

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

DIGITAL TRANSFORMATION PROGRAM FOR MSMEs

(UR-L1174)

LOAN PROPOSAL

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ABBREVIATIONS

ANDE	National Development Agency
ANII	National Research and Innovation Agency
CUTI	Uruguayan Chamber of Information Technologies
DTSS	Digital Transformation Support Services
ICT	Information and communication technologies
INE	National Statistics Institute
INEFOP	Instituto Nacional de Empleo y Formación Profesional [National Employment and Vocational Training Institute]
MEF	Ministry of Economic Affairs and Finance
MEP	Monitoring and evaluation plan
MIEM	Ministry of Industry, Energy, and Mines
MSMEs	Micro, small, and medium-sized enterprises
OECD	Organisation for Economic Co-operation and Development
SAC	Strategic Advisory Council

PROJECT SUMMARY

URUGUAY DIGITAL TRANSFORMATION PROGRAM FOR MSMEs (UR-L1174)

Financial terms and conditions				
Borrower:			Flexible Financing Facility^(a)	
Eastern Republic of Uruguay			Amortization period:	25 years
Executing agency:			Disbursement period:	4 years
National Development Agency (ANDE)			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	15,000,000	100	Credit fee:	^(c)
			Inspection and supervision fee:	^(c)
			Weighted average life:	15.25 years
Total:	15,000,000	100	Approval currency:	U.S. dollars
Project at a glance				
Objective/description: The general objective of the program is to boost the economic growth and efficiency of Uruguayan micro, small, and medium-sized enterprises (MSMEs) through the adoption of digital technologies. The specific objectives are to: (i) increase awareness and use of digital solutions by MSMEs; and (ii) increase the supply of digital products and services for MSMEs and build capacity to facilitate digital transformation in MSMEs.				
Special contractual conditions precedent to the first disbursement of the loan: (i) contracting the program coordinator and two technical specialists, and assigning key ANDE staff to make up the program team; (ii) approval and entry into effect of the program Operating Regulations , in the terms agreed upon with the Bank; and (iii) signature and entry into effect of a subsidiary execution agreement between Uruguay's Ministry of Economy and Finance (MEF) and ANDE for the transfer of loan proceeds and the execution of program activities under the terms agreed upon with the Bank (paragraph 3.5).				
Exceptions to Bank policies: None.				
Strategic alignment				
Challenges: ^(d)	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
Crosscutting themes: ^(e)	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>	CC <input type="checkbox"/> and ES <input type="checkbox"/>		IC <input checked="" type="checkbox"/>

- ^(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, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- ^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- ^(c) The credit 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) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Economic context.** Before the advent of COVID-19, Uruguay's economy was experiencing a low phase in the economic cycle, with shrinking investment and employment since 2015. After having grown at an annual average of 5% between 2003-2014, Uruguay grew at 1.3% a year between 2015-2019. In the wake of the health crisis, GDP fell by 5.9% in 2020 (Central Bank of Uruguay, 2021) but is expected to recover partially in 2021, with growth of 4.3% (International Monetary Fund, 2020). In the context of the pandemic and the deterioration in public accounts, steps are being taken to rationalize public spending, which would help to bring the central government's deficit down from 6.6% of GDP in 2020 to 3.8% in 2021, and to 2.5% of GDP in 2024.
- 1.2 The micro, small, and medium-sized enterprise (MSME) segment¹ is facing structural productivity problems. The labor productivity of Uruguayan microenterprises is 21% compared to companies with 50 employees and more, rising to 41% for small and medium-sized companies with between 5 and 49 employees (Organisation for Economic Co-operation and Development (OECD), 2019). These gaps are about double the figures for Uruguay's European peers.² They can be explained by challenges in financing, managerial capacity, and the use of technology, which have negatively impacted performance during the crisis.³
- 1.3 **The problem addressed.** Uruguayan MSMEs have low levels of digital adoption. The country ranks 47th (out of 134 countries) in the Network Readiness Index 2020. It ranks first in the region in access to and use of information and communication technology (ICT) by the citizenry and government (31 and 35, respectively) but 64th in the use of ICT by businesses. Just 70% of Uruguayan MSMEs use the Internet (66% of microenterprises, 93% of small businesses, and 99% of medium-sized enterprises), and 69% of companies have a website,⁴ which is lower than Chile (79%) and the OECD countries (78%). They also make scant use of electronic commerce and banking and advanced digital technologies.⁵

¹ MSMEs are classified in Uruguay as follows: microenterprises have up to four employees and annual sales of up to US\$250,000; small enterprises have fewer than 19 employees and sales of up to US\$1,250,000; and medium-sized enterprises have up to 99 employees, with sales of up to US\$10 million. MSMEs account for 99.5% of the country's businesses (189,296 companies), and 85% of them are in the services sector, 14% are industries, and 1% are in the primary sector (National Statistics Bureau (INE), 2019).

² In Europe, the productivity of microenterprises is 42% of that of large companies, and that of medium-sized enterprise productivity is 71% (Dini and Stumpo, 2018, cited in OECD, 2019).

³ A survey conducted in April 2020 indicates that 90% of the country's MSMEs took steps to respond to the crisis, including cost reduction, use of unemployment insurance, temporary closure, or the use of e-commerce. *Relevamiento de empresas. Ministerio de Industria, Energía y Minería (MIEM). Informe de Avance* [Survey of companies. Ministry of Industry, Energy, and Mines. Progress Report], 2020.

⁴ Microenterprise survey 2017, MIEM.

⁵ According to this IDB [study](#), just 9% of the SMEs and 16% of the large companies analyzed stated that they used advanced technologies for integrated, intelligent automation.

- 1.4 The determining factors for digital adoption include internal considerations, such as capacity and the business culture, coupled with contextual factors such as information, access to connectivity, financing, digital talent and solutions, and an adequate regulatory and competitive framework.⁶ On the demand side, MSMEs lack information and knowledge of the benefits of digitalization and are short of employees with digital skills.⁷ For example, fewer than 5% of SMEs hire professionals in ICT—2% of small enterprises and 9% of medium-sized ones (National Research and Innovation Agency (ANII), 2018) compared to 15% of small firms and 45% of medium-sized ones in the European Union (OECD, 2020). Companies also lack technical and managerial capacity to update their internal processes. Just 11% of Uruguayan companies with between 10 and 20 employees develop innovation strategies based on ICT, compared to 17% in Argentina, and 27% in Peru.⁸ Moreover, MSMEs face restrictions on access to credit that limit their ability to acquire digital technologies. The guarantees required for a loan are more than three times the amount of the loan for small businesses and twice the amount for medium-sized enterprises (Enterprise Surveys, 2017).
- 1.5 Digital transformation⁹ offers tremendous opportunities for the economy and society, but access, use, and ownership of the benefits of digital transformation are not equitably balanced between men and women.¹⁰ In Uruguay, 35% of MSMEs are headed by women, with 90% of them being microenterprises (MIEM, 2017). In line with international evidence, differences exist between MSMEs headed by men and women in computer ownership (79% compared to 62%), Internet use (85% compared to 77%), and access to credit (77% compared to 64%) (MIEM, 2017).¹¹ The reasons for this digital gap include obstacles to access, economic affordability, education, and certain sociocultural biases and patterns.¹² According to Inmujeres (2021), the unremunerated workload for women is 37.5%, while the figure for men is 19.5%, and the gap has worsened during the pandemic.
- 1.6 Despite the strengths of Uruguay's ICT sector,¹³ information asymmetries and high transaction costs caused by fragmentation, and weak demand, result in a limited supply of digital services and support for the digital transformation of MSMEs, particularly outside of the country's capital. At present, just 12% of ICT invoicing represents sales to MSMEs (Uruguayan Chamber of Information Technologies

⁶ Investments in connectivity infrastructure, digital regulation, and competition, will not be covered by this operation.

⁷ In a survey of Uruguayan MSMEs conducted when this program was being prepared, more than 80% of companies said that the biggest obstacles to their digital transformation were budgetary restrictions, lack of information on technologies and suppliers, and lack of access to talent.

⁸ Comparison of national innovation surveys, IDB, 2020.

⁹ Digital transformation is understood as the use of technology to radically improve the performance or reach of a company in areas related to its internal processes, client relations, and/or new business models (based on MIT Center for Digital Transformation, 2011).

¹⁰ Bridging the digital gender divide: include, upskill, innovate. OECD, 2018.

¹¹ These gaps persist when the results are controlled by size and sector of activity. MIEM, 2017.

¹² *El futuro de la tecnología. Inclusión femenina* [The future of technology. Female inclusion]. Laboratoria. 2021.

