

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **URUGUAY**

### **PROGRAM TO MODERNIZE PUBLIC FINANCIAL MANAGEMENT**

**(UR-L1089)**

#### **LOAN PROPOSAL**

This document was prepared by the project team consisting of Emilio Pineda (FMM/CUR), Project Team Leader; Roberto Fernández (ICS/CUR), Alternate Project Team Leader; Carlos Pimenta (IFD/FMM); Javier Cayo (LEG/SGO); David Salazar (FMP/CUR); Nadia Rauschert (FMP/CUR); Miguel Baruzzi (CSC/CUR); Gerardo Uña (consultant); Andrés Alarcón (consultant); Adriana Torres (CSC/CUR); and Marina Massini (IFD/FMM).

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| ELECTRONIC LINKS                          |   |
|---|---|
| REQUIRED                                  |   |
| 1. Annual work plan                       | <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38288101">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38288101</a> |
| 2. Monitoring and evaluation plan         | <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38288095">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38288095</a> |
| 3. Initial procurement plan               | <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38288101">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38288101</a> |
| OPTIONAL                                  |   |
| 1. Economic analysis                      | <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38288100">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38288100</a> |
| 2. Diagnostic assessment of the SIIF      | <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38290216">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38290216</a> |
| 3. Conceptual framework of the new SIIF 2 | <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38288102">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38288102</a> |

## ABBREVIATIONS

|         |  |
|---------|--|
| AWP     | Annual work plan   |
| CGN     | Contaduría General de la Nación [General Accounting Office]  |
| CUN     | Cuenta Única de la Tesorería [Single Treasury Account]   |
| GCI-9   | Ninth General Increase in the Resources of the Bank  |
| ICAS    | Institutional Capacity Assessment System   |
| IFMS    | Integrated financial management system   |
| LIBOR   | London Interbank Offered Rate  |
| MEF     | Ministry of Economy and Finance  |
| PCC     | Program Coordinating Committee   |
| PCU-MEF | Program Coordination Unit of the MEF   |
| PEU     | Program Executing Unit   |
| SEG     | Sistema de Ejecución del Gasto [Expense Execution System]  |
| SEPA    | Procurement Plan Execution System  |
| SGH     | Sistema de Gestión Humana [Human Resource Management System]   |
| SICE    | Sistema de Compras Estatales [State Procurement System]  |
| SIIF    | Sistema Integrado de Información Financiera [Integrated Financial Information System]                                    |
| SIIF 2  | Sistema Integrado de Información Financiera de Nueva Generación [New Generation Integrated Financial Information System] |
| SIP     | Sistema de Información Presupuestal [Budget Information System]  |
| SNIP    | Sistema Nacional de Inversión Pública [National Public Investment System]  |
| TCR     | Tribunal de Cuentas de la República [State Audit Office]   |
| TGN     | Tesorería General de la Nación [National Treasury Office]  |
| UPN     | Unidad de Presupuesto Nacional [National Budget Office]  |

## PROJECT SUMMARY

### URUGUAY PROGRAM TO MODERNIZE PUBLIC FINANCIAL MANAGEMENT (UR-L1089)

| Financial Terms and Conditions   |                                   |          |                                    |  |
|--|-----------------------------------|----------|------------------------------------|--|
| <b>Borrower:</b> Eastern Republic of Uruguay   |                                   |          | Flexible Financing Facility (FFF)* |  |
|  |                                   |          | Amortization period:               | 25 years                               |
| <b>Executing agency:</b> Ministry of Economy and Finance (MEF)   |                                   |          | Original WAL:                      | 15.25 years**                          |
|  |                                   |          | Disbursement period:               | 5 years                                |
|  |                                   |          | Grace period:                      | 5.5 years                              |
| <b>Source</b>  | <b>Amount<br/>(US\$ millions)</b> | <b>%</b> | Inspection and supervision fee:    | ***                                    |
| <b>IDB (Ordinary Capital)</b>  | 14.5                              | 54       | Interest rate:                     | LIBOR-based                            |
| <b>Local</b>   | 12.3                              | 46       | Credit fee:                        | ***                                    |
| <b>Total</b>   | 26.8                              | 100      | Currency:                          | U.S. dollars from the Ordinary Capital |
| Project at a Glance  |                                   |          |                                    |  |
| <b>Objective:</b> The objective of the program is to improve public budget, financial, and accounting management by implementing a New Generation Integrated Financial Information System (SIIF 2) that will: (i) improve operating efficiency in the management of public expenditure; and (ii) generate timely, quality information that will support decision-making during the budget cycle. |                                   |          |                                    |  |
| <b>Special contractual condition precedent to the first disbursement of the loan proceeds:</b> Creation and implementation of the Program Executing Unit (PEU) with the structure and profiles agreed upon with the Bank (see paragraph 3.1).  |                                   |          |                                    |  |
| <b>Exceptions to Bank policies:</b> Not applicable.  |                                   |          |                                    |  |
| <b>Project qualifies as:</b> SEQ [ ] PTI [ ] Sector [ ] Geographic [ ] Headcount [ ]   |                                   |          |                                    |  |

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

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

\*\*\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background and rationale

- 1.1 International experience shows that the implementation of integrated financial management systems (IFMS) has three main advantages: (i) it improves the recording and processing of government financial transactions; (ii) it strengthens financial controls based on the creation of an accurate, updated database that shows the financial position at any given time; and (iii) it provides information that helps improve the efficiency and effectiveness of the government's financial management. Accordingly, having comprehensive financial data serves as a basic input that helps improve planning, monitoring, and the evaluation of public expenditure management.<sup>1</sup>
- 1.2 Key factors for the successful implementation of IFMSs in Latin America (Chile, Peru, Colombia, Guatemala, etc.) include: (i) having the support of authorities from the Ministry of Finance; (ii) reviewing the structure of budget classifications, and harmonizing them with and integrating them into the chart of accounts; (iii) building the internal capacities of the public sector for implementation and subsequent support purposes; and (iv) creating a Users Committee comprised of future users of the system from the various public institutions that have been behind the development and implementation process from the early stages.<sup>2</sup>
- 1.3 Uruguay has had an Integrated Financial Information System (SIIF) since 1999.<sup>3</sup> This accounting management and control system used by the central government and some decentralized agencies was one of the first systems set up in the region. Although it is currently performing its basic functions, it has a number of weaknesses that necessitate a design update and operational reengineering. As described in more detail in the following paragraphs, the main problems of the SIIF stem from the absence of a clear conceptual model that supports its operation, and the lack of a basic technological architecture that provides a common framework for the design, development, and implementation of the New Generation Integrated Financial Information System (SIIF 2) (see optional electronic [link 2](#)).
- 1.4 Pursuant to Law 17,213 of 24 September 1999, the Contaduría General de la Nación [General Accounting Office] (CGN), an agency of the Ministry of Economy and Finance (MEF) in charge of technical and operational aspects of the national budget system, is responsible for managing the SIIF. In view of these

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<sup>1</sup> For a detailed discussion of SIIF benefits, see Khan and Pessoa (2010); Pimenta and Farias (2011); Dener, Watkins and Dorotinsky (2012); Diamond and Khemani (2005); Makon M. (2000) and Schik (1998).

<sup>2</sup> See Gerardo Uña, *Estrategias de desarrollo e implantación de Sistemas Integrados de Administración Financiera: Experiencias y lecciones para América Latina* [Development Strategies and Implementation of Integrated Financial Management Systems: Experiences and Lessons for Latin America], IDB, IDB-DP-197, 2012. Uña (2012).

