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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

INVESTMENT, TRADE, AND INNOVATION FRAMEWORK MODERNIZATION PROGRAM

(UR-L1140)

LOAN PROPOSAL

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ABBREVIATIONS

ANDE	Agencia Nacional de Desarrollo [National Development Agency]
ANII	Agencia Nacional de Investigación e Innovación [National Research and Innovation Agency]
COMAP	Comisión de Aplicación de la Ley de Inversiones [Investment Act Enforcement Commission]
ECLAC	Economic Commission for Latin America and the Caribbean
FDI	Foreign direct investment
MEF	Ministry of Economy and Finance
MERCOSUR	Mercado Común del Sur [Southern Common Market]
NDC	Nationally determined contribution
NFPS	Nonfinancial public sector
NPV	Net present value
PENCTI	Plan Estratégico Nacional de Ciencia, Tecnología e Innovación [National Strategic Plan for Science, Technology, and Innovation]
R&D	Research and development
UNFCCC	United Nations Framework Convention on Climate Change
Uruguay XXI	Instituto de Promoción de la Inversión y las Exportaciones de Bienes y Servicios [Investment and Export Promotion Institute]
UTEC	Universidad Tecnológica de Uruguay [Technological University of Uruguay]
VUCE	Ventanilla Única de Comercio Exterior [One-stop window for foreign trade]

PROJECT SUMMARY

URUGUAY
INVESTMENT, TRADE, AND INNOVATION FRAMEWORK MODERNIZATION PROGRAM
(UR-L1140)

Financial Terms and Conditions				
Borrower: Eastern Republic of Uruguay			**Flexible Financing Facility[a]**	
			Amortization period:	20 years
			Drawdown period:	3 years
Executing agency: Eastern Republic of Uruguay, acting through the Ministry of Economy and Finance (MEF)			**Grace period:**	[b]
Source	**Amount (US$)**	**%**	**Interest rate:**	LIBOR-based
IDB (OC):	250,000,000	100	**Front-end fee:**	50 basis points
			Standby fee:	[c]
			Inspection and supervision fee:	[c]
			Weighted average life:	12.75 years
Total:	250,000,000	100	**Currency of approval:**	U.S. dollars from the Ordinary Capital

Project at a Glance
Project objective/description: The general objective of the program is to modernize the regulatory and institutional framework for investment, trade, and innovation in order to consolidate sustainable economic growth in Uruguay by: (i) modernizing the regulatory and institutional framework for investment and trade in order to strengthen the country's international positioning; and (ii) strengthening incentives for investment in innovation in order to more effectively develop local capacities for optimal impact on the Uruguayan economy. This is the first of two consecutive operations that are technically interrelated but independently financed as programmatic policy-based loans with a deferred drawdown option.
Special contractual conditions precedent to the sole disbursement of the loan: Special contractual conditions precedent to the sole disbursement of the loan: Disbursement of loan proceeds upon the borrower's request is subject to the fulfillment of the policy reform measures described in the program components and set forth in the policy matrix (Annex II) and the policy letter (required electronic link 1), in addition to other conditions set forth in the loan contract (paragraph 3.3).
Exceptions to Bank policies: None

Strategic Alignment			
Challenges:[d]	SI ☐	PI ☑	EI ☑
Crosscutting themes:[e]	GD ☐	CC ☑	IC ☑

[a] Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[b] The grace period will depend on the amortization schedule agreed upon between the borrower and the Bank when the disbursement request is formalized during the drawdown period.

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

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

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

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 Uruguay is facing the challenge of making its economic growth sustainable. To do so, it must strengthen its long-term policies for promoting investment, trade, and innovation. Along these lines, Bank has assisted the Uruguayan government in implementing a policy reform program to improve its strategic international positioning. To consolidate these reforms and make a qualitative leap forward in the public institutional framework—one that will help address exogenous factors associated with changes in the international environment while maximizing the local impact of investment—the Uruguayan government has requested a programmatic policy-based loan with a deferred drawdown option. The objective of this loan is to help modernize the regulatory framework for investment, trade, and innovation, as well as to make this framework comprehensive, all while strengthening the underlying institutional landscape. This is the first in a series of two operations.

1.2 **Economic context.** Uruguay's economy experienced 14 years of uninterrupted growth between 2003 and 2016 at an average annual rate of 4.4% (above the historical average of 2.5% since 1960), driven by investment and exports, which grew at an average annual rate of 7.5% and 6.6%, respectively, over the same period. This growth was accompanied by a recurring current account deficit that was more than offset by capital inflows, which helped to build international reserves up until 2014. In the past 10 years, total investment in the country represented 21% of GDP on average, five percentage points higher than in the previous 10 years. This is largely explained by growth in foreign direct investment (FDI), which rose to 5% of GDP during the past 12 years (compared to only 2% in the first half of the 2000s).[1]

1.3 Meanwhile, the gross debt of the nonfinancial public sector (NFPS) declined from 96% of GDP in 2003 to 53% in 2016. This reduction in debt was accompanied by an improvement in its currency composition and an extension of its maturity limits. Against this backdrop, the leading risk rating agencies have granted investment-grade status to Uruguay.

1.4 The Uruguayan economy faced a challenging external environment in 2015 and 2016.[2] The main reasons for this include slower growth among leading trade partners such as China, Brazil, and Argentina; lower prices of commodity exports; and higher interest rates in the United States. Uruguay's exports declined 2% between 2014 and 2016, and investment fell 9.2%. The country saw a 25% drop in FDI in 2016 from the previous year, from 2.4% of GDP in 2015 to 1.8% in 2016. Meanwhile, a primary deficit equivalent to 0.6% of GDP and a 4% overall fiscal deficit were posted in 2016. The Uruguayan government reaffirmed its commitment to reduce its fiscal deficit to 2.5% of GDP in 2019.[3]

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[1] Central Bank of Uruguay (2017) and Sector Note: Trade and Investment, Country Strategy with Uruguay 2016-2020 (2015).

[2] The region, generally speaking, saw a decline in exports and investment, adding a cautionary note to economic growth forecasts for the coming years. Latin America and the Caribbean received 10% of worldwide FDI in 2016, a proportion similar to that of 2015 but below the 14% average of the 2011-2014 period. Source: Economic Commission for Latin America and the Caribbean (ECLAC) (2017), *Foreign Direct Investment in Latin America and the Caribbean*.

[3] Law on Budget Execution and Accountability 2016.

