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URUGUAY

REFORM OF THE STATE: CENTRAL GOVERNMENT RESTRUCTURING AND MODERNIZATION

(UR-0090)

LOAN PROPOSAL

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ADDITIONAL INFORMATION AVAILABLE IN TECHNICAL FILES

Preparation phase:

- Provisions governing reform of the Uruguayan State (1995-1999 National Budget Act, regulatory provisions and CEPRE directives)
- Detailed scaling of program (cost of severance options and retirement incentives)
- Civil Service and Public Sector Reform in Latin America and the Caribbean: A Summary of Lessons Learned and of Recommendations for Project Design (Draft)

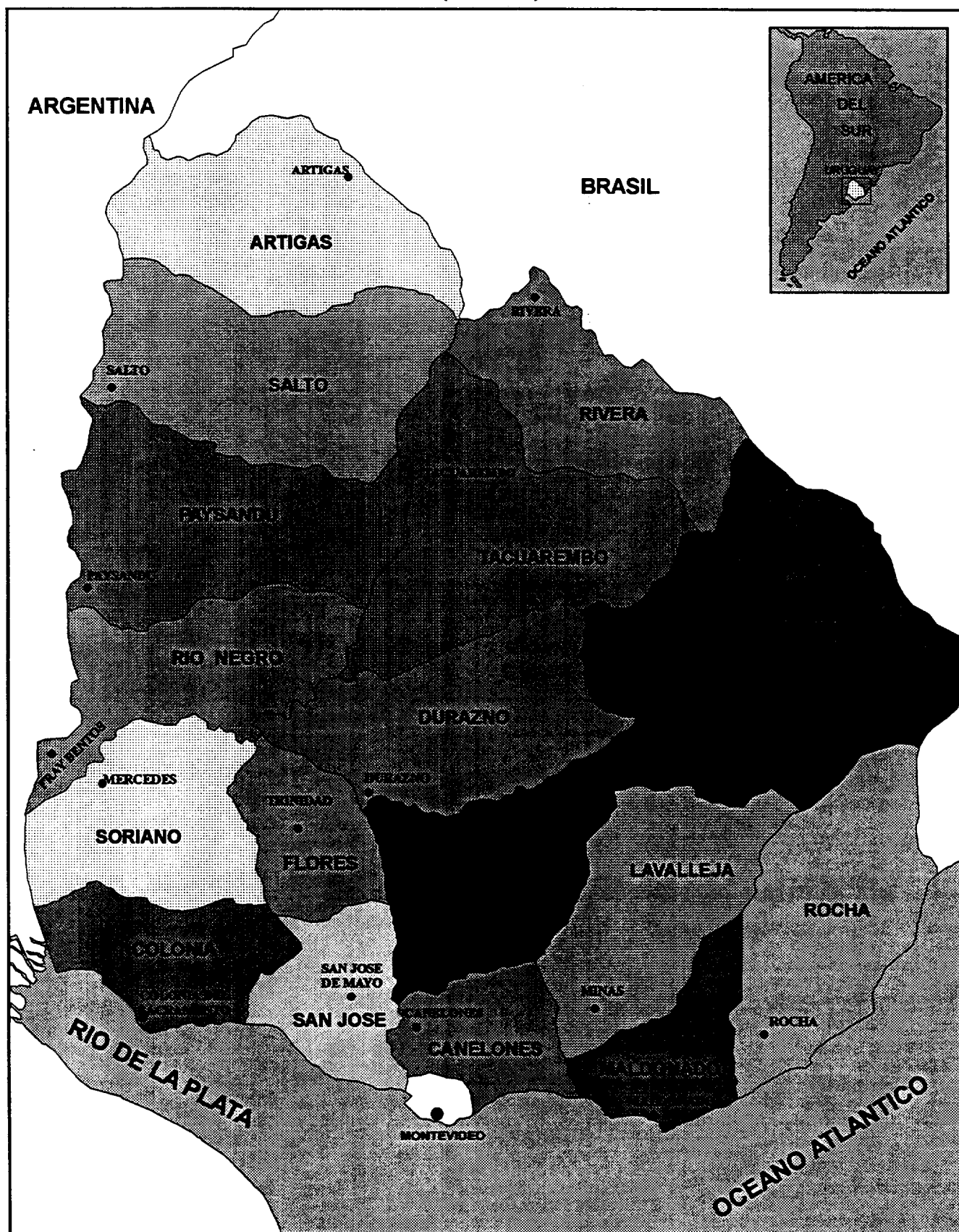
Execution phase:

- Detailed logical framework
- Detailed budget of technical cooperation loan
- Terms of reference for consulting services under technical cooperation loan

ABBREVIATIONS

BPS	Social security authority
CEPRE	Executive Committee for State Reform
GCU	General coordinating unit
DGI	Tax Directorate
DNA	Customs Directorate
FAS	Program for strengthening of social areas
IMS	Average pay index
INAME	National youth authority
MEF	Ministry of Economic Affairs and Finance
OPP	Planning and Budget Office
PPNEs	Nongovernmental public entities

REPUBLICA ORIENTAL DEL URUGUAY
REFORMA DEL ESTADO
Reestructuración y Modernización de la Administración Central
(UR-0090)



Este mapa, preparado por el Banco Interamericano de Desarrollo, no ha sido autorizado por ningún órgano competente y su inclusión en el documento de préstamo tiene por objeto exclusivo indicar el área de influencia del proyecto que se propone financiar.

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Basic Socio-Economic Data

Statistics and Quantitative Analysis

Integration and Regional Programs Department

Executive Summary

Social Statistics

Land Area (Km2)	1995	177,508
Population (Thousands)	1995	3,185
Population Under 15 (Percent)	1995	24.4
Population 60 and Over (Percent)	1995	17.0
Population (Average Annual Growth Rate)	1986-1995	0.6
Rural (Percent)	1995	13.6
Density (Population per Km2)	1995	17.9
Vital Statistics		
Total Fertility (Rate per Woman)	1993	2.3
Crude Birth (Rate per 1,000 Population)	1992	17.1
Infant Mortality (Rate per 1,000 Live Births)	1993	19.4
Crude Death (Rate per 1,000 Population)	1992	9.6
Life Expectancy at Birth (Years)	1993	72.5
Poverty and Inequality		
Gini Coefficient	1989	0.42
IDB Poverty Incidence (Percent)	1989	4
Poverty Gap (Percent)	1989	1
Labor Force (Thousands)	1992	1,240
Participation Rate (Percent)	1992	53.8
Unemployment Rate (Percent)	5-1996	12.3
Real Minimum Wage (Index 1990=100)	1991	90.2
Education		
Gross Enrollment Ratio - Primary	1993	109.0
Gross Enrollment Ratio - Secondary	1993	81.0
Gross Enrollment Ratio - Tertiary	1992	28.9
Pupil/Teacher Ratio - Primary	1992	20.6
Pupil/Teacher Ratio - Secondary	1992	18.0
Average Years of Schooling (Population > 25 Years)	1995	7.0
Illiteracy (Percent)	1995	2.7

21 January 1997

URUGUAY

Basic Socio-Economic Data
Statistics and Quantitative Analysis
Integration and Regional Programs Department

Executive Summary

Economic Statistics

Exchange Rate (Pesos/US\$)	9-1996	8.3
GDP per Capita (Average Annual Growth Rate)	1986-1995	3.1
GDP (Average Annual Growth Rate)	1986-1995	3.7
Agriculture	1986-1995	2.6
Agriculture Terms of Trade	1986-1995	-3.5
Industry	1986-1995	1.9
Services	1986-1995	4.8
Gross Domestic Investment (% of GDP)	1995	14.1
Gross Domestic Saving (% of GDP)	1995	13.2
Consumer Prices (Twelve Month Variation)	8-1996	25.6
NF Public Sector Overall Balance (% of GDP)	1995	-1.4
Domestic Credit (% of GDP)	1995	31.0
Private Sector	1995	25.3
Public Sector	1995	5.7
Balance of Payments (Millions of US\$)		
Current Account Balance	1995	-358
Trade Balance	1995	-576
Capital and Financial Account Balance	1995	380
Change in Reserves (- Increase)	1995	-218
Current Account Balance (% of GDP)	1995	-2.7
Capital and Financial Account Balance (% of GDP)	1995	2.9
Total External Debt (Millions of US\$)	1995	5,080
Long-Term Debt	1995	3,826
Short-Term Debt	1995	1,233
Total Debt Service	1995	968
Interest Payments	1995	367
Debt to GDP Ratio (Percent)	1995	38.9
Debt Service Ratio (Percent)	1995	29.5

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Basic Socio-Economic Data

1. Poverty and Inequality

	In Percent									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Gini Coefficient
Urban	0.42	...	...	...	...	...	...
Rural
IDB Poverty Incidence
Urban	4	...	...	...	...	...	...
Rural
Poverty Gap
Urban	1	...	...	...	...	...	...
Rural

2. Health and Nutrition

	Mortality by Cause - In Percent									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Communicable and Perinatal Diseases	6.7	6.4	6.0	6.1	6.0	...	...	...	...	...
Non-Communicable Diseases	63.6	63.5	63.3	62.5	62.1	...	...	...	...	...
External and Other Causes	22.5	23.8	23.9	25.4	25.5	...	...	...	...	...
Ill Defined Causes	7.3	6.2	6.8	6.0	6.4	...	...	...	...	...

	Percent of Central Government Expenditure									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Expenditure on Health	4.9	4.2	4.5	4.8	4.5	5.0	5.6	4.8	5.8	...
Hospitals	3.6	...	...	...	...	...	...	...	...	...
Clinics and Practitioners	...	...	...	...	...	...	...	...	...	...
Other	0.9	...	...	...	...	...	...	...	...	...

	Immunization as Percent of Age Group Nutrition/Per Capita in Units									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Other Indicators										
Children (< 1 Yr) Immunized DPT3	70.0	70.0	82.0	88.0	88.0	...	88.0	...	...	...
Children (< 1 Yr) Immunized Measles	82.0	99.0	72.0	82.0	82.0	...	82.0	...	...	...
Access to Safe Water (% Population)	...	...	...	...	...	...	...	...	...	...
Doctors per 1000 Inhabitants	...	...	...	3.1	2.9	3.4	3.5	...	...	...
Hospital Beds per 1000 Inhabitants	...	...	...	...	2.7	2.5	2.5	...	...	...
Daily Caloric Intake	2599.0	2616.0	2598.0	2552.0	2582.0	2721.0	2750.0	...	...	...
Daily Protein Intake (grams)	78.5	82.3	79.7	78.5	76.9	83.7	87.3	...	...	...

3. Education

	In Percent									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Net Enrollment Ratios										
Primary	...	...	...	...	...	91.0	93.0	94.0	...	...
Gross Enrollment Ratios										
Primary	106.5	106.9	107.2	108.1	108.1	107.9	108.0	109.0	...	...
Secondary	73.9	74.1	76.6	78.1	81.1	83.7	82.7	81.0	...	...
Tertiary	...	26.8	27.6	30.7	31.5	32.0	28.9
Primary Survival Rate	97.5	97.3	99.2	96.9	94.8	95.6	96.1

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Basic Socio-Economic Data

3. Education (cont.)

	Ratios									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Pupil/Teacher Ratios										
Primary	21.9	28.9	23.2	22.1	21.9	21.6	20.6	...	...	...
Secondary	...	...	...	16.0	21.0	19.0	18.0	...	...	...

	Percent of Central Government Expenditure									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Expenditure on Education	7.2	7.9	7.9	7.6	7.4	6.8	6.6	6.6	6.5	...
Pre-Primary through Secondary	4.5	...	...	...	...	...	...	...	...	...
Tertiary	1.3	...	...	...	...	...	...	...	...	...
Other	1.3	...	...	...	...	...	...	...	...	...

4. Labor Market

	In Percent Index 1990=100									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Labor Force by Sector										
Agriculture	0.0	0.0	0.0	0.0	0.0	0.0	4.5	3.9	...	...
Industry	31.2	34.5	33.5	34.1	33.0	33.0	29.6	29.3	...	...
Services	68.8	65.4	66.5	65.9	67.0	66.9	65.9	66.7	...	...
Participation Rate	...	...	...	...	54.1	53.5	53.8	...	...	...
Male	...	...	...	...	67.0	66.1	64.6	...	...	...
Female	...	...	...	...	42.2	41.8	43.8	...	...	...
Unemployment Rate	10.7	9.3	9.1	8.6	9.3	8.9	9.0	8.4	9.0	10.7
Real Minimum Wage Index	131.4	132.9	124.1	115.4	100.0	90.2	...	...	...	...

5. Exchange Rates

	Pesos/US\$, End of Period Index 1990=100									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Exchange Rate	0.2	0.3	0.5	0.8	1.6	2.5	3.5	4.4	5.6	7.1
Real Effective Index	88.7	90.9	96.5	92.2	100.0	86.9	81.2	69.0	65.2	63.6

6. Prices

	Average Annual Growth Rates in Percent									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Consumer Price Index	76.4	63.6	62.2	80.5	112.5	102.0	68.4	54.1	44.7	42.2
Wholesale Price Index	66.2	63.9	57.1	73.4	107.5	87.6	58.3	33.4	...	...

7. International Liquidity

	Millions of US\$									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Reserves	1160	1347	1502	1357	1260	976	1051	1212	1466	1675
Reserves minus Gold	482	530	532	501	524	336	509	758	969	1150
Special Drawing Rights (SDRs)	12	68	30	23	11	5	0	0	0	4
Reserve Position in the IMF	...	...	...	...	...	...	21	21	22	23
Foreign Exchange	470	462	502	478	512	331	488	737	946	1124
Gold (National Valuation)	678	817	970	855	737	640	541	454	497	525

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Basic Socio-Economic Data

8. National Accounts

Millions of 1990 US\$
1990 US\$

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Gross Domestic Product	8721	9420	9407	9536	9590	9895	10664	11006	11758	11431
GDP Per Capita	2882	3096	3074	3099	3099	3179	3407	3495	3713	3589

Annual Growth Rates in Percent - Constant Prices

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP Per Capita	8.2	7.3	-0.6	0.7	0.3	2.6	7.2	2.4	6.2	-3.0
GDP by Type of Expenditure (MP)	8.9	7.9	0.0	1.3	0.9	3.2	7.9	3.0	6.8	-2.4
Consumption	11.9	14.0	-1.4	0.1	-2.7	5.0	12.5	7.5	10.7	-3.7
Gross Domestic Investment	17.1	18.4	-7.2	-9.2	0.2	28.8	11.7	14.2	10.7	1.7
Exports of Goods and Services	11.5	-8.5	9.1	10.3	12.7	2.6	9.9	2.7	8.2	-4.8
Imports of Goods and Services	29.4	15.8	0.0	1.4	1.1	18.7	25.2	18.8	18.8	-5.5
GDP by Sector of Origin (MP)										
Agriculture, Forestry and Fishing	-2.5	4.6	-1.6	3.5	0.3	2.2	12.1	-3.7	9.2	2.7
Mining and Quarrying	16.8	14.4	-20.1	0.5	-21.8	21.4	15.1	10.9	7.1	-14.6
Manufacturing	11.7	9.9	-0.9	-0.2	-1.5	-0.5	1.5	-9.0	4.0	-2.8
Electricity, Gas and Water	4.2	13.2	8.5	-9.9	11.6	8.8	15.1	-1.5	-3.5	3.6
Construction	3.5	23.5	6.7	2.2	-14.5	10.1	15.7	20.5	5.7	-14.7
Wholesale and Retail Trade	9.2	7.7	-1.6	-0.9	0.2	8.4	13.5	16.7	12.3	-11.1
Transport and Communications	14.6	5.4	5.0	8.4	0.6	9.3	12.2	11.6	16.0	3.0
Financial Services	12.1	6.2	0.8	2.5	4.4	4.3	10.6	8.5	8.1	-1.5
Government	...	...	...	...	...	...	...	...	...	...
Other Services	9.0	7.0	-1.6	1.9	2.6	0.2	2.5	1.2	-0.1	0.0

Composition in Percent - Current Prices

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP by Type of Expenditure (MP)										
Consumption	82.9	83.3	82.1	82.4	83.0	83.3	85.8	85.9	86.2	86.8
Gross Domestic Investment	11.2	14.3	13.2	11.3	11.0	13.5	13.3	14.6	14.6	14.1
Exports of Goods and Services	26.2	21.6	23.8	25.4	26.2	23.1	22.2	20.7	20.8	19.1
Imports of Goods and Services	20.3	19.2	19.2	19.2	20.1	19.9	21.3	21.2	21.6	20.0
GDP by Sector of Origin (MP)										
Agriculture, Forestry and Fishing	12.7	13.7	13.3	12.5	11.3	10.2	10.3	8.4	8.6	8.9
Mining and Quarrying	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Manufacturing	29.7	28.9	28.2	26.2	26.3	26.0	23.5	20.1	18.4	17.6
Electricity, Gas and Water	3.6	3.4	2.9	2.3	2.2	2.8	2.7	2.6	3.3	3.6
Construction	2.7	3.3	3.4	3.8	3.4	3.9	4.3	5.1	5.4	4.8
Wholesale and Retail Trade	12.6	12.2	11.8	11.9	12.6	12.5	12.7	14.2	14.6	12.9
Transport and Communications	6.4	5.8	5.9	6.6	6.5	6.6	6.8	6.7	6.7	6.6
Financial Services	14.1	15.0	16.7	18.2	18.4	18.3	19.9	21.4	22.0	24.7
Government	10.3	9.8	9.7	9.8	10.3	9.9	9.1	9.9	9.2	9.2
Other Services	7.8	7.6	7.9	8.4	8.8	9.7	10.4	11.4	11.5	11.7

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Basic Socio-Economic Data

9. Non-Financial Public Sector

As a Percent of GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Current Revenues	25.4	23.8	24.9	23.8	28.9	31.1	31.7	30.8	30.6	32.2
Current Expenditures	22.6	21.7	22.6	23.5	24.5	25.7	26.4	26.9	27.4	29.2
Current Savings	2.8	2.1	2.3	0.3	4.4	5.3	5.3	3.9	3.2	3.0
Capital Expenditure	4.2	3.5	4.2	3.8	4.0	4.1	3.9	4.7	5.7	4.4
Overall Balance (- Deficit)	-1.3	-1.5	-1.9	-3.5	0.4	1.3	1.4	-0.8	-2.4	-1.4
Domestic Financing	-1.3	-1.9	-1.3	-4.0	-2.0	-2.5	-2.5	...	...	...