¹³ In 2019, 4,368 companies were active in the ICT sector (INE, 2019), with billing equivalent to 2.7% of GDP in 2018 (CUTI, 2019). Exports of information technology services quadrupled between 2012 and 2019 (Central Bank of Uruguay, 2020), and account for the country's third-largest export.

- (CUTI), 2021), compared to an estimated 28% worldwide (International Data Corporation, 2020). Sectors that weigh heavily in the country's productive structure which are dominated by MSMEs make very little use of ICT (for example commerce or tourism). In this context, aggregate demand by MSMEs presents an opportunity for promoting the development and adoption of digital solutions of collective interest, on both the sectoral and territorial levels.¹⁴
- 1.7 Digital transformation support services (DTSS)¹⁵ are scarce, operate disjointedly, and have a weak presence, particularly outside the capital. Unlike other countries in the region, Uruguay does not have an organized network of business development or technology extension services for MSMEs. Of 10 centers offering support for MSMEs and technology centers consulted during program preparation, just five currently provide support for preparing digital transformation plans.¹⁶
- 1.8 Lastly, the lack of coordination between the needs of companies and the supply of professional training helps to explain the scarcity of digital talent, which is one of the main obstacles to developing the ICT sector¹⁷ and digitalizing the rest of the economy. According to CUTI, annual graduates from ITC training programs currently meet just 35% of demand, and the sector has zero unemployment. In a recent survey of MSMEs conducted for the program's design, more than 50% of the businesses surveyed identified that their employees needed internal training for digital transformation.¹⁸ Although fresh efforts are underway at present to train digital talent in the country,¹⁹ these people are not being absorbed by MSMEs, and there are no training options tailored to the needs of this business segment in areas such as technology management.
- 1.9 On the policy level, [Agenda Uruguay Digital 2025](#) [Digital Uruguay Agenda 2025] includes among its strategic pillars training in digital skills and the construction of a competitive digital economy, while the [current government's program](#) identifies digital impetus for MSMEs as a priority action area. Institutions such as the Agencia de Gobierno Electrónico y Sociedad de la Información [Agency for e-Government and Information Society] (AGESIC), the Instituto Nacional de Empleo y Formación Profesional [National Employment and Vocational Training Institute] (INEFOP), which offers digital training to strengthen labor skills, ANII through its programs for innovation, and ANDE are key agents for implementing these strategic lines and work in coordination to support digital transformation.

¹⁴ According to the 2017 survey of MSMEs, just 25% have partnered with other companies, and just 6% of those have been to procure technology. The forums on agriculture, cybersecurity, or electronic billing led by CUTI or MIEM's Open Digital Lab are examples of recent coordination efforts.

¹⁵ DTSS include services for the search, selection, development, and implementation of digital solutions, development of strategic plans for digital transformation, and training in digital skills.

¹⁶ [Primer informe de consultoría. Oferta de servicios de apoyo a la TD](#) [First consulting report. Supply of digital transformation support services].

¹⁷ Crespi, G, et al. Rethinking Productive Development. IDB 2014, page 181.

¹⁸ [Informe de consultoría. Oferta y demanda de Talento Digital de las MIPYME en Uruguay](#) [Consulting report. Supply and demand for digital talent by MSMEs in Uruguay].

¹⁹ Graduates specializing in information technology increased by 662 compared to the 1,297 graduates in 2018. *Informe de relevamiento de egresos de formación en TI, 2019. CUTI. Documento interno* [Report on information technology graduates, 2019. CUTI. Internal document].

- 1.10 ANDE is a non-state public agency that reports to the MEF, whose purpose is to contribute to the country's economic and productive development and act as the arm that executes the country's policies to support MSMEs and entrepreneurs. It began operating in 2015²⁰ with a focus on business development, entrepreneurship, access to financing, and territorial development. During the pandemic, ANDE prioritized a series of interventions focusing on the digitalization of MSMEs, which it is now seeking to strengthen. The assessment of ANDE's institutional capacity performed during project preparation detected key areas for strengthening in the technology,²¹ fiduciary, monitoring and evaluation, and competitive intelligence areas, and the need for support to extend its operational coverage to the entire country. These issues will be addressed through the measures described in paragraphs 2.4, 2.5, and 3.2, and through a technical cooperation project in preparation (paragraph 1.16).
- 1.11 Through ANDE, the Uruguayan government has asked the Bank for support in developing a program to help improve the performance of smaller companies through the adoption of digital technologies²² and new business models. International evidence demonstrates that these technologies will improve business performance in terms of sales, jobs, and productivity, that are keys for promoting innovation.²³ E-commerce opens up new sales channels; data analysis can predict and anticipate the needs of clients; the automation of management processes increases business efficiency; while intensive data use speeds up and lowers the cost of innovation. These impacts are even stronger when companies commit to digital transformation processes in which technology is accompanied by changes in managerial capacity, processes, internal organization, relations with clients and suppliers, and in the deployment of new business models.²⁴
- 1.12 **Bank experience in the country.** In recent decades, the Bank has helped to lay the groundwork for digital transformation in Uruguay, supporting areas such as the development of digital government, digital health, cybersecurity, and

²⁰ ANDE was created by Law 18602 of 21 September 2009. It was regulated by Decree 94/012 of 27 March 2012.

²¹ [Análisis de madurez digital de ANDE](#) [Analysis of ANDE's digital maturity].

²² The adoption of technology refers to the process of decision-making, procurement, and use of technologies (B. Hall, 2003). In this case, the adoption of digital technologies includes devices, systems, networks, and applications that can generate, transmit, process, or send information digitally.

²³ International literature indicates that the adoption of digital technologies is a source of increased productivity, greater efficiency, and growth in companies (Vu et al., 2020; Goldfarb and Tucker, 2019; Atkinson, 2018; Banai, Lang and Nagy, 2017; Grazzi and Jung, 2016; Cardona et al., 2013; among others). These results are maintained for smaller companies in services sectors with traditionally low productivity, dominated by MSMEs (Hallward-Driemeier et al., 2020; OECD, 2021 citing Costa et al., 2020; Bailin Rivaes et al., 2019). For the specific case of Uruguay, investments in ICT have been shown to have a positive impact on innovation and productivity, which is higher in the services sector than in manufacturing (Aboal and Tacsir, 2017). This result is particularly relevant, since 85% of Uruguayan MSMEs operate in the services sector.

²⁴ Brynjolfsson and Hitt (2003) argue that the long-term contribution to growth of digitalization involves a combination of investments in technology and complementary organizational investments, such as the development of new commercial processes, or the invention of new ways of interacting with clients and suppliers. Numerous publications have found that these management practices, combined with investments in (or adoption of) ICT have the highest impacts on productivity (Bloom et al., 2012; Aral et al., 2012; Crespi et al., 2007).

narrowing digital gaps in the public education system. On the entrepreneurial level, the Bank and IDB Lab have worked extensively over several decades to support ANII in programs for innovation, entrepreneurship, and advanced talent training, which have financed projects involving research, development, and innovation, and startups, including in ICT and other sectors.²⁵

- 1.13 **Complementarity with other Bank operations.** Building on the enabling framework for digital transformation established by these earlier interventions, the program complements the following loans currently in execution: Business Innovation and Entrepreneurship Programs I (US\$25 million) and II (US\$30 million) (loans 4329/OC-UR and 4847/OC-UR), Uruguay Global: Promoting Digital Skills for Internationalization (US\$8 million) (loan 4658/OC-UR), and a program to attract talent and investment currently in preparation. In the first case, the program will assist MSMEs that are in an earlier stage of maturity than ANII's client companies, and the agencies involved will coordinate to ensure continuity in the entrepreneurial support provided. In the second operation, the program will coordinate the possibility of tapping new talent created through post-graduate education in artificial intelligence. Lastly, the program will seek to make the most of synergies in interventions with the entrepreneurial ecosystem and the training of digital talent, in the framework of the program to attract talent.
- 1.14 **Cooperation with the IDB Group.** This operation also supplements and builds on several decades of IDB Lab experience in promoting the ICT sector and digital adoption in the country through pilot projects. Specifically, the lessons learned from the following IDB Lab operations have been taken into account: Digital Solutions Learning Lab in Logistics (US\$1.7 million) (ATN/ME-17065-UR); Innovation Vouchers for Creative Industries (US\$999,980) (ATN/ME-15756-UR); and Youth Programmers (US\$1 million) (ATN/ME-16123-UR), all currently in execution and with lessons learned (paragraph 1.15).²⁶
- 1.15 **Lessons learned.** The design incorporates lessons from recent lending programs for innovation and digital transformation by the Bank and IDB Lab in Uruguay and other countries such as Peru and Argentina,²⁷ and IDB Lab projects in 16 countries. The following lessons stand out: (i) raise awareness among MSMEs and give them access to digital information, as a complement to the interventions involving nonreimbursable contributions supported by Component 1 (paragraph 1.21); (ii) give consideration to the initial diagnostic assessment and provide support for businesses to improve the quality of projects financed by nonreimbursable contributions, in this case through the digital facilitators

²⁵ The most recent programs are loan 3315/OC-UR, Innovation Program for Productive Development; loan 4329/OC-UR, Business Innovation and Entrepreneurship Project; and loan 4847/OC-UR, Business Innovation and Entrepreneurship Program II. Impact evaluations are available on the tools used to support business innovation for 2014, 2017, and 2020.