1.5 While the adverse international environment undoubtedly impacted the local economy, Uruguay is now showing signs of recovery. Its economy grew 1.5% in 2016 and is projected to grow 3.4% in 2017,[4] thanks to a strengthening of the international environment and a recovery of private consumption. Uruguay also has a stronger liquidity position, a flexible exchange rate, and a large amount of international reserves.[5]

1.6 Uruguay also succeeded in lowering its inflation rate in 2017, a necessary precondition for the government's strategy of inclusive growth. After topping out at 11% in May 2016, inflation fell to 5.8% in September 2017 (year on year). This indicates that Uruguay has returned to a growth path, though it is still vulnerable to exogenous changes in the international environment. This poses the need to strengthen the regulatory and institutional framework for investment, international trade, and innovation, which are pillars of Uruguay's development model.

1.7 **Assessment of the problem.** The Uruguayan government has implemented a number of reforms in recent years to improve its strategic international positioning and its policies for investment promotion, trade facilitation, and innovation by strengthening the regulatory and institutional framework and creating specific instruments to promote this framework.

1.8 FDI plays a key role in Uruguay's development process, boosting the country's capital stock and providing a vehicle for the transfer of technology, technical capacity, innovation capacity, and institutional and management practices. It also provides access to international marketing networks that are key to the export process and critical to a small, open economy such as Uruguay's.

1.9 The determinants of FDI include political/institutional and economic factors.[6] The former include stability and institutional quality, both of which are strong in Uruguay.[7] Meanwhile, the most salient economic factors are the predominance of the domestic market, the availability of factors of production, and what are known as "economies of agglomeration," which include innovative technological capacities and competencies in the local environment and a variety of sector incentives.[8] It is in this latter area where Uruguay, in particular, still has room for improvement. There are a number of sectors in Uruguay that have mechanisms in place to incentivize investment, including forestry, graphics, maritime and air navigation, software, vehicles and parts, biofuel, communications, and housing. Accordingly, an integrated approach is needed to promote and guide investment, in order to determine the extent to which policies, objectives, instruments, and resources are consistent and to identify the steps needed to optimize them.[9]

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[4] Survey of economic expectations, Central Bank of Uruguay.

[5] International Monetary Fund (2017). *2016 Article IV Consultation – Press Release and Staff Report.* IMF Country Report No. 17/28, Washington DC.

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

[7] Uruguay is ranked 41st out of 191 countries in the Institutional Quality Index of the Latin American Liberal Network (RELIAL). In the 2016-2017 Global Competitive Competitiveness Report of the World Economic Forum, Uruguay leads the region in the "institutions" pillar (32nd out of 138 countries).

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

[9] For a detailed analysis of the role of incentives in investor behavior in Uruguay, see Ons (2016).

1.10 While economic activity in Uruguay has been quite strong in the past 10 years, investment and exports remain highly concentrated. Most exports are commodities and agroindustrial products that are natural-resource-intensive: in 2015, 61% of Uruguay's exports consisted of beef, pulp, soybeans, dairy products, beverages, and rice. FDI flows to Uruguay are heavily concentrated in the service sector, broadly speaking,[10] and in the natural resource sector. These sectors received 64% and 10%, respectively, of total FDI in 2015, while the manufacturing sector received only 5%. In terms of sources of investment, 29% of Uruguay's FDI stock at year-end 2015 came from Argentina (most of it in the real estate sector), followed by Brazil and Spain (7% each) and the United States (4%).[11] The concentration of FDI, in terms of both sectors and sources, constitutes a structural vulnerability that needs to be addressed.

1.11 As for innovation, investment in research and development (R&D) has stalled at 0.34% of GDP over the past 10 years, a proportion similar to Chile's but below that of countries deemed successful.[12] This also has an impact on the productive matrix, as it limits the role of highly productive, knowledge-intensive sectors.

1.12 From an institutional viewpoint, three ministerial entities have been responsible for making policy and approving instruments related to investment, foreign trade, and innovation: the Cabinet on Productive Development, the Interministerial Commission for Foreign Trade Affairs, and the Ministerial Cabinet for Innovation. In practice, these entities have been largely inactive and have failed to fulfill their assigned role as coordinating bodies, making sector-support policies less effective.[13] This has prompted Uruguay to move aggressively forward with institutional changes to establish a comprehensive system of support for productive development policies.

1.13 For implementation of instruments, the Investment Act Enforcement Commission (COMAP)[14] is an interagency structure that handles the main fiscal incentives for investment and most sector-specific incentive regimes. Promotional efforts and assistance for investors are the purview of the Investment and Export Promotion Institute (Uruguay XXI),[15] a non-State public entity headed by a board consisting of representatives of the public sector, businesses, and employees. The National Research and Innovation Agency (ANII)[16] is responsible for innovation activities. The multiplicity of institutions and the lack of effective mechanisms for coordinating between them have undermined the effectiveness of the sector's promotional policies.

1.14 In this context, the sector's institutional landscape needs to be modernized in order to consolidate gains, cushion the negative impacts of changes in the international economic environment, and enhance the impact of sector promotion instruments by optimizing interagency coordination and aligning these instruments with international

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[10] The category of services includes the following sectors: energy, trade, and construction (real estate development).

[11] Idem. ECLAC (2017).

[12] Such as South Korea, Finland, Israel, and Singapore (above 2% of GDP).

[13] For a detailed analysis of the effectiveness of sector-support instruments, see Ons (2016). Nazer (2017) discusses the disadvantage of having a multiplicity of instruments and actors along with unmet demand for coordination. (optional electronic link 3)

[14] Created by Law 16906, 7 January 1998.

[15] Created by Law 16736 on the National Budget, 5 January 1996.

[16] Created by Law 17930 on the National Budget, 23 December 2005.

best practices. To this end, progress is needed in modernizing regulatory frameworks and developing new reforms to bring a comprehensive approach to policies for promoting investment, trade, and innovation.

1.15 **Progress and challenges in investment.** Uruguay has made progress in a number of measures aimed at improving conditions for investment and making promotion instruments more predictable and transparent. Through Law 16,906 of 1998, the Uruguayan government created COMAP to submit investment initiatives and secure tax benefits and exemptions, and in 2007 it issued regulations for the Investment Promotion and Protection Act. Changes were also made to enhance the quality of private investment and its impact on employment and economic development in Uruguay (Decree 2/2012), and legislation was passed to modernize implementation of public-private partnership initiatives (Law 18,786 of 2011 and subsequent decrees).

1.16 Meanwhile, the Uruguayan government has signed agreements to promote investments and protect them from double taxation. These agreements aim to attract FDI by upholding international levels of protection and nondiscrimination for foreign and local investors alike, as well as predictable and transparent rules for investment. Uruguay has signed 34 investment protection agreements and 16 double taxation treaties.

