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URUGUAY

BUDGET AND FINANCIAL MANAGEMENT PROGRAM

(UR-L1151)

LOAN PROPOSAL

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LINKS

REQUIRED

1. Multiyear Execution Plan (MEP) and annual work plan (AWP)
2. Monitoring and Evaluation Plan
3. Procurement Plan

OPTIONAL

1. Economic analysis of the project and spreadsheet
2. Itemized Budget
3. Draft Program Operating Regulations
4. Safeguards Policy Filter (SPF) and Safeguards and Screening Form for classification of projects (SSF)

ABBREVIATIONS

AGESIC	Agencia de Gobierno Electrónico y Sociedad de la Información y del Conocimiento [Agency for Electronic Government and Information and Knowledge Society]
AWP	Annual work plan
CGN	Contaduría General de la Nación [General Accounting Office]
DGS	Dirección General de Secretaría [Directorate General of Secretariat Services]
GRP	Government Resource Planning
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IRR	Internal rate of return
MEF	Ministry of Economy and Finance
MEP	Multiyear Execution Plan
NPV	Net present value
PCR	Project Completion Report
PCU	Project coordination unit
PFM	Public Financial Management
PMR	Progress Monitoring Report
SIIF	Sistema Integrado de Información Financiera [Integrated Financial Information System]
TCR	Tribunal de Cuentas de la República [National Audit Office]
TSA	Treasury single account
UGD	Unidad de Gestión de Deuda [Debt Management Unit]
UPN	Unidad de Presupuesto Nacional [National Budget Unit]
UPPP	Unidad de Proyectos de Participación Público-Privada [Public-Private Participation Projects Unit]

PROJECT SUMMARY

URUGUAY
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<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3" rowspan="2">Borrower: Eastern Republic of Uruguay</td><th colspan="2">Flexible Financing Facility [(a)]</th></tr>
<tr><td>Amortization period:</td><td>25 years</td></tr>
<tr><td colspan="3" rowspan="2">Executing Agency: Ministry of Economy and Finance (MEF), through the Dirección General de Secretaría [Directorate General of Secretariat Services] (DGS) with the support of the project coordination unit (PCU)</td><td>Disbursement period:</td><td>5 years</td></tr>
<tr><td>Grace period:</td><td>5.5 years [(b)]</td></tr>
<tr><th>Source</th><th>Amount (US$)</th><th>%</th><td>Interest rate:</td><td>LIBOR-based</td></tr>
<tr><td rowspan="2">IDB (Ordinary Capital):</td><td rowspan="2">17,000,000</td><td rowspan="2">85</td><td>Credit fee:</td><td>[(c)]</td></tr>
<tr><td>Inspection and supervision fee:</td><td>[(c)]</td></tr>
<tr><td>Local:</td><td>3,000,000</td><td>15</td><td>Weighted average life:</td><td>15.25 years[(d)]</td></tr>
<tr><td>Total:</td><td>20,000,000</td><td>100</td><td>Approval currency:</td><td>U.S. dollars</td></tr>
<tr><th colspan="5">Project at a Glance</th></tr>
<tr><td colspan="5">Project objective/description: The program will help to increase the effectiveness and efficiency of budget and financial management through: (i) increased generation and use of information for resource management in government agencies; and (ii) the modernization of public financial management procedures and tools in different units of the MEF.</td></tr>
<tr><td colspan="5">Special contractual condition precedent to the first loan disbursement: Submission to the Bank by the borrower of evidence that the program's Operating Regulations have taken effect under terms previously agreed upon with the Bank (paragraph 3.9).</td></tr>
<tr><td colspan="5">Exceptions to Bank policies: None.</td></tr>
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<tr><td colspan="2">Challenges:[(e)]:</td><td>SI ☐</td><td>PI ☐</td><td>EI ☐</td></tr>
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</table>

(a) Under the terms of 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.

(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan document.

(c) 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 applicable policies.

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

(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(f) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. Project Description and Results Monitoring

A. Background, problems, and rationale

1.1 **Background.** Over the last 10 years, various strides have been made in Uruguay in terms of public budget and financial management processes.[1] A conceptual model was designed for the central government's financial administration system.[2] The Ministry of Economy and Finance (MEF) has implemented or improved information and management systems in the areas of budget formulation and execution, government accounting, treasury, audit, cadaster, public debt, and public-private participation projects.[3]

1.2 In the area of budget formulation and execution, since 2010 information and management systems have been implemented to support the five-year budget preparation process, as well as to manage changes to the originally approved budget during budget execution.[4] In addition, a five-year budget preparation system was implemented that incorporates computerized interaction among the government agencies that are part of the national budget. This system can be used by each agency to submit its budget proposal, as well as for review and approval by the MEF, the National Civil Service Office, and the Office of Planning and Budget,[5] providing efficiency gains in budget formulation.

1.3 In the area of financial management, the quality of projections and annual and monthly reprogramming to meet agencies' financial needs was improved with the implementation of a Budget and Financial Information System that facilitates timely and effective decision-making by the Unidad de Presupuesto Nacional [National Budget Unit] (UPN) and the Tesorería General de la Nación [National Treasury Office] (TGN) during the budget cycle, and operates on a collaborative basis with the agencies' financial management offices. In addition, improvements were introduced in the coordinated management of the bank accounts of the various government agencies, making it possible to reduce balances and maximize financial returns. This was achieved in part thanks to the introduction of the Cash Management System, for which the TGN is responsible.[6]

1.4 With regard to accounting records and reports, efforts are being initiated to modernize the Sistema Integrado de Información Financiera [Integrated Financial

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[1] Refers to standards, systems, and procedures involved in programming, management, and control operations needed both for collecting and spending resources.

[2] The design of the conceptual model was financed by the Bank through the Program to Strengthen the Control and Budget Management Units (loan 2085/OC-UR).

[3] As of the date of the last diagnostic of the PRODEV Evaluation System (September 2013), Uruguay was among the eight countries with the best evaluations among 25 countries in Latin America and the Caribbean. Source: Kaufmann and Sangines, Avances y Desafíos en la Gestión para Resultados en el Desarrollo en América Latina y el Caribe, IDB, 2014, p. 22.

[4] Sistema de Gestión de las Modificaciones de Asignaciones Presupuestales [System for Managing Amendments to Budget Appropriations] (GEMAP).

[5] This office reports to the Office of the President, and its duties include preparing the budget in collaboration with the MEF.

[6] These innovations were financed by the Bank through loans 2085/OC-UR, 3161/OC-UR, and 3398/OC-UR.

Information System] (SIIF).[7] The current system is developed on a technological platform that is 21 years old and has limited ability to incorporate various functionalities, such as multiyear accounting, flexibility in report generation, and business intelligence processes.

1.5 A series of improvements is being implemented in the resource (financial, human, and material) management systems of central government agencies and decentralized agencies.[8] Institutional management improvement projects are currently being developed and implemented in 12 government agencies representing 46% of the budget.[9] In particular, support is being provided to develop or improve: (i) comprehensive resource management systems (or GRP systems) in nine agencies;[10] (ii) expenditure management and business intelligence systems at the Instituto del Niño y el Adolescente [Institute for Children and Adolescents]; (iii) the material resources management, procurement, and distribution system in the Government Health Services Administration; (iv) the system for tracking lawsuits against the government;[11] (v) the attendance module for the Human Management System of the Civil Service Office; and (vi) comprehensive personnel management systems at the Institute of the Child, the Primary Education Council, the National Institute for Adolescent Social Inclusion, and the Ministry of the Interior. The information provided by these new systems is expected to allow government agency managers to make decisions leading to a more efficient use of resources.

1.6 In areas related to the financing of public expenditure, the MEF has continued to strengthen its capabilities in managing the units responsible for the various revenue sources, the General Tax Bureau, General Customs Bureau, Debt Management Unit (UGD), and the Public-Private Participation Projects Unit (UPPP).[12]

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[7] Its development and implementation will be financed with funds from the Program to Modernize Public Financial Management (3161/OC-UR), now being executed.

[8] Decentralized agencies defined by Article 220 of the Uruguayan Constitution. The central government plus these decentralized agencies make up the group of agencies included in the national budget, which are financed with the government's general revenues.

[9] Refers to participation in 2017 budget execution and is calculated including central government agencies and the decentralized agencies defined in Article 220 of the Constitution. Thus, the following categories are excluded: transfers to social security, interest on the public debt, subsidies and grants and miscellaneous credits. It has the support of the Budget Management Strengthening Program (3398/OC-UR), now being executed.

