



Board of Executive Directors

Simplified Procedure

On or after 30 November 2016

PR-4450
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Simultaneous Disclosure

To: The Executive Directors

From: The Secretary

Subject: Uruguay. Proposal for a Conditional Credit Line for Investment Projects (CCLIP) for the "National Tourism Development" and first individual loan under the line for the "Tourism Corridor Development Program"

Basic Information: Loan type Conditional Credit Line for Investment Projects (CCLIP)

Borrower Eastern Republic of Uruguay

Line of Credit

Amount up to US\$20,000,000

Source Ordinary Capital

Individual Loan

Amount up to US\$5,000,000

Source Ordinary Capital

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Remarks: Management has determined that this loan proposal meets the requirements for presentation by Simplified Procedure, in accordance with Part III, Section 2 (paragraph 3.29(b)) of the Regulations of the Board of Executive Directors and document GN-1838-1, paragraph 2.

Reference: GN-1838-1(7/94), DR-398-17(1/15), GN-2805 (3/15), GN-2246-1(7/03), DE-58/03, GN-2246-4(12/06), DE-10/07, GN-2246-7(11/07), DE-164/07, GN-2564-3(12/11), DE-225/11, PR-3822(11/11), DE-205/11, PR-4434(10/16)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

**CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR
NATIONAL TOURISM DEVELOPMENT**

(UR-O1149)

AND

**FIRST INDIVIDUAL OPERATION UNDER THE CCLIP FOR THE
TOURISM CORRIDOR DEVELOPMENT PROGRAM**

(UR-L1113)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Adela Moreda (CSD/RND) and Luis Hernando Hintze (RND/CUR), Project Team Co-leaders; Onil Banerjee and Yolanda Valle (CSD/RND); Denise Levy (CSD/RND); Nadia Rauschert (FMP/CUR); David Salazar (FMP/CUR); Federico Bachino (CSC/CUR); and Viviana Maya (LEG/SGO).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

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ELECTRONIC LINKS
REQUIRED <ol style="list-style-type: none">1. Multiyear Execution Plan (MEP)2. Annual work plan (AWP)3. Monitoring and Evaluation Plan4. Environmental and Social Management Report (ESMR)5. Procurement Plan OPTIONAL <ol style="list-style-type: none">1. Economic analysis of the project2. Program Operating Manual (POM)3. Institutional Capacity Assessment System (ICAS) - MINTUR4. Institutional Capacity Assessment System (ICAS) – National Development Agency5. Environmental and Social Management Framework (ESMF)6. Operating Regulations, Competitive Fund

ABBREVIATIONS

ANDE	National Development Agency
ANII	National Agency for Research and Innovation
AWP	Annual work plan
CCLIP	Conditional Credit Line for Investment Projects
CPP	Painted Birds Corridor
CRF	Corporate Results Framework
DGEM	Dynamic General Equilibrium Model
ESMF	Environmental and Social Management Framework
ESMR	Environmental and Social Management Report
ICAS	Institutional Capacity Assessment System
IPEs	Instituciones Patrocinadoras de Emprendimientos [Institutions Sponsoring Startups]
IRR	Internal Rate of Return
MINTUR	Ministry of Tourism
NPV	Net Present Value
OPP	Office of Planning and Budget
POM	Program Operating Manual

PROJECT SUMMARY

URUGUAY

CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR NATIONAL TOURISM DEVELOPMENT (UR-O1149)

FIRST INDIVIDUAL OPERATION UNDER THE CCLIP FOR THE TOURISM CORRIDOR DEVELOPMENT PROGRAM (UR-L1113)

Financial Terms and Conditions					
Borrower: Eastern Republic of Uruguay				Flexible Financing Facility^(a)	
				Amortization period:	25 years
				Original WAL:^(b)	15.25 years
Executing agency: Ministry of Tourism (MINTUR)				Disbursement period:	5 years
				Grace period:	5.5 years
Source	CCLIP (US\$)	First Program (US\$)	%	Inspection and supervision fee:	(c)
IDB (Ordinary Capital)	20,000,000	5,000,000	80	Interest rate:	LIBOR-based
Local:	5,000,000	1,250,000	20	Credit fee:	(c)
Total	25,000,000	6,250,000	100	Approval currency:	U.S. dollars from the Ordinary Capital
Project at a Glance					
Objective of the CCLIP: To help generate employment and income in emerging destinations, consolidating tourism activity as a factor in balanced regional development.					
Objective of the first program: To increase tourism spending in the five departments comprising the Uruguay River Corridor, in that tourism is an input that triggers income and employment in destinations.					
Special contractual conditions precedent to the first disbursement of the loan: MINTUR will submit evidence that the Program Operating Manual (POM) has taken effect and includes, in accordance with terms agreed upon with the Bank: (i) the Environmental and Social Management Framework (ESMF), (ii) the training and prior professional experience required for each member of the execution unit and the outputs expected from its management, and (iii) the criteria for appointing departmental governments as subexecuting agencies for the program (paragraph 3.6).					
Special contractual conditions for execution: (i) Prior to granting the certificate to begin execution of the works planned under Component I, MINTUR or the relevant subexecuting agency departmental government will submit, to the Bank's satisfaction, the technical, environmental, and economic viability studies and the corresponding permits (paragraph 3.7); (ii) Prior to starting activities relating to the competitive fund under Component II, MINTUR will submit, in accordance with terms previously agreed upon with the Bank, evidence regarding: (a) the signing and entry into effect of a Participation Agreement between MINTUR and the National Development Agency (ANDE); and (b) the entry into effect of the competitive fund's Operating Regulations (paragraph 3.2); (iii) Prior to appointing a specific departmental government as a subexecuting agency for the program, MINTUR will submit, to the Bank's satisfaction, evidence that the agreed requirements have been met, as follows: (a) the signing and entry into effect of the respective Participation Agreement; (b) appointment of the subexecuting agency's team, and (c) satisfactory assessment of the institutional capacity of that departmental government, following the Bank's analytical methodology (paragraph 3.3); and (iv) Prior to the first competitive bidding process for works provided under Component I under the jurisdiction of a participating national or departmental agency, MINTUR will submit evidence that the respective Institutional Cooperation Agreement has been signed and entered into effect, in accordance with the terms previously agreed upon with the Bank (paragraph 3.5).					
Exceptions to Bank policies: None					
Strategic Alignment					
Challenges: ^(d)	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC <input checked="" type="checkbox"/>

- (a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- (b) The weighted average life (WAL) may be shorter, depending on the effective signature date of the loan contract.
- (c) The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.
- (d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problems, and rationale

- 1.1 **Importance of tourism in Uruguay: Current context.** In 2015, the total contribution¹ made by tourism in Uruguay represented 7.1% of the country's GDP. Tourism generated 6.7% of total employment and 7.4% of investments in the country. Foreign exchange generated by nonresident visitors averaged 13% of goods and services exports during the decade from 2005 to 2015.² In 2015, there were more than 3.3 million nonresident visitors,³ with total spending of 1.777 billion current dollars.⁴ Inbound tourism represents 62.4% of total tourism spending generated in the country. International arrivals have been trending upward over the last five years, with a cumulative increase of 23%, while spending by those visitors also increased by 17%.⁵ Similarly, domestic tourism recorded more than six million trips in 2014, with spending increasing by 41% over 2011.⁶
- 1.2 Some of the factors on which Uruguay has traditionally based its positioning as a tourism destination are its beaches, local hospitality, and relative level of safety compared to the rest of the region. These advantages have been reinforced by a framework of progressive institutional integration that favors the systematic presence of tourism in the public agenda, as well as incipient coordination with the other productive sectors. In recent years tourism authorities have notably participated in projects of the Productive Cabinet, Social Cabinet, and the National Agency for Research and Innovation (ANII), as well as the formation of tourism clusters (Colonia, Punta del Este, Rocha, Salto, and Montevideo), with support from the Office of Planning and Budget (OPP) and the Ministry of Industries. Also noteworthy is the recent approval of the Tourism Law 19,253, enacted in August 2014, which seeks to provide a framework for regulating, promoting, and establishing the hierarchy of tourism activities.
- 1.3 **Challenges.** Despite the sector's generally positive trend in recent years and the gradual consolidation of its institutional framework, a detailed analysis shows that the sector is facing some structural challenges that limit its full utilization as the engine of growth for the country as a whole.
- 1.4 (i) The first challenge is the need to diversify the demand portfolio on two levels by:
(a) reducing dependence on neighboring countries (particularly Argentina) and
(b) deepening segmentation of the current and potential market.
- 1.5 With respect to the first level, the **vulnerability linked to dependence on neighboring countries** must be reduced. These countries represent 85% of total international visits, with Argentina accounting for 68% and Brazil for 17%.⁷ Although

¹ Ministry of Tourism (MINTUR) and World Travel and Tourism Council (WTTC).

² MINTUR, Survey of Inbound Tourism.

³ Including cruise visitors. MINTUR.

⁴ World Tourism Organization (WTO).

⁵ MINTUR.

⁶ MINTUR.

