

Action Plan

FY 1991-92

URUGUAY

April 1990



Agency for International Development
Washington, D.C. 20523

Section I. Program Overview

Following Uruguay's return to democracy, A.I.D. provided an ESF cash-transfer of \$25.5 million and a companion ESF project of \$955,000. Funds were obligated in FY86 and FY87. Local currency counterpart from the cash-transfer has funded approximately three dozen activities in support of the economic reactivation of Uruguay. Approximately \$14.5 million was programmed as counterpart to IDB regional development and investment promotion projects and UNDP technical assistance and training projects. Other uses of funds included \$3.5 million for other GOU regional development projects, \$4.1 million for private sector credit to stimulate productivity and exports, and \$1.5 million for non-governmental institutions engaged in private sector development. As of 12/31/89, \$12 million in local currency equivalent remains undisbursed from the special account, of which \$700,000 is unprogrammed and has been reserved for activities in support of A.I.D.'s present ADC strategy.

The ESF grant project was broadly defined to support the GOU's economic reactivation program. The largest allocation of funds \$400,000 was for long-term participant training. Additional commitments included \$200,000 for technical assistance to enterprises, provided by the International Executive Service Corps, and \$50,000 for assistance to the GOU investment promotion office. An uncommitted balance of \$200,000 is available to support new initiatives. FY87 and FY88 funds of \$100,000 a year from the LAC II Training Project have been fully committed.

In FY89, USAID/Uruguay received a modest allocation of \$140,000 under the ITT project to begin developing an ADC program. A project was initiated to assist the Catholic University to develop a graduate-level business management program (the Advanced Education for Development Project). A first increment of \$100,000 was obligated to this three-year-\$650,000 project. With the balance of FY89 ITT funds USAID began development of a planned FY90 Junior Achievement Project and provided a grant to a newly formed commission of business chambers to prepare a joint private sector position paper for dialogue with the new GOU administration.

The FY90 ITT budget of \$693,000 includes \$280,000 for a second increment of funding for the Advanced Education for Development Project, \$13,000 for a feasibility/design study for a health administration and policy program at the Catholic University and \$150,000 for start-up of the Junior Achievement program.

Approximately \$100,000 in FY90 ITT funds will be used in combination with \$100,000 in LAC/DI funds, to initiate an administration of justice project. It is also expected that some LAC/DI resources may be allocated for Uruguay activities under the regional legislative strengthening and civil-military relations projects. The remaining \$150,000 in FY90 ITT funds, plus some resources from the prior year ESF program, will be used to respond to emerging priority issues of the new GOU administration that began its five-year term March 1, 1990.

In late FY89, a study of the potential of Uruguayan free zones was completed with \$80,000 in funding from PRE. TDP has financed a study of the instructional equipment needs of the GOU polytechnic/vocational institute and an activity related to potential railway equipment purchases. A PPC project with the International Center for Economic Growth has previously provided modest support to a private Uruguayan economic research institute (CERES) outside the context of the bilateral program. In response to discussions in November 1989 between USAID and the transition team of the President-Elect, the project will now provide top-level economic advice to the economic team of the new government.

Minor A.I.D.-financed activities in Uruguay for which the USAID office assumes only marginal responsibility include the LAC-funded AIFLD and Regional Financial Management projects and a \$100,000 a year S&T family planning program through IPPF.

Section II. Reaffirmation of the Appropriateness of the Country Strategy

Very little adjustment is proposed in the strategy articulated in the Summary Strategy Statement included with last year's Annual Action Plan. The goal of the strategy is to assist Uruguay to achieve sustained economic growth in the 1990's. The Strategy Statement focussed on three explicit objectives and a fourth implicit objective relating to strengthening democratic objectives. These four objectives are restated as follows:

- 1) Develop educational programs and institutions to form the human resources needed for a vibrant market-economy, with priority on managerial and entrepreneurial training. To encourage a cultural transition away from statism and foster alternatives to public educational institutions, A.I.D. assistance will be directed at private institutions.

- 2) Reduce public policy and/or institutional constraints to private sector growth.

- 3) Increase business sector productivity through access to needed inputs, such as capital and technology.

- 4) Strengthen democratic institutions.