[10] These are integrated resource management systems, known as "Government Resource Planning" or GRP systems. They consist of various modules, such as production of services, procurement, logistics, accounting (various types), budget and financial management, project management, warehouse inventories and control, and staffing. In two of the nine agencies, the systems are already in production (Ministries of Health and Labor), while in the remaining seven (Primary Education Council, Ministry of Foreign Affairs, Ministry of Agriculture, Ministry of Defense, Civil Service Office, Institute for Adolescent Social Inclusion, and Attorney General's Office) the projects are in the formulation or development stage. As a whole, the expenditure managed by these GRP systems, once they are implemented, equals 22% of the budget of the central government plus the decentralized agencies.

[11] The system is housed at the Ministry of Education and Culture and each ministry uses web access to input and update information related to complaints and lawsuits in which they are involved.

[12] The Bank has provided support through loans 2792/OC-UR for the Institutional Capacity Program for the MEF; 1894/OC-UR for the Program to Support Uruguay's National Customs Bureau; and 1783/OC-UR for the Tax Management Support Program.

1.7 **Main problem.** Despite the improvements that have been or are being implemented, improvement in the effectiveness and efficiency of the central government's budget and financial management needs to continue. Government agencies in general do not have adequate information for decision-making and for adopting actions to improve expenditure efficiency. This is evident, in part, in persistent deviations between what is budgeted each year and what is actually used (on the order of 4.2% of the budget in 2017).[13]

1.8 Underexecution of the budget represents a clear sign of deficiencies in processes related to resource management that impact expenditure effectiveness and efficiency, such as financial planning, management of reprogramming and adjustments to the annual budget, and management of procurement and contracting processes. These problems encompass a universe of 196 organizational units and 96 budgetary programs belonging to the central government and the decentralized agencies, which account for more than 50% of the national budget.[14] The existence of underexecution means that the government must incur financing costs or, if applicable, opportunity costs related to the availability of a volume of resources in excess of the amount actually executed.[15]

1.9 **Causal factors.** The causal factors of the main problem are: (i) limitations in information systems and technical capacities for generating and processing budgetary, financial, and management information;[16] and (ii) limitations in public financial management (PFM) tools and processes at the lead agency level (MEF).

1.10 With regard to the first causal factor, referring to limitations in information systems and technical capacities for generating and processing budgetary information and using it for decision-making by government agency management, little consideration is given to information on the volume of services provided, their costs, and other relevant variables in decision-making related to budget allocation, reallocation, and execution. Despite the promotion of integrated information and management systems in agencies, both the timely production and the use of data and information for decision-making, with economic and budgetary implications, are still in the early stage.

1.11 Information on the quantity and characteristics of services provided to citizens is fragmented within each agency. In addition, the agencies' production data are not linked to their financial execution, which prevents an analysis of costs.[17] In this

[13] The unexecuted amount in 2017 was US$463 million. This refers to the group of central government agencies plus the decentralized agencies included in the national budget (including miscellaneous subsidies and credits). Under Uruguay's budget system, economic resources are allocated at three complementary moments: (i) at the start of each government administration, through a five-year budget act; (ii) in the budgetary adjustment that the Parliament approves each year (Annual Accountability Act); and (iii) in budgetary adjustments made during the course of each fiscal year.

[14] With the remaining expenditure corresponding to transfers to social security and interest on public debt.

[15] The underexecution seen in 2017 would represent a financial cost of US$5.5 million.

[16] Refers to those that make up the national Budget, i.e., central government agencies and decentralized agencies as defined in Article 220 of the Constitution.

[17] According to the latest evaluation available, PRODEV Evaluation System (September 2013), the systems that provide information on the volume of services provided by agencies are generally in the initial implementation phase or in development, and the information on the quality of goods and services is satisfactory in only one of the four sectors shown (education). In addition, there are practically no indicators of efficiency in terms of the costs of services. Source: Detailed Country Report September 2013.

regard, the Uruguayan government has initiated a process of substantive improvement in the production, processing, and analysis of institutional information by government agencies through the development and implementation of GRP systems and other specific management systems.[18] These systems will make it possible to have timely and complete information to support management analysis and decision-making in each agency.

1.12 The project being executed will finance the development and implementation of GRP systems in nine agencies representing 22% of the budget. Despite these efforts, the coverage of agencies with GRP is still at a very early stage and needs to be expanded to include other agencies, most of which have the following limitations: (i) they use partial systems for the various areas of management and build isolated databases that are unconnected and not shared with the rest of the agency; (ii) they lack management systems in specific areas of their institutional mission; (iii) managers and directors do not systematically use information in the decision-making process in the daily management of the agencies; and (iv) there are few evaluations of management efficiency.

1.13 In addition, the agencies that have been supported with the development of GRP systems still have deficiencies such as: (i) the systems have different levels of functionalities among the agencies, making the availability of data very uneven; (ii) managers and directors still do not fully use the information generated by the GRP systems for decision-making;[19] and (iii) the evaluation of results achieved thanks to the new systems is still limited.

1.14 The second causal factor, related to limitations in PFM tools and processes, affects various areas at the MEF level, including budget and financial planning, budget execution, payment processes, control and audit actions, accounting records, and the consolidation of fiscal outcomes, cadastral databases, and non-tax public financing mechanisms (public debt and public-private projects).

1.15 In the area of cash management, integrated and efficient cash management is not feasible because there are still multiple bank accounts in the name of various government agencies. Although progress has been made toward a single account system, this progress is partial and has not allowed for the installation of the entire system,[20] thus foregoing the benefits that a treasury single account (TSA) system provides.[21]

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[18] With the support of the Bank through loan 3398/OC-UR, now being executed.

[19] This is understood as being due, in part, to the recent implementation of these systems, and secondly, to the lack of management training for their utilization.

[20] As of April 2018, there were 1,044 bank accounts of government agencies—except for those belonging to the Judicial Branch, Legislative Branch, the National Public Education Administration, the University of the Republic, the Technological University, the National Treasury, and Recoveries of the National Housing Agency. Source: MEF.

[21] The Treasury Single Account (TSA) is a tool that improves the overall effectiveness of the public financial management system; it helps to reduce debt service and cash reserve requirements and to maximize the return on investment of cash surpluses. Pattanayak and Fainbolm, IMF, 2011. In the period 2011-2017 a group of 480 accounts of different agencies under the national budget was closed.

1.16 Uruguay's alignment with the International Public Sector Accounting Standards (IPSAS) is low.[22] This restricts the utilization of accrual based accounting, which allows recognition of economic events that do not entail cash flows, the recording of stocks of assets and liabilities in financial statements, and the monitoring of contingent debts and liabilities, etc.[23] Despite progress in the development of the SIIF II[24] to improve the alignment of Uruguay's accounting standards with the IPSAS, certain weaknesses persist in the capacities of the General Accounting Office (CGN), both as the central agency for that development as well as for purposes of providing strategic guidance for the gradual implementation of the IPSAS, according to a gap analysis.[25] In addition, Uruguay's financial statistics are still prepared in accordance with the 1986 manual of the International Monetary Fund (IMF), demonstrating that the country lags behind with respect to current methodologies for compiling and reporting results.

1.17 The government's internal control system presents shortcomings at the level of each agency's internal audit function, which is weak or remains to be implemented in various agencies. This function is directed and regulated by the government's Internal Audit Office, a division of the MEF. According to a study being prepared, despite the external controls of the CGN and the National Audit Office (TCR) with regard to budget, financial, and procurement management, the internal control systems of government agencies are in many cases weak or nonexistent.[26]

1.18 Despite strides made by the UPN in standardizing state agencies' budget proposals and facilitating the expansion of information in support thereof, deficiencies persist both in budget planning and annual budget adjustments, and budget formulation based on cost centers associated with the main governmental outputs has not yet been achieved.[27]

1.19 In the area of cadastral databases, there is a technological lag that inhibits their transformation to make the delivery of new services viablefor citizens and companies. In addition, there are two cadastral databases, one for Montevideo and another for the rest of the country, and alphanumeric data are separated from geographic data. This restricts the services and usability that can be offered by cadastral data management systems, which are also used to support the operation of the tax system.

1.20 With regard to public debt, Uruguay has been characterized by professional management that has made it possible to effectively manage refinancing,

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[22] Source: Estado de Adopción de NICSP en los países de Latinoamérica y el Caribe, IDB, 2017; and Guía de Uso de Sistemas Nacionales, Draft report, Hernán Pflücker.

[23] See IMF (2016), Implementing accrual accounting in the public sector. Joe Cavanagh, Suzanne Flynn, and Delphine Moretti, Fiscal Affairs Department.

[24] Financed with resources from loan 3161/OC-UR.