1.17 As for transparency of the business climate, Uruguay has maintained its nearly decade-old policy of openness of fiscal information, restrictions on bank secrecy, and disincentives for the use of vehicles for offshore business activity. In 2015, Uruguay passed the Phase 2 review of the Global Forum on Transparency and Exchange of Information for Tax Purposes of the Organization for Economic Cooperation and Development (OECD); a procedure was implemented for delivery of tax information required abroad; and 10 treaties for the exchange of tax information were signed and ratified. Uruguay also improved access to information by making it mandatory to identify shareholders in corporations formed in Uruguay, pursuant to Law 18,930 of 2012 and Law 19,288 of 2014.

1.18 Uruguay has also modernized its institutional and public policy frameworks, developing tools to tackle challenges related to climate change. These measures include the National Climate Change Response Plan (2009) and actions to promote sustainable energy.[17] Investments in energy have transformed the sector, with cumulative public-private investment rising by 3% of GDP on average between 2011 and 2015. In order to repeat this performance in other sectors, the country has created new institutional structures—such such as the National Secretariat for the Environment, Water, and Climate Change, created by Article 33 of Law 19,335 of December 2015—but progress is needed in establishing regulations and implementing them.

1.19 Uruguay faces the challenge of consolidating its ongoing reform process by seeking qualitative improvements in order to prioritize investment flows toward strategic productive sectors that can help close the productivity gap and strengthen the productive matrix. In particular, Uruguay needs to create an efficient, systematic

[17] Policies adopted in the past decade to incentivize renewable energy, together with the National Energy Plan 2005-2030, have resulted in a diversified energy matrix with increased use of wind and solar energy. Meanwhile, the IDB Group, acting through its private sector window, has channeled over US$430 million and mobilized a further US$395 million through other financial institutions to fund private wind and solar projects in the country.

mechanism for coordinating between development-related agencies and entities, so as to help coordinate policies on investment, trade, and competitiveness. It also needs to further develop its strategy for investment and export promotion to make it proactive, selective, and focused on strategic destinations and sectors with greater added value and the potential to generate supply chains. Also needed are measures including new bilateral agreements on investment, information exchange, and double taxation, as well as measures to expedite implementation of projects entailing public-private partnerships and to bring a crosscutting approach to policy for climate change mitigation and adaptation, so as to ensure access to more selective markets.

1.20 **Progress and challenges in trade.** Uruguay has gradually succeeded in establishing itself as a regional logistics hub. Its privileged location as a gateway to the Southern Common Market (MERCOSUR) and its promotional regimes offer a favorable climate for attracting investments aimed at the regional market. Still, the country needs to continue de-bureaucratizing its customs procedures and reduce processing times for export, import, and transit operations. Uruguay has nonetheless made progress on a number of fronts.

1.21 In terms of openness to trade, the country made slow progress in signing free trade agreements due to limitations related to the institutional functioning of MERCOSUR. Although Uruguay did sign a free trade agreement with Mexico in the framework of the Latin American Integration Association, the pace at which the country will open itself up to trade is expected to be slow.

1.22 Also noteworthy is the one-stop window for foreign trade (VUCE) created by Law 19,149 of 2013 and supported by Bank financing (2590/OC-UR). The VUCE is the Uruguayan government's trade facilitation mechanism, which optimizes and electronically consolidates information and documentation at a single point of access for all import, export, and transit procedures. Since its inception, the VUCE has been entering into agreements to provide its services to various government agencies involved in customs and foreign trade.

1.23 Since the new Customs Code was enacted pursuant to Law 19,276 of 2014, the Uruguayan government has made progress on multiple fronts in terms of customs procedures and the functioning of the customs agency, as well as in bringing the customs regime in line with MERCOSUR guidelines and international best practices. This progress includes statutes on customs agents (Decree 96/15), on controls in free trade zones (Decree 97/15), on special customs regimes (Decree 98/15), on customs warehouses (Decree 99/15), and on the consolidated customs document and the customs seal (Decree 323/011).

1.24 These trade facilitation measures have led Uruguay to its current ranking of 66th in the 2017 Enabling Trade Index of the World Economic Forum, ahead of other countries in the region such as Argentina (94) and Brazil (110).[18] However, Uruguay ranks 146th out of 189 economies in terms of "trading across borders" in the Doing Business ranking of the World Bank Group. Its major problems include excessive bureaucracy, slow foreign trade procedures, the limited ability of the education system to develop necessary capacity, and a lack of capacity for business innovation.

[18] World Economic Forum. Enabling Trade Index. http://reports.weforum.org/global-enabling-trade-report-2016/#topic=americas

1.25 This progress aside, Uruguay needs to focus on consolidating reforms that will assist in effective implementation of foreign trade operations, in line with the trade facilitation regime as required by the Trade Facilitation Agreement of the World Trade Organization[19] in order to optimize market access. The country also needs to continue its efforts to de-bureaucratize customs processes and reduce processing times in export, import, and transit operations.

1.26 **Progress and challenges in innovation.** The Uruguayan government has made efforts to improve its performance in innovation and technological capacity. For example, technological capacities and competencies have been strengthened as a result of the National Strategic Plan for Science, Technology, and Innovation (PENCTI) 2010-2030 (Decree 82/010). The PENCTI sets forth Uruguay's strategic vision and main objectives related to science, technology, and innovation, with the aim of developing talent over the medium and long terms with instruments linking academia and business, as well as through the State. As part of the PENCTI, numerous research studies and consultancies have been carried out in a variety of areas (energy, health, tourism, biotechnology, etc.), and support has been provided to local researchers.

1.27 In addition, a number of business innovation instruments were created, primarily to strengthen human capital specializing in academia-business and business-to-business relationships. The Uruguayan government promoted multiple sector funds to support research and innovation,[20] created the Technological University of Uruguay (UTEC), and signed cooperation agreements with world-class universities.

1.28 In this context, Uruguay needs to make progress in developing public capacities for strategic selectivity, so as to promote greater coordination of investment, trade, and innovation policies. Public policy for investment and trade could lead to greater business innovation through access to a wider market and better channels for technology transfer. Innovation policies can also lead to smarter international positioning through improved technological and human resource capacities in businesses and through a stronger business-academia-government relationship, moving from simple collaboration arrangements (one business and one R&D center) to more complex mechanisms.