⁷ MINTUR, 2015 Yearbook.

the border effect always means an increase in the number of visits,⁸ this enormous dependence on neighboring countries, and one country in particular, can weaken Uruguay's position in the tourism market, as macroeconomic and political changes have an impact on the inclination to travel, as demonstrated by the crisis surrounding the free convertibility policy in 2001 or the conflict produced by closure of the Fray Bentos-Puerto Unzué international bridge in 2006. This is also illustrated by an analysis of panel data based on 1,794 observations made during program preparation to identify the most important determinants when a tourism destination is selected in regional and long-haul outbound markets and to evaluate their sensitivity to changes therein. The results indicate that the income variable is the most significant for these two markets in terms of arrivals in Uruguay: income elasticity is 1.3 in the Argentine market and 3.3 in the Brazilian market, so that a 1% increase in income produces an increase in the number of departures to Uruguay of 1.3% and 3.3%, respectively. High elasticity is advantageous for growth in the outbound market when the country is in a period of expansion but problematic in times of stagnation or crisis. Uruguay has in fact experienced a decline in arrivals from Brazil in 2015 compared to 2014 (-7.06%).⁹ There has also been a gradual decline in spending per Argentine tourist, falling from US\$720 in 2011 to US\$631 in 2015. Spending per Brazilian visitor has also fallen from US\$746 to US\$540 over the same period. Both markets have seen changes in their income situations since 2011. It is thus advisable to move toward a gradual diversification of outbound markets for visitors to Uruguay.

- 1.6 With respect to the second level, the segmentation of current and potential demand needs to be strengthened: there are various indicators that underscore the need to deepen the market's segmentation to improve efficiency in the use of both potential resources and existing tourism facilities. First, current demand is highly seasonal: 52.3% of domestic tourism spending and 47% of international tourism spending occur during the first quarter of the year (i.e., half of annual tourism consumption occurs in the first three months of the year). It is therefore important to try to generate new offerings that do not depend on climate and to capture visitors with other travel timing patterns to reduce this seasonality, because operators and destinations face continuing inefficiency when having to deal with sharp peaks and valleys in demand.¹⁰ Second, two reasons account for 50% of total inbound tourism: (a) Visits to friends and family are the source of nearly 30% of international arrivals, indicating a certain disconnect between the available tourism offering and the reason why a trip is initiated. This group, which is the most numerous, is the group that generates one of the lowest levels of per capita spending per day (US\$75, below the national average of US\$144); and (b) "getting to know the country" accounts for 20% of the current portfolio: while it is this group that spends the most per capita and per day (US\$221¹¹), it is advisable to strengthen knowledge of Uruguay's tourism offerings among the potential demand market, since the possibility of replacing Uruguay with other competing destinations increases with a lack of prior knowledge. The results

⁸ The border effect usually indicates a 237% increase in the number of visits, Economic evaluation of the program.

⁹ MINTUR: Inbound tourism in 2014 and 2015.

¹⁰ Seasonality in the European markets is opposite to that of the regional and domestic markets, with 47% of trips taken in July and August. Eurobarometer data.

¹¹ Average data for the period 2012-2015, micro-data from MINTUR surveys of tourism spending.

of the panel data analysis indicate—although not as sharply as with income—that price elasticity is a factor that also influences the regional outbound markets.¹² Uruguay ranks 107th in the global tourism competitiveness in terms of price (of a total of 141 countries¹³) and must thus strengthen its differentiation compared to its competitors so as to avoid that replacement effect. Third, tourism spending among Argentinean and Brazilian tourists in Uruguay is significantly lower than average spending by those same markets at the international level,¹⁴ which indicates that, even with these two traditional markets, there is the possibility of capturing additional visitors or changing the pattern of consumption of those who are already arriving, provided that products tailored to their expectations are produced and offered.

- 1.7 The second challenge is the geographic deconcentration of tourism activity: between 2011 and 2015, an average of 73% of investments made in tourism occurred in the Departments of Maldonado and Montevideo.¹⁵ In addition, of the country's seven tourism zones, in 2015, 52.5% of the arrivals of nonresidents and 74.6% of international spending were concentrated in Punta del Este (Maldonado Department) and Montevideo, while residents also opted for the southern and eastern areas of the country (Montevideo, Canelones, and Maldonado, with 69% of trips and 79.6% of domestic tourism spending). This pattern of consumption and investment is logically reflected in tourism GDP: the Department of Montevideo produces around 66% of total tourism GDP, followed by Canelones (7%) and Maldonado (5%).¹⁶ Therefore, this is an economic sector with marked territorial differences, with the three departments together accounting for 78% of national tourism GDP. Therefore, the economic benefits of tourism activity are not reaching different regions with the same intensity and the country is wasting tourism-oriented resources that remain idle.
- 1.8 **Rationale for the CCLIP and preparation of the first program.** Aware of how important it is to turn two identified challenges around—the need to diversify demand and to geographically deconcentrate the tourism offering—some years ago the tourism authorities began efforts to promote a new dynamic in the country's tourism development. The two operations carried out with the Bank's support through the Ministry of Tourism (MINTUR) are in line with those diversification objectives: the Program to Enhance the Competitiveness of Strategic Tourist Destinations (1826/OC-UR), already completed, and the Program to Support the Tourism Sector (2601/OC-UR), now in execution. Both operations involve investment in new tourism offerings located in emerging destinations, with loan 1826/OC-UR having financed investments including interpretation centers in Colonia and Rocha and planning actions in the Thermal Region. Notable program achievements include beneficiary destinations' increased share of total destinations visited in the country (thus contributing to the deconcentration of visits).¹⁷ Program 2601/OC-UR is supporting

¹² Argentina -0.34 and Brazil -0.64. Economic evaluation.

¹³ Tourism Competitiveness Report, 2015, World Economic Forum.

¹⁴ Average tourist spending by an Argentinean international visitor in 2014 was US\$1,073 (US\$639 in Uruguay) and a Brazilian international visitor spent an average of US\$3,315 (US\$638 in Uruguay), World Development Indicators, 2016.

¹⁵ Comisión de Aplicación de la Ley de Inversiones [Investment Act Enforcement Commission] (COMAP).

¹⁶ Uruguay Territory Observatory – OPP, 2011.

¹⁷ See [Program Completion Report](#) (PCR).

the creation of a network of small nautical stations, visitors centers, and the coordination of tourism ventures in the Uruguay River Corridor, helping local initiatives with their business plans and with concession contracts for the financed works. Notable achievements to date include increased local awareness of the Corridor's potential for consolidation as a tourist destination, as shown by the formation of the "Painted Birds" network under the program.

- 1.9 Demand diversification and geographic deconcentration both happen gradually, given that the timeframes for linking the tourism trade and local populations are usually drawn out because barriers of ignorance and mutual distrust must be broken down. For this reason, the government asked the Bank for a Conditional Credit Line for Investment Projects (CCLIP), in order to frame MINTUR's diversification efforts within long-term programmatic actions that can accelerate the transition from a tourism scenario based on visitors spontaneously arriving from nearby countries in the region to a proactive scenario that induces demand niches interested in the country's emerging destinations. In this context, the CCLIP should contribute to efforts to diversify tourism demand and deconcentrate the offering in emerging destinations, in order to consolidate tourism as a factor in balanced regional development. Although poverty levels have fallen rapidly and steadily in Uruguay over the last decade,¹⁸ disparities in economic and social development persist throughout the country. In reality, the concentration of tourism development in three departments reflects the country's general economic structure, in that Montevideo represents 50% of national GDP, Canelones 11%, and Maldonado 5.5%.¹⁹ For this reason, the country has been immersed for some years now in a process of decentralization aimed at spurring territorial equity and cohesion. An example of this is the Political Decentralization and Citizen Participation Law enacted in 2009. MINTUR is also contributing to the decentralization process through the above-mentioned diversification efforts and the regionalization of tourism management.
- 1.10 The CCLIP and its first program are based on empirical evidence showing that tourism may be an appropriate tool for accelerating regional development and territorial cohesion. There is a vast body of international literature confirming the ability of tourism to drive local development, through visiting tourists, their spending, and the multiplier effects generated.²⁰ A recent study done in China, based on a dynamic panel data model, shows that tourism spending has a much more significant effect on the development of regions that lag behind in the interior than on already developed coastal regions and therefore, may contribute to regional convergence.²¹ Also noteworthy is the European Union's use of tourism since the 1990s as an instrument of territorial cohesion among the developed countries of the

¹⁸ Falling from 29.9% of poor households in 2004 to 7% in 2014, OPP.

¹⁹ Uruguay Territory Observatory, OPP.

²⁰ [Brau, R., A. Lanza, F. Pigliaru, \(2003\): "How fast are the tourism countries growing? The international evidence," *Fondazione Eni Enrico Mattei*; Brida, J., A. Barquet, and A. Risso \(2009\): *Causality between Economic Growth and Tourism Expansion: Empirical Evidence from Trentino - Alto Adige*. Published in: *TOURISMOS: An International Multidisciplinary Journal of Tourism*, Vol. 5, Number 2 \(15 April 2010\): pp. 87-98; Gunduz, L. and Hatemi-J, A., 'Is the Tourism-Led Growth Hypothesis Valid for Turkey?' \(2005\), *Applied Economics Letters*, vol. 12, number 8, pp. 499-504.](#)

²¹ Li, H., C. Goh, H. Qiu Zhang, and F. Meng (2014), "[Effect of Tourism on Balanced Regional Development: A Dynamic Panel Data Analysis in Coastal and Inland China.](#)" *Asia Pacific Journal of Tourism Research*, Volume 19.

north and the less developed countries of the south. An ex post evaluation of the Interreg II Territorial Cooperation initiative found that tourism was more effective in achieving territorial convergence results than other economic sectors.²² In the Uruguayan context, a recent mapping of territorial capacities and productive development²³ concluded that the departments with high development potential are those that show relative specializations in services (including tourism), since they increase the chances of generating linkages and positive externalities in the territory. This outcome is backed by a study on the impact of tourism in Uruguay, based on an input-output analysis indicating that the 43 sectors of Uruguay's economy are linked to the vector of tourism demand: even in those sectors where there is no tourism demand, significant indirect effects are recorded as in the case of construction or telecommunications.²⁴