[25] Uruguay did not transition to the 2001 Manual or the more recent 2014 Manual, and thus comparatively lag behind in this area.

[26] Source: Guía de Uso de Sistemas Nacionales, Draft report, Hernán Pflücker.

[27] According to the report from the Midterm Evaluation of loan 3398/OC-UR, prepared by CPA Ferrere, beyond the objectives of this project, there are pending challenges to be addressed in budget management: (i) establish common criteria for the work of the agencies; (ii) define packages of key indicators to be included in the business intelligence tools and dashboards; and (iii) develop agencies' production functions, defining the services and products that each agency makes available.

interest, and exchange rate risks. Through successive financing strategies, the MEF—supported by the UGD—has successfully extended debt maturities, reduced exposure to foreign currency debt securities, and protected itself against future interest rate hikes. Nonetheless, there is still a relative concentration of securities purchases in North American and European institutions, to the detriment of other investor markets,[28] which could represent a risk in the event of crises in these regions.

1.21 In the area of financing of public-private participation projects, Uruguay's mechanism is relatively new and the projects formulated for financing under this arrangement are in the early phases of contracting and implementation; only one project has entered the operational phase and one project is in the construction phase, with another 12 in preliminary phases.[29] Thus, the MEF's UPPP, which is responsible for supervision, has not yet developed the capacities needed to control and monitor the projects' operational phase, nor to evaluate them afterwards.

1.22 Lastly, there are certain gaps in analytical studies on subjects related to budget and financial management. For example: (i) there is no medium-term fiscal framework to help visualize the outlook for revenues and expenditures projected beyond the administration's term;[30] (ii) there is no detailed analysis of all fiscal contingencies that could affect the government's financial position, including various types of risks such as those due to climate change; and (iii) there are no exhaustive studies of the retirement and pensions system considering changes in the demographic and economic variables that affect it.

1.23 **Bank experience in the region and lessons learned.** The Bank has multidisciplinary experience in the design and implementation of similar projects on institutional strengthening and expenditure efficiency in other countries in the region: Program to Improve Public Service Quality (3073/OC-EC) and Public Administration Institutional Reform Program in Ecuador (2653/OC-EC); Public Management and Citizen Services Improvement Program in Chile (3298/OC-CH); Public Administration Reform Program in Colombia (1561/OC-CO); Program for the Modernization of the Executive Branch of the Federal Government of Brazil (1042/OC-BR); Program for Strengthening Provincial Institutions and Fiscal Management – Stage Two in Argentina (2754/OC-AR); Program to Support Results-Based Budgeting in Mexico (2043/OC-ME); and Program of Support for the Civil Service in Paraguay (1776/OC-PR). The lessons learned from these projects, applied to the design of this program, include the use of standardized methodologies for initial and post-implementation diagnostic assessment of government agencies benefiting from the program (2754/OC-AR), and the advisability of incorporating the dissemination of successful cases during the

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[28] With investors in North America and Europe holding nearly 80% of Uruguayan public debt securities issued on the international market, signaling dependence on the macroeconomic situation in those countries and regions.

[29] The Public-Private Participation (PPP) projects portfolio includes 14 projects in the following stages: (i) one project is in operation; (ii) one project is in the construction stage; (iii) five projects are in the financial closing stage; (iv) five projects are in the bid evaluation stage; (v) one project is in the structuring phase; and (vi) one project is in the bid preparation stage for the call for proposals.

[30] Although Uruguay has a highly consolidated five-year budget, financial planning weakens over the course of each government's term as the time horizon is reduced.

project implementation stage for purposes of building confidence among government managers and employees (2043/OC-ME).

1.24 **Bank experience in the country and lessons learned.** The Bank has a significant tradition of collaboration with Uruguay's MEF. Through various operations, it has supported transformation in multiples areas of the ministry's management: (i) with support from project 1894/OC-UR on customs management, an organizational and operating processes reform was implemented in the Customs Bureau; (ii) with financing from loan 1783/OC-UR on Tax Management Support, it collaborated with the General Tax Bureau to administer the system with the incorporation of tax reform; (iii) with support from loan 2085/OC-UR on strengthening control and budget management units, it provided financing for training auditors and developing government technical audit manuals for the Internal Audit Office; with the same operation, it supported the implementation of the MEF's National Budget Unit, and strengthened coordination among annual financial programming, budgeting, and cash programming; (iv) with support from loan 1690/OC-UR on the UGD the Bank helped to start up this unit and give it technical and human resources; (v) with support from loan 2792/OC-UR, the Institutional Capacity Program for the Ministry of Economy and Finance, the Bank collaborated to professionalize the UGD and helped to start up the UPPP; (vi) with support from the Budget Management Strengthening Program (3398/OC-UR), various integrated management system projects in state agencies have been developed and implemented; (vii) with collaboration from the Program to Modernize Public Financial Management (3161/OC-UR), a new integrated financial management system is being developed and implemented; and (viii) with resources from two nonreimbursable technical cooperation operations on Strengthening of the National Cadaster (ATN/KP-13942-UR) and Improvement of the Locational Accuracy of the Cadastral Map (ATN/KR-15491-UR), the Bank collaborated on modernizing the computerized user service and improving the accuracy of the geographic data in the national cadaster of properties and buildings. The program will build on the solid performance shown in earlier projects, both completed projects and projects still being executed, and will consolidate the Bank's support for the MEF.

1.25 The Bank has also supported the Office of Planning and Budget on issues related to this project, through loan 1795/OC-UR, the Program to Enhance the Quality of Expenditure and of the Budget Process, which focused on strategic planning and the definition of management indicators and targets; as well as programs supporting the National Public Investment System (ATN/OC-10067-UR and ATN/OC-14068-UR) aimed at improving ex ante analysis and prioritization of investment projects. The progress achieved through support for previous projects in these areas in Uruguay demonstrates the applicability of these good practices to this country.

1.26 The design of this project incorporates lessons learned from some of these projects, such as retaining conservative criteria in the scheduling of outputs and activities (1783/OC-UR), the advisability of a centralized execution mechanism (2085/OC-UR), and the advantage of having a basic GRP system with components common to all agencies, notwithstanding specific traits that the various agencies add to their own GRPs (3398/OC-UR).

1.27 **Empirical evidence.** The program will promote the incorporation and/or consolidation of internationally validated standards and good practices in the various areas of public financial management. For example, the program will promote: (i) progress toward the TSA; (ii) adoption of IPSAS standards; (iii) incorporation of updated fiscal outcome standards (IMF-2014 or the equivalent); (iv) use of institutional and economic performance information for decision-making at the managerial level of public agencies and in the MEF itself;; (v) strengthening of internal control practices in institutions; (vi) professionalized management of debt and public-private projects; and (vii) results-oriented management practices. There is literature and evidence regarding the relevance and impact of budget management systems on efficiency and achievement of results in the public sector, as well as the importance of having better information on the costs of services delivered for better budget formulation and execution.[31] The economic benefits derived from establishment of the TSA have been measured and publicized. Thus, for example, in Guatemala, in 2014 alone it generated savings amounting to US$5.6 million.[32] In addition, according to experts,[33] the adoption of the IPSAS leads to better information for decision-making on resource allocation by governments and, in this way, leads to increased transparency and accountability. In addition, the advantages of efficient public debt management are broadly documented.[34] There is also consensus regarding the advantages of greater integration of the information systems of the various areas of public sector management, an objective that can be achieved through GRP systems.[35]

1.28 **Value added by the program**. The value added first consists of expanded coverage of the Budget Management Strengthening Program (3398/OC-UR) now being executed, to reach agencies that have not yet benefited from the program and, second, strengthened financial management in various areas of the MEF, supplementing the improvements under way with the Program to Modernize Public Financial Management (3161/OC-UR) now being executed, encompassing, *inter alia*, streamlining the management of available funds, alignment with the IPSAS,

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[31] 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, Curristine, and Lazare (2013) "Public Financial Management and its Emerging Architecture," p. 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 Office of Management and Budget of the U.S. Federal Government (2012), Memo M-12-14, p. 2: "Once evidence-based programs have been identified, such an analysis can improve agency resource allocation."

[32] See Public Financial Management in Latin America, Pessoa, M. and Pimenta, C. (2015), page 7.

[33] According to Bortone, A. and Nayibe, C. (2013), "Las NICSP: Una revisión de los aspectos clave a considerar."

[34] According to the IMF Guidelines for Public Debt Management (2001), "By reducing the risk that the government's own portfolio management will become a source of instability for the private sector, prudent government debt management, along with sound policies for managing contingent liabilities, can make countries less susceptible to contagion and financial risk." According to Doemeland, D (2018), in Improving Public Debt Recording, Monitoring and Reporting Capacity, "Rising sovereign debt levels, coupled with recent cases where debt monitoring and disclosure had been inadequate, have highlighted the need for greater attention in building capacity in these areas."