1.29 **Program rationale.** In a country with a small domestic market, a structurally limited productive base, and a predominance of short value chains, attracting investment and achieving international positioning require effective, modern policies to draw potential investors and facilitate trade.[21] In turn, to maximize the impact of investments, innovation and technological capacity in Uruguay need to be bolstered in order to develop skills, disseminate knowledge, and strengthen the academia-business-government relationship. This strategy will help to: (i) increase investment flows; (ii) improve the export profile; and (iii) enhance the innovation of Uruguayan businesses.

1.30 In this context, and with due regard for the challenges mentioned above, the program strategy is to act simultaneously on a set of crosscutting factors aimed primarily at

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[19] Entered into force in February 2017.

[20] These funds include the Orestes Fiandra Fund, aimed at financing Uruguay-based medium-sized and large enterprises with an innovative profile, as well as the ANII's subsidy program for small and medium-sized enterprises in the biotechnology, pharmaceutical, electrical/electronic, information and communication technology, and metalworking sectors, among others.

[21] See Kats (2012).

improving interagency coordination and adopting international best practices in investment, trade, and innovation. This will be complemented with specific actions to increase investment and promote trade facilitation, as well as to improve technology absorption and capacity-building as effective mechanisms for attracting investment and maximizing its impact within the economy. These reforms will help close gaps in the current investor profile, which is concentrated and has limited impact on the local economy, and will assist in moving gradually toward a more diversified economy in which FDI serves as a catalyst.

1.31 Thus, the program strikes a good balance between policymaking and policy implementation, thereby creating a framework conducive to coordinated progress toward the proposed objectives.

1.32 The public policies proposed in the program will help address the challenges facing Uruguay in attracting investment and achieving international positioning. Modernizing the regulatory framework for investment and trade policies will help increase FDI and strengthen foreign trade in terms of trade facilitation as well as export and import times. Moreover, modernizing local capacities for innovation and technology absorption will help increase the number of businesses signing cooperation agreements for innovation, as well as the number of enrollees in undergraduate technical degree programs related to productive development.

1.33 The direct beneficiaries of the program are businesses in economic sectors that receive the greatest flows of FDI, such as businesses in the service sector and the natural resource sector. Also benefiting directly from the program will be R&D-intensive businesses at an advanced stage of innovation.

1.34 **Coordination with other Bank operations.** This program is part of the Bank's comprehensive support, alongside the Uruguayan government, for investment, trade, and innovation. This means that extensive knowledge is available on the type of reforms to be implemented and on synergies with other Bank initiatives. The following programs are specifically noteworthy: the Program for Strategic International Positioning, implemented using programmatic policy-based loans with a deferred drawdown option (2920/OC-UR, 3365/OC-UR, and 3418/OC-UR),[22] a modality in which the macroeconomic framework and policy conditions are monitored, which facilitates dialogue with the government and supports evaluation of the implementation of the reforms and adjustments thereto; the Program to Support Future Entrepreneurs (2775/OC-UR); the Program to Support Global Export Services (2590/OC-UR), which promotes Uruguay's international positioning, the generation of local capacities, the alignment of the public-private promotion strategy with the proposed improvements to the regulatory framework and business environment in order to help attract investment in the global services sector, an operation that will complement the policy reforms in the investment regime that are promoted in this operation; the Innovation Program for Productive Development (3315/OC-UR), which supports innovation projects in exporting sectors and in sectors with high export potential; the technical cooperation operation Innovation Vouchers for Creative Industries in Uruguay (ATN/ME-15756-UR), which will help to experiment with new tools for business innovation in knowledge-intensive industries such as the creative industries, and on a collaborative basis with other sectors of the economy, an operation that will assist in implementing some of the instruments

[22] For an evaluation of this program, see optional electronic link 3, where the reforms implemented through the program were found to have a positive impact on investment.

promoted by this operation; the technical cooperation operation Young Programmers (ATN/ME-16123-UR), which provides for public-private coordination to satisfy unmet demand for human resources in thriving sectors of the economy; the technical cooperation operation Promoting High Impact Technology Startups Through Thales Lab (ATC/ME-15950-UR); the technical cooperation operation Support for the Institutional Strengthening of the National Secretariat for the Environment, Water, and Climate Change (ATN/OC-15788-UR); and the technical cooperation operation National Competitiveness System (ATN/KR-15415-UR), which will help in designing a high-level ministerial entity to significantly enhance the coordination of investment, trade, and innovation policies by targeting interventions more effectively, making these interventions less disjointed, and amplifying their impact, while helping to design a mechanism to implement one of the reforms to be promoted by this program: an initiative to create a national competitiveness system.

1.35 The program's commitments and means of verification reflect lessons learned from the aforementioned operations in execution of policy-reform initiatives, strategic coordination with multiple actors, and measures with a high reform impact. These lessons include the following: (i) from the Program to Support Global Export Services (2590/OC-UR), the need for policies promoting investments targeted to thriving or high-value-added sectors, and for these policies to be in line with international requirements, e.g., the reform to broaden the investment promotion regime to shared services centers is a recommendation from the aforementioned program; (ii) from the Innovation Program for Productive Development (3315/OC-UR), the importance of prioritizing initiatives to promote linkages between foreign companies and local providers, as well as the need to modernize rules and regulations in order to develop technological capacities and specialized human resources through international cooperation agreements for scholarships for postgraduate study abroad in strategic areas;[23] and (iii) from the Program to Support Future Entrepreneurs (2775/OC-UR), the need to promote of innovative enterprises geared to the export market.[24]

1.36 **The Bank's additionality**. This program will complement and coordinate a number of the IDB Group's investment programs and technical cooperation operations now in execution, by seeking to boost the impact of the interventions as a whole. The Bank provides the added value of its regional experience in policy reforms for modernizing the regulatory and institutional framework to promote investment, trade, and innovation. This enables the Bank to take a comprehensive approach to the problems being addressed, complementing the sector-oriented vision of government ministries. Meanwhile, the coordination of actions in different sectors has helped to bring a comprehensive quality to investment and foreign trade policy. This coordination between policy reform instruments and investment and technical cooperation programs helps to implement mechanisms to capitalize on opportunities created by the promoted policy reforms. For example, the business innovation support instruments introduced by the ANII through loan operation 2775/OC-UR will leverage private investment that benefits from expanding the investment promotion

[23] In addition, an impact evaluation of instruments to support business innovation showed that up to twice as much investment in innovation was generated as in a control group. Source: ANII, *Informe de evaluación de impacto de instrumentos de promoción de la innovación empresarial*.

