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## **URUGUAY**

### **REFORM OF THE STATE SECTOR PROGRAM: CENTRAL GOVERNMENT RESTRUCTURING AND MODERNIZATION**

**(UR0090)**

### **LOAN PROPOSAL**

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## **URUGUAY**

### **REFORM OF THE STATE SECTOR PROGRAM CENTRAL GOVERNMENT RESTRUCTURING AND MODERNIZATION**

#### **Loan 995/OC-UR**

#### **PROPOSAL TO PROCEED WITH DISBURSEMENT OF THE THIRD TRANCHE OF THE PROGRAM**

<b>Loan amount:</b>	US\$105 million
<b>Proposed disbursement amount:</b>	US\$35 million
<b>Date of contract signature:</b>	April 7, 1997
<b>Amount and date of the first tranche:</b>	US\$45 million, August 11, 1997
<b>Amount and date of the second tranche:</b>	US\$25 million, November 25, 1998
<b>Date of final disbursement:</b>	December 7, 1999
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## **I. INTRODUCTION**

### **A. Background**

- 1.1 The purpose of this document is to request the approval of the Board of Executive Directors for release of the third tranche of resources, in the amount of US\$35 million, to finance the State reform sector program under loan 995/OC-UR. Management has concluded that the Government of the Eastern Republic of Uruguay has satisfactorily fulfilled all of the conditions established in the loan contract, with the exception of Clause 3.06 (e), which has been partially fulfilled.
- 1.2 On March 5, 1997, the Bank's Board of Executive Directors approved loan 995/OC-UR in the amount of US\$105 million to support the Uruguayan government's State reform program, to be disbursed in three tranches. The first tranche of US\$45 million was disbursed in August 1997, and the second tranche of US\$25 million was disbursed in November 1998.
- 1.3 To support implementation of this program, the Bank approved a parallel technical-cooperation 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 in MIF resources. The execution period for that operation ended on December 31, 1998. The present amount of financing still to be disbursed for loan 996/OC-UR is US\$3.6 million.

### **B. Objectives**

- 1.4 The overall objective of the program is to support reform of Uruguay's central government through implementation of the 1995-1999 National Budget Act and enabling regulations. The purpose of the State reform is to focus government action on core functions that cannot be delegated and to increase government efficiency in a manner consistent with reducing fiscal pressure on gross domestic product.
- 1.5 The specific program objectives are to: (i) modernize the central government by redefining its core functions and adjusting its structure accordingly; (ii) help employees affected by the reforms reenter the labor market, or gain new skills in the case of those continuing in public service; (iii) modernize the State's capacity to manage public finances and evaluate public agency and personnel performance; (iv) review and simplify the central government's regulatory, price, and fee structure; and (v) forge a stronger relationship between State and citizens as the end beneficiaries of public policies.

### **C. Main activities carried out**

- 1.6 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. In 1996 and 1997, the Executive Branch issued the enabling decrees and directives necessary for implementation of the reforms mandated in the Budget Act.

- 1.7 **First tranche:** 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.
- 1.8 **Second tranche:** The executing agency also satisfactorily fulfilled the policy conditions agreed upon for the second tranche of the program, and provided justification for a second disbursement in the amount of US\$25 million. The executing agency obtained a waiver from the Bank for partial fulfillment of clause 3.05(l) of loan 995/OC-UR by providing evidence that at least 50% of central government payment accounts had been closed, excluding minor payment accounts, and committing to fulfillment of the clause in its entirety by June 30, 1999. On June 18, 1999, the OPP sent the pertinent documentation to the Bank, which on July 23, 1999, reviewed and approved it, and this clause was considered fulfilled.
- 1.9 The State reform program has passed through two major stages between its inception and October 1999. The first stage extended to mid-1998 and coincided with the first two tranches of the loan operation. During this stage, the program focused on restructuring and rationalizing the central government, generating economies<sup>1</sup> and savings necessary to prevent any negative fiscal impact from the process, and providing assistance to employees affected by the reform process. The second stage, which began in mid-1998, has continued the reform process, introducing new structures based on more modern and efficient managerial approaches to public administration.
- 1.10 The State reform program aims to restructure all of the central government ministries (referred to as “*incisos*” [sections] in the national budget) so as to focus their activities on core tasks and functions. The program provides for alternative means of delivering services, outsourcing, and transforming or eliminating non-core functions, as well as incentive systems for voluntary staff retirement, improvements in personnel management, and training programs. Provisions were also introduced to cover highly specialized functions, performance evaluation, and promotions, and to introduce a more managerial approach to public administration.