<sup>3</sup> In the case of Uruguay, the SIIF is equivalent to an IFMS. The primary objective of the SIIF was to generate information on cash-based budget execution and the consolidation of the public administration's balance sheets.

weaknesses, in 2008 the CGN started to work on the diagnostic assessment of the current SIIF. In 2012 and 2013 the first MEF-CGN symposiums were held to discuss and share international experiences on integrated financial management systems, with the participation of various international experts (the Inter-American Development Bank, the World Bank, the ministries of economy and finance of Paraguay, Ecuador, and Chile, users, and suppliers).

- 1.5 In 2012 and in connection with the Program to Strengthen the Control and Budget Management Units (loan 2085/OC-UR), a high level conceptual model of the new Integrated Financial Information System was developed (SIIF 2) to replace the current system. The conceptual model identified the processes for all functions of the new SIIF 2 (levels 1 and 2 of the Business Process Management methodology (BPM)). Using this conceptual model, the MEF and CGN started to address the weaknesses identified in the diagnostic of the current system and identify the next challenges stemming from the Uruguayan authorities' decision to improve the budget management process taking a comprehensive approach. On the basis of this information, the MEF and the CGN decided to undertake the modernization of the financial management system over the next few years, including reengineering the financial and accounting process and building the technical capacities of the CGN.
- 1.6 **Main challenges and their causes.** The main challenge lies in improving the efficiency of the accounting and financial management processes associated with the public sector's budget, as follows:
  - a. **Improve the availability and quality of information for budget formulation purposes.** The current SIIF has problems in providing timely and reliable information for resource allocation processes during the budget formulation stage. For example: (i) it only has updated online information on the Five-year Budget for the first year of the five-year period;<sup>4</sup> (ii) the financial execution of the budget is not automatically linked to other public sector systems that provide indicators such as the physical progress made in the execution of works;<sup>5</sup> and (iii) information on budget formulation and execution is disconnected, which means there are two sources of information on the national budget that are not automatically linked and could potentially

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<sup>4</sup> The Sistema de Información Presupuestaria [Budget Information System] (SIP) only has updated online information for the first year of the Five-year Budget. This is due to the fact that information is entered when the Five-year Budget is approved by Parliament at historical values and is not subsequently updated (see optional electronic [link 1](#)).

<sup>5</sup> To date, the SIIF is not linked with other management systems that play an important role in public expenditure such as: Sistema de Compras Estatales [State Procurement System] (SICE), Sistema Nacional de Inversión Pública [National Public Investment System] (SNIP), Sistema de Distribución del Gasto [Expense Distribution System] (SDG), Sistema de Gestión Humana [Human Resource Management System] (SGH), Sistema de Evaluación [Evaluation System] (SEV), or the Sistema de Deuda Pública [Public Debt System] of the Central Bank of Uruguay (BCU-DEUDA).

provide different information, thereby complicating the budget formulation process.<sup>6</sup>

- b. **Improve operational efficiency in the ministries and government agencies.** These weaknesses are expressed as excessive delays in budget management. An example of this is the average time it takes to pay and process an invoice (51 days) because budget processes are not optimized and there is no interoperability between the SIIF and the State Procurement System (SICE), which makes it necessary to manually input invoice data in the SIIF that was already entered in the SICE.<sup>7</sup>
  - c. **Improve the capacity to monitor budget execution.** To date, payments from the central government cannot be disaggregated by expense purpose based on budget classifications, in real time. This causes problems in monitoring funds disbursed by the Tesorería General de la Nación [National Treasury Office] (TGN) in the executing units. In addition, the SIIF does not keep timely, reliable information on the total number of income categories that comprise the public finance accounts, because it is not interoperable with the systems of the Dirección General Impositiva [Uruguayan Internal Revenue Service] (DGI).
  - d. **Improve the generation of timely, comprehensive financial statements.** Currently, only two of the seven financial statements established by the International Public Sector Accounting Standards (IPSAS) are automatically generated: Budget Execution of Expenditures and Budget Execution of Principal Resources. This leads to difficulties in generating complete accrual-based accounts and impedes the oversight and audit work of the Tribunal de Cuentas de la República [State Audit Office] (TCR) (see the presentation of the State Audit Office in optional electronic [link 1](#)).
- 1.7 The key factors that help explain the presence of these challenges can be grouped in two main areas: (i) deficiencies associated with the accounting and budget management process per se, stemming from management procedures during the budget cycle, as well as accounting procedures; and (ii) weaknesses observed in the SIIF management system itself, in terms of its conceptual design, development of the tool, and technological solutions adopted at the appropriate time. Weaknesses have also been observed in the technical capacities found at the CGN and other public institutions (ministries, agencies, etc.) in terms of addressing any changes that may be necessary as a result of modernization of the information system.

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<sup>6</sup> Budget formulation and execution processes use the SIP and the Sistema de Ejecución del Gasto [Expense Execution System] (SEG). Both modules have information on the national budget, but the SIP has the version formally approved by Parliament at historical values, whereas the SEG has updated budget information at current monetary values.

<sup>7</sup> Data provided by the MEF.



- a. **Deficiencies in the budget process.** The principal weaknesses identified are: (i) lack of common criteria used for budget management in the ministries and executing units, as well as in the central services of the MEF;<sup>8</sup> (ii) the absence of a single chart of accounts integrated with the budget classifier prevents expressing all of the public sector's economic-financial transactions in a uniform, common language, thereby hampering comparability (see optional electronic [link 2](#)); and (iii) some executing units keep current accounts outside the Cuenta Única de la Tesorería [Single Treasury Account] (CUN).<sup>9</sup>
- b. **Weaknesses in the current SIIF.** The following weaknesses should be mentioned: (i) absence of a conceptual model that accurately defines the scope, principal functions (in an integrated form), and coverage of the SIIF;<sup>10</sup> (ii) fragmentation of SIIF modules, which leads to double entry of data in the system's modules;<sup>11</sup> (iii) low level of interoperability between the SIIF and other public sector management systems;<sup>12</sup> (iv) weaknesses in the system's capacity to generate reports;<sup>13</sup> (v) the Accounting Information System (AIS) was not fully developed, so all accounting entries must be manually generated, and it is not possible to automatically issue balance sheets and generate financial and accounting reports from the system; and (vi) the reports generated by the SIIF can only be viewed on screen or printed out, and cannot be exported to Excel, an issue that is resolved by manually extracting data from the databases (see optional electronic [link 2](#)).
- c. **Institutional weaknesses related to guaranteeing the sustainability of the SIIF 2.** The implementation of the new SIIF 2 requires human resources that have a high degree of technical specialization and knowledge of technological innovations to ensure program sustainability. Currently, new technical skills are

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<sup>8</sup> There is currently no complete mapping of the principal budget, cash, accounting, and debt management processes, which keeps them from being standardized, integrated, and optimized (see optional electronic [link 2](#) for more details).

<sup>9</sup> There are 576 bank accounts outside the CUN, at a significant cost to the State (see optional electronic [link 3](#)).

<sup>10</sup> Because there was no clear conceptual model that would serve as the basis for the development and expansion of the SIIF, the system does not have an integrated view of processes, but is more like the development of a set of modules that are not interconnected. As mentioned in paragraph 1.4, the new conceptual model that will serve as a basis for the development of SIIF 2 addresses the problem of integration and coverage (see optional electronic [link 2](#) for more details).

<sup>11</sup> The new conceptual model addresses the fragmentation problem (see optional electronic [link 2](#)).

