on greater economic diversification, innovation, resilience, and productivity requires strengthening the country's institutions.[16] The historical experience of countries that have converged toward high-income status suggests that a range of institutional reforms are instrumental to create a level playing field among firms, enable contract enforcement and achieve more efficient resource allocation, and, ultimately, contribute to long-term growth and productivity (World Bank 2017).

39. **The institutional analysis presented in this SCD builds on a new analytical framework for a country-level institutional assessment that has been designed in parallel and applied to the case of Uruguay** (World Bank 2021d, 2021e). The heatmap (Table 1) assesses the relevance of underperforming institutions in constraining efforts to tackle the four development challenges. The first column lists the clusters that are ranked as having "weak institutional capital", as identified in the benchmarking exercise. For each of these, the cell reflects the specific functional areas (captured by proxy indicators) that appear to drive the suboptimal performance. The subsequent columns reflect the collective judgment on how binding the institutional constraint is for a particular development challenge, assessed on a three-point scale (marginal, moderate, and substantial).

Table 1. Institutional heatmap

Institutional clusters that show weak institutional capital relative to all	***Development challenges identified by the SCD***			
	1	*2*	*3*	*4*
	Creating the conditions for a	Transforming the education system	Improving performance in	Promoting inclusive and

	more competitive economy	for better learning outcomes	the delivery of basic services	climate resilient green growth
SOE and public utility governance	Substantial	Marginal	Substantial	Moderate
Public sector management institutions	Substantial	Substantial	Substantial	Substantial
Business environment and trade institutions	Substantial	Marginal	Substantial	Moderate
Financial institutions	Substantial	Marginal	Marginal	Moderate

*Source***:** World Bank 2021c, 2021d, 2021e.
Note: The table shows institutional areas in need of development. The cells are shaded to indicate the importance of institutional constraints for each of the SCD development challenges.

2.1 Development challenge 1: Creating the conditions for a more competitive and integrated economy

40. **A more competitive economy will be crucial to ensure a sustainable and inclusive growth path beyond the COVID-19 recovery.** Many of the binding constraints to growth can be traced back to institutional weakness: Uruguay ranks in the bottom 25 percent with respect to all comparators combined on business and trade institutions, financial institutions, and SOE governance, which are intimately related to the competitive environment (World Bank 2021e). A sustainable growth process will require an enabling environment for innovation, investment in physical capital, and enhanced human capital. Innovation and private physical investment need to be buttressed by a growth-friendly environment and supportive institutions that: (i) incentivize factor and knowledge accumulation at the firm level; and (ii) reduce barriers to factor and knowledge accumulation and reallocation (Cirera and Maloney 2017).[17]

41. **Sound macroeconomic conditions are key to incentivizing factor and knowledge accumulation.** Despite improvements in its macroeconomic policy framework in recent decades, the country is still vulnerable to external factors, such as terms-of-trade shocks, regional economic developments, or international financial conditions. The buildup of public spending pressures over time with no significant increase in revenues have worsened the country's structural fiscal position, limiting the fiscal space and raising concerns on the country's long-term fiscal outlook. Moreover, although lower than in much of the second half of the 20th century, the country still has persistently one of the highest inflation rates in Latin America, which has contributed to the dollarization of portfolios and weak financial intermediation. Combined, these factors negatively affect growth and poverty reduction prospects.

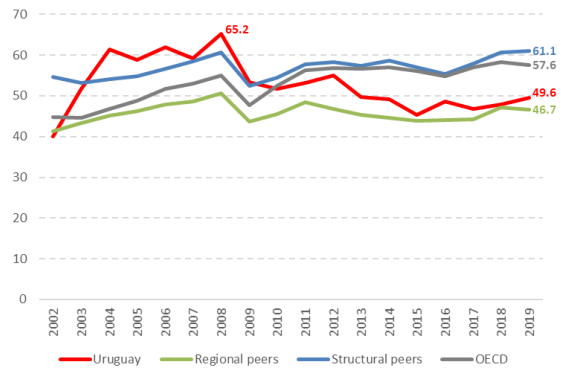
42. **Uruguay's integration to global markets has stagnated since SCD1, and it's lower than expected given its size and income level**. Trade openness has been fluctuating slightly below 50 percent since 2013, down from a maximum of 65 percent in 2008. In 2019, the country's trade-to-GDP ratio (49.6 percent) was below that of most of structural peers (Figure 9). While Uruguay appears to be considerably more open than Brazil (28 percent) and Argentina (33 percent), it ranks well below Paraguay (71 percent), the other small full member economy within the Southern Cone Common Market (Mercosur). The participation of the economy in GVCs is limited, lower than most regional and structural peers. The split in the production process that characterizes GVCs can help the country move up the value chain toward the production of more sophisticated and complex goods that contribute to diversifying the export base, rather than moving directly to the production of finished goods (World Bank et al. 2017).

43. **Related to an insufficient insertion in international markets, domestic competition levels are relatively low.** According to the product market regulation index (World Bank 2015a), Uruguay exhibits significant regulatory constraints that hinder competition. Only Argentina and Brazil have more competition constraints in the region, and Uruguay is well above the OECD average. Other indicators such as the Global Competitiveness Report, confirm product market regulation findings. The country's relatively high product market regulation index is driven by strong state control, explained by corporate SOE

governance practices, price controls, and the predominance of public ownership of network sectors. Insufficient global integration and low competition are re-enforcing. In the absence of domestic competitive pressures, imperfect pass-through of (lower) international prices to domestic markets could result in higher profits for concentrated sectors instead of economy-wide efficiency and welfare gains.[18] Likewise, Uruguay could better benefit from the competitive pressures of a more open economy, which promotes exports by expanding markets, increasing the range of available inputs, and enhancing efficiency among firms selling domestically.[19]

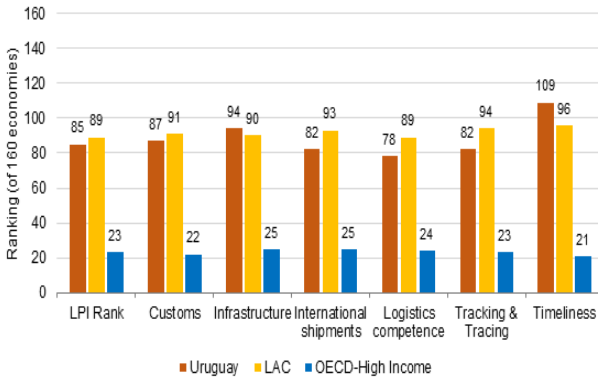
44. **Gaps in transport and logistics infrastructure also affect competitiveness.** According to the World Bank Enterprise Survey, nearly 36 percent of the firms in Uruguay, compared with 23 percent in the region and 10 percent in the OECD, reported that transport is a major constraint on business. Transport and logistics services can represent 15 to over 50 percent of the delivered price of goods, depending upon the product and origin-destination (Schwartz et al. 2019). According to the 2018 World Bank LPI, Uruguay performs below the level of OECD countries and below the region on some of the six dimensions assessed (Figure 10). While national roads have received a significant upgrade in recent years, connectivity is hindered by poor links to secondary and tertiary roads. Seaports are losing competitiveness as transit and transshipment cargo volume is dropping in the main ports of Montevideo and Nueva Palmira. Railroad rehabilitation is under way, and the entry of a new operator is expected to exert competitive pressure on the market and raise operational efficiency standards, but short distances represent a structural constraint.

