This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Executive Summary

The period 2009 – 2011 covers the transition between two governments of the same party, the leftist Broad Front (Frente Amplio, FA) which won the presidency for the first time in the 2004 election. The former President Tabaré Vázquez took office on 1 March 2005 and five years later he was succeeded by the current President, José Mujica. As both are copartisans, public policies followed by Mujica are essentially the same as those of Vázquez. However, Mujica’s presidential bid ran counter to the preferences of Vázquez, who intended to promote the former minister for the economy and current Vice President Danilo Astori as president. The last year of the Vázquez administration featured plenty of intra-party conflict, not only over the presidential candidacy but also over public policies as varied as human rights or international relations. After the primaries, the FA returned to acting as a unified party, with the main contestants in the primary making up the presidential formula. President Vázquez supported this, and the campaign discourse focused on the defense of the government and the continuity of its main public policies. Because Mujica’s candidacy was championed by the radical factions of the FA (communists and the former guerrilla movement Tupamaros) the second leftist government was expected by some observers to deepen Vázquez’s transformations, taking a sharp turn left. But the first year of Mujica government showed no movement towards a more radical leftist public policy. Instead, the second FA government is fundamentally a continuity of the first one, consolidating its main reforms (tax, health, human rights) and trying to advance in some areas where the former had barely begun (education, housing).

The period under review corresponds to the world economic crisis but, as in other countries in the region, the impacts of the crisis were minor in Uruguay and the growth that began in 2003 continued without major upheavals. The favorable international context (particularly high prices for commodities) and an adequate management of economic and financial policies (low fiscal deficits, regulation and favorable climate for investors, strengthened financial position of the banking system) made for a good socioeconomic performance during 2009 and 2010, with
growing GDP, falling poverty and unemployment placed at a historic low. However, the government faced a period of strong labor conflict at the end of 2010, due to the leading position that radical leftist groups have in many labor unions.

History and Characteristics of Transformation

Uruguay has the longest democratic history of any Latin American country. In the twentieth century, Uruguay suffered only two institutional breakdowns. The first, in 1933, was a civil coup that sought rapid re-institutionalization through constitutional and legal reforms. However, the lack of legitimacy of the two elected governments (1934 and 1938) under these norms implied that effective democracy was only achieved in 1942, with a new constitutional reform. The second rupture, between 1973 and 1984, led to a military dictatorship similar to others that devastated the continent at that time. The period of the military dictatorship was the only time in the twentieth century when the governments were not elected and when the traditional political parties were excluded from power. This fact underlines the country’s remarkable political development within the regional context. Uruguay shares with Colombia the striking characteristic of having been governed by only two different political parties before 2004: the Colorado (or Red) Party (PC) and the National Party (PN). In the long run, the Uruguayan political system has demonstrated a level of political stability and continuity that makes it stand out in the regional panorama.

Along with early democratization, Uruguay developed a welfare state that implied a joint construction process of political and social citizenry. During the first decades of the twentieth century, diverse political (universal and secret suffrage, free and fair elections), social (separation of church and state, eight-hour working day) and economic reforms were conducted. In the absence of strong de facto powers the state acquired a central role in the economy and in the provision of all kind of public services. By this means the country forged a wealthy, integrated and modern society during the first half of the twentieth century. The prosperity based on the great performance of agricultural and cattle exports was associated with an “import substitution development model,” which was intended to promote industrial development but fell into crisis at the beginning of the 1950s, as a consequence of a significant drop in commodity prices. As a consequence, a long period of economic stagnation and social turmoil followed.

The solid bipartisan political system that Uruguay has had for more than a century began to undergo changes during the 1960s. In a context of strong social and political conflict, minor leftist parties joined with other groups and dissident leaders from traditional parties to form the FA. Following the 1971 election, the traditional parties began to systematically lose votes to the leftist opposition, which went on to win the 2004 general election with a majority of the votes.

But at the beginning of that process, the economic, social and political crisis led to a coup in 1973 and a 12-year dictatorship that ended in 1985. When the constitution was restored, a double
On the one hand, the re-democratization was rapid and restored the rule of law – with the exception of the prosecution of the human right violations during the dictatorship – and the previous political system with all its complexities. On the other hand, a process of economic and state reform was gradually implemented by successive governments held by traditional parties. But while democratic transition was rapidly concluded, diverse privatization and state reform attempts were blocked by a coalition between the leftist opposition and social organizations – mainly labor unions, frequently resorting to direct democracy mechanisms. In that context, the traditional parties were increasingly grouped together at the center right of the ideological spectrum, since they jointly advocated and conducted pro-market reforms (such as de-monopolizing the assurance market, privatizing the state-owned airline, contracting private companies for port services and creating a mixed, state–private, social security system), and the FA increasingly assumed the role of defender of the state-owned enterprises, along with the rights of the workers and the poor. Even though during most of the 1990s, economic growth rates were around 5%, and inflation and unemployment rates were contained at about 10% each, the process ended in a deep recession and a financial crisis in 2002.