<sup>12</sup> To date, the SIIF is not linked to other management systems that play an important role in public expenditure, such as Sistema de Compras Estatales [State Procurement System] (SICE), Sistema Nacional de Inversión Pública [National Public Investment System] (SNIP), Sistema de Distribución del Gasto [Expense Distribution System] (SDG), Sistema de Gestión Humana [Human Resource Management System] (SGH), Sistema de Evaluación [Evaluation System] (SEV), or the Sistema de Deuda Pública [Public Debt System] of the Central Bank of Uruguay (BCU-DEUDA).

<sup>13</sup> The SIIF can only issue reports with the data available on the day the report is prepared, which prevents the generation of information that could be used to make comparisons between periods (see optional electronic [link 1](#)).

needed in the institutions responsible for budget management in Uruguay, resulting in the need to address the following weaknesses: (i) fragmented work processes, in terms of conceptual criteria as well as in the current modules of the SIIF; (ii) insufficient planning and technological innovation capacity in the services responsible for the management of the system; and (iii) insufficient capacity to provide user support to deal with new technological challenges.

**B. Bank's strategy with the country and in the sector**

- 1.8 The program is aligned with the sector priorities established in the country strategy with Uruguay (document GN-2626), through the pillars of public management and finances as set out in the strategy's results matrix, as well as with the lending program target for small and vulnerable countries established in the GCI-9 (document AB-2764).<sup>14</sup> Furthermore, the program contributes to achieving the regional target on public institutions for growth and social welfare by upgrading public financial systems. It is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) by promoting improvement in the management of public expenditure through information systems for managing public finances.
- 1.9 In addition, this operation is part of a series of efforts undertaken by the Bank to modernize public financial management in Uruguay. In particular, it provides continuity to the Bank's support for the modernization of the SIIF in Uruguay through the Program to Support the Implementation of Results-based Management (ATN/OC-10195-UR) under which the diagnostic assessment of the SIIF was conducted that serves as a basis for this operation, and the Program to Strengthen the Control and Budget Management Units (loan 2085/OC-UR) where the conceptual framework was developed that will serve as a basis for the SIIF 2. This program is also in line with the support the Bank has provided for the modernization of integrated financial management systems (IFMSs) in Latin America and the dissemination of best practices. The principal lessons learned from the Bank's interventions in IFMS modernization that were incorporated into this program include: (i) the need to have a robust executing unit with management and interlocutorship capacity; (ii) creation of a Users Committee that facilitates adapting the development of the system to the preferences of end customers from the outset; and (iii) properly determining the complexity involved in the implementation and

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<sup>14</sup> In particular, the operation is aligned with the country strategy indicator that seeks to expand use of the national financial management system and increase the percentage of Bank-financed operations that use the SIIF.

development of the system, which is why the SIIF 2 described in this operation focuses on budget execution and leaves the formulation process for a later stage.<sup>15</sup>

### **C. Objective, components, and costs**

- 1.10 **Objective.** The objective of the program is to improve public budget, financial, and accounting management by implementing a New Generation Integrated Financial Information System (SIIF 2) that will: (i) improve operating efficiency in the management of public expenditure; and (ii) generate timely, quality information that will support decision-making during the budget cycle.
- 1.11 **Beneficiaries.** The program will benefit: (i) the Government of Uruguay, by generating information that will support the decision-making process and monitoring during the budget cycle; and (ii) the entire population, by contributing to greater transparency and efficiency in public expenditure. The program will finance the following components:
- 1.12 **Component 1. Development and implementation of the SIIF 2 (US\$20,999,748).** The objective of this component is to optimize financial-accounting workflows, which will help reduce the time it takes to process invoices, and the software development of the SIIF 2 and launch of the implementation process, which will increase the availability of online budget and accounting information that is updated in real time. This entails working on the following closely inter-related activities that will be executed simultaneously:
  - a. **Streamlining of processes and strengthening of budget accounting rules.** International experience shows that in order to benefit the most from the implementation of an IFMS, there are certain pre-requisites that must be met in terms of harmonizing budget and accounting classifications and management processes.<sup>16</sup> To this end, this component will finance the following activities: (i) identification and mapping of the public sector's financial management processes (budget cycle, cash management, accounting and management of public credit), the integration of these processes and their connection with other operational systems (SNIP, SGH, etc.) that are currently being used;<sup>17</sup>

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<sup>15</sup> International experience shows that the development and implementation of an IFMS is complex and makes intensive use of highly skilled human resources. Accordingly, it is desirable for there to be prioritization and sequencing in the different stages of development and implementation. For more information, see Gerardo Uña, *Estrategias de desarrollo e implantación de Sistemas Integrados de Administración Financiera: Experiencias y lecciones para América Latina* [Development Strategies and Implementation of Integrated Financial Management Systems: Experiences and Lessons for Latin America], IDB, IDB-DP-197, 2012. Uña (2012).

<sup>16</sup> See Gerardo Uña, *Estrategias de desarrollo e implantación de Sistemas Integrados de Administración Financiera: Experiencias y lecciones para América Latina* [Development Strategies and Implementation of Integrated Financial Management Systems: Experiences and Lessons for Latin America], IDB, IDB-DP-197, 2012.

<sup>17</sup> Budget, accounting, cash, and debt management processes are not currently mapped or integrated with each other.

(ii) optimization of these work processes, including reducing the number of accounts for the payment of salaries outside the Single Treasury Account (CUN);<sup>18</sup> (iii) a review of the manuals and regulations currently applied to public financial management, adapting them to the new optimized processes;<sup>19</sup> and (iv) a review of the current chart of accounts and budget classifier and their integration.<sup>20</sup> This process of streamlining and strengthening budget rules will help reduce the time it takes to process invoices as well as the number of accounts outside the CUN.

- b. **Defining technologies.** The objective of adopting technological architecture is to establish common guidelines that should be used for all SIIF 2 modules. To this end, this component will finance the following activities: (i) mapping and description of the architecture (including conceptual testing of the product) and technological standards for the SIIF 2; (ii) sizing of hardware and software for the new system and proposed refinement; and (iii) procurement of software licenses and hardware for the MEF's data center. Defining technologies will help increase the speed at which the databases are processed.
- c. **Software development for the system.** By outsourcing to software companies, this component will finance the development of the four modules of the SIIF 2 specified in the conceptual framework: (i) transaction module; (ii) business intelligence module; (iii) interoperability mechanisms; and (iv) the integrated system. It will also finance a consultancy to review and validate the bid documentation and provide assistance for evaluating bids.
- d. **Implementation of the system.** This will include: (i) specification of scope, actions, and stages to be completed on a gradual basis; (ii) implementation of the system in the universe of executing units, including the training of operators; and (iii) continuous testing of SIIF 2 performance throughout the implementation process. Implementation of the system will result in the availability of disaggregated and updated online budget data, and the automatic generation of all accounting records and the seven financial statements.
- e. **Interoperability.** Given the objective of the SIIF 2 being interoperable with all of the MEF's in-house systems and at least two external systems based on the defined scope, the following activities will be financed: (i) detailed survey of the features of crosscutting and interagency systems that are interoperable

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<sup>18</sup> By applying standard financial and accounting criteria (openness of budget and chart of accounts), and the one-time capturing of data.

<sup>19</sup> As part of the regulatory review, a minimum of the following manuals will need to be produced: Accounting Conceptual Framework, Government Accounting Manual and General Accounting Policies for the entire general government sector, Manual of Special Accounting Standards and Accounting Procedures, Assets Manual, Manual on the Consolidation of Financial Information, and Functional Manual on the Budget/Accounting Conversion Matrix.