Figure 9. Trade as a share of GDP, 2002–19, %



Source: Based on 2021 data of World Development Indicators.

Figure 10. LPI ranking, overall and by component, 2018



Source: LPI (database), World Bank, Washington, DC.

45. **Gaps in internet access can delay the development of the digital economy and perpetuate inequalities.** Internet access is widespread among highest income quintile households (Quintile 5), as 86 percent of households have a fixed broadband connection, but this percentage drops to 51 percent for the lowest income quintile (Quintile 1). Uruguay faces the challenge of lowering fixed internet tariffs to increase adoption since, while for Quintile 1 it represents 3.3 percent of the average monthly income, above the 2 percent threshold established by the International Telecommunications Union.

46. **Regarding barriers to factor accumulation, a small and shallow credit market contributes to Uruguay's competitiveness challenges.** While the financial sector is sound, it is small, bank-centric, concentrated, and highly dollarized. Overall, the banking sector showed sound financial indicators entering the crisis, including high capital levels and adequate liquidity buffers, reflecting strong prudential regulation and supervision. Uruguay underperforms relative to regional and structural peers in financial development, as measured by the financial development index of the International Monetary Fund, and is below what might be expected based on the country's macroeconomic fundamentals (IMF 2016). About half the credit going to the private sector is denominated in foreign currency, which disproportionally affects micro, small,

and medium enterprises. Of the total employed in these enterprises, 42 percent are women (MIEM 2017). Additionally, estimates show that 35 percent of these enterprises are owned by women**.**

47. **Although labor market institutions are relatively strong, there is evidence that labor market regulations may be a binding constraint on competitiveness.** Inclusive labor market policies require some trade-offs by introducing rigidities that prevent efficient labor reallocation to more productive activities. According to the Global Competitiveness Report 2019 (Schwab 2019), Uruguay ranks last among all 141 countries on the flexibility of wage determination, and it ranks 138th in hiring and firing practices and in cooperation in labor-employment relations. Torres and McKenzie (2020) find that unemployment among youth, a group highly sensitive to labor market rigidities, cannot be explained through standard human capital variables and is likely the result of structural characteristics.

48. **Uruguay compares relatively well in the region in terms of gender gaps in access and use of productive resources, but convergence between women's and men's participation in the labor market has plateaued in the recent decade and is behind most aspirational countries.** For instance, the female-male ratio in labor force participation for ages 15-64 is 82 percent, compares favorably with 73, 75 and 79 percent in Colombia, Argentina and Chile; but is below the 84, 88 and 89 percent in Peru, Spain and Australia, respectively. Challenges faced by Uruguay to close gender gaps in the job market are similar to those in structural and aspirational peers, where more complex policies such as financial incentives in the form of tax credits for working mothers, subsidized or free childcare for very young children and parental leave reforms have been shown to positively affect job market outcomes.[20]

2.1.2 Underlying institutional constraints

49. **Institutional constraint (IC) 1: Budget rigidities and demographic trends will continue to put pressure on fiscal accounts.** Credible fiscal institutions will be key to curbing poor fiscal dynamics, which has become more pressing since the COVID-19 shock. The country is currently implementing a structural balance fiscal rule that would help improve the fiscal framework, which is crucial to prioritizing expenditure in critical areas. In the medium term, a credible fiscal framework needs to include actions on several expenditure areas, including the largest single-ticket item of public expenditures: public pensions. The Uruguayan pension system is one of the most generous in Latin America, with public pension expenditures larger than in OECD countries and most countries in the region. The current administration has set up an experts' committee on social security to give technical advice on a comprehensive reform of the system.

50. **IC 2: Mercosur restrictions contribute to Uruguay's relatively low global trade integration.** The bloc sets a common external tariff that is high by international standards, and has limited preferential access to other markets. Mercosur also shows one of the lowest levels of depth at both a global and a regional level (World Bank 2020b). Shifting toward a deeper level of trade integration within Mercosur could lead to higher exports within the bloc and contribute to greater GVC integration. Although not in the immediate future, the implementation of the Mercosur–European Union free trade agreement represents a major breakthrough to access markets with ample niche opportunities. There are also no technical constraints to exploring bilateral agreements with extra regional countries.

51. **IC 3: The competition framework is fragmented, resulting in a weak and limited Competition Commission**. The competition framework is fragmented across various actors. The Commission for the Promotion and Defense of Competition and three other agencies are in charge of applying the principles of the law in their respective sectors. Nonetheless, the law is not clear on whether there could be additional application entities because it establishes explicitly the authority of the entities above to enforce the competition law, but, at the same time references "among others." The Competition Commission's mandate is limited because the markets overseen by it are restricted to those outside the scope of other regulators. The commission has its own limited budget,[21] but can only execute it through the Ministry of Economy and Finance (MEF). Most of the commission's activities are initiated by complaints *ex-post*, and rarely performed *ex-officio*. The commission has staff limitations and lacks full autonomy in decisions because it

is under the MEF, which deviates from OECD best practices. The commissioners are not selected through a public process.

52. **IC 4: The regulatory framework creates an uneven playing field among SOEs and private operators**. Regulations that prevent anticompetitive behavior by dominant SOEs have not been effectively implemented. Moreover, there are no clear regulations to ensure that SOEs holding a legal monopoly in at least one market do not leverage their power in related markets. Regulators appear to lack the incentives or the technical capacity to detect and punish anticompetitive behavior. Sectoral regulators, who are typically under the authority of the same line ministries responsible for the incumbent SOEs in the sector, are in charge of enforcing the Competition Law. Within such a framework, the regulators have rarely issued sanctions against anticompetitive behavior by SOEs. There is an opportunity to promote the entry of new operators in the digital services market, and promoting passive infrastructure sharing which would allow private operators to deploy networks more efficiently and minimize duplication of digital infrastructure.

53. **IC 5: Conflict of interests and complex governance structures in SOEs affect logistics efficiency**. Conflict of interests affect the waterway and maritime transport, where one SOE is responsible of port planning, operation, and regulation. The National Ports Administration is in charge of the construction, rehabilitation, and maintenance of port assets and infrastructure. It regulates and oversees the private operation of ports and is also involved in port operations. In addition, complex governance structures in SOEs create incentives for establishing firms based on corporate private law. This allows SOEs to avoid financial oversight and the audits of the Supreme Audit Institution (*Tribunal de Cuentas de la República).* While granting greater autonomy and facilitating decision-making, this shift may impact perceptions of transparency and accountability.

54. **IC 6: The Central Bank's institutional structure and regulatory practices may hinder domestic credit market development.** The BCU was instrumental in the good macroeconomic performance after the 2002 crisis, with the adoption of an inflation targeting regime with a flexible exchange rate, and the implementation of regulatory policies that mitigated the vulnerabilities of a financial system characterized by a high degree of portfolio dollarization. However, although relatively low for historical standards, the inflation rate has remained above the upper bound of the inflation target 83 percent of the time in the last ten years. Recent research (Labat and Licandro, 2021) traces the roots of this persistent inflationary bias back to the BCU's institutional set-up, including weakness in the current inflation targeting framework with lacks a clear focus on preserving price stability at the mid-point of the target range. Weak financial intermediation and a segmentation of credit markets also poses challenges for monetary policy. Regulatory practices have also hindered credit development, such as the generalized requirement that small and medium enterprises provide real property as collateral for loans. Also, digital financial services could help facilitate the development of new credit products based on movables and more generally speed access to credit to more small and medium enterprises.

