

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **URUGUAY**

### **BUDGET MANAGEMENT STRENGTHENING PROGRAM**

**(UR-L1098)**

#### **LOAN PROPOSAL**

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2.	Monitoring and evaluation plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39093042">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39093042</a>
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## ABBREVIATIONS

AGESIC	Agencia de Gobierno Electrónico, Sociedad de la Información y del Conocimiento [Agency for the Development of e-Government and the Information and Knowledge Society]
ANEP	Administración Nacional de Educación Pública [National Public Education Administration]
ASSE	Administración de Servicios de Salud del Estado [National Health Services Administration]
AWP	Annual work plan
DGI	Dirección General Impositiva [National Revenue Service]
DNA	Dirección Nacional de Aduanas [National Customs Administration]
GEMAP	Sistema de Gestión de las Modificaciones de Asignaciones Presupuestales [Budget Allocation Modification Management System]
ICT	Information and communications technology
INAU	Instituto del Niño y Adolescente del Uruguay [Uruguayan Institute for Children and Adolescents]
IT	Information technology
MEF	Ministry of Economy and Finance
MEP	Multiyear Execution Plan
PCU	Project Coordinating Unit
TCR	Tribunal de Cuentas de la República [State Audit Office]
UPN	Unidad de Presupuesto Nacional [National Budget Unit]

## PROJECT SUMMARY

### URUGUAY BUDGET MANAGEMENT STRENGTHENING PROGRAM (UR-L1098)

Financial Terms and Conditions					
<b>Borrower:</b> Eastern Republic of Uruguay <b>Executing agency:</b> Ministry of Economy and Finance (MEF) - National Budget Unit (UPN)			<b>Flexible Financing Facility*</b>		
			Amortization period:		25 years
			Weighted average life (WAL):		15.25 years**
			Disbursement period:		5 years
			Grace period:		5.5 years
<b>Source</b>	<b>Amount</b>	<b>%</b>	Inspection and supervision fee:		***
IDB (Ordinary Capital)	US\$12 million	80	Interest rate:		LIBOR-based
Local	US\$3 million	20	Credit fee:		***
Total	US\$15 million	100	Approval currency:		U.S. dollars from the Ordinary Capital
Project at a Glance					
<b>Project objective:</b> The program will help improve efficiency in budget resource management. This will be achieved by strengthening the management of information during the budget cycle, which includes: (i) generation—in each government agency—of the information needed to support budget formulation and execution processes; and (ii) incorporation of this information in the budget allocation and execution decision-making processes of government agencies as well as the MEF (paragraph 1.15).					
<b>Special contractual conditions precedent to the first disbursement:</b> The executing agency will submit evidence of the following to the Bank: (i) appointment of the program’s technical coordinator; and (ii) entry into force of the program’s Operating Regulations under the terms approved by the Bank (paragraph 3.9).:					
<b>Exceptions to Bank policies:</b> None					
<b>Project qualifies as:</b>		SEQ [ ]	PTI [ ]	Sector [ ]	Geographic [ ]
					Headcount [ ]

\* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

\*\* The original weighted average life (WAL) of the loan may be shorter, depending on the effective date of signature of the loan contract.

\*\*\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problems to be addressed, and rationale

- 1.1 **Background.** In recent years, progress has been made in Uruguay in the management of budget resources and financial information, as well as in the monitoring of public programs and projects. The Budget Allocation Modification Management System (GEMAP) was implemented for the five-year budget (2010-2015) and allows each government agency to upload their budget requests for review and approval by the Ministry of Economy and Finance (MEF) and the Office of Planning and Budget.<sup>1</sup> In addition, a conceptual model was designed for a financial administration system and its development was initiated;<sup>2</sup> and a programs and projects monitoring system and a national public investment system were created.<sup>3</sup>
- 1.2 Despite all of this progress, there are still opportunities to improve efficiency in the management of budget resources.<sup>4</sup> In this regard, the main problem this program will address stems from the fact that there is little consideration of information on institutional performance in budget allocation and execution decision-making processes, for reasons of availability of such information as well as the capacity to use it.
- 1.3 In the Uruguayan budget system, financial resources are allocated at three complementary times: (i) at the beginning of each term of government, through a five-year budget act;<sup>5</sup> (ii) during the budget adjustment approved by Parliament

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<sup>1</sup> With the support of the Bank through the Program to Strengthen the Control and Budget Management Units (UR-L1031) approved in 2008 with a US\$2.2 million loan. The completed project helped set up the MEF's National Budget Unit (UPN) and improve the management of the government's internal and external control agencies.

<sup>2</sup> Financing was received from the Bank to design the conceptual model (with resources from operation 2085/OC-UR; UR-L1031). The development and implementation of this model is being supported through the Program to Modernize Public Financial Management (UR-L1089) approved in 2013, with a US\$14.5 million loan.

<sup>3</sup> The monitoring and evaluation system has been set up and consolidated. It was supported by the Bank through two operations: (i) Program to Enhance the Quality of Expenditure and of the Budget Process (1795/OC-UR; UR-L1027, with a US\$1.4 million loan approved in 2006); and (ii) Support for the Implementation of Results-based Management (ATN/OC-10195-UR; a US\$0.45 million nonreimbursable technical-cooperation project approved in 2006). The development of the National Public Investment System (SNIP) culminated in 2013 and is currently being implemented in the agencies. It was supported by the Bank through the National Public Investment System (SNIP) project (ATN/OC-10067-UR), with US\$0.7 million in nonreimbursable technical-cooperation resources approved in 2006. In addition, through the Project to Strengthen Results-based Management (ATN/OC-14068-UR, a US\$0.5 million nonreimbursable technical-cooperation project approved in 2013), the Bank is supporting the operational and ex post evaluation of public programs and projects, as well as the consolidation of the SNIP.

<sup>4</sup> Budget resources management is understood as the set of practices, processes, and tools used to plan, formulate, approve, execute, monitor, and evaluate the use of budget resources.

<sup>5</sup> The five-year plan explicitly includes an amount for each of the five years, for each project and expense category.

each year (Accountability Act);<sup>6</sup> and (iii) budget supplements that are requested in the course of each fiscal year<sup>7</sup> and are approved by the executive branch, with the intervention of the MEF. Based on the resources allocated through the five-year budget and Accountability Act (annual adjustment), the MEF, as the apex agency in economic-financial management, makes monthly cash projections in order to accommodate the normal flow of payments resulting from the approved budget allocation.

- 1.4 In many cases, the budget forecasts of apex agencies as well as the various public entities do not match their actual financial requirements. Accordingly, there is an under-execution of the annual approved budget and, at the same time, budget supplements are requested to supplement the allocation in certain programs.<sup>8</sup> Budget under-execution and supplements generate financial costs since they cause the MEF to resort to public borrowing to build up reserves and keep them available to accommodate annual budget requirements. These unnecessarily high reserve levels and the respective financial costs would be lower if the variance between the approved budget and the executed budget were smaller than what is currently seen.<sup>9</sup> Although Uruguay has an average performance level in the area of budget under-execution in Latin America,<sup>10</sup> there is still room for improvement in its budget management processes, which would generate significant savings in terms of the reserves tied up for this purpose.

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<sup>6</sup> Approved annually by Parliament in the “Accountability and Budget Execution Balancing Act.”

<sup>7</sup> The ceiling for these modifications is defined annually by Parliament through the Accountability Act and has ranged from 6% to 8% of the total annual budget in recent years.

<sup>8</sup> In the last three years (2011-13), average under-execution was 6% of the budget, which translates to an annual average of US\$525 million, and supplements average 5% of the original allocation, representing US\$423 million per year—together, the equivalent of two percentage points of the country’s gross domestic product.