When the Strategy Statement was written last year, ten months remained in the Sanguinetti Administration. As anticipated, difficult decisions were postponed for action by the next administration. Economic growth has averaged about 0.5% and the public sector-deficit, which had been reduced to 4.1% of GDP by the end of 1987, climbed to an estimated 6.5% in 1989. The deteriorated fiscal situation which the Blanco party and its leader Dr. Luis Alberto Lacalle have inherited is further aggravated by the referendum mandate that required the new government to increase social security pension benefits.

Lacalle's economic program includes debt restructuring through the Brady Plan, necessary tax increases, privatization, demonopolization and other reforms of the state and its enterprises. To achieve his legislative agenda he is counting on political support through means of a semi-coalition with the defeated Colorados, the other traditional party. In legislative opposition to Lacalle's reform program there will be elements within the two traditional parties as well as the leftist opposition parties in the legislature. Probably more serious, however, will be the opposition from the Municipal Government of Montevideo, which is controlled for the first time by the Marxist-dominated Broad Front, and from Uruguay's powerful Marxist-dominated labor unions.

The reaffirmation of last year's strategy, and further elaboration thereon, is based to a considerable extent on the extensive public articulation of key issues both before and after the election. In addition, the transition provided the first opportunity A.I.D. has had, since returning to Uruguay, to establish working relations with the key Uruguayan policy makers. The following are the key developments as they relate to the A.I.D. strategy:

Education

In his first week in office President Lacalle made a speech at the Catholic University wherein he articulated his objectives of reform of the National University, as well as the development of private educational institutions. This was the first visit of the President of Uruguay to the Catholic University in its five years of existence.

In support of this objective, last year's plan included development of a graduate program in business management at the Catholic University and development of a Junior Achievement program. Additional support for this objective is provided in this year's plan with the inclusion of a feasibility/design study for a health administration and policy program at the Catholic University and assistance for President Lacalle's proposed University of the Sea (see Section II for details).

Public Policy and Institutions

To carry out his agenda for reform of the state and stimulation of the private sector, President Lacalle is going to need considerable technical as well as political support. Having been an opposition party for most of the last several decades, the Blancos lacked the range and depth of technical expertise possessed by the Colorados. The quasi-coalition arrangement will only partially fill this gap.

In a meeting, a week after the election, the economic team of President-Elect Lacalle identified two critical needs for possible A.I.D. assistance. The first was a mechanism for accessing top-level international economists on a short-term basis to advise the new administration. This request was satisfied through an agreement with PPC/EA to have the International Center for Economic Growth serve as such a mechanism. The second request was for A.I.D. to provide funds for the GOU to contract, at competitive salaries, top Uruguayan economists for medium-term senior advisory positions. This request was based on the fact that the use of regular budgetary resources for personal service contracts well above the low government pay scale is not feasible. It was agreed that A.I.D. would favorably consider the use of local currency resources for this purpose, as long as the activity did not involve salary-topping.

Finally, it was agreed in this meeting that A.I.D. would stand ready to entertain requests for technical assistance in specific economic policy areas. Possible areas discussed included privatization, deregulation, social security reform and development of capital markets.

Private Enterprise Development

A basic tenet of the USAID/Uruguay Strategy is that our best opportunities for broad impact on the private sector are through the educational and public policy/institutions strategy elements described above. Nevertheless, the present program includes local currency-funded activities which provide assistance more directly to private enterprises, and the strategy remains open to the possibility of future catalytic interventions in this area. The successful IESC technical assistance project and the on-going effort to launch a microenterprise program are two examples.

In some areas the conceptual difference between assistance directed at the government (to cause government action) and assistance directed at the private sector (to cause private sector action) breaks down. For this reason, this AAP does not show separate budget planning figures for the two objectives. In the Free Zone Study, for example, the original client was the GOU, but it has been private developers who have taken the most significant follow-up action so far. Capital Market development is another subject where it is difficult to predetermine which is the principal client.

Strengthening Democratic Institutions

Last year's strategy statement emphasized the serious constraint that Uruguay's inadequate justice system places on private sector development. This theme received major attention during the election campaign, prominently addressed in President Lacalle's platform, and was highlighted in the A.I.D.-financed private sector position paper submitted to President-Elect Lacalle by the Inter-Chamber Commission.