55. **IC 7: Labor market institutions would benefit from an adaptive reform process**. The overall legislative apparatus was designed for a classic worker who is losing relevance because of the growing number of employment arrangements and the expanding digital economy sector. Authorities in Uruguay have been active in regulating these new forms of employment, yet care should be taken to ensure that reforms do not alter the nature of these new forms of employment and distort work incentives. Most OECD countries are seeking to balance the trade-offs by adapting social security mechanisms to provide coverage for all forms of employment, while introducing flexible labor and social security regulations, which could create space to reduce informal employment in Uruguay.

2.2 Development challenge 2: enhancing learning outcomes to boost human capital

56. **Low human capital represents a binding constraint on development in Uruguay, undermining efforts to increase productivity and boost economic growth.** The amount of human capital

that a child born in Uruguay today can expect to attain by age 18 is only 60 percent of the child's full potential, as measured by the World Bank Human Capital Index (World Bank 2021b). Concern is growing that poor education quality will limit labor supply and the opportunities for workers to access high-quality jobs.

57. **Learning deficits emerge early in Uruguay.** By age ten, 42 percent of children have not reached the expected level of reading proficiency (World Bank 2019), above the regional average but below the average of comparator countries. PISA scores are slightly higher than those of regional peers and have improved since 2012.[22] However, they are significantly lower than those of structural and aspirational peers: 58 percent of students have level 2 proficiency in reading in Uruguay compared with 77 percent in OECD countries, while 49 percent of students attained level 2 in mathematics compared with 76 percent in OECD countries.

58. **Uruguay has high repetition and drop-out rates and one of the lowest secondary graduation rates in the region**. Relative to all countries covered in the PISA 2018 evaluation, Uruguay has the fourth highest share of students with grade repetition in primary and lower-secondary education (31.5 percent), which is 6.8 percent higher than the Latin American average and 21.2 percent above the mean for all countries covered in the survey. Although attendance rates have recently increased in upper-secondary education, about 14 percent of male youths are out of school, about twice the OECD average and three times the rate among structural peers (Figure 11). The country has one of the lowest upper-secondary graduation rates in the region: 43.4 percent of secondary-school students complete that level, compared with 58.7 percent in Mexico, 67.3 percent in Brazil, and 92.1 percent in Chile. Secondary-school completion is well below the structural comparators and OECD averages and shows significantly higher gradient across income quintiles highlighting an inclusion challenge (Figure 12).

Figure 11. Out-of-school youth, secondary school, circa 2019, %

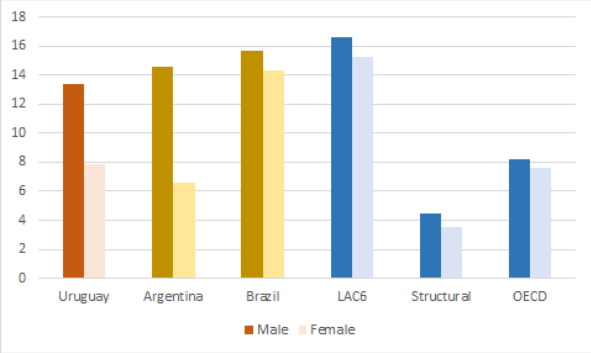
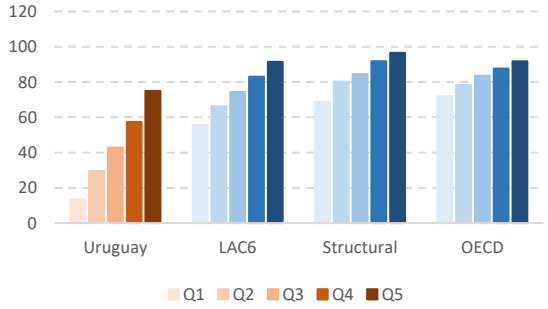


Figure 12. Completion rate, upper-secondary education, age 22, by quintile, circa 2018, %



Source: Elaboration based on data of UNESCO Institute for Statistics, United Nations Educational, Scientific, and Cultural Organization, Montreal, http://data.uis.unesco.org/.

59. **Disparities in performance appear to be driven by socioeconomic status and inequality of opportunity.** In PISA 2018, socioeconomic status explained 16 percent of the variance in reading performance in Uruguay, higher than the OECD average (12 percent). Likewise, while Afro-Uruguayan children exhibit lower average scores than non-Afro-Uruguayans[23], the gaps disappear after controlling for family income (Santiago et al. 2016). There is evidence that low-performing students are clustered in low-performing schools. Other indicators, such as graduation, repetition, and overage rates, are also driven by socioeconomic status. Thus, at age 22, only 13 percent of the lowest quintile has completed all education cycles, while the share in the highest quintile is 75 percent.

60. **Inequalities and persistent gender segregation in education and occupations imply that there is a misallocation of talent across occupations, with effects on productivity and welfare.** Although women represent the majority of students at the university level, there is high segregation in educational

and occupational fields. For example, in 2018, women represented 63 percent of all students enrolled in *Universidad de la República*, but only 23 percent of students in engineering (Udelar 2019).

61. **Student and teacher absenteeism is high in Uruguay.** According to the PISA 2018, self-reported student absenteeism more than doubled, from 23 percent in 2012 to 52.7 percent in 2018, and Uruguay had the third highest absenteeism rate among 72 countries. In addition, when asked about the factors that affect learning negatively, 61.4 percent of school directors answered that teacher absenteeism was critical, while the OECD average was 18 percent, and 17 percent among structural peers.

62. **The COVID-19 pandemic is expected to have negative effects on learning outcomes and exacerbate existing gaps.** *Plan Ceibal*, well advanced nationwide before the pandemic, allowed Uruguay to be more well prepared than most countries in the region to transition to remote learning.[24] However, digital learning tools are only available up to lower-secondary school, and the implementation of EduTech programs has been less well-coordinated at the secondary level than at the primary level. Moreover, a digital divide still hinders the access of the vulnerable to distance learning technologies. While 96 percent of students in households in the top quintile connected at least once during school closures in June 2020 to CREA, Uruguay's education platform, only 79 percent of students in the bottom quintile did so. According to preliminary estimates, learning poverty (defined as the share of children who cannot understand simple text by age 10) will increase by 2 percent on average, and the impact will be greater among children in the lowest quintile, who are also more likely to lack adequate access to remote learning and childcare.

63. **Changing realities of the job market require adapting Uruguay's education curricula with a life-cycle perspective to prepare students for jobs of the future and help workers transitions.** In this regard, efforts by the National Administration of Public Education (ANEP) to develop a more integrated curriculum with a greater focus on cross-cutting competencies and well-defined graduation profiles is a welcome step.

64. **Beyond the school system, adapting the life-long learning program to the new labor market scenario is also important to ensure that adults who are already working can continue to contribute productively.** While there is already a training institute that provides professional training and monitors sector's demands for qualifications (INEFOP), its offerings could be broadened to include an emphasis on soft and transferable skills.