[24] The impact evaluation of instruments to support business innovation suggests that firms that receive seed capital (subsidy) grow 25% more than firms that do not receive support. Source: CINVE, *Evaluación intermedia del PAFE*.

regime to innovation projects in science and technology that are promoted under the proposed program. Likewise, the deployment of instruments for coordination between foreign companies and technology institutes, such as the partnerships for innovation and technology centers proposed in this program, will be supported by the lines of financing provided in program 3315/OC-UR, which is facilitating the reform process. It will also help disseminate international experience and evidence on how policy reforms can be channeled. Policy-based loans and investment loans should complement each other in order to maximize their impact through implementation of the country strategy, as this provides the strategic approach for maximizing synergies between the various financing modalities. Moreover, the Bank will use this operation to generate evidence through quasi-experimental evaluations of the impact of policy reforms on FDI[25] and investment in innovation, which is novel in the context of a policy reform program.

1.37 **Strategic alignment.** The operation was included in the 2017 Operational Program Report (document GN-2884) and is aligned with the Bank's country strategy with Uruguay 2016-2020 (document GN-2836) under the strategic pillar of productivity and competitiveness, the priority areas of integrated and coordinated international positioning and promotion of innovation, and the strategic objectives of diversifying export markets, promoting business innovation, and improving coordination of science, technology, and innovation policies. The operation is consistent with the following development challenges of the Update to the Institutional Strategy 2010-2010 (document AB-3008): (i) economic integration, as it will consolidate investment and trade policies by amending the promotion regime to contribute to greater productive diversification, and through ratification of bilateral agreements on investment promotion and protection, double taxation, and the exchange of tax information; and (ii) productivity and innovation, as it will promote the regulatory framework of incentives for innovation, research, and technological development. It is also consistent with the crosscutting themes of: (i) institutional capacity and rule of law; and (ii) climate change and environmental sustainability.[26] About 6.25% of the operation's resources are for policies to promote climate change adaptation and mitigation measures, in accordance with the multilateral develoment banks' joint methodology for tracking climate finance. These resources will contribute to the IDB Group's target of increasing climate finance lending to 30% of its approvals by the end of 2020. The program also contributes to the indicators of the Corporate Results Framework 2016-2019 (document GN-2727-6) related to public agencies' processing times of international trade of goods and services; small and medium-sized enterprises financed; and regional, subregional, and extraregional integration agreements and cooperation initiatives supported. The program will contribute to the Sector Strategy to Support Competitive Regional and Global Integration (document GN-2565-4), and it is consistent with the Integration and Trade Sector Framework Document (document GN-2715-6), specifically with the need for programs and policies to attract investment and facilitate trade, as well as policies in support of national systemic competitiveness. It is also consistent with the

[25] No examples analyzing the impact of programs or policies on FDI in a country have been found in the relevant literature for Latin American countries. Thus, the use of a synthetic control group in the analysis for Uruguay constitutes a methodological contribution. Even if the scope of analysis is widened beyond the region, there are very few bibliographical references using this methodology to examine the impact on FDI.

Innovation, Science, and Technology Sector Framework Document (document GN-2791-8).

B. Objectives, components, and cost

1.38 The general objective of the program is to modernize the regulatory and institutional framework for investment, trade, and innovation in order to consolidate sustainable economic growth in Uruguay by: (i) modernizing the regulatory and institutional framework for investment and trade in order to strengthen the country's international positioning; and (ii) strengthening incentives for investment in innovation in order to more effectively develop local capacities for optimal impact on the Uruguayan economy. To achieve these objectives, the program includes the following components:

1.39 **Component I. Macroeconomic sustainability.** This component aims to ensure a macroeconomic environment consistent with program objectives and the policy letter (required electronic link 1).

1.40 **Component II. Modernization of the regulatory and institutional framework for investment and trade.** This component aims to consolidate a process of wide-ranging sector regulatory reforms to help modernize the overall policy framework for investment and trade. This component includes the following reforms: (i) establishment of a new regulatory framework to help coordinate investment, trade, and innovation policies by creating a new national productive development system;[27] (ii) amendments to the investment promotion regime designed to attract investment projects in high value-added sectors such as global export services; (iii) consolidation of the legal framework to incorporate the best mitigation and adaptation practices in accordance with the nationally determined contribution (NDC) described in the United Nations Framework Convention on Climate Change (UNFCCC), to position Uruguay as a destination for environmentally responsible investment; (iv) ratification of bilateral investment promotion and protection agreements as a means to ensure international levels of protection and nondiscrimination for investors from third countries; (v) signing of a free trade agreement; (vi) ratification of bilateral treaties for preventing double taxation; (vii) ratification of tax information exchange agreements for improving the investment climate and bringing the country in line with global standards on the international exchange of information; (viii) enhancement of international fiscal transparency; (ix) strengthening of investment in physical infrastructure by promoting a regulatory framework for developing public-private investment projects; (x) optimization of interagency coordination for foreign trade within the framework of the VUCE, by entering into agreements such as the following: (a) technical cooperation agreements to establish an exchange framework for integrating foreign trade procedures between the National Customs Bureau, the Energy and Water Utilities Regulatory Agency, and Uruguay XXI in the VUCE; (b) agreements to implement the use of digital certificates of origin in the VUCE between the Ministry of Economy and Finance (MEF) and Uruguay XXI; and (c) cooperation agreements to initiate foreign trade procedures related to agencies of the central government online through the VUCE; (xi) issuance of regulations for, and implementation of, the

[27] The regulatory framework should coordinate promotional work across the various agencies and public institutions to ensure that they run smoothly and in a coordinated manner and to prevent situations in which isolated initiatives overlap or become inefficient. It should also determine the focal areas that will be supported with plans and projects featuring concrete terms and targets.

new legal regime of the Uruguayan Customs Code in order to incorporate international best practices for customs matters; and (xii) adoption of international best practices and recommendations of the Trade Facilitation Agreement of the World Trade Organization.

1.41 These reforms will be implemented using public instruments such as laws, decrees, agreements, and resolutions. Each reform, depending on the area involved, has an entity responsible for its approval (Executive Branch, VUCE), as described in the means of verification matrix (required electronic link 2).

1.42 **Component III. Modernization of incentives for productive innovation.** The objective of this component is to modernize the framework of incentives for investment in innovation by developing local capacities to help optimize the impact on the national economy. The reforms to be promoted include the following: (i) strengthening of the regulatory and financial framework of incentives for investment and innovation through: (a) the signing of management agreements between the Executive Branch and the ANII, setting management targets and releasing funds to implement the lines of the PENCTI and related mechanisms for monitoring and evaluation; (b) implementation of incentives to encourage investment in innovation and technological development through temporary income tax exemptions for the financing of business initiatives green-lighted by the ANII and for the direct subsidies for business innovation issued by the ANII; and (c) promotion of linkages between foreign businesses and local providers through implementation of a provider development program by the National Development Agency (ANDE); (ii) promotion of synergies between academia, local industry, and FDI by generating specific instruments to promote business innovation through the academia-business-government relationship, with implementation of the following: two new sector funds with a “challenges” modality (one with large multinational companies and another with public agencies); a mechanism to encourage the patenting of outcomes of research and innovation; a new instrument to promote coordination between the creative industries and traditional sectors; and two new sector technology centers, a sector technology network, and four university-business partnerships to be implemented by the ANII; and (iii) development of specific instruments to strengthen technological capacity and develop specialized human resources through technological courses of study in engineering at UTEC and the scientist training program as part of the Basic Science Development Program.