²⁶ IDB Lab is preparing a knowledge product that systemizes lessons learned in this area; its preliminary conclusions are presented in [optional link 6](#).

²⁷ The program Improved Levels of Productive Innovation at the National Level (loan 3700/OC-PE) and the MSME Competitiveness Support Program (loan 2923/OC-AR) both contain digital adoption components for SMEs, as do the projects in IDB Lab's ICT cluster between 2001 and 2010 (Ca'Zorzi, 2011). See the [Monitoring and evaluation plan](#).

- supported under Component 2 (paragraph 1.24); (iii) design the nonreimbursable contributions to include cofinancing requirements that are easy for the beneficiaries to execute (paragraph 1.25); and (iv) strengthen the ecosystem to promote a coordinated supply of support services for companies that help to improve the quality of the digital transformation projects financed, as reflected in Component 2 (paragraph 1.26).
- 1.16 **Bank additionality.** The Bank and IDB Lab are contributing experience and knowledge to developing this program, which will be the first in the country with a comprehensive approach to supporting the digital transformation of MSMEs. The Bank will also support the launch of the program with a nonreimbursable technical-cooperation project currently being prepared for US\$100,000, which will support development of a strategy to raise awareness of MSMEs regarding digital transformation, training for digital facilitators, identification of digital kits for MSMEs, and the creation of capacity in ANDE in digital areas and support for MSMEs.
- 1.17 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (UIS) (document AB-3190-2) and is strategically aligned with the development challenge of Productivity and Innovation, since it promotes better economic performance of Uruguayan MSMEs through the adoption of digital technologies. The program is also aligned with the crosscutting themes of: (i) Institutional Capacity and Rule of Law, since it promotes the institutional strengthening of ANDE in the digital sphere and in its capacity for program execution, monitoring, and evaluation; and (ii) Gender Equity, since it promotes support for companies with a gender perspective. The loan is also consistent with the strategic lines of action established in the Update to the Gender Action Plan for Operations 2020-2021 (document GN-2531-19) by strengthening the digital and managerial capacity of SMEs headed by women and supporting innovative female entrepreneurs (paragraph 1.18). In addition, the program will contribute to the following Corporate Results Framework (CRF) (document GN-2727-12) indicators: (i) MSMEs financed; (ii) enterprises provided with technical assistance; (iii) women beneficiaries of economic empowerment initiatives; (iv) countries with strengthened gender equality and diversity policy frameworks; and (v) institutions with strengthened digital technology and managerial capacity. The operation is also consistent with the Innovation, Science, and Technology Sector Framework Document (document GN-2791-8) which stresses the importance of the digital economy and the need to promote digital transformation and digital talent in businesses; and with the Gender and Diversity Sector Framework Document (document GN-2800-8), in that it promotes gender equity and the empowerment of women. It is aligned with the improvements in innovation and productivity called for in the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2) since it will boost the productivity and growth of MSMEs. The operation is aligned with the IDB Group's Country Strategy with Uruguay (2016-2020)²⁸ (document GN-2836) in the priority area of productivity and competitiveness, since it stresses the promotion of business innovation and the associated strategic objectives of: (i) promoting

²⁸ This strategy remains applicable to operations in Uruguay until a new one is approved in 2021.

business innovation; and (ii) improving the coordination of science, technology, and innovation policies. Lastly, the operation is included in the 2021 Operational Program Report (document GN-3034).

- 1.18 **Gender equity.** The program will help to close gender gaps (paragraph 1.5) by: (i) implementing a communication strategy that attracts female heads of MSMEs to the program (Component 1); (ii) implementing processes that enable the program's competitive processes and support to be carried out with a gender perspective (Components 1 and 2); (iii) carrying out at least one pilot project to narrow gaps in digital adoption in MSMEs headed by women (Component 1); and (iv) strengthening the capacity of ANDE to implement a crosscutting gender and diversity approach²⁹ in the program, through consulting services to optimize processes and tailor the offering of instruments to the needs of women entrepreneurs (Component 3) ([optional link 4](#)).
- 1.19 **Technological innovation.** The program will contribute to the adoption of technology and technological innovation by MSMEs through Components 1 and 2, in response to the problems described in paragraphs 1.3 to 1.8, stressing the adoption of new business models and digital tools, the development of digital solutions and enabling platforms for the adoption of technologies, as well as support for the supply of digital transformation services.

B. Objectives, components, and cost

- 1.20 **Objective.** The general objective of the program is to boost the economic growth and efficiency of Uruguayan MSMEs through the adoption of digital technologies. The specific objectives are to: (i) increase awareness³⁰ and use of digital solutions by MSMEs; and (ii) increase the supply of digital products and services for MSMEs and build capacity to facilitate digital transformation in MSMEs.
- 1.21 **Component 1. Digital inclusion and development (US\$10,121,200).** The component will include activities to promote demand for digital transformation by MSMEs by improving their access to digital transformation information and services, as well as access to technical assistance and financing for the implementation of digital transformation projects. It will finance: (i) activities to communicate the strategy for digital inclusion of MSMEs; (ii) two pilot projects to experiment with different approaches to promoting the adoption of technologies and developing new digital business models, one directed to the digital transformation of businesses headed by women; (iii) information tools and content to guide MSMEs along digital transformation routes, such as a virtual measurement of the digital maturity of a business, development of sector road maps, etc. The capacity levels of program beneficiaries will be defined on the basis of the digital maturity categories established in the diagnostic tool, which will be

²⁹ During the program, this approach is expected to expand to cover more excluded groups.

³⁰ "Awareness" means the information in the possession of companies and their general familiarity with digital transformation.

applied to all companies that apply for the instruments;³¹ and (iv) consulting services for the development and operation of an information platform to facilitate access to information on digital transformation, digital services, and support for digital transformation.

- 1.22 Nonreimbursable contributions will be awarded to finance projects to support the development and implementation of digital transformation projects, with differentiated interventions depending on the digital maturity of the MSMEs: (v) for companies with incipient digital capacity, training and advisory services will be offered for the selection and use of standardized digital services packages (digital kits); (vi) for companies with intermediate digital capacity, group nonreimbursable contributions (ProDigital) of up to US\$30,000 will be offered, with 80% project cofinancing, to groups of a minimum of 10 companies, with a focus on building capacity to develop digital transformation plans and initial implementation of the plans. Projects will be assigned through competitive processes and will be managed by intermediary institutions specializing in digital transformation, accredited in advance by the program. The program expects to support about 400 MSMEs; and (vii) for companies with more advanced digital capacity, individual nonreimbursable contributions (vouchers) of up to US\$20,000 per company will be financed, with maximum cofinancing of 60% of the project. The vouchers will be used to finance technical assistance to develop digital transformation plans, update processes, develop new business models, train staff in specific technologies linked to the project, invest in tools, software, inputs and/or equipment needed for the project, etc. In developing the digital transformation plan and during its execution, the companies may be supported by digital facilitators or coaches accredited in advance and trained by the program. Access to this instrument will take place through a window with periodic cutoffs. Approximately 300 MSMEs are expected to be assisted. The execution details can be consulted in the [program Operating Regulations](#).
- 1.23 Lastly, at least one pilot project will be financed to test interventions that facilitate access to credit for MSMEs for digital transformation, in areas such as: credit information, capacity-building for financial institutions in the evaluation of digital transformation projects, the lack of guarantees or adequate business models, etc. A consulting firm has been contracted to conduct a diagnostic assessment, analyzing the offering of suitable financial instruments and identifying the areas on which the pilot project could be focused. The program will finance the design, implementation, and evaluation of the pilot project, on the basis of which ANDE could lead the subsequent scaling of successful interventions. Details will be included in the [program Operating Regulations](#).

³¹ Digital checkup is a tool for measuring digital maturity developed by the Bank under the technical-cooperation project ATN/OC-16807-RG, Promoting digital disruption in Latin America and the Caribbean, which is being adapted to the needs of the present program. Levels of digital maturity under digital checkup range from the most basic (a company with an analog business model or that is taking the first steps to digitalize its business), to intermediate (a company that has begun the process of digitalizing its business or that has a business model in transition to a model based on digital technology), to advanced levels (companies that have a business model totally or partially based on digital technologies).