[35] According to C. Pimenta and M. Pessoa, "…budget planning, cash forecasting, budget allocation and procurement systems need to work in parallel. As such, the integration of e-procurement systems with other PFM systems, such as IFMIS and the TSA, is critical." In Public Financial Management in Latin America, Pessoa M. and Pimenta C. (2015), p. 14.

incorporation of current methodologies for compiling fiscal statistics, and diversification of markets for public debt securities.

1.29 **Strategic alignment.** The operation is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (document AB-3008) and aligned with the crosscutting themes of: (i) institutional capacity and rule of law, through increased "efficiency, effectiveness, and transparency of institutions;" and (ii) climate change and environmental sustainability. Approximately 0.14% of the operation's resources are invested in climate change mitigation and adaptation activities, in accordance with the joint methodology of the multilateral development banks for estimating climate finance. These resources contribute to the IDB Group target of increasing financing for projects related to climate change to 30% of all operational approvals by the end of 2020. The program is also aligned with the Corporate Results Framework (CRF) 2016-2019 (document GN-2727-6) based on the indicator "Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery." It is also aligned with the Strategic Development Program (document GN-2819-1) in the section on institutional development in that it contributes to the following objectives: (i) development of public policies and institutions that are more effective, efficient, open and citizen-centered; and (ii) improvement in service delivery to citizens. It is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), and consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-3) in terms of improving the quality and effectiveness of spending programs with greater impact on equity, reduction of social gaps, and human capital. The operation is also in line with the IDB Country Strategy with Uruguay 2016-2020 (document GN-2836), as it helps to achieve the strategic objective of strengthening public management systems. Lastly, it is included in the Update to Annex III of the 2018 Operational Program Report (document GN-2915-2).

B. Objectives, components, and cost

1.30 **Program objective.** The program will help to increase the effectiveness and efficiency of budget and financial management through: (i) increased generation and use of information for resource management in government agencies; and (ii) the modernization of public finance management procedures and tools in different units of the MEF.

1.31 This program will consolidate or deepen results achieved or being consolidated in the projects being executed by the MEF as noted above. The program will be structured in the following components:

1.32 **Component 1. Information management in government agencies (US$13.6 million).** In this component, the program's objective is to help improve effectiveness in the allocation and use of resources in government agencies through increased availability of information for middle and senior management in those agencies. To achieve this, the program plans to: (i) expand the implementation of integrated resource management systems in government

agencies;[36] (ii) develop and implement specific information management systems to improve management areas not covered by the GRP system;[37] (iii) standardize and update the GRP systems in eight agencies under the national budget; (iv) implement process improvement plans in government agencies benefitting from GRP projects;[38] (v) prepare reports on the evaluation of results; (vi) hold events to disseminate the program and its results; and (vii) train management personnel in the use of information for decision-making.[39]

1.33 **Component 2. Strengthening financial management (US$4.7 million).** In the PFM dimension, the objective is to contribute to greater efficiency in resource management by improving technical and human capabilities, work processes, and computer systems involved both in nontax financing mechanisms and in the application of resources, including payment processes, accounting, and audit.

1.34 To achieve this, the component will provide assistance to various public financial management areas within the MEF sphere, for the purpose of contributing to the general objective of improving efficiency in both resource management and utilization. Financing will be provided in particular for: (i) the implementation of a new payment process management model, including strengthening the treasury single account system; (ii) development of a plan for alignment with the IPSAS and implementation of its first phase; (iii) the implementation of a pilot fiscal statistics compilation project;[40] (iv) the implementation of a governmental internal control system;[41] (v) the implementation of a new operational UPN model;[42] (vi) the development and implementation of a new cadaster information system; (vii) the implementation of a strategy for government debt management; (viii) the

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[36] Program 3398/OC-UR is helping agencies to develop and implement comprehensive management systems. The new program will not be universal but will assist an estimated number of eight new agencies that apply for support and meet the requirements for acceptance: (i) ability to implement the project; and (ii) assignment of personnel for implementing and adopting reforms in the agency. Central government agencies (ministries and their reporting entities) will be eligible as will the decentralized agencies under the national budget. Although participating in the program is voluntary, there are signs of interest on the part of agencies that are very important both in terms of their volume of expenditure and their strategic importance, including the Government Health Services Administration, the National Customs Bureau, and the Ministries of the Interior, Industry, Social Development, and Economy and Finance.

[37] The plan is to implement an electronic legacy system (work history) led by the National Civil Service Office, for central government employees and to expand the scope of the system for lawsuits against the government to all the ministries (the current system covers five ministries).

[38] These improvements refer to processes such as planning, distribution, vehicle management, fixed asset management, integration with related systems such as the new integrated financial information system.

[39] This training is in addition to what will be provided for technical personnel and information system users in each of the agencies, covering change management and implementation tasks.

[40] The following criteria will be considered in selecting the pilot: (i) relevance of the agencies in terms of the volume of government resources they manage; (ii) availability of the agency's information systems; (iii) potential improvement in statistics compared to the initial situation; and (iv) institutional commitment of participating agencies.

[41] The new internal control system to be implemented will include: (i) the development of an IT platform for recording and sharing internal control self-assessments; (ii) training for state agency staff on the use of the platform; and (iii) recording and monitoring the implementation of improvements recommended for agencies by Internal Audit.

[42] The new model for the UPN will include: (i) the design and start-up of new budget execution reports for parliament and society; (ii) the design and development of a data analysis solution for financial and nonfinancial aspects; (iii) an organizational reengineering of the UPN; (iv) documentation and review of the UPN's operational processes; and (v) the start-up of two information-based management projects.

implementation of PPP contract control, monitoring, and renegotiation procedures; (ix) studies on the medium-term fiscal framework, fiscal exposures, social security system, and analysis of fiscal risks linked to climate change; (x) five studies on public management related to improved expenditure efficiency and quality; (xi) the development and implementation of an electronic administrative records management system; and (xii) training for professionals and technicians on the new tools developed in the component.

1.35 To make the activities mentioned in Components I and II viable, financing will be provided for technical assistance and IT development consulting assignments, training, and the purchase of equipment and software licenses.

1.36 **Beneficiaries.** The direct beneficiaries will be the MEF and a group of government agencies, based on having more and more timely information that will enable them to program and execute resources more efficiently. At the MEF, the following units will benefit: Treasury, Accounting, Budget, Internal Audit, Cadaster, Debt Management, Public-Private Participation Projects, and Macroeconomic and Financial Advisory Services. In addition, at least 17 government agencies will benefit, including nine that are already in the GRP program,[43] and eight more that have expressed an interest in being admitted. The program will indirectly benefit the citizens by generating potential for better utilization of public resources for the delivery of services. Public officials will also be indirect beneficiaries, as they will have data and analytical tools for performing their functions

C. Key results indicators

1.37 **Expected outcomes.** The main outcomes expected from the operation are: (i) increased effectiveness in the allocation and use of budget resources; and (ii) greater efficiency in the management of financial resources.

1.38 **Economic evaluation.** The program is expected to produce satisfactory social returns. In the base case scenario, the internal rate of return (IRR) is 26% with a net present value (NPV) of US$15 million using the Bank's standard discount rate of 12% and a cost-benefit ratio of 1.04. The benefits were monetized based on the basis of: (i) the financial cost stemming from leaving balances idle to cover underexecuted budget appropriations; and (ii) increased productivity of public expenditure based on greater efficiency due to organizational management based on use of detailed institutional information that is integrated and made available on a timely basis. The results elicited interest due to the magnitude of the program's impact on the overall percentage of budget underexecution, and the different hypotheses on expenditure productivity gains. The conservative scenario assumed a lesser impact in terms of both reducing underexecution and increasing productivity (50% less than in the base case scenario): the resulting IRR was 12.4%, the NPV was US$271,000. In the favorable scenario, with more significant effects in terms of the impact on the reduction of enhancements and an increase in productivity 20% higher than the base case, the resulting IRR was 34.5% and the NPV was US$21.7 million, as seen in the Economic analysis.

[43] The agencies that will continue to participate in the program, incorporating new modules, are: the Ministries of Health, Labor, Foreign Affairs, Agriculture, and Defense, in addition to the Primary Education Council, the Civil Service Office, the Adolescent Social Inclusion Institute, and the Attorney General's Office.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The operation will be a specific investment loan. The total cost of the program amounts to US$20 million, of which US$17 million will be financed by the Bank from the Ordinary Capital resources, while US$3 million will be financed with the local contribution. Table 1 on Program Costs describes the budget by component (for more detail see the Itemized Budget) and Table 2 on Projected Disbursements contains the expected disbursement projections for all five years for IDB and counterpart resources.