10. Monetary Survey

As a Percent of GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Domestic Credit	58.2	48.3	47.6	47.1	46.0	34.1	29.0	31.9	29.0	31.0
Public Sector	13.2	10.3	12.2	11.6	13.5	8.4	5.7	7.3	5.5	5.7
Private Sector	45.0	37.9	35.4	35.5	32.5	25.7	23.3	24.6	23.5	25.3
Money (M1)	5.7	5.6	6.0	5.1	4.9	4.7	5.4	6.1	5.2	5.2

11. External Trade

Direction in Percent - Customs Basis Index 1980=100

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Exports of Goods (fob)										
Developed Countries	42.1	49.4	41.7	38.9	38.6	39.0	40.1	32.1	30.6	29.4
Developing Countries	57.9	50.6	58.3	61.1	61.4	61.0	59.9	67.9	69.4	70.6
Latin America	39.2	30.3	27.3	36.8	39.0	40.3	41.8	51.2	54.2	53.2
Imports of Goods (cif)										
Developed Countries	37.1	37.4	36.7	34.5	34.9	34.4	34.4	35.7	35.1	35.4
Developing Countries	62.9	62.6	63.3	65.5	65.1	65.6	65.6	64.3	64.9	64.6
Latin America	50.6	49.0	50.9	52.4	50.1	49.2	47.2	53.4	53.9	51.9
Terms of Trade Index	103.2	106.5	114.0	114.4	99.9	93.7	93.2	95.0	99.4	99.8

Millions of US\$ - Customs Basis Composition in Percent

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Exports of Goods (fob)	1082.1	1191.1	1442.6	1596.4	1695.7	1573.8	1620.2	1603.3	1918.1	...
All Food	42.7	32.4	33.2	37.4	39.6	40.8	38.9	40.8	41.3	...
Agricultural Raw Materials	21.3	23.3	28.4	21.9	21.0	18.4	19.7	16.3	15.1	...
Fuels	0.5	0.2	0.0	0.1	0.0	0.0	0.1	0.0	0.0	...
Ores and Metals	0.7	0.8	0.7	1.0	0.7	1.0	0.9	0.9	1.0	...
Manufactured Goods	34.8	43.4	37.7	39.6	38.6	39.8	40.5	41.9	42.6	...
Chemicals	5.5	7.9	7.1	7.7	7.8	6.5	6.2	5.4	5.3	...
Machinery and Transport Equipment	2.4	3.1	2.8	2.1	2.0	2.4	3.8	8.1	11.7	...
Other Manufactured Goods	26.9	32.5	27.8	29.9	28.8	30.8	30.5	28.4	25.6	...
Imports of Goods (cif)	870.0	1141.9	1176.9	1239.7	1414.5	1552.1	2009.9	2332.9	2707.2	...
Capital Goods	11.7	13.5	15.4	13.0	13.3	16.3	16.6	16.5	...	...
Consumption Goods	9.5	11.5	13.1	12.9	14.9	16.5	22.2	27.8	...	...
Intermediate Goods	78.8	75.0	71.5	74.1	71.8	67.2	61.3	55.7
Fuels	18.2	14.6	13.2	16.4	15.1	14.6	10.9	7.8
Other

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Basic Socio-Economic Data

12. Balance of Payments

Millions of US\$

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Current Account Balance	42	-141	22	134	186	42	-9	-244	-438	-358
Trade Balance	273	102	292	463	426	61	-122	-387	-706	-576
Exports of Goods (fob)	1088	1182	1405	1599	1693	1605	1801	1732	1918	2106
Imports of Goods (fob)	815	1080	1112	1136	1267	1544	1923	2118	2624	2682
Service Balance	35	51	33	12	73	174	272	282	469	358
Transportation	-23	-16	-15	-1	-5	-20	50	-10	17	-86
Travel	84	78	64	61	127	233	277	318	398	375
Other Services	-26	-12	-16	-49	-48	-40	-56	-26	55	70
Addendum: Freight and Insurance	-33	-24	-21	-24	-8	20	44	22	78	49
Income Balance	-292	-302	-324	-349	-321	-232	-187	-192	-243	-173
Compensation of Employees	...	...	...	...	...	...	...	...	...	...
Investment Income	-292	-302	-324	-349	-321	-232	-187	-192	-243	-173
Current Transfers Balance	25	8	21	8	8	40	29	53	41	32
General Government	25	8	21	8	8	40	29	22	8	-1
Other Sectors	...	...	...	...	...	...	...	32	33	33
Capital and Financial Account Balance	24	272	178	-74	-181	-398	-43	214	527	380
Capital Account Balance	...	...	...	...	...	...	...	...	...	...
Financial Account Balance	24	272	178	-74	-181	-398	-43	214	527	380
Direct Investment	33	55	45	...	...	...	...	102	155	124
Abroad	-5	5	-2	...	...	...	...	...	...	...
In Reporter	37	50	47	...	...	...	...	102	155	124
Portfolio Investment	92	183	164	130	108	47	83	29	158	289
Assets	...	...	-60	...	...	...	...	...	...	...
Liabilities	92	183	224	130	108	47	83	29	158	289
Other Investment	-101	34	-31	-204	-289	-445	-127	83	214	-32
Assets	-191	-246	-390	-764	-632	-399	-590	-19	-72	-413
Liabilities	90	280	360	560	343	-46	463	102	286	381
Change in Reserves (- Increase)	-287	-27	47	3	-40	-114	-186	-179	-99	-218
Errors and Omissions	221	-105	-247	-63	36	469	238	209	10	196

13. External Debt

Millions of US\$

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total Debt	3906	4299	3821	4449	4415	4189	4570	4848	5099	5080
Long-Term Debt	2938	3270	3037	3113	3114	2926	3174	3436	3836	3826
Public and Publicly Guaranteed	2895	3126	2951	3008	3045	2897	3139	3369	3774	3655
Bilateral	104	99	92	114	196	193	199	241	325	348
Multilateral	393	551	565	626	699	859	975	1093	1218	1242
Bond Holders	432	440	491	581	567	1471	1647	1758	1964	1867
Banks	1950	2020	1791	1678	1576	364	311	269	261	194
Suppliers	16	17	12	9	8	9	8	8	6	4
Other Creditors	0	0	0	0	0	0	0	0	0	0
Private Non-Guaranteed	43	144	86	105	69	29	35	67	62	171
Use of IMF Credit	395	392	309	202	101	58	52	38	30	21
Short-Term Debt	573	636	475	1134	1201	1205	1344	1374	1233	1233
Interest Arrears on Debt	0	0	0	0	0	0	0	0	0	0
Total Debt Service	509	618	729	660	987	806	524	586	508	968
Public and Publicly Guaranteed	338	404	512	430	711	639	440	510	420	873
Bilateral	16	16	13	15	17	18	13	15	18	25
Multilateral	63	72	89	94	115	118	134	160	178	217
Private Non-Guaranteed	22	22	68	37	42	44	3	11	10	18
IMF Repurchases and Charges	84	134	88	120	141	50	31	18	12	12
Short-Term Debt (Interest only)	65	58	62	72	93	72	51	48	65	65

URUGUAY
Basic Socio-Economic Data

13. External Debt (cont.)

	Ratios in Percent									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Debt to GDP Ratio	51	51	44	49	46	40	40	39	38	39
Debt Service Ratio	34	39	42	32	46	37	20	21	16	30

... Not Available

0.0 Indicates that the amount is nil or negligible

URUGUAY

Basic Socio-Economic Data

Sources and Notes

Executive Summary

Social Statistics:

Land Area: Organization of American States (OAS), América en cifras, 1974.

Population: IDB estimates based on data from Latin America Demographic Center (CELADE) and United Nations Population Division (UNPOP).

Vital Statistics:

World Bank, Social Indicators of Development (WBSID) - 1995 Edition and Economic Commission for Latin America and the Caribbean (ECLAC), Statistical Yearbook - 1994 Edition.

Labor Force:

WBSID - 1995 Edition.

Education:

Average Years of Schooling (Population >25 yrs): Number of completed grades of formal education of population older than 25 years. IDB estimates based on data from United Nations Educational, Scientific and Cultural Organization (UNESCO), using the Perpetual Inventory Method.

Illiteracy: Number of adult illiterates as a percentage of that age group. UNESCO Data Base.

Economic Statistics:

Agricultural Terms of Trade: Index of ratio of agricultural GDP deflator to non-agricultural GDP deflator. IDB estimates from national accounts data. Base year 1990.

1. Poverty and Inequality:

Gini Coefficient: Measure of inequality based on the income distribution of the population. A coefficient equal to one (1) indicates perfect inequality, and a coefficient equal to zero (0) perfect equality.

Poverty Incidence: The poor as a percentage of total population, using a poverty line of US\$60 (constant 1985 prices) per month per capita inflated using the Consumer Price Index (CPI).

Poverty Gap: Average income deficit of the poor in relation to the poverty line multiplied by the Poverty Incidence.

IDB estimates based on income data from the "Encuesta Nacional de Hogares". Income data were corrected for likely underreporting using national income accounts estimates. Poverty estimates probably are "lower bounds".

2. Health and Nutrition:

Mortality Causes: Main causes of death by type of disease. Pan American Health Organization (PAHO) Data Base.

Expenditure on Health: Consolidated Central Government. International Monetary Fund (IMF) Government Finance Statistics (GFS) (magnetic tapes).

Immunization: Percentage of children under one year who have been immunized for dpt3 and measles. WBSID - 1995 Edition.

Access to Safe Water: Percentage of population with access to safe water. WBSID - 1995 Edition.

Doctors/hospital beds per 1000 inhabitants: Number of doctors/hospital beds per 1000 inhabitants. ECLAC, Statistical Yearbook - 1994 Edition.

Caloric and Protein Daily Intake: Apparent daily per capita average intake. Food and Agriculture Organization of the United Nations (FAO) Data Base.

3. Education:

Net Enrollment Ratio Primary: Enrollment for the age group corresponding to the official age of primary education. UNESCO, Yearbook - 1994 Edition.

URUGUAY

Basic Socio-Economic Data

Gross Enrollment Ratio: Total enrollment in primary, secondary or tertiary education, regardless of age, divided by the population of the age-group which officially corresponds to primary, secondary or tertiary (ages 20 to 24 only) education. IDB estimates based on data from UNESCO and UNPOP. WBSID - 1995 Edition.

Primary Survival Rate: Percentage of children of the same cohort starting primary school in a certain year who eventually finish it. IDB estimates based on data from UNESCO, using the Reconstructed Cohort Method with enrollment and repetition data.

Pupil/Teacher Ratio: Number of students per teacher in primary and in secondary school. UNESCO Data Base and WBSID - 1995 Edition.

Expenditure on Education: Consolidated Central Government. IMF GFS.

4. Labor Market:

Labor Force by Sector: Labor force in that sector as a percentage of total labor force. International Labour Office (ILO) Data Base. Data Labor Force Sample Survey or Household Sample Survey. It covers urban areas.

Participation Rate: IDB estimates based on data from the ILO, Year Book of Labour Statistics 1994 Edition, and UNPOP. Economically Active Population as a percentage of population age 15 and older.

Unemployment Rate: Programa Regional del Empleo para América Latina y El Caribe (PREALC).

Real Minimum Wage Index: Base year 1990. ECLAC, Economic Survey of Latin America and the Caribbean.

5. Exchange Rates:

IMF, International Financial Statistics (IFS). Market rate.

Real Effective Index: IDB estimates based on data from the IMF, IFS.

6. Prices:

IMF, IFS. Annual figures are expressed as average annual growth rates; monthly figures as a twelve month variation.

7. International Liquidity:

IMF, IFS.

8. National Accounts:

GDP in 1990 US Dollars: IDB estimates.

GDP by Type of Expenditure and Sector of Origin: Banco Central del Uruguay, Departamento de Estadísticas Económicas. Mining and Quarrying included in Manufacturing. Government is included in Other Services.

9. Non-Financial Public Sector:

Banco Central del Uruguay.

10. Monetary Survey:

IMF, IFS (mid-year observations).

11. External Trade:

Trade by Direction: IMF, Direction of Trade Statistics (magnetic tapes).

Terms of Trade: ECLAC, Balance preliminar de la economía de América Latina y el Caribe, 1994.

Export Composition: United Nations Statistical Division (UNSTAT) Commodity Trade (COMTRADE) Data Base; Exports include Re-Exports.

Import Composition: Banco Central del Uruguay. Fuels include Crude Petroleum.

12. Balance of Payments:

Banco Central del Uruguay, Departamento de Estadísticas Económicas, and IMF, Balance of Payments Statistics (magnetic tapes).

13. External Debt:

World Bank, World Debt Tables (magnetic tapes) and estimates.

URUGUAY
REGIONAL SUPPORT SERVICES
RSS/ITC/IRO

IDB LOANS

APPROVED AS OF DECEMBER 31, 1996

	US\$Thousand	Percentage
TOTAL APPROVED *	1,700,677	100.0%
DISBURSED	1,115,286	65.6%
CANCELLATIONS	237,029	13.9%
UNDISBURSED BALANCE	585,391	34.4%
PRINCIPAL COLLECTED	353,498	20.8%
APPROVED BY FUND		
ORDINARY CAPITAL	1,554,762	91.4%
FUND FOR SPECIAL OPERATIONS	104,079	6.1%
OTHER FUNDS	41,836	2.5%
OUTSTANDING DEBT BALANCE	761,788	
ORDINARY CAPITAL	712,602	93.5%
FUND FOR SPECIAL OPERATIONS	49,186	6.5%
OTHER FUNDS	0	0.0%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	212,018	12.5%
INDUSTRY, TOURISM, SCIENCE & TECHNOLOGY	70,898	4.2%
ENERGY	117,357	6.9%
TRANSPORTATION AND COMMUNICATIONS	201,418	11.8%
EDUCATION	72,570	4.3%
HEALTH AND SANITATION	334,378	19.7%
ENVIRONMENT	0	0.0%
URBAN DEVELOPMENT	120,664	7.1%
SOCIAL INVESTMENT AND MICROENTERPRISE	221,565	13.0%
REFORM & PUBLIC SECTOR MODERNIZATION	231,098	13.6%
EXPORT FINANCING	8,940	0.5%
PREINVESTMENT AND OTHER	109,772	6.5%

* Net of cancellations with monetary adjustments and export financing loan collections.

URUGUAY

REGIONAL SUPPORT SERVICES ITC/IRO

TENTATIVE LENDING PROGRAM

		US\$ Millions	
1997			
UR0117	PPF:UR0072 DEVELOPMENT & RECONST. GRANJA	0.1	APPROVED
UR0111	MUNICIPAL DEVELOPMENT PROGRAM III	54.5	
UR0090	REFORM OF THE STATE	115.0	
UR0029	MONTEVIDEO-PUNTA DEL ESTE TOLL HIGHWAY	10.0	
UR0113	ROADS REHABILITATION PROGRAM	95.0	
UR0072	PROG.FOR RESTRUCT.& DEV.THE FARM SECTOR	25.0	
	TOTAL A	299.6	
UR0112	URBAN RECOVERY PROGRAM	45.0	
UR0114	WATER AND SEWERAGE MALDONADO CANELONES	120.0	
	TOTAL B	165.0	
	TOTAL 1997	464.6	
1998			
UR0118	CITIZENS SECURITY PROGRAM	35.0	
UR0110	SCIENCE AND TECHNOLOGY II	35.0	
UR0021	MULTISECTOR CREDIT II	100.0	
UR0116	AGRICULTURAL SERVICES PROGRAM	35.0	
	TOTAL A	205.0	
	TOTAL 1998	205.0	



INTER-AMERICAN DEVELOPMENT BANK
REGIONAL OPERATIONS DEPARTMENTS
INFORMATION RESOURCES MGT. UNIT

URUGUAY

STATUS OF ACTIVE LOANS AS DECEMBER 31, 1996

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
1986 - 1989	1	11,548	11,162	96.66%
1990 - 1993	8	369,206	215,648	58.41%
1994 - 1995	4	86,030	7,427	8.63%
1996	5	303,014	29,236	9.65%
TOTAL	18	\$769,799	\$263,473	34.23%

* Net of Cancellations with monetary adjustments. Excluding export financing loans.

**REFORM OF THE STATE:
CENTRAL GOVERNMENT RESTRUCTURING AND MODERNIZATION**

(UR-0090)

EXECUTIVE SUMMARY

BORROWER: The Eastern Republic of Uruguay

EXECUTING AGENCY: The Planning and Budget Office (OPP), and the Ministry of Economic Affairs and Finance (MEF) for one component of the technical cooperation

AMOUNT AND SOURCE: IDB sector loan: US\$105 million
Technical cooperation:
IDB: US\$ 10 million
Counterpart: US\$ 1,613,000

FINANCIAL Amortization period: 20 years
TERMS AND Disbursement period: 30 months
CONDITIONS: Grace period: Sector loan: 5 years
TC loan: 3 years
Interest rate: Variable
Inspection and supervision: 1% of the loan amount
Credit fee: 0.75% per annum on
undisbursed balances
Currency: U.S. dollar

OBJECTIVES: The specific program objectives are to:
(i) modernize the central government by redefining its core functions and adjusting its structure;
(ii) help employees affected by the reforms find other employment or start up businesses; (iii) modernize the State's fiscal administration; and
(iv) forge a stronger relationship between State and citizens as the end beneficiaries of public policies.