- 1.24 **Component 2. Digital transformation services (US\$2,790,000).** This component will finance activities related to the strengthening and coordination of the supply of digital transformation support services (DTSS) for businesses, development of digital solutions, and training of digital talent. It will support: (i) the creation and strengthening of a network of DTSS and training of digital facilitators. The program will keep an up-to-date register of facilitators and intermediary institutions that specialize in supporting digital transformation, which will have to offer a minimum capacity for service delivery.
- 1.25 Nonreimbursable contributions will also be financed to promote the development of solutions to facilitate the digital transformation of MSMEs through: (ii) projects by ICT entrepreneurs and firms that seek to generate digital solutions or platforms that facilitate the use and adoption of digital technology by MSMEs. Fourteen projects will be financed for up to US\$50,000, with cofinancing of up to 80% of the project. Projects will be chosen through competitions and selection criteria will be applied, such as the relevance of the solution, the viability of the business model, or the potential for adoption by MSMEs. Consulting services and awareness and training activities will also be financed to guide the challenge-based competitions; (iii) projects of collective interest³² presented by organizations that seek to develop and adopt solutions that contribute to the digital transformation of MSME sectors or groups. Nine projects will be financed to benefit about 270 companies for a maximum of US\$100,000 per project and up to 80% cofinancing. The projects will be selected through competitive mechanisms based on criteria such as the relevance of the problem or opportunities to be addressed, expected impact on the beneficiary companies, and their environment, or the technical and financial sustainability of the project. Technical assistance will also be financed to support companies in the sectors or territories lagging farthest behind in developing proposals and to advise applicant companies on the design of key considerations for developing digital solutions (for example, the operating and support model, the best procurement method, sustainability plan, or adoption strategy). Additional details can be consulted in the [program Operating Regulations](#).
- 1.26 Lastly, (iv) support will be provided to strengthen digital talent for MSMEs, through study grants. These grants will operate under partnerships with public and private training suppliers to be established by the program. They will cover the bulk of the cost of training, with the remainder coming from the beneficiary company. As activities to complement the study grants, consulting services will be financed to design training roadmaps for MSMEs with different levels of digital maturity, and the development and implementation of courses in areas in which no preexisting supply could be detected in the intermediate to advanced levels. The identification and design of the courses and the award of the study grants will be coordinated with INEFOP, as part of the existing cooperation between the two institutions, and as established in the [program Operating Regulations](#).

³² As background, ANDE's 2017 program of public goods for competitiveness detected the needs of groups of MSME for which there were no digital solutions and financed their development. For example, an automatic sheep-counting system, better control of predators and cattle rustling using cell phones, an intelligent system to recommend watering to increase the productivity of cereal crops, oilseed crops, and pastures.

- 1.27 **Component 3. Institutional strengthening of ANDE (US\$1,138,600).** The objective of this activity is to strengthen and expand ANDE's capacity for effective program implementation. Financing will be provided for activities related to: (i) upgrading and integration of information systems in the areas of automatization, real-time data collection, and security, and through training for key staff; (ii) technical strengthening in: (a) monitoring and evaluation, by contracting an operations analyst to support program monitoring and evaluation, contracting of surveys of MSMEs (beneficiaries and controls), and consulting services to map ANDE's processes of information and knowledge management, and identify opportunities for improving the strategic use of data for decision making and; and (b) communications processes and outreach to the whole country, through the mapping of strategic partners outside the capital and the design and implementation of an inclusive strategy to communicate and publicize the program; (iii) building ANDE's competitive intelligence capacity through financing for strategic surveys and studies intended to improve the coverage and representativeness of national statistics and information on Uruguayan MSMEs in general; and (iv) implementing a digital transformation strategy for MSMEs headed by women, to be applied program-wide in a crosscutting manner.
- 1.28 **Program administration, monitoring, and evaluation (US\$950,200).** Audits and technical evaluations will be financed during the entire project, as well as the cost of the program coordinator, two digital specialists, one procurement specialist, and one financial specialist. The profiles of the technical team are established in the [program Operating Regulations](#).

C. Key results indicators

- 1.29 Fulfillment of the general development objective will be evaluated using three indicators: (i) the annual survival rate; (ii) income from annual sales of goods and services; and (iii) annual sales costs over income from annual sales. Two indicators will be used to measure the results associated with the first specific development objective: (i) number of companies that visit the information platform and perform the digital checkup; and (ii) score obtained in the indicator for digital technology use. Two indicators will be used to measure the results associated with the second specific development objective: (i) new digital products for MSMEs offered by the beneficiaries; and (ii) average evaluation score obtained by the facilitators (see Annex II and the [monitoring and evaluation plan](#)).
- 1.30 **Beneficiaries.** The end beneficiaries of the program can be divided into two large groups: (i) Uruguayan MSMEs that demand products and services for digital transformation; and (ii) the providers of DTSS and digital solutions. The first group includes 11,000 MSMEs who could potentially be program beneficiaries. Under Component 1, projections are to provide 2,000 companies in the digital inclusion phase with digital kits, 400 companies with intermediate digital maturity with a group instrument, and 300 more mature companies with the voucher program.³³ Given the program's gender perspective, it is expected to assure the participation of businesses headed by women in the different instruments. In the second group, Component 2 of the program is expected to benefit at least 23 companies or

³³ The analysis of the target population and program demand can be consulted at [optional link 5](#).

ventures offering digital products and services and 100 providers of DTSS services for MSMEs. In addition, ANDE will benefit from stronger institutional capacity in the digital sphere and in program execution, monitoring, and evaluation.

- 1.31 **Economic analysis.** A [cost-benefit evaluation](#) was performed with a six-year horizon. It shows that the program has an internal rate of return of 23.3%, which is higher than the discount rate used by the Bank of 12% per year. Consistent with the program’s objectives and results and impact indicators, monetization of the main benefits comes from three sources: (i) the increase in the survival rate of the MSMEs participating in the program’s different lines; (ii) the increase in income from sales thanks to the digital transformation enabled by the program among the participating firms; and (iii) the improvements in efficiency (cost reduction) thanks to the digital transformation enabled by the program among the participating firms. These calculations correspond to a conservative scenario. The results are robust to a sensitivity analysis of the program’s main parameters.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This program will be financed through a specific investment loan of US\$15 million from the Ordinary Capital, under the Flexible Financing Facility.
- 2.2 The estimated disbursement period will be 48 months, considering ANDE’s execution capacity, its past experience and that of the Bank in executing short nonreimbursable contributions (between 6 and 18 months), and the planned preparation and startup activities to facilitate early launch of the instruments ([optional link 8](#)).

Table 1. Estimated cost of the program (US\$)³⁴

Component	IDB	%
Component 1. Digital inclusion and development	10,121,200	67.48
Inclusion strategy, pilots, platform, and content	845,000	5.63
Nonreimbursable contributions for digital transformation	8,100,000	54.00
Financing pilot	1,176,200	7.85
Component 2. Digital transformation services	2,790,000	18.60
Strengthening the network of services and facilitators	155,000	1.03
Nonreimbursable contributions for ICT startups and enterprises	755,000	5.03
Nonreimbursable contributions for digital transformation	1,000,000	6.67
Digital talent	880,000	5.87
Component 3. Institutional strengthening for ANDE	1,138,600	7.59
Digital transformation of ANDE	600,000	4.00
Technical strengthening, gender, and competitive intelligence	538,600	3.59
Program administration, monitoring, and evaluation	950,200	6.33
Total	15,000,000	100.00

³⁴ Estimated costs are indicative.

Table 2. Financial execution timetable (US\$)

	Year 1	Year 2	Year 3	Year 4	Total
IDB	2,820,962	4,515,367	5,028,867	2,634,804	15,000,000
%	19	30	34	17	100

B. Environmental and social risks

2.3 This operation was classified as a category “C” operation under the Environment and Safeguards Compliance Policy (Operational Policy OP-703). No negative environmental or social impacts are anticipated.

C. Fiduciary risks

2.4 The institutional capacity assessment has identified strengths and opportunities for improvement. As a result, the fiduciary risk of the program has been established as medium-high (see Annex III). The following risks have been identified: (i) human resources (medium-high). Unless the profiles of ANDE’s team are defined and staff with an understanding of the fiduciary aspects of project execution and IDB rules is available, delays could occur in program execution. This will be mitigated by appointing key ANDE staff as a condition precedent to the first disbursement. The profiles and responsibilities of the fiduciary positions will be included in the program Operating Regulations. ANDE’s team will be strengthened by contracting technical staff with fiduciary experience and will receive support from Bank staff knowledgeable about the fiduciary aspects of project execution. (ii) Economic-financial context (medium-high). If the annual budget for execution is not available, fulfillment of program objectives will be impacted. This will be mitigated through signature of a subsidiary execution agreement between ANDE and the MEF setting out the procedure for transferring funds, which will be a condition precedent to the first disbursement.