<sup>9</sup> Financial reserves to address budget needs and supplements come from public borrowing. These resources have on average an annual marginal financial cost of 5% if completely liquid assets are maintained, and an average annual cost of 3.5% if they are kept in safe securities that can be quickly liquidated. In 2013 these slippages in execution entailed a financial cost of US\$46.5 million for all national agencies included in the national budget and US\$19.6 million for the agencies in the sample.

<sup>10</sup> Uruguay’s performance level was similar to a middle group of five countries with recent Public Expenditure and Financial Accountability (PEFA) Reports (Bolivia, Brazil, Costa Rica, Honduras, and Peru). It scored higher than three countries with relatively low performance (Argentina, Paraguay, and the Dominican Republic), and lower than four high performance countries (Colombia, Guatemala, El Salvador, and Trinidad and Tobago). Source: PEFA Assessments [http://www.pefa.org/en/assessment\\_results](http://www.pefa.org/en/assessment_results)

- 1.5 Table 1 shows total budget amounts (initial budget and supplements) and execution levels in 2013 for the universe of Public Administration agencies as well as for a sample of agencies selected to represent this program's baseline.<sup>11</sup>

**Table 1. Approved and executed budget (2013)**

	<b>Initial Budget (US\$ million)</b>	<b>Supplement (US\$ million)</b>		<b>Budget Execution* (US\$ million)</b>	
Universe <sup>12</sup>	9,672	469	4.8%	9,583	94.5 %
Sample	4,403	209	4.7%	4,381	95%

\* The percentage of budget execution is calculated by dividing the amount executed by the total initial budget amount plus any supplements approved during the fiscal year.

- 1.6 In 2013, the sample agencies requested supplements totaling US\$167 million for operating expenses,<sup>13</sup> equivalent to 18% of these agencies' annual budget for such expenses; in turn, the agencies did not use 5%, or US\$218 million, of the amount made available to them.
- 1.7 This is directly related to limitations in the availability and use of information, both for apex agencies and the rest of the government agencies, with respect to key management issues, such as the type and quantities of services offered by each agency, as well as the indexing of the expenses incurred to the services produced that gave rise to such expenses. The lack of this type of information limits the capacity to properly estimate the amount of resources required to perform the agency's mandates over a certain period of time and leads to surpluses or deficits in

<sup>11</sup> The sample of agencies used for the program's baseline includes: (i) Central Administration agencies: the Ministry of the Interior (MI), the Internal Revenue Service (DGI), and the National Customs Administration (DNA); and (ii) four decentralized agencies: the National Public Education Administration (ANEP), the National Health Services Administration (ASSE), and the Uruguayan Institute for Children and Adolescents (INAU). These institutions account for 26% of the total number of agencies, received 59% of the total 2013 budget allocated to Central Administration agencies plus decentralized agencies listed in Article 220 of the Constitution, and executed 60% of their budgets. As can be seen in Table 1, their average supplement and under-execution levels are similar to those in the universe of institutions, and can therefore be considered a representative sample. These agencies meet the selection criteria set forth in paragraph 1.17 and would be eligible to be beneficiaries of the program.

<sup>12</sup> Includes Central Administration agencies (ministries and Office of the President) and the decentralized agencies described in Article 220 of the Uruguayan Constitution, such as ANEP, ASSE, INAU, the University of Uruguay, the Technological University, the Judicial Branch, the State Audit Office, the Electoral Court, the Administrative Procedure Court; plus various loans, subsidies and grants.

<sup>13</sup> Operating costs cover all of those expenses (goods and services, including outsourced personal and professional services) that do not constitute a purchase or construction of assets and do not represent payments to public employees. This is the category of expenses in which the biggest variances between budget and actual expenditure can be found. Source: Accountability Act, 2013: Economic-Financial Report: Chapter X Budget Management.



the amounts allocated in the annual budget.<sup>14</sup> In the Public Administration, an understanding of the factors that determine the actual expenditure level of each institution and unit is very limited. As a result, resource needs cannot be anticipated and reasonably budgeted, nor can the necessary budget adjustments be managed via internal transfers between projects with surplus funds and projects with deficits.

- 1.8 Furthermore, certain weaknesses have been observed in the apex agency for economic-financial management (MEF) in terms of fulfilling its role in budget allocation and reallocation analysis and decision-making. These weaknesses stem from: (i) a lack of regulations and standardization of the formats and content of the information that the agencies should send to the MEF to support their budget allocation or modification requests; (ii) weaknesses in the ability to link information on economic-financial execution with data on the number of services provided by the agencies;<sup>15</sup> (iii) poorly systematized procedures for analyzing resource allocation and reallocation proposals; and (iv) absence of practices for evaluating the quality and completeness of the information received from the agencies.
- 1.9 The GEMAP system, which is used by the agencies to send their budget supplement requests to the MEF, leaves it up to the requesting agencies to decide on the parameters used to determine the amount of the budget requests they deem necessary in order to provide their services. Moreover, in the vast majority of cases, the requests lack any such parameters, which forces the MEF to instruct the agencies about the information needed to support their request, on a case-by-case basis. There is no protocol that guides the requester on how to provide grounds for its request and facilitate the MEF's analysis and processing thereof.<sup>16</sup>

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<sup>14</sup> Thus, for example, the government health services provider (ASSE) lacks procedures and systems for evaluating expenditure and information on the cost of each service, which determine its budget management capacity. ANEP (primary, secondary, and technical education provider) does not have budget information by program, or information on the costs incurred by each program or education modality. Source: Consulting Report: *"Identificación de Oportunidades para el Fortalecimiento de la Gestión Presupuestaria,"* Luciana López (2014), pp. 22 and 31.

<sup>15</sup> The term "services" is used in a broad sense to refer to any deliverable generated by an agency to contribute to the total or partial achievement of a mandate or objective. It is therefore not limited to the end services provided to citizens and businesses. In addition, the quantity of services will be understood as the number of times a service is delivered per unit of time.

<sup>16</sup> Supporting information is saved in electronic format as independent records or documents saved and associated with each request. This prevents reprocessing the information in a standardized manner and properly analyzing it. Accordingly, the Budget Allocation Modification Management System (GEMAP) has represented significant progress in the structure and content of the information used for budget formulation and management, but the inclusion of parameters on the costs and demand for services is still limited.

- 1.10 In 90% of the budget supplement requests submitted to the MEF in 2013, the supporting documentation and rationale provided by the agencies was incomplete and required additional information to be prepared.<sup>17</sup> The universe affected by this situation includes 14 Central Administration agencies and nine decentralized agencies, which are subdivided into 196 organizational units that account for 70% of total public expenditure.<sup>18</sup> Limitations in terms of the availability and use of information by government agencies were quantified and described through a survey conducted by the Agency for the Development of e-Government and the Information and Knowledge Society (AGESIC),<sup>19</sup> which was conducted in the six agencies in the sample<sup>20</sup> and reached the following conclusions:
- a. Information related to the types, goals, and costs of the services provided is very limited: (i) only one agency has a list of all of the services offered; (ii) three have physical annual or multiyear production goals; and (iii) only one has information on the costs of producing the services provided.<sup>21</sup>
  - b. Historical information on the quantities of services provided is very limited: three agencies have such information, and only two have ratios on the coverage of their services with respect to the total market.
  - c. Only two agencies have data on the quality<sup>22</sup> of the services provided.
  - d. Only two agencies track management through institutional performance indicators using information technology systems.

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<sup>17</sup> Data furnished by the MEF and the UPN. Although problems in the information systems are not the only causal factor, they are understood as being highly relevant.