DESCRIPTION: The program will be financed with a fast-disbursing sector loan and a parallel technical-cooperation loan in support of execution. The technical-cooperation loan relates to two projects, one under the Planning and Budget Office (OPP) and the other under the Ministry of Economic Affairs and Finance (MEF). The general coordinating unit (GCU) to be set up for this program will act as liaison for all activities planned.

The sector loan centers around policy reforms being pursued under the program, and defines and sets specific targets for the central government

restructuring, for voluntary retirement by employees declared redundant, and for services to be provided to such employees to help them find other gainful employment.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The program includes conditions precedent to disbursement of the sector loan tranches, as outlined in Appendix I and presented in summary form in the Conditionality Matrix (Annex I-2). The main conditions are as follows:

- (i) evidence that a macroeconomic setting consistent with the program objectives is being maintained;
- (ii) restructuring plans for the central government in its entirety;
- (iii) savings generated by unfilled positions (target US\$30 million per annum);
- (iv) performance incentives and pay increases for specialized and key personnel; recruitment to fill senior management positions and strengthen the central government's performance of its core functions (target US\$12 million per annum);
- (v) pay parity (target US\$9 million per annum);
- (vi) outsourcing;
- (vii) targets in terms of preparation of employment profiles and advisory assistance profiles for business startup;
- (viii) deregulation proposal approved by the Executive Branch, and presentation of the appropriate accompanying legislation; and
- (ix) presentation of a draft Financial Administration Act.

The parallel technical cooperation loan is subject to special conditions precedent: that the general coordinating unit be set up and the government have decided on the customs computer system.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of July 11, 1996, classified this as a Category II operation.

**EXCEPTIONS TO
BANK POLICY:**

Sector loan: None.
Technical cooperation loan: It is proposed that an ex post review be conducted, by sampling, of the selection and hiring of consulting services in cases where individual consultants are hired for amounts under US\$50,000 and consulting firms for amounts under US\$100,000.

**RECOGNITION OF
PRIOR EXPENSES:**

Prior expenses would be recognized as of the date of the financing request, in an amount of not more than US\$100,000 equivalent under the counterpart funding for consulting services and US\$500,000 under the Bank financing (US\$300,000 for equipment and US\$200,000 for consulting services).

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank's strategy focuses on supporting the government in promoting an expansion of investment as an engine of growth, in particular by better equipping the economy to take advantage of opportunities offered by MERCOSUR and other external markets. To this end, the Bank's assistance would be designed to achieve three main objectives:

- (i) To meet the challenge of **rationalizing public spending and balancing the budget**, the Bank will support further **structural reform** in the public sector, concentrating on the critical issues of **social security** reform and reform of the **public sector**.
- (ii) To meet the challenges of **regaining competitiveness and promoting investment**, the Bank will back initiatives to continue to shape an **enabling environment for private investment**, including financing for **basic infrastructure** and support for a business development strategy.
- (iii) To **maintain the high standards** reached in the area of social services and ensure the availability of **human capital** needed for sustainable growth in the context of MERCOSUR and globalized markets, the Bank will support efforts to improve service **delivery and quality** by raising efficiency and sharpening targeting, especially to modernize education and health care and develop sanitation infrastructure.

**BENEFITS AND
RISKS:**

The chief benefit of the program will be to effect a shift, at minimum social cost, from a rigid and inefficient structure to one where the public sector

can concentrate its efforts on its core functions and withdraw from functions not within the State's purview, transferring to the private sector functions that are performed inefficiently by the State. The new model will include an appropriate pay scale, a streamlined regulatory framework to reduce transaction costs for the private sector and individual citizens, modern and transparent fiscal administration, and a stronger relationship with the citizenry.

The major risks associated with any program to modernize government (with the political and institutional commitment this entails) and the legal barriers which have hitherto stood in the way of reform (labor rigidities) have been addressed in the operation's design.

The program's medium-term fiscal and financial impact is expected to be highly positive.

I. FRAME OF REFERENCE

A. Macroeconomic framework

1. Background

- 1.1 Uruguay has an open economy that is highly dependent on Argentina and Brazil, its two major trading partners. Services – including financial, tourism, and real estate services – are accounting for an increasingly large share of GDP (65%) at the expense of the manufacturing sector (18%). Uruguay shows a high level of social development, ranking in 32nd place out of 174 countries (sixth in Latin America and the Caribbean) according to the 1995 United Nations Human Development Index. Income per capita is high compared to the regional average. Demographic patterns are similar to those in the industrial countries, featuring an aging population, low growth and high life expectancy. Social services (education, public health, water supply and social security) are satisfactory.

2. Recent trends

- 1.2 When the new administration took office in March 1995, saving and investment rates were low, the public-sector deficit stood at 3.2% of GDP, and year-on-year inflation (as of the previous December) was running at 44%. The new government also faced difficulties in the regional arena, especially in connection with economic trends prevailing in Argentina and Brazil. Accordingly, the authorities undertook further fiscal adjustment measures, meaning to cut the public-sector deficit to 0.5% of GDP and bring down inflation to 20% in 1996. The economic program was backed by a 13-month precautionary arrangement with the IMF which is to expire in March 1997.
- 1.3 Uruguay's GDP fell off 2.5% in 1995 as economic activity slackened in almost all productive sectors. As of year-end, unemployment stood at 11%, the public-sector deficit had been cut to 1.8% of GDP, and inflation had fallen to 35.4%. A persistent fiscal deficit – attributable largely to rising social security outlays, the effect on prices of Brazilian demand for beef and rice, and widespread indexing – prevented further inroads from being made on inflation.
- 1.4 Preliminary information indicates that the economy picked up in 1996 as a result of a solid performance in the second half of the year. The improvement may be attributed to higher activity levels in all sectors, but especially to a burgeoning agricultural sector and an upturn in manufacturing and construction. The fiscal deficit was an estimated 1.8% of GDP, owing in part to outlays in connection with reform of the State (0.5%) and social security

(0.55%). Inflation continued to fall, and closed the year at 24.3%.

3. Policy framework

- 1.5 The government's economic strategy, designed to better position Uruguay within MERCOSUR and the global economy, assigns high priority to boosting the competitiveness of Uruguayan products in domestic and export markets.
- 1.6 Regaining a competitive edge in external markets calls for lowering the "Uruguayan cost" by rationalizing public spending and balancing the budget, which could bring a reduction in the tax ratio. Major reforms would be needed in the administrative apparatus of the State and in the social security system. In this connection, the Legislative Branch passed the Social Security Reform Act in September 1995 and the 1995-1999 National Budget Act in January 1996, the latter setting forth the basic principles of central government reform.
- 1.7 Fiscal policy has been one of the government's main priorities in restructuring the public finances and restoring the competitiveness of companies producing tradable goods, which were hard hit by the real currency appreciation and high production costs in dollar terms. The main objective in 1995 was to reduce the fiscal deficit - which would have risen to 4.2% of GDP had no adjustment taken place - to a level consistent with the 2% monthly devaluation guideline and inflation slowing to 35% per annum. In that same year, a series of measures were approved to cut the fiscal deficit by raising revenues and lowering expenses. On the revenue side, increases were made in the following areas: (i) the VAT base rate and minimum, along with a broadening of the tax base; (ii) the personal income tax rate; (iii) the specific domestic automotive tax (IMESI). On the spending side, cuts were made in public investment and pay was adjusted in accordance with projected inflation.
- 1.8 In addition to implementing the above reforms, short-term selective support measures were undertaken to make exports more competitive, including tax incentives designed to lower production costs and raise productivity for tradable goods, e.g.: (i) a reduction of up to six percentage points in employer contributions to social security in the manufacturing industry; (ii) a reduction in taxes on energy rates for industrial consumers, substituting IMESI for VAT; (iii) close to a 100% exemption from VAT for capital goods imports, and elimination of VAT entirely on fuel oil. A new tax code reducing the tax burden applicable to the agricultural and fisheries sectors entered into force in January 1996.
- 1.9 Notwithstanding the authorities' efforts at stabilization and the strides made in that direction, long-term problems persist and will have to be addressed urgently if economic growth is to ensue.

Rapid changes all over the world as economies are opened up to global markets and the free market system are posing new challenges to Uruguay.

- 1.10 It is essential to rationalize public spending in order to balance the public finances and bring down inflation. Necessary as well is to reduce the State's influence on private activity, continue to improve economic efficiency in the public sector, and pare back the State's role in the economy. Also, to bring about growth in the tradable goods sectors and create jobs, the Uruguayan economy will need to eliminate inefficiencies and distortions that act as a drag on the competitiveness of domestically produced goods and services. Cutting and rationalizing public spending and making it more efficient will eventually ease the high tax burden and lighten appreciably the State's share of the "Uruguayan cost". This will mean lowering or eliminating taxes implicit in adjustments to public rates intended to improve the public finances, which push up production costs for domestic companies.
- 1.11 Uruguay needs to invest more in plant and equipment if it is to face down the challenge of competition from the outside. More private investment is called for, which means sending the right signals to market agents, including pricing public goods and services appropriately, reducing the economic weight of the public sector, and identifying major growth sectors with competitive advantages. All these elements must be accompanied by the right externalities, such as appropriate infrastructure to promote private investment. To this end, the government has undertaken a program to reduce the State's presence in the economy. In this sense, streamlining the central government and breaking down bureaucratic barriers are central to public policy.

B. The public sector

- 1.12 The public sector has grown steadily in importance and size since the early part of this century. That continuing expansion means that approximately one fifth of the workforce (some 260,000 people) are now employed in the public sector. The share of civilian central government employees (about 60,000) in total employment (close to 4.3%) is higher than the figure in Argentina and Chile (between 2.3% and 2.6%) but lower than in Mexico (14.7%) and the OECD countries.
- 1.13 Since the early 1990s, Uruguay has been making an effort to rationalize public employment. The number of public employees was cut during the 1990-1994 period, when 10,000 resignations were accepted, including 3,700 in the central government. Public enterprises underwent staff cuts of 24% in 1991-1993 as they were downsized, closed down, or sold off. Nevertheless, the number of central government positions budgeted for rose between 1991 and 1994 (175,000).

- 1.14 Uruguay's public sector - in addition to traditional governmental administrative functions performed through the central and municipal governments - includes autonomous and decentralized agencies and State industrial and commercial enterprises. Approximately 68% of all public employees work in the central government, and 24% (60,000) of them are civilians.

C. Principal problems facing the central government

- 1.15 The central government faces several problems relating to structure, operations, human resource management, financial administration, and regulatory framework.
- 1.16 **Functions and administrative structure.** As the central government has expanded, it has taken on more and more responsibilities and mandates. Paradoxically, and contrary to the intention of better meeting the population's needs, this diversification has weakened the State by giving an equal place to core and noncore functions. The legal provisions governing the jurisdiction of ministries and agencies do not delineate precisely their spheres of action, since no consolidated information is available on the mandates of the various agencies, nor is it clear how those mandates are reflected in the functions they actually perform.
- 1.17 This situation leads to much overlapping, both within each agency and across different bodies. There are many auditors, treasurers and general counsels in addition to the general offices in existence for such services in each ministry. Multiple support activities such as print shops, workshops, medical services and transportation exist not only throughout the central government but also within many ministries. This results in a skewed ratio of employees engaged in support tasks to employees performing core tasks. In short, the structure of the Uruguayan central government and its functions have emerged out of many small-scale reforms and mandates that have accumulated over time. This has led to extensive overlapping and, what is more, has caused the central government to take on mandates and responsibilities not within its purview and which it performs rather inefficiently.
- 1.18 **Public salaries and human resource management.** The main features of human resource management within Uruguay's central government are permanent job tenure, salaries which are not competitive with the private sector, flat pay pyramids, a proliferation of pay scales, multiple employment, less than full-time working hours, and a lack of systematic staff training policies.
- 1.19 Although there are many types of contracts in the public sector, approximately 60% of employees in the central government have permanent status. The permanent tenure associated with these positions is enshrined in the constitution and acts as a major constraint on any attempt at rationalization.

- 1.20 Public salaries are not determined on the basis of their opportunity cost in the labor market, and the higher the level of responsibility the lower the pay in comparison with the private sector. Central government salaries at the managerial level stand at about 60% of private pay, whereas at the administrative level they are close to 90%. In addition, the pay pyramid is relatively flat, with the highest salary barely equal to three times the lowest.
- 1.21 A seniority-based promotion system, in combination with automatic pay increments, has contributed to compressing the public pay structure. Moreover, policies on training for public employees are unrelated to assigned duties.
- 1.22 The pay structure is fragmented as well, with base pay being determined by the scale (of which there are 17) and the grade (16 in all), with many different positions within each scale (in 1991 there were more than 750 types of positions). Also, a high percentage (up to 80%) of an individual's pay comes from supplemental payments, with over 50 different kinds of nonsalary supplements that can account for up to 20% of payroll.
- 1.23 More than 24% of all public employees have other employment, and more than 40% work less than an eight-hour day. This situation of multiple employment and less than full working hours, which is compatible with the applicable legislation, gives public employees no incentive to apply themselves more.
- 1.24 **Fiscal administration.** The national budget is a multiyear instrument that covers an entire administrative term. However, the annual reporting laws can lead to yearly budget exercises as changes are made in amounts and programs, generating uncertainty in financial programming. The budget is therefore not a complete financial plan. The process for making changes to the budget is overly centralized and highly complex (close to 40,000 items yearly), with statutory amounts often exceeded and frequently without express regulation as to timing, amount, rationale, and procedure.
- 1.25 Within the system's central agencies - the Planning and Budget Office (OPP) and the Ministry of Economic Affairs and Finance (MEF) - there is no monitoring of execution encompassing both financial considerations and indicators of activity levels or impact of public sector operations. Execution is monitored centrally when spending is allocated, and the control, monitoring and consolidation of cash transactions is a complex process.
- 1.26 Also, cash management (revenues, outlays and financing) is hampered by the lack of modern budget programming and control mechanisms, and by information shortcomings at key agencies within the system (e.g., the Revenue and Customs Branches). Although accounts are

centralized within the country's general auditing office, they are not integrated with the accounts kept by central accounting offices, nor are there accounting standards in place governing the budgetary, financial and asset management aspects of administration.

- 1.27 Finally, controls are fragmented and focus on ex ante, formal, and legal audits, with no tie-in to cost accounting or results-based auditing. It is not possible to perform a detailed monitoring of budget execution or, more importantly, monitor the results of executing units. Moreover, the entire system is technologically obsolete.
- 1.28 **Administration of material resources.** No up-to-date information is available on central government assets (vehicles, buildings and land). Partial estimates relating to central government offices (approximately 250,000 m²) indicate the existence of surplus space on the order of 40% and unconstructed urban land of 3 million m². The public fleet of vehicles is old and therefore costly to maintain, with many units not in use.
- 1.29 In addition to the lack of reliable information, there are no comprehensive rules or guidelines in this area. The institutional framework is complex, and its administration, regulation and control are handled variously by the OPP, the General Audit Office, the MEF's Registry and Assets Management Directorates, the Architecture and Surveying Directorates of the Ministry of Transport and Public Works, the Land Use Planning Directorate, the National Settlements Institute, public records offices, and the municipal governments.
- 1.30 **Deregulation and streamlining.** Uruguay's central government regulates both private and public activities, often through overlapping administrative and legal provisions which are superfluous or no longer applicable. The central government also administers, collects or regulates a large number of prices and rates for public services (issuing certificates, for instance) and private activities. The chief consequence of this highly disperse set of rules, regulations, prices and rates is today's fragmented, sketchy system.
- 1.31 It is difficult to address the foregoing problems with the same policies as in the past because:
 - (i) Reforms confined to indiscriminate across-the-board cuts in public finances will not ensure that the State provides the services incumbent upon it any more efficiently.
 - (ii) Fiscal constraints stand in the way of improving pay conditions for public employees and competing successfully with the private sector for the best candidates.

- (iii) Better results cannot be achieved by holding onto highly centralized, hidebound formal institutional structures.
 - (iv) The survival of an inherited regulatory framework that is marked by inner contradictions and has been rendered obsolete by new global realities pushes up transaction costs and thus has an adverse impact on Uruguayan competitiveness.
 - (v) Citizens expect better services, and the government must find ways to achieve its objectives with fewer resources.
- 1.32 These challenges mean that a new approach must be taken, not only to the rationale for forms of State intervention, but also to its structure and processes. The new State must be more efficient, more responsive to market challenges, and better integrated with civil society. Merely making it smaller without reforming it is not the answer.