<sup>20</sup> Integration is achieved based on the Conversion Matrix.

with the current SIIF; (ii) define the interoperability of the crosscutting and interagency systems that are to be interoperable with the SIIF 2; and (iii) development and implementation.

- 1.13 **Component 2. Institutional strengthening of the units of the MEF and public agencies (US\$3,351,330).** Along with the implementation of the new macro work processes in the SIIF 2, building the institutional capacities of the MEF's main areas directly involved in the budget process is recommended. The following activities will be financed to strengthen the macro processes of the SIIF 2:

- a. **Strengthening of the CGN.** The following will be financed: (i) a diagnostic assessment of the CGN's institutional strengths and weaknesses, including the identification of any skill gaps in professional and technological profiles;<sup>21</sup> (ii) training of CGN staff based on this assessment; and (iii) formulation and implementation of a change management plan.
- b. **Strengthening of the Unidad de Presupuesto Nacional [National Budget Unit] (UPN) and the National Treasury Office (TGN).** The following will be financed: (i) identification of potential skill gaps in professional and technological profiles in the aforementioned entities; (ii) training of UPN and TGN staff based on this assessment; and (iii) development of management systems in the UPN and TGN.

**D. Key indicators from the Results Framework**

- 1.14 By the end of the program in 2018, the following outcomes are expected: (i) increase from one to five years the updated information available online on the five-year budget; (ii) increase from 0 to 5 the number of management systems that are fully interoperable with the SIIF 2, with one-time entry of common data; (iii) 100% of accounting entries are automatically generated; (iv) increase from 2 to 7 the number of principal financial statements that are automatically generated by the system in a timely manner; (v) reduce the number of accounts for salary payments outside the CUN from 576 to 58; (vi) increase from 0% to 60% the payments from the central government that are disaggregated by expense purpose in accordance with the budget classification system, in real time; and (vii) increase from 5 to 10 the number of transactions per second processed by the database.
- 1.15 **Impacts.** The program will help: (i) reduce from 51 to 29 days the time it takes to process invoices so that they can be paid (prioritized); and (ii) reduce by 90% the annual costs associated with the proliferation of bank accounts and maintenance of balances outside the CUN, currently estimated at US\$4.9 million (Source: Treasurer of the Nation, 2013).

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<sup>21</sup> The analysis of gaps will also include the gender perspective.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing, procurement, and contractual conditions

- 2.1 The total estimated cost of the program is US\$26.8 million, of which the Bank will finance the equivalent of US\$14.5 million from the Ordinary Capital. The counterpart resources in the amount of US\$12.3 million will be contributed by the Eastern Republic of Uruguay. Details of the program's financing structure appear below in Table 2.1.

**Table 2.1: Overall Program Budget (US\$)**

| Categories*   | IDB               | Local             | Total             | %          |
|---|-------------------|-------------------|-------------------|------------|
| <b>1. Direct costs</b>  | <b>12,815,900</b> | <b>11,535,178</b> | <b>24,351,078</b> | <b>91</b>  |
| 1.1 Development and implementation of the SIIF 2                            | 10,533,400        | 10,466,348        | 20,999,748        | -          |
| 1.2 Institutional strengthening of the units of the MEF and public agencies | 2,282,500         | 1,068,830         | 3,351,330         | -          |
| <b>2. Program administration</b>  | <b>1,684,100</b>  | <b>805,822</b>    | <b>2,489,922</b>  | <b>9</b>   |
| 2.1 Program management  | 1,684,100         | 370,502           | 2,054,602         | -          |
| 2.2 Monitoring, evaluation, and audits                                      | 0                 | 435,320           | 435,320           | -          |
| 1.2.1 Monitoring  | 0                 | 205,160           | 0                 | -          |
| 1.2.2 Evaluation  | 0                 | 205,160           | 0                 | -          |
| 1.2.3 Audits  | 0                 | 25,000            | 0                 | -          |
| <b>Total</b>  | <b>14,500,000</b> | <b>12,341,000</b> | <b>26,841,000</b> | <b>100</b> |
| <b>%</b>  | <b>54%</b>        | <b>46%</b>        |                   |            |

- 2.2 **Disbursement schedule.** The disbursement period is five years from the date the loan contract is signed, in accordance with the disbursement schedule that appears below in Table 2.2.

**Table 2.2: Disbursement Schedule<sup>22</sup> (US\$ millions)**

| Source       | Year 1   | Year 2    | Year 3    | Year 4    | Year 5    | Total      | %          |
|--------------|----------|-----------|-----------|-----------|-----------|------------|------------|
| <b>IDB</b>   | 1,424    | 2,527     | 3,925     | 4,307     | 2,317     | 14,500     | <b>54</b>  |
| <b>Local</b> | 434      | 798       | 2,093     | 4,245     | 4,770     | 12,341     | <b>46</b>  |
| <b>Total</b> | 1,858    | 3,326     | 6,019     | 8,552     | 7,087     | 26,841     | <b>100</b> |
| <b>%</b>     | <b>7</b> | <b>12</b> | <b>22</b> | <b>32</b> | <b>26</b> | <b>100</b> |            |

- 2.3 **Economic rationale.** The program team conducted a comparative analysis of the program's costs and financial benefits (see optional electronic [link 1](#)), which only considered some of its main outcomes. A conservative estimate of the program's

<sup>22</sup> The figures indicated in this table only include the direct costs and administrative costs of the program.

- annual net benefits was US\$8.9 million, based on two indicators from the program's results matrix: (i) reduction in the time it takes to process invoices so that they can be paid; and (ii) reduction in the costs associated with the proliferation of bank accounts and minimum balance requirements.
- 2.4 The results of the cost-benefit analysis leave no room for doubt as to the significant benefits to be obtained with respect to estimated costs. The expected internal rate of return is 21.1%, with flows of benefits at present value 97.3% higher than costs if a 6% discount rate is applied, and 48.3% higher with a 12% discount rate.
- 2.5 **Sustainability analysis.** Some of the key factors that increase the sustainability of the project include: (i) a strong commitment on the part of the authorities to modernize the SIIF, which was demonstrated during the assessment process and development of the conceptual framework, along with a local financial contribution covering 46% of the total program amount; and (ii) the high social return of this project, as shown in the cost-benefit analysis.
- 2.6 **The country's fiduciary context.** The Fiduciary Agreements and Requirements (see Annex III) established for this program are based on evaluations conducted in Uruguay in 2005, 2008, and 2011, and on the institutional assessment of the executing agency (MEF) performed in November 2013. Uruguay's fiduciary risk is considered low and the likelihood of public funds being used for unauthorized purposes is small. Public financial management in Uruguay is generally considered responsible and transparent.
- 2.7 **Procurement of works, goods, and nonconsulting services.** The procurement policies applicable to this loan are the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). Contracts generated and subject to international competitive bidding (ICB) will use the standard bidding documents (SBDs) issued by the Bank. Procurements subject to national competitive bidding (NCB) will be conducted using national bidding documents satisfactory to the Bank. Without detriment to the relevant Bank policies, direct contracting may be used for technically simple and low-cost inputs and services, up to a maximum of US\$4,000 or the equivalent.
- 2.8 **Retroactive financing.** The Bank may finance and charge against the program resources up to US\$800,000 (5.5% of the total loan amount) in eligible expenditures made by the borrower prior to the loan approval date to hire individual consultants, as set forth in Annex III. These expenditures must have been made as of 8 October 2013, the official date of approval of the project profile in the Bank's systems, but may in no case include expenditures made more than 18 months prior to the loan approval date (see Annex III).
- B. Environmental and social safeguard risks**
- 2.9 According to the terms of the Bank's Environment and Safeguards Compliance Policy (Directive B.13, OP-703), it was determined that this program does not

require classification. Because it is an institutional modernization program of a Ministry of Finance, there are no anticipated risks due to negative environmental impacts.

