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## **URUGUAY**

### **STATE REFORM PROGRAM: CENTRAL GOVERNMENT RESTRUCTURING AND MODERNIZATION**

**(UR0090)**

#### **LOAN PROPOSAL**

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## **URUGUAY**

### **STATE REFORM PROGRAM:**

**Central government restructuring and modernization**

**Loan 995/OC-UR**

### **PROPOSAL FOR RELEASE OF THE SECOND TRANCHE OF THE LOAN**

|                                              |                                                                                                                                                                                                           |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>AMOUNT OF THE<br/>LOAN:</b>               | US\$105 million                                                                                                                                                                                           |
| <b>PROPOSED TRANCHE<br/>RELEASE:</b>         | US\$25 million                                                                                                                                                                                            |
| <b>SIGNATURE OF<br/>LOAN CONTRACT:</b>       | April 7, 1997                                                                                                                                                                                             |
| <b>AMOUNT AND DATE<br/>OF FIRST TRANCHE:</b> | US\$45 million, August 11, 1997                                                                                                                                                                           |
| <b>TERM FOR<br/>DISBURSEMENT:</b>            | October 7, 1999                                                                                                                                                                                           |
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## **I. INTRODUCTION**

### **A. Background**

- 1.1 The purpose of this document is to request approval by the Board of Executive Directors for release of the second tranche of the loan for the State reform program. Management has concluded that the Government of Uruguay has satisfactorily fulfilled all the conditions established in the loan contract, with the exception of clause 3.05(1), which has been partially fulfilled. The government has requested that the Bank grant a temporary waiver of that clause and has committed to fulfilling it completely by June 30, 1999.
- 1.2 On March 5, 1997, the Board of Executive Directors approved loan 995/OC-UR for US\$105 million to support the Uruguayan government's State reform program, to be disbursed in three tranches. The first

tranche, in the amount of US\$45 million, was released in August 1997.

- 1.3 To support implementation of the program, the Bank approved a parallel technical-cooperation loan (loan 996/OC-UR) for US\$10 million and reformulated the technical-cooperation project for central government modernization (ATN/MH-4628-UR) for US\$3.1 million from MIF resources. To date, approximately US\$7 million has been disbursed and/or committed: US\$4.3 million from the proceeds of loan 996/OC-UR and US\$2.7 million under operation ATN/MH-4628-UR, the term for execution of which expires on December 31, 1998. The technical-cooperation funding is expected to be fully utilized by then.

**B. Program objectives**

- 1.4 The overall objective of the program is to support the Government of Uruguay in reforming the public sector through effective implementation of the 1995-1999 National Budget Act of January 5, 1996 and the respective regulations. The purpose of the State reform is to increase government efficiency by improving management of the core functions of the central government, in a manner consistent with reducing fiscal pressure on gross domestic product. This will help improve the country's competitiveness, ensure efficiency in areas that are the exclusive domain of the State, and reallocate resources to use them more efficiently and improve the quality of spending.
- 1.5 The specific objectives of the program are to: (i) modernize the central government, redefining its core functions and adjusting its structure accordingly; (ii) support those public employees affected by the reforms as they reenter the labor market, and promote retraining of those remaining in the civil service; (iii) modernize management of public finances and performance evaluation of State-owned enterprises and public employees; (iv) review and simplify the regulatory framework and management of prices and fees of the central government; and (v) strengthen the relationship between the State and citizens as the end-beneficiaries of public policy.
- 1.6 The State reform program calls for a complete organizational restructuring of the National Budget in order to focus activities on the core functions. The program also includes new alternatives for service delivery, outsourcing and the transformation or elimination of noncore tasks.
- 1.7 At the same time, the program will establish incentives for voluntary retirement of public employees, improved personnel management, and training programs. Systems are also being introduced for ensuring higher levels of specialization, performance evaluation, and promotions, and the central government is switching to a more management-based model.

