

PUBLIC ADMINISTRATION MODERNIZATION PROGRAM

(UR-0130)

(UR-0145)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Uruguay		
Executing agency:	Planning and Budget Office (OPP)		
Amount and source: ¹	IDB sector loan: (OC):	US\$ 150.0 million	
	Technical-cooperation loan (TC):	US\$	3.6 million
	Local counterpart to TC:	US\$	2.3 million
		Sector loan	Technical-cooperation loan
Terms and conditions for the sector loan and technical-cooperation loan:	Amortization period:	20 years	20 years
	Grace period:	5 years	5 years
	Disbursement period:	36 months	42 months
	Interest rate:	variable	variable
	Inspection and supervision:	1.00%	1.00%
	Credit fee:	0.75%	0.75%
	Currency:	U.S. dollars drawn from the Single Currency Facility	U.S. dollars drawn from the Single Currency Facility
Objectives:	The general objective of the program is to boost the quality and productivity of central government administration and the services it provides, including reducing the costs it imposes on the private sector and enhancing the wellbeing of the citizenry. The program's specific objectives are: (i) to make revenue collection more efficient by optimizing structures and establishing appropriate incentives; (ii) to improve the efficiency, efficacy and quality of public expenditure; (iii) to reduce the cost to the private sector and individual citizens of central government intervention; (iv) to pave the way for		

¹ The sector loan is accompanied by a technical-cooperation operation (UR-0145), presented in Annex II-1.

modernization of human resource management by the central government; and (v) to make central government intervention more transparent in the eyes of citizens and the private sector.

Description:

The program will be financed with a fast-disbursing sector loan for US\$150 million, and a parallel technical-cooperation loan of US\$3.6 million to support implementation of the policy actions promoted in the program (see Plan of Operations in Annex II-1). Some of the actions will be coordinated with nonreimbursable technical cooperation to be financed by the Multilateral Investment Fund (TC-0103000), currently under preparation. The sector loan will focus on the policy reforms promoted by the program, and will define and establish specific targets for implementing the measures, as set out in the policy actions matrix (Annex I-2). The sector loan will be disbursed in three tranches of US\$60 million, US\$50 million and US\$40 million, in that order.

The program is organized in four components: (i) better management of public resources; (ii) enhanced competitiveness (State and enterprise); (iii) better quality public services (State and citizen); and (iv) improved management of central government human resources.

Conditions for disbursement of the sector loan:

The component for better **management of public resources** contains four broad areas of action: (i) modernizing the administration of public-sector revenues; (ii) enhancing the efficiency of public expenditure; (iii) reducing the cost of central government procurement and making it more transparent; and (iv) the divestment of superfluous real estate. In this component, the policy actions matrix sets the following conditions for the *first tranche*: (i) presentation of a legislative bill on human resource management in the General Tax Directorate (DGI) of the Ministry of Economic Affairs and Finance (MEF) stipulating, among other provisions, the option of hiring qualified professionals under fixed-term contracts with performance-based renewal, and the entry into force of rules to support the MEF in its fight against contraband; (ii) proposed simplified standard competitive bidding documents; and (iii) presentation of a plan for divestment or redeployment of properties identified as superfluous identified in the previous sector loan. Conditions for the *second tranche* require the executing agency to present evidence of: (i) entry into force of a decree establishing bylaws for the DNA; based on decrees 459/997 and 578/975 and the changes necessary for modernization of the DNA; (ii) execution of expenditure by activity center being coordinated with the Expenditure Execution System (SEG); (iii) proposed legal framework for government procurement having been presented to the legislature and the institutional structure of the new procurement system having been defined and

implemented; taking into account private-sector participation, operations management, and the strategic framework; and (iv) US\$5 million having been received or saved as the result of the divestment or redeployment of superfluous real estate. Disbursement of the *third tranche* requires evidence of: (i) the executing units that represent 60% of the central government's total expenditure executing expenditure by activity center with the Accountability and Budget Execution Bill; and (ii) savings of US\$15 million have been achieved through efficiency gains in procurement compared with the baseline basket, along with US\$10 million in income or savings from the divestment or redeployment of superfluous properties.

The component for **enhancing competitiveness** contains two areas of action: (i) rationalization of central government regulations, prices and charges; and (ii) rationalization of the main items of central government bureaucracy that the private sector has to comply with. The policy actions matrix for this component makes the *first tranche* of financing conditional on: (i) modification of at least 70 regulations affecting competition in markets; (ii) cost savings of US\$7 million achieved by the rationalization (which is already under way) of prices and charges; (iii) presentation of a plan for cost savings amounting to at least US\$23 million, to be achieved by rationalizing processes, amending regulations, decreasing or eliminating prices and charges, including the method of measurement; (iv) presentation of a ranked list of regulations as a basis for government decision-taking, and a proposed decree on the regulatory and methodological framework administering regulations, prices and charges, ensuring quality, control and dissemination of new proposals for regulations, prices and charges; and (v) evidence of legislative authorization to lower the tax on foreign currency purchases (ICOME) and employer contributions in public-sector firms. Disbursement of the *second tranche* will require evidence of: (i) achievement of savings amounting to US\$9 million from the rationalization or abolition of regulations, prices and charges, and processes defined as priority, including regulations in the areas of foreign trade and the labor market that will be included in the existing inventory; and (ii) presentation and public dissemination of a report certifying that 100% of new central government regulations, prices and charges have undergone cost-effectiveness analysis, in the case of prices and charges, and regulatory impact methodology analysis (MIR) in the case of regulations. Disbursement of the *third tranche* will require evidence of: (i) achievement of US\$14 million in cost savings from the rationalization or abolition of regulations, prices and charges, and processes defined as priority, including regulations in the areas of foreign trade and the labor market that will be included in the existing inventory; (ii) presentation and public dissemination of a CEPRE-approved report certifying that 100% of the new central

government regulations, prices and fees have undergone a cost-effectiveness analysis, in the case of prices and fees, and a regulatory impact study, in the case of regulations, by the OPP; and (iii) reductions in ICOME and employer contributions in public-sector firms being passed on to users, amounting to US\$12 million.

The **service quality component** includes actions to improve: (i) the quality and administration of the main central government citizen-services; (ii) the transparency of central government actions in the eyes of citizens. For the *first tranche* of this component, the policy actions matrix requires: (i) development of a plan setting targets for savings in time (30% average) and costs (at least 15%) for selected services of high social impact; and (ii) preparation of a plan containing targets for electronic access and compliance with procedures through a second-generation government Internet portal. For the *second tranche*, the policy actions matrix requires: (i) fulfillment of 100% of targets for savings in time and costs in 50% of selected services; and (ii) design of the second-generation portal. For the *third tranche*, the aim is to achieve 100% of the savings plan targets in 100% of the selected services, and to have 100% of selected procedures available on-line, wherever the nature of the service makes this feasible.

The **human resource management component** contains actions in three areas: (i) modernization of the legal framework for central government staff management; (ii) activities to reform the National Civil Service Office (ONSC); and (iii) implementation of the information systems designed under the previous program (995/OC-UR) with reference to working conditions and the remuneration system. For this component, the policy actions matrix sets targets concerning: (i) implementation of the human resource information systems designed in the previous program (995/OC-UR) *for each of the tranches*; (ii) preparation (*second tranche*) and government approval (*third tranche*) of a bill to modernize the legal and human resource institutional framework; and (iii) approval (*first tranche*) and execution (*second and third tranches*) of a program to modernize the ONSC, with emphasis on the training of civil servants.

**Bank's strategy
in the country
and sector:**

In keeping with the government's economic policy and with the Bank's Eighth General Replenishment, the key objective of the Bank's strategy in Uruguay is to support the government's development programs and policies for the five-year period 2000-2004, with a view to achieving sustained growth with stability to make it possible to improve social equity. The Bank's strategy will focus on three areas. In the area of **competitiveness and regional integration**, the Bank will support initiatives to increase private-sector competitiveness and investment, based on export-oriented

production founded on comparative advantages and the introduction of modern technologies. In the area of **State modernization and governance**, the Bank will support the State transformation process, in order to reduce its presence in the economy; increase its efficiency and effectiveness, rationalize and target its interventions, and reduce its incidence on domestic goods and service production. In the **welfare and social equity** area, the aim will be to increase equity and bring the most vulnerable population groups into the development process, offering them the chance of a better quality of life.

Social and environmental review:

The Committee on Environment and Social Impact (CESI) made the following recommendations as a result of the Profile II review: (i) ensure that environmental aspects are included in the management reform process, to be internalized in decision-making and in the various activities (information systems, training, etc.); (ii) explore with the government the possibility of adopting measures to improve the fiscal autonomy of environmental institutions; and (iii) consider environmental regulations in conjunction with the Uruguay Environmental Program (UR-0138), currently being prepared (see paragraphs 3.18 and 3.19).

Viability:

The successful execution of the previous State sectoral reform program displayed a high degree of political and technical commitment toward the program (loan 995/OC-UR). The current administration has maintained the same political and technical commitment. Uruguay's central government reform process was launched in 1995 by creating the Executive Committee for State Reform (CEPRE), which has ensured the continuity of policies and directives at the highest level. The technical team in the Uruguayan government that has directed and supported preparation of the current program is essentially the same as was responsible for preparing and executing the previous one. This group, which has been formalized and institutionalized in the Planning and Budget Office (OPP), is endowed with highly skilled staff of broad experience in this field. Led by the CEPRE executive secretary, the group was responsible for the achievements and external evaluations of the 1995-2000 reform program, also supported by the Bank. A decentralized execution scheme has been designed, based on active participation by authorities and officials from the entities involved in program implementation.

Risks and benefits:

Management of public resources. The success of this component will depend on making major improvements to the DGI and DNA organizational and functional structures; this, in turn, depends on the political will of the Uruguayan government to support the changes and their consequences. The MEF has classified the program as high priority, and has given full support to preparing the program thus far. The main **benefits** of this component are: (i) higher productivity in tax

collection and less tax evasion; (ii) better information and accessibility for taxpayers in paying their taxes; (iii) more transparency in fiscal information and in the administration of taxes; and (iv) sale of a set of fiscal assets declared superfluous in the previous operation.

Enhanced competitiveness. By deregulating and abolishing certain prices and charges, the program may harm sectors that currently **benefit** from existing administrative and market restrictions. To mitigate this risk, steps will be taken: (i) to encourage private-sector participation in the process of deregulating and abolishing prices and charges; and (ii) to inform the direct beneficiaries about the reforms, using the program's communication strategy. The main benefits of this component will be: (i) savings of at least US\$30 million per year by the end of the program, resulting from the rationalization of regulations, prices and charges, and processes; (ii) better and more transparent administration of both the regulatory framework and prices and charges; (iii) the establishment of controls to improve the quality of central government regulatory administration; and (iv) reduction of the tax burden on public-service users subject to the tax on foreign-currency purchases (ICOME).

Quality of public services. To improve the quality of services provided to citizens and businesses, the internal management of central government agencies will need to be approached from the users' perspective. Accordingly, key administrative processes that provide services to citizens will be streamlined in order to make them more accessible and expeditious. An essential tool in this process will be the new technologies for management, information and communication. For the potential of these technologies to be fully exploited, however, an institutional framework is needed to make sure the government's electronic strategy is implemented consistently. Uruguay is putting this framework in place with the design and implementation of a government portal as part of the technical cooperation actions. At the same time, programs to introduce new ways of relating to citizens need to be made viable through information and communication mechanisms, in order to overcome potential resistance to the new technologies. The main **benefits** will be: (i) better-quality provision of certain public services as a result of shorter processing times; (ii) greater availability of information on services through the publication of service guides and leaflets; and (iii) access to public services using information technologies.

Human resources. The human resource management component may encounter hostility to anticipated reforms from labor unions. Nonetheless, insofar as the operation does not involve any redundancies but is limited to laying the foundations for new general

rules on central government human resource management, the risk here should be slight. In fact, no major objections were raised in the previous operation, and restructuring and downsizing took place without major consequences. The expected **benefits** of this component are: (i) better compliance with targeted working conditions as a result of improved information on the workload; (ii) better information in the area of remuneration, thus making it possible to increase transparency and equity; (iii) a proposed new legal framework for modern and professional management of staff; and (iv) preparation of a modernization plan for the ONSC.

Special contractual conditions for the sector loan:

As mentioned above in the section on disbursement conditions and Annex I-2.

Exceptions to Bank policy in the Sector loan:

None

Procurement under the sector loan:

The proceeds of the fast-disbursing sector loan may be used to finance the aggregate foreign-currency cost of eligible imports from Bank member countries. Bank procedures on sector loans not requiring international competitive bidding will be applied in this case.

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth General Replenishment (document AB-1704).

For the TC loan:

Special contractual conditions for the TC loan:

See Annex II-1.

Exceptions to Bank policy in the TC loan:

See Annex II-1.

Procurement under the TC loan:

See Annex II-1

I. FRAME OF REFERENCE

A. Macroeconomic context

- 1.1 The Uruguayan economy enjoyed a combination of satisfactory growth with falling inflation over the past decade. Counter-inflationary policy was successful in slowing down annual price increases from three-digit rates in 1990 to single figures in 1998. Prudent management of public finances and a favorable external climate allowed real gross domestic product (GDP) to grow by an average of 3.9% per year between 1990 and 1998. Nonetheless, the real effective appreciation of the currency undermined competitiveness in productive sectors in a context of greater external openness, and the current-account deficit of the balance of payments widened throughout the period.
- 1.2 In 1999 the economic situation worsened, as a result of the financial crises in Southeast Asia and Russia, compounded by devaluation of the *real* in Brazil and recession in Argentina. Real GDP contracted by 2.8%, the current account deficit widened further, and the public-sector deficit grew to 4.1% of GDP, mainly because of a steep fall in revenues. The recessionary phase continued through 2000, with GDP shrinking by 1.3% and unemployment climbing to 13.6%. The consolidated public-sector deficit exceeded the target of 2.8% of GDP set in the country's program with the International Monetary Fund (IMF), to end the year at 4.0%, as a result of lower than anticipated tax revenues and persistent deficits posted by departmental governments.
- 1.3 With total public expenditure close to 35% of GDP, Uruguay still has problems in keeping public finances in balance, especially given the external events described above. The main challenges facing the authorities are to revive the economy, enhance external competitiveness, reduce the tax burden on productive activities and curb the growth of public expenditure in order to maintain fiscal balance. In this context, fiscal policy needs to be carefully reviewed to make sure the tax system does not provide disincentives for private-sector investment and output. In addition, tax administration—particularly domestic taxes and customs—needs to be modernized, with a view to controlling evasion.
- 1.4 The government adopted a series of measures in 2000 to meet this fiscal challenge. The 2000-2004 budget bill approved tax increases to finance an expenditure increase amounting to about US\$100 million per year (special wage increases for the police, the armed forces, teachers, health workers and transfers to departmental governments, among others). The following measures were also adopted on the revenue side: (i) a tax on health services; (ii) payment of one annual minimum wage to university professionals who graduated over ten years ago; (iii) a three-percentage-point increase in personal income tax (IRP) for civil servants earning over \$30,740, and exemption from IRP for those earning less than three times the monthly minimum wage; (iv) increases in other taxes, including extension of the tax on bank assets (IMABA) to lending institutions; (v) introduction of a tax on

bank loans; changes in rates on automobile insurance; and (vi) an increase in the specific domestic fuel tax (IMESI). More recently, in May 2001, the government announced a series of economic measures to counteract the negative effects of a reappearance of foot and mouth disease and to promote economic recovery. The cost of these measures, aimed at lowering production costs and improving competitiveness, are to be financed by creating a social security funding tax (COFIS) of 3%, on sales of domestic and imported manufactured goods.

- 1.5 On the expenditure side, the growth of discretionary spending needs to be controlled and reduced, and the rising share of non-discretionary expenses in GDP needs to be halted. Some reforms have already been implemented in relation to public-sector wages and employment and social security. The 1995 Budget Act imposed a freeze on new staff hirings until 2005. Despite sustained effort to reduce the presence of the State in the economy by downsizing the public sector, the ratio of payroll spending to staff effectiveness in the central government remains high.
- 1.6 The five-year budget law stresses the need to contain the growth of public-sector wages and to improve expenditure quality. In late 1998, parliament passed legislation reducing the frequency of cost-of-living increases from twice to once a year. In 2000, real wages in the public sector fell by 1.5% and in the first quarter of 2001 they slipped by a further 0.7%.
- 1.7 In brief, the complicated public-finance outlook requires: (i) holding the rate of growth of real fiscal spending below the rate of growth of real GDP, especially primary discretionary expenditure (excluding transfers to social security and interest payments on the public debt); (ii) increasing the efficiency of current expenditure, and targeting public-sector investment on key areas to support production and social policies; (iii) increasing the efficiency of tax collection; and (iv) continuing with and deepening the process to deregulate and rationalize public-sector prices and charges, promoting better conditions for competition and private-sector development.

B. Main outcomes of the Bank's support for central government reform in Uruguay.

- 1.8 The Bank has recently given support to the State reform process in Uruguay through the State sectoral reform program (loan 995/OC-UR), executed between 1997 and 2000. The general objective of that program was to assist the central government reform process in implementing the reforms contained in the 1995-1999 Budget Act. The components of the program were as follows: (i) administrative restructuring; (ii) outplacement services to help public employees find other employment and start up businesses; (iii) modernization of fiscal administration; and (iv) strengthening of relations between the State and its citizens.

- 1.9 *Administrative restructuring.* In the administrative restructuring of central government ministries (known as “*Incisos*” in Uruguay) and the executing units (UEs) that comprise them,¹ the program sought to simplify and rationalize organizational structures, and improve objective working conditions and the structure of the wage pyramid. The latter included creation of a top management system, and redirecting public administration toward a managerial and customer-service approach. By the end of the program, the initial UE restructuring target had been surpassed, with their numbers reduced by 37% and staffing cut by over 16%. In addition, an estimated US\$86 million per year in savings on current expenditure was generated, nearly three times the target set of US\$30 million. Of this, US\$53 million per year was reassigned in the ministries concerned (the original target was US\$21 million) to improve internal management and working conditions. The restructuring also paved the way to make reducing the cost of central government procedures a target for the present operation, as a result of a comprehensive re-engineering of processes and procedures.
- 1.10 The State reform program had a significant effect on the management of remaining central government human resources, including a number actions that produced highly important outcomes: (i) a restructuring of Executing Unit functions that resulted in the elimination of 9,000 jobs and voluntary retirement incentives for over 7,000 civil servants; (ii) definition and filling of approximately 100 new full-time high-specialization jobs with competitive wages; (iii) reclassification of civil servants in the context of a new training strategy (1,940 middle and higher-level managers trained); (iv) design and implementation of a pilot objective working conditions supervision system (SCOT), to verify such conditions and provide basic information common to all central government units; and (v) design of a remuneration information system (SR) to make pay more transparent, covering all emoluments received by civil servants. The current program will support the general implementation of these information systems, and will also intensify improvement of the regulatory framework for human resource management.
- 1.11 The previous program also achieved a major advance by revealing the need for a comprehensive reform of human resource management in the public sector. Restructuring and assisted redundancy among civil servants represented a turning point in the rising trend of central government employment. Given this important initial step, in a second phase, which is the subject of the proposed operation (UR-0130), it will be vital to address institutional dysfunctions which, in the form of regulatory and organizational restrictions, stand in the way of modern central

¹ In Uruguay the term “executing unit” refers to administrative sections that group together State competencies on a homogeneous activity sector, and which receive funding for executing a budgeted program. The term “*Inciso*” refers to the set of “executing units” grouped together in a single ministry or public body. Thus for example, the Highway Board at the transport ministry is an “executing unit” in the Ministry of Transport “*Inciso*”. Each executing unit, in turn, consists of organizational units (divisions and/or departments).

government human resource management. Failure to rise to the challenge of making the institutional rules of public-sector employment more flexible and adapting them to new forms of service management and technological change, will make it difficult to find alternatives to the freeze on new hirings until 2005, causing irreparable damage to central government human resource capacities.