### C. Risks

- 2.10 The assessment of the program risks conducted with the participation of various stakeholders concluded that there are medium development and sustainability risks related to the quality of the new system, the process of putting it into operation, potential delays in activities related to IT development, and the institutionalization of support for the operation of the system. The following measures are planned to mitigate these risks: (i) formation of a solid counterpart technical team of the consulting firm that will develop the system; (ii) formulation of a detailed implementation plan; (iii) contracting of international experts to support the work of assessing and optimizing budget, financial, and accounting management processes; and (iv) contracting a consultant to develop a sustainability plan.
- 2.11 In terms of procurement administration, the executing agency is considered low risk given its experience in recent years, which includes the following: (i) the MEF is a public administration entity that has executed several Bank projects; (ii) it has solid prior experience in procurement processes carried out according to Bank policies; and (iii) its processes and the overall internal control environment are generally considered acceptable.
- 2.12 **Audited financial statements.** The borrower will submit the project's audited financial statements to the Bank annually within 120 days of the close of each fiscal year, which have been duly audited by an independent auditor approved by the Bank.

## III. IMPLEMENTATION AND MANAGEMENT PLAN

### A. Summary of institutional implementation arrangements

- 3.1 The program executing agency will be the Ministry of Economy and Finance (MEF). A Project Executing Unit (PEU) will be created by ministerial resolution and will report to a Program Coordinating Committee (PCC) consisting of authorities from the TGN, the CGN, and the UPN. **The creation and implementation of the PEU with the profiles and structure agreed upon with the Bank is a special condition precedent to the first disbursement of the loan proceeds.**
- 3.2 The PEU will be made up of a Technical Area and the Project Coordination Unit of the MEF (PCU-MEF) and headed up by a General Program Coordinator. The PCC will establish the program guidelines at the strategic level, as well as the support and performance monitoring. The Technical Area will be responsible for technical aspects of the program and will be comprised of a minimum of the following: (i) an operational manager; and (ii) a manager of information technology and communications, while the PCU-MEF will be responsible for administrative and



- financial-accounting aspects. The PCU-MEF will have technical and administrative support staff to provide the services needed, including a financial specialist and a procurement specialist, among others.
- 3.3 The PEU will have the following responsibilities: (i) submit disbursement requests to the Bank along with the pertinent supporting documentation; (ii) supervise competitive bidding processes and the procurement of goods, works, and services for the program, in accordance with the corresponding procurement plan and Bank policies; (iii) properly maintain the financial-accounting system for the program, in accordance with Bank policies; (iv) submit reports on program execution; (v) submit the annual work plan (AWP) and update the procurement plan; (vi) keep the respective invoices, contracts, and payment orders, and submit them to the Bank and the program auditors upon request; and (vii) ensure that the works and goods procured with program resources are being maintained in accordance with generally accepted technical standards.
- 3.4 **Disbursement plan.** The borrower will submit to the Bank for consideration a plan for disbursing the program's financial resources for each six-month period, indicating the need for fund advances for the period.
- B. Summary of arrangements for monitoring results**
- 3.5 The program will be monitored based on the programming of activities and physical and financial details on the outputs specified in the AWP, as well as the descriptions of procurements described in the procurement plan. In addition, the borrower will submit semiannual status reports to the Bank. These reports will include information on the current stage of implementation of the activities described in the different components of the program. Data on the physical and financial targets of the outputs will be collected by the PEU on a monthly basis and included in the semiannual status report, using the model agreed upon with the Bank. These reports will be used to update the Project Monitoring Report.
- 3.6 **Procurement Plan Execution System (SEPA), annual work plan, and the procurement plan for the first 18 months.** The procurement plan will be managed using the SEPA. The borrower submitted and the Bank validated this plan and a draft AWP for the first 18 months, starting the date the loan contract is signed.
- 3.7 **Evaluation.** The program evaluation will be based on the plan for evaluating and measuring results, which will use the ex post cost-benefit evaluation methodology to measure the outcomes achieved with respect to the situation that existed before the program. The monitoring and evaluation plan (see required electronic [link 3](#)) contains details on the proposed arrangements. A special budget has been allocated for these activities, which will be the responsibility of the PEU with the support of a specialized consultancy.
- 3.8 The program will be evaluated based on the targets, frame of reference, and the respective annual indicators for the outputs and outcomes that comprise the

program's results framework. Two levels of indicators are defined in this framework, which are related to the annual targets and applicable frame of reference. In terms of outputs, the results framework defines a frame of reference, a target, and the respective annual stages. The outputs will be evaluated periodically as described in the Results Matrix (see Annex II).

| Development Effectiveness Matrix  |   |   |               |
|---|---|---|---------------|
| Summary   |   |   |               |
| I. Strategic Alignment  |   |   |               |
| 1. IDB Strategic Development Objectives   | Aligned   |   |               |
| Lending Program   | Lending to small and vulnerable countries.        |   |               |
| Regional Development Goals  |   |   |               |
| Bank Output Contribution (as defined in Results Framework of IDB-9)   | Public financial systems implemented or upgraded. |   |               |
| 2. Country Strategy Development Objectives  | Aligned   |   |               |
| Country Strategy Results Matrix   | GN-2626   | Expanded use of the national financial management system.   |               |
| Country Program Results Matrix  | GN-2756   | The project is included in the 2014 CPD.  |               |
| Relevance of this project to country development challenges (If not aligned to country strategy or country program)   |   |   |               |
| II. Development Outcomes - Evaluability   | Evaluable   | Weight  | Maximum Score |
|   | 8.7   |   | 10            |
| 3. Evidence-based Assessment & Solution   | 9.4   | 33.33%  | 10            |
| 3.1 Program Diagnosis   | 2.4   |   |               |
| 3.2 Proposed Interventions or Solutions   | 4.0   |   |               |
| 3.3 Results Matrix Quality  | 3.0   |   |               |
| 4. Ex ante Economic Analysis  | 10.0  | 33.33%  | 10            |
| 4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis  | 4.0   |   |               |
| 4.2 Identified and Quantified Benefits  | 1.5   |   |               |
| 4.3 Identified and Quantified Costs   | 1.5   |   |               |
| 4.4 Reasonable Assumptions  | 1.5   |   |               |
| 4.5 Sensitivity Analysis  | 1.5   |   |               |
| 5. Monitoring and Evaluation  | 6.6   | 33.33%  | 10            |
| 5.1 Monitoring Mechanisms   | 2.5   |   |               |
| 5.2 Evaluation Plan   | 4.1   |   |               |
| 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  | B.13  |   |               |
| IV. IDB's Role - Additionality  |   |   |               |
| The project relies on the use of country systems  |   |   |               |
| Fiduciary (VPC/PDP Criteria)  | Yes   | Financial Management: i) Budget, ii) Treasury, and iii) Accounting and reporting.<br>Procurement: Information System.   |               |
| Non-Fiduciary   |   |   |               |
| The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:  |   |   |               |
| Gender Equality   |   |   |               |
| Labor   |   |   |               |
| Environment   |   |   |               |
| Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project            | Yes   | Support Program for the Implementation of Results based management (ATN/OC 10195 UR) and Strengthening of Budget Management and Control Institutions (085/OC-UR). This program also is framed by the Bank's support of Public Financial Information Systems in Latin America and best practice dissemination. |               |
| The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan |   |   |               |

The Integrated Financial Information System (SIIF) presents several challenges, rooted in the fact that it is a technologically obsolete system. SIIF presents difficulties in providing timely and reliable information to allocate resources during budget formulation, budget management is slow and procedures are cumbersome, there is no interoperability between SIIF, public procurement systems and the systems of the Internal Revenue Service. Finally, the production of consolidated financial statements is slow and only 2 of the 7 financial statements set by the International Accounting Standards for the Public Sector are generated automatically.