- 1.11 As established in document GN-2246-7, the CCLIP [eligibility criteria](#) have been met, in that (i) MINTUR already has ample prior experience with the Bank, having been the executing agency for the two aforementioned operations: the Program to Enhance the Competitiveness of Strategic Tourist Destinations (1826/OC-UR), which according to its Project Completion Report (PCR), had “very satisfactory” implementation, and the Program to Support the Tourism Sector (2601/OC-UR), for which 84.9% of the funds have been disbursed and which is on track to achieve the expected outcomes; (ii) the project team has confirmed that in both earlier projects: (a) MINTUR has fulfilled the loan contract conditions, including the policies applicable to disbursements and the procurement of goods and services, (b) the audited financial reports, reports on accounts, budgetary execution, and operations have been prepared and submitted appropriately; and (c) investments financed and completed are currently in operation; (iii) the performance of MINTUR in the two previous operations has been satisfactory and the current weighted risk level of the dimensions analyzed under the ICAS is low; and (iv) the areas that will be financed under the CCLIP are aligned with the country strategy with Uruguay (2016-2020) (document GN-2836), in terms of its objective of diversifying export markets, its objective of strengthening decentralization, and the crosscutting area of sustainable management of resources. MINTUR aims to use the CCLIP to strengthen a long-term State policy focused on diversification of markets and deconcentration of supply. The CCLIP, planned for a period of 20 years, offers a flexible mechanism for guaranteeing the implementation of that policy through operations that complement each other and have low processing costs, in addition to representing an initial financial injection, appropriate for an orderly leveraging of both public and private resources in the country's emerging destinations. The first operation (UR-L1113) is structured on the basis of the three CCLIP guidelines and is included in the 2016 Country Program Document (paragraph 1.22).
- 1.12 The first operation, UR-L1113, seeks to contribute to the diversification of demand and deconcentration of supply by generating new tourism proposals in the Uruguay

²² LRDP Ltd. (2003), [Ex post evaluation of the Interreg II Community Initiative \(1994-1999\)](#), Brief Report, London, U.K.

²³ [Mapping of territorial capacities and productive development: opportunities for intervention for local development with inclusion](#), (2014), Ministry of Industry, Energy, and Mines (MIEM), Ministry of Social Development (MIDES), Institute of Economics (IECON) of the University of the Republic (UDELAR).

²⁴ Karina Larruina, 2012, [An assessment of the tourism impact in the Uruguayan economy](#).

River Corridor—or the Painted Birds Corridor (CPP)²⁵—consisting of the Departments of Artigas, Salto, Paysandú, Río Negro, and Soriano. The CPP has been selected for a number of reasons, including: (i) its ability to generate new offerings and capture new segments of demand, given its status as a tourism destination linked to boating, ecotourism, and local culture; (ii) despite that status, it is an emerging destination as it currently receives a lower relative flow from tourism in the national context, representing only 5% of income from inbound tourism,²⁶ and has a tourism GDP well below the country's three already consolidated departments;²⁷ (iii) the CPP already established the scope of action for program 2601/OC-UR, under which work has begun on building social capital with the Painted Birds Network that must continue to be consolidated, given the incipient level of tourism development in the CPP; and (iv) the five departments that make up the CPP have monthly per capita income below the national average²⁸ and also show a medium or low relative competitiveness index.²⁹ Therefore tourism may help to improve socioeconomic indicators.

- 1.13 During preparation of the program, data on tourism spending generated in the country³⁰ were analyzed to identify the current distribution of that spending in the three types of tourism in which the CPP has the most tourist activity: nautical tourism, ecotourism, and cultural tourism. That analysis, based on the visitors' country of origin, can be used to determine the likelihood of choosing these three types of tourism in emerging destinations, if new offerings were generated. The results indicate—as could be expected given the current predominance of general consumption associated with beaches and visits to relatives and friends, as described above—that the two traditional inbound markets (Argentina and Brazil) currently have less interest in these types of tourism than other regional or long-haul markets: (i) in the case of nautical tourism, Chile, Paraguay, and Italy are the countries that record a higher ratio of arrivals and thus greater likelihood of future consumption; (ii) in the case of ecotourism, the United Kingdom, Germany, the United States, and France, in that order, stand out in terms of current consumption; and (iii) in the case of cultural tourism, again the United States, France, the United Kingdom, and Germany stand out. Thus the results indicate that these three types of tourism are able to diversify the current portfolio of tourism demand in Uruguay, even though they are barely represented in current arrivals in the country and the Corridor.³¹
- 1.14 In addition and to evaluate not only the current supply situation but also the potential supply, [400 surveys](#) were conducted at different points of departure from the country, as well as at the Ezeiza airport in Argentina, to determine the willingness to

²⁵ Tourism brand of the Uruguay River Corridor.

²⁶ Tourism spending surveys, 2012 to 2015, MINTUR.

²⁷ Artigas 0.9%, Paysandú 0.7%, Río Negro 1%, Salto 1.6%, Soriano 1.5%.

²⁸ INE Census, 2011. National total 13,703 pesos, Artigas 9,368 pesos, Paysandú 10,238 pesos, Río Negro 10,921 pesos, Salto 10,828 pesos, and Soriano 12,054 pesos.

²⁹ Barrenechea, P. and Troncoso, C. (2008a): *El índice de competitividad regional. ¿Qué cambios tuvo la competitividad por departamentos en una década?*

³⁰ Tourism spending surveys between 2012 and 2015, MINTUR.

³¹ Cultural tourism represents 2.96% of all international visits, ecotourism represents 3.6%, and nautical tourism represents 0.2%.

pay for new products linked to each of the three types of tourism analyzed. The results indicate that the potential demand would be interested in consuming these new products and that there is willingness to pay for them. The various markets show complementary preferences: long-haul markets show the greatest willingness to pay for the river navigation product (US\$251), while the Argentines are more willing to pay for orientation-geocaching activities in natural or cultural areas (US\$286), the Brazilians are more willing to pay to visit the Fray Bentos Industrial Landscape World Heritage site (US\$251), and the Uruguayans are more willing to pay to engage in water sports (US\$186). These results are reinforced by 55 interviews conducted with inbound tour operators in Uruguay and those sending tourists from regional and long-haul countries, indicating a willingness to pay more than what the surveys reveal.

- 1.15 These surveys also included questions regarding conservation of the ecosystem services that support tourism activities; the response was an average willingness to pay an additional \$23 over the cost of the tourism products. This opens up the possibility of designing products that include preservation of the natural and cultural setting in which they are developed. Based on this result, Component I of the program proposes to create flow management plans on river islands that are currently used by the public but where there are no control instruments, and to install facilities providing access to the river and three protected areas³² in order to better manage the access of visitor flows, as well as to incorporate ecosystem services in the tourism interpretation materials provided for various attractions and circuits in the Corridor. The surveys' results support the possibility of generating cost recovery mechanisms for the operation and maintenance of these facilities and the implementation of such plans.
- 1.16 Based on this analysis of current and potential demand, MINTUR, with the Bank's support through technical cooperation operation ATN/OC-15574-UR, has prepared the technical studies required for the program's components: (i) identification, [preliminary technical design](#), and economic evaluation of investments eligible under the program; and (ii) the terms of reference for studies and technical assistance to be carried out in the first 18 months of program execution. Against this backdrop, investments in works have been prioritized in eight locations along the Uruguay River Corridor and 13 small works have been identified as eligible for financing,³³ consistent with the three types of tourism the program seeks to promote. The works typologies are the same as those presented under loan 2601/OC-UR (visitors' centers, light nautical river facilities, and small facilities for marking trails and observing flora and fauna). Therefore, MINTUR already has experience in the preparation and execution of these types of investments.
- 1.17 The program has also designed mechanisms to capture private investment in two ways: (i) capturing the interest of investors and national and international operators specializing in one of the three types of tourism supported by the program, in order to generate a demonstration effect and accelerate the inclusion of the CPP in new markets and nontraditional segments, and (ii) providing incentives for local entrepreneurship. In the first case, a catalogue of investments will be prepared and

³² Rincón de Franquía, Montes del Queguay, Esteros de Farrapos, and Islas de Uruguay: 38,008 hectares.