D. The central government reform strategy

- 1.33 The government has put in place a program to redefine the State's role in the economy. Activities to design the central government reform program took place during 1995. It was decided early on not to seek a reversal of public employees' permanent tenure through constitutional reform, but rather to redefine the central government's mandates and encourage early retirement. This would generate savings that could be used to modernize government. This process culminated in the approval of the 1995-1999 National Budget Act. This legislation created the Executive Committee for State Reform (CEPRE) as the administering body, and assigns it the following mandates: (i) issuing opinions on proposals relating to the organizational structure of ministries and agencies; (ii) promoting restructuring exercises; (iii) following up on administration rationalization and modernization measures; and (iv) monitoring outplacement programs and other efforts to help those affected by downsizing to find or create employment for themselves.
- 1.34 The government views the transformation of the State as a task to be performed by the entire administration at every level. The aim is to modify forms of State intervention, strengthen the market's role in resource allocation, and improve the State's normative and regulatory capacity and ability to deliver the services incumbent upon it. The Budget Act emphasizes the need for the State to concentrate on its priority core functions and to adopt a results-based management model.
- 1.35 The Budget Act outlined guidelines for revamping administrative structures, including human resource management; for the outplacement regime and other efforts to help public employees find new employment; for restructuring financial management within the central government, including rationalizing the use of public

assets and regulating nongovernmental public entities and private organizations handling public funds or administering State assets; and for deregulating and streamlining the administration's activities. These guidelines form the basis of the present operation's design.

E. The Bank's strategy in Uruguay

1.36 The Bank's strategy focuses on supporting the government in promoting an expansion of investment as an engine of growth, in particular by improving the economy's ability to take advantage of opportunities offered by MERCOSUR and other external markets. To this end, the Bank is concentrating its assistance on three chief objectives:

- (i) To meet the challenge of **rationalizing public spending and balancing the budget**, the Bank will support further **structural reform** in the public sector, concentrating on the critical issues of **social security** reform and reform of the **public sector**.
- (ii) To meet the challenges of **regaining competitiveness and promoting investment**, the Bank will back initiatives to continue to shape **an enabling environment for private investment**, including financing for **basic infrastructure** and support for a business development strategy.
- (iii) To **maintain the high standards** reached in the area of social services and ensure the availability of **human capital** needed for sustainable growth in the context of MERCOSUR and globalized markets, the Bank will support efforts to improve service **delivery and quality** by raising efficiency and sharpening targeting, especially to modernize education and health care and develop sanitation infrastructure.

1.37 In the area of structural reforms, and continuing with the process begun in 1991 with the financial sector reform and investment sector programs, the Bank has focused its support on reforms designed to eliminate the chronic fiscal deficit and revamp the administrative apparatus of the State. In the same context, the Bank approved operations recently to support the government in reforming social security and education and in modernizing the central government using MIF funding.

F. Lessons learned

1.38 The design of this operation reflects the priorities of the Uruguayan government and the experiences of the Bank and other international organizations in public sector reform programs.

- 1.39 **General lessons.** First of all, since State reform programs have a large political component, **government commitment** is essential to their execution. Secondly, it is very important to define **quantitative indicators** for major activities so that they can be tracked.
- 1.40 **Administrative structures.** Merely reducing the size of the State will not make it more efficient in delivering public services. To do so requires strengthening core areas and abandoning secondary activities; allowing market mechanisms to replace direct provision of goods and services; targeting public services in terms of their effectiveness (results) and quality; and replacing hierarchical structures with managerial organizations with greater autonomy and flexibility.
- 1.41 **Pay and benefits.** Experience with restructuring processes indicates that cutting redundant staff may not be sufficient, and that it is necessary to improve the pay of those who remain by introducing appropriate incentive systems and keeping salaries competitive with the private sector.
- 1.42 **Employment.** Since downsizing the public sector carries a high social cost, complementary strategies must be designed to diminish that cost, even though programs to compensate those let go generally make the process more costly. Available information suggests that including such packages improves productivity gains and lowers the cost of adjustment. Severance packages should be designed in such a way as to avoid grouping together employees with different features. Different packages should be designed for younger employees with a higher likelihood of finding employment than for older employees whose job search costs will be higher. Elements such as seniority and current salary should therefore be reflected in the packages. Finally, experience indicates that the effectiveness of job retraining and outplacement services falls substantially as programs get larger, and that personalized attention is crucial to their success.

II. THE PROGRAM

A. Objectives

- 2.1 The overall objective of the program is to support the government in reforming the public sector through implementation of the 1995-1999 National Budget Act and enabling legislation.
- 2.2 The specific program objectives are to: (i) modernize the central government by redefining its core functions and adjusting its structure; (ii) help employees affected by the reforms to find other employment and start up businesses; (iii) modernize fiscal administration of the State; and (iv) forge a stronger relationship between State and citizens as the end beneficiaries of public policies.
- 2.3 The Uruguayan government's commitment to public sector reform is reflected in the Policy Letter submitted to the Bank (Annex I-1).

B. Macroeconomic framework

- 2.4 The success of the program will depend on maintaining macroeconomic conditions that are consistent with the general objectives, as specified in the stabilization program agreed with the IMF. This program encompasses public deficit reduction, prudent pay and credit policies, and reforms in the financial system, social security, the public sector, and the tax system. The release of each tranche of the sector loan will be subject to a number of conditions of the kind described above.

C. Operational components of the program

- 2.5 The program will be financed by means of a fast-disbursing sector loan and a parallel technical cooperation loan in support of execution that will be divided into two components, one under the Planning and Budget Office and one under the Ministry of Economic Affairs and Finance. A general coordinating unit (GCU) will be set up to act as liaison for all activities planned.
- 2.6 The sector loan centers around policy reforms being carried out under the program, and defines and sets specific goals for the central government restructuring, for voluntary retirement by employees declared redundant, and for outplacement and related services to be provided to such employees.
- 2.7 The conditions governing disbursement of the sector loan are outlined in Appendix I and presented in summary form in the Conditionality Matrix (Annex I-2).

- 2.8 The technical cooperation loan will be used to finance consulting services and equipment as required to coordinate and support the various reform components.
- 2.9 Specifically, the OPP component of the technical cooperation loan (modernizing government) will facilitate meeting the targets set for components A and B of the Conditionality Matrix, relating to the restructuring of the public sector and alternatives for delivery of public goods and services, including outsourcing for noncore functions.
- 2.10 The MEF component of the technical cooperation loan (modernizing fiscal administration) will facilitate meeting the targets set for component C of the Matrix, relating to institutional, technological, and operational reform of the public finances in order to ensure coordinated and centralized administration.

D. Technical components of the program

- 2.11 The technical components of the program are: (i) the **administrative restructuring** which includes a definition of core functions, the design of new administrative structures, the implementation of a promotion, merit pay and performance evaluation system, the creation of a senior management system, outsourcing, training, control of conditions of employment, and streamlining of the regulatory framework governing the public sector; (ii) the **severance and outplacement program** for employees affected by the process; (iii) the **modernization of fiscal administration**, including adjustments to public financial administration and operations control systems, rationalization of public assets, and strengthening of the Central Tax Administration and the Customs Service; and (iv) **forging a stronger relationship between State and citizenry**.

1. Administrative restructuring

- 2.12 The Budget Act placed a 10-year freeze on hiring and authorized the government to restructure, merge, or eliminate operating units in ministries and departments to enable the latter to concentrate on **core functions**. The Act set out the following guidelines: budgets are to remain unchanged, the restructuring is to be funded with savings generated by eliminating positions; only those units which are responsible for core functions may be operating units; and all positions not associated with core functions are to be declared redundant. Moreover, functions identified as **noncore** are to be outsourced or eliminated.
- 2.13 The restructuring is mandatory throughout the public sector and will be carried out under the guidance of CEPRE, which will set out time frames and general guidelines for the process under an

approach whereby each entity takes the initiative to define its new structure.

- 2.14 The restructuring stage begins by determining **core functions** for each entity and includes the formulation of a **strategic plan** to put the new structure in place, indicating those functions that are to be **eliminated** or **outsourced**, as well as identifying **redundant positions**. To this end, priority was given in 1996 to determining core functions and preparing **restructuring projects**.
- 2.15 One of the conditions for release of the first tranche of the sector loan will be that CEPRE issue a technical opinion on the restructuring proposals and that at least 90% of them, generating at least US\$30 million in savings each year, be approved by the appropriate authorities.
- 2.16 **Restructuring projects.** The central government restructuring projects presented to CEPRE cover all the ministries and include the following components: institutional restructuring of each entity, outsourcing of all noncore and some core functions, transfer of certain activities to nongovernmental public entities (PPNEs), and changes in the personnel management system and the profile of public employees.
- 2.17 The institutional restructuring entails the elimination, merger (within a ministry or with other agencies in the public sector), and transfer of operating units. The projects submitted since December 1996 (initial estimate) represent a net reduction in the number of operating units by approximately 25%. However, the scope of the reforms may vary: some ministries (Interior, Agriculture) have submitted proposals that are limited to outsourcing for certain activities, while others (Industry and Education) propose eliminating more than one half of existing operating units.
- 2.18 The projects presented in December also include proposals for outsourcing of noncore activities common to all entities, such as cleaning, maintenance, messenger service, printing, food services, data processing, security, medical services, payroll, and other similar activities to be contracted out to the private sector.
- 2.19 Also to be outsourced are certain core activities such as road maintenance, signalling, lighting, dredging, marina maintenance, and tolls and truck weigh stations (Ministry of Transport and Public Works); surveys by the National Institute of Statistics; revenue collection (Ministry of Economic Affairs); seizures (Customs Department); and drilling activities (Ministry of Mines and Geology). In addition, it is proposed that the central government discontinue all activities that could be provided by PPNEs, such as geological surveys and certain activities now carried out by the Ministry of Transport and Public Works.

- 2.20 The outsourcing process was initiated with help from the Bank during preparation of this operation in the form of consulting services, including support for specific outsourcing projects, particularly for the Ministry of Transport and Public Works. Concurrently, the Bank is assisting with the preparation of a business development strategy for Uruguay.
- 2.21 **Implementation of the restructuring.** The second stage of the administrative restructuring involves the implementation of the plans approved by the government. All restructuring will be financed with savings from the reduction in force. During this stage, the technical cooperation loan will fund consulting services to support the outsourcing of functions and improvements in conditions of employment.
- 2.22 The **personnel management** system will also undergo major changes. First of all, each operating unit will be granted decentralized management authority, with each hierarchical level free to decide on its own staffing structure. Second, a merit-based promotion system will be introduced. Third, the ratio of professional to support staff will be lowered as many core and noncore activities are outsourced. Fourth, training will be decentralized and individualized.
- 2.23 Pursuant to the Act, savings generated by resignations and unfilled positions may be used in two stages: up to 20% will be passed on immediately to the heads of operating units for use in **performance incentives**. Upon severance of an employee, the authorities will have access to up to 50% of the resulting savings: 30% to be used for **pay scale adjustments** and the remaining 20% to fund the new **senior management** system and to boost public sector capacity to perform core tasks.
- 2.24 Release of each tranche of the sector loan is subject to meeting specific quantitative targets in applying savings to the areas of **senior management, performance incentives, and pay parity**, for a total of US\$21 million per annum. The parallel technical cooperation loan will fund consulting services to assist with this administrative restructuring process.
- 2.25 **Training and development of civil servants.** Under the government's new approach, training will be geared to honing skills and improving the quality of work done by public employees performing core functions who remain in the central government. More importantly, the quality and quantity of training received by each employee will be one of the main criteria determining promotion and career development in the public sector.
- 2.26 The approach to training will center on developing guidelines for raising training resources. Each operating unit, under the direction and supervision of CEPRE, will draw up annual training

programs. Progress made on the qualitative and quantitative aspects of the training will be evaluated periodically.

- 2.27 CEPRE will approve the training programs and the allocation of funding for this purpose each year, in conjunction with the Civil Service Office. The operating units will be responsible for the operational aspects of the training. Training and placement services will be furnished by qualified institutions or companies registered as training agencies.
- 2.28 **Streamlining of the regulatory framework.** Making the workings of government and the economy more efficient overall will entail identifying legal and administrative factors that inhibit the free competition of goods and services in the marketplace. Since it took office, the present administration has singled out government intervention as a critical area in which there is a need to limit action and to streamline and modernize regulation.
- 2.29 An initial effort to review existing government regulation was made when the budget was prepared for the 1995-1999 period, but it is felt that the process did not go far enough. The administration has therefore proposed a review of existing government regulations, including prices and rates, which will be financed out of the parallel technical-cooperation loan.
- 2.30 Among the other conditions contained in the loan are specific benchmarks for hiring consultants to review the regulatory framework and for implementing the recommendations proposed.

2. Severance and outplacement program

- 2.31 Under the Act, civil servants whose positions are declared redundant as a result of the restructuring will immediately enter a transitional regime for a period of 12 months at full pay during which time their attendance at work is not required. Since public employees have permanent job tenure, they will be offered a number of options as incentives to encourage them to take early retirement, resign and reenter the work force. The conditions of employment applicable to the staff who remain will be improved substantially under specific provisions of the Act that call for a new salary scale, merit pay, and creation of a senior management system.
- 2.32 The following options will be offered to civil servants affected by the restructuring:
- 2.33 **Early retirement for employees over the age of 65:** 15 months' salary, less three months' salary for each year over the age of 65. In the base case, a civil servant aged 67 would receive an incentive of 9 months' salary (estimated at US\$5,670).

- 2.34 **Resignation by employees aged 60 to 64 who are declared redundant under the restructuring and are eligible to retire as of January 1, 1997:** 18 months' salary, less one month's salary for each year over the age of 60. In the base case, an employee aged 62 would receive 16 months' salary (estimated at US\$10,080).
- 2.35 **Resignation by employees who are declared redundant by the restructuring and are not eligible to retire:** 12 months under the transitional regime, plus a maximum of 12 months' salary for years of service. In the base case, an employee would receive 24 months' salary (estimated at US\$13,920).
- 2.36 **Outplacement: reemployment:** 12 months under the transitional regime, 12 months' incentive pay, a training bond of 80 URs (indexed units of account; 1 UR = US\$17), an outplacement benefit of 60 URs, and the preparation of an employment profile (20 URs). The estimated total cost for the base case is US\$16,300.
- 2.37 **Outplacement: business:** 12 months under the transitional regime, 12 months' incentive pay, a training bond of 50 URs, a business project evaluation (32 URs), preparation of an employment profile (20 URs), and working capital (180 URs). For the base case, it is assumed that the subject will resign in the fifth month of the transitional regime (estimated cost US\$17,820). Under this option, the government may use nonprogram funds to provide a loan as well, in accordance with the provisions of the Act.
- 2.38 All employees declared redundant under the restructuring **who do not resign** by the end of the 12-month transitional period will receive approximately 30% of their salary permanently. In the base case, an employee would receive 12 months transitional pay plus a bonus (8.3%) at an estimated cost of US\$7,560.
- 2.39 The benefits of the reform, initially directed exclusively at the central government, have been extended to include two other entities for the purposes of the program.
- (i) the social security authority (BPS): incentives and severance benefits will be covered in full based on its standing as an entity within the central government as of the date of the reform; and
 - (ii) the national youth authority (INAME): incentives and severance benefits will be covered in full based on its standing as an entity within the central government until such time as the new budget is approved.
- 2.40 These two entities together will account for 23% of the civil servants affected. Furthermore, the cost of each of the severance options described will be greater for the two entities outside the central government owing to their higher salaries.

- 2.41 All of the severance options, including the bonds, will be funded by the government. The parallel technical cooperation loan will pay for consulting services for support and supervision.
- 2.42 The outplacement program will make it easier for workers displaced by the process to find alternative employment or start up a business of their own. The training and placement services will be provided by qualified public and private agencies, which will receive compensation in the form of nontransferable bonds. The program is expected to respond to a total of 580 requests under the workforce component and 1,754 requests under the business component over a period of two years. The administration of the outplacement program will be outsourced by the government.
- 2.43 Although worker and business training is available in Uruguay from public and private companies, the country has had little experience with outplacement for displaced government employees. Representatives of labor, business, and government sit on the National Employment Board of the Ministry of Labor and Social Security, which has specific responsibilities in this area, but to date methodologies have not been developed to deal with the problem.
- 2.44 In the area of business, individual or group services will be made available to provide guidance and assistance to civil servants who submit plans for a business. These services will consist of specific mechanisms for access, service, guidance, and followup on participants. A register will be kept of entities offering business development services and an information system on the progress made in starting up a new business.
- 2.45 With respect to the reemployment component, assistance will include preparing employment profiles, professional guidance, training for new employment, contacts with companies in the private sector, and referrals to job placement agencies. A register will also be kept of entities offering training and placement services, and the services will provide access, service, guidance, and followup systems. In addition, guidelines will be drafted to evaluate the capabilities of agencies offering worker retraining services, and a register will be maintained of training and placement agencies. Personal interviews with the beneficiaries and followup on their programs of activities will be done by teams of experts. The users of the business outplacement services will receive special guidance on activities that are to be outsourced.
- 2.46 The outplacement services are still at the design stage, and are being funded with the proceeds of the MIF technical cooperation loan for modernization of the central government.
- 2.47 An employment brokerage service will be set up to assist employees in finding new employment. It will have the following tasks:
(i) helping the guidance process along through updating of manuals

and guidelines for implementation, ongoing advisory support, and followup on business plans for each of the operating units; (ii) collecting information on an ongoing basis on the outplacement process and operating a personalized system of followup on users; (iii) maintaining a system of followup on cases in which the likelihood of placement is slim or which are high-risk situations.

- 2.48 In the first year of the program, an action plan will be pursued to disseminate the results of the initiative and to transfer knowledge relating to reemployment and business outplacement to other entities in the public sector that deal specifically with this issue at the national level. The studies will make it possible: (i) to identify potential users of an information system on the job market and business opportunities for displaced workers; and (ii) to merge the records of worker and business training agencies and introduce standard criteria for accreditation and certification at such agencies.
- 2.49 Disbursement of the sector loan is subject to meeting targets in terms of services for users under the reemployment and business components. This will be coordinated and monitored with funding from the technical cooperation loan.