- 1.12 *Labor market redeployment.* The program included support for personnel made redundant, by providing training services and technical assistance aimed at re-skilling and finding jobs for approximately 2,400 workers. By the end of the program, the established targets had been exceeded, with over 3,500 redundant workers helped to find new jobs or start up businesses. The program's external evaluations show that it was highly successful, both in terms of its acceptance by those affected and in terms of its effectiveness in helping them find new jobs. As many as 90% of workers that left the civil service found jobs in the private sector, nearly all of them in microenterprise.
- 1.13 *Modernization of fiscal management.* The State sectoral reform program enabled significant progress to be made in modernizing central government fiscal management, on both revenue and expenditure.
- 1.14 On the revenue side, support was provided for strengthening the General Tax Directorate (DGI) and the National Customs Bureau (DNA), as part of the fight against tax evasion and contraband. The main progress was made in the areas of processes and procedures, inspection and information systems. The program supported introduction of a variety of management improvements such as segmented administration of taxpayers according to their tax-paying capacity, and prioritizing cost-benefit criteria in tax administration. Major steps were also taken to improve a number of processes and procedures, especially customs, thereby facilitating foreign trade. The institutionalization and strengthening of a number of inspection and audit programs were also major achievements in enhancing DGI and DNA management. The progress recorded was supported by modern information systems implemented with Bank support. The present program complements and continues actions to reform the administration of public revenues.
- 1.15 In the sphere of public expenditure management, the results achieved helped establish the national budget as an effective tool of financial management, and implement execution through a centrally governed cash-flow management system providing real-time accounting information. Other actions to improve financial management included setting up information systems, such as the public administration evaluation system by results (SEV), as part of a broader integrated financial information system (SIIF). This made it possible to draft the 2000-2004 national budget on a results basis, in accordance with strategic management plans, and apply the methodology of costing based on activities and activity centers. The current program will maintain support for the process of modernizing public expenditure management, supporting the general implementation of information

systems already developed and intensifying activities to control and improve expenditure quality.

- 1.16 The previous program began support to solve this problem by making an inventory of real estate and immovable assets belonging to central government, and drawing up proposals for their rationalization, classification and valuation, together with redeployment of those considered superfluous, and recommendations for better management of the vehicle fleet. This program sets targets for the divestment or redeployment of the identified properties.
- 1.17 Central government administration in Uruguay regulates both private and public-sector activity with fragmented and overlapping provisions that affect competition, the aims of which have become obsolete in some cases. Central government also establishes and administers a large number of prices and charges, many of which either do not fulfill any relevant role in the framework of today's more competitive market economy, or if they do so, their levels no longer adequately reflect the corresponding economic cost. Lastly, end users face a series of administrative hurdles in their dealings with the central government.
- 1.18 As a consequence of this: (i) there is no general framework to consistently evaluate the need for a specific regulation, its coordination with the rest of the regulatory system and its eventual cost on economic activity; (ii) rules and regulations accumulate (regulatory inflation), and, given their volume, this makes it harder to interpret them and apply them to concrete cases; and (iii) the complexity and fragmentation of regulatory standards makes their application very costly for public- and private-sector agents, and generates legal uncertainty.
- 1.19 Supported by the sector loan mentioned above, the government has taken steps to identify the prices, charges and processes from the universe of central government regulations affecting the private sector, which need to be maintained, reformulated or suppressed. This inventory, prepared by the Executive Committee for State Reform (CEPRE), combines three inter-related inventories: the inventory of prices, charges and fines, the inventory of services and processes and the inventory of sectoral or market regulations.²
- 1.20 Of the 800 processes in the central government's three inventories, approximately 150 have been described in detail in a "user guide". This inventory will serve as a basis for a formal registry of services and processes. The *inventory of* approximately 1,150 *prices, charges and fines*, covered prices (fees paid for services that private individuals and the private sector voluntarily request), charges (payment for mandatory inscription in registries, for example) and fines imposed by ministries, identified by expenditure executing unit. Based on this information,

² The figures quoted referred to the whole inventory of regulations, processes, prices and charges affecting the private sector and citizens in general.

prices and charges were classified by legal nature and economic typology. The *inventory of regulations* contains 294 entries. Of these, 41% are economic (containing restrictions on prices, quantities and conditions relating to market entry and exit), 37% are social (aimed at protecting citizens or workers) and 22% are bureaucratic. The inventory was partial in that it did not cover a large group of sectors (labor market, social security and foreign trade). Based on this inventory, an analysis was made of the advantages of maintaining, abolishing or modifying regulations with a strictly microeconomic focus. The inventories mentioned paved the way for proposing targets for the rationalization of regulations, prices, charges and processes, with consequent cost reductions for the private sector, to be implemented in this program.

- 1.21 *Strengthening of relations between the State and its citizens.* In the framework of the State sectoral reform program, pilot actions were carried out to improve the quality of services provided to the public, and a diagnostic study was made of the universe of public services provided directly by central government. This identified more than 400 services involving over 4 million monthly provisions. Based on this information, a survey was made of users and central government officials to identify and define priorities for a central government service quality program. Steps were also taken to develop a first-generation government portal.
- 1.22 Among actions carried out with the various areas of central government, CEPRE prepared 11 technical assistance contracts aimed at improving services. In the framework of these agreements, training was provided for 516 staff from 41 executing units, and a user orientation guide was prepared covering 150 services and procedures provided by 47 executing units. Although the program succeeded in designing a methodology and working procedure to be extended to the rest of central government, making progress in this phase and intervening in the internal management of entities providing services to the public was not envisaged. The current program intensifies these steps by bringing government closer to citizens, and setting targets for improvements in the quantity, accessibility and quality of services.
- 1.23 Following an initial phase of State reform focusing on the organizational dimension and redefining the substantive goals of central government, the proposed sectoral program aims not only to improve internal management, but also to enhance the quality of its dealings with citizens. The changes to be made will need to take account of the potential of new information and communication technologies for integrated service provision.
- 1.24 *General evaluation of loan 995/OC-UR.* Achievements in the different areas of the program comfortably exceeded the targets, both quantitative and qualitative, initially established during the preparation phase. The various external evaluations have identified public-sector reform in Uruguay, led by CEPRE, as an example of

good practice. The Bank's July 1999 portfolio report³ analyzed 20 State modernization programs, and rated the Uruguayan program as "extremely successful" in the four aspects analyzed: namely, consideration of the socio-political environment, technical design of components, introduction of appropriate incentives and institutional arrangements for execution.

C. The challenges of the next five years and the program's strategy

- 1.25 Central government reform in Uruguay should be seen as a dynamic process that completes successive stages before addressing new problems. The program described in the previous section mainly described an inward-looking search for cost reductions in central government operations, via staff downsizing and the reorganization of organizational structures to increase efficiency. The challenge for the coming years is a dual one. Firstly it is important to extend and intensify actions initiated in pilot mode that have been successful and would have a high impact. In addition, it is crucial to make progress in new areas of major external impact, especially in terms of the relation between central government and citizens and the private sector, such as the rationalization of processes and electronic government. In the latter area, certain actions have been started that will make it possible to move to the second "outward-looking" stage, aiming to improve the quality of central government citizen-services.
- 1.26 This "service strategy", seen as part of a long-term reform process, will make it possible to transform the modernization process from one centered on internal government operations to a process that seeks measurable improvements in the quantity and quality of services provided. It is important for this second generation of reforms to have this strategic focus, which means redesigning services and regulatory intervention modalities, and establishing targets and incentives, along with management mechanisms and budgetary allocation needed to measure them. Consequently, this program's areas of intervention are closely linked, not only to each other, but to a continuation and logical extension of a long-term reform process aimed at improving central government services.
- 1.27 In this context, the current program seeks to: (i) **complete actions** started in the previous sectoral program in areas such as modernization of the regulatory framework, rationalization of physical assets, rationalization of prices and central government charges, and modernization of State financial management; (ii) **deepen certain areas of intervention**, bringing central government closer to the citizen and reducing its cost to the private sector; and (iii) **launch actions in areas not comprehensively addressed so far**, such as human resource management, in the search for greater effectiveness and productivity.

³ See 1998, *Annual Report on Projects in Execution*, RE1/RSS, July 1999.

D. Lessons learned

- 1.28 The experience of the Bank-supported reform process in Uruguay over the last five years suggests the following lessons:
- 1.29 *Political support, legal basis and institutional leadership.* The depth of any reform process is directly proportional to the commitment of the highest authorities and their perception of the need for and urgency of change. The 1995-1999 Budget Act provided for the creation of an Executive Committee for State Reform (CEPRE) to give leadership to the process. The Minister of Economic Affairs and Finance and the Director of the Planning and Budget Office (OPP) form part of this committee. The current project will continue to use the successful institutional mechanisms of the previous sector loan. Three key conditions for achieving the objectives of State reform remain valid in Uruguay: political support and commitment, legal basis and institutional leadership.
- 1.30 Similarly, there are three elements that are critical⁴ to the reform process and the support the Bank can provide to its member countries: long-term government **commitment, continuity** of government actions and Bank support, and the **flexibility** needed to adapt to changing realities. These elements were present in the previous operation and are expected to carry through into this one.
- 1.31 *Vision and sequence.* Although there is no universally accepted sequence for conducting a State reform process, it is essential for this to be grounded in an overall long-term vision so as to ensure an appropriate order of intervention. During the 1995-2000 period the reform process had two phases. The first basically concentrated on restructuring executing units, re-assigning staff and finding new jobs for those made redundant. The second phase launched reforms in other areas, such as the regulatory framework, management by results and improvement of user-services. In other words, a process began that shifted the focus of the reform outwards towards the user. The present operation seeks to accelerate and intensify this outward-looking or service-based reform, acting on the quality of services provided by central government, and the costs they imply for individual citizens and the private sector. A strategy of this type will make it possible to shift the reform process away from activities centered on internal government operations, toward one focusing on measurable improvements in the cost, effectiveness and quality of services provided by central government.
- 1.32 *Political economy of the reform.* International experience in administrative reform highlights the importance of designing programs that keep costs and benefits internally in balance. Accordingly, it is advisable to combine the internal political cost implications of improving productivity with external benefits for citizens in

⁴ "Evaluation Report, Technical Cooperation in Support of Public Sector Reform: the IDB experience." Evaluation Office, EVO, May 1995.

terms of better quality public services. This balance is achieved in the proposed program, by combining ongoing internal reforms, especially in human resource management, with a heavy emphasis on external reforms with direct benefits for citizens and the private sector.

- 1.33 *Institutionalization.* The reform program so far has been led by CEPRE, which has ensured its leadership and consistency. Nonetheless, the transfer of “know-how” has been only partial, with limited “appropriation” of proposals by line ministries. Given this program’s emphasis on external orientation and the effects of ensuring the long-term sustainability of the improvements proposed, it is important to intensify their acceptance by public-sector bodies which, given their briefs, are naturally responsible for the actions envisaged in the program. For this reason, the program envisages greater decentralization of execution via management improvement agreements (AMGs) with central government ministries.
- 1.34 *Visibility of results.* The State reform process is complex and it affects many actors. It is important to register visible achievements quickly and use them as examples of the benefits of the ongoing reform process. These “gains” will make it possible to win allies among the public and in the private sector.
- 1.35 *Communication and dissemination.* In the 1995-2000 reform, it was decided to maintain a low-profile in public opinion, since the program would include staff redundancies. This strategy was appropriate in the previous five-year period, but is no longer so. The success of an outward-looking reform program to improve service quality and reduce the impact of central government on private-sector costs, requires a communication strategy that publicizes the new options and also generates alliances and political support. For this reason, the technical cooperation includes actions to support dissemination and communication of the achievements of the reform process.

E. The Bank’s strategy in Uruguay

- 1.36 The key objective of the Bank’s strategy in Uruguay is to support government policies for the five-year period 2000-2004, aimed at achieving sustained export-led growth in a stable macroeconomic framework, in order to improve social equity. Specifically, the Bank’s strategy concentrates on supporting: (i) initiatives to increase the competitiveness of domestic production in the regional and international arena, and to promote private-sector investment; (ii) deepening the State transformation and modernization process, and improvements in governance to reduce the State presence in the economy, increase its efficiency, rationalize and target its interventions, and reduce its incidence on domestic goods and service production; and (iii) efforts to improve social well-being and increase equity, bringing the most vulnerable groups into the development process and offering the chance of a better quality of life.

- 1.37 The proposed program forms part of the second strategic area mentioned above, and complements other efforts that the Bank has supported over the last five years, such as social security reform (921/OC-UR) and strengthening of the comptroller general's office (827/OC-UR).

II. THE PROGRAM

A. Objectives

- 2.1 The general objective of the program is to boost the quality and productivity of central government administration and the services it provides, including reducing the costs it imposes on the private sector and enhancing the wellbeing of the citizenry.
- 2.2 The program's specific objectives are: (i) to make revenue collection more efficient, by optimizing structures and establishing appropriate incentives; (ii) to improve the efficiency, efficacy and quality of public expenditure; (iii) to reduce the cost of central government intervention to the private sector and individual citizens; (iv) to pave the way for modernization of central government human resources; and (v) to make central government intervention more transparent in the eyes of citizens and the private sector.

B. Macroeconomic framework

- 2.3 The government that took office in March 2000 has made a priority of preserving stability and the basic macroeconomic equilibria. This commitment has resulted in an economic program set in an agreement with the International Monetary Fund (IMF), for a 22-month period up to December 2001, worth SDR 150 million, equivalent to US\$193 million. In this context, the government undertook to keep public expenditure under control during 2001, to encourage saving and restrict borrowing, and to intensify structural reforms. The main features of the program for 2001 include: (i) **2.0% growth of real GDP**; (ii) **reduction of the public-sector deficit** from 4.0% of GDP in 2000 to 2.6% in 2001; (iii) **inflation** in the 6%-8% range; and (iv) continuity of **exchange-rate policy** involving monthly nominal exchange-rate adjustment amounting to 1.2% per month, starting June 2001. The current program will support compliance with the macroeconomic targets agreed with the IMF, in particular as regards fiscal targets.

C. Program structure

- 2.4 The program will be financed with a fast-disbursing sector loan, along with a parallel technical cooperation to support implementation of the program's policy actions, consisting of two subprograms to be executed by the OPP and the Ministry of Economic Affairs and Finance (see Annex II-1). In addition, some of the actions will be coordinated with a nonreimbursable technical cooperation to be financed by the MIF (TC-0103000), currently under preparation.
- 2.5 The sector loan will focus on the program's policy reforms, defining and establishing specific targets for implementing the measures set out in the policy

actions matrix (Annex I-2). The sector loan will be disbursed in three tranches of US\$60 million, US\$50 million and US\$40 million in that order. The technical-cooperation loan will finance consulting services and the equipment needed to support compliance with the program's objectives.

D. Program components

- 2.6 The components of the program are as follows: (i) better management of public resources; (ii) enhanced competitiveness (State and enterprise); (iii) better quality of public services (State and citizen); and (iv) improved management of central government human resources.

1. Better management of public resources

- 2.7 The improvement of public resource management has four major areas of action: (i) modernization of the management of public-sector revenues by enhancing the management and effectiveness of the General Tax Directorate (DGI) and the National Customs Bureau (DNA); (ii) increasing the efficiency of public expenditure; (iii) reducing costs and achieving greater transparency in central government procurement; and (iv) the sale or divestment of superfluous properties and movable assets.
- 2.8 In the area of improving *public revenue* management, consolidation of the previous five years' achievements firstly requires moving into new areas of fiscal administration (DGI and DNA), and secondly a deepening of others connected with planning, management control and the modernization of operational management (strengthening of mass controls on taxpayers along with management inspection and co-active charging systems). In addition, the informatics area requires further strengthening, mainly involving mechanisms to ensure data security and protection. This is becoming an urgent matter as the DGI and DNA systems become progressively integrated with those of other public-sector bodies. The key challenges facing these two institutions are: (i) efficient coordination between the various agencies responsible for collecting public revenues in Uruguay, in particular with the Social Security Bank (BPS); and (ii) optimization of their organizational structures and functions, including the human resource management. Annex II-1 gives details of the key challenges facing the DGI and DNA, the activities to be carried out and their links with the proposed program.
- 2.9 In the public expenditure domain, the main challenge is to make sure public expenditure by activity center becomes operational. This is a very important step as it makes it possible to identify executing units' expenditure at a more disaggregated level, while affording greater decentralization of responsibilities, thereby improving transparency and internal control. It also makes it possible to rank organizational units and the cost of the inputs used in products and processes.

- 2.10 This will make it possible to improve public-expenditure management control, defining more precisely where expenditure is made, which units are responsible for it and whether the allocation of expenditure is consistent with the priorities defined in strategic plans, thereby facilitating de-concentration of management responsibility and objective measurement of its efficiency. This greater control is expected to have an impact on expenditure, reducing execution that over-runs the executing unit's budgetary allocation. It is expected that executing units that represent 60% of the central government's total expenditure will be executing total expenditure by activity center by 2002.
- 2.11 The modernization of State procurement and contracting is seen as enhancing the competition and transparency of procurement processes. This poses four challenges: (i) achievement of a State purchasing and contracting system (SICE) affording *open and timely access* for users to State requirements; (ii) achievement of *innovative contracting modalities* using new legal frameworks, involving framework agreements with suppliers with an institutionality that assigns responsibility at the level of strategic process management, informatics and operational management; and (iii) *lower unit costs* in State purchases and contracting.
- 2.12 Lastly, as noted above, in the previous program an inventory was made of properties that could be divested under the present program.
- 2.13 The policy actions matrix sets out the following conditions for the *first tranche*: (i) presentation to the legislature of a bill to implement a new human resource management regime for the DGI, and implementation of rules to support the DNA in its fight against contraband; (ii) proposal for simplified standard competitive bidding documents approved by CEPRE; and (iii) presentation of a plan for divestment or redeployment of superfluous properties identified in the previous sectoral program.
- 2.14 As a condition for the *second tranche*, the executing agency will present evidence: (i) of having approved a decree establishing implementation of a charter for DNA; (ii) execution of expenditure by activity center is being coordinated with the Expenditure Execution System (SEG); (iii) proposed legal framework for government procurement has been presented to the legislature and the institutional structure of the new procurement system has been defined and implemented, considering private-sector participation, operations management and the strategy framework; and (iv) US\$5 million has been received or saved as the result of the divestment or redeployment of superfluous real estate.
- 2.15 As conditions precedent to the *third tranche*, evidence will be presented that: (i) the executing units of the central government, which in 2000 represented 60% of total central government spending, are executing expenditure by activity center; and (ii) savings of US\$15 million have been achieved through efficiency gains in

purchases and procurement—calculated on the basis of a reference basket—together with US\$10 million in revenues or savings from the sale or redeployment of superfluous properties—based on their market value, according to the inventory.