<sup>18</sup> The remaining expenditure corresponds to transfers to social security and interest on the public debt.

<sup>19</sup> The mission of AGESIC is to improve citizen services using the possibilities provided by information and communication technology (ICTs), by (i) defining and disseminating information technology regulations, and monitoring compliance therewith; (ii) analyzing technology trends; (iii) developing ICT projects; (iv) advising public institutions in the area of information technology; and (v) providing training on and publicizing e-government.

<sup>20</sup> For the composition of the sample, see footnote 11.

<sup>21</sup> Source: AGESIC (2014), *Relevamiento de Niveles de Madurez en Gobierno Electrónico*. This survey is a tool used to assess the capacity of public organizations in Uruguay to use ICTs and serve as a guide for improving them in order to achieve e-government objectives. At the Bank's request, AGESIC expanded this survey to include management and information systems on the management of services, taking into account the six agencies in the sample, among others. See [optional electronic link #3](#).

<sup>22</sup> In the survey's methodology, AGESIC understands quality as referring to the use of techniques such as standardized academic achievement tests and citizen satisfaction surveys.

- e. Lastly, the Index on the Development of Information Management for Provided Services that was constructed based on the survey concluded that, on a scale of 1 to 10, the average score of these agencies was 4.6.<sup>23</sup>
- 1.11 At the regional level, the Bank has broadly supported the strengthening of public expenditure management,<sup>24</sup> in which budget management is included as an essential tool. There is ample literature and evidence about the relevance and impact of budget management systems on efficiency and achievement of results in the public sector, as well as on the importance of having better information on the cost of services provided, in order to ensure better budget formulation and execution.<sup>25</sup>
- 1.12 The program strategy will consist of conducting interventions on two levels: (i) cross-cutting, to strengthen the entire budget management process, and (ii) vertical, to support the modernization of information management in selected agencies.<sup>26</sup> This will help these agencies modernize their budget management systems,<sup>27</sup> as well as other systems related to such management, and will help the MEF replicate and share this experience with other agencies. There is evidence showing a positive correlation between the level of development of budget and financial management systems and a smaller variance between budgeted and executed expenditure, as well as a lower level of budget supplements, in Latin

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<sup>23</sup> The index includes the availability of information in the following areas: (i) catalogue of the services provided by each agency; (ii) annual service delivery goals; (iii) projected and historical expenditure for each service; (iv) coverage of the services; (v) quality of the services; and (vi) methodologies and quality controls for the performance indicators. See [optional electronic link #3](#).

<sup>24</sup> [Optional electronic link #7](#) summarizes the lessons learned in related operations, including the Bank operations mentioned in footnotes 1, 2, and 3, as well as the following: the Public Administration Reform Program in Colombia (1561/OC-CO), the Modernization of the Executive Branch of the Federal Government Program in Brazil (1042/OC-BR), the Program to Support Results-based Budgeting in Mexico (2043/OC-ME), the Civil Service Professionalization Program in Paraguay (1776/OC-PR), and the Public Administration Institutional Reform Program (2653/OC-EC).

<sup>25</sup> See Andrews M. et al. (2014) "This is Public Financial Management," Marcel, Guzmán and Sanginés (2014), *"Presupuestos para el Desarrollo en América Latina"*; Anwar Shah (2007) "Budget and Budgetary Institutions." According to Cangiano, Currstine, and Lazare (2013) "Public Financial Management and its Emerging Architecture," page 6, Note 12: "Positive causality between the quality of budget institutions and fiscal outcomes has been demonstrated in numerous studies covering countries with different income levels, constitutional systems, and geographical locations." In addition, according to the U.S. Office of Management and Budget (2012), Memo M-12-14, page 2: "Once evidence-based programs have been identified, such an analysis can improve agency resource allocation."

<sup>26</sup> The program's potential scope of coverage will be the 23 agencies included in the national budget: 14 in the Central Administration (Office of the President and ministries) and nine decentralized agencies identified in Article 220 of the Constitution. The program seeks to act in around 10 agencies, i.e., nearly 40% of the total. It is not possible to pre-identify the agencies since the MEF feels it is advisable to agree on program participation with the new ministerial authorities that will take office in March 2015.

<sup>27</sup> This modernization will also increase efficiency in the management of the institution as a whole, since it will help make informed decisions on estimating resource needs and the subsequent effective use of such resources, and will also complement other management systems currently in operation.

American countries.<sup>28</sup> Some examples of management and information systems on services provided in Uruguay that could be improved are: (i) the SIIAS system [Integrated Social Information System] of the Ministry of Social Development (MIDES), which links information related to the execution of programs with their respective beneficiaries; (ii) the system for targeting programs and referring MIDES cases, which monitors citizens who benefit from social programs; (iii) the cost accounting system for benefits and services provided by the National Health Services Administration (ASSE), which is under construction to provide accounting of the costs and prices of benefits, services, and interventions; and (iv) the childhood information system of Uruguay's Institute for Children and Adolescents (INAU), which manages information on social services provided to children and the respective costs. In more general terms, the program will help improve information on institutional performance in terms of the production of services, as well as the expenses required to provide them. This is a 'seed' program that has the potential of being scaled to other Public Administration agencies.

- 1.13 This operation will strengthen and complement other operations developed by the Bank with the country. It will therefore build upon the capacities created with the support of program UR-L1031, in terms of creating the National Budget Unit (UPN) and strengthening coordination between annual financial programming, budgeting, and cash programming. It builds on the outcomes of the Program to Enhance the Quality of Expenditure and of the Budget Process (UR-L1027), which focused on the strategic planning of agencies and the definition of results-based performance indicators and targets, as well as on the programs to support the National Public Investment System (UR-T1013 and UR-T1035), aimed at fine-tuning the ex ante review processes and prioritizing of investment projects. It also complements the outcomes of the Tax Management Support Program (UR-L1028), which focused on efficiency in the management of tax revenues. This project adds value to the projects implemented in this area in Uruguay, in that it incorporates into budget management the costing of the principal products and services offered by the government and the consideration of projections of the demand for sector services. The design of this project includes the lessons learned in some of these other projects, such as using conservative criteria in the temporal programming of products and activities (UR-L1028), the advisability of a centralized execution plan (UR-L1031), and the use of standardized diagnostic assessment methodologies (AR-L1127) in the government agencies that will be program beneficiaries (see [optional electronic link #7](#)).

- 1.14 **Strategic alignment.** The operation is consistent with the public management and finance area of the country strategy with Uruguay for 2010-2015 (document GN-2626) and addresses the following challenges: (i) improvements in budget

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<sup>28</sup> Source: 2007-2013 PRODEV-ICS calculations based on data from the PRODEV survey for the Evaluation of National Results-based Management Systems in Latin America and the Caribbean. See [optional electronic link #7](#), Correlation between the development of budget and financial management systems and budget under-execution levels.

formulation; (ii) simplification of processes and procedures; and (iii) strengthening of public program monitoring and evaluation systems. In particular, the program contributes to the indicator in the strategy's results matrix of "public programs with budget allocations that have at least one performance indicator." The program will contribute to the financing priority of the Ninth General Increase in Resources of the Inter-American Development Bank (document AB-2764) (GCI-9) to support small and vulnerable countries. It also contributes to the regional output "public financial systems implemented or improved (budget, treasury, accounting, debt, and revenue)," as set forth in the results matrix. Furthermore, it stresses the importance of strengthening public institutions to promote development in the region, pursuant to the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2).

