

TC ABSTRACT

I. BASIC PROJECT DATA

▪ Country/Region:	Uruguay (UR)
▪ TC Name:	National Competitiveness System (Sistema Nacional de Competitividad)
▪ TC Number:	UR-T1125
▪ Team Leader/Members:	Team Leader: Gustavo Crespi (CTI/CUR). Alternate Team Leader: Pablo Garcia (TIU/CUR); Team members: Carolina D'Angelo (CSC/CUR); Claudia Di Fabio (CSC/CUR); Ernesto Stein (RES); Eduardo Fernandez Arias (RES); Alessandro Maffioli (IFD/CTI); Mariela Rizo (IFD/CTI); Legal (TBD)
▪ Taxonomy:	Client Support
▪ Reference to Request:	Request from Client
▪ Date of TC Abstract:	03/08/2015
▪ Beneficiary	Office of Planning and Budget (OPP), Presidency of the Republic, Uruguay
▪ Executing Agency and contact name	Inter-American Development Bank (IDB), Gustavo Crespi (CTI/CUR)
▪ IDB Funding Requested:	US\$500,000
▪ Disbursement period	24 months for disbursement and 18 months for execution
▪ Required start date:	07/01/2015
▪ Types of consultants	Firms and Individual Consultants
▪ Prepared by Unit:	Competitiveness, Technology and Innovation Division (IFD/CTI).
▪ Unit of Disbursement Responsibility:	CSC/CUR
▪ Included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ GCI-9 Sector Priority:	Priority Area 1: Equity and Productivity Priority Area 3: Growth and Welfare

II. OBJECTIVE AND JUSTIFICATION

- 2.1 Uruguay's growth record has been strong over the past decade, with rates of physical capital accumulation and total factor productivity sufficient to reduce the gap in output per worker *vis-à-vis* more advanced economies. Nevertheless, according to OECD estimates (Johansson et al., 2012) the share of innovation in total factor productivity (TFP) growth has remained quite low (15%) which contrasts with the share of innovation in TFP growth of countries such as Korea, Finland, Ireland and Singapore which, when they had the same per-capita income as Uruguay's today, had a share of innovation in TFP growth already higher than 40% (and 70% as of today). This stubbornly low share of innovation in recent TFP growth creates serious concerns about the long term sustainability of the growth process.

- 2.2 Low innovation is normally the result of multiple market, coordination and systemic failures that hinder private sector investments in intangible assets and risky technology development projects. Over the last decade the Government of Uruguay has put in place several policy instruments to start dealing with these failures. As such an interesting process of institutional capacity building has taken place and nowadays a complex system of agencies and ministries have been mandated with the goal of fostering innovation, capacity building and productivity growth in the country. Increasing public resources have been invested so far and an important process of learning-by-doing policy making is taking place.
- 2.3 An important and problematic feature of the current institutional setting is the absent of a high level coordination organization. Indeed, the current institutional framework is dominated by a constellation of public agencies (e.g. the National Research and Innovation Agency, the International Trade and Investment Promotion Institute, the National Training Institute, the National Direction for Small and Medium Enterprises, the Industrial Fund, the National Institutes for Cooperatives, the National Development Fund, among others). Each agency hangs from a different Ministry with very little interaction and coordination among them. This institutional failure leads to a process of fragmentation and increasing overlapping among the instruments managed by the different agencies leading to a low efficiency, reduced impacts and increased overheads.
- 2.4 In order to deal with this serious problem, the new government, which came to power in March 1st 2015, has announced the creation of the National Competitiveness System (Sistema Nacional de Competitividad - SNC). The new system will amend the coordination failures by establishing a “holding” of agencies dealing with productive development issues hanging all of them from a high power technical secretariat within the National Office for Budget and Planning, a high level coordination unit within the Presidency of the Republic. At the same time a new Cabinet for Competitiveness, led by the President of the Republic, will be set up where all the different ministries in charge with productive development and competitiveness policies will coordinate strategies at the higher policy level, decisions that will be then translated and monitored by the new technical secretariat of the National Competitiveness System, who at the same time will oversight the coordination of implementation among the different agencies. At the same time, the different legal frameworks that currently operate the several agencies will have to be reformed in order to create the incentives for coordination also at the agency level (e.g. through cross-representation in the boards of the different agencies, rotation of personnel among the agencies and incentives for the implementation of joint-projects). It is expected that by this way, these reforms will increase the coordination and effectiveness of productive development and competitiveness policies in Uruguay, leading to a higher contribution of innovation to productivity growth and a more sustainable growth process. The Government of Uruguay agrees with this diagnostic and has IDB’s support for the implementation of this National Competitiveness System.
- 2.5 **General Objective.** The purpose of the technical cooperation is to contribute to the implementation of the National Competitiveness System. **Specific Objectives:** In particular, the project will support the Government of Uruguay regarding: (i) Strengthening the institutional framework for the design, coordination and

implementation of productive development policies and; (ii) Building-up of institutional capacities for policy coordination and implementation.

- 2.6 This technical cooperation is consistent with the Ninth (9th) IDB Capital Increase guidelines (GCI-9) as it will strengthen SMEs access to financing and it will also contribute to the product of public financial systems implemented or renovated. Furthermore, a stronger institutional framework for innovation policies will encourage productivity growth contributing to the Bank's Sector Strategy Institutions for Growth and Social Welfare (GN-2791). This project will contribute to the Bank's Country Strategy with Uruguay for the 2010-2015 under the competitiveness and innovation priority. This project is also consistent with the goals of the Public Capacity Building Korea Fund for Economic Development that aims at strengthening public sector management in all fiscal related sectors through assistance aimed at facilitating efficient allocation and use of public sector resources to generate higher public value at the national and the sub-national government level¹.