The shifts in the party system that started in 1971 gained strength, as the FA moved towards more moderate ideological positions and adopted state-oriented proposals that were being abandoned by the traditional parties. Finally, the electoral reform of 1996, which adopted the majority runoff presidential election system, provided the country with the institutional framework to consolidate a system of political competition between two blocks ideologically differentiated, the FA on the center left and both traditional parties on the center right. The most relevant, long-term process of change in Uruguayan politics has led to a radical transformation of the country’s party system and to the advent of a new leftist political actor in the national government. This process is rooted in the electorate’s ongoing democratic disenchantment, which was originally most evident among the youth, educated and urbanized sectors, and has been manifested in the political support for a party that has learned how to moderate its discourse and to gradually move towards the center of the ideological spectrum.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Uruguay has no stateness problems. The Uruguayan constitutional government exerts the monopoly of the use of force in its entire territory.

In Uruguay the entire population accepts the legitimacy of the nation-state. The rules to access citizenship are perfectly clear, and include all people born in the country, foreigners established in the country, and sons and daughters of Uruguayans born abroad. Access to citizenship is not denied to anyone on the basis of race, gender, language, religion, political or other opinions, national or social origin, or property.

Religious dogmas do not play any relevant role in the decision-making process in Uruguay. The Catholic Church, the predominant religion in the country, was completely separated from government more than a century ago. The state is secular and religious dogmas have no influence on the legal order and political institutions. The church tries to exert influence over issues like homosexual rights or abortion like any other pressure group, with mixed results.

All basic functions of the state are performed by the corresponding institutions. Since its independence the country has been organized as a republic with a classic separation of powers. Moreover, the country has 19 subnational (departmental) governments, and a variety of autonomous public bodies specializing in different areas such as education, utilities, and regulatory agencies. In general terms, the regulatory, administrative and implementation functions of the state are completely fulfilled.
2 | Political Participation

Uruguay has regularly conducted national elections with universal suffrage and secret ballots to elect the president and the legislature. The electoral management body (the electoral court), appointed by the congress by a two-thirds majority, enjoys a long tradition of impartiality and effectiveness. However, there was a deadlock in renewing its composition – due every five years – after 2000. The current government achieved an inter-party agreement, and the congress appointed a new body in 2010. Voting is mandatory for resident citizens and turnout rates are particularly high (over 90%). Political parties have relatively equal access to media and no election outcome has been challenged since 1984.

From 1985 to the present, democratically elected political representatives have the effective power to govern with no veto powers capable of questioning their authority.

Association and assembly rights are fully respected by Uruguayan government with no significant restrictions.

Freedom of expression in Uruguay is fully guaranteed for citizens, groups and the press without any kind of censorship. The media are ideologically and politically diverse, so that all relevant opinions are present on the public agenda.

3 | Rule of Law

There is a clear division of functions among the judiciary, the executive, and the legislative branches of government in Uruguay, with mutual checks and balances. Interbranch conflict is unusual and solved according to the constitution. The only limitation to the separation of powers stems from the amnesty law in favor of the military, which gives the executive the choice as to whether to judge the army crimes committed during the dictatorship. This law has twice been declared unconstitutional (2009 and 2010) by the Supreme Court, thus re-establishing the full separation of powers.

The judiciary is fully independent from the executive and capable of accomplishing its function. The Supreme Court is appointed by two thirds of the parliament, and can declare laws unconstitutional. The Contentious and Administrative Court is appointed by the same rule, and can declare administrative acts null and void.

In general terms Uruguay has low levels of corruption, even though some scandals occur. In those cases, the media pay attention, generating adverse publicity, and the judiciary prosecutes the accused official. There has been an anti-corruption agency...
(the Transparency and Public Ethics Board) since 1999, which is increasingly performing an important role in the fight against corruption.

Civil rights are guaranteed by the constitution and generally respected by the state. All citizens have equal access to justice and due process. In addition, governments from 2000 to the present have made efforts to redress crimes committed under the last dictatorship, which went entirely unpunished until 2000. However, there is one remaining area of impunity because the amnesty law for the military is still in force and hampers the prosecution of their crimes, in spite of the 2009 and 2010 Supreme Court declarations that the law is unconstitutional. At the time of the 2009 election, a plebiscite was held to declare that law null and void, but the share of vote needed was not reached.

4 | Stability of Democratic Institutions

Democratic Uruguayan institutions perform their function in an effective manner, in accordance with the constitution and laws and without significant counterproductive friction among them.