2.2.2 Underlying Institutional constraints

65. **There is margin to address institutional and governance shortcomings in the education system to improve learning outcomes**. This section highlights four main institutional constraints that contribute to the weak learning outcomes identified above.

66. **IC1: fragmented governance structure and the centralized school management system.** The education policy-making role is shared between the Ministry of Education and Culture and the ANEP, undermining accountability and making it difficult to credibly commit to adopting and implementing education policies. The responsibility for education policy design and implementation as well as learning outcomes within the education system is unclear (Santiago et al. 2016). Much of the decision-making authority resides with the ANEP, which has considerable autonomy, limiting the effectiveness of the Ministry to enforce and implement policy measures. Moreover, the institutional architecture of the ANEP reflects a highly fragmented decision-making process, which undermines coordination across educational levels and magnifies the power of veto-players. In addition, the highly centralized management of curricula, human resources (teachers), administrative and financial matters undermine the autonomy of schools in addressing specific organizational problems. In Uruguay, the Central Governing Council and the education subsystems and directorates centralize the management of resources. Limited autonomy makes it difficult to hold local players accountable, in particular school directors, because they do not have the power to take many of the decisions that affect school learning outcomes.

67. **IC2: rigid and ineffective human resource management practices.** Teachers act as co-administrators of the school system, increasing the risk that corporate interests capture the implementation of education policy. The Central Governing Council members and the Teacher Training Council members

are elected in part by teachers.[25] Teachers are involved either directly or indirectly through the teachers' unions in education policy, including those decisions that directly affect their own interests. This structure has two key consequences. First, the education system becomes centered on teachers rather than on students. Second, the power of the teachers' unions is strengthened, making them an important veto-player in all major decisions and reform proposals. In addition, the education system lacks a national framework for teacher competencies, with no shared understanding of what teacher competencies should be, and no standard framework against which teacher performance can be appraised. Low teacher compensation and a salary structure that does not offer incentives for good performance add to the problem.[26] The base salary is driven by seniority, while ad hoc incentives are added to the salary for attendance, working in vulnerable contexts (*aprender* schools), and teaching load. Formal qualifications, graduate studies, and outstanding performance do not make a significant difference in compensation.

68. **IC3: lack of effective targeting in the distribution of public resources across schools.** The ANEP executes the bulk of public expenditure in school education, with full discretion over the allocation of funds across activities. The ANEP reports to the legislature on the execution of budgets annually and on progress against education targets every five years, a significant shortcoming in oversight. Recent ANEP efforts to set annual targets are on the right direction, but more work could better link strategies with resource allocation. In addition, resource allocation tends to be incremental, but should be more clearly needs-based. The Central Governing Council allocates resources to subsystems based on the previous year's allocation, and the subsystems allocate resources to schools on the same basis, while the parameters defining the basis for resource allocation or the funding allocated to each school are not made public.

69. **IC4: limited capacity to use data analytics and information from education evaluation agencies for policy-making purposes**. An autonomous national agency, National Institute for Educational Evaluation (INEEd), was established in 2012 with a mandate to evaluate the quality of education. It provides policy makers with data and analysis on learning quality, develops research to improve evaluations of the education system, and makes evidence-based recommendations on policy actions to improve education outcomes. However, INEEd has limited access to data and relevant information. INEEd does not evaluate the institutional processes that affect education outcomes, but focuses almost exclusively on educational efficacy and learning outcomes, thereby offering a limited contribution to tackling the underlying drivers of sector performance.

2.3 Development challenge 3: improving access and quality in basic services, including water, sanitation and electricity[27]

70. **Uruguay's utilities face challenges primarily in the quality and pricing of basic services, which are largely provided by public utilities with limited private sector participation**. The improvement of water, sanitation and electricity services can disproportionately benefit vulnerable communities and households, facilitating the poor's access to labor markets and increasing the value of their assets, as well as improve health and education outcomes. Uruguay has reached almost universal access to electricity and water supply services. Sanitation services, however, underperform OECD countries. The State Sewerage and Water Works is the sole operator responsible for drinking water and sanitation services throughout the country except for sanitation services in Montevideo. UTE is the national power utility responsible for the transmission and distribution of electric power in the country as well as the single buyer of 95 percent of the energy generated. The current structures of purely publicly-operated basic infrastructure services provided through national, unbundled utilities are uncommon in advanced economies where local management capacity and the external contracting of services are generally sufficient at the municipal, departmental (water, electricity distribution), or interservice level (bulk water production to distribution; generation to transmission to distribution of power).

2.3.1 Water and sanitation services

71. **Despite strong water access indicators, the quality of sanitation services remains a challenge.** In terms of the reliability of water supply services, Uruguay is performing at the level of OECD countries, but only 43 percent of households have access to safely managed sanitation services. This is low compared

with the average for regional peers (51.1 percent), OECD countries (83.7 percent), and structural peers (84.5 percent). In addition, only 43.5 percent of wastewater is subject to proper treatment in Uruguay, a proportion similar to that of regional peers but well below OECD countries (88 percent) and structural peers (81.2 percent).

72. **Water and wastewater tariffs are high, and technical inefficiencies are still significant in the sector.** Water and wastewater tariffs vary between US$23 and US$29 for 10 cubic meters depending on the region and are among the highest in Latin America (average at US$17; Figure 13). In particular, sanitation tariffs are based on volume, which is not common among international utilities. Customers off the sanitation network pay four to five times more than those on network.[28] Despite some earlier improvements, operational and financial inefficiencies in the water sector remain. Even when tariffs are high, operating cost coverage is low, at 1.1 compared with 1.3 in the region.[29] Profitability is also low with returns to assets (2.1 percent) and equity (3 percent) below similar utilities in the region (average of 4.4 percent and 8.9 percent, respectively).[30] There are also significant technical inefficiencies, with high levels of nonrevenue water (54 percent) compared with the region (45 percent) and high rates of water losses per connection (446 l/con/day) (Figure 14).

2.3.2 Electricity sector

73. **Uruguay has undergone an impressive transformation in electricity generation**. Since 2014, renewable energy has been in the range of 93 percent to 98 percent of total electricity generated in the country, one of the highest shares in Latin America. In 2019, Uruguay registered the highest electricity exports in the last 20 years. Demand for electricity has increased, but at the pace of most countries in the region and in line with global trends. Installed capacity surpasses demand, stressing the importance of long-term planning and fluid international exchanges of energy with neighbor countries.

74. **The quality of electricity services is comparable with the performance of the region, but lags relative to OECD countries**. Electricity quality as measured by the frequency and duration of interruptions is below OECD countries, showing significant room for improvement. The share of firms experiencing electrical outages is 55 percent compared with 65 percent in the region and 22 percent in OECD countries. However, interruptions only contribute to a small part of annual sale losses (0.3 percent compared with 0.5 percent in the OECD and 1.7 percent in the region).[31] Sectoral losses are high, averaging 20 percent, and this did not improve in 2005–19 (UTE 2019). Approximately 17 percent of these losses are nontechnical losses associated with clandestine connections. Overall losses were estimated at around US$172 million in 2020.[32]

75. **While residential consumers are satisfied with the quality of services, they are less so with the prices of services**. Residential electricity tariffs are high, particularly in comparison with Latin American countries with similar shares of hydroelectricity in total electricity generation. While still affordable if calculated as a share of family income and compared with the region, consumers are paying for some inefficiencies in the system. Also, industrial electricity tariffs seem to be competitive if compared with Brazil and Chile, but are still higher than in Argentina, where the overall generation cost is low.