**C. Main activities carried out**

- 1.8 Enactment of the 1995-1999 Budget Act led to adoption of the main policy measures pertaining to the program. In 1996, the Executive Branch issued the decrees regulating implementation of the reforms called for in the Budget Act. The Executive Committee for State Reform (CEPRE) issued the instructions necessary for the process. CEPRE, which reports to the Office of the President, is responsible for supervision and control of the structural reforms, including the employment and business outplacement system.
- 1.9 Pursuant to Bank procedures, the executing agency submitted evidence satisfactory to the Bank that it had fulfilled the policy conditions agreed upon for release of the first tranche of the program, and provided justification for a first disbursement in the amount of US\$45 million, as indicated in paragraph 1.2. The executing agency was granted a partial waiver for fulfillment of clause 3.04(k) of the contract for loan 995/OC-UR, under which the General Auditing Office delegated preventive auditing of central government expenditures and payments to the central accounting offices. On January 12, 1998, the Bank reviewed the documentation submitted by the Planning and Budget Office (OPP) and considered that clause fulfilled.
- 1.10 The loan contract calls for a second tranche disbursement of US\$25 million subject to satisfactory fulfillment of the conditionality matrix agreed upon for that tranche.
- 1.11 Progress in all the components of the central government reform program has been highly satisfactory. According to the progress report on the program and the reform process submitted to the Bank by the OPP, the main achievements of the restructuring process have been the following: (i) a 37% reduction in the original operating units and 44% reduction in the lower-level organizational units; (ii) elimination of duplication of efforts in the central government; (iii) a cutback of 9,800 positions and outsourced functions and the elimination of over 1,700 unfilled positions, representing a 17% reduction in the respective units; (iv) the resulting release of a total of US\$67 million in budget resources; (v) budget reallocation of US\$34.3 million for pay parity, highly specialized positions, performance incentives, and outsourcing; (vi) redefinition of over 180 government tasks and functions for outsourcing; (vii) execution of employment and business outplacement programs for over 3,300 employees; (viii) improvement of the central government employee compensation system, including implementation of a new continuous training system; (ix) initiation of the studies to simplify and modernize the system for regulations, pricing, and rates for public services and a survey of moveable and immovable assets; and (x) modernization of financial administration.

- 1.12 A detailed justification for release of the second tranche is given below, indicating the progress achieved with each condition in the order in which they are set forth in the loan contract.

## II. CONDITIONS PRECEDENT TO RELEASE OF THE SECOND TRANCHE

- 2.1 **Clause 3.03. Special conditions precedent to all disbursements of the loan.** Prior to the release of each tranche, the borrower is to submit the following to the satisfaction of the Bank:
- 2.2 **Clause 3.03(a).** *Progress made by the borrower on program execution and the relevant actions agreed upon.*
- 2.3 Fulfilled. The Uruguayan State reform program is being carried out satisfactorily, as evidenced by the OPP report submitted to the Bank on October 16, 1998. The report, which reviews the status of fulfillment of the conditions precedent to the second tranche, provides a detailed description of the progress achieved in program execution.
- 2.4 **Clause 3.03(b).** *Consistency between the borrower's macroeconomic policy framework and the program.*
- 2.5 Fulfilled. The Government of Uruguay has been implementing an adequate stabilization and structural adjustment program, with satisfactory results that are consistent with the Bank operation. To support the economic program, the authorities agreed on a 21-month precautionary contingency arrangement with the International Monetary Fund (IMF) that entered into force in June 1997, for 125 million Special Drawing Rights (SDRs). The IMF subsequently approved the government's 1998 economic program to be effective through March 1999.
- 2.6 **Agreement with the IMF.** The main objectives of the 1998 economic program are: (i) reducing inflation from 15.4% in 1997 to 8.2% in 1998 (December to December); (ii) reducing the fiscal deficit from 0.2% of GDP in 1997 to a 0.1% surplus in 1998, not including the cost of the State reform (reform of social security and the public sector); (iii) maintaining the exchange policy for adjustment of the nominal rate according to expected inflation, including decreases in the devaluation rate, which was down to 0.8% in November 1997, 0.7% in January 1998, 0.5% in April 1998, and 0.4% in October 1998; (iv) changing the frequency of salary adjustments for public employees from quarterly to semiannually beginning in 1998; and (v) changing the term profile of the debt denominated in foreign exchange from short-term to long-term. According to the IMF, the goals for 1997 under the stabilization program were fulfilled.