Democratic institutions in Uruguay are accepted as legitimate by all relevant actors. There are no relevant actors with veto power outside the constitutional framework. The armed forces themselves have permitted and accepted the search inside military facilities for the remains of people who went missing during the dictatorship.

5 | Political and Social Integration

The Uruguayan party system is one of the most stable and institutionalized in the world. Three main political parties have captured about 95% of voters’ preferences from 1971 until now. Even though parties are internally divided into stable factions with their own visibility and autonomy, they are ideologically consistent and disciplined in their political behavior. The interparty dynamics are moderate, convergent to the center of the political spectrum, and tend to reach agreement in major policy questions. The last election, held in 2009, showed the lowest volatility in decades considering the vote switch between the governing FA and the opposition traditional parties. As the vote transfer from the traditional block to the left has been the main trend in its transformation, the Uruguayan party system seems to have reached a new multiparty equilibrium. This equilibrium is associated both with the process of voters’ electoral realignment and with the electoral rules adopted in 1996, including primaries and majority runoff for presidential elections.

Uruguayan society has a long tradition of organized social groups. The most salient and influential groups are labor unions and business associations. Most unions are
unified in the unique national labor association, PIT/CNT, created in the mid 1960s. Business does not have unique association but there are a few very influential associations that group the most relevant economic activities in the country (farmers, industry, the banking sector, export sector, etc.). From 2005 onwards, labor unions and employers’ organizations negotiate wages and work conditions inside an institutional framework (wage boards) with government mediation, and most of them reach long-term agreements. Along with labor and business, there are other influential social organizations, mainly pensioners, university students, and a variety of professional organizations (physicians, lawyers, etc.). In addition, some associations grouped around specific issues, such as women or environmental organizations, are acquiring growing visibility. In general terms the diverse social groups are inclusive, tend to balance one another, and have a pragmatic and cooperative attitude.

Citizen support for democracy and democratic institutions in Uruguay is the highest in Latin America. In a systematic way, comparative public opinion surveys such as Latinobarómetro or, more recently, the Americas Barometer, have placed Uruguay at the top positions in the regional ranking. The 2010 Latinobarómetro report indicates that 75% of Uruguayans think that “democracy is preferable to any other form of government.” The report also shows that 91% supports a “Churchillian” definition of democracy (“democracy can have problems but is the best system of government”), placing Uruguay at the top in this category in Latin America. The Americas Barometer 2010 report also places Uruguay at the top of the ranking in the same indicator. Uruguay also has the highest percentage in Latin America of people satisfied with the functioning of democracy according to Latinobarómetro (78%) and the Americas Barometer (68%). The Americas Barometer, meanwhile, places Uruguay at the first place in Latin America in terms of political system support, using a composed index based on five survey items, which means that the political system enjoys legitimacy among the citizenry. Finally, the main political institutions (the government, the congress and the judiciary) have levels of trust between 65 and 75 points in the Americas Barometer scale, and ranges from 58% and 71% according to Latinobarómetro report.

Uruguay has a long tradition of autonomous, self-organized groups, devoted to diverse goals. In addition to interest groups, there are numerous associations related to school or neighborhood, based on voluntary work, and oriented to help the community. The level of interpersonal trust is high, as reported by Latinobarómetro (30% agrees with the sentence “we can trust in most people”) and the Americas Barometer (75% think that other people are somewhat or very reliable) in 2010. In both cases Uruguay holds second position in Latin America.
II. Economic Transformation

6 | Level of Socioeconomic Development

Uruguay has always been the most socially integrated country in Latin America. During the first half of the twentieth century it ranked among the most developed countries in the world. In the second half, a period of economic stagnation and social conflict arose. Despite this, Uruguay maintained its position in the regional context. The HDI qualifies Uruguay as a country with high human development, and its value for 2010 (0.765), places it third in Latin America. The Comisión Económica para América Latina y el Caribe (CEPAL) “Social Panorama of Latin America” reports a 10.4% poverty rate in Uruguay for 2009, the lowest rate in the region, and in terms of income distribution a Gini index of 0.433, the second lowest. Those indicators deteriorated during the first years of the century but began to recover from 2005 onwards. Economic growth and pro-active policies to increase real wages and diverse transfer programs, created by the previous government and followed by the current one, were the key factors in those achievements. Besides poverty and income distribution, gender inequality is still present. The Gender Inequality Index included in the Human Development Report 2010 ranks Uruguay at 54 out of 138 countries, with a score of 0.508 (a similar level to Chile and Costa Rica; the best performer is the Netherlands with 0.174, the worst performer Yemen with 0.853).