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<sup>1</sup> "Economies" or "gross savings" are generated by resources freed up through the elimination of positions or functions in each executing unit. Each unit can use up to 70% of these resources to finance its restructuring once it has received approval from the CEPRE.

- 1.11 Information on progress in fulfilling the conditions for the third tranche of the program, which justify a third disbursement of US\$35 million, is provided below, indicating progress during each stage covered in the loan contract.

## II. CONDITIONS PRECEDENT TO DISBURSEMENT OF THE THIRD TRANCHE

- 2.1 **Clause 3.03. Special conditions precedent to all disbursements.** The loan disbursements will be subject to the Bank's satisfaction with:
- 2.2 **Clause 3.03 (a).** *The progress made by the borrower on program execution and the relevant actions agreed upon.*
- 2.3 Fulfilled. Execution of the Uruguayan State reform program has been highly satisfactory, as shown in the OPP's report to the Bank on August 6, 1999, and the supplemental information provided by the OPP on September 10 and 21, 1999.
- 2.4 According to the information presented by the OPP: (i) the number of operating units has been reduced by 37%; (ii) the central government payroll has been reduced by 11,254<sup>2</sup> positions, and over 1,828 unfilled positions have been eliminated;<sup>3</sup> (iii) 51 outsourcing contracts have been signed; (iv) 3,360 employment and business outplacement requests have been satisfactorily processed; (v) US\$76.4 million in economies have been realized, of which US\$52.6 million have been reallocated within the budget for improvements in efficiency, staff salaries, and outsourcing contracts for functions previously performed by the central government; (vi) the introduction of a new system for the preventive control of national budget spending and payments has been completed; (vii) the new Integrated Financial Information Systems (SIIF) is being introduced; (viii) a pilot plan for a new system for external monitoring of conditions of employment has been designed, developed, and implemented, and a proposal for its extension to the rest of the central government is being prepared; (ix) an inventory of government regulations, prices, and fees has been prepared and a computerized system introduced to manage it; (x) the public management evaluation system (SEV) has been designed, developed, and introduced in the OPP, coordinated with the SIIF, and used by the Executive Branch for the first time in its 1998 budget execution report to the Legislative Branch; (xi) a pilot plan for the improvement of public administration, including a new internal management system (SIG), has been introduced in five operating units; (xii) an inventory of public services provided by the central government has been compiled and prioritized, and a users guide has been provided; (xiii) nine pilot plans for the introduction of quality improvement measures have been developed and will provide a basis for preparing a quality plan for the entire central government; (xiv) an inventory of movable and immovable

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<sup>2</sup> Including 1,631 positions declared redundant by the Ministry of National Defense.

<sup>3</sup> According to information provided by CEPRE on June 30, 1999.

assets has been compiled identifying nonessential assets; (xv) more than 1,940 employees have been trained, and as of July 30, 1999, more than 70% of the programmed courses have been completed.