- 2.16 The program will provide technical assistance to the Ministry of Economic Affairs and Finance (MEF), through activities to strengthen DGI and DNA operational and planning capacity. Support for the DGI will be aimed at: (i) improving revenue collection; and (ii) optimizing taxpayer services by enhancing access to information, simplifying procedures, and improving advisory services.
- 2.17 The technical cooperation to be provided to the DGI will include activities related to the following areas: (i) human resource management, planning and management control; (ii) strengthening of mass taxpayer controls; (iii) institutional dissemination and taxpayer assistance; (iv) optimization of information systems. The technical assistance to be provided to the DNA will relate to the following areas: (i) customs and control procedures; (ii) optimization of information systems; (iii) special projects to establish the technical capacities needed for the design, analysis and execution of projects to facilitate the international movement of goods and services; (iv) human resource training and management; and (v) dissemination of information and transparency.
- 2.18 Lastly, the operation will help the OPP hire consulting services and procure hardware and software to: (i) adapt informatics systems and methodological tools to execute expenditure by activity center, thereby permitting expenditure control and evaluation by results; and (ii) divestment or redeployment of properties declared superfluous by the State.

2. Enhanced competitiveness (State and enterprise)

- 2.19 There are two challenges in this area. Firstly, it is important to make progress in rationalizing existing regulations, prices and charges, seeking gradually to reduce their cost to private activity, based on the inventory. Secondly, it is also very important to review the “flow” of new regulatory proposals, given the risk of “regulatory backsliding”, by developing regulatory impact methodologies. Although CEPRE has foreseen this possibility,⁵ it does not have specific public methodologies for reviewing regulatory impact, either ex-ante or ex-post. In the sphere of process rationalization the challenge is simple: reduce the cost to the private sector of the main central government procedures it has to comply with.
- 2.20 It is also important to support steps taken to gradually reduce the costs of public-sector firms for the private sector and individual citizens, by cutting costs that make it difficult for them to compete under market conditions. In this regard, public-

⁵ Decree 251/99 provides that “any legislative bill or decree relating to the creation or revision of regulations ... shall be submitted to the OPP for consideration by CEPRE”.

sector enterprises pay a tax on foreign-currency purchases (ICOME), which is not levied on the private sector. Abolishing this tax will help put public-sector firms on an equal footing with their private-sector counterparts.

2.21 In view of these challenges, this program will seek to:

- a. Control the “stock” of regulations by rationalizing central government regulations, and prices and charges, thereby generating cost savings for the private sector. Regulatory improvements will be made to the current inventory, complemented by regulations on external trade and the labor market. CEPRE has recommended maintaining 197 or 37% of the total inventory of 311 regulations. Of the other 197, 76 have already been abolished (including those subsumed in the Budget Law). As a result, 39% of the regulations that CEPRE considered modifiable have been modified, which is a significant step forward reflected in the quantitative targets of the policy action matrix for the first tranche. In the domain of prices and charges, and based on the analysis carried out, a proposal has been drawn up to reform prices and charges, encompassing about 15% of the universe under study, and covering areas such as port management (hydrography), management of renewable natural resources, the National Highway Board and the General and Civil Registry Office. Efforts to adapt prices and charges will be mainly focus on those affecting private-sector competitiveness.
- b. Control the “flow” of regulations by developing a framework for reviewing regulatory proposals and the establishment of central government prices and charges, incorporating mechanisms of public interaction and consultation with the main participants. This regulatory framework includes development and implementation of regulatory impact methodologies;
- c. Publicize prices and rates periodically by through user information guides;
- d. Improve the quality of crucial private-sector procedures, such as those relating to foreign trade, company formation and investment, and including the creation of a one-stop shopping mechanism enabling the entrepreneur to comply with such procedures;
- e. Develop a methodology for measuring the impact of quality improvements in administrative processes;
- f. Pass the reduction in ICOME on to users of the following firms: Administración Nacional de Combustibles, Alcohol y Portland (ANCAP), Administración Nacional de Telecomunicaciones (ANTEL) and Administración Nacional de Usinas y Transmisiones Eléctricas (UTE).

2.22 For the *first tranche* of financing, the policy action matrix requires presentation of evidence of the following: (i) modification of at least 70 regulations affecting

competition in markets; (ii) achievement of cost savings amounting to US\$7 million as a result of measures undertaken since preparation of the operation on prices and charges began; (iii) presentation of a plan for cost savings in the private sector amounting to at least US\$23 million, arising from the rationalization of processes, modification of regulations and the reduction or abolition of prices and charges, also indicating the base line and measurement method; and (iv) presentation of a ranked list of regulations as a basis for government decision-making.

- 2.23 Similarly, and in order to improve the flow of new regulations, the borrower will present a proposed decree on the regulatory and methodological framework administering regulations, prices and charges, ensuring quality, control and dissemination of new proposals. This regulatory framework will include a proposal for developing and implementing a regulatory impact methodology (MIR), in accordance with applicable standards. The existing methodology will deepen the measurement of the regulatory impact and will be built into the other aspects that pertain to: (i) the purpose of the proposed regulation, from both a microeconomic and legal perspective; (ii) alternatives considered and the proposed solution; (iii) its implementation and decentralized application, including a description of the mechanisms to be applied to ensure monitoring and follow up; (iv) the consultation process undertaken; (v) expected costs and benefits; and (vi) identification and description of the procedures involved.
- 2.24 Lastly, evidence will be presented of legislative authority to reduce both ICOME and employer contributions in public-sector firms.
- 2.25 Disbursement of the *second tranche* requires evidence of: (i) achievement of US\$9 million in cost savings from the rationalization or abolition of regulations, under the agreed MIR, as well as prices and charges and priority processes, including foreign-trade and labor-market regulations to be incorporated into the existing inventory; and (ii) presentation and public dissemination of a report, approved by CEPRE, certifying that 100% of new central government regulations, prices and charges have undergone cost-effectiveness analysis, in the case of prices and charges, and regulatory impact analysis in the case of regulations.
- 2.26 For the *third tranche*, evidence will be presented of (i) achievement of US\$14 million in cost savings from the rationalization or abolition of regulations, prices and charges, and processes defined as priority, including regulations in the areas of foreign trade and the labor market that will be included in the existing inventory; (ii) continued widespread use of cost-effectiveness or regulatory impact methodologies (in 100% of new regulations); and (iii) transfer to users of the reduction in ICOME and employer contributions in public-sector firms, amounting to US\$12 million.

- 2.27 With the MIF nonreimbursable technical cooperation (TC-0103000), currently being processed, the Bank will provide specialized advisory services to support: (i) rationalization of regulations, prices and charges; (ii) re-engineering of selected processes, including establishment of a one-stop shopping mechanism for entrepreneurs; and (iii) development and implementation of MIRs.

3. Better quality public services (State and citizen)

- 2.28 This program also poses the challenge of improving the administration and quality of services provided by central government to its citizens. This requires exploiting the potential for integrated service provision offered by the new information and communication technologies, which also make government more transparent and receptive, and provide information which, in the absence of such media, could not be made available to the public at large.
- 2.29 From an institutional standpoint, progress must be made in setting up a management model for the government's portal; various options and technical solutions are available. Agreement needs to be reached on basic principles in terms of technologies for implementing standards for specific key services, regardless of whether they reside on the physical premises of the portal's manager, are distributed among the various executing units, or are hosted by an outside firm.
- 2.30 In brief, the challenge of improving public services is threefold: improving their quality and reducing times and costs for central government; seeking greater transparency in structure and management; and generating an appropriate framework for the orderly introduction of electronic government. Accordingly, the program aims to support:
- a. Abolition or simplification of procedures, with a consequent re-engineering of processes and the achievement of targets for savings in time and costs. Simplification of procedures would be targeted on those identified as having a high impact in terms of time and cost savings for users, such as the issuing of identity cards and external assistance services provided by certain ministries such as health and domestic affairs. The processes so identified account for about 15% of total central government expenses;
 - b. Preparation of a complete inventory of procedures, along with their simplification and inclusion in user orientation guides (it is estimated that up to 70% of these could be included during the program period);
 - c. Installation of citizen information centers under the following modalities: (i) five self-access consultation terminals; and (ii) six information offices that could be located in the different government dependencies and/or in highly frequented places, using private-sector participation for this purpose;

- d. External evaluation of programs for dealing with the public, using surveys containing service performance indicators;
 - e. Providing better information on processes and procedures, including putting them on-line; and
 - f. Development of a government portal, adapting the regulatory and institutional framework, as appropriate, to facilitate citizen access to public information.
- 2.31 For the *first tranche*, the policy actions matrix requires development of a plan setting targets for savings in time (30% average) and cost (at least 15%), on selected services of high social impact, including, as a minimum, Interior Ministry civil identification and health care services, and preparation of a plan setting targets for electronic access and completion of procedures through a second-generation government portal.
- 2.32 For the *second tranche*, the matrix requires fulfillment of 100% of the targets for time and cost savings in 50% of selected services, with the second-generation portal designed, and targets set for putting procedures online. For the *third tranche*, the goal is to achieve 100% of the savings plan targets in 100% of selected services, and to have 100% of selected procedures available on-line, wherever the nature of the service makes this feasible.
- 2.33 The technical-cooperation loan in support of the proposed program, as described in Annex II-1, will provide funding for the following:
- a. improving the internal management of central government bodies, by re-engineering internal microprocesses, targeting those of high social impact;
 - b. developing a system of indicators for anticipating and measuring impacts that generate better-quality processes for both the internal and external client. This indicator system will take into account the target of the services (citizens, private-sector), their profile, the type of service (documents, social services, etc.), and the methodology to be used in measurement and monitoring;
 - c. improving systems for dealing with citizens, including rapid and practical consultation mechanisms, together with initiation and monitoring of procedures of relevance to citizens. The user orientation guide, which currently provides information on 150 central government services and procedures, will be updated and expanded, and two types of information system will be put in place: self-access terminals and information offices to be located in the various government executing units, or in highly frequented places, making use of private-sector collaboration and participation for this purpose, and seeking integrated solutions for a variety of processes (one-stop shopping) in the entities concerned; and

- d. design and implementation of a second-generation government portal to inter-relate with the following products: (i) user orientation guide, giving direct access to information on services and procedures, without classification; and (ii) one-stop shopping for official business procedures, which could involve procedures carried out via Internet.

4. Improved human resource management

2.34 The main targets of the reform of central government human resource management in Uruguay are as follows:

- a. The rigidity and poor adaptation of job classifications to changes in systems and methods, and to new modalities of public service provision that require different technical specialties and jobs that are more flexible in responding to demand;
- b. The proliferation of special job categories in which workers are not considered as civil servants, thus undermining guarantees of objectivity and merit in access to the Civil Service;
- c. Complex salary structures that are inequitable and untransparent, resulting in very large pay differentials for equal work that bear little relation to market conditions, especially in managerial and professional posts;
- d. Low-skill staff with competencies that are inadequate to the requirements of their jobs. This is compounded by a progressive ageing of the workforce caused by the freeze on new hirings, which results in 25% of total staff being over 60;
- e. Part-time work in the public sector, mostly in the afternoon, and scant real control over the workload;
- f. Lack of reliable and timely information on human resource management, making it hard to quantify distortions in the supply and demand for labor and difficult to implement a comprehensive human resource policy.

2.35 This situation not only leads to low productivity but also a progressive deficit in professional capacities, which results in the decapitalization of work teams, leading to a loss of public-sector capacity to prepare and execute public policies. This can be seen most clearly in innovative sectors and policies requiring professional competencies that the public-sector does not possess and which are hard for it to acquire.

2.36 The nature of the dysfunctions described above calls for major changes in the rules of the game. Accordingly, apart from completing implementation of the information systems developed in the previous program, the human resource component of this program is aimed at two complementary actions of an institutional nature: (i) preparation of a draft of a new legislative framework for

central government human resource management, seen as the only legal instrument with the power to overcome the structural dysfunctions of the current regulations; and (ii) a start to modernization of the National Civil Service Office (ONSC), which is a key player in civil servant staffing and training policies. It should be stressed that the operation does not involve any staff rationalization or redundancies, but simply proposals for drawing up new rules of the game.

- 2.37 The policy actions matrix for this component sets targets relating to the following items: (i) implementation of the human resource information systems designed in the previous program, for *each of the tranches*; (ii) preparation of a draft (*second tranche*), and government approval (*third tranche*) of a bill to modernize the legal and institutional framework on human resources; and (iii) presentation of a modernization plan for ONSC (*first tranche*) and the subsequent execution (*second and third tranches*) of an ONSC modernization program, with emphasis on the training of civil servants.
- 2.38 The technical-cooperation loan will concentrate on supporting activities relating to the following areas:
- a. *Implementation of information systems designed in the previous program.* This operation is expected to support implementation of the objective working conditions supervision system (SCOT) and the remuneration system (SR): (i) SCOT will provide information on staffing levels, organizational structures, distribution of working hours, overtime, and staff qualifications; it will also make it possible to prepare statistical tables containing indicators for ministers, and obtain consolidated statistical information enabling the auditor's office to fulfill its function of controlling hours of work. The system is currently operating on a pilot basis in four executing units; (ii) SR was developed to gather information on the pay received by central government personnel, obtained from wage payments made in the executing units, and to provide reports making it possible to analyze pay under a variety of classifications (source of financing, wage brackets, post occupied, etc). SR was set up on a pilot basis in the comptroller general's office, and, as a result, different requirements were identified relating to the data model and some of its functions. It was also decided to re-engineer the system, in order to provide the information needed by budgetary and outcome evaluation systems.
 - b. *Institutional, legal and management framework for human resources.* As regards the current legal framework for human resource management, apart from helping to simplify the rules, the reform will seek to: (i) modernize the job classification system, in order to promote greater mobility of human resources; (ii) lay the foundations for changing the pay structure under the principle of equal pay for work of equal value-added; (iii) base the civil service career on performance; (iv) expand high specialization and top management systems, and bring them under a regime of renewable contracts with specific performance incentives;

(v) establish clear dismissal procedures in cases of unsatisfactory performance; (vi) maintain fiscal balance, which implies using resources arising from unfilled posts and other economies to improve human resources; and (vii) evaluate exit options for the hiring freeze.

- c. *Program to modernize the National Civil Service Office.* The ONSC is the key central government staffing unit, performing activities relating to: (i) staff management; (ii) staff training; and (iii) rationalization of structures and procedures. The program's modernization goals are expected to be two: firstly, adoption of an improvements plan based on ONSC administrative functions; and secondly, design and implementation of a three-year training plan for central government personnel oriented toward the goals of public administration modernization and contracted under open competition criteria.

E. State of compliance

- 2.39 So far, the OPP and MEF authorities have provided the project team with documentation relating to means of verification and state of compliance with the first tranche conditions, in order to speed up the review of their compliance. The team will review this initial information and then report to the authorities thereon.

F. Cost and size

- 2.40 The program will be financed with two loans from the Bank's ordinary capital, drawn from the single currency facility in United States dollars, as follows:
- a. A fast-disbursing sector loan for US\$150 million, with disbursements to be made in three tranches of US\$60 million, US\$50 million and US\$40 million, in that order, with expected execution and disbursement periods of 36 months. As this is a sector loan, these funds are not linked to the individual execution of any specific component, but to comprehensive fulfillment to the Bank's satisfaction of the policy actions defined and agreed upon in this loan document; and
 - b. A technical-cooperation loan to be executed by the OPP and MEF, amounting to US\$3.6 million, with an execution period of 36 months and a disbursement period of 42 months, and local counterpart funding of US\$2.3 million.
- 2.41 As regards the disbursement timetable for the sector loan, the first tranche will be disbursed when the agreed policy actions are fulfilled and approved to the Bank's satisfaction. This is expected to occur within one month following the signing of the loan agreement. Disbursement of the second and third tranches, although variable, is expected to occur at 18-month intervals, giving a total disbursement period of 36 months, counted from the date of contract signing.
- 2.42 The size of this operation is justified by the resources needed to implement the policy actions being promoted by the government, and by the financial

programming of external resources by the economic authorities (OPP and MEF). The structure and sequence of disbursements in the sector loan are justified for the following reasons: (i) the government has a clearly defined reform strategy, in which the quality and type of measures taken or to be taken precedent to the first disbursement clearly demonstrate the high priority of the State reform process; (ii) the measures already taken or to be taken before the first disbursement affect the structure and functioning of central government in a permanent and profound way; as a result, the second and third tranches are limited to ensuring effective and general implementation of the actions proposed; and (iii) the number of measures already adopted under the 2000-2004 Budget Law and other complementary legal provisions indicates that the bulk of reforms have already been achieved, although their effects will be felt over the next three years. To summarize, prior to disbursement of the first tranche, the direction of the reform is clearly defined, and its quality and depth assured; many actions have already been carried out, justifying the large amount involved.

III. PROGRAM EXECUTION

A. Borrower and executing agency

- 3.1 The Republic of Uruguay will be the borrower of the sector loan for public administration modernization (UR-0130), to be executed by the Planning and Budget Office, with participation from the Ministry of Economic Affairs and Finance, acting as a member of the Executive Committee for State Reform (CEPRE).

B. Execution and management

- 3.2 Given the success of the previous program, and to ensure the institutional viability of the current one, a similar execution structure will be used. *Managerial functions and strategic direction* will be undertaken by CEPRE in its capacity as the body in charge of State reform in Uruguay. *Executive responsibilities*, based on CEPRE directives, will be coordinated by CEPRE's executive secretary with support from the OPP Technical Advisory Unit. An institutional and technical coordination committee will be set up to ensure interinstitutional *technical coordination* of the program's actions, and this will be executed directly by the ministries involved, acting through the offices and divisions (known as executing units in Uruguay) they are comprised of. This set of actions will be supervised by CEPRE, using *management improvement agreements* (AMGs). The diagram at the end of this section illustrates the execution scheme.
- 3.3 *Managerial functions and strategic direction.* CEPRE, the body responsible for State reform in Uruguay, was created in 1996 and consists of the Director of the Planning and Budget Office (OPP), the Minister of Economic Affairs and Finance (MEF), and the Director of the National Civil Service Office (ONSC). CEPRE is the central mechanism for *defining the program's policies and strategies*, as well as identifying, orienting and subsequently supervising actions to modernize public administration. CEPRE performed this function very effectively in the previous State sectoral reform program, using an execution scheme similar to that proposed for this one. The key objectives pursued by CEPRE are to: (i) implement and continue the State modernization program; and (ii) verify fulfillment of targets, including compliance with the terms of the AMGs.
- 3.4 *Executive responsibilities.* Responsibilities for executing and managing the sector loan will be assumed by the OPP Technical Advisory Unit, coordinated by CEPRE's executive secretary and in accordance with CEPRE directives. The Technical Advisory Unit has the following functions: (i) to advise and report to CEPRE, through the OPP, on administrative reform and comprehensive State modernization, proposing relevant measures and periodically reporting on progress achieved in the respective ministries; (ii) in conjunction with the respective

ministries, to identify, analyze and diagnose reform problems that require solution; (iii) to coordinate all reform actions with the respective ministries; (iv) to support them in achieving the proposed objectives. The success of the actions of the previous sector loan, which were carried out through a specially created ad hoc unit, made it possible to institutionalize the reform unit in the OPP, which has budgetary resources for its task, as well as the necessary highly specialized staff.