3. Modernization of fiscal administration and operations control

- 2.50 It is crucial that the fiscal policy guidelines on revenue collection and public spending be implemented efficiently if the reforms undertaken under the program are to be sustainable in the long run. Pursuant to the provisions of the government reform, state-of-the-art mechanisms for resource management will be required to ensure that the workings of government are efficient, effective, and fully transparent.
- 2.51 To modernize the administration of public finances, the parallel technical cooperation loan will fund activities that are designed to: (i) modernize the budget cycle, with emphasis on cash management at the Treasury and production of integrated accounting and budget data by the country's General Audit Office; (ii) decentralize tax management and foreign trade controls, both geographically and functionally; (iii) facilitate tax compliance by taxpayers and foreign trade operators; (iv) boost the effectiveness of every aspect of taxation; (v) prepare an inventory of government properties and regulate the rational use thereof.
- 2.52 The sector loan conditionality includes key targets in the process of modernizing financial administration. These include transferring prior controls from the general auditing office to central accounting units to expedite execution of public spending, closing payment accounts as a reliable indicator of consolidation of public financial management, and the new legal and regulatory framework that is to consolidate and formalize the reform process.

- 2.53 The sector loan is also subject to the introduction of mechanisms to measure and evaluate public management based on results and to rationalize public assets (vehicles, buildings, and land). Technical cooperation funds will be used to secure the consulting services required for this purpose.
- 2.54 The technical cooperation loan will also be used to assist the units in charge of fiscal revenue collection to deepen the reforms already implemented with assistance from the Bank. The purpose of these tasks is to raise the efficiency and reduce the direct cost of tax and customs administration services and the cost of compliance for taxpayers and users in the trade sector. The lower costs achieved as a result of these reforms will in turn make tax evasion and fraud less attractive.
- 2.55 The component for enhancing the relationship between the State and the citizenry does not involve any disbursement conditions. This component and the assistance to be provided by the Bank are described in the plan of operations for the technical cooperation loan (Annex II).

E. Scaling of the sector loan

- 2.56 The sector loan has been scaled to give the government access to the necessary resources, as and when required, to cover the cost of implementing the modernization of the central government. The scale was based on best estimates at the time the operation was prepared, taking into consideration: (i) the extent and scope of the restructuring (number of entities and type of reform) to take place during the program; (ii) the number of employees to be affected by the restructuring; and (iii) a probable breakdown of employees selecting each option (i.e. retirement, resignation, outplacement, transitional regime).
- 2.57 On the basis of the restructuring proposals submitted by all of the ministries and entities by December 1996, the administrative restructuring will affect the entire central government and two decentralized entities. Based on **core functions** identified and the resulting **new structures**, the administrative restructuring will produce:
- (i) Proposals of **support for administrative restructuring**, including determination of new functions and structures, and training for employees who remain on staff.
 - (ii) **General outsourcing** of support services (i.e. food service, printing, health services, etc.) and **specific outsourcing** of certain functions such as road tolls and truck weigh stations.

- (iii) **Redundancy as a result of restructuring** of approximately 7,000 civil servants (12% of the target population), originally employed in the central government and the two entities participating in the program, as shown in the table below:

	65+	60-64	-60	Total
Central gov't	725	1,000	3,560	5,285
BPS		200	980	1,180
INAME		69	331	400
Total	725	1,269	4,871	6,865

- 2.58 According to preliminary surveys of interest at all entities concerned and actual decisions made by some employees, it is estimated that the **severance options** selected by the employees affected will break down as follows:

Severance options selected by employees under 60	
Package	Number
Resignation	1,637
Outplacement: reemployment	580
Outplacement: business	1,754
Transitional regime	900
Total	4,871

- 2.59 The sector loan in the amount of US\$105 million has been scaled to reflect the estimated cost of implementing the reforms, including:

- (i) The **direct cost** attributable to **payment of cash incentives** to civil servants who accept the severance programs (retirement, resignation and outplacement), estimated at US\$54.3 million.
- (ii) The **indirect costs** attributable to **assistance** for civil servants to find new employment or start up businesses, in the form of training and placement, technical assistance, review of business projects and employment profiles, and working capital, as well as the **cost of administering** the outplacement program and **payments** to civil servants under the transitional regime, estimated at US\$50.7 million.

- 2.60 The scaling of the sector loan did not consider: (i) any **additional costs** of implementing the reform attributable to: reclassification (through promotions provided for in legislation), **performance incentives**, pay increases to achieve **pay parity**, and recruitment of **senior management** staff, all of which are mechanisms for improving conditions of employment as provided in the reform; or (ii) any additional costs **derived from the reform** that may result from the increased cost of **outsourcing** (estimated at 30%), and the impact on liabilities of a higher average pay index (IMS) (estimated at 0.31%), all of which will be funded by the government from the savings generated by restructuring.

F. Unit cost

- 2.61 The unit cost of the restructuring (US\$15,300 per employee affected, of which US\$7,900 will represent direct costs and US\$7,400 indirect costs) reflects local factors such as high average salaries in the Uruguayan civil service and the incentives established by the Act to facilitate the departure of civil servants who are guaranteed permanent employment under the constitution. The cost of the program is also attributable to the configuration of entities involved (in some of which salaries are much higher than elsewhere in government) as well as the large number of civil servants who are likely to take the most expensive severance option offered (the business outplacement program).

III. PROGRAM FINANCING AND EXECUTION

A. Borrower and executing agency

- 3.1 The Eastern Republic of Uruguay will be the borrower for both the sector loan and the technical cooperation loan. The executing agency will be the Planning and Budget Office (OPP) for the sector loan and for the technical cooperation project for public sector modernization, and the Ministry of Economic Affairs and Finance will be the executing agency for the technical cooperation project to modernize fiscal administration.

B. Execution

- 3.2 The OPP, through the general coordinating unit (GCU) to be set up on the basis of the existing CEPRE technical secretariat, will be responsible for the smooth functioning of the program, and will be entrusted with the general tasks of coordination, administration, followup and evaluation. Specifically, it will be in charge of: (i) collecting the information required for disbursement of each tranche and submitting it to the Bank; (ii) coordinating and monitoring the activities carried out by each of the institutions taking part in the program; (iii) coordinating the parallel technical cooperation loan, and implementing the project in support of the OPP; (iv) acting as the government's technical contact with the Bank; (v) administering program financial resources in accordance with Bank rules; (vi) ensuring that reforms are implemented properly and in a timely manner; and (vii) preparing the reports agreed on with the Bank.
- 3.3 To perform its functions, the GCU will have a general coordinator (local) and a team of consultants funded out of the parallel technical cooperation loan (see Annex II).

C. Financing and disbursements

- 3.4 The program will be financed with two loans from the Bank's ordinary capital. The financing will be disbursed over a period of 30 months from the effective date of the loan contract, and will be repaid over 20 years, including: (i) a fast-disbursing sector loan of US\$105 million that will be disbursed in three tranches of US\$45 million, US\$25 million, and US\$35 million, respectively, and (ii) a technical cooperation loan in the amount of US\$10 million, as described in Annex II. Grace periods of five years for the sector loan and three years for the technical cooperation loan will be granted.
- 3.5 The scaling of the three tranches was based on funding requirements in connection with the departure of employees and the scope of the Conditionality Matrix, taking into account policy successes with

respect to formal approval of the reform, related regulations, and the submission of proposals for restructuring by all of the ministries.

D. Procurement

- 3.6 The proceeds of the sector loan will be used to finance the FOB cost of eligible imports, or CIF cost when freight is eligible. Each tranche will be disbursed upon receipt of import documentation from the executing agency. In accordance with Bank policy, the usual restrictions set out in the negative list will apply. The following items are not eligible for financing: expenses in local currency, firearms and other goods used by the armed forces, luxury goods, and imports financed with medium- and long-term loans.
- 3.7 Bank procedures are not always strictly applied to imports of petroleum and petroleum products with a value of more than US\$5 million from a single supplier. However, if acceptable commercial practices are applied and transactions are carried out at market prices, the Bank will consider these procedures acceptable, as in other sector adjustment operations.
- 3.8 For amounts below US\$5 million, public sector procurement will be conducted in accordance with national procedures provided that they are consistent with the Bank's procurement policy. Procurement for lesser amounts from the private sector must conform to acceptable commercial practice insofar as is possible, using calls for quotes from suppliers in at least two of the Bank's member countries.

E. Records, audits, and control

- 3.9 For each disbursement, the executing agencies will provide documentation showing the goods imported during the period in question, the country of origin, and the date and value of the transaction. For purposes of accounting and control of these transactions, the borrower will open a special account with the Central Bank, keep accounting records for the project, prepare and submit disbursement requests, present lists of transactions considered eligible, and keep all supporting documentation. The borrower will submit to the Bank, within 90 days of the date of disbursement of each tranche, a statement of account for the tranche drawn up in accordance with terms of reference agreed on with the Bank and certified by a firm of independent chartered accountants designated by the borrower and acceptable to the Bank.
- 3.10 To ensure that the program activities and impact are properly monitored, the parallel technical cooperation will fund periodic evaluations of disbursements under the sector loan. The technical cooperation loan also provides for an ex post evaluation of the program to be funded by the government.

F. Environmental impact of the operation

- 3.11 At its meeting of July 11, 1996, the Environment Committee considered the environmental brief and classified this as a Category II operation. The brief is available to the public through the Bank's PIC.

G. Compliance

- 3.12 With passage of the 1995-1999 Budget Act in January 1996, the government took an initial step towards adopting the principal policy measures for the program. The Act establishes a framework for the administrative restructuring and formally sanctions application of the redundancy process as a result of the restructuring, in turn generating the resources required to implement the program.
- 3.13 In 1996, the Executive Branch issued decrees regulating the reforms passed under the Act, and CEPRE circulated instructions to be followed in preparing restructuring projects.
- 3.14 By December 1996, all of the institutions affected by the reform had submitted their proposals to CEPRE for consideration. CEPRE will decide on the projects in February, when they are to be approved by the Executive Branch. This step is critical for startup of the program and is a condition for release of the first tranche of the financing.
- 3.15 In 1996, the Bank worked directly with Uruguay to assist it with the reforms, with funding under: (i) a parallel technical cooperation loan for an investment sector program (704/OC-UR), which made funding available for consultants to work with CEPRE Executive Secretariat, and to prepare restructuring projects; (ii) a program for strengthening in social areas (FAS) (811/OC-UR) for projects to restructure social ministries; and (iii) a central government modernization program (ATN/MH-4628) financed by the MIF which has made it possible to set in motion a pilot outplacement system.
- 3.16 As a result, the program now has an executing unit already in place and functioning efficiently within the Planning and Budget Office that is immediately available for its tasks.

H. Conditions precedent to disbursement

- 3.17 The special conditions for disbursement include: (i) conditions for release of the first tranche for each of the two components under the parallel technical cooperation project; and (ii) policy conditions and progress indicators for disbursement of each of the three tranches of the sector loan, as described in Appendix I and summed up in the Conditionality Matrix (Annex I-2).

IV. RISKS AND BENEFITS

4.1 The operation has been designed in such a way as to minimize the main risks associated with any public sector modernization program (the political and institutional commitment entailed) and the legal barriers that have hitherto prevented such reforms from taking place (labor rigidities).

(i) Political commitment. The present administration has demonstrated its political commitment for reform of the State at the highest level, and this is reflected in the expeditious approval of the Budget Act as a key instrument in the process. In addition, substantial headway has been towards regulating the Act and restructuring projects have been prepared for all ministries.

(ii) Institutional commitment. Comprehensive reform as undertaken by the Uruguayan authorities calls for a commitment not only at the highest levels of government but in the institutions affected as well. In this regard, under CEPRE's leadership and with its assistance, the ministries and institutions themselves have come up with restructuring plans, and this has stimulated the process on the demand side.

(iii) Rigidity of labor legislation. In Uruguay, public employees have permanent employment status guaranteed by the constitution. In principle, this stands in the way of any attempt at restructuring the public sector. To counteract this obstacle, the program offers fairly attractive incentives to encourage employees to leave the government service voluntarily, thereby ensuring the success of the program.

4.2 The chief benefit of the program will be to effect change in a rigid and inefficient structure, at minimum social cost, so that the public sector can concentrate its efforts on its core functions and withdraw from functions not within the State's purview, transferring to the private sector functions that are performed inefficiently by the State. This will include an appropriate pay scale, a streamlined regulatory framework to reduce transaction costs for the private sector and individual citizens, modern and transparent fiscal administration, and a stronger relationship with the citizenry.

4.3 The main macroeconomic and fiscal effects of the program are as follows:

(i) Fiscal impact of the reform. The precautionary arrangement with the IMF allows the cost of State reform to be excluded

from measurements of the achievement of macroeconomic targets inasmuch as these will raise the efficiency of the public sector in the medium term. The cost of the reform, however, continues to be a component of current spending in the short run and will therefore contribute to the deficit. In this regard, annual economic growth of 3% is forecast for 1997 and the fiscal account deficit is projected to be approximately 1.9% of GDP. This estimate reflects the short-term financial impact of State reform, which involves outlays for incentives in an amount equivalent to 0.5% of GDP, and the social security reform, which will lower revenues by approximately 1% of GDP. The Bank's resources will be used to cover the short-term costs of implementing the public sector reform and to ensure that the macroeconomic program remains on track for 1997.

- (ii) Restructuring the pay scale in the public sector. The large number of public sector employees has gone hand in hand with a reduction in payroll expenses, which have declined from 10% of GDP in the 1970s to its present level of 5% to 5.6%, its range since the 1980s. This represents a significant drop in pay scales. Because the public sector payroll accounts for such a low percentage of GDP, the reduction in force is not the primary mechanism for curbing government spending. It is a cornerstone of the program, however, since it will: (i) introduce a civil service career path and a more realistic compensation system than the one presently in place; (ii) reduce the flattening of the pay pyramid by offering more attractive salaries to senior professional and technical staff; and (iii) achieve a more professional civil service by making public employment an attractive full-time occupation in which promotion and tenure will be based on criteria of efficiency and performance.
- (iii) Financial evaluation of the program. Estimates of the savings generated by the program (difference between net salary and pension benefits) and its costs (severance options), including the estimated impact that the new pay structure will have on the average pay index and therefore on indexed retirement benefits, were based on an analysis of revenue and expenditure flows for a period of 30 years. The financial evaluation shows that net flows will be positive starting in year three and that the financial rate of return is better than 15%.

Furthermore, calculations of ability to repay the debt incurred as a result of the program are in line with the term for repayment of the loan.

Eastern Republic of Uruguay
Ministry of Economic Affairs and Finance
Montevideo, Uruguay

February 7, 1997

Mr. Enrique V. Iglesias
President
Inter-American Development Bank
Washington, D.C.

Dear Mr. Iglesias:

1. The Government of the Eastern Republic of Uruguay is requesting a sector loan from the Inter-American Development Bank in support of a program of reforms and policies to modernize government and improve the efficiency, effectiveness, and quality of government services. To this end, the Government has begun to pass the necessary legislation (Law 16.736 of January 5, 1996), and has approved regulatory decrees and technical provisions to restructure organizationally and operationally the institutions funded under the National Budget.
2. The State reform program is one component of a larger program of reforms being carried out by this administration, some of them with support from the Bank and other multilateral institutions. In particular, this has included setting up and developing pension savings funds and implementing reforms in secondary education.
3. The Government's economic strategy gives priority to maintaining fundamental macroeconomic balance and boosting competitiveness in the framework of an outward-looking and regionally integrated export-led economy while providing a lasting stimulus for private investment, both domestic and foreign. To this end, the Government has entrenched a stabilization program that is consistent with the program of structural reforms. Without these, it will be impossible to promote vigorous competition, bring efficiency to pursuits that are the purview of the public sector, reallocate resources for more efficient use in social investments (in education and health), or improve the quality of spending. These policies will effect structural change by eliminating such obstacles to growth as the excessive share of GDP accounted for by public spending and the inefficient workings of the State, in order to usher in a more appropriate context for socioeconomic development in Uruguay.
4. State reform calls for raising efficiency by improving the quality of essential government services in a manner consistent with lowering the tax ratio, which currently stands at close to 35 percent of GDP.

The government reform approved in conjunction with the National Budget calls for: (i) restructuring the public sector by redefining its core functions and adjusting its structure accordingly; (ii) helping employees affected by reforms find new employment and promoting ongoing training for those remaining in the public service in order to improve their performance; (iii) modernizing financial management and measuring the results of operations by public agencies and employees; (iv) reviewing and streamlining regulatory frameworks and establishing an efficient price and rate policy for central government services; and (v) strengthening the relationship between the State and citizens as the end beneficiaries of public policies.

THE SECTOR PROGRAM

5. As indicated, the Government of Uruguay is requesting Bank support to pursue State reform through effective implementation and enforcement of the provisions of Law 16.736 of January 5, 1996. The major focuses for such support would be: (i) modernizing government; and (ii) modernizing financial management.

Upon completion of the program, the Uruguayan government will be functioning under a more managerial, results-based approach to public sector operations that is geared more towards meeting the needs of citizens. This approach presupposes a reallocation of public resources to the core functions of government according to the priorities of the above strategy. The civilian public service will be reduced quantitatively but will present a profile based on training and efficient performance under a model that values managerial and specialized staff and provides for pay consonant with that profile.