- 2.7 **Prospects for 1998.** Given the outbreak of financial problems both in the region and worldwide, a considerable downturn in activity is anticipated for the second half of 1998. GDP growth is expected to be an estimated 2.5% to 3%, due mainly to the sharp drop in external demand and the recessionary adjustment that Uruguay's main trading partner, Brazil, is undergoing. The decline in inflation is expected to continue as a result of the gradual release of salaries and rates from indexing and the strong deflationary pressure from within the region and throughout the world; it should reach approximately 8.5%-9% by year-end 1998.
- 2.8 Moreover, due to the current external context, it is increasingly necessary to reduce public spending so as to gradually alleviate tax pressure on production costs (implicit taxes of public rates, social security deductions, IMABA, etc.) and improve the competitiveness of production in order to spur investment and export-driven growth. The authorities thus expect to further decrease the public sector deficit. To this end, a public spending control policy has been implemented to offset the stagnation in tax collections in the last part of the year, resulting from the lower level of activity. Preliminary data show that improvement of public finances has continued, with the fiscal deficit for 12-month period ending in August, including the cost of the State reform, having declined to the equivalent of 0.5% of GDP. If this figure is confirmed, the goal established with the IMF for the year will be fulfilled.
- 2.9 The balance of payments will show a larger trade deficit, due to: (i) the slower growth of exports as a result of the drop in external demand in general, and in particular from Brazil and Argentina, along with lower prices for the country's primary exports; and (ii) the increase in imports from Asian countries, whose currencies have been greatly devalued. This larger deficit is expected to be only partially offset by the surplus in services, which will translate into a deficit in the current account of the balance of payments slightly higher than that observed in 1997.
- 2.10 In this context, the country can be expected to continue to fulfill the economic program and the commitments set forth in the policy letter for the program dated February 7, 1997, as updated, thereby constituting evidence of the fulfillment of clause 3.03(b).
- 2.11 **Clause 3.05. Special conditions precedent to release of the second tranche of the loan.** Prior to release of the second tranche of the loan, the borrower shall submit the following to the satisfaction of the Bank:
- 2.12 **Clause 3.05(a).** *Evidence that progress has been made on the restructuring program and that at least 40% of the savings targets specified in subparagraph (ii) of Clause 3.04(c) above have been met.*

- 2.13 Fulfilled. The OPP submitted the following to the satisfaction of the Bank: (i) a detailed report on the process of restructuring all the operating units initially agreed upon with the Bank, along with additional units, covering the Office of the President, Ministry of Defense, Ministry of the Economy and Finance, Ministry of External Relations, Ministry of Agriculture and Fisheries, Ministry of Industry, Energy, and Mining, Ministry of Tourism, Ministry of Transportation and Public Works, Ministry of Education and Culture, Ministry of Public Health, Ministry of Labor and Social Security, Ministry of Housing and Land Use and the Environment, National Child Protection Agency, National Postal Administration, and Banco de Previsión Social [Social Security Authority] (BPS); and (ii) a copy of the decrees issued and draft resolutions adopted by CEPRE regarding the generation of savings <sup>1/</sup> totalling US\$67 million.
- 2.14 The reform process has been carried out with such swiftness and in such depth that the savings generated have far exceeded the target established for this tranche (40% of the US\$30 million stipulated in subparagraph (ii) of clause 3.04(c)), as well as the goal for the entire program.
- 2.15 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.05(a) has been fulfilled.
- 2.16 *Clause 3.05(b). Evidence that reprogramming is complete for the budget allocations for all the operating units referred to in subparagraph 3.04(b) above.*
- 2.17 Fulfilled. Clause 3.04(b), regarding release of the first tranche, stipulated that the executing agency had to have approved at least 90% of the restructuring projects submitted to CEPRE as of December 31, 1996. The universe agreed upon with the Bank during verification of the fulfillment of clause 3.04(b) was 78 operating units and/or sections. For purposes of the fulfillment of clause 3.04(b) and clause 3.05(b), that figure did not include the following: (i) BPS and the National Postal Administration which are no longer part of the central government, pursuant to the reform; and (ii) 11 operating units that were counted in the list of 78 but were to be merged or eliminated (eight in the Ministry of Agriculture and Fisheries, two in the Ministry of Industry, Energy, and Mining, and one in the Ministry of Education and Culture).