<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tr>
<td>GDP $ mn.</td>
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<td>GDP growth %</td>
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<td>2.6</td>
<td>8.5</td>
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<tr>
<td>Inflation (CPI) %</td>
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<td>7.1</td>
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<td>Unemployment %</td>
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<td>7.6</td>
<td>7.3</td>
<td>-</td>
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<tr>
<td>Foreign direct investment % of GDP</td>
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<tr>
<td>Export growth %</td>
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<td>-1480.3</td>
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<td>-160.2</td>
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### Economic indicators

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<tr>
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<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Public debt</td>
<td>% of GDP</td>
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<td>61.7</td>
<td>61.0</td>
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<td>External debt</td>
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<td>Cash surplus or deficit</td>
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<td>-0.9</td>
<td>-1.5</td>
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<tr>
<td>Tax revenue</td>
<td>% of GDP</td>
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<td>18.9</td>
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<tr>
<td>Government consumption</td>
<td>% of GDP</td>
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<td>13.0</td>
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<tr>
<td>Public expnd. on edu.</td>
<td>% of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Public expnd. on health</td>
<td>% of GDP</td>
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<td>7.8</td>
<td>7.4</td>
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<tr>
<td>R&amp;D expenditure</td>
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<td>0.64</td>
<td>-</td>
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<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>1.2</td>
<td>1.3</td>
<td>1.6</td>
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### 7 | Organization of the Market and Competition

The Uruguayan model of development and welfare, if traditionally oriented to a market economy, had been based on a crucial role of the state, either by direct participation in economic activities or by its regulatory role. Several strategic economic activities have been monopolized by state-owned enterprises (fuel, electricity, and communications). The liberalizing trend that began under the last dictatorship and slowly proceeded under the subsequent democratic governments, implied the incorporation of the private sector into a number of activities previously monopolized by the state. The insurance market, the pension system, and the mobile telephone network, for instance, work as competitive markets with participation from the relevant state-owned enterprises. The previous and the current leftist governments did not reverse the liberalizing trend, and rather continued it. In addition to state-monopolized or strongly regulated activities, there are no significant entry barriers in markets and private investments are being increasingly stimulated. Minor factions inside the government party (i.e., the communists) and the labor unions actively promote greater state participation in the economy (e.g., the recreation of a state-owned meat processing plant), but President Mujica and Vice President Astori (who is in charge of economic policy) systematically resist this kind of pressure.
Uruguay did not have any regulation against monopolies and in favor of competition until 2000. As diverse economic activities have become competitive in the context of the market-oriented reforms conducted in the 1990s, different rules began to be approved at the beginning of the present century. The normative framework was completed in 2007 with the approval of law number 18.159 (Trade Freedom and Free Competition Preservation Act, or simply the “Antitrust Act”), which entered into force in August 2007. The Antitrust Act introduced pre-merger control approval in certain cases of economic concentration. However, some activities, such as fuel or fixed line telephone networks, are still state monopolies, and the opening of markets in certain activities (data transmission, cable television) is slow.

Uruguay began a trend of liberalization of its foreign trade along with its integration into the Southern Cone Common Market (Mercosur) in the 1990s. As the Mercosur became a free trade area, most Uruguayan exports were concentrated in Argentina and, especially, in Brazil. As a consequence of the 2002 crisis the country’s foreign commerce policy increasingly diversified the destination of its exports. The country’s foreign trade figures have been growing systematically since then. Non-tariff barriers and other measures that hamper trade are few. The average most-favored-nation tariff has been reduced, and improvements have been effected in areas such as import procedures, customs valuation and intellectual property protection (WTO Trade Policy Review). Beyond the limitations due to membership in Mercosur, the government has been promoting a number of trade and/or investment agreements with countries outside Mercosur, such as Mexico, United States or Finland, and continues to insist on the lowering of Mercosur’s common external tariff.

Traditionally the Uruguayan banking system acted as a regional financial center due to its liberalized regulations and reliability. But as a consequence of the 2002 financial crisis, the system almost collapsed following a run on the banks by Argentine depositors and a severe lack of supervision. Since then, some requirements and control over the system were increased, and the share of non-resident deposits decreased, thus strengthening its position. By the end of 2010, Congress passed a law that made more flexible the possibility of inquiry into banking movements, thus accepting OECD requirements on international financial movements’ control. The system is well-capitalized, with high levels of international reserves and liquidity, and low non-performing loan ratios. The global crisis has had a limited impact on the country’s financial sector, government debt ratios are declining and risks and vulnerability are low.
8 | Currency and Price Stability

The central bank has made inflation the main target of its monetary policy. The country began the fight against inflation at the beginning of the 1990s, in the light of the Washington Consensus policies. As a consequence, Uruguay reached low inflation rates at the end of the decade. But the main instrument to fight inflation was the exchange rate. Jointly with other Mercosur countries, Uruguay was increasingly overvaluing its national currency, thus lowering external competitiveness and increasing government debt. The process ended with the financial crisis of 2002, with a drastic devaluation of more than 100% and inflation rising up to 26%. During the Vázquez administration, the central bank enhanced the flexibility of the exchange rate policy, leaving the value of foreign currency to be determined by supply and demand. But as a consequence of the 2008 global financial crisis, the national currency began to increase its value again, and the government applied different measures to avoid a significant drop. In trying to balance both targets, the value of foreign currency has been stabilized, but the fight against inflation remains foremost among the government’s concerns, reaching 6% in 2009 and 7% in 2010. Despite this, monetary policies are successfully making the different goals of economic policies in the country more consistent.