A strengthened judicial system will also help safeguard the transition to democracy. The term of President Sanguinetti was characterized by the politics of consensus. There was a conscious effort to avoid conflict by the administration that was responsible for the transition to democracy. For both political and economic reasons, it is very possible that Uruguay will experience a higher level of societal conflict over the next several years. Thus the judicial system may face greater external demands, at the very time that it is trying to cope with the myriad difficulties arising from the sudden change to a system of oral proceedings. At the invitation of both President Lacalle and the President of the Uruguayan Supreme Court, A.I.D. will provide assistance in administration of justice. Small activities under other LAC/DI regional projects are also under consideration.

Section III. Performance

During the period between the preparation of last year's AAP (May 1989) and this AAP (March 1990), USAID was allotted \$140,000 in FY89 funds and \$13,000 in FY90 funds. While in theory USAID could access the balance of prior year ESF project funds or local currency resources to initiate new activities in support of its ADC Strategy, this required the agreement of the GOU Office of Planning and Budget (OPP) which, like the government in general, was not inclined to authorize new initiatives during the final year of the Sanguinetti Administration. As a result USAID's principal program management objectives for the period have been:

- 1) Initiate activities under the educational objective;
- 2) Position ourselves to move forward on other objectives in the later half of FY90 when funds would be available and the new GOU Administration would be in place; and
- 3) Attempt to come to closure with the IG on the ESF audit prior to the change in GOU administrations.

Regarding the IG audit, all actions originally planned to result in closure of the recommendations have been taken, but the IG has not agreed to close the recommendations. Of particular note for the

purposes of the AAP review is the fact that the ESF local currency program has been bifurcated into a large sector program which subsumes all old program commitments and a small fund of \$700,000 in uncommitted resources which will be jointly programmed (i.e. projectized) to support the objectives of the future ADC program.

The following performance narrative covers three activities under the ESF program which involved active USAID participation during the year, the one significant activity funded with non-LAC resources and the activities funded with the limited ITT resources received to date. The relationship to both the CDSS objectives and the ADC guidelines is evident in the single narrative.

International Executive Service Corps

The \$200,000 in funds programmed to this activity under the ESF project were fully committed by late FY90. Due to the success of the project, OPP agreed to program an additional \$300,000 in local currency resources to continue the activity. According to information collected by IESC headquarters in the U.S., the IESC/Uruguay program ranks number one among all IESC programs in Latin America in terms of number of assistance contracts with local business. Managed by a Uruguayan representative that works strictly on a commission basis, the program had 33 contracts during 1989. Notable achievements include capital mobilization, investment, joint-venture initiatives, procurement of U.S. equipment, technology transfer, and technical assistance for privatization of some peripheral services originally provided by GOU. On the privatization arena, the IESC supported the first experience in Uruguay in which a government-owned and operated company was leased to a private enterprise. Regarding capital mobilization, two companies -- Mi Granja S.A. and Frigorífico De Vries -- will receive IFC funding based on technical work provided by IESC.

Microenterprise Development

A microenterprise project proposal was prepared with technical assistance USAID obtained from ACCION. The proposal for up to \$500,000 in funding from local currency resources has still not received final approval from OPP. The A.I.D. strategy, developed in conjunction with the IDB, has been for A.I.D. to take the lead role in start-up financing and development of an effective microenterprise assistance institution, and for the IDB to provide the follow-on financing through a \$15 million project aimed at both the small and microenterprise sectors. Uncertainty regarding the specifics of the future IDB project has contributed to a delay in OPP approval.

Columbia University Southern Cone Proposal

The Lamont-Doherty Geological Observatory of Columbia University is one of the foremost U.S. institutions involved in geological, oceanographic and atmospheric studies. For approximately 20 years it has undertaken research in the South Atlantic region, often in collaboration with Argentine institutions. In early 1989 Lamont-Doherty approached USAID to determine USAID interest in fostering the establishment of an institution linked to Lamont-Doherty, that would serve as base for furthering research and scientific training in the Southern Cone. Of particular interest was research related to global warming, the ozone layer and the utilization of ocean resources. The initial proposal, which was submitted for comment to OPP and other potentially interested GOU institutions called for a huge endowment, created through donations of \$1.0 billion in Argentine debt and \$0.5 billion in Uruguayan debt. Due to the scale of the proposal, OPP would not concur in the use of A.I.D. funds for a pre-feasibility study, despite considerable interest expressed by other Uruguayan institutions.