Table 1. Program Costs (in U.S. dollars)

Components	IDB	Local contribution	Total
Component 1. Information management in government agencies	**11,600,000**	**2,000,000**	**13,600,000**
Component 2. Strengthening financial management	**3,878,500**	**816,500**	**4,695,000**
Project management	**756,500**	**183,500**	**940,000**
Management team	514,250	90,750	605,000
Monitoring (includes audits)	204,000	86,000	290,000
Evaluation	38,250	6,750	45,000
Contingencies	**765,000**	**0**	**765,000**
Total	**17,000,000**	**3,000,000**	**20,000,000**

Table 2. Projected Disbursements (in U.S. dollars)

Source of funds	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	4,000,000	4,000,000	3,500,000	3,000,000	2,500,000	17,000,000
Local Contribution	600,000	700,000	600,000	600,000	500,000	3,000,000
Totals	4,600,000	4,700,000	4,100,000	3,600,000	3,000,000	20,000,000
Percentages (%)	23.0	23.5	20.5	18.0	15.0	100

B. Environmental and social risks

2.2 No negative environmental or social effects are anticipated. According to the Environment and Safeguards Compliance Policy (Operational Policy OP-703), the program is classified as a category "C" operation.

C. Fiduciary risks

2.3 The MEF has ample and positive experience as an executing agency of operations with the Bank.[44] According to the fiduciary annex (Annex III), fiduciary risk is assessed as low, considering the MEF's background in the role of executing agency, corroborated by the successive external audit reports that the TCR has

[44] It is currently the executing agency for the Institutional Capacity Program for the MEF (2792/OC-UR); the Program to Modernize Public Financial Management (3161/OC-UR); and the Budget Management Strengthening Program (3398/OC-UR).

issued each year with a favorable opinion regarding the execution of projects managed by the MEF.

D. Other project risks and key issues

2.4 **Public management and governance.** In the area of public management and governance risks, the limited analytical ability to utilize the information generated by the new management systems for decision-making has been identified as a medium risk. To mitigate this risk, awareness and training activities will be conducted under Component 1.

2.5 **Development.** Four medium level development risks are noted and detailed mitigation measures are provided as follows: (i) given the lack of project management experience in some beneficiary MEF units, the plan is to provide support to the units, including program coordination through a specialist in planning and monitoring and technical assistance specific to the different areas; (ii) given the possible limited coordination among the various MEF units participating in the program, the plan is to convene an intra-agency coordinating panel under the leadership of the DGS; (iii) given the possible lack of institutional commitment supporting the sustainability of program outputs, the proposed mitigation measure is to strengthen the leadership role of the MEF and Agencia de Gobierno Electrónico y Sociedad de la Información y del Conocimiento [Agency for Electronic Government and Information and Knowledge Society] (AGESIC) with respect to the maintenance and sustainability of the government's GRP systems; and (iv) lastly, given the risk stemming from a limited supply of specialized personnel for the development and sustainability of the program's outputs, it is suggested that tenders for recruiting experts, conducting awareness campaigns, and providing internal training to selected and contracted personnel be extended internationally.

2.6 **Technical and financial sustainability.** The information systems to be developed by the program will be maintained through a combination of resources from the MEF and the beneficiary agencies. The MEF will perform the developmental maintenance and updating necessary both for its own systems and the basic GRP solution, which brings together the common components of the different agencies. For their part, the beneficiary agencies of GRP systems will contribute to the operational maintenance of the systems with their technicians and financial resources once they go into production.

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. It will act through the DGS, with support from the project coordination unit (PCU), which handles the fiduciary aspects of MEF projects financed by multilateral organizations.[45]

3.2 **Execution arrangements.** The DGS will be responsible for the general coordination of the program, ensuring that the various actions to be financed will

[45] This unit administers loans 2792/OC-UR, 3161/OC-UR, and 3398/OC-UR, currently being executed.

be properly linked and coordinated under a common vision and strategy.[46] The government agencies benefiting from program actions will have responsibilities with respect to the adoption and maintenance of the new systems to be financed, but without assuming co-execution responsibilities.

3.3 The Director of the DGS, or the individual designated by the Ministry to represent it, will act as the program coordinator and will be responsible for conducting the program, including interacting with the Bank, requesting disbursements, proposing contracting and procurement, reporting on the use of resources, and sending the Bank the annual work plans (AWPs), procurement plans, and progress reports.

3.4 For program implementation and management, the Coordinator will rely on the support of: (i) the PCU, a stable operational unit in the MEF, reporting to the Unit on Relations with Multilateral Organizations, which is responsible for the financial and procurement management of externally financed programs within the MEF:;[47](ii) a planning and monitoring specialist, who will directly support the DGS; and (iii) technical advisors on specific issues to assist in the formulation of detailed terms of reference on specialized subjects.[48] The PCU consists of a financial-accounting manager, a procurement manager, and assistants for each area, under each of these managers.

3.5 **Coordination mechanism.** For purposes of program coordination, the coordinator will convene an intra-agency coordinating panel specific to the program, which will be made up of the directors of the MEF units participating in the program and will meet at least once every six months, when called by the coordinator.[49] The coordinating panel will be a means for building cohesion among the actions of the various units.

3.6 For the execution of program activities that will benefit government agencies other than the MEF (Component 1), prior to the start of support activities, an agreement will be signed with each beneficiary institution stipulating the objective and principal activities, as well as the respective obligations for achieving outcomes.[50]

3.7 The MEF will receive technical support from AGESIC in the area of information systems, as well as the interoperability of systems, similar to the way both institutions have been cooperating within the framework of the Budget Management Strengthening Program (3398/OC-UR), currently being executed. In addition to collaborating on specific projects, the MEF and AGESIC cooperate as members of the Steering Committee on Management Solutions for Budgetary Impact, the missions of which include: (i) defining functional and technological criteria for the

[46] The senior institutional hierarchy of this Directorate, coupled with its liaison capacity noted within the ministerial structure, makes it the unit most capable of moving forward with the coordination and execution of a program that involves a high number of internal MEF units.

[47] Currently performs functions related to loans 2792/OC-UR, 3161/OC-UR, and 3398/OC-UR.

[48] The technical advisors mentioned in points (ii) and (iii) will be financed with the loan proceeds. The technical advisors mentioned in subparagraph (iii) will specifically support the general coordinator in the detailed definition of consulting assignments under Component II of the program.

[49] The coordinating panel will be inside the MEF and under the purview of the DGS, so that a formal rule is not required. For more detail see the program Operating Regulations.

[50] The same mechanism is operating in project 3398/OC-UR, to the entire satisfaction of the MEF.

IT systems to be implemented; and (ii) establishing common criteria for resource management.[51]

3.8 **Cybersecurity.** The security considerations of the information systems to be implemented will be addressed through requirements defined by AGESIC, which will be part of the bidding documents for development firms. In addition, the data from the systems are shared through the Red de Datos Privada del Estado Uruguayo [Uruguayan Government Private Data Network] (REDUY) which has its own security devices that also protect the agencies' specific information systems.[52]

3.9 **Special contractual conditions precedent to the first loan disbursement. Submission to the Bank by the borrower of evidence that the program Operating Regulations have taken effect under terms previously agreed upon with the Bank.** Regulations will be implemented to clarify the roles and actions expected from the MEF units and the government agencies that will participate in the program.

3.10 The Fiduciary Agreements and Requirements establish the financial management and planning framework, as well as the framework for supervision and execution of procurement to be applied for program execution. The program's Operating Regulations will establish functions and responsibilities in the coordination process, the structure of technical and fiduciary supervision, and the frequency and minimum content of monitoring reports.

3.11 The development of program activities will follow a schedule implemented through the multiyear execution plan (MEP), which contains the breakdown for execution of the entire program. The annual revision of that plan will be embodied in the respective AWP. The MEP will be amended every year taking into account the actual progress made in the program. Annual revisions of the MEP and AWP will be submitted to the Bank for approval.

3.12 **Procurement of works, goods, nonconsulting services, and consulting services.** Procurement financed in whole or in part with resources from the Bank will be handled in accordance with 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). The procurement plan contains the details of the procurement processes to be implemented during execution, as well as the procedures applied by the Bank for the review thereof.