Figure 13. Tariff charges for water services (US$/10m^3), 10 companies in Latin America, 2020

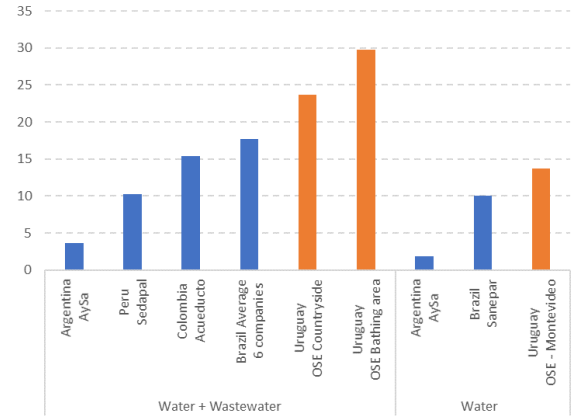
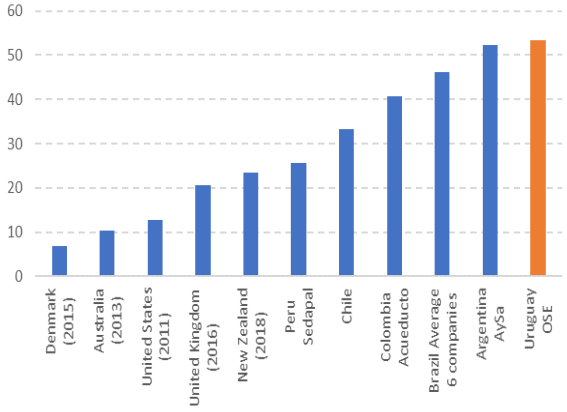


Figure 14. Share of nonrevenue water volume, circa 2020, %



Sources: For Latin American countries, data retrieved from each operator's website in 2020. For selected high-income OECD countries, data from IBNET.

Note: AySa - Agua y Saneamientos Argentinos. Sanepar - Companhia de Saneamento do Paraná. Sedapal – Servicio de Agua Potable y Alcantarillado de Lima. Acueducto - Empresa de Acueducto Agua y Alcantarillado de Bogotá. Sabesp - Companhia de Saneamento Básico do Estado de São Paulo. Copasa - Companhia de Saneamento de Minas Gerais. Cagece - Companhia de Água e Esgoto do Estado do Ceará. Compesa - Companhia Pernambucana de Saneamento. Casan - Companhia Catarinense de Águas e Saneamento. The average for six Brazilian companies covers Sabesp, Copasa, Sanepar, Cagece, Compesa and Casan. Figures converted to US dollars based on the exchange rate of February 2020. Share of nonrevenue water volume is the percentage of nonrevenue water volume out of the total produced water volume.

2.3.2 Underlying institutional constraints

76. **IC 1: lack of clarity on the oversight and objectives of public utilities and SOEs.** In the energy sector, policy, regulatory, and operational functions are not clearly defined. The roles of policy setting, technical, economic, and safety regulation, and the commercial operations of UTE are not clear. The corporate objectives of UTE are blurred by the imposition of social and political objectives. While UTE carries out commercial functions, it also participates in policy decisions (such as the definition of subsidy policies) and regulatory decisions (such as regulated prices). The placement of rights and responsibility with the national (gas and oil) energy SOE, ANCAP, for building out the country's charging stations is a further example of the blending of policy and operational functions.

77. **IC 2: weak influence and independence of regulators, including the limited role in price setting.** The main utility regulator of Uruguay is the Regulatory Unit for Energy and Water Services, which regulates the electricity, petroleum, and water and sanitation sectors, a quasi-independent body within the Presidency. Directors are appointed through the same political procedure as SOEs, by representatives of the Government party and the political opposition. In 2010, Parliament restricted the unit's regulatory powers by repealing its authority to establish general rules that ensure the functioning of markets and to establish price recommendations and technical conditions. In Uruguay, SOEs have the power to propose tariffs to the executive, set as costs, plus a markup, but the rate base of assets has not been established and is usually not known by the firm. Thus, inefficiencies are transferred onto pricing (Zipitría et al. 2019). Moreover, the ability of regulatory agencies to control the quality of services is also limited because of inadequate information systems and resources and overlapping functions and responsibilities dispersed across several entities. Additionally, the unit does not usually conduct market studies. In 2020, the Government issued new regulations (as part of the Urgent Consideration Law) clarifying the role and enhancing the autonomy of regulatory bodies for key utilities (the Regulatory Unit for Energy and Water Services and the Regulatory Unit of Communication Services) and committed to improving their technical capacity and strengthening their ability to set and recommend tariffs based on technical criteria. Full implementation of these measures and strengthening of the capacity of the regulator to enact its new

responsibilities will be critical for rationalizing the pricing structures for power, water and sewerage in Uruguay.

78. **IC 3: weak performance management systems.** Key performance indicators, such as quality of service targets, are not clearly established, making it difficult to assess performance and promote accountability for the public utilities. Although all SOEs establish general goals and strategies, they do not have specific indicators against which to measure their performance (Zipitría et al. 2019). In addition, they often pursue multiple objectives. Financial decisions respond to corporate objectives that, in the case of most SOEs, are not well defined. There is little oversight by shareholders, and, while there is fiscal control of some specific functions, SOE accountability toward stakeholders is limited. There are no penalties for underperformance, and publicly available information on the performance of SOEs is uneven.

79. **IC 4: board of directors with hybrid functions and lack of technical skills.** There are no technical or professional (merit-based) criteria for selecting board members of SOEs. However, improvements took place over the last 5–10 years, with 40 percent of directors having technical skills in 2010 and 70 percent by 2019. A transparent process for evaluating the performance of directors has yet to be established. Only about half of the managers report that their performance has an impact on salary, bonuses, or promotion opportunities (ONSC and World Bank 2021).

2.4 Development Challenge 4: Promoting inclusive and climate resilient green growth

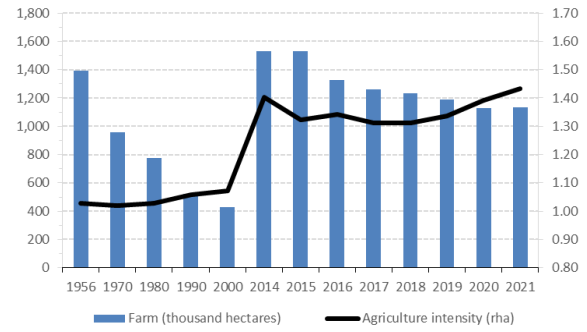
80. **As a natural resource-based economy, Uruguay is subject to risks to its economy and wellbeing derived from pollution and climate shocks.** Its agriculture, livestock, forestry production and tourism are very important in relation to its GDP, reliant on a healthy natural resource base. The expansion of agriculture and forestry is slowly advancing on the natural ecosystems, especially the extensive natural grasslands that harbor globally important biodiversity. The urban population also puts pressure on natural resources through production of solid waste and sewage while it is affected by agricultural runoff that is increasing contamination of rivers and lagoons that provide potable drinking water. A green growth path will be limited by climate shocks and related impacts if measures and investments in adaptation of key sectors are not taken. These include investments in climate-smart agriculture, water storage and urban/rural runoff management, protection of coastal and terrestrial ecosystems that can help mitigate impacts of weather events, among other strategies. Advancing the 2019 NAP for agriculture and advancing in adaptation planning and measures in other sectors is a Government priority.