³³ Bella Unión, Salto, Paysandú, Mercedes, Nuevo Berlín, San Javier, Villa Soriano, Fray Bentos.

disseminated, and opportunities will be identified for public-private collaboration in terms of marketing and management and use of the public goods developed under the program. With respect to local entrepreneurship, various studies indicate that deepening of the financial market has a positive effect on the level of entrepreneurship.³⁴ However, Uruguay's credit penetration level is one of the lowest in the region (about 18% of GDP), very far from Chile's leading level with a ratio in excess of 60%. The largest gap is in credit to companies, amounting to only 12% of GDP, compared to 52% for Chile and 26% for Brazil.³⁵ In Uruguay, 99% of companies are MSMEs, and 43% have no financial products.³⁶ During the early stages in the life of a company, entrepreneurs usually finance themselves using their own funds (82% of the total) or funds from friends or family (16%).³⁷ Based on [evidence recorded](#) by the National Development Agency (ANDE),³⁸ potential entrepreneurs—those who intend to start an enterprise in three years—consider not having financial resources to be their main problem, while emerging entrepreneurs—those who have already begun their enterprise—indicate the area of finance as their second greatest challenge, after commercial issues. Financing is thus one of the major constraints in the early phase of an enterprise. In this context, Uruguay has a low rate of entrepreneurship in early stages, amounting to only 14.3% of the economically active population.³⁹

- 1.18 Several Uruguayan government institutions have various initiatives seeking to remedy this situation. Some of them have notably involved the Bank, including the MIF Emprender program (completed in 2011) that successfully created and consolidated 80 enterprises, or support for entrepreneurship through ANII, which was initiated in 2008 (2004/OC-UR). A [recent evaluation](#) of ANII's Programa de Apoyo Emprendedores Innovador [Innovative Entrepreneurs Support Program], based on nonreimbursable subsidies, yields positive results in terms of the creation of new enterprises (68 projects approved since 2008) and concludes that each dollar invested in enterprises that have lasted for three years has been multiplied by twelve. Of the program's beneficiaries, 23% state that the enterprise would not have been created without the support received, and 60% feel that starting the enterprise would have taken more time.
- 1.19 Nonetheless, there are still market failures, specifically those related to the outbound tourism markets that Uruguay wants to capture and the CPP's status as an emerging destination, which are issues not being addressed by the existing instruments. For example, of the 220 projects submitted to ANII between 2008 and 2012, only 10 projects were approved in the tourism category and only one came from the CPP. Information asymmetries on the behavior of the international tourism market in the CPP generate risk aversion and inhibit local investment. Added to this are financing difficulties faced by many current tourism entrepreneurs, who consider tourism a supplement to family income and are only sporadically involved in tourism activity.

³⁴ [Financing Constraints and Entrepreneurship, Harvard Business School, 2009.](#)

³⁵ [Lineamientos para impulsar el proceso de profundización bancaria en Uruguay, BBVA, 2013.](#)

³⁶ INE and national MSME survey, 2012.

³⁷ Financiamiento de la inversión de empresas en general y de micro, pequeñas y medianas empresas en particular: el caso de Uruguay, ECLAC and AECID, 2010.

³⁸ Evaluation and Monitoring Plan, ANDE, 2016.

³⁹ Country Profile, Global Entrepreneurship Monitor, 2015.

MINTUR has estimated that the universe of enterprises with these characteristics includes 72 companies that need to be strengthened. For all these reasons, MINTUR has felt it necessary to support tourism entrepreneurship in the CPP through a [Competitive Fund](#) that grants nonreimbursable support to new entrepreneurs and young companies in the CPP. ANDE will act as the subexecuting agency for this competitive fund, in order to provide its know-how on business development in the country's interior and technical support in the field through its network of Instituciones Patrocinadoras de Emprendimientos [Institutions Sponsoring Startups] (IPEs). These IPEs will provide support so that startups present a good technical project when applying to the Fund and will provide specialized technical advisory services during execution of the subsidy, with their assistance segmented according to whether startups or young companies are involved.

- 1.20 The program also includes investments to strengthen subnational tourism governance to continue enhancing the territorial coordination initiated with operation 2601/OC-UR. The consolidation of that governance also depends on the production of statistically rigorous data at the local level. At present, only national or departmental data is available, making it difficult to measure the universe of existing tourism companies, their performance, and the performance of local level public investments, other than through ad hoc efforts using heterogeneous data collection and processing methods that cannot be compared. This is one of the main difficulties faced by MINTUR in its regionalization efforts. The program will try to minimize this problem by creating a local tourism observatory with four decentralized territorial management nodes and homogenous methodologies, which may be replicated later at the national level. The observatory will be based on the diagnostic assessment performed under technical cooperation operations RG-T1674, supported by the Bank, on harmonization of tourism statistics system in the Southern Cone countries, which included subnational level recommendations.
- 1.21 **Bank experience and lessons learned.** The execution of operations 1826/OC-UR, 2601/OC-UR, and other tourism operations in Latin America and the Caribbean yields shared lessons learned⁴⁰ that have been incorporated into the design of the new operation.

⁴⁰ See Tourism Sector Framework Document, document GN-2779-3.

Table 1. Lessons Learned

Lesson learned	Reflected in the program design
Development Model/Tourism Product	
Planning and scaling of investments are needed to prevent and mitigate negative impacts associated with accelerated tourism growth.	The program is based on the National Sustainable Tourism Plan 2009-2020 (PLANTUR), the Nautical-River Tourism Master Plan, and the Marketing Plan for the Corridor, developed by MINTUR with Bank support.
To avoid scattered, one-off, and low-impact investments, tourism projects should follow a strategic development model, targeting efforts on specific types of tourism and destinations.	The program is geographically targeted on the 12 most tourism-oriented communities in the Uruguay River Corridor to capture niche demand in three specific types of tourism: nautical tourism, ecotourism, and cultural tourism.
Environmental Management	
Tourism development should incorporate a tangible environmental commitment, in terms of both planning and investment.	The Socioenvironmental Management Framework establishes the guidelines for the operation. For the works projects, environmental impact studies (when required), construction company supervision, and periodic environmental impact audits will be conducted. The investment design considers cost recovery mechanisms to cover maintenance of facilities for controlling the flow of tourists and implementing tourism management plans. The notion of ecosystem services is incorporated into the planned interpretative material (Component I).
Tourism Governance	
Tourism development programs should balance investments in infrastructures with the strengthening of local tourism governance.	Investments in institutional strengthening are planned in Component III, through a comprehensive management model for the Tourism Corridor and an observatory.
Tourism development programs require participatory capacity and crosscutting execution, consistent with the nature of the tourism.	The program is based on agreements to be reached with beneficiary departmental entities and governments, thus ensuring crosscutting participation and execution.

- 1.22 Strategic alignment.** The program is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (document AB-3008), as it is in line with the development challenges of: (i) social inclusion and equality, by focusing on areas with average per capita income below the national average and contributing to territorial cohesion through increased inbound tourism spending; (ii) productivity and innovation, through support for investment by MSMEs in emerging destinations, intended to take advantage of currently idle resources; and (iii) economic integration, by supporting the capture of international outbound markets (whose currencies are considered as exports) and promoting local development in a border corridor. The program is also aligned with the crosscutting areas of: (i) climate change and environmental sustainability, in that 2.3% of the operation's resources are invested in climate change adaptation activities, in accordance with the joint [methodology](#) of multilateral development banks for estimating climate finance. These resources contribute to the IDB Group target of increasing financing for projects related to climate change to 30% of all approvals by the year 2020; and (ii) institutional capacity and rule of

law, by strengthening subnational tourism institutional structures, through a tourism observatory with four decentralized nodes.

- 1.23 The program will also contribute to the Corporate Results Framework (CRF) 2016-2019 (document GN-2727-6), particularly the country development results indicators: (i) jobs created by companies supported by the program; (ii) micro / small / medium-sized companies financed; (iii) micro / small / medium-sized companies provided with nonfinancial support; (iv) beneficiaries of improved management and use of natural capital; and (v) number of government agencies benefited by projects that improve public service delivery. The program is also consistent with the three dimensions of success of the Tourism Sector Framework Document (document GN-2779-3): (i) the economic benefits derived from tourism increase over time; (ii) the economic benefits captured by the local population increase over time; and (iii) the natural and cultural heritage is exploited in a sustainable manner by tourism. The program is also aligned with the Country Strategy with Uruguay 2016-2020 (document GN-2836), in the pillars of productivity and competitiveness (diversification of export markets), strengthening public sector management (strengthening decentralization), and the crosscutting area of sustainable management of resources. The program is included in the 2016 Operational Program Report (document GN-2849).

B. Objectives, components, and cost

- 1.24 The objective of the CCLIP is to contribute to the creation of jobs and incomes in emerging destinations, consolidating tourism activity as a factor in balanced regional development. To achieve this objective, the strategic guidelines of the CCLIP will be: (i) the recovery and/or development of public tourist attractions in emerging destinations, with capacity for capturing new markets and demand segments, under climate change adaptation and resilience and environmental sustainability criteria; (ii) support for tourism entrepreneurship and innovative investment in emerging destinations; and (iii) strengthening subnational tourism institutions.
- 1.25 The first program will support increased tourism spending in the five departments included in the Uruguay River Corridor, as an input triggering income and employment in the destination markets. The first CCLIP program will directly benefit 12 communities in the Corridor, their tourism companies (203⁴¹), new tourism ventures (12), and their population (275,024 inhabitants), strengthening their tourism development conditions through investments grouped under three components, aligned with the CCLIP.
- 1.26 **Component 1: Creation and consolidation of tourism facilities in the Uruguay River Corridor (US\$3.55 million).** The component will include investments for the development of public tourist attractions, enabling the development of nautical tourism, cultural tourism, and ecotourism. The investments will be light river facilities—floating docks, ramps, and a marina—in six Corridor communities,⁴² a visitors' center at the Fray Bentos World Heritage site, an interactive landscape project in Salto, signage and interpretive elements on the culture and ecosystem services in the Corridor based on traditional supports and new technologies, facilities

⁴¹ "Diagnóstico del Plan de Marketing Estratégico y Operativo del Corredor del Río Uruguay," WAN-IBITECH.

⁴² Bella Unión, Salto, Mercedes, Paysandú, Villa Soriano, Nuevo Berlín.

in three protected areas of the Corridor allowing visitors to observe fauna and flora, as well as actions and an expert in marketing to strengthen the Corridor's positioning. The component also includes the updating of the National Tourism Plan, plans to organize tourism flows on five river islands,⁴³ and an environmental management expert to support the process of design, obtaining permits, and executing the investments. The component includes a US\$80,000 item for contingencies in the works.