- 2.5 The magnitude of these accomplishments, and the speed and depth of the reform process have not only exceeded the quantitative targets specified in the original design, but represent qualitative progress in redefining the role of the State in relation to its citizens.
- 2.6 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.03 (a) has been fulfilled.
- 2.7 **Clause 3.03 (b).** *The consistency between the borrower's macroeconomic policy framework and the program.*
- 2.8 Fulfilled. The Government of Uruguay has been implementing an adequate stabilization and structural adjustment program, with satisfactory results that are consistent with the 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 April 1998, for 125 million Special Drawing Rights (SDRs). According to the IMF, the stabilization program goals for 1998 were fulfilled.
- 2.9 The full impact of the crisis in Brazil, its repercussions on Argentina, and the negative trend in international prices for the country's main export products have adversely affected the performance of Uruguay's economy, with a contraction in GDP of 2% in real terms expected during 1999, along with a slight deterioration in public finances and an increase in unemployment. In response to this situation, the authorities announced their intention to continue with the stabilization program and consolidation of the reforms already implemented or in the process of implementation. To that end, in March 1999, the IMF approved the SDR70 million economic program of the Government of Uruguay for 1999, which runs until March 2000.
- 2.10 **Agreement with the IMF.** The main objectives of the 1999 economic program are: (i) **reducing inflation** (measured from December to December) from 8.6% in 1998 to 4%-6% by year end.; (ii) **moderately increasing the fiscal deficit** from 1% of GDP in 1998 to 2.1% in 1999, including the cost of the State reform (reform of social security and the public sector), representing 1.3% of GDP; (iii) **maintaining the exchange policy** for adjustment of the nominal rate according to expected inflation, but transitionally maintaining the devaluation rate of 0.6% per month in effect since April 1998; (iv) **maintaining the change initiated in 1998 in the frequency of salary adjustments** for public employees from quarterly to semiannually; and (v) **changing the term profile** of debt denominated in foreign exchange from short-term to long-term. According to the IMF, the fiscal, debt, and

reserve goals agreed upon with the Fund for the first quarter of the year were satisfactorily fulfilled.

- 2.11 The macroeconomic policy measures described above will permit continued fulfillment of the economic program and the commitments set forth in the policy letter for the program dated February 7, 1997, as updated, as evidence of the fulfillment of clause 3.03 (b).
- 2.12 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.03 (b) has been fulfilled.
- 2.13 **Clause 3.06. 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:
- 2.14 **Clause 3.06 (a).** *Evidence that substantial progress has been made on restructuring, and that 100% of the savings targets specified in subparagraph (ii) of Clause 3.04 (c)<sup>4</sup> have been met.*
- 2.15 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,<sup>5</sup> 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.
- 2.16 The total economies generated within the units additionally agreed upon amount to US\$76.4 million, far exceeding the initial goals (US\$30 million). The economies generated within the central government alone amount to US\$44.9 million.<sup>6</sup>
- 2.17 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06 (a) has been fulfilled.

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<sup>4</sup> Clause 3.04(c)(ii) provides that the restructuring action plans must include programming of savings generated by unfilled positions in a final amount of US\$30 million.

<sup>5</sup> These additional units are the Ministry of National Defense and the National Postal Administration

<sup>6</sup> CEPRE. Clause 3.06 (b). Supplemental Report, September 1999.

- 2.18 **Clause 3.06 (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 have been met.*
- 2.19 Fulfilled. The government and the Bank agreed on a final target for application of savings of US\$21 million, for use in four areas: (i) performance incentives; (ii) salary increases for staff with greater responsibilities, highly specialized staff, and senior management; (iii) strengthening of the central government to carry out its core functions; and (iv) pay parity. The overall target for the first three areas mentioned is US\$12 million per year, with a minimum of US\$1 million each for performance bonuses and central government strengthening, and US\$3 million for salary increases.
- 2.20 The OPP has presented evidence<sup>7</sup> that it has far exceeded the final target proposed for the program. At the beginning of September 1999, the Executive Branch had made budget commitments totaling US\$52.6 million with available savings. US\$2.7 million has been allocated to performance bonuses and US\$2 million to recruitment for 67 highly specialized positions, for which candidates have already been designated or competition initiated. Resources have been allocated for final recruitment of 148 professionals, with US\$9.2 million for functions of higher responsibility and specialization and US\$18.1 million for strengthening in core areas of activity, including funds for outsourcing; US\$20.5 million has been spent for the purpose of pay parity.
- 2.21 It is important to note that this process of budgetary reallocation has served to consolidate the central government reform process. Not only are new administrative structures now in place, but substantial progress has also been made in outsourcing functions once directly performed by the State. As of September 1999, CEPRE had analyzed 134 outsourcing initiatives. Of this total, contracts have been finalized or drawn up for 51 initiatives, 45 have been rejected or postponed, and the rest are under study. Activities such as road and building maintenance, security, and printing services, etc. are therefore no longer performed directly by government employees. In addition, preliminary evidence indicates that the process of "stretching" the salary pyramid has begun, with the introduction of appropriate incentives to attract and retain highly qualified personnel. Overall, more than 50% of the total salary increase has been used to recruit, or improve the salaries of, such personnel.
- 2.22 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06 (b) has been fulfilled.