After the 2002 financial crisis, Uruguay reached the highest levels of fiscal deficit and external debts in more than a decade. The Vázquez administration’s economic team took advantage of the favorable external situation and the country’s economic growth, and managed to reduce the fiscal deficit to low levels while increasing public expenditures, especially in education and health. At the same time the government developed a complex strategy to reshape external debt, postponing due dates, changing to lower interest rates and replacing foreign with national currency instruments. Congress approved the Fiscal Budget for the period 2010 – 2014 in December 2010. The new budget is based on fiscal discipline and is consistent with the financial program so that the fiscal policy can continue to be used as a countercyclical instrument. Combining economic growth and debt management, the debt-to-GDP ratio dropped from more than 100% before the beginning of the Vázquez administration, to the current 50%. As a result, the country’s position is currently much less vulnerable than it was at the end of the financial crisis. By the end of 2010, Moody’s Investors Service upgraded the Uruguayan debt to Ba1, just a step below the investment grade.

9 | Private Property

Since the origins of the Uruguayan nation-state, property rights have been constitutionally protected at the same level as other fundamental rights (life, freedom, honor, security and work). Regulations on acquisition, benefits, use and
sale are well defined and enforced. Property rights can be limited solely by law and based on reasons of public interest. In recent years the country has been improving its property rights regulations for economic activities, in order to promote private investments, especially from abroad.

During the twentieth century Uruguay became a state-centered capitalist economy. In the 1990s, governments promoted a liberalizing trend in the context of the Washington Consensus policies. But the process was gradual and some privatizations were blocked by the opposition and social movements using direct democracy mechanisms. The previous and the current leftist governments did not follow a strategy that includes privatization of state-owned enterprises, although they actively promote private investments and public–private joint ventures in infrastructure developments. Currently, the government is particularly interested in attracting investments to develop the country’s port facilities in order to exploit its comparative advantages and become a regional logistic center. On the other hand, private companies, specifically foreign ones, are viewed institutionally as primary engines of economic development. In that sense, the government recently authorized the installation of a new paper pulp plant and an iron mine, which will involve the investment of several billion dollars. To promote this kind of investment, the government is improving the regulatory framework and signing international treaties to give them appropriate legal safeguards.

10 | Welfare Regime

Uruguay had long been a traditional welfare state with social democratic characteristics, but it suffered a severe deterioration due to the neoliberal policies and the recurrent economic crises. Notwithstanding, social spending in Uruguay continued to be the highest in Latin America.

The pension system in Uruguay was already universal by the middle of the twentieth century, but the purchasing power of pensions was systemically decreasing during the 1960s and the dictatorship. In 1989, an organization of pensioners successfully called for a plebiscite to introduce the indexation of pensions in the national constitution. As a consequence, the purchasing power of pensions rose considerably, but the government had to raise different taxes to meet its increased obligations. In an effort to solve the chronic system deficit, a structural reform of the pension system was passed by parliament in 1995 and is still in force. The reform introduced private pension funds, creating a mixed public–private system that preserved the pay-as-you-go pillar for low wages and introduced a personal account savings pillar for higher wages.

The Vázquez government made important reforms in safety networks, especially increasing money transfers for the poor and expanding health coverage. The “equity
"Plan Equidad" (Plan de Equidad) covers all children under the poverty line with a “family allowance” (Asignaciones Familiares) of about $50 per child. The traditional health care system in Uruguay had low coverage that only included formal workers of private enterprises through private providers and poor people through public hospitals. The Vázquez administration also created an “integrated national health system” (SNIS) that expanded the coverage to include public servants and spouses and children of workers, and put public and private providers at the same level, in order to supply health care in a competitive manner. The SNIS and the equity plan, together with the improvement and expansion of wages, made for a significant reduction of poverty, which dropped from more than 30% in 2004 to around 20% in 2009.

Uruguay has no significant ethnic or religious minorities and the country adopted a law in 2004 that aims to struggle against racism, xenophobia and discrimination. The main differences of opportunities for people are those derived from income and gender. Male and female literacy and enrollment rates are almost identical except for college, where female students almost double males. Despite this, unemployment is higher than average among women and citizens of African descent. The presence of women in public office is low. Nevertheless, some improvements have been made. On the one hand a law was passed that demands a gender quota for the next legislative elections. On the other hand three women were elected as mayors (Intendente Departamental) for the first time in the 2010 local elections.