The document groups the factors that help explain these challenges in two areas: (i) deficiencies related to budgetary and accounting management procedures rooted in budget cycle and accounting processes and, (ii) weaknesses found in the management system itself, its conceptual design and of the obsolescence of the current platform. In this context, the diagnosis is comprehensive.

The proposed project is clearly articulated with this detailed analysis of the state of financial management in Uruguay and includes resources to fund two components: (i) Development and implementation of SIIF 2 and (ii) Institutional Strengthening of MEF and public institutions. The proposed intervention has clear vertical logic and final impacts are associated with the project's contribution to improving public financial management in Uruguay.

The document contains an economic analysis whose parameters are consistent with the impact indicators contained in the Results Matrix. The Monitoring and Evaluation Plan proposes a reflexive and an ex-post analysis of costs and benefits.

## RESULTS MATRIX

| <b>OBJECTIVE:</b>  | Improve public budget, financial, and accounting management by implementing a New Generation Integrated Financial Information System (SIIF 2) that will: (i) improve operating efficiency in the management of public expenditure; and (ii) generate timely, quality information that will support decision-making during the budget cycle. |          |      |                                  |                 |      |      |                  |                                       |   |
|--|---|----------|------|----------------------------------|-----------------|------|------|------------------|---------------------------------------|---|
| Proposed indicators  | Unit of measure   | Baseline |      | Intermediate values<br>(by year) |                 |      |      | Target<br>(2019) | Source /<br>means of<br>verification  | Observations  |
|  |   | Value    | Year | 2015                             | 2016            | 2017 | 2018 | Value            |                                       |   |
| IMPACT indicators  |   |          |      |                                  |                 |      |      |                  |                                       |   |
| 1. Time it takes to process invoices so that they can be paid (prioritized)  | Calendar days   | 51       | 2014 | -                                | 45 <sup>1</sup> | -    | -    | 29               | SIIF                                  | Average number of days from the time the invoice is submitted by the supplier until payment priority is assigned.   |
| 2. Financial costs associated with bank accounts outside the Single Treasury Account (CUN), under current regulations. | Percentage of payments (total 2012 costs: US\$4.9 million)  | 100%     | 2014 | -                                | -               | 80%  | -    | 10%              | National Treasury Office (TGN) report | <b>Costs included:</b> (a) Payments to the Banco de la República Oriental de Uruguay (BROU) for fixed assets managed by the TGN; and (b) administrative costs of current accounts managed by the above.<br><b>Calculation:</b><br>Numerator: Payments to BROU for items (a) and (b)<br>Denominator: Payments to BROU, base year |

<sup>1</sup> Reduction of six days from completing the optimization of processes.

| Proposed indicators   | Unit of measure  | Baseline   |      | Intermediate values<br>(by year) |      |      |      | Target<br>(2019) | Source /<br>means of<br>verification       | Observations  |
|---|--|--|------|----------------------------------|------|------|------|------------------|--|---|
|   |  | Value  | Year | 2015                             | 2016 | 2017 | 2018 | Value            |  |   |
| EXPECTED EFFECTS:   |  | The system provides timely, complete information with suitable levels of openness for public financial management. |      |                                  |      |      |      |                  |  |   |
| OUTCOME indicators  |  |  |      |                                  |      |      |      |                  |  |   |
| Years of the five-year budget with updated budget information online.                                   | Years  | 1 year   | 2014 | -                                | -    | -    | 2    | 5                | SIIF 2 / National Budget Unit (UPN) report |   |
| Number of management systems that are interoperable with the SIIF 2.                                    | Systems that are interoperable with the SIIF 2         | 0  | 2014 | -                                | -    | -    | 2    | 5                | Report of the MEF's Systems Division       | At least five systems from among the following: SICE, SNIP, SGH, RUPE, BCU-Public Debt, BCU-Payments, BROU-Payments |
| % of automated financial-accounting entries out of the total financial entries processed by the system. | Accounting entries generated by financial transactions | 0%   | 2014 | -                                | -    | -    | 100% | 100%             | SIIF 2 / CGN report                        | Universe of annual financial entries = 900,000 entries.   |

| Proposed indicators   | Unit of measure      | Baseline |      | Intermediate values<br>(by year) |      |      |      | Target<br>(2019) | Source /<br>means of<br>verification  | Observations   |
|---|----------------------|----------|------|----------------------------------|------|------|------|------------------|---------------------------------------|--|
|   |                      | Value    | Year | 2015                             | 2016 | 2017 | 2018 | Value            |                                       |  |
| Principal financial statements automatically issued on a timely basis by the system, harmonized with international standards. | Financial statements | 2        | 2014 | -                                | -    | -    | -    | 7                | SIIF 2 / CGN report                   | Current: Budget Execution of Expenditures and Budget Execution of Principal Resources<br><br>Principal: Statement of financial position, income statement, sources and uses of funds statement, statement of changes in shareholders' equity, notes to financial statements, table of fixed assets |
| Number of accounts outside the CUN, under current regulations.  | Number of accounts   | 576      | 2014 | -                                | -    | -    | -    | 58               | National Treasury Office (TGN) report | <b>Types of accounts:</b><br>(a) Payroll accounts (140), and<br>(b) Payroll and other expenses (436)<br><br><b>Calculation:</b><br>Numerator: Accounts (a) and (b) outside the CUN<br>Denominator: Accounts in base year (576)   |

| Proposed indicators   | Unit of measure             | Baseline |      | Intermediate values<br>(by year) |      |      |      | Target<br>(2019) | Source /<br>means of<br>verification                | Observations  |
|---|-----------------------------|----------|------|----------------------------------|------|------|------|------------------|---|---|
|   |                             | Value    | Year | 2015                             | 2016 | 2017 | 2018 | Value            |   |   |
| % of central government expenditure with record of payments disaggregated by expense purpose, based on budget classification, in real time.   | Payments by expense purpose | 0%       | 2014 | -                                | -    | -    | 5%   | 60%              | SIIF 2 /<br>TGN report                              | Disaggregation: operating expenses by purpose of expense, investments by project. |
| Number of transactions per second processed by the database.  | Transactions per second     | 5        | 2014 | -                                | -    | -    | 7    | 10               | SIIF 2 /<br>report prepared by the Systems Division |   |
| <b>OUTPUT indicators</b>  |                             |          |      |                                  |      |      |      |                  |   |   |
| 1.1 The following processes: (i) budget execution, (ii) accounting entry, (iii) cash management, and (iv) debt register, are mapped, optimized, validated, and integrated up to level 3 (tasks) in Business Process Management. | Process                     | 0        | 2014 | -                                | 4    | -    | -    | 4                | Reports on processes validated by the MEF           |   |