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<sup>1/</sup> The "savings" or "gross savings" are the resources made available from the elimination of positions or functions in each operating unit. Each unit may use up to 70% of these resources to finance its restructuring, once approved by CEPRE. The figures cited in this paragraph consist of gross savings, that is, 100% of the resources released.

Accordingly, the universe for purposes of fulfillment of this contractual clause is 65 operating units.

- 2.18 The OPP has submitted evidence of the draft resolutions adopted by CEPRE and decrees issued referring to the 65 operating units and/or sections. In addition, the OPP has submitted draft resolutions for three units in the Ministry of Public Health and one in the Office of the President which, although not included in the universe when it was defined, are part of the State reform program. The draft resolutions establish the budgetary reprogramming (or allocation of the savings generated) according to the items specified in the 1995-1999 National Budget Act. The decrees also include the new positions and functions outsourced. Once the resolutions have been issued, the operating units are authorized to use the reform-generated savings to implement activities to improve management and working conditions for employees as set forth in the program.
- 2.19 Thus, since the OPP has submitted to the Bank the draft resolutions and decrees covering all the operating units agreed upon at the time of the first tranche release, the conditions set forth in clause 3.05(b) are considered to have been fulfilled.
- 2.20 *Clause 3.05(c). Evidence that progress has been made on the use of savings generated, and that at least 40% of total funds corresponding to the targets specified in subparagraph 3.04(d) above, i.e. US\$8.4 million equivalent, have been allocated.*
- 2.21 Fulfilled. In addition to the organizational restructuring of the ministries, the State reform program includes reallocation of resources or "use of savings generated" to improve the efficiency and effectiveness of the central government to focus its activities on the functions considered essential or core. Pursuant to the Budget Act and the provisions of clause 3.04(d), the savings have been allocated to: (i) incentives for performance or excellence; (ii) recruitment of managerial and highly specialized staff; (iii) strengthening of the central government to carry out its core functions, including the outsourcing of noncore tasks; and (iv) pay parity to reflect the new position and function structures in the payroll.
- 2.22 The OPP submitted evidence 2/ satisfactory to the Bank that it had made progress in the allocation and use of the reform-generated savings. It submitted a copy of the decrees issued and draft resolutions adopted by CEPRE regarding the allocation and use of a total of US\$34.3 million in savings, far exceeding both the originally established target for this tranche (US\$8.4 million) and the target for the program as a whole (US\$21 million).

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2/ Note OPP 678/98/B addressed to the Bank, dated October 15, 1998.



- 2.23 The minimum targets specifically set forth for the highly specialized staff, performance incentives, and central government strengthening have also been exceeded; no minimum targets had been set for the pay parity component. In conclusion, the program for restructuring and reallocation of budgetary resources has been carried out more expeditiously and in greater depth than originally planned by the Bank and agreed upon with the government.
- 2.24 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(c) has been fulfilled.
- 2.25 **Clause 3.05(d).** *The program of controls for conditions of employment of public employees, including the design of a pilot plan.*
- 2.26 Fulfilled. The program of controls for conditions of employment <sup>3/</sup> and the design of a pilot plan are two of the outputs from a study commissioned by the OPP specifically for that purpose. The Bank approved <sup>4/</sup> the contract entered into by the OPP and the firm Tea, Deloitte & Touche. The objective of the consulting services is to design the external monitoring system of controls for conditions of employment, based on performance indicators. The consulting services include design of the system, its implementation in three operating units, and a plan for its extension to the rest of the central government.
- 2.27 For purposes of fulfillment of clause 3.05(d), the OPP approved and submitted to the satisfaction of the Bank a progress report prepared by the consulting firm containing: (i) with regard to the program of controls for conditions of employment, a document entitled "Preliminary model indicators and targets for conditions of employment," which presents a general theoretical framework for the criteria and indicators based on which the program will be implemented; and (ii) with regard to the pilot plan design, a document entitled "Implementation process for the pilot test of the external system for management monitoring in the three operating units selected," setting forth the criteria for selection of the operating units for the pilot plan and listing future activities. The final report of the consultants will be submitted to the Bank in January 1999.