6. **Macroeconomic framework.** The Government has been implementing an appropriate stabilization program through policies that have brought about substantial reductions in inflation and the external debt and have opened up the country to regional and global trade and finance. To back implementation of its stabilization strategy, the government has entered into a new precautionary arrangement with the IMF for SDR 100 million equivalent (approximately US\$150 million). The arrangement, with a term of 13 months, took effect in March 1996. The government intends to hold talks with the IMF leading up to a new agreement, proposing the following targets for 1997: (i) 3% GDP growth in real terms and a reduction in inflation from 24.3% to 15%, assuming low wage pressure and 2% external inflation; (ii) fiscal policy: a reduction in the overall public-sector deficit from 1.3% to 0.5%, excluding the net effect of increases in pension transfers to pension fund administrators, and of outlays in respect of State reform; (iii) monetary policy: sterilization of excess liquidity caused by surpluses of public enterprises; (iv) foreign exchange

policy: currency adjustment in accordance with projected inflation of 15%; and (v) external sector: reduction of current account deficit from 2.7% to 2.3% of GDP, and a shift in the foreign-currency domestic debt profile from short- to long-term, to hedge against external risks. Given the importance of these targets in successfully completing the State reform, the Government is committed to meeting them.

7. **Legal and regulatory framework.** Under the National Budget Act, the reform of the Uruguayan State was approved, and supplementary regulations have been issued in Executive Decrees 41/96 of February 1, 1996, 186/96 of May 16, 1996, 210/96 of June 4, 1996, 301/96, 302/96 and 303/96 of July 31, 1996, and 362/96 of September 12, 1996. The existence of this new legal framework reflects Uruguay's commitment to carry forward the State reform urgently. This legislation covers, *inter alia*, the following issues: (i) the format for presentation of State reform actions under the National Budget Act; (ii) a system of retirement incentives for public employees who are 65 years of age and eligible to retire as of January 1, 1997; (iii) provisions governing the appointment of chief accountants in the public sector as highly specialized officials; (iv) a system of retirement incentives for public employees between 60 and 64 years of age who are eligible to retire as of January 1, 1997; (v) a performance evaluation system for public employees; (vi) a promotion system for public employees; (vii) a recruitment system for highly specialized and management personnel; (viii) a program to help public employees affected by organizational restructuring, redundancy, and staff reassignment to find other employment.
8. The Executive Committee for State Reform is the agency responsible for supervising and coordinating the sector loan program and technical cooperation in support of its implementation. The Planning and Budget Office and the Ministry of Economic Affairs and Finance will act as executing agencies for the government.
9. Through the State reform program, organizational restructuring exercises will be carried out under the appropriate headings of the National Budget in order to concentrate public sector actions on core functions, taking into account such new alternatives for delivery as may be in the public interest, including outsourcing and modifying or eliminating noncore functions. The main objective of the reform is to restore the country's capacity for quality performance of public-sector functions under budget austerity, by effecting a significant improvement in staff skills and professionalism.
10. In parallel to the organizational restructuring processes, voluntary retirement incentives will be established, as well as an improvement in human resource management; accreditation programs will be put in place, and a regime governing highly specialized staff will be

introduced along with performance evaluation and promotion systems. The public sector will make a shift to a management model based on results in terms of efficiency, effectiveness and quality of public agencies, as measured by performance indicators, in order to effectively meet the expectations of citizens. Support will also be provided for the process of institutional, technological and managerial change in public financial management, to ensure coordinated and unified management of the public finances.

11. Progress made to date on defining restructuring proposals by bodies within the central government reflects the high degree of institutional commitment backing the reform process. The Executive Branch is resolved to consider and approve such proposals promptly and to make a sustained effort to implement them efficiently.

PROGRAM EXECUTION

12. **Technical cooperation plan.** The Government will carry out a technical cooperation plan that is to include modules representing each of the program components referred to. The main institutions to benefit directly will be: (i) the Planning and Budget Office, which is to coordinate program execution and implement reform activities; (ii) the Ministry of Economic Affairs and Finance, which is to carry out its restructuring and modernize financial management institutionally and technologically.

Sincerely,

Ariel Davrieux
Director, Planning
and Budget Office

Luis Mosca
Minister of Economic
Affairs and Finance

LOAN CONDITIONALITY					
BLEM	OBJECTIVE	ACTIONS UNDER WAY	CONDITIONS PRECEDENT TO:		
			FIRST TRANCHE	SECOND TRANCHE	THIRD TRA
ECONOMIC FRAMEWORK					
	Secure an appropriate macroeconomic framework	Economic stabilization program backed by IMF	Maintenance of appropriate macroeconomic framework	Maintenance of appropriate macroeconomic framework	Maintenance of ap macroeconomic fra
M COMPONENTS					
ADMINISTRATIVE RESTRUCTURING					
structures performing core functions of ment (CG)	Support the government in restructuring CG by redefining its core functions, adjusting its structure, and outsourcing, transferring or eliminating noncore functions	<p>National Budget Act (NBA) and regulations issued for organizational restructuring</p> <p>Restructuring proposals submitted to Executive Committee for State Reform (CEPRE)</p> <p>Legal framework for outsourcing government activities</p>	<p>Restructuring exercises defined and approved by the Executive Branch for 90% of CG proposals pursuant to the NBA, Decree 186/96 and related instruments, and approved directives.</p> <p>Restructuring action plans consistent with the operation's scale as agreed with the Bank, including:</p> <ul style="list-style-type: none">– Program to implement restructuring, specifying:<ul style="list-style-type: none">• Projected organizational units• Programming of savings from unfilled positions (target US\$30 million per annum)– Program to implement outsourcing, required institutional changes (non-governmental public entities, decentralized organizations), and transfer or elimination of functions, including any legal actions needed	<p>Progress on restructuring, including 40% fulfillment of savings target</p> <p>Required budget allocations reprogrammed</p>	<p>Progress on restru including 100% ful savings target</p> <p>Required budget a reprogrammed</p>

LOAN CONDITIONALITY					
PROBLEM	OBJECTIVE	ACTIONS UNDER WAY	CONDITIONS PRECEDENT TO:		
			FIRST TRANCHE	SECOND TRANCHE	THIRD TRANCHE
<p>for regime for es: salaries with private employment and working hours, pay scales, training and policies, lack of management</p>	<p>Support the government in rationalizing public employment in a manner consistent with restructuring, by improving the structure of incentives in personnel management and setting up a senior management system</p>	<p>General incentives designed (senior management system, performance incentives, promotion and recruitment policies)</p>	<p>Programs to use savings (target US\$12 million per annum) in:</p> <p>(i) performance incentives (target US\$1 million per annum);</p> <p>(ii) hiring to fill senior management positions and pay increases for specialized and key personnel (target US\$3 million minimum per annum); and</p> <p>(iii) strengthening the central government in performing its core functions (final target US\$1 million minimum per annum).</p> <p>Program for use of savings in pay parity (target US\$9 million per annum)</p> <p>Estimated budget allocations for year one.</p> <p>Tender conditions for invitation to consulting firms to bid on design of internal controls on conditions of employment (attendance, work schedules, etc.).</p> <p>Strategy for training employees remaining, including semiannual goals</p>	<p>40% fulfillment of target for application of savings (A minimum of US\$8.4 million per annum has been earmarked for this purpose)</p> <p>Proposed program of controls on conditions of employment (including pilot plan)</p> <p>40% of courses begun</p>	<p>100% fulfillment of target for application of savings (A minimum of US\$2 million per annum has been earmarked for this purpose)</p> <p>Pilot program of controls on conditions of employment completed and proposed extending it to rest of country</p> <p>100% of courses begun, 60% completed</p>

LOAN CONDITIONALITY

PROBLEM	OBJECTIVE	ACTIONS UNDER WAY	CONDITIONS PRECEDENT TO:		
			FIRST TRANCHE	SECOND TRANCHE	THIRD TRANCHE
<p>Network for management is complicated: regulations are not in use</p> <p>System is outdated and lacking cost effectiveness</p> <p>Regulations are overly formal, and not results-oriented</p>	Streamline the CG's regulatory framework	<p>NBA set guidelines for:</p> <ul style="list-style-type: none"> - deregulation of government activities - a review of CG prices and rates - administrative streamlining 	<p>Tender conditions to invite consulting firms to bid on:</p> <ul style="list-style-type: none"> - inventory of regulations (divided into categories: to be kept, to be created, to be delegated to other levels of government, to be eliminated, and obsolete) - schedule of CG prices and rates 	<p>Inventory of regulations complete</p> <p>Proposal of targets for elimination and consolidation of regulations of CG</p> <p>Inventory of prices and rates completed</p> <p>Proposal for rationalization of CG prices and rates</p> <p>Studies of improvements to service to users, including pilot plan, contracted out</p>	<p>Deregulation proposal approved by Executive Branch and presidential legislation required</p> <p>Study completed and plan begun</p>

OUTPLACEMENT

<p>Problem on staff</p>	<p>Diminish impact by helping employees affected by reforms find employment</p>	<p>NBA set guidelines for outplacement regime</p> <p>Administration of outplacement and brokerage services contracted for</p>	<p>Outplacement services designed</p> <p>Service targets set for:</p> <ul style="list-style-type: none"> - employment profiles - business startups <p>Brokerage services designed and targets set</p>	<p>40% fulfillment of targets for preparation of employment profiles and advisory assistance profiles for business startups</p>	<p>100% fulfillment of targets for preparation of employment profiles and advisory assistance profiles for business startups, presentation of an</p>
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LOAN CONDITIONALITY					
PROBLEM	OBJECTIVE	ACTIONS UNDER WAY	CONDITIONS PRECEDENT TO:		
			FIRST TRANCHE	SECOND TRANCHE	THIRD TRANCHE
FISCAL ADMINISTRATION AND OPERATIONS CONTROL					
Financial system: fragmented monitoring or fragmented systems; no monitoring, assets or liabilities; outdated information; system requires external intervention; results-based	Reorganize CG fiscal administration to measure performance under budget headings, programs and operating units, and by employees	NBA set guidelines to restructure CG financial administration, including rationalizing use of public goods		Action plan for operations control systems designed Pilot plan for operations control contracted out	Pilot plan for operations control completed, evaluated, and presented extending it to the CG
		Financial administration legislation (TOCAF) amended by NBA	Preventive control of expenditures and payments delegated from General Auditing Office to central accounting units	Closure of at least 50% of CG payment accounts, excluding accounts for minor payments	Presentation to legislature of draft financial administration legislation and approval of amendments to TOCAF by CG
Asset management: lack of up-to-date comprehensive inventory; complex network; vehicle mostly to maintain	Optimize administration of CG material resources	NBA established obligation to perform inventory of real property	Regulations approved and bidding conditions for inventory of public property (Article 732, NBA)	Complete inventory of land, offices and vehicles contracted out	Inventory of land, vehicles performed Final decision as to whether considered essential functions and disposal of nonessential assets

PLAN OF OPERATIONS FOR PARALLEL TECHNICAL COOPERATION

I. BACKGROUND

- 1.1 The Bank's assistance for State reform will include a fast-disbursing sector loan and a technical cooperation loan in support of implementation which is to be executed by means of two projects: one under the Planning and Budget Office (OPP), and the other through the Ministry of Economic Affairs and Finance (MEF).
- 1.2 The OPP's technical cooperation project (Modernizing Government) will provide support for reorganizing the public sector and the delivery of public goods and services, reviewing the regulatory framework and the system governing prices and rates, and optimizing public resources, in order to encourage an overall shift from a traditional bureaucratic model to a results-based management model geared to meet the expectations of citizens more effectively.
- 1.3 The MEF's technical cooperation project (Modernizing Fiscal Administration) will provide support for change in institutions, technology and financial management in the public sector, as well as ensuring an integrated and centralized administration of Uruguay's public finances.

II. MODERNIZING GOVERNMENT

A. Specific objective

- 2.1 The specific objective of the project to modernize government is to assist in improving the quality, effectiveness and efficiency of the country's public sector. To this end, the project proposes to:
(i) help government services concentrate on core functions based on a management-style operating model; reorganize, prioritize and enhance the professionalism of staff required by the State to perform such functions, using a modern system of personnel administration and evaluation; and assist public employees in reentering the private sector; (ii) design and implement a system for monitoring public sector operations based on performance indicators; (iii) review the regulatory system and the criteria and policies used by the central government to set prices and rates for public services; and facilitate and promote increased attention to users in terms of the quality, effectiveness and efficiency of public services, while giving greater priority to the rights of consumers; and (iv) promote means for strengthening the relationship between the State and the individual citizen as the ultimate beneficiary of government policies.

B. Description of project components

- 2.2 This project, totaling US\$4,343,000 in financial resources, will have four components: (a) modernizing government; (b) evaluation of public sector operations; (c) deregulation, prices and rates, and optimizing service to users; and (d) relationship between State and citizenry.
- 2.3 Modernizing government (US\$1,368,100). This project will provide funds to hire consultants and purchase computer hardware and software for use in: (i) restructuring the organizational units of the central government along with those bodies named in article 220 of the Constitution as taking part in the State reform under the Bank's sector loan; (ii) providing support for the outsourcing of activities that cannot justifiably be performed directly based on the public interest and for the creation of nongovernmental public enterprises and decentralized agencies to replace central government units; (iii) financing activities of the Office of the Auditor General relating to the design, development, implementation and maintenance of a system for monitoring human resource management and work attendance and tenure, including its introduction within the central government; and (iv) financing the recruitment of technical staff to oversee implementation of the outplacement and retraining programs for civil servants, and evaluation of their results and impact on the sector loan program.
- 2.4 The design and implementation of the outplacement program and the retraining program for continuing civil service personnel will be carried out with funding from MIF technical cooperation ATN/MH-4628-UR, which has approximately US\$2.5 million available. The resources provided will be used to design: (i) retraining services; (ii) training programs for civil servants continuing in government; and (iii) organization and provision of labor market brokerage services.
- 2.5 Specifically, the retraining courses provided for continuing civil service personnel will include instruction in the rules and procedures governing the acquisition of goods and services, as a means of improving government procurement, thereby raising the efficiency of public spending programs.
- 2.6 Evaluation of public sector operations (US\$490,000). As the body responsible for assessing the degree to which the objectives and goals set out in the National Budget have been fulfilled, the OPP needs to update its methods and procedures for monitoring public sector operations to include results-based evaluation criteria and mechanisms to assess the effectiveness, efficiency and quality of public services. To achieve this, the project will include the design and implementation of an information and evaluation system based on headings in the National Budget. This will require: (a) designing methods for conducting ex post evaluations of

physical and financial performance under headings of the National Budget, along with technical standards for monitoring by management objectives; (b) selecting the set of results and impact indicators required for said evaluation; (c) developing a pilot project covering at least two budget headings; (d) proposing a plan for extending the results of the pilot project to the rest of the central government, including institutional design; (e) improving coordination of headings in the budgetary process and streamlining procedures for the allocation and negotiation of public funds; (f) strengthening medium and long-term budgetary planning; and (g) putting in place a public service system centered around management accountability based on results. Project resources will be used to hire a consulting firm which will design and implement the system, including the pilot project, and to purchase the hardware required for the information system covering headings dealt with in that project.

- 2.7 Deregulation, prices and rates, and optimizing service to users (US\$1,109,800). The project will continue the process of reviewing areas of State intervention to simplify internal operations. In doing so, the project will: (i) perform of an inventory existing regulations; (ii) classify these by economic sector as either essential, non-essential or obsolete; (iii) identify areas in which government regulations are deficient or limited, placing the highest priority on protection of the rights of users; (iv) propose a strategy and operating mechanism for a continuous review of restrictions and regulations that may hamper competition in the market place; and (v) propose the elimination, amendment or creation, where warranted, of specific legal provisions spelling out government regulations.
- 2.8 The second task under this component will be to organize, consolidate and rationalize prices and rates, spelling out costs and tax content and developing a cost recovery policy for those services provided by the central government directly. This review of prices and rates charged by the State will include a comparison with the actual cost of processing or service provision, in order to justify the straight cost recovery basis of fees or, where appropriate, to indicate the need for user subsidies or additional revenues for the entities collecting these fees. This will include a study of the current situation, and of the initiatives carried out by operating units to develop new prices or rates.
- 2.9 The third task under this component will be to improve attention to citizens in their capacity as users of public services. To accomplish this, the project will: (i) identify and examine the administrative and governmental procedures to be simplified under the project; (ii) improve the means of coordination between the many bodies whose intervention is required in order to serve the needs of users; (iii) define the computer, electronic transmission

and methodological tools best suited to the task; (iv) design service windows; and (v) improve information systems.

- 2.10 The project will help to carry out these three tasks by providing resources for hiring consultants and purchasing the necessary computer equipment and software. Additional funding to finance these tasks will be provided as a result of the rationalization of government property.
- 2.11 Strengthening of the relationship between State and citizenry (US\$639,000). To complement activities being carried out under the program for strengthening social areas (811/OC-UR), the project will support efforts to buttress the relationship between the State and its citizens by achieving two basic objectives: (a) increased involvement by the private sector and organized citizen groups in the execution and financing of activities in the public interest; and (b) introduction of modern means and procedures to improve the flow of information between government agencies or officials, on the one hand, and the public or mass media on the other hand.
- 2.12 To increase citizen involvement in managing public policies, the project will: (i) Promote private spending on social programs through civil society organizations, studying possible incentives for this purpose including making financial support dependent on direct contracting of services by the State, concluding agreements to share in the execution and financing of programs, or the redirecting of tax revenues to same. In addition, the possibility of introducing a budgetary device for allocating resources to civil society organizations will be studied, as a means of rationalizing their operations. (ii) Promote consolidation of a private sector market in social services by enhancing the professionalism of work performed by these organizations. (iii) Identify ways in which these organizations can take part in government reforms, especially in the social sector. The project activities defined from the standpoint of the State will be reinforced with parallel efforts from a civil society perspective by developing the corresponding institutional framework, which might include creation of an institution to promote civil society using funds provided by the private sector, and possibly with initial support from the Bank and/or the MIF. The main activities under the community information system will include: (i) completion of the computer network connecting the Office of the President of the Republic to various organizations; (ii) provision of training for the personnel of these organizations; (iii) design and preparation of publications to be distributed to the mass media; (iv) study of the style used by public officials and the political system in communications with the mass media and ordinary citizens; (v) diagnostic analysis of the relationship between the public and the media, identifying the principal sources of information; (vi) study of the most important characteristics of the political culture, identifying obstacles that hamper the citizen's access to

information; and (vii) evaluation of the factors that interfere with the relationship between State and citizenry.