11 | Economic Performance

In the context of the world economic crisis, the Uruguayan economy performed extraordinarily well. During the past two years GDP continued its upward trend. In the critical year of 2009, GDP grew by 2.9% and in 2010 the figure rose to a new record, 8.8%. Unemployment reached a record low, scarcely over 6% at the end of 2010. Inflation fell within target, even though the figures are systematically placed at the top of the range (6% in 2009 and 7% in 2010). The trade balance was positive in 2009 and moderately negative in 2010 due to the high rate of imported capital goods. Budget deficit fell within target and is under control (around 1%). Public debt is high (foreign and domestic) but it was significantly reduced during 2010, reaching about 60% of GDP.

12 | Sustainability

Environmental concerns are increasingly taken into account in Uruguayan policies. The country has had an environmental protection law since 2000 and a governmental agency (a direction inside a ministry) to enforce the law and promote
environmental care and sustainable growth. The government sought alternative energy sources and promotes the production of biofuel and wind-generated electricity through state-owned enterprises, even though they are still in embryonic stage. A law was passed in 2009 (number 18597) to promote and regulate the efficient use of energy. Another significant improvement in this field was the implementation of a National System of Protected Areas (SNAP) and the incorporation of seven areas into this program between 2008 and 2010. Environmental awareness has made some progress among the population and the issue is increasingly present in public debate. The conflict with Argentina over a pulp mill was solved after the International Court of Justice ruled in favor of Uruguay. A monitoring agreement was made that put an end to the popular protest in the neighboring country.

The previous government significantly increased public spending in education (4.5% of GDP) and in R&D (nearly 1% of GDP) and created an independent governmental agency to promote scientific research and innovation. The country has a strong nationwide education system and almost 100% enrollment rates in primary and secondary schools. The previous government launched a plan that promotes the availability of one laptop per child, which could be fulfilled for all children in primary school in 2009 and is continued by the current government with the goal to cover all children in secondary schools. However, the performance of education in 2010, according to the Program for International Student Assessment (PISA) did not show significant improvements.
Transformation Management

I. Level of Difficulty

In Uruguay there are no structural constraints such as natural disasters or pandemic diseases. The country enjoys privileged geographic conditions (even though it is strongly dependent on large neighboring countries) and has an educated and relatively wealthy population (taking into account the Latin American context). Given the current conditions of development, the country has to strengthen its education system and develop its infrastructure.

Uruguayan civil society has a long tradition of civic engagement and a participatory civic culture. There are numerous and active civic associations and a significant level of social trust (among the highest in the Americas, according to LAPOP 2010).

Uruguay has no relevant ethnic or religious conflicts. The main social conflict is about income distribution, conducted by labor unions in a legal and pacific way (demonstrations, strikes, etc.). This conflict is translated into politics as an ideological cleavage between left and right, which is solved in a democratic manner and, normally, by agreement and consensus instead of confrontation.

II. Management Performance

14 | Steering Capability

All post-dictatorship Uruguayan governments have been committed to democracy and the rule of law, which generates a broad consensus among political elites. Beyond that, since the 1990s, governments have been increasingly establishing strategic priorities, the first of which was the control of inflation followed by the setting of conditions to promote FDIs. The previous and current leftist governments continued these strategic goals, adding the fight against poverty and investment in education as priorities and adopting corresponding policy measures. Even though
public spending increases were made in electoral years in the hope of electoral support in favor of the governing parties, this has not hurt the consistency of strategic priorities. Although the previous and the current governments made up their cabinets by assigning positions to different factions in order to balance interests, the leadership (Vázquez and Mujica) managed to maintain support within the government for the main policy goals with only minimal dissent.

The previous and the current leftist governments have implemented many of their reforms effectively. Outstanding reforms have been set in motion during the Vázquez government and are continued by the current administration (tax, health and financial reforms, among others), without relevant obstacles set by opposition groups. The human rights policies (that allowed the judgment of crimes committed during the dictatorship and the search for the remains of missing people) were implemented in spite of the opposition of the military, which has become isolated. However, the government encountered important obstacles with the implementation of administrative and civil service reforms (Reforma del Estado). The privileges public servants enjoy and the mobilization of their powerful unions have prevented any major advances on that issue. Generally speaking, all reforms in Uruguay are implemented in a gradual and mixed way in order to maintain broad consensus, and no insurmountable gridlock has appeared.

The previous and the current leftist governments have demonstrated a great ability to learn and act in a flexible way. The traditional leftist conception of economic policies (state-centered and with a weak commitment to budgetary balance) was radically modified by former president Vázquez, who assumed more pragmatic positions. The government showed an important predisposition for innovation, setting in motion original reforms (e.g., the integrated national health system) and programs (e.g., one laptop per child). Most of the reforms implemented by the previous government were publicly debated and designed with the relevant participation of experts. The current government is following the same criteria and, in some issues, it appears to be even more flexible, as in its relationship with the opposition.