## **B. Objectives, components, and cost**

- 1.15 **Program objective.** The program will help improve efficiency in budget resource management. This will be achieved by strengthening the management of information during the budget cycle, which includes: (i) generation—in each government agency—of the information needed to support budget formulation and execution processes; and (ii) incorporation of this information in the budget allocation and execution decision-making processes of government agencies as well as the MEF. The program will include the following components:
- 1.16 **Component 1. Strengthening of the apex agency for economic-financial management (US\$2 million).** At the crosscutting level, the program will help improve the capacity of the MEF—apex agency for economic-financial management—to fulfill its role in budget formulation and management decision-making. To this end, it will seek to develop and implement: (i) instructions containing rules and standards for the presentation of information by government agencies; (ii) a system that links economic-financial execution information with the number of services provided by the agencies; (iii) interoperability services published on the AGESIC platform, facilitating access to the information and management systems of other agencies;<sup>29</sup> (iv) protocols for the processes of analysis and support for the UPN's decision making on the allocation and reallocation of resources; (v) index on the quality of the documentation supporting requests for budget modifications during the fiscal year, developed and disseminated to government agencies;<sup>30</sup> (vi) change management plan and training of the apex agency's employees; and (vii) preparation of the strategy for disseminating the program to government agencies.

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<sup>29</sup> Such as the Integrated Financial Information System, Government Procurement Information System, GEMAP, and others that already exist or will be developed in government agencies.

<sup>30</sup> The methodology used to develop the index will include at least the following criteria: (i) timeliness of the budget modification request; (ii) completeness of the information furnished; (iii) consideration of alternative sources of financing; (iv) inclusion of a cost analysis in budget projections; (v) consideration of demand estimates; and (vi) based on information generated by internal management systems, among others. Program resources will be used to develop the methodology for this index in the first half of 2015.

- 1.17 **Component 2. Strengthening of information and management systems in government agencies (US\$11.2 million<sup>31</sup>).** At the vertical level, the program will contribute to having more complete and better integrated information systems in the agencies that are selected, and will help incorporate information in budget formulation and execution decisions. To select the agencies that will participate in the program, the following criteria were defined: (i) the area or sector that is a government priority; (ii) the agency's participation in the national budget; (iii) the agency's participation in requests for annual budget supplements; and (iv) the level of under-execution.<sup>32</sup> To execute this component, a diagnostic assessment on the status of information produced for budget management purposes will be financed in the selected agencies, which will help define the scope of the interventions to be financed by this operation.<sup>33</sup> The goal is to create an initial push for modernizing the other systems required to ensure the effective and efficient management of the entire institution. This will be supplemented by: (i) the design, implementation, and evaluation of projects to improve budget and information management;<sup>34</sup> (ii) development and adoption of tools for analyzing data and supporting decision-making processes; (iii) training for staff of budget management offices in ministries and decentralized agencies on the use of new work tools and methodologies; (iv) organization of workshops to share international best practices; (v) studies conducted on processes to improve the management and use of information in decision-making processes; and (vi) technology upgrades required to support the aforementioned projects and improvements.

### C. Key results indicators

- 1.18 **Expected outcomes.** The principal impact expected by the end of the program is improved efficiency in the management of budget resources, as measured by: (i) a reduction in the percentage of the budget not executed;<sup>35</sup> and (ii) a decrease in budget supplements with respect to the total budget of each agency. This will be achieved on the basis of the following outcomes: (i) improved rate of development

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<sup>31</sup> The estimated cost of the output "(i) the design, implementation, and evaluation of projects to improve budget and information management" in 10 agencies was US\$850,000 in direct costs, plus US\$120,000 in project management costs in each agency. This standard costing process was conducted in consultation with AGESIC.

<sup>32</sup> The MEF expected that the DNA and DGI (attached to the Ministry) would be pre-identified as participants, in order to provide continuity to the reform processes currently under way (supported by loans 1894/OC-UR, Customs Management Reform, and 1783/OC-UR, Tax Management Support), and they met the defined criteria.

<sup>33</sup> The diagnostic assessment methodology will capitalize on the Bank's experience in similar projects in Argentina (AR-L1127) and Chile (CH-L1085), as well as AGESIC's experience in surveying the current status of ICT management in Uruguay.

<sup>34</sup> The improvements in the information systems to be implemented will consider: (i) catalogue of services; (ii) quantification of services provided; (iii) determination of annual service delivery targets; and (iv) link between financial execution and the services provided, which makes it possible to quantify costs.

<sup>35</sup> For all central administration agencies, the agencies listed in Article 220, plus various credits, subsidies and grants.

- of information systems on the management of services; (ii) increase in the percentage of budget requests that are supported and explained based on cost estimates and service production and delivery targets; and (iii) increase in the percentage of budget requests that include the estimated demand for services in their formulation.<sup>36</sup>
- 1.19 **Beneficiaries.** Improved efficiency in the allocation of budget resources will directly benefit the MEF and another 10 agencies that will participate in the program, since by managing the budget based on empirical evidence, their budgets will be smoothly executed with lower transaction and financial costs. The program will indirectly benefit the population in general since, although not included as an explicit program objective, it will help the agencies provide their services more efficiently and effectively in the medium term. In addition, the employees of the apex and sector agencies will benefit by having better tools and processes for fulfilling their institutional missions.
- 1.20 **Economic evaluation.** The program is expected to have a satisfactory social rate of return. In the base scenario, the internal rate of return (IRR) is 15.9%, with a net present value (NPV) of US\$1,856,000 at the Bank's standard discount rate of 12%, and a cost-benefit ratio of 1.15. The benefits were monetized based on: (i) productivity gains due to shorter service delivery times achieved from having the required resources in the initial budget allocation (not having to wait for the requested supplements to be approved); and (ii) the savings in work time and the cost of human resources required to prepare, review, and approve supplement requests in the different agencies. The expected benefits figure was conservative, since it did not include the benefits that would stem from a more fine-tuned government financial program or the greater efficiency in public expenditure in general, attributable to improvements in the budget process. The results were sensitized for the size of the project's impact on benefit variables (monetary value of supplements and number of supplement requests processed) and for variations in the project's total cost. In the conservative scenario, lower values were used for the program's effects, along with higher investment and maintenance costs: the resulting IRR was 12% and the NPV was US\$24,000, whereas in the favorable scenario, with greater effects in terms of the impact on reducing supplements and lowering investment costs, the resulting IRR was 19.9% with an NPV of US\$3,688,000 (see optional electronic links #2a and 2b).

## II. FINANCING INSTRUMENTS AND MAIN RISKS

### A. Financing instruments

- 2.1 The program will be financed by an investment loan. The total cost of the program is US\$15 million, of which US\$12 million will be financed by the Bank from

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<sup>36</sup> The indicator baseline and targets were calculated based on the sample of agencies and will be recalculated once the 10 beneficiary agencies are identified.

Ordinary Capital resources, and the remainder financed from the local contribution. Table 2 describes the budget by component; the itemized budget can be found in [required electronic link #1](#).

**Table 2. Program costs**

Components	IDB	Local Contribution	Total
Component 1. Strengthening of the apex agency for economic-financial management	1,542,500	480,550	2,023,050
Component 2. Strengthening of information and management systems in government agencies	9,014,798	2,235,738	11,250,536
Project administration	967,087	283,712	1,250,799
Management team	874,387	233,712	1,108,099
Audits	-	50,000	50,000
Evaluations (midterm, final, and impact)	92,700	-	92,700
Contingencies	475,615	0	475,615
<b>Total</b>	<b>12,000,000</b>	<b>3,000,000</b>	<b>15,000,000</b>

## **B. Environmental and social risks**

- 2.2 In accordance with the “Environment and Safeguards Compliance Policy” (OP-703), there are no environmental or social risks associated with the activities included in this program, and it is therefore classified as a Category “C” operation.