C. Execution

- 2.13 The Planning and Budget Office (OPP) will have technical and administrative responsibility for execution of the project to modernize government and the sector loan program. To carry out these duties, the OPP will create a general coordinating unit (GCU) as described in section IV of this Annex.

D. Costs and financing

- 2.14 The project budget will total US\$5,108,000. The Bank's financial contribution under the present plan of operations will be up to the equivalent of US\$4,343,000, and is to be reimbursable in nature, drawn from the ordinary capital, and allocated in accordance with the project requirements set out in the table below.

Project financing requirements (US\$000)							
Item	Consultants		Equipment		Consulting firm	Seminars	Total cost
	Local	International	Computer and other	Software			
A. GCU	209 (m/m)	15 (m/m)	24				736
	502	210					
B. Project components							
Government	429 (m/m)	8 (m/m)		15	240		1,368
	1,001	112					
Operations evaluation	24 (m/m)		40	150	240		490
	60						
Deregulation, prices and rates, and service to users		2 (m/m)	7		1,075		1,110
		28					
Relationship between State and citizenry	300 (m/m)				70	35	639
	534						
Total	2,097	350	71	165	1,625	35	4,343

- 2.15 The loan proceeds will be used to: (a) hire consulting services to implement the project components and set up the GCU; (b) purchase equipment and software; and (c) carry out activities to disseminate results and lessons learned elsewhere in order to improve the project content. These funds will be supplemented by: (i) ATN/MH-4628-UR, earmarked for the design of training, outplacement and reemployment systems; and (ii) local counterpart funding, which is to be used to defray the cost of support staff, purchase of materials and supplies, publications, travel and per diem expenses, dissemination, and the services of the purchasing agency to administer procurement of goods and services for both technical cooperation projects.

E. Feasibility and risks

- 2.16 Institutional capacity. The Planning and Budget Office is generally equipped with the human, technical and administrative resources, as well as the materials and funding necessary for adequate execution of the project. The OPP has ample experience in carrying out projects in the area, along with an organizational and operational structure which is consistent with the needs of the project. In particular, the working group on State reform has operated under the supervision of the OPP throughout preparations of the reforms. The OPP's new organizational chart resulting from its restructuring will provide added strength in the subject areas included in this project, defining their functions and allocating the resources accordingly.
- 2.17 Participation of sectors concerned. The ability of the authorities and public officials themselves to respond to the need for the changes proposed here will be of fundamental importance to the success of the project. Given the strong political support enjoyed by the State reform program, these authorities and officials are expected to participate fully and enthusiastically.
- 2.18 Risks. The principal assumptions made under this project, which must be borne in mind during its execution in particular, are as follows:
- (i) There is widespread commitment to the objectives and strategy of the State reform program among national authorities, at both upper and middle levels. Their commitment will be reflected in the positive approach that these decision-making levels take in their actions during execution of the project, and this will have a demonstration effect on other government officials who will then be more favorably inclined to the reform process.
 - (ii) The program will be sufficiently publicized to ensure that it is fully understood and supported by public employees.

- (iii) Within the specified periods, sufficient management capacity will be developed in participating agencies to give considerable impetus to the shift in public sector culture, changing work habits and procedures, and promoting effective implementation of a managerial model within the public service.
- (iv) The OPP will have access, in the proper time and form, to the local counterpart funding it has undertaken to earmark for project execution. In particular, and in the context of the OPP restructuring, its technical levels will be strengthened significantly, in number as well as professional skills, so that project-related challenges may be met successfully.
- (v) The OPP will take the necessary steps to ensure compliance with the procedures for procurement of goods and services, and selection and hiring of consulting services within the planned periods and under the terms and conditions specified.

III. MODERNIZING FISCAL ADMINISTRATION

A. Specific objective

- 3.1 The specific objective of the project is to modernize the system used to formulate, control and evaluate public finances according to guidelines established under the State reform program. To this end, the project proposes to: (i) modernize the budget cycle, stressing financial management within the Treasury and production of integrated accounting and budget information by the Office of the Auditor General; (ii) decentralize the country's taxation and foreign trade operations, both geographically and in terms of the various functions carried out; (iii) increase tax compliance among both taxpayers and foreign trade operators; (iv) improve efficiency in every aspect of oversight; (v) inventory and assess the status of government property and draft regulations to rationalize its use.
- 3.2 As a result, the project will help generate the systemic and operational conditions necessary for the formulation, execution and evaluation of the National Budget as an integrated financial plan which embraces all of the resources and expenditures of the State, and reflects the impact of the government's economic policy. It is expected that the public finances will improve as well, owing to more efficient management of fiscal revenues and expenditures, and improved use of public property.

B. Description of components

- 3.3 The project will require a total of US\$4,957,000 in financial resources, and includes four components: (a) financial administration; (b) tax administration; (c) customs administration; and (d) government properties.
- 3.4 Financial administration (US\$1,467,000). Modernizing the administration of public funds is one the highest priorities under State reform. The 1995-1999 Budget Act establishes provisions for the areas of budgeting, accounting, finance and internal controls, to supplement the Consolidated Text on Accounting and Financial Administration (TOCAF). In addition, the government - with Bank support - commissioned the preparation of a strategy document and action plan to guide the process of modernizing financial management over the short to medium term.
- 3.5 This document identified the following strategic objectives for activities of the National Treasury Department (TGN) and the Office of the Auditor General (CGN): (i) development of the national budget as an effective instrument of financial management covering all revenues and expenditures planned for government programs; (ii) execution of the budget by means of a centrally governed cash management system; (iii) real time production of accounting information as a natural consequence of financial management processes; and (iv) establishment of a system of public service accountability using performance-based management methods.
- 3.6 In conjunction with the operations evaluation component contained in the OPP technical cooperation, the present component will include: (i) developing a technology framework for financial administration of public funds; (ii) creating a cash management subsystem for the central government; (iii) updating the current method of making budget amendments; (iv) organizing the country's laws and regulations governing financial administration; (v) developing an integrated accounting subsystem; (vi) strengthening the procedures for formulating and amending the budget; and (vii) devising methods for evaluating budget execution.
- 3.7 Tax administration (US\$1,385,200). The Tax Directorate (DGI) of the MEF is the unit responsible for administering internal revenues, which account for 94% of the central government's fiscal revenues. Since 1988, the DGI has made significant progress in computerizing and upgrading its procedures with the support of three nonreimbursable technical cooperation agreements with the Bank (ATN/SF-2827-UR, ATN/SF-3449-UR and ATN/JF-4561-UR). Between 1991 and 1995, tax proceeds rose from 14.67% to 15.48% of GDP, and computer systems were developed which currently make it possible for authorities to monitor the country's 13,000 largest taxpayers (which account for 85% of total proceeds), while providing real time data on compliance with tax obligations. Similar programs now

at the implementation stage will allow monitoring of medium-sized and smaller taxpayers. Annual audit plans are being prepared and carried out, procedures have been simplified, and the process of decentralizing management operations has begun.

- 3.8 Under the State Reform Act, the DGI has produced a restructuring proposal intended to: (i) consolidate and strengthen its organizational structure; (ii) encourage voluntary compliance with tax obligations and reduce evasion; (iii) move ahead with decentralizing its operations; and (iv) modernize its computer system.
- 3.9 Execution of the component calls for: (i) strengthening the management capacity of the DGI; (ii) developing and implementing an operations control system; (iii) developing programs to serve the taxpayer; (iv) decentralizing of collections; (v) designing a new computer operating platform and purchasing hardware and software; (vi) reprogramming applications and subsystems; (vii) transferring tax information to the new platform; and (viii) providing training and implementing the new environment (operating systems, systems that have been reprogrammed or transferred).
- 3.10 Customs administration (US\$1,753,000). The National Customs Directorate (DNA) has a mandate which includes overseeing foreign trade and managing the collection of customs duties and (in coordination with the DGI) other charges to which such trade is subject. Controlling the external movement of goods includes protecting domestic producers from unfair international trade practices and preventing all types of fraud. In 1995-1996, technical cooperation 815/OC-UR was carried out to modernize the customs service. Thanks to this program, import procedures have been simplified and customs valuation has been strengthened. However, the most important contribution by the assistance provided has been to prepare for in-depth restructuring throughout the customs administration.
- 3.11 Under the guidelines of the State reform program, implementation of the proposed restructuring will be the primary objective of this new phase of cooperation. The ultimate intention is to carry out a process of decentralization, both geographically and functionally, assigning to the customs offices the greater part of operational tasks, and reserving management functions, coordination and planning for the National Directorate. The result of this process will be to improve the effectiveness of controls for the prevention of fraud (contraband and drug trafficking), and to streamline procedures relating to import and export operations by way of reducing operating costs and increasing the use of voluntary declarations.
- 3.12 The project's activities are designed to: (i) train and select officials for the new positions defined in the restructuring

proposal; (ii) design, develop and implement a computer system integrated with the financial and tax administrations, economic operators and other public and private sector users; (iii) review current operations and introduce new operating procedures; (iv) review existing customs regulations and develop new ones based on advances under MERCOSUR; and (v) place the new customs administrations in operation with the human and material resources necessary to effectively carry out the duties assigned to the new customs organization.

- 3.13 Management of government properties (US\$240,000). Under the provisions of articles 732 ff of the 1995-1999 National Budget Act, the central government is to prepare an updated inventory of government properties under national budget headings, indicating use, location, description, area of government, legal status and registration, and any other information necessary for proper identification and appraisal.
- 3.14 The program will assist in the gathering of this information by hiring a consulting firm to assist the central government in preparing an inventory of real property and vehicles belonging to the State. At a second stage, it will include preparation of a plan to rationalize the use of public properties required by government agencies, and the drafting of regulations enabling authorities to dispose of others that are deemed surplus. In the space of one year, the Executive Branch will determine which properties are essential for carrying out its core functions, as well as identifying those that are nonessential and that may therefore be sold in part or set aside for shared use or designation as greenbelts, recreational areas, nature reserves or similar uses.
- 3.15 Funds obtained through this rationalization of physical space will be used to help finance the program to optimize service to users.

C. Organization and execution

- 3.16 Method of execution. The Ministry of Economic Affairs and Finance (MEF), through its participating agencies, will be responsible for technical and administrative execution of the project. A number of high-level steering committees will be set up within the DGI and DNA, as well as in the area of financial management, to supervise and evaluate execution of project activities, which will be coordinated with those carried out under the sector loan program. Prior to the first disbursement, the MEF will pass a resolution establishing the organizational structure for the project and setting up the respective committees.
- 3.17 To ensure a concerted effort, the technical cooperation activities of the MEF will be subject to overall coordination directives by the general coordinating unit for the project. For this purpose, a general coordinator for the project will be hired to work directly with the authorities of the Ministry of Economic Affairs and

Finance to: (i) supervise compliance with the guidelines of the State reform program by each of the executing units participating in the project; (ii) provide liaison with the OPP technical cooperation, with the activities carried out under the sector loan program, and with the Bank; (iii) advise the MEF on decisions involving execution of the project; and (iv) creation of the above-mentioned high-level steering committees. As a condition precedent to the first disbursement, the MEF will appoint this general coordinator.

D. Costs and financing

- 3.18 Project costs will total US\$5,755,000. The Bank's financial contribution under the present plan of operations will be up to the equivalent of US\$4,957,000 in reimbursable funds from ordinary capital.
- 3.19 The funding provided will be used to hire consulting services, purchase equipment and software, and develop training programs or activities both in Uruguay and abroad. Local counterpart funding will be used for the payment of support personnel; purchase of minor materials, supplies and equipment; and provision of travel and per diems outside the country. The distribution of resources by project requirements is shown in the table below.

Project financing requirements (US\$000)							
Item	Consultants		Equipment		Training	Consulting firm	Total cost
	Local	International	Computer and other	Software			
A. MEF coordinating unit	24 (m/m)	3 (m/m)					
	70	42					112
B. Project components							
Financial administration	134 (m/m)	33 (m/m)					
	335	462	190	480			1,467
Tax administration	198 (m/m)	18 (m/m)					
	313	252	540	260	20		1,385
Customs administration	300 (m/m)	30 (m/m)					
	726	420	276	151	180		1,753
Government properties						240	240
Total	1,444	1,176	1,006	891	200	240	4,957

3.20 The budget by category of expenditure is as follows:

BUDGET			
Expenditure category (US\$000)	IDB	Local	Total
Component A — OPP			
1.1 Fees to firms	1,625		1,625
2.1 Remuneration	1,204		1,204
2.2 Fees	1,243		1,243
5.1 Travel and per diems		30	30
6.3 Equipment	236		236
6.4 Supplies		100	100
6.6 Support staff		70	70
7.3 Publications		45	45
97.1 Dissemination programs	35	70	105
97.2 Purchasing agency		450	450
Total component A	4,343	765	5,108
(% of total)	85	15	100
Component B — MEF			
Subcomponent B.1 — Public finances			
1.1 Fees to firms	240		240
2.1 Remuneration	715		715
2.2 Fees	758		758
5.1 Travel and per diems		50	50
6.3 Equipment	1,470		1,470
6.4 Supplies		160	160
6.6 Support staff		130	130
7.3 Publications		110	110
97 Training programs	21	124	145
Subcomponent B.2 — Customs administration			
2.1 Remuneration	726		726
2.2 Fees	420		420
5.1 Travel and per diems			
6.3 Equipment	427	224	651
6.4 Supplies			
6.6 Support staff			
7.3 Publications			
97 Training programs	180		180
Total component B	4,957	798	5,755
(% of total)	86	14	100
96. Finance charges			
– Inspection and supervision	100		100
– Credit fee		50	50
– Interest	600		600
Total	10,000	1,613	11,613
(% of total)	86	14	100

E. Feasibility and risks

- 3.21 Institutional capacity. The Ministry of Economic Affairs and Finance is generally equipped with the human, technical and administrative resources, as well as the materials and funding necessary for adequate execution of the project. The Ministry and its agencies responsible for each component have ample experience in carrying out projects in the area, along with an organization and operational structure which is consistent with the needs of the project.
- 3.22 Participation of the sectors concerned. The ability of the authorities and public officials of the MEF to respond to the need for the changes proposed here will be of fundamental importance to the success of the project. Part of the funds for consultants will be used to promote acceptance at all levels of the administration of the need to achieve a high degree of coverage, momentum and participation. Given the strong political support enjoyed by the State reform program, authorities and public employees are expected to participate fully and enthusiastically.
- 3.23 Risks. The principal assumptions made under this project, which must be borne in mind during its execution in particular, are as follows:
- (i) Development of joint efforts between the CGN and the TGN to implement financial administration strategies and policies in a spirit of cooperation and common interest.
 - (ii) Timely availability of counterpart funds at the DGI in proper form and according to its commitment for allocating resources to the project. As well, the activities to promote the State reform program in general, and within the DGI in particular, must be such as to generate active support among its Staff for the changes proposed in the organizational restructuring.
 - (iii) Appointment by the DNA of sufficient staff to lead the in-depth institutional reform as proposed to the Steering Committee for the State reform program. Sufficient funding has been allocated from savings generated by the restructuring, as well as drawing on those available under Decree 361/96 for hiring senior management personnel. These resources, together with the consultants to be hired under the program, will provide leadership and promote measures for implementation of the reform and achievement of the strategic objectives established under the program to restructure the Customs Administration.

- (iv) Selection by the DNA of a computerized customs clearance system, and resultant decisions concerning replacement of the current system.
- (v) Elimination of current constraints that prevent the Customs Service from fulfilling its mandate due to lack of bonded warehousing space.
- (vi) Firm political support from the executing agency and, primarily, from the various Ministries affected by the agreements reached concerning effective rationalization of government properties.

IV. GENERAL COORDINATION OF THE PROJECTS

A. Organization and execution

- 4.1 The sector loan program and the technical cooperation project for modernizing government will be carried out by the OPP, which will create a general coordinating unit (GCU) responsible for taking pertinent measures and providing suitable coordination with the project for modernizing the tax administration.
- 4.2 The GCU, operating under the OPP, will include: (i) a technical unit made up of a general coordinator, four assistant coordinators responsible for specific areas, a specialist in law, a management support consultant, a systems coordinator, and an expert on administrative reforms; and (ii) an administrative unit made up of an operations administrator and a systems analyst. In addition, as part of the general coordination and monitoring activities of the GCU and in order to provide indicators that properly reflect the results of socioeconomic and management policies, consultants will be contracted to evaluate the methodology, sources of information, form of measurement and need for updating of the System of National Accounts (SNA). The OPP will provide the necessary logistical and administrative support for the GCU's operations.
- 4.3 Procurement. In both projects, the Bank's procedures and standards on procurement of goods and services will be applied. Procedures used in hiring individual consultants will be subject to an ex post review process, with the exception of international consultants and those that will be responsible for or assist in providing general coordination.

B. Rules governing the use of the Bank's contribution

- 4.4 General conditions. The first disbursement under the technical cooperation program will be made when the OPP submits evidence to

the Bank that: (a) it has hired key technical staff for the GCU: the general coordinator; assistant coordinators for restructuring and outsourcing and for the outplacement and retraining programs; the operations administrator; and management support consultant; (b) it has submitted the operating regulations referred to in the following paragraph to the Bank; and (c) it has presented the initial report on the technical cooperation program to the Bank.