3.13 **Direct contracting.** The program plans to contract 17 individual consultants under the direct contracting modality. As a result, and based on sections 3.10(a) and 3.11 of the Policies for the Selection and Contracting of Consultants (document GN-2350-9) establishing the principle of continuity of service when continuity proves to be more efficient than a competitive selection process, the executing agency's request is deemed to be consistent with Bank policies. The

[51] This committee was created by Presidential Decree dated 3 September 2018.

[52] These mechanisms are operational under loan 3398/OC-UR, with good results.

estimated cumulative amount of this contracting is US$2.9 million during the five years of program execution.[53]

3.14 **Audits.** During execution, the executing agency will submit to the Bank each year the audited financial statements of the program, in accordance with the Financial Management Guidelines for IDB-financed Projects (document OP-273-6), within 120 days following the close of the fiscal year. The audited financial statements for the close of the program will be submitted within 120 days following the date of the last disbursement. The audit of those financial statements will be performed by the TCR.

B. Summary of arrangements for monitoring results

3.15 **Monitoring system.** The outcome and output indicators described for each component in the Results Matrix and reflected in the Progress Monitoring Report (PMR) will be used to measure the program's progress and evaluate fulfillment of its objectives. The executing agency will be responsible for maintaining the data collection and monitoring systems. The AWP will include: (i) an Itemized Budget; (ii) an updated Procurement Plan; (iii) the indicators provided for the Results Matrix; (iv) the activities planned; and (v) an execution schedule. In addition, the executing agency will submit semiannual progress reports within 60 days following the end of every six-month period. The instruments for monitoring the program are detailed in the Monitoring and Evaluation Plan.

3.16 **Monitoring by the Bank.** Supervisory missions or inspection visits will be conducted. The executing agency will use the PMR system, which compiles estimated disbursements and the achievement of physical targets and outcomes. There will be at least one joint meeting of the executing agency and the Bank each year to discuss issues including: (i) progress made on the activities identified in the AWP; (ii) the level of fulfillment of the indicators set forth in the Results Matrix; (iii) the AWP for the next year; and (iv) the procurement plan for the next 18 months and possible modifications in budgetary allocations by component.

3.17 **Evaluation.** The Results Matrix and the Monitoring and Evaluation Plan will be used to evaluate the program. A midterm and final evaluation and an ex post cost-benefit analysis will be done encompassing technical, administrative, financial, and economic aspects. The midterm evaluation will be performed once at least 40% of the loan disbursements have been made or after two and one-half years of execution (whichever occurs first). The main objectives of that evaluation will be to review progress made in all activities scheduled as of that time, any deviations that may have occurred and their causes, and to propose corrective measures to be applied, in addition to verifying the intermediate outputs generated, the occurrence of risks anticipated in the corresponding matrix, and the application of measures to mitigate them. The final evaluation will be performed when the disbursements reach at least 90% of the total, and its objectives will be to verify progress made in achieving the targets provided for

[53] For greater detail on direct contracting, see Annex III. These consultants were initially selected by comparing their qualifications, except for the consultant used to develop a database of banks that offer hedges on Uruguay, who was contracted through direct selection, with the Bank's prior no objection in all cases. The consultants for the functions of budget and financial analysis, monitoring, financial-accounting management, and procurement correspond to the PCU.

each of the expected outcomes and the generation of outputs by component. This evaluation will be used to prepare the Project Completion Report (PCR) that will be initiated when the project reaches 90% of disbursements and submitted 180 days later.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	**Yes**	
Development Challenges & Cross-cutting Themes	**-Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law**	
Country Development Results Indicators	**-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)***	
2. Country Development Objectives	**Yes**	
Country Strategy Results Matrix	**GN-2836**	**To strengthen public management systems**
Country Program Results Matrix	**GN-2915-2**	**The intervention is included in the 2018 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**7.3**	
3.1 Program Diagnosis	**2.4**	
3.2 Proposed Interventions or Solutions	**3.6**	
3.3 Results Matrix Quality	**1.3**	
4. Ex ante Economic Analysis	**8.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**3.0**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**0.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**0.0**	
5. Monitoring and Evaluation	**7.2**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**4.7**	
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/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting. Procurement: Information System, Price Comparison.**
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
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	**Yes**	**ATN/KP-13942-UR, ATN/KR-15491-UR**

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The main objective of this operation is the improvement of efficacy and efficiency in the management of public finance and budget. In order to attain this objective, the proposal establishes two specific areas of focus, each defined by components in which the project will intervene. The first area of interest is the generation of readily available information and to encourage the use of that information in the decision-making process of public resources management. The second area is the modernization of the procedures and public financial management tools of the Ministry of Economy and Finance of Uruguay.
The project includes a comprehensive description of the weaknesses in information systems and technical capacities to generate and process budget, financial and management information. It also highlights deficiencies in the tools and procedures of public finance and management of the MEF.
The project's document generates a diagnosis that identifies disparities between the proposed annual budget and what is actually used.
The economic analysis offers a quantification of the efficacy and productivity of financial planning and public expenditure management. It creates benefits first by reducing the financial costs derived from maintaining idle balances to meet sub-executed budget items, and secondly through an increase in productivity by the amplification in the generation and use of information available for the budget decision-making process.
The identified costs correspond to the financial burden on the national budget to maintain excessive liquid reserves to meet the expenses originated from state agencies' activities. The analysis concludes with a net present value of USD $15 million with an Internal Rate of Return of twenty six percent (26%).
Monitoring is based on MEF reports. The monitoring and evaluation plan includes an ex post cost-benefit analysis to identify the efficacy of human, monetary and physical resources used in the project.
There are eight risks presented in the matrix; three of them as low risk and five as medium. Improvements in coordination, personnel training, and system maintenance are proposed as part of the mitigation measures included.

RESULTS MATRIX

Project Objective:	The program will help to increase the effectiveness and efficiency of budget and financial management through: (i) increased generation and use of information for resource management in government agencies; and (ii) the modernization of public financial management procedures and tools in different units of the MEF.

EXPECTED OUTCOMES

Indicators	Unit of measure	Base-line value/ year	Year 1	Year 2	Year 3	Year 4	Final target year 5	Means of verification	Comments
Outcome 1: Increased effectiveness in the allocation and use of budgetary resources									
Unexecuted budget out of total over the total national budget value	Percentage (Uruguayan pesos/ Uruguayan pesos)	4.2 2017	4.2	4.2	4.0	3.7	3.2	Rendering of Accounts and Budget Execution Balance – Economic Financial Report	The indicator refers to the unexecuted percentage of the budget at the end of each fiscal year in central government and Article 220 agencies, plus various subsidies and credits. There is evidence of a positive correlation between the level of development of the budget and financial management systems and a lower level of deviation between budgeted expenditure and executed expenditure, as well as a lower level of enhancements, in the Latin American countries. Source: Innovation in Citizen Services, based on data from the PRODEV-2007-2013 survey for Evaluation of Country Management for Results Systems in Latin America and the Caribbean.
Public expenditure managed by agencies that have integrated resource management systems over total expenditure	Percentage (Uruguayan pesos/ Uruguayan pesos)	22 2017	22	24	32	44	56	Periodic MEF reports on implementation of GRP systems in agencies	Refers to the percentage of total expenditure of central government and Article 220 decentralized agencies spent by government agencies that have integrated resource management systems with program financing. Transfers to the social security system and interest paid on public debt are excluded. The baseline includes agencies that do not yet have GRP, but it is being incorporated with support from program 3398/OC-UR.
Outcome 2: Improved efficiency in the management of financial resources									
Balance in bank accounts of central government agencies	Value in millions of dollars	462 2018	462	432	400	360	323	General Treasury and MEF Reports	Includes decentralized agencies defined in Article 220 of the Constitution. Excludes the Judicial Branch, Legislative Branch, National Public Education Administration, University of the Republic, Technological University, National Treasury accounts, and National Housing Agency recoveries accounts.