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<sup>3/</sup> Conditions of employment for employees are understood to mean such elements as attendance, working hours, grading, promotions and a comparison of those conditions with those in effect in similar positions in the private sector. With the support of the program, information systems will be set up for external monitoring of these conditions by the Office of the Auditor General.

<sup>4/</sup> Note CUR-PS-2412/98 of July 30, 1998.

- 2.28 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(d) has been fulfilled.
- 2.29 **Clause 3.05(e).** *Evidence that at least 40% of the training courses for public employees have been initiated.*
- 2.30 **Fulfilled.** The Bank approved 5/ the schedule of courses to be given under the strategy for training government employees agreed upon with the Bank. With execution of the training plan, the government plans to retrain the employees who will be in charge of performing the core functions that emerge as a result of the central government restructuring. In particular, the courses will support performance of the management and executive positions and functions contracted thereby complementing other reform activities that seek to introduce a new public management approach that includes the appointment of highly specialized positions, performance incentives, and performance-based management. An estimated 650 level-one employees will be trained in 1998 and 1999.
- 2.31 The strategy approved also calls for the introduction of a new model for continuous training that will allow employees to acquire the knowledge, know-how, skills, and attitudes necessary to carry out their duties efficiently and effectively and to meet the goals required by their respective functions and positions. To that end, courses have been included for: (i) management training, including modules on modern management techniques, information technology, and human resource management; (ii) general training in financial administration, government procurement policies and procedures, and the design and management of social policies and programs; and (iii) specific courses depending on demand in each operating unit or section. The schedule approved by the Bank includes 31 courses: 18 for management training, 6 for general training, and 7 for specific courses, to be given in 1998-1999.
- 2.32 The OPP submitted evidence that seven management training courses, four general training courses, and three specific courses had been initiated, for a total of 14 courses representing 45% of the total programmed. Nine have been completed. Their evaluations have been processed and include the content of each course, a list and profile of the participants, and the final evaluations of the instructor and course, among other information.
- 2.33 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(e) has been fulfilled.
- 2.34 **Clause 3.05(f).** *Evidence that a study has been conducted that includes: (i) the inventory of central government regulations; and*

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5/ Note CUR-PS-2163/98 of June 29, 1998.

*(ii) a proposal for eliminating and consolidating central government regulations.*

- 2.35 Fulfilled. The Bank approved 6/ the hiring of the consortium Booz, Allen & Hamilton-IERAL-PROMESUR to conduct a study entitled "Simplification and modernization of central government regulations." The object of the consulting services is to compile a compendium of regulations and propose the necessary changes in a comprehensive manner for eliminating and/or consolidating the regulations governing the central State apparatus.
- 2.36 For purposes of fulfillment of clause 3.05(f), the OPP submitted to the satisfaction of the Bank: (a) the statement of acceptance of the draft final report from CEPRE, dated October 15, 1998; and (b) the final draft of the study, which includes: (i) a systematized inventory (data base) of regulations governing the central government and decentralized public agencies; (ii) the regulations classified according to their objective, their legal nature (legislation, decrees, resolutions, ordinances), and their economic justification (market shortcoming or specific State purpose), and whether or not they should be amended; and (iii) proposed amendments in each of the sectors and for the entire universe identified. The final version of the final report will be completed in December 1998.
- 2.37 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(f) has been fulfilled.
- 2.38 *Clause 3.05(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.*
- 2.39 Fulfilled. The Bank approved 7/ the hiring of the consortium Booz, Allen & Hamilton-IERAL-PROMESUR to conduct a study entitled "Improving the management of central government prices and rates." The objective of the study is to review price and rate changes, propose their rationalization, and quantify the impact of the proposed changes.
- 2.40 For purposes of fulfillment of clause 3.05(g), the OPP submitted to the satisfaction of the Bank: (a) the statement of acceptance of the draft final report from CEPRE, dated October 15, 1998; and (b) a draft of the final report by the consortium, approved by CEPRE. The draft final report includes: (i) a conceptual framework; (ii) a proposal for reform of the rates and prices charged for central government services; (iii) a methodology for price-setting; (iv) a computerized inventory of rates and prices

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6/ Note CUR-PS-2410/98 of July 29, 1998.