81. **Despite progress in renewable energy, the transport sector is still largely dependent on carbon-based fuels.** Uruguay has begun to decarbonize the transport sector. The Government has actively supported the use of electric vehicles through subsidy schemes and tax incentives for electric buses and private vehicles and by investing in charging infrastructure along the main corridors. The first six months of e-bus operations helped reduce PM_{10} emissions by 4.6 percent.[33] However, the penetration of e-mobility is limited: only 32 electric buses are currently in operation of 110 planned by 2025, and the current subsidy approach[34] is costly. The transport sector still relies almost exclusively on carbon-based fuels, and it is still responsible for 65 percent of all CO_2 emissions. A large e-bus transition imposes challenges on the power system and UTE activity.

82. **The heavy reliance on the agriculture, livestock, and forestry development model has taken a toll on soil and water resources.** In 2000–14, the extension of dryland crops almost quadrupled, and there was a significant increase in the number of crops per surface unit (Figure 15). Crop expansion has driven up the pace of water erosion, the main source of soil degradation in Uruguay. Moreover, cattle ranching also puts soils at risk and the sustainability of the entire agricultural model in jeopardy. These concerns prompted the Government to implement policies to preserve soil and water quality, including the mandatory use of responsible soil use and management plans since 2013 (OPYPA 2020), which decelerated erosion considerably since 2014 (Figure 16). In addition, the intensification of agricultural production was accompanied by an increase in fertilizer and pesticide use by 17 percent between 2015 and 2019, linked to water pollution events in basins that are crucial for potable drinking water, such as the Santa Lucia River

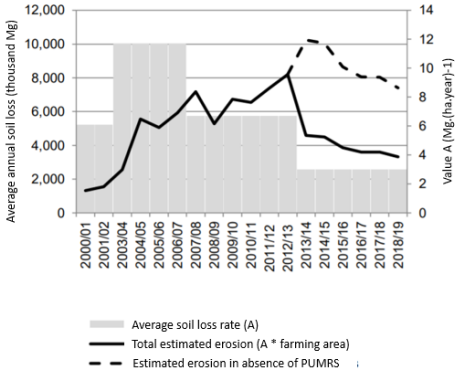
or in Laguna del Sauce.[35] These events not only jeopardize the quality of drinking water for people and livestock, but also harm tourism growth and coastal fisheries production.[36]

Figure 15. Trends in farm extension and agricultural intensity, dryland crops, 1956–2021



Source: MGAP and DIEA 2021.
Note: Intensity computed as (winter + summer crops)/surface.

Figure 16. Estimated trends in water erosion, 2000–19 (agriculture years)



Source: OPYPA 2020.

83. **The limited coverage of public protected areas and increasing coastal impacts from climate change-related events is a risk for tourism and economic activities.** Coastal vulnerabilities and impacts on tourism will be further exacerbated by climate change. The combination of sea level rise, more frequent extreme weather events, and the high concentration of people and assets on coastlines are a key consideration in national resilience. Protected areas, especially coastal areas, can provide protection against extreme climatic events as well as sea level rise, while helping support nature-based tourism and maintain the productivity of fisheries.

84. **While Uruguay does well on many environmental indicators, it does less-well in the protection of biodiversity**. It ranks 163 among 180 countries in the biodiversity and habitat issue category of the Environmental Performance Index in 2020.[37] The country's national biodiversity conservation strategy cites studies indicating a loss of natural grassland habitat of 10 percent over a 10-year period, which is a worrisome trend (MVOTMA and MRREE 2016). The national protected areas system covers a little over 1 percent of the country (Ministry of Environment 2020). There is low coverage of marine protected areas (primarily linked to the coastal protected areas or islands), despite the country having 672 km of coastline. Programs to integrate private landowners into conservation such as payment for environmental services approaches also should be advanced along with greater roles for local government.

85. **Enhanced capacity to prepare for and respond to climate shocks, which tend to disproportionally affect the most vulnerable, has the potential to help address the linked dimensions of physical, social, and economic resilience.** This is particularly relevant in a country such as Uruguay, in which, precisely because progress in poverty reduction has been significant, addressing the conditions of those remaining in poverty becomes even more complex. The population remaining in poverty represents the core of the entrenched dynamics of social and economic exclusion. For instance, approximately 5 percent of the urban population in Uruguay lives in deteriorating neighborhoods or informal settlements that are more overcrowded, flood more frequently, and are more affected by crime. Afro-descendants are about twice as likely to live in informal settlements prone to disaster risks.

86. **There are important opportunities for green growth despite these challenges.** The country is on a solid path to green growth, understood as a strategic lens and set of tools to harness natural capital and avoid environmental irreversibilities to sustain inclusive growth. It has been characterized in several environmental tracking indices as one of the better performers in the LAC region in advancing overall environmental goals in the context of the Sustainable Development Goals as well as low-carbon trajectories in light of the Paris Agreements and its Nationally Determined Contributions (NDCs)[38]. It is also considered a country that is increasing its natural capital with an estimated net positive growth of natural capital of 4

percent per year (World Bank 2018). A recent study on green growth opportunities for the country (Criscuolo & Cuomo in WB 2018) has identified several value chains including non-genetically modified soy, organic milk, sustainable beef and sustainable tourism that have growing niche markets with higher added-value and well suited to Uruguay's limited size and volume potential. These sectors also represent over 50 percent of the exports of the country with an important existing capacity base to project from.

2.4.1 Underlying institutional constraints

87. **Uruguay has a comprehensive and robust regulatory framework comprising subsidiary laws and executive decrees on climate change, however it can further improve its management of the climate change agenda**.[39] The National System for Response to Climate Change is the relevant interministerial coordination body, presided over by the minister of environment. Key policy documents include the National Climate Change Policy (2017) and the NDC (2017, currently under revision), as well as the upcoming Long-Term Climate Strategy. The system is complemented by the National Environmental System and the National Emergency System. Uruguay stands out in the region for its advances in access to information, for its monitoring, reporting, and verification system, and for the participation of nongovernmental actors in planning processes. Under its Open Government Action Plan, the Government has created easily accessible tools to visualize climate policy objectives, measures, and implementation progress, as well as greenhouse gas emissions data.

88. **IC 1: Limited integration of climate change considerations into planning.** The Government has improved the management of climate-related shocks through the adoption of the National Policy for Comprehensive Management of Emergency and Disaster Risks (2019–30). Despite these improvements, there has been a pervasive bias toward an ex-post response to climate-related events rather than ex-ante risk reduction and a fragmented rather than whole-of-government approach to climate resilience planning. In Uruguay, the systematic integration of climate change considerations into public financial management processes remains a challenge. Despite significant progress made by the National Emergency System, there is no integrated data management system on climate risks and vulnerabilities, including incurred losses and damages in sectors other than agriculture or on budget allocations and execution for climate-relevant activities. The Government has taken steps to strengthen the awareness of climate change in public financial management. For example, the National Budget 2020–24 requires that national climate targets be integrated in revenue and expenditure policy.