- 1.27 **Component 2: Support for entrepreneurship and private tourism investment in the Uruguay River Corridor (US\$950,000).** The component will provide technical and financial support for local entrepreneurs for the creation and consolidation of new tourism offerings, through a Competitive Fund, which will be executed with the support of ANDE, as a subexecuting agency for the program. The fund's total amount is US\$500,000, and it will benefit local startups and young companies already operating in the CPP (with less than four years in existence, fewer than 19 employees, and annual billing below Ur\$10 million) to cover all the early stages of the enterprise and serving the micro and small business segments in particular. The fund will provide nonreimbursable support of up to 70% of the total project cost, for a maximum amount of US\$25,000.⁴⁴ Companies must contribute the percentage not covered by the fund's cofinancing. Applicants will receive technical support from one of the IPEs associated with ANDE for proposal preparation, submission to the fund, and execution of the financing. The main eligibility criteria will include: (a) a focus on nontraditional markets or demand segments in the CPP; (b) new tourism proposals under the pillars of ecotourism, nautical tourism, or cultural tourism; (c) linkages with other products or services in the same community or another community in the CPP; (d) incorporation of ecosystem services in the CPP or environmental good practices in the design of new tourism products; (e) quality of the entrepreneurial team and the business plans submitted. The component will also implement actions to capture new national and international operators and investors, through the preparation and dissemination of a catalogue of investment opportunities in the CPP and a projects bank using public-private partnership methods.
- 1.28 **Component 3: Strengthening of subnational tourism governance in the Corridor (US\$900,000).** The component will include a tourism observatory (with four decentralized territorial management nodes) with a dual function: (i) to strengthen subnational tourism governance and public-private cooperation, expanding the coverage and functionalities of the Painted Birds Network; and (ii) creation of a local level tourism information system allowing the generation of indicators related to the performance of tourism activity and public investments.
- 1.29 **Administration, supervision, and audits (US\$850,000).** Program administration funds will be used to finance the creation and operation of the execution unit, the establishment of the baseline, and the ex post evaluation of the program, as well as expenses for supervision and audits.

⁴³ Tentatively, San Francisco, Queguay Chica, Queguay Grande, Barrientos, and Sauzal.

⁴⁴ This limit was established on the basis of ANII and ANDE evaluations with their beneficiaries and a comparative exercise with other countries in the region.

Table 2. Program Cost and Financing (US\$ millions)

Investment Component	IDB	Local Contrib.	Total	%
I. Program administration	0.45	0.19	0.64	10.24
II. Direct costs	4.41	0.99	5.40	86.40
2.1 Creation and consolidation of tourism facilities	2.89	0.66	3.55	56.80
2.2. Support for entrepreneurship and private tourism investment	0.89	0.06	0.95	15.20
2.3 Strengthening of subnational tourism governance	0.63	0.27	0.90	14.40
III. Monitoring, impact evaluation, and audits	0.14	0.07	0.21	3.36
IV. Financial costs*	0.00	0.00	0.00	0.0
Total	5.00	1.25	6.25	
Percentage	80	20	100	

* To be paid outside the program.

C. Key results indicators

- 1.30 The [Results Matrix](#) was agreed upon with MINTUR and presents in detail the impact, outcome, and output indicators associated with the components. The program will help to increase income from tourism (measured on the basis of per capita tourism GDP) and tourism employment in the beneficiary departments. At the outcome level, the program is expected to help increase: (i) average inbound tourism spending per tourist and per day in the three types of tourism supported by the program; (ii) the beneficiaries of improved management and use of natural capital in the CPP; (iii) the tourism supply in the CPP, through new MSMEs and business plans created with the program's financial and technical support; and (iv) the number of subnational government agencies using tourism statistics disaggregated at a local level.
- 1.31 **Economic viability.** An [ex ante economic impact analysis](#) was performed to evaluate the economic viability of the program and estimate its net present value (NPV) and internal rate of return (IRR). To estimate the program's direct, indirect, and induced benefits, a dynamic general equilibrium model (DGEM) was constructed for Uruguay, with a base year of 2012. The first stage of the exercise consists of estimating the rate of growth in tourism spending for the analysis horizon. This rate was estimated to be 1.95% based on the key characteristics of the outbound markets such as the exchange rate and gross domestic product (GDP). A critical input for the DGEM simulations is the expectations regarding the increase in tourism spending as the result of investment. This increase in demand was based on economic regressions that estimated the impact on tourism spending as a result of the development of new nautical tourism, cultural tourism, and ecotourism attractions. Considering the new attractions planned as part of the program, the impact on tourism spending was estimated to be US\$5,894,561. Introducing this figure as a shock in the DGEM and comparing the result with the corresponding costs of the program, its management, operation, and maintenance costs, the NPV was estimated to be US\$38,512,588, with an IRR of 49%. The discount rate was 12%. Under a pessimistic scenario, where economic growth in the outbound countries is lower than projected, the NPV falls to US\$31,971,219 and the IRR to 47%. In an optimistic scenario where economic growth is higher, the NPV reaches US\$55,253,557, with an IRR of 53%.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Program resources and disbursement schedule.** The total cost of the program is US\$6.25 million; of this amount, US\$5 million will be financed by the Bank and charged to Ordinary Capital, and the remaining US\$1.25 million will be local counterpart funds. The financing instrument will be a specific investment loan with a sovereign guarantee. The execution period is five years starting on the effective date of the loan contract.

Table 3. Annual Financing (US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	0.45	1.0	1.0	1.12	1.43	5
Local	0.14	0.28	0.28	0.30	0.25	1.25
Total	0.59	1.28	1.28	1.42	1.68	6.25
%	10	20	20	23	27	100

B. Environmental and social risks

- 2.2 In accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), the program has been classified as a category "B" operation. An environmental and social analysis was performed for the program, in addition to prior local consultations, to identify the most important socioenvironmental weaknesses and risks. The analyses conducted confirmed that the planned interventions are small in scale and the potential impacts can be mitigated with standard measures and good practices included in an [Environmental and Social Management Framework \(ESMF\)](#). Among other aspects, the ESMF establishes specific recommendations for the socioenvironmental management of the program, in addition to a system for prior evaluation of impacts, identification and application of mitigation, control, and management measures to be considered in the planning and execution stages of works, and performance monitoring of environmental and social management. The ESMF will be an integral part of the Program Operating Manual (POM). As the executing agency, MINTUR will be responsible for the program's environmental and social management and will contract an environmental specialist assigned to Component I. If necessary, it will also contract technical assistance for the required environmental studies and for the supervision and monitoring of the social and environmental aspects of each of the planned works and activities. The [Environmental and Social Management Report \(ESMR\)](#) summarizes the principal guidelines for the socioenvironmental management of the program.

C. Fiduciary and other risks

- 2.3 During program preparation, a risk workshop was held following the Bank's guidelines on risk management in sovereign guaranteed projects. Three main medium severity risks were identified: (i) fiduciary risk due to potential problems controlling for variations in the costs of works and the lack of applicants able to meet the requirements of the technical specifications at the local level; (ii) public management and governance: budgetary allocation is not in sync with the pace of

- execution, as it is linear on an annual basis; and (iii) sustainability: reduction in the number of visitors due to changes in conditions in outbound countries. The following mitigating measures have been identified: (i) estimation of contingencies in investments related to program works (Component I, US\$80,000) and expansion of coverage of calls for bids, to guarantee the supply; there is also the possibility that the departmental governments can participate as subexecuting agencies in the bidding processes, since they have greater knowledge of the local market of construction companies and are more able to obtain good prices in bids thanks to the volume of bid solicitations for works they customarily carry out; (ii) planning of disbursements to anticipate the linear budget allocation; and (iii) investments in marketing, as a countercyclical tool, as provided in Component I.
- 2.4 In addition, an institutional capacity assessment was conducted on MINTUR, as the executing agency, and on the National Development Agency (ANDE), as the subexecuting agency for the competitive fund under Component II. To this end, analysis of MINTUR's performance in operations 1826/OC-UR and 2601/OC-UR was taken into account, as were the results of the Institutional Capacity Assessment System (ICAS). MINTUR's performance in the previous two operations has been satisfactory and the weighted risk level of the dimensions currently analyzed under the ICAS, for both MINTUR and ANDE, is low.
- 2.5 As in the case of the two previous programs with MINTUR, the sustainability of the program works is guaranteed by the operation and maintenance-related responsibilities of the beneficiaries, as included in the planned Participation or Institutional Cooperation Agreements (paragraph 3.3 and 3.5). In addition, the preliminary designs for all the works are accompanied by cost recovery mechanisms to ensure their maintenance. With respect to the observatory planned under Component III, management functions will be shared between the beneficiary departments and MINTUR, through specific agreements.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The program borrower will be the Eastern Republic of Uruguay. MINTUR will be the CCLIP liaison and the executing agency for the first program. MINTUR will be responsible for general administration, financing and accounting management, and program evaluation and monitoring, including: (i) opening separate bank accounts and keeping accounting records so that the sources and uses of program funds can be identified by component; (ii) preparing and submitting to the Bank disbursement requests and the appropriate justification for eligible expenses, and the audited financial statements of the program; (iii) preparing competitive bidding processes and tenders, contracting, making the relevant payments, and performing the technical and environmental supervision of contracts; (iv) inspecting the works periodically during execution and subsequently monitoring their operation and maintenance; (v) making the required monitoring and evaluation reports available to the public; and (vi) ensuring performance of the loan contract. In fulfilling its obligations, MINTUR will be supported by a program execution unit (PEU) consisting of a general coordinator, legal counsel, a manager responsible for finance and procurement, and two finance-accounting officers. The execution unit will also contract part-time support in other disciplines as needed.