7/ Note CUR-PS-2412/98 of July 30, 1998.

for public services provided by the central government, broken down by type; and (v) a model for evaluation and computer management of the cost system. The final version of the final report will be completed in December 1998.

- 2.41 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(g) has been fulfilled.
- 2.42 **Clause 3.05(h).** *Evidence that services have been hired for the studies to prepare the design and pilot plan on improvements in service to users.*
- 2.43 Fulfilled. The Bank approved 8/ the objectives and goals of the user service improvement program presented by the OPP. The object of the program is to improve the quality and efficiency of the services delivered by the central government. Special attention is being paid to citizen input through mechanisms specifically implemented for that purpose, with a view to increasing citizen participation and identifying and achieving acceptance of individual responsibilities, either as providers or users of the services.
- 2.44 To fulfill clause 3.05(h), the OPP notified the Bank of – and the Bank approved 9/ – the hiring of the consultants needed for the design and pilot plan for user services. The consultants hired are: general coordinator, organizational adviser, process design and monitoring adviser, operations chief, and computer adviser, and a consultant assigned to a pilot plan.
- 2.45 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(h) has been fulfilled.
- 2.46 **Clause 3.05(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.*
- 2.47 Fulfilled. The purpose of the employment and business outplacement program is to support the outplacement of displaced government employees and their reemployment in the private sector. The employment profiles referred to in clause 3.05(i) were prepared with the support of the central government modernization program (ATN/MH-4628-UR). Under the MIF program evaluation, the Bank hired consulting services to conduct an independent evaluation of the system. 10/ The evaluation concluded that the system: (i) has

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8/ Note CUR-PS-3330/98 of October 14, 1998.

9/ Note CUR-PS-3589/98 of October 31, 1998.

10/ The final consultant's report was approved by the Bank and forwarded to the OPP by Note CUR-PS-3263/98 of October 14, 1998.

been highly effective and efficient in its operation; (ii) has contributed towards regulating the process of change, while minimizing potential conflicts, since the incentives offered were based on voluntary options; and (iii) ensured the feasibility of the central government restructuring process.

- 2.48 The employment and business outplacement program called for a total of 2,400 employment plans or profiles to be prepared (2,000 for business outplacement and 400 for reemployment), 40% of which were to be approved as a condition precedent to release of the second tranche of the loan. The OPP submitted evidence that the Employment and Business Outplacement Unit of the National Development Corporation (CND) has prepared 3,097 profiles (2,964 for business outplacement and 133 for reemployment). Processing of all these profiles was completed on August 31, 1998 and the sections were so advised. The restructuring process has been so expeditious and employee applications have been processed so efficiently that the target set has been met three times over for this tranche and the final goal of the program as a whole has been exceeded by 30%.
- 2.49 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(i) has been fulfilled.
- 2.50 **Clause 3.05(j).** *The action plan for the operations monitoring systems designed.*
- 2.51 Fulfilled. The objective of the action plan is to design a system for management planning and evaluation for central government agencies, based on indicators prepared for each operating unit and coordinated with the integrated financial information system (SIIF). The SIIF is currently being implemented by the Ministry of the Economy and Finance (MEF), with support from the parallel technical-cooperation operation 996/OC-UR.
- 2.52 The OPP submitted to the Bank 11/ a proposal for reprogramming the parallel technical-cooperation operation, including a plan of action for the management control systems. Based on the technical observations of the Bank, 12/ the OPP submitted a new action plan, which was approved by the Bank. 13/ The plan includes a system for external evaluation and control of performance, a system of indicators incorporated into the SIIF, and methodologies for the formulation and monitoring of strategic goals based on annual commitments for each unit, and a pilot program for management assessment.

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11/ Communication 652/98/B (OPP) of October 8, 1998.