15 | Resource Efficiency

Traditionally Uruguay has had a clientelistic system of appointment in the public administration, conducted by the traditional parties. Since the 1990s reforms, they have strived to tackle this by reducing the number of state employees and privatizing state-owned enterprises. The Frente Amplio governments, first at the level of the Montevideo government (Intendencia Municipal de Montevideo) and then at national government level, made significant changes, incorporating more competitive recruiting procedures without completely removing political influences. In general terms, the government makes efficient use of most available human,
financial and organizational resources. But the state personnel is still oversized, and many agencies are not efficient in relation to their costs. Nevertheless, budget deficit is low, has remained within target range, is under control, and there are no significant deviations from the planned expenditures. The country’s debt level has been significantly reduced during recent years and the debt profile has been notably improved by increasing the share of national currency and extending terms for pay back. The previous and current governments have assigned priority to decentralization, establishing a third level of government, which was elected for the first time in the May 2010 local elections, although it has no financial autonomy.

The previous and current governments coordinate conflicting objectives effectively and mostly act in a coherent manner. The leftist government introduced forms of horizontal coordination through specialized cabinets (research and innovation cabinet, social cabinet etc.). In these, different ministries coordinate their policies to avoid redundancies and reach more efficient outcomes. Some of the main reforms launched by the previous government needed a considerable effort of coordination, such as the tax and health reforms, both of which affected the rights of workers and wages. Some horizontal coordination agencies were also created, for example the AGESIC (Agency for Electronic Government and the Information Society). The current government continues the former’s coordination style and has made no significant innovation in its first year.

Uruguay has been making progress in the fight against corruption since the mid-1990s, and is seen as one of the least corrupt countries in the region. The country has had an anti-corruption law since 1998. That law (with subsequent modifications) established corruption acts as criminal offenses and created a specialized independent agency to fight corruption (Jutep, Council for Public Ethics and Transparency). Under this law, sworn financial statements are required from major public servants, including the president, and public officials are subject to financial disclosure. In 2009, specialist courts and prosecutors began work against organized crime. In recent years, some corruption scandals appeared in the media, and the judiciary acted accordingly, showing that anti-corruption institutions actually work. Finally, a political-party financing law passed in March 2009 sets clear standards of transparency and sets a limit on private donations to political parties. Parties also receive state money to fund election campaigns and their regular activities.

16 | Consensus-Building

Consensus on democracy is almost unanimous in Uruguay. Furthermore, democracy works in a highly consensual way in the country with broad agreements about major issues. Nevertheless, dissent about the role of the state in the economy is significant among the party system and interest groups, dividing the left from the
right and the unions from employers’ organizations. However, only a few minor political or social groups completely reject a market-oriented economy.

There are no significant anti-democratic actors in Uruguay, whether on the extreme left or right, and when such an actor publicly appears, they are immediately condemned and isolated.

Uruguay has no relevant regional, ethnic or religious conflicts. The class or distributive conflict is the only cleavage that is active and reflected in the political system. The political leadership manages to maintain the conflict inside the rule of law, avoids excessive or violent demonstrations and expands consensus across the dividing lines.

The previous and the current FA governments gave high priority to social participation in policy formulation and implementation. Some relevant public policies were subject to public debate through the creation of specific discussion environments such as the National Dialogue for Social Security or the National Congress of Education, which counted on the broadest participation of social and political actors. The education law passed in December 2008 required the presence of representatives of teachers in the directive councils that rule the education system and which were elected in 2010. To further promote participation, a third level of government (municipal councils and a mayor in cities and towns with population over 5,000) was established, and was elected for the first time in May 2010 local elections.

The reconciliation between the victims and the perpetrators of past crimes has been one of the most challenging issues that the Uruguayan political system has had to deal with. The quasi-amnesty law chosen shortly after the dictatorship failed because it never achieved consensus and the issue reemerged repeatedly during the last 20 years. Governments from 2000 to the present have made efforts to redress crimes committed under the last dictatorship, which went fully unpunished until 2000. The Jorge Batlle government (2000 – 2005) created a Commission for Peace intended to obtain information about kidnapped children and the remains of missing people. The FA governments changed the executive criteria to apply the amnesty law, allowing the judiciary to prosecute some crimes with the result that a number of civil and military criminals were jailed. Finally, the Supreme Court declared the law unconstitutional for a couple of cases in 2009 and 2010. In spite of much improvement on this issue, there is still an area of impunity because the amnesty law for the military is still in force and hampers the prosecution of their crimes.
Due to its small size, Uruguay is a relatively dependent country that prefers to cooperate, although international cooperation is not vital to the country’s development. As a medium income country, in the context of the world crisis Uruguay became non-eligible for a number of funding sources. Dozens of countries and multilateral agencies provide aid to the country, but the most relevant are the Inter-American Development Bank (IDB), the World Bank and the European Union. By 2009 the country was executing 412 projects for $216 million, $64 million of which were used in that year alone. The Uruguayan political leadership has made well-focused use of international assistance in accordance with its long-term strategy of development and its domestic policy agenda, focusing the aid on environment, gender, culture, human rights and the promotion of R&D. The previous and the current governments have been making efforts to improve the coordination of programs and efficiency in the use of resources gained by international cooperation. In 2009 it created the Uruguayan Institute for International Cooperation. As a result, excellent information on the topic is provided by the “map of cooperation” available at http://iuci.opp.gub.uy.