## **C. Fiduciary risks**

- 2.3 The MEF has had extensive and positive experience as the executing agency for other Bank operations;<sup>37</sup> the last ICAS assessment conducted in November 2013 concluded that it has satisfactory institutional capacity and low risk for executing Bank-financed projects (see Annex III).

## **D. Other risks**

- 2.4 A risk evaluation and management workshop was conducted using the Bank’s methodology, in which the MEF and AGESIC participated.<sup>38</sup> At that workshop, three medium and three low risks were identified. The medium risks relate to: (i) potential lack of interest on the part of government agencies in participating in the program; (ii) weaknesses in interagency coordination between the executing agency and the agencies participating in the program; and (iii) the difficulty of retaining professionals and specialists involved in IT maintenance and the operational management of new technological solutions. To mitigate these risks, the

<sup>37</sup> It is currently the executing agency for the following loans: the Customs Management Reform (1894/OC-UR); the Program to Strengthen Control and Budget Management Units (2085/OC-UR); and the Program to Strengthen the Institutional Capacity of the MEF (2792/OC-UR).

<sup>38</sup> The Matrices for Program Risk Identification, Evaluation, and Mitigation contain details on the analysis of the program’s risks and the respective mitigation plan (to be reviewed annually).



program includes the following actions: (i) information and awareness-raising activities in the government agencies, combined with MEF incentives to encourage the agencies to submit budget requests supported by data on the costs and quantity of the services they provide; (ii) agreements to participate in the program signed with the beneficiary agencies; and (iii) formation of IT support teams, organization of training activities, and development of protocols; in addition, financial resources will be provided to outsource the maintenance of the information systems that will be implemented in connection with the program.<sup>39</sup> The following risks are considered to be low: (i) shift in the program's political priority when the change of government takes place in 2015;<sup>40</sup> (ii) user resistance to adopting the program's outputs; and (iii) potential difficulty of interagency coordination between the MEF and AGESIC.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Eastern Republic of Uruguay and the MEF will be the sole executing agency, which will act through the National Budget Unit (UPN) with the support of the MEF's Project Coordinating Unit (PCU).
- 3.2 The program will be the responsibility of the UPN's director, who will act as program director and will be assisted in technical and operational coordination matters by a technical coordinator, who may be hired using the loan proceeds. The director, with the technical coordinator's support, will be responsible for managing the program, including acting as interlocutor with the Bank, requesting disbursements, proposing contracting and procurement processes, reporting on the use of resources, and submitting annual work plans, procurement plans, and progress reports to the Bank. The technical coordinator will be assisted by: (i) two professionals to support execution of Component 1 of the program; (ii) consultants who will act as managers of technical assistance projects for the agencies (Component 2); and (iii) an individual responsible for program planning and monitoring.

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<sup>39</sup> The maintenance and operational management of the technological solutions financed by the program will be the responsibility of the beneficiary institutions, since the loan will only cover their design and deployment. According to information provided by the MEF, the Public Administration's agencies have sufficient resources for maintaining their information systems, and these resources will eventually be supplemented by the MEF for these new applications.

<sup>40</sup> In this regard, it should be noted that there are several overlaps in the government programs presented by the presidential candidates in terms of improving the efficiency and transparency of the public expenditure management processes to be supported by this program, which is why this risk is considered low.

- 3.3 The director will be supported in administrative, accounting, financial, and procurement matters by the PCU.<sup>41</sup> The PCU will include, at a minimum, an administrative-financial specialist and a procurement specialist, who will be financed by the loan proceeds. To benefit the program, the consultants that performed similar functions in the PCU for recent MEF projects could be directly contracted in order to take advantage of the knowledge and experience that they gained. Since it is a small unit, the MEF will establish the pertinent internal control mechanisms.
- 3.4 AGESIC will act as an advisor to the executing agency and will offer assistance to: (i) ensure that the technical assistance provided to the participating agencies is consistent with e-government standards and policies, and that the most is made of the government's IT assets; (ii) prepare bidding terms and conditions, (iii) select project managers (Component 2); and (iv) monitor technical assistance projects. A cooperation agreement will be signed by the MEF and AGESIC.
- 3.5 The Fiduciary Agreements and Requirements establish the frameworks for financial management and planning and for procurement oversight and execution that will apply to program execution. The program's Operating Regulations will establish duties and responsibilities in the coordination process, the structure of technical and fiduciary supervision, and the frequency and minimum content of monitoring reports.
- 3.6 The program activities will be carried out according to the programming implemented through the Multiyear Execution Plan (MEP) (which contains details on the execution of the entire program). Annual revisions of the MEP will be set out in the respective annual work plan (AWP). The MEP should be revised each year based on the actual progress made in the program. Annual revisions of the MEP and AWP will be submitted to the Bank for approval.
- 3.7 **Procurement of works, goods, and nonconsulting services and consulting services.** Procurement processes totally or partially financed by Bank resources will be carried out in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). The program calls for direct procurement in the approximate amount of US\$20,000 to update the GEMAP system, which is warranted because the tasks represent a natural continuation of previous work carried out (document GN-2350-9, paragraph 3.10(a)). The procurement plan contains details on the procurement processes that will be implemented during execution of the program, as well as the procedures applied by the Bank for their review.

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<sup>41</sup> The PCU is a MEF unit that reports to the Multilateral Organizations Relations Office and provides administrative, procurement, and financial-accounting management services to the different projects with external financing that are being executed by the MEF. The PCU has knowledge of, and experience in managing, the following IDB-financed projects: 1690/OC-UR, 2085/OC-UR, and 2792/OC-UR.

- 3.8 **Audits.** External audit services will be provided pursuant to the terms set forth in the Fiduciary Agreements and Requirements. The executing agency will submit consolidated annual audited financial statements for the program within 120 days after the close of the fiscal year. The final audited financial statements will be submitted within 120 days after the date set for the last disbursement of the operation.
- 3.9 **Special conditions precedent to the first disbursement of the program: the executing agency will submit evidence of the following to the Bank: (i) appointment of the program's technical coordinator; and (ii) entry into force of the program's Operating Regulations under the terms approved by the Bank.**

**B. Summary of arrangements for monitoring results**

- 3.10 **Monitoring by the executing agency.** The following documents will be used, among others: (i) results framework; (ii) MEP; (iii) AWP; (iv) monitoring and evaluation plan; (v) procurement plan; (vi) risk matrixes, (vii) disbursement plan; and (viii) progress monitoring reports. The executing agency will send semiannual status reports to the Bank for review.
- 3.11 **Monitoring by the Bank.** Supervision or inspection visits will be conducted, depending on the importance and complexity of execution, following the timeline set out in the MEP. The Bank will use the progress monitoring report system to monitor the operation, which will include estimated disbursements and the attainment of physical targets and outcomes.
- 3.12 Each year at least one joint meeting with the executing agency and the Bank will take place in order to discuss the following matters, among others: (i) the status of the activities identified in the AWP; (ii) the level of fulfillment of the indicators included in the results framework; (iii) the AWP for the following year; and (iv) the procurement plan for the next 12 months and possible modifications to the budget allocations for each component.
- 3.13 **Evaluation.** The results framework and monitoring and evaluation plan will be used to evaluate the program. The program calls for midterm, final, and impact evaluations covering technical, administrative, and financial matters. The midterm evaluation will be conducted when at least 40% of the resources have been disbursed, or two and one-half years into the program (whichever occurs first). The main objectives of this evaluation will be to review the status of all activities scheduled up to that time and any potential deviations that have occurred and the causes thereof, and to recommend corrective measures to be taken. The evaluation will also verify the midterm outputs generated, the occurrence of any risks anticipated in the respective matrix, and the implementation of measures to mitigate them. The final evaluation will be performed when at least 90% of the total resources have been disbursed and its objective will be to verify the progress made in reaching the targets specified for each of the expected outcomes and the generation of outputs by component.