D. Other risks and key project considerations

2.5 Other risks have been identified: (i) human resources (medium-high), unless a coordinator with prior experience in managing projects is available, there could be a risk of delays in execution. This risk will be mitigated by contracting a program coordinator, which is a condition precedent to the first disbursement. (ii) Social environment (interest groups) (medium-high). Unless adequate communication about the program and its benefits can be achieved, trade associations and unions could offer resistance, which would affect program execution. The risk will be mitigated under Component 3 by implementing dissemination/awareness activities and a communication plan that includes these relevant stakeholders.

2.6 **Sustainability.** ANDE has had access to flows of funds ever since it was established, enabling it to successfully sustain its programs. It is expected that the proposed program will be sustainable and scalable through ANDE’s own actions, which include plans to replicate and scale up the activities financed in future. The consensus regarding these policies in the country, as reflected in the priorities of the Agenda Uruguay Digital 2025 (paragraph 1.9), and their alignment with ANDE’s strategy make it likely that it will have a sufficient budget even after the end of the program. Moreover, to assure the sustainability of the digital

transformation projects of the businesses supported, sustainability criteria has been included among the selection requirements for the nonreimbursable contributions, as described in the [program Operating Regulations](#).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Eastern Republic of Uruguay and the executing agency will be ANDE, which will be responsible for general and technical coordination of all program activities. It will have the following functions and responsibilities: (i) coordinate financial and administrative procedures related to the program; (ii) coordinate, consolidate, prepare, and submit to the Bank all the necessary information and documentation on program management, following the Bank's timetable, formats, and requirements; (iii) ensure the coordination, consistency, and compliance with the planning established in the program management tools, to help achieve the expected results, considering the restrictions on scope, costs, times, risks, and quality, as well as the satisfaction of program participants; (iv) request, manage, and track Bank disbursements and coordinate budget availability with the MEF for program execution and payments to suppliers; (v) based on the information submitted by the core areas, document changes to the results matrix, the procedures used to measure the results indicators established in the matrix, and revisions of the targets, with a view to facilitating the midterm and final program evaluations; (vi) coordinate and/or contract the annual external and concurrent audits as established in the loan contract; and (vii) monitor and comply with the clauses established in the loan contract. Program execution will be governed by the provisions of the loan contract and the [program Operating Regulations](#).
- 3.2 **ANDE's institutional capacity.** Although on a general level, ANDE has the experience and institutional capacity to carry out the program, until now it has had limited experience in executing investment projects of multilateral agencies, although it has executed an emergency financing program for MSMEs as a response to the pandemic with resources from the FONPLATA Development Bank, and has acted as subexecuting agency of competitive funds in IDB programs related to tourism.³⁵ The institutional capacity assessment indicated that ANDE is a suitable program executing agency, provided it has a strengthened project team and uses formalized procedures for disbursement flows (see Annex III). These measures are part of the activities to mitigate the fiduciary and other risks described in paragraphs 2.4 and 2.5 and will be supplemented with activities to strengthen ANDE's capacity included in the technical cooperation project in preparation (paragraph 1.16).
- 3.3 A program coordinator, two full-time digital technical experts, a part-time financial specialist, and a part-time procurement specialist will be contracted for the

³⁵ Coronavirus emergency project-Alleviation of the impact of the COVID-19 emergency in Uruguay: FONPLATA Program of financial assistance for micro and small enterprises (URU-21/2020); Tourism Corridor Development Program (loan 3820/OC-UR); and Program for the Development of Emerging Tourist Destinations (loan 4838/OC-UR).

- program. ANDE's monitoring and evaluation area will be strengthened with a specialist working full-time on the program. The program coordinator will be responsible for coordination, planning, management, and control of the program's administrative and financial activities, and for the results, objectives, and use of the allocated funds. The coordinator will receive support from ANDE's Entrepreneurship, Business Development, Territorial Development, and Access to Financing Technical Offices and from its Administration and Finance, Legal, Communications, Planning and Design, Monitoring and Evaluation, and Information Technology Offices. The two technical specialists will report to the Entrepreneurship and Business Development Offices and will coordinate execution of program activities with the program coordinator.
- 3.4 The program will also have a strategic advisory council (SAC) consisting of five representatives from the public, private, and academic sectors linked to the digital ecosystem, with functions such as: (i) coordinating interventions with key agents in the digital ecosystem to broaden the scope and effectiveness of the interventions; (ii) providing guidance and technical support in deploying instruments; and (iii) providing feedback on the program's progress and challenges. The intervals at which the SAC will meet and its detailed functions and procedures will be regulated in the [program Operating Regulations](#).
- 3.5 **Special contractual conditions precedent to the first disbursement of the loan: (i) contracting the program coordinator and two technical specialists, and assigning key ANDE staff to make up the program team; (ii) approval and entry into effect of the [program Operating Regulations](#), in the terms agreed upon with the Bank; and (iii) signature and entry into effect of a subsidiary execution agreement between Uruguay's Ministry of Economy and Finance (MEF) and ANDE for the transfer of loan proceeds and the execution of program activities under the terms agreed upon with the Bank.** The first condition is essential for assuring the Bank that ANDE will have a suitable team to begin program execution. The second condition is necessary to ensure adequate program execution, since the Bank's experience in the region indicates that approval of program Operating Regulations prior to the first disbursement contributes to the internal organization of the executing agency for implementing the operation. The third condition is justified on account of the importance of formalizing the legal and institutional arrangement for transferring the loan proceeds to ANDE. To that end, ANDE's execution authority and responsibilities under the program need to be formalized.
- 3.6 **Retroactive financing.** Under the Bank Policy on Recognition of Expenditures, Retroactive Financing, and Advance Procurement (document GN-2259-1/OP-507), the Bank may retroactively finance from the loan proceeds eligible expenditures incurred by the executing agency prior to the date of approval of the loan for goods and consulting services up to US\$3,000,000 (equivalent to 20% of the loan), provided requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred after 10 February 2021, the project profile approval date, but may in no event include expenditures made more than 18 months prior to the date on which the Bank's Board of Executive Directors approves the loan. ANDE is planning actions related to the design of instruments for Components 1 and 2, procurement of systems for Component 3, and contracting the project team.

- 3.7 **Fiduciary agreements and requirements.** Procurement financed by the loan will be undertaken in accordance with the Policies for the procurement of goods and works (document GN-2349-15), and the Policies for the selection and contracting of consultants (document GN-2350-15). All procurement will be included in the [procurement plan](#) approved by the Bank, and conform to the methods and ranges established therein. Financial management of the program will be governed by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12).
- 3.8 **Disbursements and audits.** Disbursements will take the form of advances of funds based on actual liquidity requirements and backed by adequate financial and disbursement projections. Preferably, these disbursements will be made semiannually, once at least 80% of the advance has been justified and the forms justifying the expenditures and the financial planning documentation have been submitted. Supervision will be done on an ex post basis. The borrower, through the executing agency, will submit audited financial reports within 120 days after the close of each fiscal year, and the audited final report will be submitted within 120 days after the last disbursement. The terms of reference and the contracting process will follow the guidelines established in document OP-273-12. The cost of the audits will be covered from the loan proceeds, and the audits will be performed by an eligible firm of auditors or the National Audit Office, both of which are Bank-eligible.
- 3.9 **Direct contracting.** Three direct contracts are anticipated for a total of US\$190,000, which will be analyzed during project execution. As indicated in the [procurement plan](#), these contracts fall under the provisions of document GN-2350-15, section 3.11 (a), which explicitly allows direct contracting for the continuity of services. The direct contracts involve: (i) implementation of the MSME data observatory through ANDE's website, developed by the firm Siniestro, for an estimated value of US\$10,000; (ii) upgrading of the Gespro platform (ANDE's project management system) to adapt it to the new program requirements, through the services of the firm Softpoint, for an estimated value of US\$100,000; and (iii) upgrading of Odoo (ANDE's administrative system) through the implementation of new modules to consolidate its administrative and managerial processes, through the services of Opensur, for an estimated value of US\$80,000.

B. Summary of arrangements for monitoring results

- 3.10 **Monitoring.** The operation will be monitored in accordance with the monitoring and evaluation plan. The executing agency will submit semiannual reports to the Bank presenting progress and compliance with the physical and financial targets for outputs in the progress monitoring report and on execution of the annual work plan and the procurement plan. The progress report for the second half of the calendar year will also include information on replanning the physical and financial targets, if necessary, based on the annual review of the multiyear execution plan, the annual work plan, and actual progress in the project. Monitoring will also include tracking the results indicators in the baseline as input for the program's planned evaluations, as described in the [monitoring and evaluation plan](#).
- 3.11 **Evaluation.** The executing agency will perform a midterm and final evaluation of the program as established in the [monitoring and evaluation plan](#). The final evaluation will focus on fulfillment of the results indicators described in the Results Matrix. It will

include a nonexperimental causal evaluation using difference in differences and statistical matching, a before-and-after analysis, and a case study. The final evaluation will be coordinated with the work of preparing the Project Completion Report.