1.43 These reforms will be implemented using public instruments such as laws, decrees, agreements, resolutions, and administrative measures. Each reform, depending on the area involved, has an entity responsible for its approval (ANII, Executive Branch, ANDE, UTEC), as described in the means of verification matrix (required electronic link 2).

C. Key results indicators

1.44 The framework for measuring the program’s development effectiveness is the results matrix (required electronic link 3). The outputs listed in this matrix replicate the structure of the policy matrix (Annex II), which in turn is aligned with the program’s specific development objectives.

1.45 The impact indicators are (i) growth in investment relative to GDP, and (ii) investment in innovation in businesses.

1.46 Fulfillment of the program's outputs for strengthening the regulatory and institutional framework for investment and trade policies will help achieve the expected outcome indicators, an increase in FDI. Fulfillment of the program's outputs for modernizing local capacities for innovation and technology absorption will help increase the number of businesses entering into cooperation agreements for innovation, as well as the number of enrollees in undergraduate technical degree programs related to productive development.

1.47 Through a second programmatic operation, this operation is expected to help consolidate the reforms that are launched and pursue other reforms to help implement them properly. The following indicative commitments are expected to be included in a second operation: sector strengthening of the investment promotion regime, which will contribute to an innovative, proactive, selective strategy for attracting investment so as to maximize local impact by contributing to national productive development objectives, as well as to generating supply chains and spillover in terms of technology, innovation, and quality jobs; development of programs to internationalize export businesses; establishment of an institutional management structure and implementation of the national competitiveness system; and design of a national plan and a monitoring and evaluation system for investment, trade, and innovation policies, among others.

1.48 **Economic analysis.** The project team performed an economic analysis of the program's costs and benefits. This analysis focused on the effect of increased investment on capital endowment per employee and on work productivity, as well as the effect of an improved institutional framework and improved stimuli for innovation on total factor productivity and real wages. An economic growth model calibrated specifically for Uruguay was used in this analysis (optional electronic link 1).

1.49 The program is expected to have high a rate of positive social return as a result of benefits stemming from increased investment, trade facilitation, and innovation. The base scenario[28] yields an estimated net present value (NPV) of US$640 million for a typical (medium) project in the evaluated sample in the event of increased investment, and an NPV of US$774 million in the event of increased total factor productivity.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 This is the first of two consecutive operations that are technically interrelated but independently financed as programmatic policy-based loans, in accordance with the guidelines for preparing and implementing policy-based loans (document CS-3633-1). This instrument is appropriate because it will help to bring the reforms included in the second phase into line with lessons learned from implementing the reforms for this first phase. The program also follows the guidelines of the New Lending Framework (document GN-2200-13) and the Proposal to Establish a Set of Contingent Lending Instruments of the IDB (document GN-2667-2). This modality, as an instrument to support sector reforms and institutional and regulatory changes, was selected for its effectiveness in addressing policy challenges and for the additionality provided by the Bank for the agenda of policy reforms that the MEF has been implementing since the previous administration through the Program for

[28] At a discount rate of 12%.

Strategic International Positioning (2920/OC-UR, 3365/OC-UR, and 3418/OC-UR). This modality also strengthens the dialogue process between the Bank and the Uruguayan government by reflecting the medium- to long-term nature of the country's efforts in policy reform and institutional change. As a result, the modality of programmatic loans will assist in implementing policy reforms on the basis of ongoing developments and new knowledge gained during execution. Two operations are planned: the first one to be based on the fulfillment of policy commitments described in the policy matrix (Annex II) for this operation, and the second one to commence once the triggers set forth in the policy matrix are activated.

2.2 The cost of this first operation is US$250 million, charged to the Single Currency Facility of the Bank's Ordinary Capital. This series of operations will use the deferred drawdown option,[29] which will allow the country to draw down proceeds from the loan for a set period of time provided that the conditions that supported approval are maintained. The Bank's experience with other policy-based programs, such as the Program for Strategic International Positioning in Uruguay, also implemented under the modality of policy-based loan with a deferred drawdown option, illustrates the government's capacity to execute reforms and institutional change, as well as the advantages of this financing instrument in terms of giving countries access to resources and allowing them to choose the best time to use them during the drawdown period.

2.3 The scaling of the program is consistent with the criteria set forth in document CS-3633-1 (paragraph 3.27, criterion (b): "fiscal resource needs experienced by a country in a broad sense"). The borrowing needs of the NFPS, in a base scenario similar to the one used by the International Monetary Fund, are estimated at US$2.991 billion per year on average between 2017 and 2021, representing about 4.7% of GDP (optional electronic link 5).[30] This first operation represents 8.4% of the borrowing needs of the NFPS for an average year between 2017 and 2021 and 50% of the average annual financing provided by multilateral institutions between 2017 and 2021.[31]

B. Environmental and social risks

2.4 In accordance with Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (OP-703), and in view of the outcomes of the Safeguard Policy Filter, this operation does not require classification. No environmental or social risks are associated with the program. The program does not finance physical investments, nor does it entail activities with negative repercussions on natural resources.

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[29] With a disbursement period of up to three years from the date of eligibility for disbursements (document GN-2667-2).

[30] Annual borrowing requirements are defined as the fiscal deficit projected by the IMF plus amortizations for the year. The assumption is that the Uruguayan government will cover these needs by issuing new debt (for which the payment of new interest and amortizations is simulated), borrowing from multilateral agencies, and, to a lesser extent, drawing on international reserves.

[31] According to the latest data published by the Debt Management Unit (http://deuda.mef.gub.uy/), the central government's borrowing needs (not including State-owned enterprises, among others) will average US$3.3 billion in 2017 and 2018, which is in line with the calculations presented in optional electronic link 5 for those years.

C. Fiduciary risks

2.5 The operation does not entail risks for financial execution, as the technical conditions for disbursement will have been substantially fulfilled before it is submitted to the Bank's Board of Executive Directors. The proposed financial instrument provides fungible resources that are not tied to specific expenditures. As a result, the operation is deemed not to entail fiduciary risks, as the borrower, which will be receiving the resources, has sound country systems in place for financial management.