- 4.5 The operating regulations referred to above will include: (a) the terms of reference for the purchasing agency that will be contracted to oversee procurement of goods and services required for the two projects; (b) the draft agreement to be signed with that agency; and (c) a description of the legal and administrative procedures to be followed in authorizing expenditures under the projects. In addition, the OPP will determine the action to be taken in order to extend the methods set out in the operating regulations to other public agencies that contract for provision of goods and services under programs funded by foreign loans, for the purpose of streamlining the procurement procedures used by the government.
- 4.6 Special conditions. In addition to the above, the first disbursement under the project for modernizing the tax administration will be subject to presentation by the MEF of evidence to the Bank that: (a) it has hired the general coordinator of the project; (b) it has adopted the resolution concerning organization for execution of the project; and (c) it has chosen the computer system to be installed in the National Customs Directorate.
- 4.7 Duration. The execution and disbursement periods for the technical cooperation are 24 and 30 months, respectively, as reckoned from the date on which the loan contract is signed between the Government of Uruguay and the Bank.

C. Monitoring and evaluation

1. Reports

- 4.8 The executing agency for each project will submit the following reports to the Bank for its approval:
- a. Initial report containing the project action plan and including a timetable for hiring of consultants and description of their activities, the results expected, implementation schedule and definitive terms of reference for the contracting of consulting firms under the program.
 - b. Progress reports to be submitted within 30 days following completion of each six-month period. The progress reports will indicate the extent to which objectives and agreed outputs have

been achieved, and the contribution made by the technical cooperation as measured by the indicators and goals established in the State reform sector program.

- c. Financial reports to be submitted within 90 days following completion of each year of the project, setting out financial details of project execution. These financial statements must be duly audited.
- d. Final report to be submitted within 60 days following completion of the project execution period, containing a description of the activities carried out, the results obtained and the extent to which the original objectives were achieved.

2. Evaluation

- a. Evaluation of operations. The GCU will conduct periodic evaluations as disbursements are made under the sector loan, with the assistance of senior international experts, in order to assess progress, coordination with the State reform program, any variance from plans, and proposed adjustments to actions under way. In the first four months of the execution period, the OPP will design and implement an information system to provide data for periodic progress reports.
- b. Ex post evaluation. After the project has been completed and one year has elapsed since submission of the final report, the OPP will have an evaluation carried out by consultants or consulting firms hired for this purpose, in order to assess the impact of the sector program and the two technical cooperation projects.

TECHNICAL COOPERATION PROJECT
LOGICAL FRAMEWORK

NARRATIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	ASSUMPTIONS
<p>GENERAL OBJECTIVE: To modernize the central government (CG) by helping achieve the goals of the State reform sector loan</p> <p>SPECIFIC OBJECTIVES:</p> <p>COMPONENT A: Government services under core mandates are provided effectively, efficiently and with quality</p> <p>COMPONENT B: System for formulation, monitoring and evaluation of public finances modernized and efficient in the context of restructured MEF organizational units</p> <p>SUBCOMPONENTS:</p> <p>A.1 Government reorganized in terms of mandates, organizational units, positions, functions, and forms of service delivery</p>	<p>1. Goals specified in State reform sector loan are achieved within the times and on the terms agreed</p> <p>A.1 In 1/98, budget funds under CG, INAME and BPS are applied to core functions</p> <p>A.2 Average cost/benefit adjusted for productivity and type of service, for activities outsourced, is not greater than pre-reform costs, with higher quality for such services</p> <p>A.3 In 3/99, legislature considers rules governing deregulation and rationalization of administered prices and rates system</p> <p>A.4 In 3/99, instruments for serving the public improve qualitatively, and a system is in operation which values the quality of CG services</p> <p>B.1 National Budget is formulated, executed and evaluated on the basis of results as an integrated financial plan with an automated system, including all public funds and expenditures</p> <p>B.2 MEF organizational units restructured according to State reform guidelines</p> <p>PRODUCTS</p> <p>1.1 In 6/98, all redundant activities are at an advanced stage of being eliminated and/or outsourced</p> <p>1.2 In 3/98, procedures for authorizing procurement of goods and services as provided for in project operating regulations are extended to the rest of the public sector</p> <p>1.3 In 3/99, senior management system is functioning according to sector loan goals, with qualified technicians paid by private sector standards</p> <p>1.4 In 3/98, promotion, merit pay and performance evaluation system is applied throughout CG</p>	<p>1. Technical cooperation facilitates performance of commitments under loan</p> <p>1. Authorities and public employees support reform objectives and strategy</p> <p>2. Sufficient dissemination of reform</p> <p>3. Senior management strengthened, promotes change in working culture and decision-making process</p> <p>4. Qualified staff available to implement project and ensure sustainability</p> <p>1. Public employees, particularly at upper levels, support reform</p>

NARRATIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	ASSUMPTIONS
	<p>1.5 System to monitor conditions of employment designed in 3/98 and implemented in 3/99</p> <p>1.6 Outplacement systems operating in 4/97 and evaluated in terms of efficiency and effectiveness in 3/98 and 3/99</p> <p>1.7 Updated training system (with goods and services procurement module) functioning in 11/97</p>	
A.2 New results-based system for evaluating public financial operations implemented	<p>2.1 In 11/97, methodology and financial control and results-based management indicators designed. In 12/97, pilot test of system begun (institutional and automation)</p> <p>2.2 In 5/98, pilot test evaluated and plan presented for extending system to the rest of CG</p> <p>2.3 OPP applies new results-based operations evaluation system in 1998 reporting</p>	<p>1. Budget headings conform to OPP methodology and qualified counterpart staff assigned</p>
A.3 Process of adjusting, rationalizing and streamlining mechanisms for State administrative intervention and regulation in the economy finalized	<p>3.1 In 12/97, the following is prepared: (i) proposal to streamline regulations and legal and administrative restrictions placed by the State on private competition; (ii) complete inventory of prices and rates charged by CG; and (iii) proposal to improve service to the public, including action plan</p> <p>3.2 In 7/98, adjustments to administered prices and rates and regulations system submitted to legislature, in a manner consistent with core CG functions</p> <p>3.3 Action plan to improve service to the public implemented in 3/99</p>	<p>1. Middle and senior management support adjustments to regulatory framework and prices and rates system</p> <p>2. Political system supports new law adjusting regulatory framework</p>
A.4 Mechanism for citizen participation and coordination between citizenry and State strengthened	<p>4.1 In 3/99, public information system proposed under project functioning</p> <p>4.2 In 12/97, plan to rationalize public resources in support of civil society submitted</p> <p>4.3 In 12/97, State-civil society coordination mechanism and incentives to increase citizen participation in public- and social-interest activities implemented</p>	<p>1. Agents concerned support discussion of proposals presented</p>
B.1 Public financial administration modernized, emphasizing effective management at Treasury (TGN) and production of integrated accounting data by Office of Auditor General (CGN)	<p>1.1 In 6/98, operations of Treasury and cash management subsystem covering all stages of revenue and expenditure modernized</p>	<p>1. Adequate coordination ensured between TGN and CGN under supervision of MEF authorities</p>

NARRATIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	ASSUMPTIONS
<p>B.2 Institutional capacity of Tax Directorate (DGI) consolidated</p> <p>B.3 Operations of Customs Directorate (DNA) modernized</p> <p>B.4 Physical rationalization of State properties</p>	<p>1.2 In 3/98, new integrated accounting subsystem designed for budget preparation and amendment</p> <p>1.3 In 7/98, OPP/MEF using information system for financial and results-based public operations evaluation</p> <p>2.1 Organizational restructuring of DGI begun in 3/97 and implemented in 11/97</p> <p>2.2 Training and retraining programs for public employees and managers completed in 9/97</p> <p>2.3 Transfer of tax information to new operating platform by 3/98</p> <p>3.1 New computer system selected in 3/97</p> <p>3.2 New customs structure implemented in 12/97</p> <p>3.3 Import and export procedures revised and implemented in first half of 1998</p> <p>3.4 Equipment purchased and staff trained to perform field audits and transportation monitoring in 6/98</p> <p>4.1 Inventory of State properties and vehicles available in 11/97</p> <p>4.2 Properties and vehicles considered essential to perform core functions identified, and disposition of those considered nonessential decided, in 3/99</p>	<p>1. DGI contributes qualified staff, and its employees support the process</p> <p>1. Automated operating system selected</p> <p>2. Physical space for DNA at port facility</p> <p>1. Ministries support policy to rationalize use and disposition of properties</p>

PROCUREMENT BREAKDOWN

Modernizing Government

Equipment and software		
Component	Details	US\$
General coordinating unit	PC and software for computer network in OPP and CGU	24,000
Government	Software and hardware for training system	15,000
Public operations evaluation	Hardware for integrated budget headings/OPP information and evaluation system	40,000
	Software for integrated budget headings/OPP information and evaluation system	150,000
Deregulation, prices and rates, and user service optimization	3 PCs and 1 laser printer in support of user service optimization	6,800
TOTAL		235,800

PROCUREMENT BREAKDOWN
Modernizing Fiscal Administration

Equipment and software		
Component	Details	US\$
Financial administration	Hardware for cash management and related systems, plus training materials	190,000
	Software for cash management and related systems	480,000
Tax administration	HARDWARE:	
	• database server, RISC cluster architecture, 8 processors, 512 MB RAM, 40 GB disc and tape unit	320,000
	• UPS (15) for RISC equipment and servers	20,000
	• network cards (100)	10,000
	• continuous paper laser printers (2)	20,000
	• microcomputers for users (60), 16 MB, 630 MB disc, color monitor, network card	125,000
	• modems and other equipment for communications inside the country, for users (10)	15,000
	• printers (30) and miscellaneous equipment	30,000
	Subtotal, hardware	540,000
	SOFTWARE:	
	• database manager (120 users)	120,000
	• software for PCs, networks and RISCs	60,000
	• software for network standardization	50,000
	• miscellaneous software	20,000
	Subtotal, software	250,000
	Training materials	10,000
Customs administration	Hardware	140,000
	Software	151,000
	Vehicles, equipment and communication panel	136,000
TOTAL		1,897,000

Disbursement conditions for sector loan

1. **Special conditions precedent to all disbursements:** The loan disbursements will be subject, in addition to fulfillment of the conditions precedent stipulated in Article 4.01 of the General Conditions, to Bank satisfaction with: (a) progress made by the borrower on program execution and the relevant actions agreed upon; and (b) consistency between the borrower's macroeconomic policy framework and the program.
2. **Special conditions precedent to disbursement of the first tranche:** Disbursement of the first tranche of the loan will be subject to presentation by the borrower, to the Bank's satisfaction, of the following:
 - a. evidence that the GCU has been set up and is in operation, staffed with the following senior technical staff: the general coordinator, deputy coordinators for restructuring, outplacement and retraining; an operations administrator, and an expert in management support;
 - b. evidence of approval of at least 90% of the organizational restructuring proposals for operating units submitted up to December 31, 1996, pursuant to the provisions of Law 16.736, Decree 186 of 1996 and related instruments, as well as the directives issued by the Executive Branch on implementation of State reform;
 - c. restructuring action plans consistent with the program scale. Such plans are to stipulate:
 - (i) projected organizational units;
 - (ii) programming of savings generated by unfilled positions (target US\$30 million equivalent per annum); and
 - (iii) the program for hiring the firm to provide services now provided by public employees (outsourcing), as well as institutional changes (corporatization, or creation of nongovernmental public entities and other decentralized agencies) and the transfer or elimination of public functions. This program is to identify the type of legal instrument required in each case.
 - d. Plans for use of savings for the entire central government, consistent with the program scale. These plans are to specify:
 - (i) the program for outlays on performance incentives;

- (ii) the program of outlays for pay increases for specialized and key personnel and senior management;
- (iii) the program of outlays to strengthen the central government in performing its core functions;
- (iv) the program of outlays for pay parity.

The final target for the three programs referred to in subsections (i), (ii) and (iii) above is US\$12 million per annum, with a minimum of US\$1 million per annum for each of the programs mentioned in paragraphs (i) and (iii) and US\$3 million per annum for the program referred to in subsection (ii). The final target for the program referred to in subsection (iv) is US\$9 million per annum. These programs are to include estimates of the budget allocations for year one.

- e. tender conditions to invite consulting firms to bid on the design of the system of internal controls on conditions of employment (attendance, vacations, working hours, etc).
- f. a training strategy for public employees remaining, including programming of semiannual targets;
- g. tender conditions to invite consulting firms to bid on the design of: (i) the inventory of regulations (divided into the following categories: to be kept, to be created, can be delegated to other levels of government, can be eliminated, and obsolete); and (ii) the schedule of prices and rates charged by the central government;
- h. design of outplacement services to help public employees find other employment and start up businesses;
- i. a plan for preparation of employment profiles and advisory assistance profiles for business startups;
- j. the design of employment brokerage services and targets for operation;
- k. evidence that the general auditing office has delegated preventive auditing of central government expenditures and payments to the central accounting offices; and
- l. evidence of approval by the Executive Branch of the relevant regulations and tender conditions to invite consulting firms to bid on inventories of public properties.

3. **Special conditions precedent to disbursement of the second tranche:**
Prior to disbursement of the second tranche, the borrower is to present, to the Bank's satisfaction:
- a. evidence that progress has been made on the restructuring program and that at least 40% of the savings targets specified in paragraph 2(c)(ii) above have been met;
 - b. evidence that reprogramming is complete for the budget allocations for all the operating units referred to in paragraph 2(b) above;
 - c. evidence that progress has been made on the application of savings generated, and that at least 40% of total funds corresponding to the targets specified in paragraph 2(d) above, i.e. US\$8.4 million equivalent, have been allocated;
 - d. the program of controls for conditions of employment of public employees, including the design of a pilot plan;
 - e. evidence that at least 40% of the training courses for public employees referred to in paragraph 2(f) above have been initiated;
 - f. evidence that a study has been conducted that includes: (i) the inventory of central government regulations; and (ii) a proposal for eliminating and consolidating central government regulations;
 - g. evidence that a study has been conducted that includes the schedule of prices and rates for central government services, as well as a proposal for rationalizing them;
 - h. evidence that services have been hired for the studies to prepare the design and pilot plan on improvements in service to users;
 - i. evidence of fulfillment of 40% of targets for preparation of employment profiles under the reemployment outplacement program and advisory assistance profiles under the business outplacement program;
 - j. the action plan for the operations monitoring systems designed;
 - k. evidence that consulting services have been hired for preparation of the pilot plan for public operations monitoring;
 - l. evidence that at least 50% of central government payment accounts have been closed, excluding minor payment accounts; and

- m. evidence that a consulting firm has been hired to assist in preparing a full inventory of land, offices and vehicles at the disposal of the central government.
4. **Special conditions precedent to disbursement of the third tranche.** Prior to disbursement of the third tranche of the loan, the borrower is to present, to the Bank's satisfaction:
- a. evidence that substantial progress has been made on restructuring, and that 100% of the savings targets specified in paragraph 2(c)(ii) above have been met;
 - b. evidence that substantial progress has been made on the application of savings generated by program execution, and that 100% of the targets for application of such savings, as specified in paragraph 2(d), have been met;
 - c. evidence that the pilot program of controls on conditions of employment has been carried out, together with a proposal to extend the program to the rest of the central government;
 - d. evidence that all the training courses referred to in paragraph 2(f) above have begun and that 60% of them have been completed;
 - e. evidence that a proposal to deregulate central government activities has been approved and that the required legislation has been presented to the Legislature;
 - f. evidence that all targets have been met in connection with preparing employment profiles under the reemployment outplacement program, and advisory assistance profiles under the business outplacement program, and that an evaluation of results has been presented;
 - g. evidence that the pilot plan for public operations monitoring has been carried out and evaluated, and that a proposal has been presented for extending the plan to the rest of the central government;
 - h. evidence that the design is complete and the pilot plan begun on improvements in service to users;
 - i. evidence that draft legislation on financial administration has been presented to the Legislature, including proposed amendments to existing legislation on financial administration TOCAF;
 - j. evidence that the inventory of land, offices and vehicles at the central government's disposal has been carried out;

- k. evidence that those buildings deemed essential to core public functions have been identified, and that a decision has been made as to the disposition of those buildings deemed nonessential.

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Original: Spanish

PROPOSED RESOLUTION

URUGUAY. LOAN ____/OC-UR. TO THE REPUBLICA
ORIENTAL DEL URUGUAY

Sectoral Program for Restructuring and Modernization of the
Central Administration

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 República Oriental del Uruguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a sectoral program for the restructuring and modernization of the central administration. Such financing will be for the amount of up to US\$105,000,000, which are part of the Single Currency Facility of the ordinary capital resources of the Bank, and will be subject to the "Terms and Financial Conditions" and the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION DE- /97

URUGUAY. LOAN FOR TECHNICAL COOPERATION /OC-UR TO THE REPUBLICA
ORIENTAL DEL URUGUAY

Sectoral Program for the Restructuring and Modernization of the
Central Administration

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is hereby authorized, in the name and on behalf of the Bank, to enter into such agreements with the República Oriental del Uruguay and to adopt such other measures as may be necessary for the execution of the proposal referred to in Document____ with respect to a loan for technical cooperation for the restructuring and modernization of the central administration.
2. That up to the equivalent of US\$10,000,000 is authorized for the purposes of this resolution, chargeable to the resources of the Single Currency Facility of the Ordinary Capital of the Bank.
3. That the above-mentioned sum is to be provided on a reimbursable basis, in accordance with the relevant conditions set forth in the corresponding Technical Cooperation Loan Agreement.