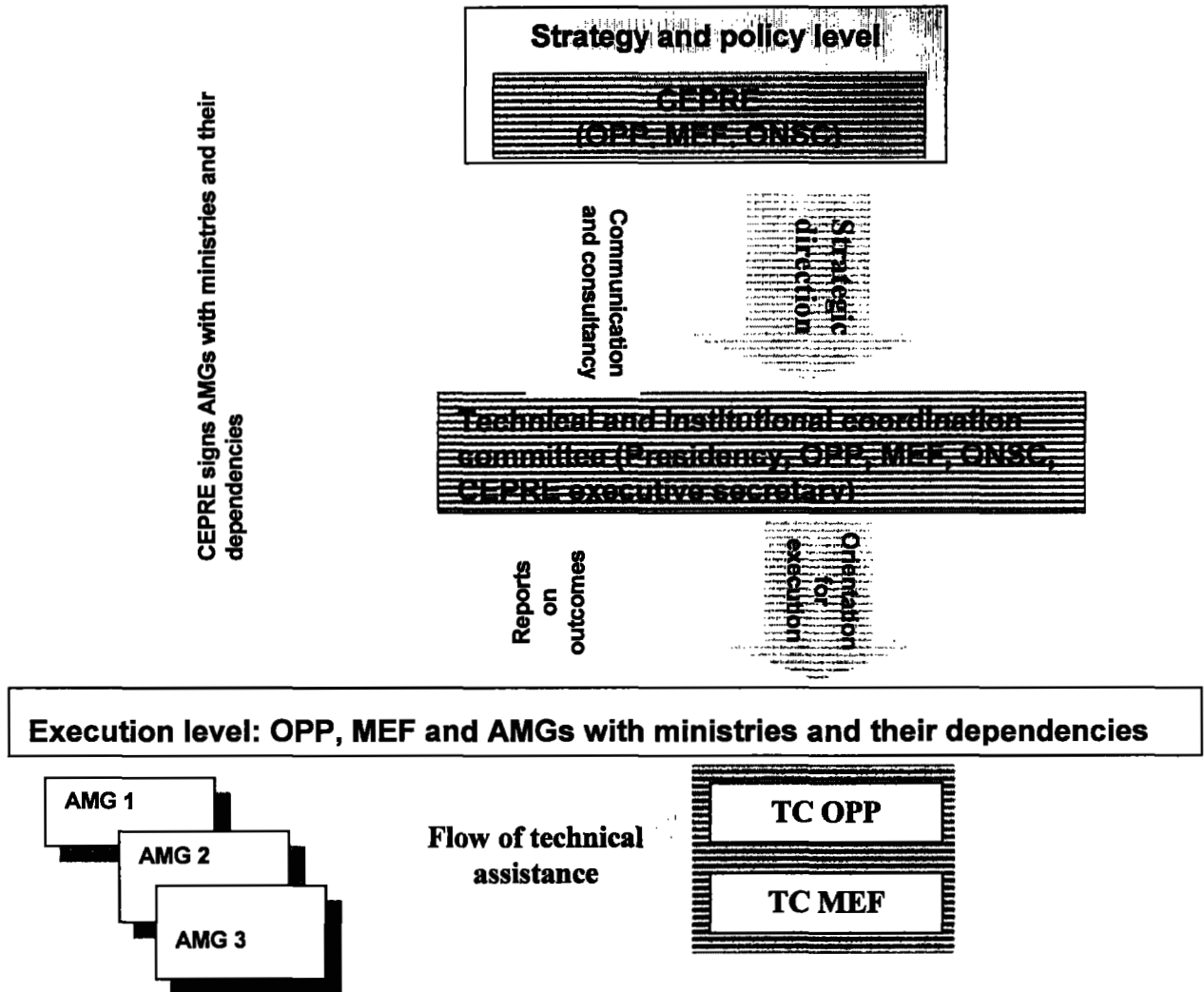
- 3.5 *Technical and institutional coordination.* The linkage between the strategic and political direction of CEPRE and the day-to-day running of the program in units and ministries will be maintained through a *technical and institutional coordination committee* consisting of the executive secretary of CEPRE, along with technical representatives from the Office of the President the Republic (General Secretariat), and representatives from ONSC, OPP and MEF. This committee will coordinate vertically between CEPRE and the day-to-day running of the program, and horizontally between the various ministries and other entities participating in it. The committee will also ensure that the strategy and policy defined by CEPRE is faithfully reflected in the actions finally carried out. The representative of the Office of the President of the Republic will fulfill the additional function of ensuring adequate links between the program and the reform strategy and actions that the national authorities are pursuing in other related areas.
- 3.6 *Management improvement agreements.* As a result of lessons learned in the first State reform program (995/OC-UR), it is important that institutionalization of the process of change occurs during implementation of the program and is a product of it. To ensure this, a decentralized execution mode is envisaged that will help gain acceptance of the reform's products and outcomes in the institutional areas that are legally and functionally responsible for executing it.
- 3.7 As a result, meeting the program's productivity and quality targets requires: (i) active participation by a large group of ministries and their dependencies in assuming direct responsibility for achieving the targets; these will need technical support and strengthening of management capacities; and (ii) effective central coordination from CEPRE to supervise the program strategy and objectives, and set up the coordination mechanisms needed to achieve the results.
- 3.8 To ensure the necessary coordination and commitment between CEPRE and the other entities participating in the program, AMGs will be signed between CEPRE and each of those entities. AMGs will not be required for OPP or MEF's executing units inasmuch as they are the executing agencies of the program. CEPRE's secretary will supervise the sector program by way of the Technical Advisory Unit, and will monitor the actions and outcomes of AMGs, reporting thereon to the technical and institutional coordination committee and to CEPRE. The box below sets out the core content of these AMGs.

- 3.9 The results of these agreements will be publicized in order to highlight the commitment and effort made to bring about change by the units participating in the program's strategic areas. For this purpose, the program will define and implement a strategy to communicate the results of the AMGs, and the program as a whole, to the public.
- 3.10 Signing management improvement agreements will be a condition precedent to disbursement of the respective components of the technical cooperation.

MINIMUM CONTENTS OF MANAGEMENT IMPROVEMENT AGREEMENTS
The improved management objectives to which the executing units commit themselves, expressed in concrete quantitative targets
Duration of the AMG
The scope of actions to bring about improvement, identifying the processes, organizational units and users affected.
The outcomes to be achieved, indicating the qualitative and quantitative impact expected in each case, together with the resource cost implied and their execution timetable.
The institutional strengthening needs that will be supported with TC proceeds, plus the contributions executing units will make out of their own budget.
Procedures to generate the flow of financial, material and communication resources, bearing in mind that execution will be decentralized across the executing units participating in the program. Financial management of resources will be centralized in the OPP and MEF, as appropriate to each technical cooperation.
A work plan for each year, with corresponding targets and indicators and a detailed six-monthly schedule for the immediately following year, the outcome of which will need to be compatible in content, chronology and other aspects, with the targets set out in the program's political actions matrix.

3.11 The table below illustrates the execution scheme.

EXECUTION DIAGRAM



C. Procurement

3.12 The fast-disbursing funds of the sector loan can be used to defray the aggregate foreign-currency cost of eligible imports from Bank member countries. The Bank's procedures for sector loans not requiring international competitive bidding will be applicable in this case. The funds will be disbursed when the borrower so requests, subject to evidence of compliance, to the Bank's satisfaction, with all contractual conditions.

D. Accounting and audit

- 3.13 The borrower, acting through the executing agency, will be responsible for maintaining accounting and financial records of the use of the loan proceeds, and for preparing and presenting disbursement requests to the Bank. It will also guarantee that such documents will be kept available for possible inspections by the Bank and/or external auditors. The borrower will maintain a specific bank account for managing the loan proceeds, and it will provide the Bank with evidence of opening such an account as a condition precedent to the first disbursement.
- 3.14 The Bank reserves the right to ask the borrower to provide financial reports on the use of the loan proceeds, duly certified by independent auditors previously accepted by the Bank.

E. Inspection and supervision

- 3.15 The Bank will set up the inspection procedures it deems necessary to ensure satisfactory execution of the sector loan. The borrower will co-operate fully in this, by providing all necessary assistance and information.
- 3.16 To ensure adequate compliance with the program's actions and impact, the parallel technical cooperation will finance periodic operational evaluations in connection with disbursements of the sector loan, as described in the following paragraph.

F. Monitoring and evaluation

- 3.17 Given the complexity and scope of the program, the executing agency will submit semiannual reports to the Bank, (as indicated in paragraph 4.15 of Annex II-1) to ensure timely compliance with the respective policy actions, especially in the second and third tranches. Complementing these semiannual progress reports, the executing agency will submit to the Bank detailed plans for satisfying the conditions of the second and third tranches, at least 45 days prior to the date set for disbursement of the corresponding tranche.

G. Environmental repercussions of the operation

- 3.18 Profile II was considered and approved by the Committee on Environment and Social Impact (CESI) in its meeting on 5 January 2001, and the following recommendations were made: (i) lobby for environmental aspects to be considered during the management reform, so as to become internalized in the decision-making processes and activities of the different systems (information, training and skill development, etc.); (ii) explore with the government the possibility of adopting measures to improve the fiscal autonomy of institutions in the environmental domain; and (iii) consider environmental regulations in conjunction with the Uruguay Environmental Program (UR-0138).

- 3.19 These recommendations have been built into the design of the operation, ensuring that: (i) environmental aspects will be considered in the terms of reference of the activities to be pursued, wherever appropriate; (ii) the review of prices and charges that have an environmental dimension will include economic cost-benefit analysis; and (iii) environmental standards included in the regulations inventory will be reported and coordinated with the project team of loan UR-0138 at the time of presentation for the Bank's consideration of each tranche.

H. Conditions for disbursement of the funding

- 3.20 Disbursement of the resources in each tranche will be conditional on: (i) maintenance of a macroeconomic environment consistent with IMF agreements and the activities envisaged in the program; and (ii) fulfillment of the policy actions agreed for the respective tranche, as specified in the Executive Summary and in Annex II-2 of the program.
- 3.21 The following are conditions precedent to the first tranche; (i) opening of a special account to manage the program's funds; and (ii) signing of a technical cooperation contract in parallel to the present operation.
- 3.22 The borrower, acting through the executing agency, will be responsible for maintaining accounts and other financial records relating to the use of the loan proceeds; for preparing and submitting disbursement requests, and guaranteeing that such documents will be kept available for possible inspection by the Bank and/or external auditors. The borrower will maintain the special account for managing the loan proceeds and will provide information on it to the Bank prior to the first disbursement.
- 3.23 The project team will evaluate the information presented by the country relating to fulfillment of the agreed policy actions, and will prepare the corresponding reports for the Bank's Management and Board in order to request disbursement authorization in accordance with current policies.

I. Policy letter

- 3.24 The Bank concurs with the macroeconomic and sectoral policies described in the policy letter presented in Annex I-1. This letter sets out the strategies and policies to be pursued by central government in the sphere of State modernization, and reflects the government's firm commitment toward the actions proposed.

IV. VIABILITY, RISKS, BENEFITS AND FISCAL IMPACT

A. Viability

- 4.1 Satisfactory execution of the previous sectoral State reform program displayed high political and technical commitment toward the program. This political and technical commitment has continued under the current government. The Uruguayan central government reform process was launched in 1995 with the creation of CEPRE, an organization with ministerial representation from the Ministry of Economic Affairs and the Planning and Budget Office. Despite possible changes in personnel, continuity of policies and directives is guaranteed by the existence of this high-level body. In addition, the technical team in the Uruguayan government that directed and supported preparation of the current program is essentially the same as was responsible for preparing and executing the previous one.
- 4.2 In general, both the Planning and Budget Office and the Ministry of Economic Affairs and Finance have the human, technical, managerial, material and financial resources needed for satisfactory execution of the program. Both institutions have wide-ranging experience in executing projects in this area, together with organizational and functional structures consistent with program needs. In particular, the State reform technical group has been operating out of the OPP throughout the preparation of the reform initiated in 1995. Led by the CEPRE executive secretary, this group was responsible for the achievements of the 1995-2000 reform program, also supported by the Bank. In addition, a decentralized execution scheme has been designed requiring with active participation from authorities and officials from the central government bodies involved in implementing the program.

B. Risks and benefits

- 4.3 *Management of public resources.* The success of this component will depend on significant improvements being made to the DGI and DNA organizational and functional structures; and, in the final analysis, this depends on the political will shown by the Uruguayan government to support the necessary changes and their consequences. The Ministry of Economic Affairs has classified the program as high priority and demonstrated its full support for preparation of the program thus far. Making disbursements conditional on the achievement of tangible progress in the various areas of the program, also helps to mitigate potential risk arising from lack of political support.
- 4.4 Resistance to change among DGI and DNA staff also represents another potential risk. To mitigate this, the program includes components containing organizational development and training activities. Among other things, these will seek to explain and uphold the need for and nature of the organizational and functional adjustments

to be made, while involving staff from the various levels of the two directorates in the institutional strengthening process.

- 4.5 The main benefits of this component are: (i) higher productivity of tax collection and reduced tax evasion; (ii) better information and accessibility for taxpayers in the payment of taxes; (iii) greater transparency of fiscal information and tax administration; and (iv) the sale of a group of physical assets declared superfluous in the previous operation.
- 4.6 *State and private sector.* By deregulating and abolishing certain prices and charges, the program may harm sectors that currently benefit from existing administrative restrictions and market constraints. To counteract this risk: (i) attempts will be made to encourage private-sector participation in the process of deregulating and abolishing prices and charges; and (ii) the reform's direct beneficiaries will be kept informed via the program's communication strategy.
- 4.7 In this component, the main benefits are: (i) savings of least US\$23 million per year by the end of the program, as result of rationalizing regulations, prices and charges and processes; (ii) more transparent administration of the regulatory framework and central government prices and charges; (iii) establishment of controls to improve the quality of central government regulatory administration; and (iv) a reduced tax burden for public service users subject to ICOME.
- 4.8 *State and citizen.* Improving the quality of citizen-services is conditional on the introduction of new information technologies. For the full potential of these technologies to be adequately exploited, however, an institutional framework is required that ensures consistent implementation of strategy for electronic government. Uruguay lacks this institutionality, and putting it in place is one the actions envisaged in the technical cooperation. At the same time, programs to introduce new ways of relating to citizens need to be made viable through information and communication mechanisms to overcome potential resistance to the new technologies.
- 4.9 The main benefits are: (i) an improvement in the quality of certain public services, reducing procedural delays by at least 10%; (ii) greater availability of information on services through servicing guides and pamphlets; and (iii) greater accessibility to public services through information technologies.
- 4.10 *Human resources.* The human resource management component could face hostility to the anticipated reforms from labor unions. However, insofar as the operation does not involve any staff downsizing and is limited to laying the foundations for new general rules on central government human resource management, this risk should be small. In addition, levels of union representation throughout central government are very low, and the previous operation clearly demonstrated the capacity of CEPRE to channel reforms through the consultation

mechanisms provided by the State Sectoral Reform Committee. In fact the previous operation entailed restructurings and staff redundancies, which went through without major repercussions.

- 4.11 The expected benefits of this component are: (i) better compliance with objective working conditions, in particular rules on hours of work, as a result of SCOT implementation; (ii) more information on wages, resulting in greater transparency and equity; (iii) establishment of a new legal regime for modern professional staff management; and (iv) development of a ONSC modernization plan, including the rationalization of resources for training civil servants.
- 4.12 *Institutionality.* Unlike the previous program, this one requires its targets to be wholeheartedly embraced by the executing units committed to the goals of cost reduction and quality improvement. Possible institutional resistance in the context of a coalition government will be mitigated through the AMG mechanism, which formalizes relations between CEPRE and all executing units on which program implementation depends. Management improvement agreements envisage a significant level of commitment from CEPRE and the participating executing units toward the targets of the sectoral program. They also assume sufficient decision-making decentralization to guarantee the involvement of participating organizations, the institutionalization of reforms and, ultimately, the sustainability of changes introduced.

C. Fiscal impact of the sector loan

- 4.13 Estimation of the fiscal impact of the proposed program needs to take two key factors into consideration: (i) levels of current spending and public sector investment in Uruguay are very rigid, as they are defined in the five-year budget law; and (ii) tax revenues (the relevant variable for estimating impacts on deficit levels) are determined by a number of variables, some of which the sectoral program has no major influence over, such as adjustments to fiscal policy instruments (changes in tax rates, introduction/abolition of taxes, etc.) and fluctuations in the rate of growth of GDP.
- 4.14 The program's fiscal impact should not be viewed in isolation, as the result of a single effect on revenue and expenditure levels and, hence, on the deficit, because of the multiplicity of variables affecting the financial results of the public sector. The program's fiscal impact can also be expected to show through with varying time lags in areas not directly attributable to it: for example, actions of foreign trade facilitation supported by the program (rationalization of related administrative procedures and support for better DNA management), which could have a significant effect on the volume of exports and imports, and hence on the tax base. Another example of the program's indirect fiscal impact would be actions to facilitate the effective merging of information between the DGI and the DNA and

other institutions, such as the Social Security Bank, which would have an effect on the fiscal resources generated by the latter institution.

- 4.15 Notwithstanding the above, an estimation of the partial fiscal impact of certain of the program's actions can be given for indicative and reference purposes.
- 4.16 In the sphere of regulations, prices and charges, a revenue loss of US\$3.3 million per year is expected in the general income category.
- a. *Regulations.* The abolition of regulations envisaged in the program does not have an immediate fiscal impact.
 - b. *Prices and charges.* The net fiscal impact will be a revenue loss estimated at US\$3.3 million per year, as from 2003. The net fiscal impact stems from: (i) an increase in revenue (in the general income category) of US\$8.9 billion, as a result of raising prices that are currently below the cost of provision; and (ii) a fiscal revenue loss of US\$12.2 million caused by lowering other prices and charges.
- 4.17 In the medium term, starting in 2003, the program to deregulate and rationalize prices and charges could generate an estimated US\$36 million annually in cost savings for the private sector. In the medium-term this would have a positive fiscal impact, with revenue increases resulting from higher private-sector profit levels. The program set an annual savings target of US\$23 million as from 2003, as indicated in conditions 17 through 19.
- 4.18 A revenue loss is also expected as a result of lowering ICOME and abolishing employer contributions in public-sector firms, amounting to US\$12 million per year as from 2003. The program reflects the impact of these measures in the third tranche (condition 24).
- 4.19 In the *procurement and hiring* area, modernization of the purchasing and procurement system, together with greater transparency, will engender stronger competition between suppliers, saving about 1% on the value of purchases subject to bidding processes and generating savings on the order of US\$4.3 million per year. In addition, the application of framework contracts, following international experience, could generate savings of around US\$10.7 million per year, as from 2002. In summary, total savings are estimated at around US\$15 million, consistent with condition 13 of the policy actions matrix.
- 4.20 The redeployment of superfluous properties is expected to generate additional resources equivalent to US\$10 million, either as fiscal revenues resulting from sales, or investment savings resulting from transfers, consistent with condition 16.
- 4.21 *Tax revenues.* Through a variety of actions aimed, for example, at strengthening systems of inspection and control of tax obligations (see Annex II-1), the program

will make it possible to identify cases of arrears and improve the effectiveness of tax debt recovery procedures. The tax revenue obtainable in this way, largely thanks to the program, has been estimated at US\$30.0 million per year. This target is the result of actions promoted by the program, as indicated in conditions 4 through 8.

- 4.22 Apart from the above, there are other conditions making it possible to improve fiscal administration, such as coordination of expenditure execution with the SIIF system, (condition 9), which can be expected to boost the program's fiscal impact.



***Presidencia de la República Oriental del Uruguay
Oficina de Planeamiento y Presupuesto***

Montevideo, 13 July 2001

Reference: Policy letter. Public Administration Modernization Program

Mr. Enrique Iglesias
President
Inter-American Development Bank
1300 New York Ave., N.W.
Washington, D.C.
U.S.A.