OUTPUTS

Outputs	Unit of measure	Base-line	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 1: Information management in government agencies											
GRP projects implemented in government agencies	Projects	2	2018	0	2	2	3	1	8	MEF implementation reports with documentation of at least one actual user	Refers to the development and implementation of computerized systems for integrated management of financial, human, and material resources. Although as of 2018, the baseline is 2, at the end of loan 3398/OC-UR there will be 9 systems operating, so that at the end of the 2 programs the target is 17 projects.
Information management projects implemented in government agencies	Projects	0	2018	0	1	1	0	0	2	MEF implementation reports with documentation of at least one actual user	Refers to the development and implementation of management systems for specific areas in agencies.
Agencies under the national budget with updated version of GRP implemented	Agencies	0	2018	0	1	1	3	3	8	MEF progress reports with documentation of at least one actual user	Refers to updating of integrated management systems implemented with project 3398/OC-UR.
Agencies with process improvement plans implemented	Agencies	0	2018	0	1	1	1	2	5	MEF progress reports with documentation of at least one actual user	
Evaluation reports prepared	Reports	0	2018	0	1	2	3	4	10	MEF progress reports/final evaluation reports	
Dissemination events held	Events	0	2018	2	2	2	2	2	10	MEF progress reports	
Management personnel trained in the use of information for decision-making	Individuals	0	2018	4	5	6	7	8	30	MEF progress reports	

Outputs	Unit of measure	Base-line	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 2: Strengthening financial management											
New payment process management model implemented	Model	0	2018	0	0	0	0	1	1	MEF progress reports	Components of the model: (i) Interfaces with GRPs; (ii) new central government payments system; and (iii) computerized accounts management system.
Plan for alignment with International Public Sector Accounting Standards developed and first phase implemented	Plan	0	2018	0	0	1	0	1	2	MEF progress reports / Final plan report prepared	
Pilot project on compilation of fiscal statistics implemented	Project	0	2018	0	0	0	1	0	1	MEF progress reports, with documentation of at least one actual user	The pilot refers to a subset to be defined of the agencies involved.
Internal governmental control system implemented	System	0	2018	0	1	0	0	0	1	MEF progress reports, with documentation of at least one actual user	Refers to a set of internal control measures promoted by the oversight body (Internal Audit Office) in agencies included in the national budget.
New operating model for the National Budget Unit implemented	Model	0	2018	1	1	1	1	1	5	MEF progress reports	Components: (i) new budget execution reports for Parliament and society; (ii) data analysis solution for financial and nonfinancial data; (iii) organizational re-engineering of the UPN; (iv) documentation and revision of UPN processes; and (v) management projects based on information in 2 sectors.
New cadastral information system developed and implemented	System	0	2018	0	1	0	0	0	1	MEF progress reports with documentation of at least one actual user	

Outputs	Unit of measure	Base-line	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Debt management strategy implemented	Strategy	0	2018	0	0	0	0	1	1	MEF progress reports	The strategy consists of: (i) survey and analysis of underwriters and investors; (ii) investor base diversification actions; (iii) risk management tools; (iv) derivatives valuation methodology; and (v) debt sustainability model.
PPP contract control, monitoring, and renegotiation procedures implemented	Procedures	0	2018	0	0	1	1	0	2	MEF progress reports	Procedure areas: (i) control and monitoring; and (ii) renegotiation.
Fiscal framework studies done	Studies	0	2018	1	1	1	1	0	4	MEF progress reports Final study documents	Studies: (i) medium-term fiscal framework; (ii) fiscal contingencies; (iii) social security system; and (iv) analysis of fiscal risks linked to climate change.
Studies done on public management to improve expenditure efficiency and quality	Studies	0	2018	0	1	2	1	1	5	MEF progress reports Final study documents	Topics to be addressed will be defined during project execution.
Administrative records electronic management system developed and implemented	Software	0	2018	0	1	0	0	0	1	MEF report on implementation of system and number of actual users	
Professionals and technicians trained in new tools developed under the component	Individuals	0	2018	25	25	25	25	25	125	MEF project progress reports	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Eastern Republic of Uruguay
Project number:	UR-L1151
Name:	Budget and Financial Management Program
Executing agency	Ministry of Economy and Finance (MEF), through the Dirección General de Secretaría [Directorate General of Secretariat Services] (DGS) with the support of the project coordination unit (PCU)
Fiduciary team:	Abel Cuba and Emilie Chapuis (VPC/FMP)

I. EXECUTIVE SUMMARY

1.1 This operation is for US$20 million, of which US$17 million will be financed by the Bank and US$3 million by the local counterpart. The borrower is the Eastern Republic of Uruguay and the executing agency is the Ministry of Economy and Finance, through the DGS, with the support of the PCU. The objective of the loan is to increase the effectiveness and efficiency of budget and financial management through: (i) increased generation and use of information for resource management in government agencies; and (ii) the modernization of public financial management procedures and tools in different units of the MEF. The operation has two components: (i) Component 1. Information management in government agencies (US$13.6 million); and (ii) Component 2. Strengthening financial management (US$4.7 million).

1.2 Within the framework of this project, the DGS will be responsible for project fiduciary activities, which will be implemented and managed by the MEF's PCU. The PCU handles all fiduciary aspects of MEF projects financed by international organizations. This unit has ample experience with the implementation of IDB-financed investment projects. It is currently the executing agency for projects 2792/OC-UR – the Institutional Capacity Program for the MEF, 3161/OC-UR – Program to Modernize Public Financial Management, and 3398/OC-UR – Budget Management Strengthening Program.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

2.1 The DGS[1] will perform coordination and administrative functions for the operation, exercising the functions of coordinating the general execution of the program and its components, with responsibility for the preparation of various execution, operational,

[1] For purposes of the project, this formal MEF unit will have a General Project Coordinator, a Monitoring Manager, and technical advisors to coordinate activities with other areas of the ministry. This team will in turn have support from the PCU for the respective fiduciary management.

and procurement plans, progress reports, resource management, preparation of financial statements, expenditure justifications, and other reports in accordance with Bank requirements. The PCU will be responsible for performing tasks related to procurement and contracting processes and financial management. It has personnel[2] with an adequate level of training and experience in the use and application of various Bank tools and regulations, particularly those that are fiduciary in nature.

2.2 As the performance monitoring results indicate, the executing agency's performance has been evaluated as satisfactory with a low level of fiduciary risk under loan 3398/OC-UR and medium level under loans 2792/OC-UR and 3161/OC-UR. The external audit reports on those loans have reported no problems in financial management and there have been no relevant observations on internal control or noncompliance with contractual clauses.

III. Fiduciary Risk Evaluation and Mitigation Actions

3.1 As identified in the risk workshop and based on analysis of the executing agency's track record in executing operations, the fiduciary risk is evaluated as low. This finding is based on:

a. The fact that the MEF is governed by clear procedures established in legal and regulatory provisions, the application of which is subject to strict internal and external controls provided by law;

b. The executing agency's track record includes consolidated experience in fiduciary management, procurement, and contracting in accordance with Bank regulations, as well as financial management, also considering that the program will be managed by the same team that is responsible for loans currently being executed;

c. The low level of procurement complexity, as detailed in the procurement plan, indicates that the executing agency is qualified to use the ex post procurement review method up to the lower limit of international competitive bidding in line with what the Bank approved for loan 3398/OC-UR. In addition, the executing agency has experience in executing the bidding processes listed in the procurement plan such that no risks are anticipated that would merit specific mitigation actions.

3.2 Based on the foregoing, the program may only require mitigating measures to be identified during the execution of the loan through the Bank's supervisory activities or the planned audits.

IV. Considerations for the Special Provisions of Contracts

4.1 The following aspects will be considered in Special Provisions:

a. Exchange rate: the payment exchange rate will be used for rendering accounts in dollars.

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[2] The PCU has a procurement specialist and a financial specialist, who are focal points on these subjects vis-à-vis the Bank and have the support of administrative and accounting personnel in carrying out their functions.

b. Audited financial statements: within a period of 120 days following the close of each fiscal year and throughout the loan disbursement period, the program's audited financial statements will be submitted to the Bank, duly certified by the National Audit Office (TCR) or an independent audit firm acceptable to the Bank and with terms of reference agreed upon with the Bank. The final report will be submitted within 120 days following the date of the last loan disbursement.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

5.1 The Bank's procurement policies set forth in documents GN-2349-9 (Policies for the Procurement of Works and Goods) and GN-2350-9 (Policies for the Selection and Contracting of Consultants) will be applicable for all procurement activities anticipated in this operation. These will be included in the procurement plan, which will cover, at a minimum, a period of 18 months, to be updated annually thereafter. The procurement plan will be recorded, approved, and published in the Procurement Plan Execution System (SEPA) (www.iniciativasepa.org) before procurement begins. Once recorded, it will be updated annually or whenever necessary in the event of substantive changes.

5.2 The relevance of the expenditure, i.e., the terms of reference (TOR), technical specifications, and budget, is the responsibility of the project's sector specialist and always requires prior no objection.

5.3 Notwithstanding the provisions of IDB policies, direct contracting may be used for technically simple and low economic value inputs and services (least cost) up to a maximum of US$5,000 or its equivalent.

5.4 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services[3] arising under the project and subject to international competitive bidding (ICB) will be executed using the standard bidding documents (SBDs) issued by the Bank. Procurement subject to national competitive bidding (NCB) will be executed using national bidding documents satisfactory to the Bank.