| Proposed indicators   | Unit of measure | Baseline |      | Intermediate values<br>(by year) |      |      |      | Target<br>(2019) | Source /<br>means of<br>verification | Observations  |
|---|-----------------|----------|------|----------------------------------|------|------|------|------------------|--------------------------------------|---|
|   |                 | Value    | Year | 2015                             | 2016 | 2017 | 2018 | Value            |                                      |   |
| 1.2 Accounting regulatory framework adapted to the optimized processes, and manuals are harmonized with international standards | Manuals         | 0        | 2014 | -                                | 4    | 1    | -    | 5                | CGN report                           | Government Accounting Manual, Special Rules. Budget, Assets, Consolidation and Conversion Matrix. |
| 1.3 Chart of accounts and budget classifiers, updated and integrated.   | Manuals         | 0        | 2014 | -                                | 2    | -    | -    | 2                | CGN report                           |   |
| 1.4 Architecture and technological environments of the SIIF 2 defined and sized.  | Report          | 0        | 2014 | 1                                | 1    | -    | -    | 2                | PEU report                           | Architecture report (2015), sizing report (2016).   |
| 1.5 Technological environments of the SIIF 2 installed (development, testing, preproduction, and production).                   | Environment     | 0        | 2014 | -                                | -    | 4    | -    | 4                | PEU report                           | Environments starting in 2017.  |



| Proposed indicators   | Unit of measure         | Baseline |      | Intermediate values<br>(by year) |      |      |      | Target<br>(2019) | Source /<br>means of<br>verification   | Observations   |
|---|-------------------------|----------|------|----------------------------------|------|------|------|------------------|--|--|
|   |                         | Value    | Year | 2015                             | 2016 | 2017 | 2018 | Value            |  |  |
| 1.6 Number of functions/ requirements of the SIIF 2 pertaining to: (i) transaction module; (ii) business intelligence module; (iii) Interoperability mechanisms, all developed. | Functions/ requirements | 0        | 2014 | -                                | 50   | 200  | -    | 250              | Original target: terms of reference for the SIIF 2. Deliverable acceptance matrix. | Midterm progress values: 2016, 20% of the target, and 2017, 80% of the target, based on the development methodology. |
| 1.7 Number of executing units of the central government with the SIIF 2 in operation.   | Executing units         | 0        | 2014 | -                                | -    | -    | 70   | 70               | SIIF 2 / CGN report  | 126 executing units in the central government.   |
| 2.1 Diagnostic assessment and proposal on strengthening the CGN.  | Report                  | 0        | 2014 | 1                                | -    | -    | -    | 1                | PEU report   | The training plan will include gender equity considerations.   |
| 2.2 CGN staff trained.  | Staff                   | 0        | 2014 | 20                               | 20   | 80   | 80   | 200              | PEU report   |  |
| 2.3 Execution of the change management plan in the CGN.   | Report                  | 0        | 2014 | 1                                | -    | -    | -    | 1                | PEU report   |  |
| 2.4 Management systems in the UPN and TGN developed.  | Report                  | 0        | 2014 | 1                                | 1    | -    | -    | 2                | UPN and TGN reports  |  |
| 2.5 UPN and TGN staff trained.  | Staff                   | 0        | 2014 | 20                               | 20   | -    | -    | 40               | PEU report   |  |

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

|                          |  |
|--------------------------|--|
| <b>Country:</b>          | Uruguay  |
| <b>Project number:</b>   | UR-L1089   |
| <b>Name:</b>             | Program to Modernize Public Financial Management   |
| <b>Executing agency:</b> | Ministry of Economy and Finance (MEF)              |
| <b>Prepared by:</b>      | Fiduciary team (Nadia Rauschert and David Salazar) |

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

- 1.1 The fiduciary agreements and requirements specified for this program are based on evaluations conducted in Uruguay in 2005, 2008, and 2011, and on the institutional assessment of the executing agency (MEF) that was conducted in November 2013 using the Institutional Capacity Assessment System (ICAS). It should be noted that the MEF has been responsible for the following loans: 1690/OC-UR (Program to Create a Debt Management Office), 2085/OC-UR (Program to Strengthen the Control and Budget Management Units), and 2792/OC-UR (Institutional Capacity Program for the Ministry of Economy and Finance).
- 1.2 Fiduciary risk in Uruguay is considered low, as the likelihood of public or donor funds being used for unauthorized purposes is small. Public financial management in Uruguay is generally considered responsible and transparent. In relation to public procurement, although the country has a recognized legal and institutional framework and sound legal base, there are opportunities for improvement related to increasing efficiency and reducing costs. Several studies that were conducted show that corruption is not perceived as a problem. In terms of procurement, the country's risk is regarded as "medium."
- 1.3 The total cost of the program is US\$22 million, which includes an investment of approximately US\$14.5 million from the Bank, and US\$7.5 million from the local counterpart. The borrower and guarantor of the operation will be the Eastern Republic of Uruguay, and the executing agency will be the Ministry of Economy and Finance (MEF), which has an administrative-financial structure and whose team of professionals will be responsible for administering the program resources and ensuring the timely provision of the local counterpart funds.

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

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

- 2.2 Based on the results of the institutional assessment, the key considerations are:
- a. In the area of financial management and accounting, the MEF is regulated by clear procedures set out in current laws and regulations enforced under strict internal and external controls stipulated by law, which although not bureaucratically expedient, mitigate risks stemming from weaknesses in the internal control system.
  - b. The MEF has solid prior experience in procurement processes carried out according to Bank policies, and has performed adequately under both review modalities (ex ante and ex post).
  - c. The executing agency's staff has satisfactory experience in the Bank's procurement processes.
  - d. The executing agency is authorized to use the ex post review modality for procurements up to the lower threshold for ICB processes.
  - e. The executing agency's processes and general internal control environment are considered adequate.
  - f. The recent project risk management (PRM) exercise undertaken by staff from the executing agency resulted in a low risk profile.
- 2.3 The project would operate with the following country systems:
- a. Budget. The project and its corresponding credits will be included in the 2014 budget and in the five-year national budget for 2015-2020;
  - b. Treasury. The program will use the Single Treasury Account (CUN), and in terms of payments, unless the Central Bank serves as the payment account, operating accounts will be managed at the Banco de la República Oriental del Uruguay (BROU);
  - c. Accounting and financial reports. The MEF is one of the pilot institutions where SPI (international project management system) processes have been tested and implemented. Therefore, program accounting will use this module, which is integrated with the expenditure execution module in the Integrated Financial Information System (SIIF);
  - d. External control. External audits may be performed by the Tribunal de Cuentas de la República [State Audit Office] (TCR), which has level 1 eligibility.

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

- 3.1 In view of the foregoing considerations and the ICAS assessment conducted in November 2013, the MEF is considered low risk and may only require minor mitigation measures to mitigate its weaknesses. These measures may be in the form of suggestions for efficient and effective management of the program resources, provided, however, that the current members of the PEU continue to serve as the fiduciary-administrative team for this new operation.

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

- 4.1 Considerations for the special provisions of contracts are as follows:
- a. Exchange rate: For accounting in dollars, the same criterion as in loan 2792/OC-UR will be used, i.e., the exchange rate in effect on the day prior to the date of payment will be used for conversion purposes.
  - b. Financial statements. These statements will be submitted at the end of each year (starting fiscal year 2014) and will be audited by the TCR or by an auditing firm acceptable to the Bank. The external auditors will also report on the review of disbursement processes and requests and the evaluation of the internal control system.
  - c. Bank account. For management of the operation, a specific account will be opened at the Central Bank of Uruguay (BCU).

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

- 5.1 The procurement policies applicable to this loan are the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9).