Dear Mr. Iglesias:

1. As you know, since early 2000 the Government of Uruguay has pursued a policy focused on lowering production costs, enhancing competitiveness, and placing the economy on a footing of sustainable growth, all of which began to yield results early this year.
2. Despite recent exogenous problems, Uruguay has been making the necessary adjustments and progress, with support from the International Monetary Fund, to create an enabling environment for a return to growth: domestic costs have decreased in dollar terms, especially in the area of public rates; taxes have been pared back, mainly in the agricultural sector and social security contributions; wages have been maintained at moderate levels; and public spending has been contained significantly. Since 1999, Uruguay's external sector has been making a strong contribution to the country's growth, despite slower trade with its neighbors.
3. In keeping with these efforts, the government is aware that, in addition to these measures, the country must take decisive steps in the form of structural reforms capable of mobilizing and transforming the economy overall, while continuing to pursue external markets and gradual recovery of domestic consumption.
4. Against this backdrop, the Government of Uruguay has identified the need to deepen the process of reform and modernization of the State by improving the public administration in an effort to consolidate the advances already achieved and move forward into a series of areas not yet addressed, with the goal of bringing

government closer to the citizenry and reducing the cost of the State to the private sector by incorporating new technologies to optimize internal processes and make services and information more accessible to users, while seeking greater effectiveness and productivity of human resources.

5. It is within this setting that the Government of Uruguay is requesting financial support from the Inter-American Development Bank in order to implement effectively the public administration modernization program in keeping with the content and objectives outlined below.
6. The following paragraphs provide a description of the macroeconomic setting and the economic policy strategy that would frame the financial support from the Bank.

I. MACROECONOMIC FRAMEWORK

7. Since it took office, the government has faced a particularly unfavorable economic environment, in terms of prices (significant worsening of the terms of trade, equivalent to over 4% of GDP per year), high interest rates, low levels of economic activity in the region, and a high real exchange rate resulting from the devaluation of the Brazilian currency and the euro. These difficulties caused GDP to shrink by over 4% in the 1999-2000 biennium. Naturally, the corresponding drop in family disposable income has been greater still, given the deterioration of the terms of trade, and this has affected levels of employment and tax revenue.
8. As a logical consequence of the above, the debt-GDP ratio climbed to 32%, net of reserves. Prices rose by 5% in 2000, compared to 4.2% in 1999, basically as a result of higher fuel prices.
9. Since mid-1998 when capital flows to the region began slacken, the economy has been going through a gradual but continuous process of exchange-rate adjustment, and this is expected to continue throughout 2002 and 2003 at least.
10. Within this framework, and as part of the strategy to maintain price stability and policy predictability, the authorities signed a precautionary standby agreement with the International Monetary Fund (IMF) for SDR 150 million. The agreement's main quantitative targets are predicated on GDP growth of 2% and external conditions not worsening; it projects a fiscal deficit of 2.6% of GDP, together with a slight decline in net international reserves amounting to US\$60 million (less than 3% of the current international reserves stock).
11. Prices are expected to rise between 7% and 8%, in line with market conditions and an exchange-rate policy that produces a yearly devaluation of 11.4%. No difficulties are foreseen in financing the projected deficit, and in fact Uruguay has taken advantage of its favorable situation compared to the rest of the region to obtain advance financing for the year. The market currently demands a risk premium of between 225 and 260 basis points above the rate on United States government bonds.

II. ECONOMIC POLICY STRATEGY

12. The program forms part of an economic policy strategy founded on two key pillars: the maintenance of basic macroeconomic equilibria, and promotion of reforms to reduce costs imposed on productive factors and inputs, in order to enhance competitiveness. The first of these assumes a fiscal outturn consistent with a sustainable level of medium-term debt, as a basis for price stability and external balance, thereby reducing the economy's external vulnerability. The second pillar aims to boost the country's export strategy by improving competitive capacities among local firms.
13. The government sees the maintenance of basic macroeconomic equilibria as crucial when designing policies to combat poverty and improve income distribution.
14. A key reform accentuating the country's export orientation involves liberalization and market opening in sectors formerly reserved exclusively for the public sector.
15. Fiscal results for each of the last two years have recorded deficits on the order of 4% of GDP, of which just over 25% comes from transfers made to workers' private savings accounts under the new social security system. The accumulated outstanding social security debt produces an additional interest charge of around 0.4% of GDP per year. Although these figures are fiscal costs, from the actuarial standpoint future savings are being generated that will ensure the sustainability of public finances in the medium-term; and the explicit public debt is a much better reflection of the true level of public-sector borrowing.

III. PUBLIC ADMINISTRATION MODERNIZATION PROGRAM

16. The general objective of the public administration modernization program (henceforth referred to as the program) is to enhance private-sector competitiveness and increase the consumer well-being, by improving the efficiency and quality of central government citizen-services.
17. The program contains actions to modernize areas associated with internal government administration, as well as others where the State is in direct contact with citizens and firms. This is an important point since the improvements and changes introduced internally are expected to be perceived by the users of government services when they interact with them. The government is thus creating the necessary links between internal management ("back office") and user-oriented activities ("front office"), preparing for more advanced states of user service that solidify credibility and make use of external perception as a tool to improve government activity and commitment.
18. The program has five components, the outcomes of which will contribute to the stated objectives.

Macroeconomic and institutional framework

19. This component will seek to maintain a suitable macroeconomic framework and strengthen the mechanisms for demonstration and dissemination of the program's targets. Management improvement agreements will be used for various of the program actions as a means of facilitating implementation and incorporation into the formal structure, as well as a communication strategy for the program's content and results and the planned reform processes.

Better management of public resources

20. This component seeks firstly to enhance revenue collection and optimize services provided to taxpayers and users of the General Tax Directorate (DGI) and the National Customs Bureau (DNA). This will entail simplifying and modernizing procedures, adapting current regulations, and strengthening mechanisms to control institutional activities and enforce compliance with fiscal obligations.
21. Secondly, the component seeks to develop informatics systems and methodological tools to administer public expenditure by activity center in executing units linked to the Integrated Financial Information System (SIIF). This will allow for evaluation of expenditure management by results, in accordance with established strategic priorities; this, in turn, will generate further opportunities for decentralization, and make accountability more transparent, as well making it possible to rank organizational units and input costs in government procedures and goods or services, thus enabling management efficiency to be measured objectively.
22. Thirdly, the component will work toward greater transparency, competition and efficiency in government procurement processes, by setting up a State procurement and contracting system offering users open and timely access to State procurement needs, thereby obtaining better prices and generating data to improve internal records and management. New procurement modalities will be introduced, including framework agreements with suppliers, and price scales; procedures will be simplified, and contracting modalities modernized via regulatory adjustments.
23. Fourthly, the component will sell or redeploy government properties identified as superfluous, in accordance with policy priorities and legal authorizations established in this regard.

Enhanced private-sector competitiveness in relation to central government actions

24. This component seeks to reduce costs imposed on the private sector and increase consumer well-being by, firstly, improving the quality of and justification for economic and social regulations and administrative constraints that the government imposes on markets, promoting mechanisms of information, consultation and interaction with the private sector.

25. Secondly, the component seeks to relate public-sector prices and central government charges to economic efficiency criteria, when such prices or charges do not reflect supply costs or are imposed in activity areas where they are unjustified.
26. Thirdly, the component will act to improve the quality of processes in three public services of key importance for the private sector, namely foreign-trade procedures, company formation and investment. These do not always lead to higher value added, and they impose undesired explicit and implicit transactions costs, undermining enterprise competitiveness and pushing up production costs. The aim is to set up “one-stop-shopping” for complying with official business bureaucracy, and to improve information and communication mechanisms by using electronic management tools.
27. Fourthly, the component aims to improve competitiveness by gradually reducing user costs by lowering the tax on foreign currency purchases (ICOME) and employer contributions in public-sector firms.

Better quality public services for the citizen

28. This component seeks to reduce the costs of central government public services, including time spent complying with bureaucratic procedures and their frequency, time spent waiting in line and the number of different government offices that the citizen/user has to visit. This will be achieved through better access to the information and services provided by central government, supported by rapid and simple procedures and better quality service.
29. This component contains several lines of action: firstly, to improve the quality of services of high social impact, such as issuing civil identification documents and primary level outpatient health services (polyclinics and health centers). Secondly, the component will expand and update information contained in the user guide to government services and procedures, installed in self-access consultation terminals and information offices with rapid mechanisms for consultation over the Internet. These will also progressively include interactive modules, such as forms to initiate bureaucratic procedures or the initial stages of procedures on-line. Thirdly, and related to the above, a government portal will be set up to act as a gateway to information held on State websites and services. This will introduce the country to the era of electronic government by installing preliminary mechanisms for online interaction with citizens, in selected procedures from the sectoral program.

Improved human resource management.

30. This component seeks firstly to implement information systems in each executing unit, to centralize information and make it available for decision-making and the control of working conditions and pay in all central government human resource areas. These systems, interconnected with the job registry (RPT), and interacting in the SIIF, will provide information for the control of expenditure execution, budget formulation and the evaluation of public administration.

31. Secondly, the component will present a regulatory proposal to modernize human resource management, for government approval following wide-ranging technical consultations. This will focus on the need to professionalize public-sector employment, make staffing more adaptable and simplify processes to users, in keeping with the competitiveness and functioning of the labor market.
32. Thirdly, it will seek to intensify management training in new specialisms required by government, based on the contents and execution modalities developed, through organizational adaptation and the training plan of the National Civil Service Office (ONSC).

IV. LEGAL AND REGULATORY FRAMEWORK

33. The national budget laws corresponding to the two most recent government terms (Laws 16.736, of 5 January 1996, and 17.296 of 21 February 2001, together with emergency laws 17.243 of 29 June 2000, and 17.292 of 25 January 2001, approved the rules validating the public administration reform processes on which this program is based. Regulatory decrees have also been approved justifying the conditions precedent to the first tranche of the program. The drafts of the legal rules and regulatory decrees committed to in the sectoral loan conditions will be issued in compliance with the established deadlines.

V. PROGRAM EXECUTION

34. The Executive Committee for State Reform (CEPRE) is the body responsible for general supervision and coordination of the sectoral program. It is supported by the Technical Advisory Unit of the Planning and Budget Office (OPP) in the Office of the President of the Republic, which has its own budgetary resources. This will assist in the operational and financial management of the program, as well as the OPP technical cooperation project, and in the execution of nonreimbursable resources provided by the Multilateral Investment Fund (MIF), which will be cofinancing the project. Operational and financial coordination and administration of the Ministry of Economic Affairs and Finance technical cooperation project will undertaken by the Ministry acting through its Undersecretariat.

Sincerely,

Ariel Davrieux
Director of the
Planning and Budget Office

Alberto Bensión
Minister of
Economic Affairs and Finance

PUBLIC ADMINISTRATION MODERNIZATION PROGRAM (UR-0130)
POLICY ACTIONS MATRIX

Components	First tranche	Second tranche	Third tranche
Economic framework			
Ensure suitable economic framework	1. Maintenance of suitable macroeconomic framework	2. Maintenance of suitable macroeconomic framework	3. Maintenance of suitable macroeconomic framework
Human resources components	A. Better management of public resources		
Optimize DGI and DNA structures and functions, introduction of regulations to ensure efficient human resource management.	4. Presentation to legislature of a bill to implement a new human resource management regime for the DGI, establishing, among other things, the hiring of qualified professionals on fixed-term contracts, renewable subject to performance; and approval of rules to strengthen the role of the DNA in repressing contraband.	5. Entry into force of decree establishing the implementation of Charter for the DNA, based on provisions of Decrees 459/997 and 758/975, and changes required by the institution's modernization process.	
Support establishment of and incentives to achieve effective revenue collection, and services (tax assistance and trade facilitation) provided by the DNA.	6. Presentation of action plans specifying management targets for DGI and DNA, as agreed with the Bank and stipulated in Annex II-1.	7. Evidence of substantial compliance with the action plans fulfillment targets established for this tranche.	8. Evidence of substantial compliance with the action plans fulfillment targets established for this tranche.
Improve the efficiency, effectiveness, and impact of public administration.		9. Execution of expenditure by activity center coordinated with the SIIF expenditure execution system (SEG), implemented throughout central government.	10. The executing units of the central government, which in 2000 represented at least 60% of central government spending, executing expenditure by activity center in the Accountability Budget Execution Bill.
Greater transparency, effectiveness, and efficiency in central government procurement	11. Proposed standard bidding documents approved by CEPRE.	12. Proposal for: (i) legal framework of State procurement and hiring presented to legislature; (ii) model framework agreement for managing procurement with suppliers; (iii) institutionality of new purchasing system (SICE) defined and implemented, including:	13. Achievement of at least US\$10 million savings resulting from efficiency gains calculated against a reference basket.

Components	First tranche	Second tranche	Third tranche
		informatics and technical management of the system, with participation by private sector; operational management and strategic framework.	
Rationalize public-sector	14. Presentation of plan for redeployment of superfluous properties identified in the previous sectoral loan.	15. Achievement of US\$5 million in revenues or savings from the redeployment of superfluous properties.	16. Achievement of at least US\$5 million in revenue or savings arising from the redeployment of superfluous properties.
B. Enhanced competitiveness (State and enterprise)			
Reduce cost to the private sector and central government.	17. Evidence of: (i) modification of at least 70 regulations affecting competition in markets; (ii) achievement of savings of at least US\$7 million on prices and charges; (iii) presentation of a plan for cost savings of at least US\$23 million arising from the rationalization of processes, modification of regulations, and reduction/abolition of prices and charges, indicating measurement method; (iv) presentation of ranked list of regulations.	18. Achievement of at least US\$9 million in cost savings arising from the rationalization or abolition of regulations, prices and charges, and processes defined as priority; including foreign-trade and labor-market regulations to be incorporated into the existing inventory.	19. Achievement of at least US\$9 million in cost savings stemming from the rationalization or abolition of regulations, prices and charges, and processes defined as priority; including foreign-trade and labor-market regulations relating to the existing inventory.
Improve quality and efficiency of central government regulations and charges.	20. Presentation of a proposed decree on the regulatory and methodological framework administering regulations, prices and charges, ensuring quality, control and dissemination of new proposals for regulations, prices and charges.	21. Presentation and public dissemination of report approved by CEPRE certifying that 100% of new central government regulations, prices and charges have undergone cost-effectiveness analysis, in the case of prices and charges, and regulatory impact analysis in the case of regulations.	22. Presentation and public dissemination of report, approved by CEPRE, certifying that 100% of new central government regulations, prices and charges have undergone a cost-effectiveness analysis, in the case of prices and charges, and regulatory impact analysis in the case of regulations, by the OPP.
Partial reduction of costs in private sector and individual public-sector firms.	23. Evidence of legislative authority to reduce ICOME and employer contributions in public-sector firms.		24. Transfer to users of reduction of ICOME and employer contributions in public-sector firms, amounting to at least US\$12 million.

Components	First tranche	Second tranche	Third tranche
C. Better service quality (State and citizen)			
Reduce costs imposed on central government n.	25. Plan including: targets for savings in time (at least 30%) and costs (at least 15% in human resources), defined for selected services of high social impact, including at least Interior Ministry civil identification and health service.	26. 100% of targets savings in time and costs achieved in 50% of selected services.	27. 100% of savings plan target achieved in 100% of selected services.
Transparency of public for the citizen.	28. Plan setting targets for electronic access and compliance with procedures in portal.	29. Second-generation portal designed, with targets for incorporating on-line procedures.	30. 100% of selected procedure available on line, provided service makes this feasible.
D. Improved human resource management			
Implement human resource n systems designed in operation.	31. Implementation of information systems designed in the previous operation: (i) SCOT implementation plan approved by CEPRE; (ii) SR implementation plan approved by CEPRE.	32. Progress toward targets for implementing information systems: (i) implementation of SCOT compatible with SIIF in at least 40% of central government civil service executing units, excluding public health and interior ministry, with electronic time-control system; (ii) SR operational and connected to SIIF for 100% of central government civil service executing units, excluding public health.	33. Progress toward targets for: (i) implementation of SCOT in at least 80% of central government civil service executing units, excluding public health and interior ministry, with electronic time-control systems and Internet publication of consolidated on compliance with timetable for each executing unit, and supervising AIN; (ii) SR implemented in 90% of executing units pay central government civil service wages, excluding public health salaries accessible to the public on the Internet.
Preparation and approval by of legislative framework for resource management.	34. Government authorization for CEPRE to prepare legislation setting explicit objectives.	35. Draft legislative bill approved by CEPRE.	36. Legislative bill approved by Executive Branch, after broad process of consultation and discussion of the draft.
ONSC modernization and training plan.	37. Terms of reference for ONSC modernization approved by CEPRE, and preparation of three-year management training plan with results targets.	38. At least 30% progress in training plan and ONSC modernization proposals approved by CEPRE.	39. At least 60% progress on training plan.

PLAN OF OPERATIONS **TECHNICAL-COOPERATION LOAN TO SUPPORT THE PROGRAM FOR** **MODERNIZATION OF PUBLIC ADMINISTRATION**

(UR-0145)

EXECUTIVE SUMMARY

Requester:	Republic of Uruguay	
Executing agencies:	<p>Project A (Improvement of central government public services): Office of Planning and Budget (OPP)</p> <p>Project B (Strengthening of tax administration): Ministry of Economic Affairs and Finance (MEF)</p>	
Amount and source:	IDB (Ordinary Capital):	US\$3,600,000
	Local:	US\$2,347,000
	Total:	US\$5,947,000
Terms and conditions:	Amortization period:	20 years
	Grace period:	5 years
	Disbursement:	42 months
	Execution:	42 months
	Interest rate:	variable
	Inspection and supervision:	1.00%
	Credit fee:	0.75%
	Currency:	U.S. dollars from the Single Currency Facility
Objectives:	<p>The technical-cooperation loan will help enhance the efficiency and quality of services provided to the private sector and to citizens by the government, reducing the readily apparent and underlying costs they must face (Project A), and will support institutional change, technological change, and change in fiscal administration, guaranteeing the coordinated and centralized administration of public finance on the basis of a new fiscal management model (Project B).</p>	
Description:	<p>The technical-cooperation loan UR-0145 will support the sector program for modernization of public administration (UR-0130) in complying with its goals and objectives, and will consist of two projects: (1) improvement of central government public services (Project A), to be executed by the Office of Planning and Budget, with</p>	

the following components: (a) management of public resources; (b) State and citizen; and (c) human resources management; and (2) strengthening of tax administration (Project B), to be executed by the Ministry of Economy and Finance, including the following components: (a) Strengthening of the General Customs Bureau (DNA) and (b) Strengthening of the General Tax Directorate (DGI).

Social and environmental review:

N/A

Benefits:

Project A: (a) reduction of costs to the public sector and enhanced well-being of citizens who are users of public services (financial costs and time savings) and (b) improvement of the quality and efficiency of the internal management of the central government and its human resources, and public administration with respect to the users.

Project B: (a) support for Uruguay's economic stabilization process through improved tax administration, which will help decrease fiscal imbalances; (b) a larger base of active taxpayers and reduced delinquency in the payment of taxes and foreign trade duties; (c) improved public image of tax and customs administration; and (d) increased transparency of fiscal management through the adoption of management control mechanisms.

Risks:

Need for a general commitment by the federal authorities and mid-and upper-level managers to the proposed operation's objectives and strategy; need for the introduction of significant improvements to the organizational and functional structure of the DGI and the DNA, which ultimately depend on the political will to support these changes and their consequences; and potential resistance to change by some of the institutions involved in implementing the operation.