- 3.14 The impact evaluation will be conducted in the first half of 2021<sup>42</sup> and will measure the impact of the interventions related to the quality of the budgeting process based on estimated costs and service production targets, and the improvement in the efficiency of budget resource management, as evidenced by a reduction in budget supplement amounts and the resources not executed. The difference-in-differences methodology will be used to evaluate the impact of strengthening capacities for information management. The difference-in-differences methodology compares the change in the level of interest variable in the treatment group before and after the intervention with the change in this variable in a control group. By comparing only changes, the methodology controls for both observable and unobservable characteristics that do not change over time. The change in the control group is an estimate of the counterfactual, i.e., what would have occurred in the treatment group if there had been no intervention.
- 3.15 The evaluation will be conducted on two levels: at the level of the executing unit and at the level of the budget supplement request. The universe is comprised of 196 executing units, which in 2013 submitted 253 budget modification requests to the MEF. The executing units that do not participate in the program will comprise the control group and the executing units that are targeted by the program will comprise the treatment group.

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<sup>42</sup> This is due to the fact that in order to verify Impact Indicator No. 1, the five-year budget for 2020-2024 must be formulated. This budget will be formulated and approved in the second half of 2020, which is why the impact evaluation is scheduled for 2021.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program		Lending to small and vulnerable countries.		
Regional Development Goals				
Bank Output Contribution (as defined in Results Framework of IDB-9)		Public financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues).		
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix		GN-2626	Improved budget management and consolidation of results-based management.	
Country Program Results Matrix		GN-2756-2	The intervention is included in the 2014 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Evaluable	Weight	Maximum Score
		8.1		10
3. Evidence-based Assessment & Solution		7.8	33.33%	10
3.1 Program Diagnosis		2.4		
3.2 Proposed Interventions or Solutions		2.4		
3.3 Results Matrix Quality		3.0		
4. Ex ante Economic Analysis		7.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		0.0		
4.3 Identified and Quantified Costs		0.0		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		9.5	33.33%	10
5.1 Monitoring Mechanisms		2.5		
5.2 Evaluation Plan		7.0		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		C		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/PDP Criteria)	Yes	Financial management: (i) Budget, (ii) Treasury, and (iii) External control. Procurement: (i) Information system and (ii) Shopping method.		
Non-Fiduciary				
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality	Yes	A gender perspective is included in the systems that quantify the services provided and the potential demands for services. This dimension will also be taken into account in the training of human resources for executing units participating in the intervention.		
Labor				
Environment				
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project				
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan				

The document argues that the main problem is that decision-making to allocate and budget lacks sufficient supporting information. Because of these informational and data shortcomings, budget estimates do not fit future financial needs and the government is forced to provide "reinforcements" to supplement the allocation of certain programs, which implies financial costs.

To address these challenges, an operation is proposed that seeks to improve the efficiency of budgetary resources management by generating information at each agency and incorporating it into the budget decision-making.

The results matrix has a vertical logic in which budget management projects and a strengthened central governing body lead to proposals with improved support (particularly in terms of costs and targets). This, in turn, should lead to lower budget "reinforcements" and under execution.

The Monitoring and evaluation plan proposes a differences in differences impact evaluation.

## RESULTS FRAMEWORK

The program will help improve efficiency in budget resource management. This will be achieved by strengthening the management of information during the budget cycle, which includes: (i) generation—in each government agency—of the information needed to support budget formulation and execution processes; and (ii) incorporation of this information in the budget allocation and execution decision-making processes of government agencies as well as the MEF.

### EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year		
EXPECTED IMPACT: Improved efficiency in the management of budget resources.							
1.Budget not executed with respect to the total national budget	Percentage	5.5	2013	4.5	2019	Financial accountability and budget execution balance – Annex “Economic-Financial Report.”	<p>The indicator refers to the percentage of the budget not executed by the end of each fiscal year in Central Administration agencies and the agencies listed in Article 220, plus miscellaneous subsidies and credits.</p> <p>There is evidence showing a positive correlation between the level of development of budget and financial management systems and a smaller variance between budgeted and executed expenditure, as well as a lower level of budget supplements, in Latin American countries. Source: 2007-2013 PRODEV-ICS calculations based on data from the PRODEV survey for the Evaluation of National Results-based Management Systems in Latin America and the Caribbean. See optional electronic link #10, Correlation between the development of budget and financial management systems and budget under-execution levels.</p>

Indicators	Unit of measure	Baseline		Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year		
2. Annual budget supplement with respect to the budget approved at the beginning of the year reduced in the area “Operation of agencies in the sample” <sup>1</sup>	Percentage	18	Average 2012-2013	9	Average 2017-2018	<p>Financial accountability and annual execution balance.</p> <p>Supplements granted for “Operation” (excluding salaries and investments) pursuant to Article 41 of Law 17,930.</p> <p>Formula: Average value of the following ratio in the third and fourth year of the administration (2017 and 2018):</p> <p>\$ Supplement for “Operation” granted to participants X 100 / “Operation” budget approved for participants</p>	<p>Budget supplements are the increases authorized by the MEF over the course of the fiscal year, with respect to the budgets originally approved by Parliament for that year.</p> <p>Averages from the third and fourth years of the administration will be compared, because the percentage of supplements increases as more time elapses since the government took office, hence comparable years are being used.</p> <p>The agencies considered to calculate the baseline are: DNA, DGI, Ministry of the Interior, ANEP, INAU, and ASSE. They were selected for this indicator based on their strategic role as providers of goods and services and their significance in terms of budget supplement requests.</p> <p>These agencies also meet the other criteria established for selection as possible program beneficiaries (see POD).</p>

<sup>1</sup> The baseline and targets for the indicators were calculated based on the sample of agencies and will be recalculated once the 10 beneficiary agencies are identified.

### EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline		Intermediate measurements		Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 1: Improvement in the information needed to support budget formulation and execution <sup>2</sup>									
1.1. Improved rate of development of information systems on the management of services.	Index value	4.6	2014			5.8	2020	AGESIC report on the Maturity Survey to be conducted in 2020	Levels defined by AGESIC. The indicator covers all of the agencies participating in the program, which will be evaluated when they join the program. The baseline refers only to the six agencies in the sample. The goal is for all participants to see a 25% improvement in their index. This index was deemed acceptable as an indicator of expected outcome, since it includes: (i) the availability of a catalogue of services; (ii) the availability of information systems to monitor service production targets; and (iii) processes to guarantee the quality of the monitoring indicators. See <a href="#">Optional electronic link 3</a> .

<sup>2</sup> The baseline and targets for the indicators were calculated based on the sample of agencies and will be recalculated once the 10 beneficiary agencies are identified.