- 3.2 The program will also have the participation of the National Development Agency (ANDE) as the subexecuting agency for the competitive fund planned under Component II of the program, which will be governed by specific Operating Regulations. For these purposes, ANDE will sign a Participation Agreement with MINTUR, stipulating, *inter alia*, the conditions for operating the fund, the requirements for issuing invitations to submit projects, the criteria and procedures for evaluating and selecting the beneficiaries, coordination with the network of IPEs, and the disbursement and accountability mechanisms. As a special contractual condition precedent to the start of activities related to the competitive fund under Component II, MINTUR will submit, in accordance with terms previously agreed upon with the Bank, evidence regarding: (a) the signing and entry into effect of a Participation Agreement between MINTUR and ANDE, and (b) the entry into effect of the Operating Regulations for the competitive fund.
- 3.3 In addition, the program's beneficiary departmental governments may participate in two ways: (i) by cooperating with MINTUR in the development of the planned activities, through Institutional Cooperation Agreements (paragraph 3.5); or (ii) by acting as subexecuting agencies, through Participation Agreements, making investments in developing tourist attractions in their respective jurisdictions, as provided in Component 1 of the program. The departmental governments will participate as subexecuting agencies in the event of any of the following circumstances: (i) the calls for works issued by MINTUR encounter problems in terms of the quality of local bidders or price levels for the bids; (ii) unanticipated domain issues arise necessitating changes in the sites selected for the works, in which case departmental governments can facilitate access to new locations; and (iii) in the event that the departmental governments add funds from other sources of financing not originally anticipated, making it possible to expand the scope of the program's projects. As a special contractual condition for execution, prior to designating a specific departmental government as a subexecuting agency for the program, MINTUR will submit, to the Bank's satisfaction, evidence of having met the agreed requirements, as follows: (a) the signing and entry into effect of the respective Participation Agreement; (b) appointment of the subexecuting agency team; and (c) satisfactory assessment of the institutional capacity of said departmental government, following the Bank's method of analysis.
- 3.4 **The common responsibilities of the program's subexecuting agencies** (ANDE and potentially the departmental governments) include the following: (i) developing technical specifications together with MINTUR and conducting bid solicitations; (ii) contracting and technical supervision of contracts associated with activities for which they are responsible; (iii) handling financial execution including reviewing, approving, and making payments on eligible expenses; (iv) preparing and submitting to MINTUR the supporting documentation to account for expenses corresponding to transferred funds; and (v) administering their operational accounts and preparing reconciliations of funds transferred by the program, at the request of the executing agency and the Bank.
- 3.5 **Coordination with other entities.** The program will require coordination with the public sector at the regional level (Administrative Commission for the Uruguay River, made up of Uruguay and Argentina), national level (National Hydrography Directorate, National Directorate of the Environment, etc.), and departmental level (departmental governments as program beneficiaries). That coordination will be

coordinated through Institutional Cooperation Agreements signed with MINTUR. The breakdown of responsibilities and relationships among program participants is included in the Program Operating Manual. If the participating entity is a beneficiary of a work under the program, its responsibilities include: (i) the commitment to assume annual operating and maintenance costs for the works under its jurisdiction; (ii) documenting legal ownership of the real property or other rights necessary for the construction and subsequent use of the works; (iii) collaborating in the management of authorizations, permits, visas, easements, internal processes required by the projects; (iv) approving the studies and final designs for works under its jurisdiction; and (v) allowing free and unrestricted access to works construction zones for MINTUR, contractors, external auditors, and the Bank, during program execution. As a special contractual condition for execution, prior to issuing the first public invitation to bid on works provided under Component I that are under the jurisdiction of a participating national or departmental entity, MINTUR will submit evidence of the signing and entry into effect of the corresponding Institutional Cooperation Agreement, in accordance with terms previously agreed upon with the Bank.

- 3.6 **Program Operating Manual.** Execution of the operation will be governed by a [Program Operating Manual](#) (POM), establishing the rules and procedures for scheduling activities, financial and accounting management, procurement and contracting, audits, and program monitoring and program evaluation. The POM also includes: (i) rules and procedures for MINTUR and other subexecuting agencies and participants; (ii) mechanisms for execution of the program's three components; (iii) instructions for the preparation of projects and supervision of works; and (iv) the Environmental and Social Management Framework for the program. **As a special contractual condition precedent to the first loan disbursement, MINTUR will submit evidence of the entry into force of the POM, which will, in accordance with terms agreed to with the Bank, include the following: (i) the Environmental and Social Management Framework (ESMF); (ii) the training and prior professional experience required for each of the members of the executing agency and the outputs expected from their management; and (iii) the criteria for designating departmental governments as subexecuting agencies for the program.**
- 3.7 **Project preparation and works supervision.** MINTUR and possibly the subexecuting departmental governments will contract and supervise the work of consulting firms that will update and prepare the final designs of the works for which they are responsible, following the guidelines established in the [Instructions for Preparation of Final Designs for the Program](#), including the consultation procedures pursuant to Operational Policy OP-703. MINTUR and the subexecuting departmental governments will also be responsible for technical supervision and for verifying contractors' compliance with environmental regulations. The contracts for program works will incorporate environmental measures based on those standards, including a socioenvironmental management plan for the construction phase. Supervision will follow the guidelines established in the [Instructions on Supervision of Program Works](#). These instructions will be part of the POM. As a special contractual condition for execution, prior to granting the certificate to begin execution of the works planned under Component I, MINTUR or the relevant subexecuting

departmental government will submit, to the Bank's satisfaction, the technical, environmental, and economic viability studies and the corresponding permits.

- 3.8 **Procurement of works, goods, and consulting and nonconsulting services, including direct contracting.** Procurement financed in whole or in part with Bank funds will be carried out in accordance with the Policies for the procurement of works and goods financed by the IDB (document GN-2349-9) and the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9). The procurement plan contains the breakdown of procurement to be implemented during execution as well as the procedures used by the Bank for review thereof. Provision is made for the direct contracting of individual consultants who were previously selected for loan 2601/OC-UR and who will continue to provide services for this operation. This procedure is justified as provided in the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9, 5.4.a), when the services represent the continuation of previous work that the consultant has carried out and for which the consultant was selected competitively. The fiduciary agreements and requirements ([Annex III](#)) establish the framework for financial management and planning, as well as for supervision and execution of procurement applicable for program execution.
- 3.9 **Disbursements.** The main disbursement modality will be "advances" based on real liquidity needs. Considering the decentralized structure of the operation and the country's budgetary rules, which commit the Bank's resources at the level of the Integrated Financial Information System ([Annex III](#), paragraph 4.2), the execution unit will present the accounting for at least 70% of the amount advanced in order to request new advances. Documentation will be reviewed on an ex post basis by the auditor in the related annual reports.
- 3.10 **Audits.** During execution, each year the executing agency will submit the program's audited annual financial statements, as required by the Bank. It was agreed with the executing agency that the audit will be conducted by the Office of the Auditor General, or, failing that, by an independent audit firm. The audited annual financial statements will be submitted within 120 days following the end of the fiscal year and the closing audited statements will be submitted within 120 days following the last disbursement.

B. Summary of arrangements for monitoring results

- 3.11 The program has a [Monitoring and Evaluation Plan](#) agreed upon with MINTUR and included in the budget as a specific item, including: (i) indicators for monitoring and evaluating the program's impact, its baseline, and means for monitoring and verification; (ii) outputs during program execution; (iii) description, timeline, and parties responsible for monitoring the operation; and (iv) methodology, activities, and budget for implementation of the plan.
- 3.12 **Monitoring.** MINTUR will send the Bank, no later than 60 days following the end of each six-month period in every year during execution, a consolidated monitoring report on progress made in program activities. The reports will focus on achieving the output indicators and progress made on the outcomes set forth in the Results Framework, will analyze problems encountered, and will present the corrective measures adopted. The reports for the second six-month period will also include the

update of the annual work plan (AWP) for the following calendar year, projected disbursements, and the procurement plan.

- 3.13 **Evaluation.** MINTUR will submit to the Bank a midterm evaluation report 90 days after the date when 50% of the loan proceeds have been committed or when 50% of the execution period has elapsed, whichever occurs first; and a final evaluation report 90 days after the date when 90% of the loan proceeds have been disbursed. These reports will include: (i) analysis of the financial execution of the program, by component and source of financing; (ii) progress made in achieving the outputs, outcomes, and impacts considered in the Results Framework; (iii) effectiveness in the application of the POM; (iv) level of compliance with contract clauses; and (v) a summary of the results of program audits of financial statements, procurement processes, disbursement requests, and internal control systems. The final evaluation report will also include the results of measuring the impact of the program, in accordance with the agreed evaluation plan, which has an assigned budget of US\$125,000. The ex post evaluation will be based on simulation models with social accounting micromatrices and a dynamic general equilibrium model, as well as decomposition techniques to address the challenge of attribution.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Economic Integration -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law			
Regional Context Indicators	-Growth rate of the value of total exports of goods and services (%) -Proportion of terrestrial and marine areas protected (%) -Government effectiveness (average LAC percentile)			
Country Development Results Indicators	-Beneficiaries of improved management and sustainable use of natural capital (#) -Jobs created by supported firms (#) -Micro / small / medium enterprises financed (#) -Micro / small / medium enterprises provided with non-financial support (#) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)			
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix	GN-2836	Diversification of export markets and strengthening of decentralization.		
Country Program Results Matrix	GN-2849	The intervention is included in the 2016 Operational Program.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Highly Evaluable	Weight	Maximum Score
		9.6		10
3. Evidence-based Assessment & Solution		9.6	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		3.6		
3.3 Results Matrix Quality		3.0		
4. Ex ante Economic Analysis		10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		1.5		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		9.1	33.33%	10
5.1 Monitoring Mechanisms		2.5		
5.2 Evaluation Plan		6.6		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Low		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		B		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External control, Internal Audit.		
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System.		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor				
Environment	Yes	Identification of willingness to pay for ecosystem services associated with new tourism products, which opens the possibility to design products that include the preservation of natural and cultural environment.		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes	An econometric model was used to identify the determinants of demand for sending markets, which will allow the refinement of marketing strategies for the program. The country did not have this information and it will help in the success of the program.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		Yes	Simulation models with micro-SAMs , a dynamic general equilibrium model and innovative techniques with a structural decomposition will be used, which will address the issue of attribution.	