D. Other risks

2.6 The project team, along with the local counterpart, identified fiscal sustainability as a medium-level risk. Implementation of the proposed structural changes and fulfillment of the targets for this programmatic loan operation may be adversely affected by decreased capital inflows as a result of external factors—specifically, a slowdown in regional economies, lower prices for the main commodity exports, or a greater-than-expected rise in interest rates in the United States. This risk is mitigated by the measures taken by the Uruguayan government in relation to its policy for attracting investment, which is promoted under this program.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower is the Eastern Republic of Uruguay, and the executing agency is the Eastern Republic of Uruguay acting through the Ministry of Economy and Finance (MEF). The executing agency will have the following responsibilities: (i) coordinate between the entities responsible for adopting measures or for technical execution of activities; (ii) monitor activities for this operation; (iii) provide evidence that the policy commitments for each of the individual operations have been fulfilled; (iv) mitigate risks and effectively resolve any problems arising during the program; and (v) once each operation has been disbursed, gather information on performance indicators in order to evaluate program results.

3.2 To coordinate between the various entities involved, the executing agency will centralize information related to program activities in the MEF's Office for Multilateral Institutions. The executing agency will create venues for dialogue to ensure strategic coordination of the program's actors, activities, and policies.

3.3 **Special contractual conditions precedent to the sole disbursement of the loan: Disbursement of loan proceeds upon the borrower's request is subject to the fulfillment of the policy reform measures described in the program components and set forth in the policy matrix (Annex II) and the policy letter (required electronic link 1), in addition to other conditions set forth in the loan contract**. Fulfillment of these conditions will be verified using the instruments identified in the policy matrix (Annex II), the means of verification matrix (required electronic link 2), and the monitoring and evaluation plan (optional electronic link 2).

B. Summary of arrangements for results monitoring

3.4 The program's monitoring and evaluation plan (optional electronic link 2) is based on the indicators and targets specified in the following instruments: (i) policy matrix (Annex II), (ii) means of verification matrix (required electronic link 2), and (iii) results matrix (required electronic link 3). These instruments set forth the key parameters for monitoring and evaluating program results. The Bank will monitor their execution from its Country Office and from the Trade and Investment Division (INT/TIN). The executing agency will be responsible for monitoring results in coordination with the Bank. The executing agency will provide the Bank with all information needed to measure the completion of both operations for this program and will provide timely information on the program's progress.

3.5 For monitoring purposes, the program will use data from the country statistics system provided by the Central Bank of Uruguay. Data provided by the customs bureau and the ANII will be used as well.

3.6 The regulatory and institutional reforms called for in the program will constitute a policy intervention at the national level and consequently will affect the economy as a whole. To evaluate its impact on investment and trade, the possibility of using the synthetic control method will be considered. This method entails using a combination of countries unaffected by similar reforms to constitute the control group for comparative purposes. The effects of the reforms are identified by comparing the actual performance of the economy subject to intervention in the areas of interest against the counterfactual given by the performance of the synthetic control group. For reforms with clearly defined groups of beneficiaries (such as trade), and subject to verification of applicability, alternative methods such as the difference-in-differences method, or a combination of difference-in-differences and matching, will be used. To evaluate the intervention's impact on innovation, quasi-experimental difference-in-differences methods will be used with statistical pairing at the baseline, comparing increased investment in innovation and work productivity of businesses supported with the new instruments against a control group of similar businesses (optional electronic link 2).

IV. POLICY LETTER

4.1 The Government of Uruguay and the Bank have agreed on the policy commitments to be supported by this program. These commitments are reflected in the policy matrix (Annex II), the results matrix (required electronic link 3), and the MEF policy letter (required electronic link 1) to the Bank, confirming the course of this policy and the commitments assumed through the program.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	**Yes**	
Development Challenges & Cross-cutting Themes	**-Productivity and Innovation -Economic Integration -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law**	
Country Development Results Indicators	**-Public agencies' processing times of international trade of goods and services * -Micro / small / medium enterprises financed (#)* -Regional, sub-regional and extra-regional integration agreements and cooperation initiatives supported (#)***	
2. Country Development Objectives	**Yes**	
Country Strategy Results Matrix	**GN-2836**	**(i) Diversify export markets; (ii) Promote business innovation; and (iii) Improve the coordination of policies for Science, Technology, and Innovation.**
Country Program Results Matrix	**GN-2884**	**The intervention is included in the 2017 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	**9.6**	
3.1 Program Diagnosis	**3.0**	
3.2 Proposed Interventions or Solutions	**3.6**	
3.3 Results Matrix Quality	**3.0**	
4. Ex ante Economic Analysis	**7.5**	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	**2.5**	
4.2 Identified and Quantified Benefits	**2.0**	
4.3 Identified and Quantified Costs	**2.0**	
4.4 Reasonable Assumptions	**0.0**	
4.5 Sensitivity Analysis	**1.0**	
5. Monitoring and Evaluation	**8.6**	
5.1 Monitoring Mechanisms	**1.5**	
5.2 Evaluation Plan	**7.1**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Low**	
Identified risks have been rated for magnitude and likelihood	**Yes**	
Mitigation measures have been identified for major risks	**Yes**	
Mitigation measures have indicators for tracking their implementation	**Yes**	
Environmental & social risk classification	**B.13**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.**
Non-Fiduciary	**Yes**	**Statistics National System.**
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment	**Yes**	**The program will help in the consolidation of the legal framework to incorporate best-practices in the mitigation and adaptation for climate change, in order to position Uruguay as a destination for investments that are responsible with the environment.**
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The "Program for the Modernization of the Framework for Investment, Commerce, and Innovation" (UR-L1140), for a total amount of $US250 million, is the first of two operations financed independently under the modality of Programmatic Loan to Support Policy Reform (PBP). The general objective of the program is to modernize the normative-institutional framework for investment, commerce, and innovation to consolidate sustainable economic growth in Uruguay.

The diagnostic identifies the main progress and challenges in terms of (a) investment, (b) commerce, and (c) innovation. The proposed products (decrees, laws, norms, etc.) aim at addressing those challenges, considering the interrelation between them and the coordination that this entails. Additionally, the program aims to achieve a balance between policy reforms and their implementation. The indicators of the Results Matrix are SMART; and the monitoring plan will allow adequately tracking both outputs and outcomes.