Indicators	Unit of measure	Baseline		Intermediate measurements		Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 2: Information included in budget allocation and execution decision-making processes <sup>3</sup>									
1.2. Increase in the percentage of budget requests sent to the MEF that are supported and explained based on cost estimates and service production and delivery targets	Percentage	0	2014			30	2019	National Budget Office (UPN) report with information from the SPA system based on the rationale provided for the requests.  Formula: (E <sub>1</sub> + E <sub>2</sub> + ... + E <sub>6</sub> )/6  E <sub>1</sub> = Percentage of the budget amount requested by entity 1 supported by estimated costs and the quantity of the goods and services to be provided.  6= Number of entities in the sample.	At the beginning of each fiscal year, each government agency submits its budget adjustment request to the MEF to supplement the budget programmed for that year, based on the National Budget Act for the five-year period.  The indicator refers to the percentage of the budget increase requested by the agencies in the sample (DNA, DGI, MI, ANEP, INAU, and ASSE) and submitted to the MEF for inclusion in the Annual Budget Adjustment Act (Accountability Act) that considered estimates of service delivery and production costs and targets in its calculations. Thus, the indicator reflects the inclusion of information in the budget allocation decision-making process.  Although one of the six agencies in the sample surveyed in the AGESIC Survey says that it has information on production costs, this information is not included as support for the budget requests sent to the MEF.

<sup>3</sup> The baseline and targets for the indicators were calculated based on the sample of agencies and will be recalculated once the 10 beneficiary agencies are identified.

Indicators	Unit of measure	Baseline		Intermediate measurements		Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
1.3. Percentage of budget requests sent to the MEF that consider estimates of the demand for services in their formulation, if applicable	Percentage	0	2014			30	2019	Annex to the Budget and Accountability Act. Substantiation of the article (MEF). Baseline, through the internal report of the MEF's UPN. Formula: $(E_1 + E_2 + \dots + E_6) / 6$ $E_1$ = Percentage of the budget amount requested by entity 1 supported by estimated costs and the quantity of the goods and services to be provided. 6 = Number of entities in the sample.	Like the previous indicator, this one refers to the percentage of the budget increase requested by the agencies in the sample (DNA, DGI, MI, ANEP, INAU, and ASSE) and submitted to the MEF for inclusion in the Annual Budget Adjustment Act (Accountability Act) which considered estimates of the demand for services (in the event the agency is a provider of public services). Thus, the indicator reflects the inclusion of information in the budget allocation decision-making process.

## OUTPUTS

Output	Unit of measure	Baseline 2014	2015	2016	2017	2018	2019	Final target	Source/ Means of verification
<b>COMPONENT 1: Strengthening of the apex agency for economic-financial management</b>									
1.1 Instructions containing rules and standards on the presentation of information by government agencies, sent	Instructions	0	1	1	1	1		4	
1.2 System that links information on economic-financial execution with the physical production and costs of the services provided by the agencies, developed and implemented	Systems	0		1				1	

Output	Unit of measure	Baseline 2014	2015	2016	2017	2018	2019	Final target	Source/ Means of verification
1.3 Interoperability services published on the AGESIC platform, facilitating access to the information and management systems of other agencies	Services	0		2	3	4	6	15	
1.4 Protocols for the processes of analysis and support for the UPN's decision-making on the allocation and reallocation of resources, developed and distributed to government agencies	Manuals	0		1	1	1		3	
1.5 Index on the quality of information supporting budget supplement requests during the fiscal year, developed and disseminated to government agencies <sup>4</sup>	Index	0	1					1	Consultant's report with the methodology, disseminated by the MEF's UPN and sent to the Bank
1.6 Government employees in the apex agency who participate in the change management plan and training	Employees	0	10	10	10	10	10	50	
1.7 Program dissemination strategy, developed	Report	0	1					1	Consultant's report
<b>COMPONENT 2: Strengthening of information and management systems in government agencies</b>									
2.1 Projects to improve budget and information management systems in the participating agencies, approved, executed, and evaluated	Projects	0		1	2	3	4	10	There will be a final external evaluation for each project
2.2 Methodological tools for data analysis and support for the decision-making process, developed and available	Tools	0		1	1	1	2	5	

<sup>4</sup> The methodology used to develop the index will include at least the following criteria: (i) timeliness of the budget modification request; (ii) completeness of the information furnished; (iii) consideration of alternative sources of financing; (iv) inclusion of a cost analysis in budget projections; (v) consideration of demand estimates; and (vi) based on information generated by internal management systems, among others. Program resources will be used to develop the methodology for this index in the first half of 2015.

Output	Unit of measure	Baseline 2014	2015	2016	2017	2018	2019	Final target	Source/ Means of verification
2.3 Employees of the agencies trained in the use of the new tools and work methodologies	Employees	0	20	20	20	20	20	100	
2.4 Studies related to processes to improve the management and use of information in decision-making processes, conducted	Reports	0		1	2	1	2	6	
2.5 Workshops to share best practices, conducted	Documents	0	1	1	1	1	1	5	

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Uruguay  
**Project number:** UR-L1098  
**Name:** Budget Management Strengthening Program  
**Executing agency:** Ministry of Economy and Finance (MEF)  
**Prepared by:** Fiduciary Team (Nadia Rauschert and David Salazar)

### **I. THE COUNTRY'S FIDUCIARY CONTEXT**

- 1.1 The fiduciary agreements and requirements specified for this program are based on evaluations conducted in Uruguay in 2005, 2008, and 2011, and on the institutional assessment of the executing agency, the MEF, that was conducted in November 2013 using the Institutional Capacity Assessment System. It should be noted that the MEF has been responsible for loans 1690/OC-UR (Program to Create a Debt Management Office), 2085/OC-UR (Program to Strengthen Control and Budget Management Units), 2792/OC-UR (Institutional Capacity Program for the Ministry of Economy and Finance), and 3161/OC-UR (Financial Management Modernization Program).
- 1.2 Fiduciary risk in Uruguay is considered low, i.e. the likelihood of public or donor funds being used for unauthorized purposes is small. Public financial management in Uruguay is considered responsible and transparent. In relation to public procurement, although the country has a recognized legal and institutional framework and sound legal base, there are opportunities for improvement related to increasing effectiveness and reducing costs. Several studies have shown that corruption is not perceived as a problem. In terms of procurement, the country's risk is regarded as medium.
- 1.3 The total cost of the program is US\$15 million, which includes an investment of US\$12 million from the Inter-American Development Bank (IDB), and US\$3 million from the local counterpart. The borrower and guarantor will be the Eastern Republic of Uruguay and the executing agency will be the Ministry of Economy and Finance (MEF), which has an administrative-financial structure and a team of professionals who will be responsible for administering the program resources and ensuring the timely provision of the local counterpart funds.

### **II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT**

- 2.1 In terms of financial management and procurement administration, the executing agency is regarded as low risk.

- 2.2 Based on the results of the institutional analysis of loan 3161/OC-UR, conducted in November 2013, the key considerations are:
- a. In the area of financial management and accounting, the MEF is regulated by clear procedures set out in current laws and regulations enforced under strict internal and external controls stipulated by law, which, although not bureaucratically expedient, mitigate risks stemming from weaknesses in the internal control system.
  - b. The MEF has solid prior experience in procurement processes carried out according to Bank policies, and has performed adequately under both review modalities (ex ante and ex post).
  - c. The executing agency's staff has satisfactory experience in the Bank's procurement processes.
  - d. The executing agency is authorized to use the ex post review method for procurements up to the lower threshold for international competitive bidding (ICB) processes.
  - e. The executing agency's processes and general internal control environment are considered effective.
  - f. The recent project risk management exercise undertaken by the executing agency's staff found no fiduciary risks.
- 2.3 The project would operate with the following country systems:
- a. Budget. The program and corresponding loans will be included in the five-year budget for 2015-2020;
  - b. Treasury. The program will use the National General Account and, in terms of payments, unless the Central Bank serves as the payment account, operating accounts will be managed at the Banco de la República Oriental del Uruguay (BROU);
  - c. Accounting and financial reports. The MEF is one of the pilot institutions where International Project Management System processes have been tested and implemented. Therefore, program accounting will use this module, which is integrated with the expenditure execution module in the Integrated Financial Information System;
  - d. External control. External control may be performed by the State Audit Office (TCR), which has level I eligibility.