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

The objective of the CCLIP is to contribute to the generation of employment and income in emerging destinations, and consolidating tourism as a factor of territorial equilibrium. The objective of the first program is to increase tourism spending in the five departments of the Uruguay River Corridor, as the input that triggers income and employment in the target areas. The program includes three components: (i) creation and consolidation of tourist facilities; (ii) support of private tourism investment in the Corridor; and (iii) strengthening of sub-national tourism governance.

The documentation is well structured, with a solid diagnosis of the challenges which are faced by the tourism sector in the prioritized areas.

The proposed solution is related to the magnitude of the problems identified. The results matrix (RM) reflects the program objectives and shows a clear vertical logic for each of the components. The key top-level indicators have values that are the result of the ex-ante economic analysis. The lower-level indicators reflect the design of the three components. The RM includes SMART indicators at the impact, outcome and output levels with their respective reference values and targets, and means for collecting the information. The documentation cites rigorous empirical evidence on the effectiveness of similar interventions in other countries.

The economic analysis is based on a cost-benefit analysis (CBA). The economic impacts are identified based on a computable general equilibrium model; following literature guidelines, these economic impacts are adjusted to make them compatible to a CBA framework from a social perspective. The results show an IRR of 49% with an NPV of US \$ 38.5 million. A sensitivity analysis is performed under two scenarios based on rate of income growth in the sending countries. For the optimistic case, an IRR of 53% is obtained with a NPV of US\$55.2 million; and for the pessimistic case, an IRR of 47% is obtained with a NPV of US\$31.9 million.

The evaluation plan proposes an ex-post economic impact assessment based on a decomposition using a dynamic general equilibrium model, which is supposed to disentangle the specific impacts of the intervention on local economy, including its impact on income and employment. The results of this innovative methodology will provide important information, because there is no rigorous empirical evidence to measure the effects of these interventions using this kind of methodology, which aims to resolve the issue of attribution. The impact assessment will make an important contribution to the knowledge base of the sector, country and Bank.

The risks identified in the risk matrix seem reasonable and are classified as medium (3) and low (5) risks. Mitigation actions and compliance indicators are included.

RESULTS MATRIX

Objective of the CCLIP and the first operation:	<p>The objective of the CCLIP is to help generate employment and income in emerging destinations, consolidating tourism activity as a factor in balanced regional development.</p> <p>The first program will support increased tourism spending in the five departments comprising the Uruguay River Corridor (Painted Birds Corridor), as an input triggering employment and income in destination markets.</p>
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EXPECTED IMPACT

Indicators	Baseline		Targets		Means of verification	Observations
	Value	Year	Value	Year		
EXPECTED IMPACT 1: INCREASED EMPLOYMENT IN ACTIVITIES CHARACTERISTIC OF TOURISM IN BENEFICIARY DEPARTMENTS						
Number of jobs in the tourism sector	Artigas Dept. 1,821 Salto Dept. 3,809 Paysandú Dept. 2,174 Río Negro Dept. 1,267 Soriano Dept. 1,520	2015	Artigas Dept. 2,107 (22) Salto Dept. 4,448 (88) Paysandú Dept. 2,528 (39) Río Negro Dept. 1,609 (159) Soriano Dept. 1,750 (10)	2022	Yearbook of Tourism Statistics, MINTUR.	The target includes the trend scenario with the program, see economic evaluation. The target value includes the impetus of the program and the trend, while the value in parentheses includes the impetus of the program.
EXPECTED IMPACT 2: INCREASED TOURISM GDP PER CAPITA IN BENEFICIARY DEPARTMENTS						
Amount of tourism GDP per capita (in USD\$)	Artigas Dept. 64.64 Salto Dept. 182.48 Paysandú Dept. 171.36 Río Negro Dept. 205.93 Soriano Dept. 185.58	2015	Artigas Dept. 80.18 (6.18) Salto Dept. 222.98 (14.09) Paysandú Dept. 202.84 (6.68) Río Negro Dept. 292.93 (57.20) Soriano Dept. 215.00 (2.57)	2022	Ex post evaluation of the program	Baseline: GDP figure in Uruguay for 2015 (World Bank). This figure was broken down by departments, according to the weight of each department in total GDP (Territory of Uruguay Observatory - OPP based on Central Bank and National Statistics Institute (INE) 2011 data. Regarding departmental tourism GDP, the weights included in the document " Una aproximación al PBI turístico departamental de Uruguay 2010 " (Pérez and Risso) were used. The population figure was taken from the INE's 2011 census report. The target is based on the trend scenario with the program, see economic evaluation. The value between parentheses includes the impetus of the program.

EXPECTED RESULTS

Indicators	Baseline		Targets		Means of verification	Observations
	Value	Year	Value	Year		
OUTCOME 1: INCREASED INBOUND TOURISM SPENDING IN THREE TYPES OF TOURISM SUPPORTED BY THE PROGRAM IN THE URUGUAY RIVER CORRIDOR						
Average inbound tourism spending per tourist and per day in the Corridor (US\$)	Nautical Tourism 78.26 Ecotourism 83.78 Cultural Tourism 105.4	Average for years 2012 through 2015	Nautical Tourism 100.97 Ecotourism 90.42 Cultural Tourism 113.17	2022	Microdata from annual surveys of inbound tourism spending by MINTUR	Baseline: Weighted average of the five beneficiary departments of the program (Artigas, Paysandú, Rio Negro, Soriano, Salto).
OUTCOME 2: IMPROVEMENT IN THE USE AND MANAGEMENT OF THE CORRIDOR’S NATURAL CAPITAL						
Population of communities that benefit from interventions in interpretation, facilities, and tourism visit management plans	0	2016	275,024	2022	MINTUR monitoring reports, INE Census	Baseline; INE census, 2011. Population in 8 communities: Bella Unión, Villa Constitución, Salto, Paysandú, San Javier, Nuevo Berlín, Fray Bentos, Mercedes, Villa Soriano, Guichón, Belén, and Chapicuy. There is no interpretation on ecosystem services in the Corridor and the population and visitors access the river and river islands from different points, given the lack of facilities, making control and management difficult. The islands receive visits without any management instrument that would help to regulate their use.
OUTCOME 3: INCREASED TOURISM SUPPLY IN THE PAINTED BIRDS CORRIDOR						
Indicator 3.1 New tourism MSMEs operating in the CPP	203	2015	215	2022	Tourism observatory supported by the program, MINTUR monitoring reports	Baseline includes lodging and travel agencies. “Diagnóstico del Plan de Marketing Estratégico del Corredor del Río Uruguay” prepared by WAN- IBITECH
Indicator 3.2 Young tourism companies in the CPP (less than four years in existence) that implement new business plans related to nautical tourism, cultural tourism, or ecotourism	0	2016	8	2022	MINTUR monitoring reports	

OUTCOME 4: STRENGTHENING OF SUBNATIONAL TOURISM GOVERNANCE IN THE CORRIDOR						
Number of departmental governments that incorporate tourism statistics with local level breakdown in their sector investment plans	0	2016	5	2022	Tourism observatory supported by the program, MINTUR monitoring reports	Currently there are only departmental level data; there is no local breakdown

OUTPUTS

Outputs	Estimated cost (US\$)	Unit of measurement	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification
Component I: Creation and consolidation of tourism facilities in the Painted Birds Corridor										
Annual work plans in marketing implemented	520,000	# plans	0	1	1	1	1	1	5	MINTUR monitoring reports
Eight communities in the Corridor given new tourism signs	100,000	# communities	0	2	2	2	2		8	MINTUR monitoring reports
Study done on sports fishing load capacity in the Salto Grande Reserve	50,000	# study	0				1		1	MINTUR monitoring reports
Three protected areas given new tourism facilities for interpretation and observation of flora and fauna	360,000	# protected areas	0			1		2	3	MINTUR monitoring reports
Eight communities in the Corridor given interpretative materials for new tourism circuits	400,000	# communities	0		2	1	2	3	8	MINTUR monitoring reports
New visitors' center operating in the Fray Bentos Industrial Landscape	575,000	# visitors' center	0				1		1	MINTUR monitoring reports
Five communities given new facilities for accessing the river and new nautical circuits	1,010,000	# communities	0		1	1	1	2	5	MINTUR monitoring reports
Interactive landscape and environmental interpretation project implemented in the Parque del Lago in Salto	220,000	# project	0			1			1	MINTUR monitoring reports
National Tourism Plan developed	100,000	# plan	0				1		1	MINTUR monitoring reports
Component II: Support for entrepreneurship and private tourism investment in the Painted Birds Corridor										
Tourism MSME projects technically and financially supported	500,000	# projects	0		3	3	3	3	12	MINTUR monitoring reports
National and international operators and investors contacted for dissemination of catalogue of investments	450,000	# operators and investors	0		8	12	22	22	64	MINTUR monitoring reports
Component III: Strengthening of tourism governance in the Painted Birds Corridor										
Annual work plans for the new tourism observatory implemented	900,000	# annual work plans	0	1	1	1	1	1	5	MINTUR monitoring reports