Meanwhile, Presidential candidate Lacalle was promoting the establishment of a new private Uruguayan institution, the University of the Sea. One week after his election, he requested a meeting with USAID to advise of his priority interest in Columbia's Southern Cone Initiative. In February 1990, in conjunction with his visit to see President Bush, President-Elect Lacalle visited Columbia University and began face-to-face discussions with Lamont-Doherty. On the U.S. end the proposal has evolved to include the Rosenthal School of Marine and Atmospheric Sciences (Miami) as a second lead institution. Plans are now underway to develop a pre-feasibility study with financing from the ESF project. Enrique Iglesias has pledged IDB support and the UNDP is anxious to participate.

Free Zone Study

With PRE funds a U.S. contractor and a Uruguayan subcontractor prepared a study of Uruguay's potential for further free zone development, particularly the development of private free zones. The client was the Free Zone Office of the Ministry of Finance. The study, which included market contacts with U.S., Argentine and Uruguayan firms, revealed considerable growth potential and made recommendations to the government regarding promotion, the investment approval process and free zone administration. Since the study was completed late in the term of the outgoing administration, it was also submitted to the incoming Minister of Finance for potential government action. Unexpectedly, the study has already resulted in a significant action by the private sector. A group of Uruguayan investors that had been contacted during the marketing study were inspired to put together a project along the lines suggested in the final study report. With the assistance of the Uruguayan consulting firm that worked on the study, the investors

prepared a proposal for the development of Uruguay's first private free zone. Located in Montevideo, the proposed project will entail an estimated investment of \$25 million. The project was approved by the GOU in February 1990.

Private Sector Position Paper

In early 1989 the presidents of the Chamber of Commerce and the Chamber of Industry approached USAID with a plan to form a private sector umbrella group with representatives from the half dozen major business associations in Uruguay. They sought a multimillion dollar project to generally support private sector development. USAID suggested that the group instead focus on the function of developing policy consensus within the private sector and articulating that consensus vis-a-vis the government. A grant of \$21,000 was provided in September 1989. The Inter-Chamber Commission, using local expertise developed a 200-page document entitled "Hacia un Uruguay con Futuro". It covered dozens of issues of immediate and long-term concern regarding the development of Uruguay, such as the role of the state, fiscal policy, labor relations, educational policy and problems with the justice system. For several weeks, during the final stages of the national elections, the draft document was reviewed, discussed and debated in a series of meetings by all the participant chambers. Given the timing and the unprecedented nature of the undertaking, the whole process received considerable coverage in the press. The finished product was delivered to Lacalle immediately after his election with the pledge that the private sector stood ready to support the new president on the agenda laid out in the document. Press editorials praised the document as evidence of a new maturity and broader vision in the private sector. Also, the document was quoted extensively by the press.

A corollary benefit for USAID is that the document provides a valuable assessment and synthesis of issues for future program development.

Catholic University

The initial activity under the planned \$650,000 Advanced Education for Development project was the visit to Uruguay in August 1989 of representatives of the four member universities of the U.S. consortium. A memorandum of understanding was developed covering the support relationship to be developed under the project. This was followed by the visit of Catholic University personnel to the consortium universities, further definition of the plan for developing the graduate program in business administration and the first shipment of textbooks and other academic materials.

With assistance through the Partners of the Americas, concepts were developed for a possible future training program at the Catholic University in health policy and administration. A more detailed

feasibility/design study is being contracted through the LAC Regional Health Technology and Transfer Project. Approximately half the population of Uruguay has its health needs met by HMO-type institutions, but both the private and public health care systems suffer, both financially and in terms of service, due to the absence of personnel trained in health administration.

Junior Achievement

After months of promoting the concept of an Uruguayan Junior Achievement program within the business community, a provisional board of directors was formed in March 1990. In addition to leaders within the Uruguayan business community, the board includes the general managers of IBM, Citibank and the Bank of Boston. A.I.D. funding is expected to be fully replaced by private sector donations within three years.

Section IV. New Program Initiatives and Resource Requirements

Prior sections of this plan indicate the subjects presently being examined for future funding. The only new activity which is presently being approached as a "project" is administration of justice, for initial funding in FY90. This project will provide technical assistance and training needed by the judicial system as it tries to modernize and cope with the conversion to a system of oral proceedings.