### **III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES**

- 3.1 In view of the foregoing considerations, the MEF is considered low risk and may only require minor mitigation measures to address its weaknesses. These measures may be in the form of suggestions for efficient and effective management of the program resources, provided, however, that the current

members of the Project Coordinating Unit (PCU) continue to serve as the fiduciary-administrative team for this new operation.

#### **IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACTS**

- 4.1 Considerations for the special provisions of the contracts are as follows:
- a. Exchange rate. For accounting in dollars, the same criterion as in loans 2792/OC-UR and 3161/OC-UR will be used, i.e. the exchange rate in effect in the borrower's country on the effective date of payment of the expenditure in the currency of the borrower's country will be used for conversion to dollars, as previously agreed upon with the borrower.
  - b. Financial statements. These statements will be submitted at the end of each year (starting in fiscal year 2015) and will be audited by the TCR or by an auditing firm acceptable to the Bank. The external auditors will also report on the review of disbursement processes and requests and the evaluation of the internal control system.
  - c. Bank account. For management of the operation, a specific bank account will be opened at the Central Bank of Uruguay.

#### **V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 5.1 The procurement policies applicable to this loan are the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9).
- 5.2 **Procurement execution**
- a. The procurement plan for the first 18 months will be processed through the procurement plan execution system (SEPA) prior to the start of any procurement processes. The procurement plan will be updated by the executing unit at least every 12 months.
  - b. The relevance of expenditures, i.e. terms of reference, technical specifications, and budget, is the responsibility of the project team leader, whose prior no objection will always be required to begin any procurement process, based on agreed operational criteria.

### 5.3 Procurement of works, goods, and nonconsulting services<sup>1</sup>

- a. Contracts generated and subject to ICB will use the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be conducted using bidding documents satisfactory to the Bank.
- b. Without detriment to the policies for the Procurement of Goods and Services Financed by the IDB (document GN-2349-9, paragraph 3.6), direct contracting may be used for technically simple and low-cost inputs and services, up to a maximum of US\$5,000 or the equivalent.

### 5.4 Selection and contracting of consultants

- a. **Consulting firms.** Consulting firms will be selected and contracted in accordance with the Bank's policies. Calls for proposals involving international publicity (for amounts above US\$200,000) will be subject to ex ante review.
- b. **Selection of individual consultants.**<sup>2</sup> Because of the need to maintain quality in the management of the PCU, the executing agency may use the single-source selection method pursuant to paragraph 5.4 of the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), in order to continue using the services of the individual consultants who have specific prior experience in other recent MEF projects.

5.5 **Training.** Pursuant to paragraph 3.6 of document GN-2349-9, direct contracting may be used when the individual value of each procurement is less than US\$4,000. For higher amounts, procurement will preferably be conducted using the appropriate competitive methods

5.6 **Advance procurement/retroactive financing.** The program does not envisage retroactive financing or recognition of expenses incurred by the local counterpart.

**Table V-1. Threshold amounts for Uruguay (US\$000s)**

Works ICB	Goods <sup>3</sup> ICB	Consulting Services International publicity
≥ 3,000	≥ 250	> 200

For more information, see the Bank's procurement web page.

5.7 **Main procurement processes.** Procurement processes for the first 18 months are listed in the procurement plan and do not involve technical complexity or procedures that warrant special attention.

<sup>1</sup> Nonconsulting services are treated as goods. See document [GN-2349-9](#), paragraph 1.1.

<sup>2</sup> Pursuant to section V of document GN-2350-9, no shortlist is required, and the procurement plan execution system (SEPA) will not be used.

<sup>3</sup> Includes nonconsulting services.



## 5.8 Procurement supervision

- a. The initial review method is ex post, subject to modification by agreement, as reflected in the procurement plan. ICB and consulting services in excess of US\$200,000 will be subject to ex ante review.
- b. The ex post review reports will not involve any physical inspection visits.<sup>4</sup> Given the executing agency's low risk, these visits will be replaced by verification, during the ex post reviews, of the documents proving delivery of goods at the beneficiary's offices. Should these be missing, a physical verification will be performed.

## 5.9 Financial management

- a. **Programming and budget.** The executing agency will demonstrate to the Bank that the local counterpart funding has been allocated for the first year of program execution at the time of fulfillment of the conditions precedent and annually thereafter (by end-February).
  - b. **Accounting and information systems.** The program will keep its accounts in the new SPI accounting module, which is linked to the Integrated Financial Information System (SIIF). Budget credits will be allocated and executed through the SIIF of the General Accounting Office (CGN), and commitments and payments related to the program will follow the procedures established by the CGN.
- 5.10 Financial statements for the program will be issued regularly, in accordance with Generally Accepted Accounting Principles, and will be audited annually by the TCR. The following financial statements will be delivered: (i) statement of cash received and disbursements made; and (ii) statement of cumulative investments and the corresponding explanatory notes. The report reviewing disbursements for the period and the internal control letter must also be included.
- 5.11 **Disbursements and cash flow.** For the execution of program funds, a special account will be opened at the Central Bank of Uruguay through the National Treasury Office (TGN). If, on the date the execution of the program begins, the BROU allows payments to be made directly to the beneficiary (payment account), these payments will be made directly from that account; otherwise, an operating bank account should be opened at the BROU in order to make the project funds available.
- 5.12 Disbursements will be made in the form of advances of funds, based on the program's actual liquidity needs and supported by appropriate financial projections. These advances of funds will preferably be made once every six months, after accounting for at least 80% of the amounts previously advanced. The disbursement request will be accompanied by the financial planning documents and reconciliation of funds. Disbursements will be processed using the

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<sup>4</sup> The inspection verifies the existence of procurement, leaving verification of quality and compliance with specifications to the sector specialist.

online (e-disbursement) mechanism. It is agreed that payments made in local or other currencies will be converted into U.S. dollars at the exchange rate in effect on the day prior to the date payment is made to the beneficiary.

- 5.13 **Control and internal audit.** Pursuant to the Amended Code of Accounting and Financial Administration, the State Audit Office (TCR) will preventively review all expenses related to program execution. In addition, the MEF is an executing agency subject to audits conducted by the National Internal Audit Office, pursuant to current regulations.
- 5.14 **External control and reports.** The external control will be performed by the TCR (country system) or, in its absence, by a private audit firm acceptable to the Bank. Financial audit reports will be delivered annually by 30 April during the disbursement period, pursuant to the International Standards on Auditing or the standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI), as applicable. The terms of contracting will be agreed upon in a services letter of agreement or contract, signed by the executing agency and the TCR or private firm, as applicable.
- 5.15 **Financial supervision plan.** The financial supervision plan contains the following points:
- a. Participation in the startup workshop organized by the project team, with a brief presentation on key fiduciary matters.
  - b. Review of the conditions precedent of a financial nature (financial management and internal control systems, audit arrangements, demonstration of budget appropriations).
  - c. Review of the annual work plans and initial financial plan prepared by the executing unit, to support the first advance of funds to be requested once the program has been declared eligible and disbursement planning for subsequent periods has been reviewed.
  - d. Financial visits during program execution, where the project's key financial and file management and control aspects will be evaluated. Disbursements will be reviewed on an ex post basis.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_\_/\_\_\_\_

Uruguay. Loan \_\_\_\_/OC-UR to the Eastern Republic of Uruguay  
Budget Management Strengthening Program

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 Eastern Republic of Uruguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Budget Management Strengthening Program. Such financing will be for an amount of up to US\$12,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 20\_\_)