The economic analysis relies on the growth model of Ramsey-Cass-Koopmans. The main benefits arise form an increase in real wages, coming from: (a) an increase in investment that raises capital per worker, and (b) a temporary increase in total factor productivity. The program remains cost-effective under a number of scenarios considered. However, the validity of some of the assumptions and the applicability of the model to study this specific program are not clearly explained in the document.

The evaluation plan proposes to study the effects of the reforms on the flows of foreign direct investment using the synthetic control method, where the case of Uruguay is compared to a combination of other countries. The proposed evaluation methodology seems adequate, but it does consider all of the outcome indicators in the Results Matrix.

POLICY MATRIX

Component and objectives	Commitments of the first program[1]	Indicative commitments of the second program
Component I. Macroeconomic sustainability		
Stable macroeconomic framework for promoting investment and exports.	Maintenance of a macroeconomic policy framework consistent with program objectives and the guidelines set forth in the sector policy letter.	Maintenance of a macroeconomic policy framework consistent with program objectives and the guidelines set forth in the sector policy letter.
Component II. Modernization of the regulatory and institutional framework for investment and trade		
Adaptation of the institutional framework to coordinate and optimize the functioning of government entities for productivity, investment, trade, development, and innovation.	Development and implementation of a special regulatory framework for a national competitiveness system.	Approval and implementation of the institutional structure that will manage the national competitiveness system.
Promotion of investment in high-value-added sectors.	Strengthening of the investment promotion regime in order to promote private investment in Uruguay, making it more competitive and independent of economic cycles. Promotion of the establishment of multinational companies in Uruguay to provide global services and support for units of enterprises located abroad.	Sector-based strengthening of the investment promotion regime, by aligning the level of private investment with Uruguay's development objectives and/or including criteria for developing supply chains.
Strengthening of a climate change policy that positions Uruguay as a destination for low-carbon, resilient, competitive investments.	Updating of the legal framework in order to incorporate international best practices for climate change mitigation and adaptation in accordance with the nationally determined contribution (NDC) ratified as part of the United Nations Framework Convention on Climate Change (UNFCCC). Strengthening of Uruguay's institutional framework for climate change, the environment, and water, by creating an entity to coordinate between agencies in order to allow for the National Environmental Cabinet to design an integrated, equitable environmental strategy for sustainable, geographically balanced national development.	Establishment of programmatic instruments that adopt international best practices in climate change mitigation and adaptation as described in the NDC (implementation of the NDC). Presentations of Uruguay's first nationally determined contribution to the UNFCCC pursuant to the Paris agreement.

[1] For more information, see the means of verification matrix (optional electronic link 3).

Component and objectives	Commitments of the first program[1]	Indicative commitments of the second program
Attraction of FDI through the commitment of the State receiving the investment to uphold international levels of protection and nondiscrimination toward investors from third countries.	Ratification of at least one bilateral agreement for investment promotion and protection.	Signing of an investment agreement within the context of MERCOSUR.
Attraction of FDI through access to tariff-free foreign markets from Uruguay, on the basis of free trade agreements.	Signing and presentation to the legislature of at least one free trade agreement.	Legislative ratification of the free trade agreement signed with the Republic of Chile.
Attraction of investment due to the opportunity to deduct taxes paid in Uruguay in the country of origin, even if the project receives tax exemptions in Uruguay under the promotion regime.	Signing and presentation to the legislature of at least one double taxation agreement. Ratification of at least five double taxation agreements.[2]	Legislative ratification of the double taxation agreement with the Republic of Chile. Expansion of arrangements for double taxation agreements in Uruguay.
Improved investment climate as a result of greater international fiscal transparency.	Ratification of at least three tax information exchange agreements.	Legislative ratification of at least one tax information exchange agreement.
Improved investment climate as a result of greater international fiscal transparency.	Ratification of the multilateral agreement for the exchange of tax information with foreign tax authorities.	Implementation of regulations related to identifying the shareholders of corporations and/or related to the exchange of tax information.
Increased investment in Uruguay's physical infrastructure.	Promotion of an updated regulatory framework to develop public-private investment initiatives that facilitate the development of infrastructure projects.	Issuance of public calls for bids for new infrastructure projects entailing public-private partnerships.
Simplification of procedures and requirements for importing and exporting goods, as well as for clearing goods through customs.	Optimization of interagency coordination for foreign trade within the framework of the one-stop window for foreign trade (VUCE).	Approval of basic guidelines for implementation of a plan for interoperability with other VUCEs in the region.
Optimization of customs regulations, eliminating regulatory inefficiencies, facilitating intraregional trade, and moving toward greater regional integration of trade.	Issuance of regulations for, and implementation of, the new legal regime of the Uruguayan Customs Code, in order to implement rules and international good practices in customs operations.	Strengthening of the regulatory regime of the Customs Code with a focus on implementation of special regimes.
Convergence of local regulations with international agreements related to trade facilitation.	Adoption of international best practices related to trade facilitation and promoted by the World Trade Organization.	Adoption of technical recommendations related to trade facilitation and promoted by the WTO.

[2] All double taxation agreements include a provision on exchange of tax information between the signatory countries.

Component and objectives	Commitments of the first program[1]	Indicative commitments of the second program
Component III. Modernization of incentives for productive innovation		
Promotion of the impact of investment on national development.	Regulatory and financial strengthening for implementation of the National Strategic Plan for Science, Technology, and Innovation (PENCTI). Stimulus for private investment in innovation and technological development. Implementation of projects to promote ties between foreign companies and local providers.	Updating of targets in the framework of the management agreement between the Executive Branch and the National Research and Innovation Agency (ANII). Approval of tools to provide public goods for competitiveness and to promote territorial competitiveness. Development of the internationalization program for exporting enterprises.
Promotion of synergy between academia, local industry, and FDI.	Development of specific instruments to advance public policies promoting business innovation through the academia-business-government relationship.	Redesign of the instrument to support the business incubation platform. Redesign of scholarship programs to orient them to the needs of business. Redesign of the innovation management instrument for businesses. Implementation of the instrument for incentives for co-investment in innovative startups.
Strengthening of the regulatory framework to develop technological capacities.	Modernization of regulations for technological capacities to expand the development of specialized human resources. Development of training programs and courses for scientists as part of the Basic Science Development Program.	Expansion of geographical coverage and/or expansion of educational offerings at the Technological University of Uruguay (UTEC).

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

Uruguay. Loan ____/OC-UR to the Eastern Republic of Uruguay
Investment, Trade, and Innovation Framework
Modernization Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Eastern Republic of Uruguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Investment, Trade, and Innovation Framework Modernization Program. Such financing will be in the amount of up to US$250,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2017)

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