The Uruguayan government is considered a credible and reliable partner by the international community. The country has built a reputation for respecting commitments, contracts and the rule of law, which was reflected in the solutions of the financial crisis of 2002 and the conflict with Argentina for the pulp mill in 2010. As a consequence, FDIs have been growing significantly and Moody’s Investors Service upgraded Uruguayan debt to Ba1, putting it just a step below the investment grade by the end of 2010.

The Uruguayan political leadership has always shown a great predisposition to cooperate with neighboring countries, which was reflected in the participation of the country in every international or regional initiative that was launched. Just to mention a few salient examples, Uruguay was founding member of the United Nations, the Organization of American States (OAS) and the Mercosur. In particular, the country strongly promotes regional and international integration, not only supporting the Mercosur but also looking for trade agreements outside the region. In recent times, the country’s cooperation policy has demonstrated an interest in new forms of cooperation, such as triangular and south–south cooperation, and created the Uruguayan Fund for International Cooperation.
Strategic Outlook

Uruguay is successfully advancing its transformation, and its main challenge is to achieve sustainability for its economic development. An outstanding economic performance and recent structural reforms have given the country solid, well-capitalized and well-monitored financial institutions with high levels of international reserves and liquidity. Due to continuous growth, rising export earnings and tax revenues, and strong foreign investment inflows, Uruguay has been able to reduce its public and foreign debts substantially. In January 2011, the government issued and sold new bonds in national currency for the equivalent of more than $1.25 billion, placing the local currency share of the public debt at about 40%, and the average time to maturity at 12 years. In this context, there will be a reduction in the global public debt level to close to 40% of GDP in 2015. The Uruguayan economy is projected to grow 4.5% in 2011, converging to the potential economic real growth of 4% in 2012. Investment will continue to rise over in the coming years, achieving 25% of GDP by the end of 2015.

Nevertheless, Uruguay’s economy is still structurally vulnerable due to its size, its dependency on the performance of neighboring countries and foreign markets, and its high dollarization. Therefore, a careful debt management, strict supervision over the financial system and a well balanced budget are needed to ensure the sustainability of the processes of private investment, economic growth and social welfare. The foreign investment inflow is assured in the short term as two macro projects were already approved for around $3.4 billion (a second pulp mill in Punta Pereira and an iron mine in Valentines). So the challenge is to keep similar levels of FDI in the long run.

The current government has two main chapters in its policy agenda. On the one hand it needs to improve and consolidate the reforms made under the previous administration. For instance, tax reform must advance in unifying income tax from different origins (wages and capital) and reducing the value added tax to 20%. The achievement of those goals will improve the efficiency and fairness of the tax system. By the same token, health reform must advance by broadening the coverage and financial viability of the system. On the other hand, the government has to launch significant new reforms. For instance, education reform had barely begun under the previous administration. The process needs further implementation, with the raising of education quality as its main goal. Likewise, housing policy was a largely neglected issue in the fight against poverty and was outlined as a central concern of President Mujica during the election campaign. In the last year the government devised the “Plan Juntos” (Together Plan) with the goal of providing homes for people living in extreme poverty. So far, the initiative is just a bill before Congress, but during 2011 the plan must begin to be implemented. Finally, government should tackle the constantly postponed administrative and civil service reforms – another central concern of Mujica’s campaign. Nevertheless, little has been done in this area, not only because of the small number of decisions adopted and their scarce relevance, but also because of the
suspension of programs adopted by the prior administration. This issue faces huge obstacles that will be extremely hard to overcome.

But beyond the need to have an adequate management of public policies, the government needs to manage its own internal differences. Some radical leftist groups inside the FA, including those who promoted Mujica’s presidential candidacy, appear to be disenchanted with the policy orientation of the president, and are trying to put pressure on the government through public demonstrations and labor disputes, to get changes in economic policy and income distribution. Since the FA has a minimal winning coalition in Congress (50 representatives out of 99), the government needs absolute party discipline and a socially peaceful climate to maintain and improve its achievements.