5.5 According to the procurement plan, no works are planned. Goods will be contracted for an estimated value of US$140,000, and nonconsulting services will be contracted for an estimated value of US$569,400. These procurement items will be subject to the provisions of document GN-2349-9.

5.6 **Selection and contracting of consultants.** Consulting services contracts arising under the project will be executed using the standard request for proposals (RFP) issued by the Bank for all international tenders or satisfactory to the Bank in the case of national tenders.

a. **Processes for selecting and contracting the services of consulting firms** will be competitive processes in accordance with the applicable provisions of document GN-2350-9.

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[3] Policies for the procurement of goods and works financed by the Inter-American Development Bank (document GN-2349-9) paragraph 1.1: Nonconsulting services are treated as goods.

b. **Direct contracting of individual consultants.** The program will contract the individual consultants identified in the operation's procurement plan. As detailed, the program plans to contract 17 individual consultants using the direct contracting method. Consequently and based on sections 3.10(a) and 3.11 of the Policies for the Selection and Contracting of Consulting Services (document GN-2350-9) which establish the principle of continuity of service when continuity proves to be more efficient than a competitive selection process, the executing agency's request is considered consistent with Bank policies, with the understanding that: (i) the initial selection of the consultants was made on a competitive basis, except in the case of the consultant for developing a database of banks that offer hedges on Uruguay, for which the initial contract was a direct contracting process, knowing that in all cases the Bank has issued a prior no objection to the contracting of the consultants; (ii) the consultants whose contracts will be renewed are subject to an annual performance evaluation; (iii) in the event of an unsatisfactory result, the consultant's contract is not renewed and selection of another resource is sought through a competitive process; (iv) personnel who will be contracted are key personnel for execution of the operation; and (v) the terms of reference and fees for the same consultants will remain similar. The estimated cumulative amount of these contracts corresponds to US$2.9 million over the five years of program execution. The amount is estimated to be reasonable considering that: (i) it involves 17 consultants; and (ii) their monthly fees represent an average of US$2,800, which falls within the reference compensation scale that the MEF has used since 2010 for temporary contracts under public law.

B. Thresholds for international competitive bidding and international shortlists (in US$)

Table 1. Thesholds by Type of Procurement (in US$)

Works			Goods and Services			Consulting	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International advertising	National shortlist
≥3,000,000	≤3,000,000 ≥250,000	≤100,000	≥250,000	≤250,000 ≥50,000	≤50,000	≥250,000	≤200,000

C. Main procurement processes

5.7 Procurement activities will be divided as detailed in the table below:

Table 2. List of Main Consulting Firm Contracts

Number	Code	Purpose of Contract	Estimated amount (US$)	Method
1	C1	Consulting services for implementation and development of GRP High Complexity #1	937,829	QCBS
2	C1	Consulting services for implementation and development of GRP High Complexity #2	937,829	QCBS
3	C1	Consulting services for implementation and development of GRP High Complexity #3	937,829	QCBS
4	C1	Consulting services for implementation and development of GRP High Complexity #4	937,829	QCBS
5	C1	Consulting services for implementation and development of GRP Average Complexity #1	491,392	QCBS
6	C1	Consulting services for implementation and development of GRP Average Complexity #2	491,392	QCBS
7	C2	Consulting services for the development and launch of the new cadastral system, including: (i) redesign of critical processes; (ii) data migration; (iii) user training; and (iv) technology transfer.	600,000	QCBS

* To access the 18-month procurement plan, click here.
** QCBS: quality- and cost-based selection (document GN-2350-9).

D. Procurement supervision

5.8 Considering the experience and the performance of the executing agency, procurement activities will be subject to ex post review, except in those cases where ex ante supervision is justified, and will be explicitly identified in the procurement plan. Ex post reviews will be every 12 months in accordance with the project's supervision plan. The table below identifies the applicable thresholds:[4]

Table 3. Thresholds for Ex Post Review (in US$)

Works	Goods	Consulting Services
≥3,000,000	≥250,000	≥200,000

E. Records and files

5.9 The preparation and filing of project reports should use formats or procedures that have been agreed upon, are described in the project Operating Regulations, and are consistent with the Bank's relevant policies.

VI. Financial Management Agreements and Requirements

6.1 **Programming and budget.** For the preparation of the Executive Branch's (five-year) national budget, central government agencies submit their budget proposals to the MEF before 31 July of the first year of the government's term. The MEF coordinates the preparation process with the advisory support of the Office of Planning and Budget and the National Civil Service Office, to forward the national budget proposal to the Executive Branch, which approves it and sends it to the

[4] Note: The threshold amounts established for ex post review are applied based on the executing agency's fiduciary capacity for execution and may be modified by the Bank to the extent that such capacity changes.

Legislative Branch before 31 August of that year. Annual budget reprogramming and expansions are prepared by the Executive Branch when it presents the annual Rendering of Accounts and Balance Sheet on budget execution. The Executive Branch, within six months following the end of the year, submits those reports to the Legislative Branch and may propose modifications for justified reasons.

6.2 The project's budget is managed through the country's national Integrated Financial Information System (SIIF). The MEF's PCU is expected to provide timely management of the local counterpart resources, and upon prior request, the Bank may verify fulfillment thereof.

6.3 **Accounting and information systems.** The project will keep the program's accounts in the national system (SIIF), through which budgetary appropriations approved under the Five-Year Budget Act are managed for the project. Thus, the procedures established by the CGN should be followed to process project-related commitments and payments.

6.4 The financial statements that will be issued periodically (on a modified cash basis) and will be audited annually are as follows: (i) Statement of cash received and disbursements made; and (ii) Statement of cumulative investments.

6.5 **Disbursements and cash flow.** Project funds will be managed through the National Single Account, for which the General Treasury will authorize a special account at the Central Bank of Uruguay (BCU). This account will receive the funds disbursed by the Bank, but since it is a nominative account (payments cannot be made) a specific bank account should be opened for the project in a government commercial bank (Bank of the Eastern Republic of Uruguay) for purposes of making the respective payments.

6.6 The disbursement method will be advances of funds based on actual liquidity needs, supported by adequate financial and disbursement projections. These advances will preferably be made every six months, once accounts have been rendered for at least 80% of the advanced amount, and required documentation will be the submission of the reporting forms and the financial planning spreadsheet. The e-disbursements system will be used for processing disbursement requests. The exchange rate for converting payments made in local currency to the currency of the loan will be the rate on the date of payment.

6.7 **Internal control and internal audit.** The internal control system is based on the national system defined in current regulations. As established in the Consolidated Text on Accounting and Financial Management, the TCR will conduct the audit of expenditures related to project execution. On a supplemental basis, the MEF is an executing agency that is subject to the control of the country's Internal Audit Office.

6.8 As for institutional controls, the PCU will maintain the conditions defined for the execution of Bank-financed projects, currently being executed, ensuring the continued service and participation of fiduciary managers involved in those controls.

6.9 **External control and reports.** The national external control system is exercised by the TCR. To date, all operations executed by the MEF have been audited by the TCR, with timely submission of its respective annual reports and reporting that there are no problems in the financial management of the projects. For this project,

there is agreement on the possibility that the project audit will be conducted by the TCR or by an independent audit firm considered eligible by the Bank.

6.10 The audited financial statements and the respective internal control evaluation should be submitted for each year during the disbursement stage by 30 April of the following year. In addition, the financial audit report upon the close of the project should be submitted within 120 days following the date of the last disbursement. The contracting of the audit firm, as well as the terms of reference for that purpose, will follow the Financial Management Guidelines for IDB-financed Projects (document OP-273-6). The audit costs may be financed with loan proceeds.

6.11 **Financial supervision plan.** The financial supervision plan considers the following:

a. Participation in the launch workshop defined by the project team, with a brief presentation on the financial management aspects of projects.

b. Review of financial conditions precedent.

c. Review of the initial financial plan prepared by the execution unit to support the first advance to be requested after the program becomes eligible.

d. If necessary, one financial visit will be conducted per year during project execution, and will evaluate aspects such as: reconciliation of the advances and investments accounts, implementation of the external audit recommendations, quality and timeliness of the accounting records and filing of documentation.

6.12 **Execution mechanism.** The DGS will be responsible to the Bank for execution of the project, acting with the continuous support of the PCU. The description of processes involving the use of funds will be detailed in the program Operating Regulations.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Uruguay. Loan ____/OC-UR to the Eastern Republic of Uruguay
Budget and Financial Management 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 aimed at cooperating in the execution of the Budget and Financial Management Program. Such financing will be in the amount of up to US$17,000,000 from the resources of the Bank's Ordinary Capital, 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 ___ ____________ 2018)

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