89. **IC 2: Accountability and oversight of climate change commitments could be strengthened.** In Uruguay, accountability on climate change is underdeveloped in various institutions, and there is no requirement for an independent body to advise on or assess the Government's plans or progress. The ad hoc advisory mechanism has a limited mandate determined by the executive. Even though the legislature has the right to call upon technical authorities and request information, there is no evidence that this mechanism has been used in relation to climate change. Current auditing mechanisms and guidelines are not designed to evaluate plans or policies in specific sectoral or thematic areas. However, the newly created Agency for Monitoring and Evaluation will coordinate the evaluation of public policies in Uruguay, potentially including the National Climate Change Policy.

90. **IC 3: The role and mandates of subnational governments in climate policy and action are not well defined.** Subnational governments play a key role in climate-relevant functions, such as urban and land use planning and risk management, yet their role in climate policy are not clearly defined. Only the governments of the departments are represented in the National System for Response to Climate Change through the *Congreso de Intendentes*, while local governments lack direct representation. The NDCs do not assign direct responsibility for implementation to subnational governments. Efforts are ongoing to develop regional, departmental, and municipal adaptation plans. Montevideo has already adopted a long-term strategy for resilient urban development. At the national level, the National Climate Change Adaptation Plan for Cities and Infrastructure (*Plan Nacional de Adaptación al Cambio Climático en Ciudades e Infraestructuras*) includes measures to strengthen the capacities and involvement of cities and local

governments. However, there are still challenges related to the distribution of funds, and investments do not currently require any screening for risks.

3. Priorities and High-Level Outcomes

91. **Grounded in the discussion presented in section 2, this SCD Update reassesses the country's priorities based on three filters**: the country team assessment based on a survey of the impact on the twin goals of growth and shared prosperity, new knowledge from recent analytical work, and consultations with external counterparts and experts. The thirteen identified priority areas are presented in the second column of Table 2.

92. **Recent analytical work provides foundation for this SCD Update to contribute to identifying more granular, actionable measures with high potential to unlock the constraints in each of the priorities.** Specific measures (presented in the last column of Table 2) are a list of relevant examples about how to address the attached priorities, but do not represent a comprehensive list of measures. In addition, given the lens in this SCD most of the specific measures have a strong institutional component. These measures are linked to institutional constraints presented in section 2, drawing from the Uruguay Institutional Assessment (World Bank 2021e). Specific measures not directly related with institutional aspects, yet of continuous relevance for successful reform, are informed by other analytical pieces such as the Gender Assessment (World Bank 2020a) or the Public Expenditure Review (World Bank 2022). The team also identified relevant data and knowledge gaps, that would deepen knowledge of current areas of analysis and help expand to new areas.[40]

Table 2. Priorities and Specific Measures

HLOs	Priorities	Specific measures
1. More and better job opportunities	Enhance trade integration	- Promote deeper integration within Mercosur and through bilateral agreements
	Promote competition	- Empower the Competition Commission - Level the playing field among SOEs and private operators
	Dynamize labor markets	- Adapt labor market institutions to new social and technological reality
	Expand and deepen financial markets	- Enhance the BCU's independence
	Improve logistics	- Simplify SOE Governance to ease conflict of interests in logistics sector
	Promote digital development	- Promote more competition in the fixed broadband market - Strengthen regulatory frameworks on digital infrastructure-sharing and spectrum management
2. Enhanced human capital and equity of opportunity	Strengthen institutional capacity in the education system	- Decentralize school management - Modernize human resource management practices - Use data analytics for policy-making purposes
	Enhance PFM in the education sector	- Improve the allocation of resources across schools
3. Increased gender equality in economic participation	Reduce gender gaps in the labor market	- Increase gender-neutral support policies for better family-work balance - Promote participation of women in STEM fields and high productivity sectors
	Change incentives for gender equality in hiring and promotion to leadership positions	- Reduce inequalities in public service employment and delivery
4. Increased access to quality services	Enhance efficiency of basic services' SOEs	- Clarify objectives and oversight of SOEs - Increase the independence and influence of regulators - Strengthen performance management systems - Professionalize boards of directors
5. More sustainable protection of population to shocks	Improve the fiscal outlook	- Reform the pension system to ease pressures on fiscal accounts
	Promote a greener economy	- Integrate climate change considerations into planning at national and local levels - Advance adaptation through climate policies, investments and protection of natural resources and biodiversity

		- Support green growth through sustainable value chains in strategic sectors of competitive advantage, especially agriculture - Greater use of financial incentives for conservation, sustainable natural resource management, adaptation, and pollution control

93. **Given the priority areas of reform, five HLOs, deemed critical to the achievement of the twin goals, are proposed.** HLOs are shown in the first column of Table 2, and are proposed on the basis of analytical evidence positioning them as outcomes with high potential to progress towards achieving the twin goals. Priorities are mapped to a specific HLO in the table above as a way to visualize synoptically the stronger links, but proposed HLOs are influenced by priorities on different areas. For example, enhanced efficiency of basic services directly affects access to quality services (HLO4), but also influences job opportunities (HLO1) via efficiency gains. Likewise, promoting a greener economy helps protect population to shocks (HLO5), but could also promote more and better job opportunities (HLO1). These are only a few examples of the multi-sectoral nature of the exercise and the interlink between priorities and HLOs.

94. **Finally, to track the achievement of HLOs, the following indicators are proposed**:

- **HLO1**: (i) Employment rate; (ii) Proportion of workers with formal jobs.
- **HLO2**: (i) Secondary school completion rate among youth in the B40; (ii) Proportion of students reaching proficiency in standardized tests (PISA).
- **HLO3**: (i) Gap between male and female labor force participation rates; (ii) Rate of female labor force participation (population age group 25 to 65).
- **HLO4**: (i) Coverage of safely managed sanitation (% of urban population); (ii) Average duration and frequency of electricity outages.
- **HLO5**: (i) Structural fiscal deficit as a share of GDP; (ii) Water quality index.

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[1] These are countries that have reached a gross national income per capita above the World Bank graduation discussion income (see World Bank 2018). The corporate emphasis on institutional strengthening is also reflected in the World Bank COVID-19 crisis response paper.
[2] Data on poverty before 2006 are not comparable with the 2006–19 series.
[3] Aggregate productivity fell from an average of 3.2 percent in 2003-2014, accounting for around half of GDP growth in the period and outperforming structural peers, to 0.5 percent on average in 2015-2019.
[4] Inflation has averaged 8.2 percent since 2016, only lower than in Argentina, Haiti, Suriname, and the Bolivarian Republic of Venezuela in the region.
[5] Excluding revenues from *Cincuentones.* The Cincuentones Law of December 2017 allowed certain workers and retirees ages over 50 to change their affiliation from the individual capitalization pension scheme to the public social security pay-as-you-go scheme.
[6] This study uses the following comparators: (a) structural peers, a subset of high-income countries (Australia, Chile, Greece, New Zealand, and Spain) that shares selected structural characteristics of Uruguay's economy (the share of the population +65, the share of urban population in the total population, agriculture value added as a share of GDP, exports as a share of GDP); (b) regional peers, the six largest economies in Latin America: Argentina, Brazil, Chile, Colombia, Mexico, and Peru; and (c) aspirational peers, the OECD economies.
[7] World Economic Outlook Database: October 2021.
[8] Middle class is defined as the population segment living on US$13–US$70 per person per day in 2011 PPP US dollars.
[9] Uruguay's 2020 household survey had to be adjusted because of COVID-19 and was conducted with a shorter questionnaire and by telephone, which may have affected comparability with earlier rounds.