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<sup>7</sup> OPP note of September 10, 1999.



- 2.23 **Clause 3.06 (c).** *Evidence that the pilot program for monitoring objective conditions of employment has been carried out, together with a proposal to extend the program to the rest of the central government.*
- 2.24 Fulfilled. The Government of Uruguay has designed and executed a pilot program to monitor conditions of employment<sup>8</sup> in the National Labor Administration (DINATRA) of the Ministry of Labor and Social Security. Based on the experience with implementation in DINATRA, it appears advisable, in extending the plan, to begin in each section with the ministerial secretariat unit, which is generally responsible for human resource and computer functions. The pilot program included the design and implementation of a single-user computer solution for monitoring workload and time, hours of work, attendance, leave, etc. The program to extend the plan to the rest of the central government is designed to cover 114 operating units and approximately 92,000 government employees over a period of one year. Parallel technical cooperation resources (996/OC UR) are being provided to support this implementation process.
- 2.25 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06 (c) has been fulfilled.
- 2.26 **Clause 3.06 (d).** *Evidence that all the training courses referred to in Clause 3.05 (e)<sup>9</sup> above have begun and that 60% of them have been completed.*
- 2.27 Fulfilled. The Bank approved<sup>10</sup> the schedule of courses to be given under the strategy for training government employees agreed upon with the Bank. Through 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 to introduce a new managerial approach to recruitment for highly specialized positions, performance incentives, and results-based management.
- 2.28 The strategy approved also calls for the introduction of a new model for continuous training, including courses on: (i) management; (ii) general financial administration, government procurement policies and procedures, and the design and management of social policies and programs; and (iii) specific courses based 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

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<sup>8</sup> Conditions of employment in this context consists of attendance, hours of work, job classification, and promotion as compared with such conditions prevailing in the private sector for similar positions.

<sup>9</sup> Clause 3.05(e) provides that the borrower must present evidence to the Bank's satisfaction that at least 40% of the training courses for public employees above have been initiated

<sup>10</sup> Note CUR-PS-2163/98 of June 29, 1998.

specific courses, to be given in 1998-1999. It was estimated that 650 first-level employees would be trained between 1998 and 1999.

- 2.29 The OPP has presented evidence that as of August 6, 1999, it *had initiated 50 courses* (then completed or underway), with the participation of 1,940 employees. Of these, *44 courses* involving 1,732 employees *had been completed*. Of the 50 courses initiated, 15 came under the managerial plan, 5 under the general plan, and 9 under the specific training plan; the rest covered areas not originally planned, such as service to users (11 courses) and public administration (10 courses and workshops). These courses, moreover, are directly linked with the reform activities to introduce a results-based management system and to improve the quality of public services.
- 2.30 Thirteen of the courses programmed by CEPRE have not yet begun: three under the managerial plan (90 employees), one under the general training plan (30 employees), one under the specific training plan (30 participants) and eight on service to users (240 participants), covering a total of 390 participants. The courses that have not yet started will be completed before the end of 1999. CEPRE's updated program provides for a total of 63 courses for 2,330 participants. CEPRE has thus expanded its training plan beyond the initial expectations for the program. To date, 50 courses have begun (compared to a target of 29) and 44 of them have been completed (88% compared to a target of 60%).
- 2.31 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06(d) has been fulfilled.
- 2.32 **Clause 3.06 (e).** *Evidence that a proposal to deregulate central government activities has been approved and that the required legislation has been presented to the Legislature.*
- 2.33 Partially fulfilled. Over the course of 1998 and 1999, the OPP conducted an inventory and complete analysis of central government regulations, prices, and fees. This review and analysis revealed the need for significant changes in the existing legal framework. In a process of State reform, such as the one underway in Uruguay, this type of regulatory initiative requires broad technical and policy discussions and substantial political and sector support. This inevitably requires periods of negotiation and a legislative process attuned to the political realities of the moment. Given that the current legislature ended on September 15, 1999, and that the country is now in an electoral period, the Government of Uruguay has requested a waiver for partial fulfillment of this clause.
- 2.34 Considering the alternatives, CEPRE adopted the following strategy: (i) the issuance of a decree, approved in August 1999, providing that any legislative bill or proposed decree pertaining to the creation or revision of legal and administrative regulations or restrictions, or to the creation or revision of central government

prices, fees, and tariffs, must be referred to the OPP for consideration by CEPRE; (ii) submission by CEPRE to the Executive Branch of a proposal to reform the framework for regulations and for the application of regulations, prices, and fees, with the recommendation that the proposal not be submitted to the Legislative Branch during the remainder of the current legislature.