Special contractual clauses:

Standard contractual conditions precedent to the first and subsequent disbursements. Special conditions precedent to the first disbursement under Project A. Submission to the Bank of evidence of having: (a) implemented the Institutional Technical Coordination Committee; (b) submitted the detailed preliminary list of entities with which a management improvement agreement (AMG) would be signed, identifying the component and the products associated with these agreements; (c) hired the project coordinator; and (d) issued a call for filling the highly specialized positions for project execution.

Special conditions precedent to the first disbursement under Project B. Evidence of having: (a) started up the MEF executing unit, which involves appointment of the technical coordinators by the DNA and DGI, an administrative-financial coordinator, and an executive secretary.

Program disbursements will also be subject to the conditions specified in paragraph 4.10.

**Exceptions to
Bank policy:**

See section on procurement, below.

**Procurement of
goods and
hiring of
consultants:**

Procurement of goods will be carried out in accordance with the Bank's standard procedures (paragraph 4.3). The hiring for consulting services will be carried out in accordance with the Bank's standard procedures, with the exception of the hiring of the personnel mentioned in paragraph 4.4.

I. INTRODUCTION

- 1.1 The sector program for modernization of public administration (UR-0130) will be supported by a technical-cooperation loan to achieve its goals and objectives, which will consist of two projects: Project A, to be executed by the Office of Planning and Budget (OPP), and project B, to be executed by the Ministry of Economic Affairs and Finance (MEF).
- 1.2 The OPP reimbursable technical-cooperation project (CTR) for “improvement of central government public services” will help enhance the efficiency and quality of services provided to the private sector and to citizens by the government, reducing the readily apparent and underlying costs they must face. The MEF technical-cooperation project for “strengthening of tax administration” will support institutional change, technological change, and change in public financial administration, guaranteeing the coordinated and centralized administration of public finance on the basis of a new fiscal management model.

II. PROJECT A: IMPROVEMENT OF CENTRAL GOVERNMENT PUBLIC SERVICES

A. Background

- 2.1 In 1995, the Government of Uruguay, with financial support from the Bank, began an in-depth study of the design and implementation of various changes that had been carried out in previous years, the objective of which was to improve the quality and efficiency of public services. In point of fact, the actions implemented under the framework of the sector program for government reform (995/OC-UR) and technical-cooperation programs 996/OC-UR and ATN/MH-4628-UR, the latter under the MIF, have made possible, among other things: (i) the review of the substantive and non-substantive tasks of the central government sectors and their respective executing units, and their organizational restructuring as a result thereof; (ii) the design of tools, methodologies, and information systems, as well as their implementation on a pilot basis, with regard to objective conditions of employment, the reengineering of processes to improve the quality of service to citizens, and the initial development of a new government procurement system; (iii) the design and initial implementation of a system for evaluation of results-based management incorporated into the 2000-2004 national budget; (iv) the design and implementation of management training courses for the higher government levels and the creation of highly-specialized positions; (v) an inventory of State property and the identification of nonessential property; and (vi) a survey of government regulations, prices, and fees to be streamlined in order to improve private sector competitiveness.

- 2.2 As a second phase, the pilot projects that were implemented and evaluated must be expanded to the rest of the central government, phases just partially initiated must be consolidated, and new lines of action that contribute to the proposed project's objective and the sector program must be initiated. For this purpose, the following will be supported: reengineering of processes for the provision of high-social-impact public goods and services; improvement of central government budget administration, through execution of expenditures by center of activity and results-based management control; and the optimization of State assets and human resources. It is anticipated that the overall effect will be the conversion of the traditional bureaucratic administrative model to a results-based management model aimed at meeting the citizens' expectations more efficiently.

B. The project

1. Objectives

- 2.3 The overall objective of the project for "improvement of central government public services" to be executed by the OPP is the reduction of costs to the private sector and enhanced well-being of citizens who are users of public services (financial costs and time savings).
- 2.4 The specific objective of the project is to improve the quality and efficiency of the internal management ("back office") of the central government and its human resources, as well as management as it impacts on the user ("front office").

2. Description of components

- 2.5 The project will be developed through a reimbursable technical-cooperation operation with three components: (a) management of public resources; (b) State and citizen; and (c) human resources management.
- 2.6 Management of public resources (US\$773,888). The technical-cooperation funds will be allocated to contracting for consulting services and acquiring equipment and software to develop the following products: (i) adaptation of the computer systems and methodological tools to execute expenditures by center of activity, thus making it possible to control and evaluate expenditures by results; and (ii) disposal or redeployment of property declared superfluous by the State.
- 2.7 The *first product* of this component is the consolidation of a permanent system of planning and evaluation of management by results with respect to government services, associated with the Integrated Financial Information System (SIIF), continuing and developing the actions taken in the previous sector program (995/OC-UR).
- 2.8 Implementation of the system for execution of expenditures by center of activity (CA) will make it possible to: (a) draw up the national budget in a way that is consistent with the new methodology of lifting the controls on and allocation of the

expenditure; (b) enhance the information available to the executing units¹ (UE) for evaluating management when accounts are rendered; (c) have access to the cost of the UE products or services; (d) compare expenditures in similar centers of activity in different ministries; (e) systematize the organizational units and the costs of the supplies used for their products and processes; and (f) guarantee more decentralization of responsibilities, thus helping to enhance transparency and the internal control of expenditures.

2.9 This will help improve control of the management and utilization of public funds (public spending), identifying those responsible for it and ensuring its consistency with the priorities established in the strategic plans. This will result in a more efficient, effective decision-making process when budget resources are allocated and when sector priorities are established.

2.10 The principal lines of action associated with this product are: (i) implementation of an information processing system linked to the SIIF that makes it possible to assign the execution of expenditures by each center of activity established in the 2000-2004 national budget in order to have access to the costs of the products and the goals of public administration. To accomplish this, the "center of activity" item must be included in the information on expenditure execution. (ii) Strengthening of a mechanism for evaluating management by results in connection with the services provided, with the participation of the executing units, the OPP, and the MEF as budget oversight agencies, which will make it possible to check accomplishment of activities and goals, when accounts are rendered, with a goal of 60% of the central government UEs executing expenditures by center of activity when accounts are rendered for the year 2002 (third phase of the sector program).

2.11 The following chart specifies the principal activities to be undertaken to guarantee achievement of the sector program matrix goals.

Tranche of the sector program	Principal activities
I	<ul style="list-style-type: none"> ▪ Design of the methodology for the system of allocating expenditures by center of activity and the respective oversight and control system, establishing new procedures (responsible parties, place, and time) or changing the current procedures, in the systems involving purchases, human resource management, and commitment to and obligation for the budgetary credits. ▪ Coordination with the Office of the Comptroller General (CGN) of the implementation of the changes necessary for execution of expenditures by center of activity as developed in connection with budget execution for the SIIF system for execution of expenditures. ▪ Agreement of the CGN and CEPRE on the content of the AMG. ▪ Design of the definitive information technology solutions required for execution of expenditures by center of activity as developed in connection with the SIIF, analyzing the requirements for information and reports, the costs, and the timeframes needed for the expansion. ▪ Call for bids and selection of specialized consulting firm to implement the information technology changes needed for budget execution by center of activity. ▪ TOR [Terms of Reference], selection, contracting with, and monitoring of an international consultant expert in ABC, ABB, and ABM as applied to the public sector.

¹ In Uruguay the central government budget consists of sectors (Ministries and other institutions, such as the National Institute for Minors), executing units, which are functional offices of each sector (e.g., National Highway Directorate of the Ministry of Transport and Public Works), and organizational units, which are divisions or departments of each UE.

Tranche of the sector program	Principal activities
II	<ul style="list-style-type: none"> Implementation of the information technology changes needed for the operation of the system of budget execution by center of activity. Call for bids and selection of consultants to support implementation of the changes in the executing units Acquisition of the equipment and software needed to implement the system of budget execution by center of activity. Drawing up of the instructions for the UEs with the methodology for posting expenditures by center of activity. Development of workshops for UE employees and training activities in the UEs. Implementation of the system of budget execution by center of activity in all the central government UEs, which account for 60% of total spending. Monitoring and perfection of the system of execution by center of activity. Development of a system of simulation of management indicators based on execution by center of activity. Critique and revision of the system of indicators. Development of methodology for revision of activities and goals (RAM) to adjust the management indicators established in the budget formulation.
III	<ul style="list-style-type: none"> Development of the auxiliary system for execution of expenditures by center of activity with the investment information and monitoring system (SISI) and the management evaluation system. Development of the methodology for evaluating the results of central government management, using <i>benchmarking</i> methodology. Reports on dissemination of the accounting results, tailored to different user profiles.

2.12 The *second product* of the component consists of streamlining the State property identified as nonessential under the previous sector program, selling it off or redeploying it, in accordance with policy priorities and legal authorizations established in this respect. The goal for savings and/or tax receipts is US\$10 million in property divested or redeployed, according to the valuation made in connection with the aforementioned inventory.

2.13 State and Citizen (US\$565,885). The project will provide technical assistance funds to help improve the efficiency and effectiveness of service provision to citizens through: (i) the reengineering of microprocesses, with 30% savings in processing time and a 15% cost reduction; (ii) expansion of the user's manual and its publication on the Internet; (iii) the implementation of self-service terminals and offices to provide information and assistance for various decentralized processes ("one-stop shopping") of the responsible organizations; and (iv) the design and implementation of a second-generation government portal that includes on-line processes. Also, consideration of the regulatory and institutional framework for development of the electronic government will begin.



2.14 The first product of the component consists of improving the internal management of central government entities by reengineering high-impact and broad social coverage microprocesses within the executing units. Improvement in the quality of the processes seeks to combine the central government's task of administratively regulating certain processes and the user's need to have responsive, low-cost transactional mechanisms for interacting with the government. For purposes of the project, two services have been selected that are considered key from the standpoint of number of users to be served and strategic importance: i) issuance of identity cards; ii) primary health care service (general hospitals and health centers in Montevideo).

Tranche of the sector program	Principal activities: reengineering of processes
I	<p>Submission of the quality improvement plan for both services, including:</p> <ul style="list-style-type: none"> • Executing unit(s) involved • Description of service(s) • Problem to be resolved • Objectives to be achieved • Products to be developed in connection with the objectives • Activities to be carried out in connection with the products • Resources needed to carry out the activities and develop the products • Work schedule • Anticipated impact and methodology for evaluating it in terms of cost savings and time savings • Organization of work with the executing unit(s), including a preliminary proposal for a management modernization agreement • Breakdown of the process to be carried out (only for the identity card, already well under way)
II	<p>Evaluation of the new process for issuing the identity card that has already been implemented, and a progress report on the out-patient health care process. Implementation of a decentralized office for the identity card.</p>
III	<p>Results in terms of time, costs, and user satisfaction with the two improved processes, in comparison with the baseline established in the first phase.</p>

- 2.15 A *second product* of the component is a system of guidelines and indicators that make it possible to anticipate and measure the impacts which improve the quality of the processes for internal and external clients. This system of indicators will take into consideration the service recipients (citizens, companies), their characteristics, the type of service (documents, social services, and so forth), and the methodology for measurement and follow-up.
- 2.16 The principal product development activities are:
- Analysis of the processes to be improved
 - Identification of the principal impacts on users
 - Design of a system for measurement of impact indicators
 - Measurement feasibility analysis
- 2.17 A *third product* of the component is improvement in the systems involving service to citizens, including responsive, practical mechanisms for inquiries, as well as initiation and monitoring of processes of interest to citizens. The objective of the improvements is to reduce the duration of the processes, frequency, waiting time, and the number of “windows” the service user must visit.
- 2.18 The User Manual, which currently contains information regarding 150 central government services and processes, will be updated and expanded. The User Manual is key to incorporating the government portal and the information offices. The User Manual must serve two sets of needs: (a) those of citizens in general; and (b) those of companies that need specific information regarding specific key services and processes.
- 2.19 The principal product development activities envisaged are:

- a. Identification of new processes to be included
 - b. Meetings with executing units to raise awareness
 - c. Design and implementation on the Internet of automatic update mechanisms
 - d. Inclusion of new information and operating capacity in the User Manual
- 2.20 A second modality to be developed for the project, in addition to the User Service Manuals, is the installation of information centers for citizens with respect to the various services provided by the government and the processes associated with them. There are different models for facilitating citizens' access to information on services and processes. The Internet and self-service modalities must be supplemented by staffed information centers, because of problems in connection with inequitable access to the new technologies and because certain types of citizens require personal attention. There will be two kinds of information centers: self-help terminals and information offices that may be located in the various executing units or in high-traffic public places, which would require private sector cooperation and participation.
- 2.21 The principal activities by phase of the sector program are:

Tranche of the sector program	Principal activities
I	Identification of key places for installation of self-help terminals Installation of three terminals Implementation plan for User Service Manuals and on-line processes
II	Identification of key places for installation of information centers Acquisition of equipment for installation of information centers Installation of two additional terminals Inclusion of 45% of identified processes in the User Service Manuals
III	Inclusion of 70% of identified processes in the User Service Manuals Installation of six information centers

- 2.22 The *fourth product* deals with the development of a government portal in connection with the following products: (i) e User Manual, inasmuch as it permits direct access to information regarding the service and the process, without the need to go through institutional classification; (ii) one stop business shopping," since it can entail accomplishing certain processes over the Internet; (iii) improvement of the quality of foreign trade processes, establishment of companies, and investment, inasmuch as that improvement would involve placing some of the steps in these macroprocesses on line. The project will also support the financing of regulatory and institutional studies and proposals for the operation of the electronic government.

- 2.23 Fulfillment of the sector program's goals involves the following activities: (a) phase I: submission of a portal plan; (b) phase II: first-generation portal (access to information) up and running and design of the second-generation portal (processes on line); and (c) phase III: selected processes on line and mechanisms for interaction with citizens (surveys, forums) designed.
- 2.24 Human resources management (US\$558,585). The technical assistance funds will be allocated for the implementation of the systems for supervision of conditions of employment and a personnel compensation system, as well as for the design and submission of a proposal for a new regulatory framework for State human resources, including a plan for reorganization of the National Civil Service Office (ONSC) and actions to professionalize human resource management.
- 2.25 A *first product* involves the implementation of information systems involving human resources management in the central government based on the methodology designed and piloted under the previous program (995/OC-UR).
- 2.26 The coverage goals are: (a) system of objective conditions of employment in 80% of the executing units of the civilian central government, excluding the Ministries of Public Health and Interior, with electronic systems for tracking hours of work and publication on the Internet of consolidated reports on compliance with hours of work and oversight by the Office of the Federal Internal Auditor; (b) personnel compensation system in 90% of the aforementioned UEs, with control and centralized administration of actual government salaries.
- 2.27 Both systems will have the ability to interact with the SIIF, providing the information required by its various modules (principally budget, control of execution of expenditures, and evaluation of public administration). The aforementioned modules will be developed so as to be connected to the Census and Positions system of the Office of the Comptroller General. This is expected to provide timely, relevant information regarding the organizational structure, hours of work, and compensation associated with occupied positions and employees who work for the central government, at the level of the Ministry and its subordinate offices, down to the organization unit level (division or department).
- 2.28 The reports issued by the supervision systems on conditions of employment and remuneration and compliance with them will be published on the Internet. The establishment of an initial platform of this kind will make it possible to comprehensively improve human resources management and professionalize the respective offices. That shared platform will include a network of contacts, that can be enhanced using currently-available technology, to make interaction possible. Additional elements will include general electronic control of conditions of employment, the installation of digital clocks to record the hours of work, and the widespread tracking of personnel attendance through the use of virtual cards.

- 2.29 As a result of the development and implementation of this component's products, managers will have information for better administration of:
- a. the number of hours contracted for and worked, classified by different relevant variables (type of position, organizational unit, level, and so forth);
 - b. the actual structure of the positions in the organizational units of each Ministry subordinate office, making it possible to analyze the congruence of the organizational units and the positions assigned within the structure;
 - c. total compensation for each position and each function for all items, allowing for an explicit, measurable policy on earnings;
 - d. identification of situations requiring the adjustment of human resources policies to reality.
- 2.30 A *second product* of the component is the drawing up and approval of a regulatory framework for human resources management in the public sector, including alternatives to prohibiting staff from entering management. The current human resources legislation narrowly limits modernization of human resources management to performance- and results-based management. This legislation makes it difficult to balance the needs and requirements of professionalism and the need to make the government processes more flexible, simpler, citizen/user-friendly, and the State commitment to users to ensure professionalism.
- 2.31 The new legislation will make it possible to introduce and update the principles that adapt human resources management in the central government to Uruguay's competitiveness and operation of the labor market, and bring the positions into line with user-oriented State requirements. The intent is to simultaneously change the legal and institutional framework of government employment and human resources management, incorporating the contextual rationale of the broad technical consensus required for approval of these types of legal precepts.
- 2.32 The *third product* of the component is the development of a proposal to reorganize the ONSC under the sector program, initiating its implementation, and of a three-year management training plan, with progress in 60% of the plan's goals upon project completion. Compliance with the sector program matrix involves achieving the following results.

Tranche of the sector program	Principal activities
I	SCOT and SIR implementation plans approved. Publication of the mandate to draw up legislation. Proposal for ONSC modernization study TORs approved by CEPRE. Three-year management training plan with results-based goals
II	Approval of regulatory order for the inputting of information into the SCOT by the UEs. Training of system users. SCOT system being up and running and connected to the SIIF in the subordinate offices. Reengineering of the SIR to access the employee census database and to provide data to the budget information and management evaluation system. Approval of a regulatory order for the inputting of information into the SR by the UEs. Submission of proposed regulations to CEPRE, including a report on the methodology for discussion of the strategy and implementation. ONSC diagnostics completed. ONSC human resources training plan (three years) with funding. Startup of courses.
III	Awareness-raising workshops for managers, employees, and auditors. Reports on compliance with conditions of employment for all subordinate offices with the SCOT implemented, published on the Internet. SR reports regarding compensation for all the central government UEs and for all items, available to the public on the Internet. Conferences, seminars, and discussions on the bill. Text of the bill approved by the Executive Branch. ONSC processes streamlined. Training courses delivered and evaluated.

- 2.33 Institutional framework (US\$135,000). Project coordination will have resources to support the development of reports on the design, arrangement, and monitoring of the management improvement agreements; the design and implementation of a strategy for communication to citizens of program content and results; and finally, the institutionalization of the reform processes. The results of these activities will be included in the quarterly progress reports to the Bank.

C. Cost and funding

- 2.34 The project budget comes to US\$3,033,000. The Bank's contribution to funding this operating plan, up to the equivalent of US\$2,100,000, will be reimbursable, charged against ordinary capital, as specified below.

Category of expenditure (in US\$)	IDB Contrib.	Local Contrib.	TOTAL
1. Institutional monitoring	90,000	45,000	135,000
2. Management of public resources	646,903	140,985	787,888
3. State and citizen	565,885		565,885
4. Human resources management	417,600	140,985	558,585
5. Coordination	302,400	323,030	625,430
6. Contingencies	56,212	21,000	77,212
7. Financial costs			
– Credit fee		23,000	23,000
– Interest		239,000	239,000
– Interest - inspection and supervision	21,000		21,000
Total	2,100,000 69.2%	933,000 30.8%	3,033,000 100.0%

- 2.35 The budget is broken down as follows: 67.5% for direct costs, 20.6% for coordination expenses, and 11.9% for financing costs and unforeseen expenses. Also, it is estimated that almost 80% of the funds will be allocated to consulting services or expenses for Uruguayan counterpart personnel financed with local funds; 18% for equipment, basically computer equipment, and 2% for organizing training and information dissemination activities.