[10] Fiscal year 2020, covering health care supplies, sickness and unemployment benefits, Ministry of Social Development support, special leaves in the construction sector, social contribution exemptions, soft credits by the National Development Agency, and public guarantees.
[11] The modified household survey was applied remotely in 2020 and does not allow the estimation of poverty by race or ethnicity.
[12] Most recent available data at the department level covers only the first semester of 2021 that are not directly comparable with the previous series reported annually. Therefore, maps show 2019 and 2020 estimates.
[13] See InfraSAP Uruguay (dataset), World Bank, Washington, DC, https://datacatalog.worldbank.org/search/dataset/0037894.
[14] See "Indicators", BEN (Balance Energético Nacional Uruguay), National Directorate of Energy Planning, Statistics and Balance, Ministry of Industry, Energy, and Mining, Montevideo, Uruguay. https://ben.miem.gub.uy/indicadores4.php.
[15] Data under a scenario of moderate climate emissions. See Aqueduct Global Food Analyzer (dashboard), World Resources Institute, Washington, DC, https://www.wri.org/data/aqueduct-global-flood-analyzer.
[16] Institutions are defined as the rules that structure human behavior and expectations around a statutory goal. The analysis disentangles institutions strictly defined (laws and rules of the game) from organizations, either the targets of these rules or the agents that implement them. The analysis differentiates between institutions and governance, "the process through which state and nonstate actors interact to design and implement policies within a given set of formal and informal rules that shape and are shaped by power" (World Bank 2017).
[17] This section focuses on horizontal challenges to competitiveness. A complementary asessment would need to discuss the mechanisms through which these horizontal policies affect sectors and firms, grounded on analytics that take into account Uruguay's specificities.
[18] De Loecker et al. (2016) document partial pass-through for a trade reform in India possibly linked to uncompetitive market conditions.
[19] The positive relationship between competition and innovation is cleaner from a theoretical and empirical standpoint for firms closer to the frontier (see Cusolito et al. 2021 for a discussion and empirical results for Chile). This highlights the need to accompany trade and competition reform with complementary policies to upgrade firms' capabilities (see Cirera and Maloney 2017 for a thorough discussion).
[20] See for example Olivetti and Petrongolo, 2017.
[21] In 2015 the budget of the CC was similar to that of Nicaragua, a country with a GDP per capita 7 times smaller (UNCTAD, 2016).
[22] Comparability over time is approximate because of the increase in coverage of the student population (as greater enrollment often involves the inclusion of relatively weaker students) and differences in treatment in the 2015–18 rounds (OECD 2019).
[23] The average PISA 2015 math score for Afro-descendants is 412.1, versus 428.1 for non-Afro-descendant children (World Bank 2020c).
[24] Plan Ceibal promotes the use of digital technologies in primary and secondary school. Launched in 2007, the plan supplies every child with a personal laptop. It also provides training and educational resources to students and teachers and internet connectivity to public schools.
[25] The Central Governing Council is composed of three members designated by the Government (the President nominates with the consent of the Senate) and two members elected by teachers. Before the changes introduced by the Urgent Consideration Law, each council had two members designated by the Central Governing Council and one member elected by teachers.
[26] The adjusted wage compensation gap is around 43 percent on average (INEEd 2016). The adjusted compensation gap is calculated using the matching proposed by Mizala and Ñopo (2014). Each teacher is matched with a similar professional and technician according to observable characteristics (sex, age, educational level, formality, public sector, part-time work, salaried, and formal sector worker).
[27] This subsection focuses on water and sanitation, and energy. It is based on the World Bank infrastructure sector assessment. See World Bank 2021a and InfraSAP Uruguay (dataset), World Bank, Washington, DC, https://datacatalog.worldbank.org/search/dataset/0037894.
[28] See InfraSAP Uruguay (dataset), World Bank, Washington, DC: https://datacatalog.worldbank.org/search/dataset/0037894.
[29] Operating cost coverage is the ratio of revenue to operating cost measured in US dollars per m^3 of water supplied.
[30] With the exception of the Argentinean utility AySA, which presents negative profitability.
[31] Enterprise Surveys 2019, International Finance Corporation and World Bank, Washington, DC, https://www.enterprisesurveys.org/.
[32] Action plan to reduce UTE's energy losses.
[33] Results from the first six months of e-bus operation show that 800 tons of CO_2 and 155 kilograms of PM_{10} were avoided by the public transport sector in Montevideo. That is an annualized 4.6 percent of PM_{10} emissions avoided.
[34] The approach is based on an integrated assets model. The bus service providers own the chassis, batteries, and charging stations. The program is financed through a government investment subsidy that covers the price difference between a diesel bus and an e-bus of similar characteristics. Thus, any operator can buy an e-bus at the same price as a conventional one.
[35] See Caon (2013); 2021 data of FAOSTAT, Food and Agriculture Organization of the United Nations, Rome, http://faostat3.fao.org/.
[36] In response to these events the Government adopted the first National Water Plan (Plan Nacional de Aguas).
[37] This category assesses the efforts to retain natural ecosystems and protect the full range of biodiversity across 7 indicators: terrestrial biome protection, marine protected areas, protected areas representativeness, species habitat, species protection, and biodiversity. See EPI (Environmental Performance Index) (dashboard), Yale Center for Environmental Law and Policy, New Haven, CT, http://epi.yale.edu/.
[38] Ranked 61 out of 180 in the Yale EPI and 20th in the Green Future Index of MIT.
[39] The climate change institutional assessment (World Bank 2021c) investigates the mechanisms for policy formulation and implementation, including a focus on the central role of crosscutting institutions. such as the MEF. Given the scope of the assessment, the subsection focuses on a few climate change institutions and is therefore not fully aligned with the development challenges described above, which are broader. More analysis is needed to fill this knowledge gap.
[40] Some of the most relevant are: i) Timely and comprehensive firm-level data to inform productivity studies; ii) Drivers and constraints of firms' integration into GVC; iii) Data on graduates' trajectories for university and technical education; iv) Integrated data on teachers and school directors; v) Systematic analytical work identify opportunities to improve the efficiency of SOEs; vi) Options to increase road tariff revenues to ensure adequate financing for maintenance and investment in transport; vii) Targeted diagnostic to inform decarbonizing urban transport reform agenda; viii) Timely and disaggregated data on disaster risks, resilience, and climate change; ix) Integrated human resource management and payroll data; x) Impact of COVID-19 on health service provision; xi) Health system readiness to adapt to a rapidly aging population; and xii) Diagnostic on the impact of COVID-19 on gender gaps and women's financial security.