- 2.35 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06 (e) has been partially fulfilled.
- 2.36 **Clause 3.06 (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.*
- 2.37 Fulfilled. The aim of the business and reemployment outplacement programs is to requalify displaced government employees and help them reintegrate into the private sector. The employment profiles referred to in clause 3.05 (i) have been prepared with support from the “Central Government Modernization program (ATN/MH-4628-UR). The reemployment and business outplacement programs have been evaluated as satisfactory, and it has been concluded that: (i) they have operated with a high degree of effectiveness and efficiency; (ii) they have helped to manage the process of change, minimizing possibilities for conflict by designing an incentive package based on voluntary options; (iii) they have made the central government restructuring process viable; (iv) their design, including the outsourcing of execution and service delivery (training, etc.) to the National Development Corporation (CND), has been well regarded; and (v) conversely, the design did not include mechanisms for guiding users toward the best objective options so as to increase their chances for reemployment.
- 2.38 Under the reemployment and business outplacement program, 2,400 employment plans or profiles were to be prepared (2,000 for business outplacement and 400 for reemployment). As of May 31, 1999, requests for counseling in reemployment and business outplacement had been made by a total of 3,360 employees. Out of that total, 3,127 (93%) had already received monetary incentives for retirement. Because of the speed of the restructuring process and the efficiency with which the requests from affected employees were handled, the target for this tranche was exceeded threefold, and the final goal for the program by about 30%. The program has also followed the progress of individuals outplaced through the system. The results indicate that effective reemployment was accomplished in approximately 90% of all cases – a significant proportion.
- 2.39 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06 (f) has been fulfilled.

- 2.40 **Clause 3.06 (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.*
- 2.41 Fulfilled. The ultimate objective of the public operations evaluation system is to introduce a management system based on results expressed in the national budget and an information system generating data on relevant indicators and changes in employment culture within the central government, transforming public administration from a bureaucratic process into a citizen-oriented, results-based managerial process.
- 2.42 The documentation presented by the OPP includes reports on execution of the pilot plan, external evaluation of the plan, and a proposal for extending it to the rest of the government. The OPP's reports described a pilot plan to improve public operations monitoring, which was implemented in the operating units between the February and July 1999 and evaluated in July and August 1999. The participating operating units were: the National Highway Administration and the National Water Resources Administration within the Ministry of Transportation and Public Works; the National Labor Administration within the Ministry of Labor and Social Security; the Agricultural Services Administration within the Ministry Agriculture and Fisheries; and the Division of Military Health within the Ministry of National Defense. The plan includes a definition of the results expected from the process and benchmarks with which to verify accomplishment of those results, as well as the development of a computer support system.
- 2.43 Two main products were developed under the public administration evaluation program: (i) the operations evaluation system, which was used as the basis for presenting the national budget for 19 sections and 118 operating units; and the internal public management system (SIG), which was introduced in five operating units within four sections. The pilot plan to improve public operations permitted the methodology applied to be evaluated and information systems to be developed to improve decision-making and identify areas of managerial responsibility.
- 2.44 The extension plan proposed by the OPP consists of three levels of differing depth and coverage. The first is to prepare national budget legislation for 2000-2004 using a results-based model coordinated with the SIIF, covering all sections within the national budget. The second is to introduce the SIG in all central government operating units, based on use of the pilot plan methodology. And the third is to develop and implement a system of management commitments to coordinate budget planning and execution with public operations.
- 2.45 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06 (g) has been fulfilled.