##### 1. **Procurement execution**

- a. The procurement plan for the first 18 months will be input in the Procurement Plan Execution System (SEPA) prior to the start of any procurement processes. The procurement plan will be updated at least annually by the PEU.
- b. The relevance of the expenditure, i.e., the terms of reference, technical specifications, and budget, is the responsibility of the project's sector specialist, and always requires a prior statement of no objection with respect to beginning any procurement process, and based on PTL operational criteria.

2. **Procurement of works, goods, and non-consulting services.**<sup>1</sup> Program contracts generated and subject to international competitive bidding (ICB) will use the standard bidding documents (SBDs) issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be conducted using national bidding documents satisfactory to the Bank.

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<sup>1</sup> 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 similarly to goods.

- a. Without detriment to the relevant Bank policies, direct contracting may be used for technically simple and low-cost inputs and services, up to a maximum of US\$4,000, or the equivalent.
- b. Procurement of information technology (IT) systems: For the development of the SIIF 2, a bidding document adapted to the specifics of the procurement will be used, which will be previously agreed upon with the Bank. An information phase is also anticipated prior to the beginning of the competitive bidding process.

**3. Selection and contracting of consultants**

- a. Consulting firms: Consulting firms will be selected and contracted in accordance with the Bank's policies. Bid calls with international publicity (for amounts above US\$200,000) will be subject to ex ante review.
  - b. Selection of individual consultants:<sup>2</sup> Because of the need to maintain continuity of the technical approach during project execution, the executing agency may use the single source selection method in order to continue using the services of the individual consultants hired to formulate and launch the project.
4. **Training.** Direct contracting may be used when the individual value of each procurement is less than US\$4,000. For higher amounts, procurement will preferably be conducted using the appropriate competitive methods.
5. **Retroactive financing.** The Bank may finance and charge against the program resources up to US\$800,000 (5.5% of the total loan amount) in eligible expenditures made by the borrower prior to the loan approval date, provided they meet requirements substantially similar to those stipulated in the loan contract. The related contracting processes are as follows: (i) director of the PEU; (ii) assistant director of the PEU; (iii) administrative-financial specialist; (iv) international consultants and analysts to map accounting, cash, budget, and debt processes; (v) international consultant specializing in information and communications technology; (vi) technical-IT consultant; and (vii) procurement specialist. These expenditures must have been made as of 8 October 2013, the official date of approval of the project profile in the Bank's systems, but may in no case include expenditures made more than 18 months prior to the loan approval date.

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<sup>2</sup> Pursuant to Section V of the Bank's policies (document GN-2350-9) no shortlist is required, and the standard RFP will not be used.

**Table of threshold amounts for Uruguay (US\$000s)**

| Works   |           |          | Goods <sup>3</sup> |        |          | Consulting services     |                         |
|---------|-----------|----------|--------------------|--------|----------|-------------------------|-------------------------|
| ICB     | NCB       | Shopping | ICB                | NCB    | Shopping | International publicity | Shortlist 100% national |
| ≥ 3,000 | 250-3,000 | ≤ 250    | ≥250               | 50-250 | ≤ 50     | > 200                   | ≤ 200                   |

**Threshold for ex post review (US\$000s)**

| Works   | Goods and nonconsulting services  | Consulting firms and individual consultants   |
|---|---|---|
| <input type="checkbox"/> Shopping up to US\$250<br><input type="checkbox"/> NCB up to US\$3,000 | <input type="checkbox"/> Shopping up to US\$50;<br><input type="checkbox"/> NCB up to US\$250 | <input type="checkbox"/> Firms with quality- and cost-based selection (QCBS) up to US\$200 (national competitive invitations to bid)<br><input type="checkbox"/> Individual consultants up to US\$60 per contract |

6. **Main procurements.** The procurements for the first 18 months are listed in the procurement plan and do not involve technical complexity or procedures that warrant special attention.
7. **Recurring costs.** The costs of the PEU's entire staff may be included in this category. This staff will be hired in accordance with the PEU's internal policies and national laws that do not conflict with the Bank's policies.
8. **Procurement supervision**
  - a. The initial review method is ex post, but this may be altered by agreement, with any such changes being reflected in the procurement plan. Procurements involving ICB and consulting services in excess of US\$200,000 will be subject to ex ante review.
  - b. The ex post review reports will not involve any physical inspection visits.<sup>4</sup> Given the executing agency's low risk, these visits will be replaced by a verification during the ex post reviews of the documents proving delivery of goods at the beneficiary's offices. Should these be missing, a physical verification will be performed.

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

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

## **VI. FINANCIAL MANAGEMENT**

### **1. Programming and budget**

- 6.1 The executing agency will demonstrate to the Bank that the local counterpart funding has been allocated for the first year of program execution at the time of fulfillment of the conditions precedent, and annually thereafter (by end-February).

### **2. Accounting and information systems**

- 6.2 The program will keep its accounts in the new SPI accounting module, which is linked to the SIIF. Budgetary credits are allocated and executed through the SIIF of the Contaduría General de la Nación [General Accounting Office] (CGN), and project-related commitments and payments will follow the procedures established by the CGN.
- 6.3 Financial statements for the project will be issued regularly, in accordance with Generally Accepted Accounting Principles, and will be audited annually by the Tribunal de Cuentas de la República [State Audit Office] (TCR). The following financial statements will be delivered: (i) statement of cash received and disbursements made; and (ii) statement of cumulative investments and the corresponding explanatory notes. The report reviewing disbursements for the period and the internal control letter must also be included.

### **3. Disbursements and cash flow**

- 6.4 For the execution of program funds, a special account will be opened at the BCU, through the National Treasury Office (TGN). If on the date the execution of the program begins the BCU allows payments to be made directly to the beneficiary (payer account), these payments will be made directly from that account; otherwise, an operating bank account should be opened at the BROU in order to make the project funds available.
- 6.5 Disbursements will be made in the form of advance of funds, based on the program's actual liquidity needs and supported by appropriate financial projections. These advances of funds will preferably be made once every six months, after accounting for at least 80% of the amounts previously advanced. The disbursement request will be accompanied by the financial planning documents and reconciliation of funds. Disbursements will be processed using the online (e-disbursement) mechanism. It is agreed that payments made in local or other currencies will be converted into U.S. dollars at the exchange rate in effect on the day prior to the date payment is made to the beneficiary.

### **4. Control and internal audit**

- 6.6 Pursuant to the Amended Code of Accounting and Financial Administration (TOCAF), the State Audit Office (TCR) will preventively review all expenses related to program execution. In addition, the MEF is an agency subject to audits conducted by the Auditoria Interna de la Nación [National Internal Audit Office], pursuant to current regulations.

**5. External control and reporting**

- 6.7 External control will be performed by the TCR (country system), or in its absence, by a private audit firm acceptable to the Bank.
- 6.8 Financial audit reports will be delivered annually by 30 April during the disbursement period, pursuant to the International Standards on Auditing or the standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI), as applicable. The terms of contracting will be agreed upon by the executing agency and the TCR or private firm, as applicable, either by a services letter of agreement or contract.

**6. Financial supervision plan**

- 6.9 The financial supervision plan contains the following points:
- a. Participation in the start-up workshop identified by the project team, with a brief presentation on key fiduciary topics.
  - b. Review of the conditions precedent of a financial nature (financial management and internal control system, audit arrangements, demonstration of budgetary appropriations).
  - c. Review of the AWP and initial financial plan prepared by the executing unit, to support the first advance of funds to be requested once the program has been declared eligible and disbursement planning for subsequent periods has been reviewed.
- 6.10 One financial visit will be organized per year during program execution to evaluate the main financial and control aspects and the management of project files. Disbursements will be subject to ex post review.