12/ Note CUR-PS-3330/98 of October 13, 1998.

13/ Note CUR-PS-3589/98 of October 30, 1998.

- 2.53 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(j) has been fulfilled.
- 2.54 *Clause 3.05(k). Evidence that consulting services have been hired for preparation of the pilot plan for public operations monitoring.*
- 2.55 Fulfilled. The Bank approved 14/ the general guidelines of the public operations monitoring program. For purposes of its implementation and fulfillment of clause 3.05(k), the OPP hired five international consultants with expertise in public operations: 15/ two experts in modernization, one in management, one in indicators, and one in evaluation. The consultants will design the system and a pilot plan, implement it in three operating units at two sections, and prepare a program for extension of the plan to the rest of the system.
- 2.56 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(k) has been fulfilled.
- 2.57 *Clause 3.05(l). Evidence that at least 50% of central government payment accounts have been closed, excluding minor payment accounts.*
- 2.58 Partially fulfilled/waiver requested. The process of reforming financial management of the government calls for implementation of a new system for financial information and public spending (SIIF). According to the documentation presented by the CGN, the new system will centralize payments made by the Treasury (TGN). The CGN expects the new system to operate concurrently with the current payment issuance system, since the payment accounts will be closed gradually.
- 2.59 For purposes of fulfilling clause 3.05(l), the OPP, based on information from the CGN, estimated that once minor payment accounts were excluded, the universe of payment accounts will total 562. Of that total, two accounts outside the country through which the government makes normal payments would be excluded, along with 129 inland accounts for which there is no computer connection to the central network of Banco de la República Oriental del Uruguay (BROU) in Montevideo. As the connections are made, the system will be rationalized for those accounts. The universe of applicable payment accounts is therefore 431. According to information provided by OPP/CGN, as of October 14, 1998, 74 accounts had been closed, out of the 216 required, representing 17% of the total. According to a communication to the Bank, 16/ the OPP expects to close the remaining 141 payment accounts by June 30, 1999. The

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14/ Note CUR-PS-3330/98 of October 14, 1998.

15/ Note CUR-PS-3589/98 of October 30, 1998.

16/ Note 738/98/B of October 29, 1998.

government has requested a waiver from the Bank for partial fulfillment of clause 3.05(1) and has committed to fulfilling the clause in its entirety by June 30, 1999.

- 2.60 The delay in the process of closing payment accounts is due to the fact that public funds have not yet been centralized in the National Single Account. According to information presented by CEPRE, closing more payment accounts requires a computerized system for direct payment orders to suppliers and changes in TGN procedures. Until the new computerized system is implemented in the TGN, payment accounts cannot be closed more rapidly without jeopardizing proper compliance with the central government's cash payment functions. The government expects that, with the support of the parallel technical-cooperation project, this clause can be fulfilled in its entirety by June 30, 1999.
- 2.61 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(1) has been partially fulfilled.
- 2.62 *Clause 3.05(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.*
- 2.63 Fulfilled. The State reform needs to include rationalization of public resources, including State-owned land, offices, and vehicles. This modernization process requires a thorough knowledge of the status of those assets. To this end, an inventory will be drawn up of the land, offices and vehicles owned by the central government is to allow for their review and a proposal for their rationalization.
- 2.64 The Bank approved 17/ the contract signed with the consulting firm CSI Ingenieros SRL to conduct the inventory.
- 2.65 Accordingly, the documentation submitted to the Bank constitutes sufficient evidence that clause 3.05(m) has been fulfilled.

### III. CONCLUSIONS

- 3.1 Based on the documentation presented by the borrower and the analysis conducted by the project team, Management has concluded that with the exception of clause 3.05(1), which has been partially fulfilled and for which a waiver is requested, the Government of Uruguay has satisfactorily fulfilled the conditions established in the loan contract for the State reform program for release of the

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17/ Note CUR-PS-3589/98 of October 30, 1998.

second tranche of the loan. Pursuant to the guidelines set forth in document AB-1378 (Seventh General Increase in the Resources of the Bank), Management therefore recommends to the Board of Executive Directors that it approve release of the second tranche of the loan.