Development Effectiveness Matrix		
Summary		UR-L1174
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Gender Equality and Diversity -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Micro / small / medium enterprises financed (#) -Enterprises provided with technical assistance (#) -Women beneficiaries of economic empowerment initiatives (#) -Countries with strengthened gender equality and diversity policy frameworks (#) -Agencies with strengthened digital technology and managerial capacity (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2836	(i) to promote business innovation; and (ii) to improve coordination of ICT policies
Country Program Results Matrix	GN-3034	The intervention is included in the 2021 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		9.0
3.1 Program Diagnosis		2.0
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.5
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, External Control. Procurement: Information System.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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	Yes	The tool Chequeo Digital developed by the Bank has been applied in order to measure the digital advancement of businesses (ATN/OC-16807-RG) and the TC in preparation Support to the Program for Business Digital Transformation (UR-T1256) of operational support for the development and implementation of the program.

Evaluability Assessment Note: The "Program for the Digital Transformation of MSMEs (UR-L1174)" aims, as its general objective, to increase economic growth and efficiency of the Uruguayan MSMEs through the adoption of digital technologies. The specific objectives for this operation are: (i) increasing knowledge and use of digital solutions by Micro, Small and Medium Enterprises (MSMEs); and (ii) increasing the supply of products and digital services for MSMEs and strengthening the facilitation capacities for the Digital Transformation (DT) of MSMEs.

The key issue the program will try to address is the lack of adoption of digital technologies and solutions among Uruguayan MSMEs. According to the diagnostic, the causes of low adoption can be found on both the demand and the supply side. The lack of supply of digital solutions to MSMEs, in particular in the interior of the country, is due to market fragmentation and asymmetric information. On the demand side, adoption is limited due to a lack of information and knowledge among MSMEs about the benefits of digitization and insufficient staff with the necessary technical skills, as well as due to limited access to credit that precludes the acquisition of digital technologies. The project intends to address demand problems through the provision of information, technical assistance, and financing to firms for the implementation of digital transformation. The program will also strengthen the supply of digital transformation services for firms.

The cost-benefit analysis, which is consistent with the results matrix and is based on reasonable assumptions, yields an internal rate of return of 23% for the project. The vertical logic laid out in the POD is consistent with the results matrix indicators, which meet SMART criteria for the measurement of specific and general objectives listed above, as well as to monitor the products to be generated during the program. Given the scarcity of relevant evidence on the effectiveness of this type of program, the team proposes to evaluate the effects of the project using a quasi-experimental methodology (matching), which is appropriate given the type of intervention and the data availability.

RESULTS MATRIX

Objective: The operation's specific objectives are to: (i) increase awareness and use of digital solutions by MSMEs; and (ii) increase the supply of digital products and services for MSMEs and build capacity to facilitate digital transformation in MSMEs. Achievement of these objectives will contribute to the general objective of boosting the economic growth and efficiency of Uruguayan MSMEs through the adoption of digital technologies.

General development objective

Indicator	Unit of measure	Baseline value	Baseline year	Target year 4	Means of verification	Comments
General development objective: To boost the economic growth and efficiency of Uruguayan MSMEs through the adoption of digital technologies						
Annual survival rate (average for MSMEs participating in the program expressed as a % of the average for comparable nonparticipating MSMEs)	%	100%	2019	103.6%	Businesses and Establishments Office (INE) and ANDE administrative records	The underlying indicator corresponds to MSMEs that are beneficiaries of the digital kit, Pro-Digital, and voucher instruments financed under Component 1 who continue to be listed as active at the end of the measurement period in INE's Businesses and Establishments Directory, as a percentage of MSMEs benefitting from those instruments who were active at the start of the measurement period. The baseline for the underlying indicator is 84%, which corresponds to the period 2019 (MSMEs observed in 2019 vs MSMEs observed in 2018). The target is consistent with the survival rate of companies in the information technology sector (divisions 62 and 63 of the International Standard Industrial Classification (ISIC), Rev.4). The evaluation will be causal based on difference in differences and statistical matching and therefore variations in the indicator attributable to the program will be measured by comparison with the value of the indicator observed in comparable nonparticipants. The indicator to be evaluated measures the average of the underlying indicator for participants as a percentage of the average for comparable nonparticipants. The database of the Unified Payroll kept by the Ministry of Labor and Social Security (MTSS) will be used to control the comparability of the groups.

Indicator	Unit of measure	Baseline value	Baseline year	Target year 4	Means of verification	Comments
Income from annual sales of goods and services (average for participating MSMEs expressed as a % of the average for comparable nonparticipating MSMEs)	%	100%	2017	105%	Annual Economic Survey (INE) for the year in which a MSME joined the program and after completion, and ANDE administrative records	The underlying indicator corresponds to MSMEs participating in the nonreimbursable grant instrument through vouchers, and measures the annual average increase in income from sales of goods and services of those companies. The baseline of the underlying indicator of US\$797,000 is an estimate and corresponds to the average of the top two deciles of small companies and the bottom two deciles of medium-sized companies (both equally weighted) according to the Annual Economic Survey (INE), 2017. The final baseline will be prepared based on information from the companies that apply for the program. The target is projected based on Ca'Zorzi 2011, Singapore Tourism Board 2015, Haskel and Westlake 2017, and others, (see MEP). The evaluation will be causal based on difference in differences and statistical matching, and therefore variations in the indicator attributable to the program will be measured by comparison with the value of the indicator observed in comparable nonparticipants. The indicator to be evaluated measures the average of the underlying indicator for participants as a percentage of the average for comparable nonparticipants.
Average annual sales costs/income from annual sales (average for participating MSMEs expressed as a % of the average for comparable nonparticipating MSMEs)	%	100%	2017	95%	Annual Economic Survey (INE) for the year in which a MSME joined the program and after completion, and ANDE administrative records	The underlying indicator corresponds to MSMEs participating in the nonreimbursable contribution mechanism for digital transformation projects through vouchers and measures the average annual sales costs/income from sales of these companies. The baseline of the underlying indicator of 0.6 is an estimate and corresponds to the average of the top two deciles of small companies and the bottom two deciles of medium-sized companies (both equally weighted) according to the Annual Economic Survey (INE) for 2017. The final baseline will be prepared based on information from the companies that apply for the program. The target is projected based on Ca'Zorzi 2011, Singapore Tourism Board 2015, Haskel

Indicator	Unit of measure	Baseline value	Baseline year	Target year 4	Means of verification	Comments
						and Westlake 2017, and others, (see MEP). The evaluation will be reflexive, comparing the before-and-after situations.

Specific development objectives

Indicator ¹	Unit of measure	Baseline	Baseline year	Target year 4	Means of verification	Comments
Specific development objective 1: Increase awareness and use of digital solutions by MSMEs						
1.1 Number of companies that visit the information platform and perform a digital checkup	Number of companies	188	2020	5,000	Information Platform (ANDE)	The indicator corresponds to the MSMEs that use the platform and complete the digital checkup. The program is expected to encourage wide use of the platform and make more MSMEs aware of their degree of digital maturity and of the digital transformation services available. The baseline measures the number of companies assisted by the Business Competitiveness Centers to which the business diagnostic was administered, which contains a module on “Digitalization and use of ICT” that is closely related to the digital checkup tool. The evaluation will be reflexive, comparing the before-and-after situations.
1.2 Score in the indicator for the use of digital technologies (average for participating MSMEs expressed as a % of the average for comparable nonparticipating MSMEs)	%	100%	2020	110%	Digital checkup (ANDE)	The underlying indicator corresponds to MSMEs participating in the nonreimbursable contribution mechanism for digital transformation projects through vouchers and measures the average score achieved in a group of questions (see Annex 1 of the MEP) on the use of digital technologies that are included in the digital checkup questionnaire to be administered to companies benefiting from the voucher instrument for digital transformation, before and after participation. The program has budgeted funds to apply the digital checkup to companies in the

¹ For all the indicators for specific development objectives and outputs, the results in terms of the gender gap and territorial distribution of the beneficiaries (Montevideo and the rest of the country) will be monitored.