D. Organization and execution

- 2.36 The OPP has technical and administrative responsibility for execution of the technical-cooperation project components. Control and coordination of actions will be performed through the Executive Secretary of the CEPRE, with the support of a technical advisory unit at the OPP, known as the general coordination unit (UCG), which is financed with budgetary funds. The OPP will select and hire a Uruguayan team under the “highly-specialized positions” modality.
- 2.37 Specifically, the aforementioned AT will be responsible for: (a) developing the operational execution plans and the semiannual progress reports; (b) complying with the procedures for acquisition of goods and consulting services established by the Bank with funds from the loan, and authorizing payments as appropriate; (c) processing requests to the Bank for disbursement of loan funds, obtaining matching funds, and carrying out financial administration of the project; (d) keeping the accounting records and supporting documentation and drawing up the project financial statements; (e) coordinating execution of project activities; and (f) ensuring that the project is executed within the guidelines and contractual conditions agreed to by the Bank and the Government of Uruguay.
- 2.38 To facilitate execution of the operation and efficient performance of the coordinating unit functions, the UNDP will serve as specialized agency, providing contracting support for consulting services and property acquisition. Specialized agency costs will be paid with local technical cooperation matching funds.

E. Viability and risks

- 2.39 *Institutional viability.* The Office of Planning and Budget has the human, technical, administrative, material, and financial resources necessary for satisfactory project execution. The OPP has extensive experience in executing these types of projects, and an organizational and functional structure appropriate to the project’s requirements. Specifically, the technical state reform group has worked in the OPP area throughout the reform preparation process, which began in 1995.
- 2.40 *Execution plan.* A decentralized execution plan has been developed, based on active participation by the authorities and employees of the government agencies involved in the project.
- 2.41 *Communication.* To ensure adequate understanding and the support of public opinion and government employees, project content, progress, and results will be

broadly disseminated and effectively communicated to the citizens, as set forth in the program budget.

Risks

- 2.42 There is widespread commitment on the part of the Uruguayan authorities and mid- and upper-level managers to the objectives and strategy of the public administration modernization program. To encourage this, a decentralized execution mechanism will be implemented through the AMGs, which will provide a high level of commitment by CEPRE and the participating UEs to the sector program's goals, as well as sufficient decentralization in the decision-making process, guaranteeing the involvement of the participating entities, institutionalization of the reforms, and sustainability of the changes. Management improvement agreements will be set up with the participating entities within the timeframes and under the terms envisaged.
- 2.43 *Public funds.* (i) The UEs recognize the importance of executing the expenditures by center of activity and will apply the tool to the resource allocation and decision-making process; and (ii) the executing units in all the ministries support the transfer of the surplus property within project timeframes.
- 2.44 *State and Citizen.* Society responds and helps make the new project mechanisms to improve service to citizens (portal, self-help terminals, user manuals) viable.
- 2.45 *Human resources management.* (i) The UEs effectively implement the conditions of employment; (ii) the ONSC participates and is actively involved in its own reorganization process; (iii) the political and social consensus necessary to formulate the content of the regulatory systems for modernization of human resource management is achieved.

III. PROJECT B: STRENGTHENING OF TAX ADMINISTRATION

A. Background

- 3.1 The Government of Uruguay, with the Bank's financial support, has made considerable progress over the last decade in strengthening the General Tax Directorate (DGI) and the General Customs Bureau (DNA). The DGI has been the beneficiary and executing agency of four technical-cooperation projects, three non-reimbursable (ATN/SF-2827-UR, ATN/SF-3449-UR, and ATN/JF-4561-UR) and one reimbursable (996/OC-UR, Subprogram B) to reduce tax evasion. The DNA has been the beneficiary and partial or total executing agency of three other technical-cooperation projects, all reimbursable (691/OC-UR, 815/OC-UR, and 996/OC-UR, Subprogram B) in connection with taking full control of foreign trade operations, which it had previously shared with other institutions.

- 3.2 Most progress was made in the areas of processes and procedures, oversight, human resources training and administration, and information systems. The Bank's involvement supported the introduction of various management improvements, such as different treatment of taxpayers based on their ability to pay, prioritizing cost-benefit criteria in tax administration, which resulted in the expansion and improvement of the Taxpayer Identification Number (RUC). There were also significant improvements in various processes and procedures, mainly in connection with customs, which facilitated foreign trade. The institutionalization and strengthening of various oversight and auditing programs also constituted major improvements in management of the DGI and the DNA. The training of the technical personnel and improvements in human resources administration in both collection agencies also reflect significant progress. Still another significant achievement, one which is very important to updating management practices, is the implementation of modern information systems.
- 3.3 Consolidating these achievements will require extending efforts to new areas and improving on the achievements in some of the areas already mentioned. Specifically, actions will be needed to improve human resources management, management planning and control, and modernization of operating management (strengthening of large-scale monitoring of taxpayers and systems of oversight management and collection enforcement), and to continue to strengthen information technology, principally with respect to implementing mechanisms for security and data protection, which are needed urgently for integration of the collection agencies' systems.
- 3.4 One issue that is still pending is the establishment of efficient coordination of the various agencies responsible for collecting government revenues in Uruguay, involving not just the DGI and DNA, but also the tax area of the Banco de Previsión Social (BPS) [Social Insurance System Bank]. This major interinstitutional coordination effort will be supported by a computer network linking these entities and the establishment or improvement of procedures for the exchange, cross-checking, and validation of intra- and interinstitutional information.
- 3.5 Optimization of the DGI and DNA organizational structures and functions and human resources management deserve special mention. Partly as a result of the preparatory work for this operation, the government assumed that the principal qualitative leap DGI management would have to make would be the reform of the employment system for its technical personnel and the concomitant establishment of a special system. Accomplishment of these changes has, in the past, been limited by several factors, such as the rigidity of the hiring and firing mechanisms for government employees in Uruguay, and budget restrictions. This technical-cooperation loan seeks to support the DGI in implementing this reform, subject to approval of the required legal framework. The technical cooperation will also seek to establish the groundwork for the gradual implementation of personnel

organization and management systems resulting from the development of government policy and relevant sector program activities.

- 3.6 The proposed technical cooperation will support execution of the policy actions established as conditions of program UR-0130. These are aimed at reducing tax delinquency, increasing collections, increasing facilitation and oversight of foreign trade, and improving taxpayer assistance, in coordination with the OPP. Technical resources and computer equipment will be provided to make it possible to plan actions to achieve these goals and monitor their execution. To this end, 25 indicators of improved management have been identified, 14 of which fall under the purview of the DGI and 11 of which fall under the purview of the DNA. These indicators also sum up the results expected for improved management of government revenues under the sector program and progress in connection with the regulatory framework (law to reform the system for human resource management for the DGI and the decree of DNA organic rules).

B. The project

1. Specific objective

- 3.7 The general objective of the technical cooperation is to help the Ministry of Economy and Finance strengthen the operating and planning capacity of the DGI and the DNA. The technical cooperation will have two components: (1) Strengthening of the National Customs Directorate and (2) Strengthening of the General Tax Directorate.

2. Description of components

a. Component I: Strengthening of the National Customs Directorate

- 3.8 The objectives of the component are: (1) to help improve collection management, in terms of greater productivity of oversight actions and decreased smuggling; and (2) to increase facilitation of foreign trade, in terms of better services provided to exporters and importers by the DNA as well as certain adjustments to the foreign trade regulations. This will involve actions to: evaluate and standardize current customs regulations, revise management procedures, establish and implement improvements in information technology services to support customs management, assist the DNA with new oversight technologies, strengthen the organization's internal management system, and improve the organization's relationship with users and the general public.
- 3.9 The subcomponents, principal activities, and expected results are:²

² The estimated times for achievement of the expected results are counted from the start of execution of the respective component.

(i) Customs procedures and oversight

- 3.10 *Specific objective:* Improve the oversight functions of customs operations.
- 3.11 Principal activities:
- a. Installation and strengthening of the Customs Procedures Audit and Control Unit.
 - b. Creation and establishment of mechanisms for ongoing review, updating, and monitoring of customs procedures.
- 3.12 *Expected result 1:* Identification (month 6) and implementation (month 12) of the changes needed to improve current import, export, and transport procedures.
- 3.13 *Expected result 2:* Annual updating of the customs procedures manual. The first update will occur in month 12.
- 3.14 *Expected result 3:* Implementation of a system to follow up compliance with the procedures (month 18).
- 3.15 *Expected result 4:* Formal inclusion of the Customs Procedures Audit and Control Unit in the DNA's organization chart, and its effective operation (month 24).
- a. Decentralization of oversight functions for the customs collection points outside metropolitan Montevideo, with establishment of a center outside Montevideo specializing in this function.
- 3.16 *Expected result 5:* Installation of a center for the control and oversight of customs operations. (month 12).
- 3.17 *Expected result 6:* Establishment and implementation of a system to control the operation of collection points outside metropolitan Montevideo (month 15).
- 3.18 *Expected result 7:* Implementation of an information system to monitor DNA operations (months 18-24).
- a. Technological updating of customs oversight: review of the current status of technological support available for customs oversight and implementation of technological improvements.
- 3.19 *Expected result 8:* Implementation of technological improvements, principally with respect to oversight tools (month 12).
- 3.20 *Expected result 9:* Training of DNA personnel in the use of the new technological developments (ongoing).

(ii) Information systems

- 3.21 *Specific objective:* Complete the strengthening of the DNA information center.
- 3.22 Principal activities:
- a. Evaluate the current status of the computer center and its relationship to the information technology services contracted for.
 - b. On the basis of this evaluation, establish and implement a strategic information technology development plan the objective of which is to utilize all available DNA resources and increase or reduce, as appropriate, the number and type of processes outsourced.
- 3.23 *Expected result 1:* Development and implementation of the strategic plan for the information technology area (month 6).
- 3.24 *Expected result 2:* Appropriate adjustments to the structure and function of the DNA's information technology area (month 12) as a result of the implementation of the strategic plan.
- a. Design and application of security mechanisms to protect the databases and operating programs.
- 3.25 *Expected result 3:* Security system up and running (month 12).
- a. Integration of the various DNA information systems .
 - b. Updating of the computer systems with respect to new procedures and control routines.
- 3.26 *Expected result 4:* The information systems (management control, human resources, accounting) are integrated and facilitate implementation of the new customs oversight mechanisms (months 18 to 24).

(iii) Special projects

- 3.27 *Specific objective:* Help establish the technical capacities necessary for the design, analysis, and consideration of projects intended to facilitate the international movement of goods and services in Uruguay.
- 3.28 Principal activities:
- a. Establishment of agencies for coordination with other pertinent public entities, in coordination with the OPP.

- b. Development of dissemination and technical assistance activities with private operators associated with foreign trade and international transport.
- c. Encouragement of participation by young business people through advisory assistance programs.

3.29 *Expected result:* Implementation of at least three projects in month 12. One project concluded in month 24 and two projects concluded in month 30.

(iv) Human resources management

3.30 *Specific objective:* Strengthen the performance of customs employees through training programs.

3.31 Principal activities:

- a. Design and implement a training plan for execution by the Customs Training Institute to support technical-cooperation objectives and activities. The activities directed towards offices outside metropolitan Montevideo will receive special attention.

3.32 *Expected result 1:* Training plan implemented (month 12).

- a. Implement an internal DNA communication strategy.

3.33 *Expected result 2:* Internal communication strategy implemented (month 10).

- a. Evaluate the DNA's human resources policy, developing a strategy to improve the different levels of internal control and increase the organization's overall productivity. The DNA will be provided with the advisory assistance required for the adoption of final organic rules and the completion of the functional restructuring which is under way.

3.34 *Expected result 3:* New proposal for organic rules submitted for the consideration of the Executive Branch (month 12).

3.35 *Expected result 4:* A new human resources and internal control policy approved and implemented (month 30).

(v) Dissemination of information and transparency

3.36 *Specific objective:* Improve the tools for publicizing National Customs Directorate activities to maximize the transparency of its operations.

3.37 Principal activities:

- a. Develop a user assistance program including: pamphlets, signs, periodic bulletins, a website, toll-free telephonic information service.

3.38 *Expected result 1:* Several information products regarding customs operations available to users (month 18).

a. Implement a strategy for communication with entities outside the DNA.

3.39 *Expected result 2:* Public information center up and running (months 18 to 24), in coordination with the OPP.

b. Component II: Strengthening of the General Tax Directorate

3.40 The objectives of the component are: (1) to help improve collection management by the DGI; and (2) to optimize taxpayer service in terms of better access to information, simplified procedures, and improvement of taxpayer assistance services. There will be seven subcomponents: human resources; management planning and oversight; oversight of tax obligations; dissemination of information and taxpayer assistance; training; optimization of information systems; and improvement of facilities.

3.41 The subcomponents, principal activities, and expected results are:³

(i) Implementation of a new human resources management system

3.42 *Specific objective:* Support implementation of a new legal framework for the institution that makes professional human resources and more flexible budget management possible.

3.43 Principal activities:

a. Establish a new legal framework of personnel rights and obligations including, but not limited to: (i) the creation of a career in tax administration through fixed-term contracts for full-time employment in [different] tax specializations; (ii) descriptions of the jobs and associated compensation; (iii) the conditions and methods of filling vacancies (e.g., open competition); (iv) the criteria for evaluating performance and renewing contracts; (v) a code of ethics for the personnel, with emphasis on conflicts of interest in connection with private activities of DGI employees in the tax area.

b. Train the employees for their new role.

c. Establish effective oversight of compliance with the new conditions of employment.

³ The estimated times for achievement of the expected results are counted from the start of execution of the respective component.

- d. Establish a new legal framework for budget and financial management in connection with physical resources.

3.44 *Expected result 1:* Submission of the bill for implementation of a new personnel and resources management system (month 6).

- a. Carry out an internal communications campaign regarding the overall change in the organization, if the law is approved.

3.45 *Expected result 2:* Implementation of an internal communication strategy and policy (month 12).

(ii) Planning and oversight of operations

3.46 *Specific objective:* Formalize and systematize strategic planning and the concomitant operating plans, including the use of performance indicators and effective management oversight to evaluate and provide feedback on the planning.

3.47 *Principal activities:*

- a. Establish the corporate strategy and operating plans for each area.
- b. Use computerized solutions to systematize the performance indicators.
- c. Formalize management oversight, which is understood to mean the evaluation of compliance with the plans and feedback on planning.

3.48 *Expected result 1:* Implementation of a methodology for the development of strategic and operating plans, the monitoring thereof, and periodic review and adjustment (month 24).

- a. Define functions and establish internal controls to monitor compliance with the procedures established.

3.49 *Expected result 2:* Establishment and operation of an internal control unit (month 30).

- a. Train and support the personnel involved in planning, management control and internal oversight.

(iii) Monitoring of tax obligations

3.50 *Specific objectives:* (1) strengthen monitoring of taxpayers to increase the DGI's oversight presence, increase voluntary compliance, and increase the total amount of taxes collected; and (2) strengthen the management of oversight, collection, and collection enforcement by means of integration and interaction of oversight and evaluation systems.

3.51 Principal activities:

- a. Design and implement a complete data capture model making it possible to deal with taxpayers on a large scale and facilitating the cross-checking of information to determine which areas should be studied in depth.
- b. Establish the technical and information system specifications to complete the (tax) oversight management system and implementation thereof.
- c. Establish and implement an integrated debtor information system, inputting all the necessary information and integrating it with the rest of the management systems for taxpayer oversight areas.
- d. Train the personnel involved, with emphasis on developing a group of information systems auditors.

3.52 *Expected result 1:* Annual increases not less than 10% with respect to complete audits carried out in a base period.

3.53 *Expected result 2:* Annual increases not less than 10% with respect to cross-checks carried out in a base period.

(iv) Dissemination of information and taxpayer assistance

3.54 *Specific objective:* Help taxpayers comply with their tax obligations through efficient, effective information and assistance services. This information will be available on the government portal to be implemented under Project A.

3.55 Principal activities:

- a. Implementation of telematic submission of income tax returns for C.E.D.E. [Special Control of Companies] taxpayers.
- b. Post on the Internet a database with answers to the most frequently asked questions about the tax system.
- c. Strengthen telephonic taxpayer assistance systems to make them more accessible.
- d. Strengthen the taxpayer assistance units.

3.56 *Expected result 1:* Availability of new public information and assistance services (going into operation gradually starting with month 12).

(v) Training

- 3.57 *Specific objective:* Improvement of the technical capabilities of DGI personnel and the management capabilities of its executives and middle managers to facilitate management of organizational change; improvements in collection management; and modernization and expansion of taxpayer assistance services.
- 3.58 Principal Activity:
- 3.59 Develop ongoing personnel training programs to improve their technical capabilities and provide the executives and middle managers with the skills they need to manage organizational change.
- 3.60 *Expected result:* Observable improvement (e.g., through opinion polls) in DGI personnel's technical and managerial capacity (starting month 30).

(vi) Optimization of information systems

- 3.61 *Specific objective:* Provide the DGI with the information technology tools and automated systems necessary to support, with adequate security, improvement of collection management and taxpayer assistance.
- 3.62 Principal activities:
- a. Modernize and expand the institution's computer equipment.
 - b. Improve security and new developments.
 - c. Migrate to an open computer system.
- 3.63 *Expected result 1:* Availability of new information systems and modules to strengthen management of the various DGI areas (starting month 12).
- 3.64 *Expected result 2:* Reduction of the ratio (total number of employees / number of work stations).

(vii) Improvement of facilities

- 3.65 *Specific objective:* Adapt the DGI's facilities, especially the oversight facilities, to provide the employees with an environment conducive to satisfactory performance of their duties and better assistance to the public.
- 3.66 Principal activities:
- a. Improve the headquarters facilities, especially the oversight area.
 - b. Fit out the auditing offices and taxpayer assistance areas, i.e., maintenance and acquisition of equipment.