- 2.46 **Clause 3.06 (h).** *Evidence that the design is complete and the pilot plan begun on improvements in service to users.*
- 2.47 Fulfilled. The OPP has presented information that includes a report on the design of the pilot plan to improve service to users as well as certification that the plan had been initiated. With regard to the design of the pilot plan, the report describes general management activities and specific activities for certain operating units to improve the flow of information, access and service. Agreements signed with the nine operating units or sections were presented as evidence that the plan had been initiated, along with progress reports on plan execution. The pilot plan included activities for the National Highway Administration within the Ministry of Transportation and Public Works; the General Tax Administration and the General Land Registration Administration within the Ministry of Economic Affairs and Finance; the Office of the Public Prosecutor and the Register of Civil Status within the Ministry of Education and Culture; the Pereira Rossell Hospital within the Ministry of Public Health; the National Civil Identification Administration within the Ministry of the Interior; the Military Health Division within the Ministry of National Defense; and the Tourist Information Centers within the Ministry of Tourism.
- 2.48 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06 (h) has been fulfilled.
- 2.49 **Clause 3.06 (i).** *Evidence that draft legislation on financial administration has been presented to the Legislature, including proposed amendments to existing legislation on financial administration (TOCAF).*
- 2.50 Fulfilled. Together with the 1998 budget execution report, and in accordance with article 13 of the Constitution of the Republic, The Auditor General of the Nation presented<sup>11</sup> a bill to amend the five-year budget acts (15,903 of 1987 and 16,736 of 1996), which included the financial administration report (TOCAF). Subsequently, the parliamentary oversight committee responsible for reviewing this text presented it to the Chamber of Deputies in full session on August 16, 1999, for legislative consideration.
- 2.51 The proposed legislation includes provisions governing budget, cash management, and accounting systems, and two particularly important components in terms of the State reform process: (i) replacement of cash-basis with accrual-basis accounting, so that debt effectively incurred as of the close of the period is included in the public accounts; and (ii) rationalization of fiscal resource management with the creation of a single account in the General Treasury of the Nation.

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<sup>11</sup> Letter of June 30, 1999 from Luis A. Zunini Andrioli, Auditor General of the Nation, to Hugo Fernández Faingold, President of the General Assembly.

- 2.52 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06 (i) has been fulfilled.
- 2.53 **Clause 3.06 (j).** *Evidence that the inventory of land, offices and vehicles at the central government's disposal has been carried out.*
- 2.54 Fulfilled. The State reform program in Uruguay has included a process to rationalize public resources, including movable and immovable assets. This modernization process requires detailed knowledge of the condition of such assets. To that end, the government hired a consulting firm to prepare an inventory of land, offices, and vehicles belonging to the central government for review and preparation of a rationalization proposal. This inventory was completed in April 1999, approved by CEPRE on August 7, 1999, and accepted by the Bank on August 13, 1999.<sup>12</sup>
- 2.55 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06 (j) has been fulfilled.
- 2.56 **Clause 3.06 (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.*
- 2.57 Fulfilled. The documentation presented to the Bank by the executing agency includes the consulting firm's report on the inventory of buildings and vehicles, the corresponding database, and a draft decree specifying the use of buildings classified as essential. The report, which was approved by CEPRE, provides recommendations concerning the classification of buildings, uses thereof that are considered essential, their appraised value, and recommendations to improve management of the fleet of vehicles. The report identified a total of 2,683 immovable assets, of which 2,089 are considered necessary for the performance of State functions and 594 are deemed nonessential. The estimated value of this latter group, at market prices, is US\$27.2 million. 4,731 vehicles owned by the central government were also identified, 1,374 of which were deemed nonessential and valued at US\$4.1 million.
- 2.58 The draft decree specifies the buildings deemed nonessential based on the consulting firm's proposal, authorizes their transfer, and establishes criteria for use of the resources made available. Based on this criterion, 75% is allocated to projects approved by CEPRE to improve service to users; and the remaining 25% is allocated to the Ministry concerned for use in investment projects.
- 2.59 In view of the foregoing, the documentation submitted to the Bank constitutes adequate evidence that clause 3.06 (k) has been fulfilled.

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<sup>12</sup> Aide-memoire supervision mission, reform of the State sector program (loan 995/OC-UR).

### **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 the waiver for partial fulfillment of clause 3.06 (e), the Government of Uruguay has satisfactorily fulfilled the conditions established in the State reform program loan contract for release of the third tranche of the financing. Management therefore recommends to the Board of Executive Directors that it approve release of the third tranche of the financing.