Indicator ¹	Unit of measure	Baseline	Baseline year	Target year 4	Means of verification	Comments
						control group. The evaluation will be causal through difference in differences and statistical matching and therefore variations in the indicator attributable to the program will be measured by comparison with the value of the indicator observed in comparable nonparticipants. The indicator to be evaluated measures the average of the underlying indicator for participants as a percentage of the average for comparable nonparticipants.
Specific development objective 2: Increase the supply of digital products and services for MSMEs and build capacity to facilitate digital transformation in MSMEs						
2.1 New digital products for MSMEs offered by beneficiaries	Number of new digital products for MSMEs	0	2021	12	Application forms and project completion forms for the suppliers of digital solutions (ANDE)	The indicator corresponds to participants in the nonrefundable contribution instrument for startups and established firms that develop solutions to facilitate the digital transformation of MSMEs. The baseline is provisional and will be updated at the workshop to launch the operation based on a survey of the supply of digital products currently being developed. The final baseline will be prepared using information from the beneficiary companies. The target is projected assuming that at least 80% of the projects financed through this instrument will design new digital products for MSMEs as a result of the program's support. The measurement will only consider digital products brought to market. The evaluation will be reflexive, comparing the before-and-after situations. Plans have been made for a case study.
2.2 Average score obtained in facilitator evaluations	Average score	Baseline	2021	Baseline *1.2	Initial and final evaluations (ANDE)	The indicator corresponds to the specialists in digital transformation services for MSMEs who completed a training course to provide such services and measures the score obtained in the evaluation of knowledge and skills administered before and after the course. Since it is an indicator that has never been measured to date, there is no baseline estimate. The target is projected assuming that the average evaluation obtained by the facilitators as a result of the training provided by the program will increase by at least 20% over the scores obtained in the entrance evaluation. The evaluation will be reflexive, comparing the before-and-after situations.

Outputs²

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
Component 1. Digital inclusion and development										
1.1 Awareness strategy for the digital transformation of MSMEs implemented	Strategy implemented	0	2020	0.25	0.25	0.25	0.25	1	Document on the awareness strategy approved Official report by the executing agency to the IDB	“Implemented” means that the lines of action to raise awareness among MSMEs of digital transformation and the program, planned in the awareness strategy document, were carried out.
1.2 Pilot projects to promote the adoption of digital technologies by MSMEs financed	Pilot projects implemented	0	2020	0	1	1	0	2	Project management system/minutes of the board/official report to the IDB by the executing agency (as pertinent)	Pro-gender indicator “Financed” means that the pilot projects have been selected and are in execution, with at least the first payment made. At least one of the pilot projects to promote technology adoption will take a gender approach and be specifically targeted at promoting the adoption of digital technologies in MSMEs headed by women.

² As executing agency, ANDE will be responsible for all activities.

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
1.3 Information platform with a repository of tools for the digital transformation of MSMEs operational	Platform operating	0	2020	1	0	0	0	1	Platform web page	“Operational” means that the platform is on line and being consulted by users.
1.4 Digital kits for MSMEs financed, with processes including a gender perspective	Projects financed	0	2020	500	500	500	500	2,000	Project management system and documents on each competitive process	Pro-gender indicator.
1.5 Projects to support the start of digital transformation (ProDigital) financed, with processes including a gender perspective	Projects financed	0	2020	20	0	20	0	40	Project management system and documents on each competitive process	Pro-gender indicator. Refers to the processes of publicity, communication, selection, and support in each competitive process.
1.6 Vouchers for the digital transformation of MSMEs financed, with processes including a gender perspective	Projects financed	0	2020	75	75	75	75	300	Project management system and documents on each competitive process	Pro-gender indicator.
1.7 Pilot projects on financing instruments to promote digital transformation financed	Pilot projects implemented	0	2020	0	1	0	0	1	SIGA system/ Microcoop system/ minutes of the board/ official report to the IDB by the executing agency (as pertinent)	

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
Component 2. Digital transformation services										
2.1 Facilitators to support the digital transformation of MSMEs trained	Facilitators trained	0	2020	50	25	25	0	100	Internal records of the program and publication on the web page	
2.2 Projects on new solutions for digital transformation of MSMEs developed by companies or ventures financed	Projects financed	0	2020	0	7	7	0	14	Project management system	
2.3 Projects to develop digital solutions of collective interest financed	Projects financed	0	2020	0	5	4	0	9	Project management system	
2.4 Study grants for digital training financed, with processes including a gender perspective	Digital training study grants financed	0	2020	300	300	300	300	1,200	Information platform and documents on each competitive process	Pro-gender indicator.
Component 3. Institutional strengthening of ANDE										
3.1 Financial information systems financed	Financial information systems financed	0	2020	2	0	2	0	4	Official report to the IDB by the executing agency	
3.2 Program monitoring and evaluation plan implemented	Plan implemented	0	2020	0.25	0.25	0.25	0.25	1	Semiannual reports on the results matrix Official report to the IDB by the executing agency	“Implemented” means that information for the program monitoring and evaluation report was generated and consultations were held for technical support and for management of information and knowledge.

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
3.3 Program communication and dissemination strategy implemented	Strategy implemented	0	2020	0.25	0.25	0.25	0.25	1	Official report to the IDB by the executing agency	“Implemented” means that consultations were held to map partners for the design of program identity that generated data for dissemination and that the different activities established in the strategy were carried out.
3.4 Competitive intelligence unit operating	Unit operating	0	2020	0.25	0.25	0.25	0.25	1	ANDE-INE agreement Official report to the IDB by the executing agency	“Operating” means that surveys have been contracted from the INE to improve the coverage and representativeness of information on small businesses and at least two strategic studies on MSMEs.
3.5 Comprehensive strategy on digital transformation for MSMEs headed by women implemented	Strategy implemented	0	2020	0.25	0.25	0.25	0.25	1	Document on the comprehensive strategy on digital transformation for MSMEs headed by women Official report to the IDB by the executing agency	Pro-gender indicator. “Implemented” means that the gender perspective has been incorporated into the awareness, selection, and support processes established in the strategy.

Country: Uruguay

Division: IFD/CTI

Operation: UR-L1174

Year: 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: National Development Agency (ANDE)

Operation name: Digital Transformation Program for MSMEs

I. EXECUTING AGENCY'S FIDUCIARY CONTEXT

1. Use of country systems in the operation (any system or subsystem subsequently approved may be applicable to the operation, under the terms of validation by the Bank).

<input checked="" type="checkbox"/> Budget	<input type="checkbox"/> Reporting	<input checked="" type="checkbox"/> Information system	<input type="checkbox"/> National competitive bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input type="checkbox"/> Internal audit	<input type="checkbox"/> Shopping	<input type="checkbox"/> Others
<input type="checkbox"/> Accounting	<input checked="" type="checkbox"/> External control	<input type="checkbox"/> Individual consultants	

2. Fiduciary execution arrangement

<input checked="" type="checkbox"/>	Fiduciary execution particulars	The program will be executed using ANDE's current organizational structure, for which a team will be designated consisting of managerial and operational staff drawn from the agency's existing personnel and professionals to be contracted to strengthen its managerial capacity, including the program coordinator, two full-time digital technical specialists, a full-time monitoring and evaluation specialist, a part-time financial specialist, and a part-time procurement specialist. Program execution will involve interaction with different areas of ANDE (Administration and Finance, Planning, Legal, and Human Resources Offices) in the framework of institutional procedures, which will be complemented by the particulars required for program execution to be included in the program Operating Regulations .
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3. Fiduciary capacity

Financial capacity of the executing agency	Although on a general level, ANDE has the experience and institutional capacity to carry out the program, until now it has had limited experience in executing investment projects of multilateral agencies, although it has executed an emergency financing program for MSMEs as a response to the pandemic with resources from the FONPLATA Development Bank, and has acted as subexecuting agency of competitive funds in IDB programs related to tourism. ¹ The institutional capacity assessment indicated that ANDE is a suitable program executing agency, provided it has a strengthened project team and uses formalized procedures for disbursement flows. The analysis established that the fiduciary risk is medium-high. Measures have been included in the fiduciary risk mitigation activities described in paragraph 2.4 of the loan proposal.
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¹ Coronavirus emergency project-Alleviation of the impact of the COVID-19 emergency in Uruguay: FONPLATA Program of financial assistance for micro and small enterprises (URU-21/2020); Tourism Corridor Development Program (loan 3820/OC-UR); and Program for the Development of Emerging Tourist Destinations (loan 4838/OC-UR).