FIDUCIARY AGREEMENTS AND REQUIREMENTS

I. EXECUTIVE SUMMARY

- 1.1 The current operation is the first under a CCLIP corresponding to an investment project for US\$6.25 million, US\$5 million of which will be loan proceeds. The borrower is the Eastern Republic of Uruguay, and the executing agency is MINTUR through the General Secretariat Directorate. This program will also involve the National Development Agency (ANDE) as a subexecuting agency, and possibly local authorities as subexecuting agencies for works in their respective jurisdictions.
- 1.2 The established Fiduciary Agreements and Requirements are based on MINTUR's history as the executing agency for loans 1826/OC-UR "Program to Enhance the Competitiveness of Strategic Tourism Destinations" (closed) and 2601/OC-UR, the "Program to Support the Tourism Sector," now in the closing phase. They are also based on the update of the institutional capacity assessment performed using the ICAS tool in 2016, which yielded satisfactory results, as well as the evaluation done by ANDE, also with satisfactory results.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY AND THE SUBEXECUTING AGENCY

- 2.1 MINTUR has experience executing projects with the Bank and its fiduciary context is satisfactory. This is also reinforced by its own governmental internal control processes, which are considered reasonable, in conjunction with the presence of delegated accountants and the preventive audit of expenses by the Office of the Auditor General.
- 2.2 ANDE will be the subexecuting agency and will be responsible for the competitive fund under Component 2, in the amount of US\$500,000. ANDE has an appropriate organizational structure and will be governed by specific regulations agreed upon with MINTUR. ANDE will not engage in procurement using operation resources.
- 2.3 Uruguay's country systems, or their equivalents, which would be used in this operation are as follows:
 - a. Budget: the budgetary resources of this operation have been considered in the 2015-2019 Five-Year Budget Act.
 - b. Cash flow: a special account will be set up at the Central Bank of Uruguay (BCU), which is part of the Single Treasury Account (STA) in the name of MINTUR, specifying the name of the program.
 - c. Accounting and reports: for the first year of execution, the International Projects System (IPS) will be used as a pilot; this is the accounting module of the Integrated Financial Information System (SIIF). The accounting system that was used for the previous programs will also be used in parallel. Subsequently, its continuation until completion of the program will be evaluated.

- d. External control: External control will be performed by the Office of the Auditor General, a body with an eligibility level of 1 in the list of eligible auditors with the Country Office in Uruguay.

III. FIDUCIARY RISK EVALUATION AND MITIGATING ACTIONS

- 3.1 During the risk workshop held on 28 September 2016 following the project risk management methodology, two fiduciary risks were identified, one low risk due to possible delays in financial execution associated with the management of the subexecuting agencies and another medium risk due to possible procurement problems. The measures for identifying this latter risk are detailed in the risk mitigation matrix.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 4.1 **Exchange rate.** For accounting of expenses incurred in domestic currency and expressed in dollars (currency of the operation), the criterion to be used is the effective exchange rate on the date the disbursement currency (US\$) is converted to domestic currency (Ur\$). For purposes of determining the equivalence of expenses incurred in domestic currency, charged to the local contribution or as reimbursed expenses charged to the loan, the exchange rate will be the rate on the effective date of payment.
- 4.2 **Justification of expenses.** Considering the decentralized execution structure, with ANDE as the subexecuting agency for Component 2 and potential subexecuting agencies in five departmental governments, as well as the country's budgetary rules that commit the Bank's resources with the SIIF level commitments (CRS code), and in order to minimize the risks of delays in executing any of the components and to keep the execution unit from having liquidity problems, an agreement was reached to include a justification percentage of 70% of balances advanced.
- 4.3 **Audit of financial statements.** Annual statements will be submitted within a period of 120 days following the close of each fiscal year and a final closing statement will be submitted 120 days following the effective date of the final disbursement.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The procurement policies applicable to this loan are the Policies for the procurement of works and goods financed by the IDB (document GN-2349-9) and the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9).
- 5.2 Procurement execution
 - a. Before carrying out any procurement process, the executing agency should submit the procurement plan for the Bank's prior approval, with details indicating: (i) the contracts for goods and services required to carry out the program; (ii) the proposed methods for contracting for goods and selecting consultants; and (iii) the procedures used by the Bank to supervise contracting. The borrower will update the procurement plan at least every 12 months and

according to the needs of the program. Any proposed revision of the procurement plan will be submitted to the Bank for its approval.

- b. The procurement plan agreed upon provides for the direct contracting of individual consultants who were previously selected for loan 2601/OC-UR and who will continue to provide services for this operation. This procedure is justified as provided in the Policies for the selection and contracting of consultants financed by the IDB (GN-2350-9, 5.4.a), when the services are a continuation of previous work that the consultant has carried out and for which the consultant was selected competitively.

5.3 The following are the provisions applicable for procurement execution:

- a. **Procurement of works, goods, and nonconsulting services:**¹ Contracts arising under the program and subject to international competitive bidding (ICB) will be executed using the standard bidding documents (SBDs) issued by the Bank. Procurement subject to national competitive bidding (NCB) will be executed using bidding documents satisfactory to the Bank.
- b. **Consulting firms:** Firms will be selected and contracted according to IDB policies. International bid solicitations (for more than US\$200,000) will be subject to ex ante review.
- c. **Selection of individual consultants:** In accordance with Section V of the Bank policies set forth in document GN-2350-9, use of a shortlist is not required nor is the standard request for proposals used. The executing agency will carry out national procedures complementary to those required by Bank policy and that do not contradict with the provisions thereof, but they must ensure compliance with the deadlines and the validity of advertising bid solicitations.

Table of Threshold Amounts for Uruguay (thousands of US\$)

Works			Goods ²			Consulting Services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity	Shortlist 100% National
≥ 3,000	250-3,000	≤ 250	≥ 250	50-250	≤ 50 ³	> 200	≤ 200

5.4 **Main procurement processes:** See procurement plan.

5.5 **Procurement supervision.** The initial review method is ex post, subject to modification through agreement to be reflected in the procurement plan. ICBs and consulting assignments for amounts exceeding US\$200,000 will be subject to ex ante review.

¹ Policies for the procurement of goods and works financed by the IDB (document [GN-2349-9](#)) paragraph 1.1: Nonconsulting services are treated as goods.

² Includes nonconsulting services.

³ For technically simple goods, Shopping can be used up to the threshold for NCB.

VI. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** Proper budgetary allocation within the five-year budget for 2015-2019 will be verified, and budgetary execution will be monitored so that the operation can be executed within the timeframes indicated in the AWP.
- 6.2 **Accounting and reporting systems.** The project's financial statements will be issued in accordance with international financial reporting standards. There was discussion during the administration mission regarding use of the National Accounting System, the SIIF's SPI, on a pilot basis and in parallel to the accounting system used for the previous two loans.
- 6.3 **Disbursements and cash flow.** To use the funds, MINTUR will set up a special nominative account in the name of the program at the Central Bank of Uruguay (BCU). Disbursements will be made primarily on the basis of advances of funds, based on cash flow programming covering no more than six months.
- 6.4 **External audit.** The external audit reports and the review of disbursement request procedures will be submitted for each year during the disbursement stage, within the following 120 days. International Audit Standards (IAS) and guidelines issued by the Bank for this purpose will be taken into consideration.

VII. FINANCIAL SUPERVISION PLAN

- 7.1 The Supervision Plan will consider the following:
 - a. For the first year of execution, there are plans to conduct a financial visit, where use of the SPI for recording transactions will be assessed and the accountability processes of ANDE, the subexecuting agency for one of the program components, will be monitored, in order to build capacities regarding the Bank's procedures.
 - b. Disbursement requests will be subject to ex post review and will be verified by the external auditor in conjunction with the submission of the annual reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/16

Uruguay. Conditional Credit Line for Investment Projects (CCLIP)
for National Tourism Development (UR-O1149)

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with the Eastern Republic of Uruguay to establish the Conditional Credit Line for Investment Projects (CCLIP) UR-O1149, for an amount of up to US\$20,000,000 chargeable to the resources of the Ordinary Capital of the Bank, to cooperate in the execution of individual operations for National Tourism Development.

2. To determine that the resources allocated to the above-mentioned Conditional Credit Line (CCLIP) UR-O1149 shall be used to finance individual loan operations in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07 and DE 164/07; (b) the provisions set forth in documents GN-2246-4, GN-2246-7, and GN-2564-3; and (c) the terms and conditions included in the Loan Proposal for the corresponding individual operation.

(Adopted on ____ 2016)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/16

Uruguay. Loan ___/OC-UR to the Eastern Republic of Uruguay
Tourism Corridor Development Program. First Individual Operation
under the Conditional Credit Line for Investment Projects
(CCLIP) UR-O1149

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 Tourism Corridor Development Program, which constitutes the first individual operation under the Conditional Credit Line for Investment Projects (CCLIP) UR-O1149 approved on ___ 2016 by Resolution DE-___/16. Such financing will be in the amount of up to US\$5,000,000, 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 ___ 2016)

LEG/SGO/CSC/IDBDOCS: 40726676
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