III. DESCRIPTION OF ACTIVITIES AND OUTPUTS

- 3.1 To reach the objectives the project will finance consultancy activities, travels and experts visits. Implementation of the following components with their products and associated activities is contemplated.
- 3.2 **Component I. Learning from Success: Knowledge Sharing from international experiences of policy coordination regarding productive development policies.** In principle two cases have been identified as relevant for this activity: South Korea and Finland. South Korea has a long and very successful history of implementation of productive development policies. This was the result of an institutional learning process with included a series of reforms and feedbacks over time (OECD, 2009; OECD 2014). In particular, the capacity to *vertically coordinate* the different phases of the policy making process -from priority setting, program designs and project implementation- aligning different institutions (the NTSC, ministries and agencies) are highly relevant for Uruguay. This experience will constitute a very fertile field for Uruguay's authorities who have identified South Korea as an important source of learning on this regards. This component will partner with Korean organizations with the aim of writing a report on vertical policy coordination and organizing a series of workshops in Montevideo about key Korean productive development agencies such as NTCS, KISTEP, MOTIE, MSIP, KEIT, KOTRA, KIAT, KOTEC, among others. A high level mission from Uruguayan authorities to Korea will be also co-organized in collaboration with the above mentioned organizations in order to gather field level experience with policy implementation and coordination. At the same time the experience of Finland could be relevant given their capacities to *horizontally coordinate* the work plans among the different agencies - TEKES, the Academy of Finland, VTT and FINPRO – something that will be equally assessed through a case report and a workshop.
- 3.3 **Component II: Technical Assistance for the Implementation of the National Competitiveness System.** This component will finance international and national individual and firms consultants who will prepare background reports regarding the

¹ See Public Capacity Building Korea Fund for Economic Development, operational guidelines.

institutional design of the new system. In particular, the consultants will produce a proposal for a new legislation framework for competitiveness and innovation, the design of the new system Technical Secretariat, guidelines for the operations of the different agencies involved in the system and more importantly a results framework for competitiveness and innovation policies. The result framework will allow the technical secretariat to carry-out an ex-ante assessment of competitiveness and innovation public programs in order the guarantee that best-practice design principles have been followed so guarantying for a good quality design and consistency before policy implementation. At the same time the results framework will generate SMART indicators and mandatory guidelines for ex-post impact evaluation.

- 3.4 **Component III: Information Systems and Training Activities.** This component will implement three different activities: (a) Training of policy makers and agency staff on the new procedures and guidelines that govern the new national competitiveness system; (b) the design and implementation of an information technology platform that will allow the technical secretary on-line access to the decisions taken at the agency level both in terms of financial progress and physical outputs with the aim of increasing monitoring capacities of competitiveness and innovation policies and (c) the creation of an impact evaluation fund at the level of the technical secretariat of the system with the aim of implementing strategic policy studies and a regular program of impact evaluations for competitiveness and innovation policies.

IV. BUDGET

Activity/ Component	Description	Activities	IDB/Fund Funding	Counterpart Funding	Total Funding
Component I	Knowledge Sharing	Korea's and Finland Case reports. Mission from Uruguay's Policy Makers to Korea and Finland. Finland case report. Workshop in Montevideo	90,000	10,000	100,000
		Sub-Total	90.000	10.000	100.000
Component II	Technical Assistance for System Design	1)Strategic Design SNC 2)Guidelines and Procedures 3)Results Framework for Competitiveness and Innovation	50.000 50.000 50.000	10.000 10.000 10.000	60.000 60.000 60.000
		Sub-Total	150.000	30.000	180.000
Component III	Information Systems and Training Activities	4) Policy Makers Training 5)ICT System and Programs 6) Impact Evaluation Fund	30.000 130.000 100.000	0 10.000 0	30.000 140.000 100.000
		Sub-Total	260.000	10.000	270,000
TOTAL			500.000	50.000	550.000

Note: [See Annex II for further details](#)

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 The executing agency will be the Bank. This is based on its capacity to implement technical cooperation projects and its knowledge to identify highly qualified international consultants because of its experience in similar operations among different countries in the region. Given that the new SNC is in the process of being designed and so the financial systems of the new technical secretariat are not yet implemented, it is considered that execution by the Bank is the best option in order to speed-up implementation. The beneficiary of this TC, the Office of Budget and Planning of the Presidency of the Republic will contribute to the discussion of the terms of reference of the different studies, assist the international consultants during their missions to Montevideo and approve the final outcomes of the different studies.

VI. PROJECT RISKS AND ISSUES

- 6.1 A risk with the implementation of this TC is that the Government of Uruguay disagrees with the recommendations emerging from the some of the studies and so does not move forward with the policy implementation of some of them. In order to mitigate this risk the project team will be deeply involved in the dialogue with the beneficiary in order to accompany the process of discussion and assimilation of the different policy recommendations.

VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

- 7.1 This TC does not have environmental issues. Regarding Social strategy, this project will be designed addressing gender and minorities' social inclusion concerns. The TC has been qualified by ESG as category "[C](#)" which confirms an environmental, social and / or cultural minimum or no impact.