	<p>Although ANDE has an organizational structure and formalized procedures for managing its activities, this will be the first project of this kind that it executes, which is why its human resources team must be strengthened with the contracting of a project coordinator and additional technical support, including two professionals for the fiduciary management of procurement and financial management, who will join the project management team designated by ANDE.</p>
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4. Fiduciary risks and responses

Area	Risk	Risk level	Response
Human resources	Unless the profiles of ANDE's team are defined and staff with an understanding of the fiduciary aspects of project execution and IDB rules is available, delays could occur in program.	Medium-high	<p>Designating key ANDE staff as a condition precedent to the first disbursement of the program.</p> <p>The program Operating Regulations will include the profiles and responsibilities of the fiduciary positions.</p> <p>ANDE's team will be strengthened by contracting technical staff with fiduciary experience.</p> <p>The Bank will provide support to ANDE with fiduciary knowledge on project execution.</p>
Economic financial context	If the annual budget for execution is not available, fulfillment of the program objectives will be affected.	Medium-high	ANDE and the MEF will sign an agreement setting out the procedure for transferring funds, which will be a condition precedent to the first disbursement.

5. Policies and guidelines applicable to the operation: documents OP-273-12, GN-2349-15, and GN-2350-15

6. Exceptions to policies and guidelines: None

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

Exchange rate. Applicable for justifying expenditures in the borrower's local currency, as established in the General Conditions of the Loan Contract, Article 4.10 (b) (ii).

Audits. The borrower, through the executing agency, will submit audited financial reports within 120 days after the close of each fiscal year and the audited final report will be submitted with 120 days after the last disbursement. The terms of reference and the contracting process will follow the guidelines established in document OP-273-12. The cost of the audits will be covered from the loan proceeds, and the audits will be performed by an eligible firm of auditors or the National Audit Office, both of which are Bank-eligible.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

☒	Bid documents	For procurement of works, goods, and nonconsulting services carried out in accordance with the procurement policies (document GN-2349-15) and subject to international competitive bidding (ICB), the Bank's standard bidding documents (SBDs) will be used or documents agreed upon by the executing agency and the Bank for specific procurement processes, or in all cases permitted by Bank policies, seeking greater efficiency and fluidity in execution of the procurement envisaged under this loan. Consulting services will be selected and contracted in accordance with the appropriate policies (document GN-2350-15) and the standard request for proposals (SRFP) issued by the Bank will be used or documents agreed upon by the executing agency and the Bank for specific selections, or in all cases permitted by Bank policies, seeking greater efficiency and fluidity in execution of the procurement envisaged under this loan. The technical specifications and terms of reference for procurements will be reviewed by the project's sector specialist during preparation of the selection processes. The technical reviews may be done on an ex ante basis and are independent of the procurement review method.
☒	Direct contracting and selection	Three direct contracts are anticipated for a total of US\$190,000, which will be analyzed during project execution. As indicated in the procurement plan , these contracts fall under the provisions of document GN-2350-15, section 3.11 (a), which explicitly allows direct contracting for the continuity of services. The direct contracts involve: (i) implementation of the MSMEs data observatory through ANDE's website, developed by the firm Siniestro, for an estimated value of US\$10,000; (ii) upgrading of the Gespro platform (ANDE's project management system) to strengthen the platform and adapt it to the new requirements, through the services of the firm Softpoint, for an estimated value of US\$100,000; and (iii) upgrading of Odoo (ANDE's administrative system) through the implementation of new modules to consolidate its administrative and managerial processes, through the services of Opensur, for an estimated value of US\$80,000.
☒	Retroactive financing	Under the Bank Policy on Recognition of Expenditures, Retroactive Financing, and Advance Procurement (document GN-2259-1/OP-507), the Bank may retroactively finance from the loan proceeds eligible expenditures incurred by executing agency prior to the date of approval of the loan for goods and consulting services up to US\$3,000,000 (equivalent to 20% of the loan), provided requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred after 10 February 2021, the project profile approval date, but may in no event include expenditures made more than 18 months prior to the date on which the Bank's Board Executive Directors approves the loan. ANDE is planning actions related to the design of instruments for Components 1 and 2, procurement of systems for Component 3, and contracting the project team.

☒	Procurement supervision	Supervision will be done on an ex post basis except in cases where ex ante supervision is justified. The supervision method (i) ex ante, (ii) ex post will be determined for each selection processes. Ex post reviews will be performed each year in accordance with the project supervision plan, subject to changes during execution. The ex post review reports will include at least one physical inspection visit (the inspection will verify that the procurements exist and leave the verification of quality and compliance with specifications to the sector specialist), selected from among the procurement processes subject to ex post review. The thresholds for ex post review are:						
<table border="1"> <thead> <tr> <th data-bbox="526 506 813 548">Works</th> <th data-bbox="813 506 1097 548">Goods/services</th> <th data-bbox="1097 506 1385 548">Consulting services</th> </tr> </thead> <tbody> <tr> <td data-bbox="526 548 813 596">US\$5,000,000</td> <td data-bbox="813 548 1097 596">US\$500,000</td> <td data-bbox="1097 548 1385 596">US\$200,000</td> </tr> </tbody> </table>			Works	Goods/services	Consulting services	US\$5,000,000	US\$500,000	US\$200,000
Works	Goods/services	Consulting services						
US\$5,000,000	US\$500,000	US\$200,000						
☒	Records and files	The formats and procedures agreed upon and described in the program Operating Regulations will be used for the preparation and filing of project reports, in accordance with the applicable policies.						

Major procurement processes

Description of procurement	Selection method	Estimated date	Estimated amount (US\$ thousands)
Goods			
Computer equipment for the competitiveness centers	Shopping	First half 2021	10
Firms			
Implementation of the digitalization portal (platform)	QCBS	First half 2021	300
Consulting services to design and implement customized courses	QCBS	Second half 2021	125
Upgrading of Gespro	Direct selection	First half 2021	100
Individual consultants			
Consultant to curate the supply and define the grid	NICQ	First half 2021	45,714
Consultant to provide technical support for monitoring and evaluation	NICQ	First half 2021	77

See the [Procurement plan](#).

IV. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

☒	Programming and budget	<p>The program's budget will be managed annually together with ANDE's regular budget. The total budget for the operation was approved by the MEF. ANDE will present its strategic plans to the MEF each year, which will include sources of income and projected expenditures. The specific requirement for funds from the MEF arises out of the difference between total income and total expenditure. The MEF will approve the strategic planning in general and the annual requirement for funds specifically, which it will transfer to ANDE in a timely manner. Starting in 2021, ANDE will include the program's budget requirement based on the annual work plan.</p>
☒	Treasury and disbursement management	<p>The program's resources will be managed through the general treasury account (CUN), for which the National Treasury Department (TGN), on ANDE's request, will set up a special account in the Central Bank of Uruguay. The account will receive the funds disbursed by the Bank, but since it is a nominal account, ANDE will open a specific bank account for the program in a commercial bank to make the corresponding payments.</p> <p>Disbursements will take the form of advances of funds, based on actual liquidity requirements backed by adequate financial and disbursement projections. Preferably, these disbursements will be made semiannually, once at least 80% of the advance has been justified. Required documentation will include the submission of the forms justifying the expenditures and the financial planning documents. Online Disbursements will be used to process the disbursement requests.</p> <p>The exchange rate for converting payments made in local currency to the currency of the loan will be the rate in effect on the date of payment.</p>
☒	Accounting, information systems, and reporting	<p>The specific accounting rules followed by ANDE are the International Financial Reporting Standards. The institutional system called Odoo will be used for the program's accounting records. This system can create independent accounts for recording the funds received from the Bank and the expenditures made under the components defined in the loan contract. ANDE uses the accrual accounting method. It will issue statements of cash received and disbursements made, as well as cumulative investments. As a complement to the policies and guidelines applicable to the operation, the program Operating Regulations will be used, which include a documented definition of work flows and internal controls.</p>
☒	Internal control and internal auditing	<p>ANDE has no internal audit unit, although it does have a series of procedures formalized in institutional manuals that regulate its activities. The program Operating Regulations will define the specific procedures applicable to program management.</p>
☒	External control and financial reports	<p>ANDE will select and contract external audit services in accordance with terms of reference agreed upon in advance with the Bank. These terms of reference will require annual financial audits in accordance with the International Standards on Auditing, to be presented by 30 April of the year after the review. The firm of auditors will be contracted in accordance with the Financial Management Guidelines for IDB-financed Projects (document OP-273-12).</p> <p>The costs of the audits may be financed from the loan. The audits may be performed by the National Audit Office (TCR) or an independent firm of auditors.</p>
☒	Financial supervision of the operation	<p>Annual onsite visits will be paid to verify compliance with the fiduciary agreements. The Bank will also participate in the workshops to launch the project and to monitor annual planning, to be coordinated by the Project Team Leader.</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Uruguay. Loan ____/OC-UR to the Eastern Republic of Uruguay
MSME Digital Transformation 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 aimed at cooperating in the execution of the MSME Digital Transformation Program. Such financing will be in the amount of up to US\$15,000,000 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 ____ _____ 2021)