The other subjects presently being explored are not viewed as projects, at least at this time. The operative programming philosophy is to constantly reassess opportunities on all subject areas of interest and to limit commitments to a step at a time. The following provides a listing of subjects, and shows the previously committed funds and minimum and maximum future commitment from all A.I.D. sources:

| | | (\$000) | |
|-----------------------------------|--------------|---------------------|---------------------|
| | <u>Prior</u> | <u>Min. New</u> | <u>Max. New</u> |
| - GOU Uruguayan Econ. Advisors | - | 200 | 200 |
| - International Economic Advisors | - | 100 | 300 |
| - Privatization | - | - | 400 |
| - Social Security Reform | - | - | 150 |
| - Deregulation | - | - | 300 |
| - Private Sector Policy Advocacy | 20 | - | 150 |
| - Free Zone/Investment Promotion | 80 | - | 500 |
| - Capital Market Development | - | 100 | 400 |
| - Southern Cone Initiative | - | 100 | 1,000 |
| - Health Admin/Policy Training | 13 | - | 200 |
| - Legislative Strengthening | - | - | 250 |
| - Civil-Military Relations | - | - | 200 |

It is estimated that \$500,000 local currency funds and all of the remaining \$200,000 in the ESF project will be committed in FY90 to support this agenda.

The project mortgage carried over from FY91 will be fully funded in FY91. It is as follows:

| | <u>Funding Source</u> | <u>LOP</u> | <u>Mortgage</u> |
|-------------------------------|-----------------------|------------|-----------------|
| - Advanced Education for Dev. | ITT | 650 | 270 |
| - Junior Achievement | ITT | 250 | 100 |
| - Administration of Justice | AOJ/ITT | 500 | 300 |
| Total | | | <u>670</u> |

The requested FY91 level is as follows:

| | <u>Mortgage</u> | <u>New Initiatives</u> | <u>Total</u> |
|----------|-----------------|------------------------|--------------|
| - ITT | 370 | 530 | 900 |
| - AOJ/DI | <u>300</u> | <u>100</u> | <u>400</u> |
| Total | <u>670</u> | <u>630</u> | <u>1,300</u> |

I should be noted that LAC Training funds previously requested in last year's AAP are no longer requested. The Advanced Education for Development project is now being fully funded through ITT, rather than partially funded from LAC Training resources. Not included in the FY91 request level, but available for new commitments would be an estimated \$200,000 in local currency.

For FY92, when there will no longer be local currency available to support new commitments, the requested program level is \$1.5 million, of which \$300,000 would be from AOJ/DI and the balance from ITT.

The estimated operating expense requirements are as follows:

| | <u>FY90</u> | <u>(\$000) FY91</u> | <u>FY92</u> |
|-------------|--------------|---------------------------|--------------|
| OE | 50.0 | 89.8 | 239.6 |
| Trust Funds | <u>174.6</u> | <u>195.2</u> | -- |
| Total | <u>224.6</u> | <u>285.0</u> | <u>239.6</u> |

The budget for FY91 includes \$31,900 related to an assumed reassignment of the A.I.D. Representative. If this does not occur, the FY91 requirements would be correspondingly smaller. Other differences between the FY91 and FY90 levels are strictly related to estimated cost increases. As all trust funds will be exhausted in FY91, the entire FY92 requirement must be funded from OE. For this reason, FAAS costs, presently paid with trust funds, are not included in the FY92 budget.

The present local staff consists of five trust-funded PSCs (project specialist, accountant, secretary, administrative assistant and driver) and one OE-funded PSC (a project specialist whose principal duties relate to Argentina). No change in the staff is expected through the planning period.

A cut below the request level in FY91 would first be handled by trying to shift the \$22,000 in FAAS costs to AID/W. After that, the limited but critical travel costs associated with regional technical and financial support services would have to be cut. After that would follow cuts in travel and communications costs related to supervision of the Argentina activities. Either of the above would result in increased vulnerability, decreased program quality and program retrenchment. A cut of 10% below the estimated FY90 level would probably necessitate dropping Argentina entirely.

ATTACHMENT I

SUMMARY FUNDING TABLE FOR NEW AND ON-GOING ACTIVITIES
(\$000s)

| | <u>FY90</u> | <u>FY91</u> | <u>FY92</u> |
|---------------------------------------|-------------|--------------|--------------|
| <u>LAC Bureau:</u> | | | |
| <u>ITT</u> | | | |
| 1. Advanced Education for Development | 280 | 270 | --- |
| 2. Junior Achievement | 150 | 100 | --- |
| 3. Administration of Justice | 100 | --- | --- |
| 4. Other | <u>163</u> | <u>530</u> | <u>---</u> |
| Subtotal | <u>693</u> | <u>900</u> | <u>1,200</u> |
| <u>AOJ</u> | | | |
| 1. Administration of Justice | 100 | 300 | 100 |
| <u>DI</u> | | | |
| 1. Democracy Initiatives | <u>70</u> | <u>100</u> | <u>100</u> |
| LAC Bureau total | <u>863</u> | <u>1,300</u> | <u>1,500</u> |
| <u>Other A.I.D. Funding:</u> | | | |
| S&T Pop. Activities | <u>100</u> | <u>100</u> | <u>100</u> |
| TOTAL of all A.I.D. resources | <u>963</u> | <u>1,400</u> | <u>1,600</u> |

ATTACHMENT II

SUMMARY ACCOUNT FUNDING TABLE FOR LAC BUREAU

| <u>Account/Project</u> | <u>FY90</u> | <u>FY91</u> | <u>FY92</u> |
|------------------------|-------------|-------------|-------------|
| <u>HE</u> | | | |
| ITT | 13 | -- | -- |
| <u>EHR</u> | | | |
| ITT | 280 | 370 | 350 |
| <u>PSEE</u> | | | |
| ITT | <u>400</u> | <u>530</u> | <u>850</u> |
| Total ITT | 693 | 900 | 1,200 |
| <u>ESF</u> | | | |
| AOJ/DI | 100 | 400 | 200 |

NEW ACTIVITY DESCRIPTION

Activity: Administration of Justice (Uruguay)

| Activity Funding: | <u>FY90</u> | <u>FY91</u> |
|-------------------|-------------|-------------|
| AOJ/ESF | 100 | 300 |
| ITT/PSEE | 100 | - |

A. Relationship to A.I.D. Country Strategy/Objectives:

The proposed AOJ project supports two A.I.D. strategy objectives. Five years after Uruguay's return to democracy, the judiciary is widely recognized as the weakest part of the GOU's democratic institutional structure. The project will further the A.I.D. democracy objective by strengthening the judiciary. A strengthened judicial system also supports the A.I.D. objective of improving the environment for private sector development by ensuring that there is effective legal recourse for the protection of property rights and the enforcement of contractual obligations.

B. Conformance with Bureau ADC Guidelines:

The project involves institutional development and technology transfer. Because of the tremendous pressures on the judicial system to modernize, accentuated by the dramatic change to a system of oral proceedings in civil cases, this A.I.D. activity is likely to have a large impact in relation to its small cost.

C. Project Description:

The first of the two project components will support the development of a judicial training school. A training program for new judges has been organized to deal with the large number of new judges required by the change to oral proceedings. The program was quickly put together and relies on voluntary instructors. The aim of the project will be to develop the Center for Judicial Studies as a permanent institution, upgrade its curriculum in the broad range of practical skills required by judges and "fiscales", and develop an in-service training program for currently sitting judges.

The second component will strengthen the administrative and planning capability of the judicial system. The Supreme Court established three years ago an administrative services office which will be strengthened through technical assistance and training. In addition, a studies and planning capability will be added, which does not presently exist. Initial studies will focus on the impact of the civil procedure reform already enacted and the criminal procedure reform that is likely to be enacted within the next year. This latter study will enable the judiciary to have an input into the next reform legislation, which was not the case previously.

The grantee will be the UNDP, which will administer the project for A.I.D. Subgrants will be executed with the Supreme Court and the Center for Judicial Studies.

D. Potential Issues:

The project is planned to be developed in mid-July 1990 with the assistance of a LAC/DI contractor team. During implementation, the project will require U.S. technical assistance and periodic technical backstopping visits from LAC/DI staff. USAID is aware that A.I.D.'s AOJ technical resources are stretched very thin, particularly with recent events in Central America. The principal issue is whether those resources will be available for Uruguay as needed.