C. Link between technical cooperation for the strengthening of tax administration and the sector program for modernization of public administration (UR-0130)

- 3.67 The achievement of the expected results is contingent on and congruent with the taking of specific policy actions to establish the groundwork for optimization of DNA and DGI organization structures and functions. The program UR-0130 policy actions matrix establishes as a condition for the **first tranche**, submission to the legislature of a bill to implement a new human resources management system for the DGI. This would establish, among other things, the modality of hiring qualified professionals for fixed, renewable time periods based on their performance, with conflict of interest restrictions on private sector functions, and compensation competitive with the private sector, and the approval of guidelines to strengthen the DNA's role in suppressing smuggling. The Executive Branch would submit the respective bills to the legislature through fast-track legislation in mid-July.
- 3.68 For the **second tranche** of the sector program, approval of organic rules for the DNA would be required. These would unify, in a single set of rules, the existing provisions regarding the organization and functions of the DNA, which are currently fragmented in two decrees (758/75 and 459/97).
- 3.69 Also, the benefit of the actions promoted by sector program UR-0130 and implemented through technical cooperation will be highly visible as specific follow-up and management control indicators are identified that make it possible to monitor the progress and impact of these actions. The following indicators have been identified:

<i>COMPONENT: NATIONAL CUSTOMS DIRECTORATE</i>	
Indicator/Goal	
1	No. of customs transactions computerized / Total no. of customs transactions
2	Annual no. of confiscations, excluding valuation / No. of control operations
3	Annual amount of repayment of balances / annual amount of collection
4	No. of DUAs [Unique Customs Documents] resolved per year / No. of DUAs initiated in the same year
5	Implementation of the changes needed to improve current import, export, and transport procedures
6	Implementation of a system to monitor compliance with customs procedures
7	Establishment of a customs procedures audit and control unit
8	Implementation of a system for control of the operation of collection points outside metropolitan Montevideo
9	New information products regarding customs operations available to users
10	Public information center established and in operation
11	Streamlining of the number of bonded warehouses
<i>COMPONENT: GENERAL TAX DIRECTORATE</i>	
Indicator/Goal	
12	Reduction of the ratio (No. of delinquent CEDE taxpayers / Total no. of CEDE taxpayers)
13	Annual increases not less than 10% with respect to complete audits carried out in a base period
14	Annual increases not less than 10% with respect to cross-checks carried out in a base period
15	[(Total no. of audits of accounts with repayments > 25,000 pesos) / (Total no. of audits of accounts, excluding operations – actions to certify credits)] > 50%
16	Availability of new public information and assistance services (e.g., telematic submission of income tax returns for C.E.D.E. taxpayers, Internet access to databases with answers to frequently asked questions, more access to telephonic information systems)
17	Availability of new information systems and automated modules to support DGI operations
18	Number of DGI employees / Number of work stations < 2.5
19	75% of technical employees (excluding administrative support personnel) participating in at least 10 hours of training per year
20	Standardization and simplification of tax returns
21	Refining the RUC information
22	Requests sent to 100% of delinquent CEDE taxpayers
23	Establishment of the DGI's new corporate strategy
24	Development of a complete annual management by objectives planning and control system with quantitative and qualitative indicators
25	Establishment of an internal oversight unit

- 3.70 The sector program UR-0130 policy actions matrix establishes the following conditions: for the **first tranche**, presentation of the action plans for the DGI and DNA, which must specify the base value of the aforementioned indicators, the quantitative and qualitative goals, as appropriate, for each indicator, to be achieved and verified in the second phase, and a referential indication of the goals for each indicator that would be achieved in the third phase.
- 3.71 For the **second tranche**, it will be necessary to present proof of substantial fulfillment of the action plans with respect to the goals established for this phase. Substantial fulfillment will refer to achievement of at least 70% of the goals established in the first phase, as well as specification of the qualitative or quantitative goals, as appropriate, for each relevant indicator, to be achieved and verified in the third phase.
- 3.72 For the **third tranche**, evidence of substantial fulfillment of the action plans with respect to this phase. Substantial fulfillment will refer to achievement of at least

70% of the goals established for the indicators in the second phase will be presented.

- 3.73 At this time, both the DNA and the DGI are establishing the baseline indicators described and the qualitative and quantitative goals for the second phase.

D. Cost and funding

- 3.74 The project's duration would be 36 months with a total cost of US\$2,914,000, of which US\$1,500,000 would come from the loan and US\$1,414,000 from local contributions, as specified in the following chart (in US\$):

BUDGET BY CATEGORY OF EXPENDITURE			
Component and subcomponents	IDB contribution	Local contribution	Total
1 – National Customs Directorate	483,000	378,000	861,000
1.1 - Customs procedures and control	185,600	147,100	332,700
1.2 - Information systems	126,500	80,700	207,200
1.3 - Special projects	8,000	5,500	13,500
1.4 - Human resources management	112,300	110,900	223,200
1.5 - Dissemination and transparency	50,600	33,800	84,400
2 – General Tax Directorate	1,002,000	731,000	1,733,000
2.1 - New human resources management system	0	137,000	137,000
2.2 - Management planning and control	34,500	0	34,500
2.3 - Monitoring of tax obligations	24,000	0	24,000
2.4 - Dissemination of information and taxpayer assistance	8,000	0	8,000
2.5 - Training	145,500	30,000	175,500
2.6 - Optimization of information systems	746,000	312,000	1,058,000
2.7 - Improvement of facilities	0	236,000	236,000
2.8 - International oversight	44,000	18,000	60,000
3 – Administration	0	128,000	128,000
4 – Financial costs			128,000
Interest and credit fee		113,000	
Inspection and supervision	15,000		
5 – Contingencies	0	64,000	64,000
TOTAL	1,500,000	1,414,000	2,914,000
	51%	49%	100%

E. Organization and execution

- 3.75 The Ministry of Economic Affairs and Finance (MEF), through the General Tax Directorate (DGI) and the General Customs Bureau (DNA), has technical and administrative responsibility for execution of the components of the proposed technical cooperation (Project B).

- 3.76 Oversight of execution of the operation will be the responsibility of a High Level Coordination Unit (UCAN), comprised of the Assistant Minister of Economy, who will be the Chair, the General Director of Revenue, and the National Director of Customs. This coordinating unit will be assisted by a small program execution unit (UEP) consisting of two technical coordinators (one for the DGI and one for the DNA), who will serve as liaison with the Bank and will rotate as project coordinator, and an executive secretary. The UEP, which will be set up under the Ministry of Economy and Finance, will support program administration and coordinate execution of the activities to be carried out for the DGI and the DNA. Both the DGI and the DNA will appoint the respective technical coordinators, who will support the UCAN in supervising and evaluating project execution.
- 3.77 Specifically, the UEP will be responsible for: (a) developing the operational execution plans and semiannual project execution progress reports; (b) following the procedures established by the Bank for acquisition of goods and consulting services with loan funds, and authorizing payments as appropriate; (c) processing requests to the Bank for disbursements of loan funds and obtaining matching funds, performing the financial administration of the project; (d) maintaining the accounting records and supporting documentation and drawing up the financial statements for the project; (e) coordinating the execution of project activities; and (f) ensuring that the project is executed in accordance with the contractual rules and conditions which the Bank and the Government of Uruguay have agreed upon.
- 3.78 The UNDP, as a specialized agency, will facilitate execution of the operation and effective performance of the UEP's functions. The UNDP will support the UEP in contracting for consulting services and acquiring property. The costs for the Specialized Agency will be paid with local technical cooperation matching funds.

F. Viability, benefits, and risks

1. Institutional viability

- 3.79 The technical-cooperation design has been drawn up strictly in accordance with the mission and functions of the Ministry of Economy. Specifically, all the activities to be carried out are in keeping with the tasks that must be performed by the General Tax Directorate and the National Customs Directorate. The content and scope of the technical-cooperation activities have been developed with the active participation and consultation of the employees who will be involved in executing the components in their respective Directorates, with the assurance that they have the ability to direct and monitor execution of the operation. Thus, the proposed operation has the commitment needed to guarantee that it will be well accepted and well executed.
- 3.80 Also, the DGI and DNA have been the recipients of other Bank technical assistance projects. So both have employees who are familiar with the execution and

administration of these types of operations. This will facilitate execution of the proposed operation.

2. Benefits

- 3.81 The technical cooperation will support Uruguay's economic stabilization process, improving tax administration, which will help decrease fiscal imbalances. Also, the operation will help increase the base of active taxpayers and reduce delinquency vis-a-vis taxes and foreign trade duties, improving the effectiveness and equity of the government's fiscal policy and enhancing the amount of taxes collected, mainly through better oversight of and compliance by taxpayers who are better able to pay, without the need to increase taxes and customs duties. The operation will also help improve the public image of tax and customs administration through the promotion of a series of taxpayer assistance activities, dissemination of information, and improved import and export procedures, resulting in higher levels of voluntary tax compliance.
- 3.82 Finally, the technical cooperation will make tax administration more transparent by adopting management control mechanisms. These program activities will result in more credibility for public administration and more funds collected.

3. Risks

- 3.83 Success will depend on the introduction of significant improvements to the organizational and functional structure of the DGI and the DNA, which ultimately depend on the political will of the Government of Uruguay to support these changes and their consequences. In this respect, the Ministry of Economy has rated the program "high priority" and demonstrated its full support for program preparation. The design of the program, for which disbursements are contingent on the achievement of tangible progress in its different areas, also helps mitigate the potential risk of lack of policy support.
- 3.84 Another potential risk is resistance to change on the part of some DGI and DNA employees. To minimize this risk, the program includes organizational development and training components and activities which, among other things, seek to explain and support the need for and nature of the organizational and functional adjustments to be made, and involve the different levels of personnel of the two Directorates that are in the process of institutional strengthening.

IV. USE OF THE FUNDS, DISBURSEMENTS, AND OPP AND MEF REPORTS ON TECHNICAL-COOPERATION PROJECTS

A. Use of loan funds

- 4.1 The technical assistance funds will be used to finance the components needed to develop the products envisaged in the project, specifically the acquisition of equipment (hardware and software), contracting for highly-specialized and qualified consulting services, and training expenditures. The local contribution will be used to fund the semi-technical and administrative personnel, and expenditures for materials, supplies, publications, furnishings, and information dissemination activities.
- 4.2 Based on an ex post review, the Bank will verify compliance with the guidelines and procedures for acquisition and contracting for the goods and services needed for implementation, in amounts of less than US\$100,000 for goods and consulting firms and US\$50,000 for individual consulting services.

B. Procurement of goods and hiring of consultants

- 4.3 Procurement of goods will be carried out in accordance with standard Bank procedures. Procurement of goods for amounts equal to or greater than the equivalent of US\$350,000 will be by international public bidding. This operation does not include construction work.
- 4.4 Contracting for consulting services will be carried out in accordance with standard Bank procedures, with the exception of the hiring of personnel for the following positions: (i) under Project A, 15 positions totaling US\$300,000; under Project B (DNA), six positions totaling US\$120,000.
- 4.5 This exception is justified because this program is attempting to afford continuity to a successful reform process led by a team of which the aforementioned personnel are a significant part. Their continued employment will ensure that this leadership and technical capacity are not affected by unnecessary personnel changes.
- 4.6 In the case of quality-based and cost-based selection for consulting firms, the relative weight of pricing as a criterion for evaluation may not exceed 30%, and the technical or quality component of a bid may be no less than 70%.
- 4.7 The terms of reference and consultants selected to carry out the activities called for under each AMG must be reported to the Executing Unit responsible for execution of the AMG in question before the consultants can be hired.

C. Disbursements

- 4.8 The OPP and the MEF will request disbursements from the IDB in accordance with Bank procedures, whether from the revolving fund, reimbursement, or third party payment orders. The OPP and the MEF will open their respective special bank accounts in the name of each project at the Banco de la República Oriental del Uruguay [Bank of the Oriental Republic of Uruguay] for deposit of the funds in foreign currency disbursed by the IDB. Local matching funds furnished by the federal government will be deposited in a second account in domestic currency.
- 4.9 Taking into account the nature of this operation, which includes two projects to be executed separately and independently, by two different executing agencies (Project A: improvement of central government public services, under the OPP; and Project B: strengthening of tax administration, under the MEF), in order to ensure satisfactory execution, two subloans will be opened, and separate revolving funds, accounting and financial records, bank accounts, and audits specific to each project will be set up. The total of the revolving funds constituted for this program will not exceed 5% of the technical-cooperation loan. Each revolving fund for each project will not exceed 5% of the amount allocated.
- 4.10 The OPP and the MEF may authorize payments to third parties (suppliers, consultants) for expenditures of TC funds by other UE beneficiaries, provided that evidence is first submitted that, where applicable, an AMG has been signed with the Uruguayan government agency whose expenditures have been submitted to the Bank for reimbursement. This will be a condition precedent to any disbursement of the financing, beginning with the first disbursement.

D. Guidelines for the use of the Bank's contribution

- 4.11 *Standard contractual conditions precedent to the first disbursement and the following: special conditions precedent to the first disbursement for Project A.* Evidence must be submitted to the Bank that: (a) the Interinstitutional Technical Coordination Committee is operational; (b) the preliminary detailed list of entities with which a management framework agreement (AMG) will be signed has been submitted, identifying the program component and the products associated with those agreements; (c) the project coordinator has been hired; and (d) an announcement has been published for recruitment of the highly specialized positions for project execution.
- 4.12 *Special conditions precedent to the first disbursement for Project B.* Evidence must be submitted that the MEF executing unit is operational, which means appointment of the technical coordinators by DNA and DGI, an administrative-financial coordinator, and an executive secretary.

E. Execution and disbursement periods

- 4.13 The periods for execution and disbursements for the technical-cooperation loan are 36 and 42 months, respectively, from the effective date of the contract signed by the Government of Uruguay and the Bank.

F. Monitoring and evaluation

- 4.14 The OPP and the MEF will submit the following reports for the Bank's approval:

- a. **Initial**, an overall report on the actions and results of each project throughout the execution period. Specifically, it will include brief, precise information on:
(i) the organization of the project and its indicators of impact and products;
(ii) description, schedule, and projected results of the principal activities of each component for the entire project execution period; (iii) principal institutional aspects and project execution mechanism; (iv) annual schedule of disbursements by category of expenditure; (v) operating plan with the schedule and detailed budget for activities for the first year of execution; and (vi) strategy for communicating the content and results of the sector program to the citizens.
- b. **Progress**. The borrower will submit to the Bank, through the executing entity, before May 31 and November 30 of each year, progress reports on project execution. The first will cover six months, while the second will cover a year and will be included in the annual operating plan (POA) referred to in the next section. Each progress report will indicate, at a minimum: (i) the products and goals achieved in each component during the reporting period, vis-a-vis what was planned; (ii) these products' contribution to the sector program's objective; (iii) problems encountered during the period and adopted or proposed solutions; (iv) the status of the assumptions of the project's logical framework, especially those that have changed unfavorably and that may affect achievement of the products or objectives; (v) the status of budget execution—including commitments not fulfilled—and the balances available for subsequent fiscal years, by component and product; and (vi) progress and results achieved with regard to compliance with: the macroeconomic goals of the sector program; management improvement agreements; actions for dissemination and communication of program content and results to the citizens; and institutionalization of the reform processes that are envisaged.
- c. **Annual operating plans**. Taking the initial project report and the annual progress report into account, the borrower will submit to the Bank, through the executing agency, and prior to November 30 of each year, the annual operating plan for the project, including: (i) the goals to be achieved during the year, in terms of products and objectives, compared to the forecasts in the initial report and the final project objectives; (ii) breakdown and schedule of anticipated activities, including those directed at compliance with contractual conditions for the year; and (iii) the budget and schedule of disbursements, compared to the

forecasts in the initial report and the budget executed to date, including commitments not fulfilled, and the balances available for subsequent fiscal years, by component and product.

- d. **Financial**, ninety (90) days after the end of each year during the project execution period, containing a detailed account of financial execution of the project.
- e. **Final report and evaluation**, ninety (90) days after the end of the project execution period, containing an analysis and evaluation of the results achieved for each AMG and for the overall project, from the perspective of the executing agency and the final beneficiaries.

LOGICAL FRAMEWORK OF THE TECHNICAL COOPERATION PROJECT

OFFICE OF PLANNING AND BUDGET

ITS	PRODUCTS	INDICATORS ¹	MEANS OF VERIFICATION	ASSUMPTION
	<p>Ongoing system of planning and evaluation of management by results implemented throughout the central government and functioning.</p> <p>Surplus property disposed of or transferred.</p>	<p>60% of the central government UEs executing the total expenditure by center of activity.</p> <p>US\$10 million in revenue or savings from the sale and redeployment of surplus property</p>	<p>Budget information that reflects installation and application of the system.</p> <p>Documentation governing the sale or transfer of property.</p>	<p>The UEs recognize the importance of executing expenditures by center of activity and apply the resource allocation and decision-making process.</p> <p>The Ues support the transfer of property in the timeframes specified in the project.</p>
en	<p>Reengineering of two microprocesses with social impact, finalized.</p> <p>Systems for service to citizens improved, including government portal, three self-help terminals, and expansion of user service manual.</p>	<p>Minimum saving of 30% in time and 15% in costs in restructured microprocesses.</p> <p>Positive community evaluation of new tools for State-citizen relationships.</p>	<p>Outside evaluation report.</p> <p>Outside evaluation reports including verification of portal operation.</p>	<p>Society responds and helps develop new project mechanisms and assistance to citizens (portal terminals, user manuals) via the project.</p>
ces	<p>System of objective conditions of employment implemented and integrated into the SIIF in 80% of the civilian central government UEs, excluding the Ministries of Interior and Public Health.</p> <p>Personnel compensation system operating and integrated into the SIIF in 90% of the civilian Central Government UEs, excluding the Ministries of Interior and Public Health.</p> <p>Bill drawn up by the Executive Branch with new legislative framework for public sector human resources.</p> <p>Proposal drawn up and with implementation initiated for reorganizing and modernizing the ONSC.</p> <p>Management training plan under way with courses delivered.</p>	<p>The AIN monitors the objective conditions of employment in the central government in accordance with the system implemented, with favorable outside evaluation and information disseminated on the Internet.</p> <p>Information about the SIR for the central government disseminated on the Internet.</p> <p>Bill approved by the Executive Branch and agreement reached prior to its submission to the legislature.</p> <p>Favorable outside evaluation of the ONSC restructuring process which is under way.</p> <p>Favorable outside evaluation of the courses delivered, including participants' opinions.</p>	<p>AIN reports and dissemination on the Internet.</p> <p>Text of bill.</p> <p>Outside evaluation reports.</p>	<p>The Ues effectively improve the conditions of employment.</p> <p>The necessary political consensus to develop "human resources" bill that can be approved by the legislature is achieved.</p> <p>The ONSC participates actively and is involved in its own restructuring process.</p>

Specific time period is given for completion of the indicators, it is understood to correspond to the conclusion of the sectorial program.

LOGICAL FRAMEWORK
STRENGTHENING OF TAX ADMINISTRATION
(UR-0145 – PROJECT B)

ACTIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Efficiency of the National Customs (DNA) and the General Tax Directorate (DGI) in terms of collection and services provided.	Levels of tax collection.	Official publication of tax statistics.	Maintenance of the appropriate macroeconomic framework. Implementation of a new human resources management system for the DGI. This includes, among other things, the hiring of qualified professionals for fixed, renewable time contracts on their performance, with conflict of interest restrictions on private professional activities. Implementation of organic rules for the DGI, a single set of rules regarding its organizational and functional structure. Maintenance of technical and political support for project implementation.
Strengthening and modernization of the DGI by implementing an efficient model characterized by a high level of planning and oversight and the employees' technical skills.	Implementation of tax, customs, and human resources management systems. Implementation of management control systems.	Periodic project progress reports.	The DNA and the DGI have adequate financial resources and technical assistance to implement the project. Existence and availability of qualified consulting services. Resistance to change is overcome.

ACTIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>TS</p> <p>Strengthening of the National</p> <p>orate</p>	<p>No. of customs transactions computerized / Total no. of customs transactions.</p> <p>Annual no. of confiscations, excluding valuation / No. of control operations</p> <p>Annual amount of repayment of balances / annual amount of collection</p> <p>No. of DUAs resolved per year / No. of DUAs initiated in the same year</p> <p>Implementation of the changes needed to improve current import, export, and transport procedures</p> <p>Implementation of a system to monitor compliance with customs procedures</p> <p>Establishment of a customs procedures audit and control unit.</p> <p>Implementation of a system for control of the operation of collection points outside metropolitan Montevideo</p> <p>New information products regarding customs operations available to users</p> <p>Public information center established and in operation</p> <p>Streamlining of the number of bonded warehouses</p>	<p>Project progress reports, tracking performance indicators and achievement of expected results under each component, according to plan of operations.</p>	<p>The DNA and the DGI have adequate financial resources and technical assistance to implement the project.</p> <p>Existence and availability of qualified services.</p> <p>Resistance to change is overcome.</p>
<p>Strengthening of the General Tax</p>	<p>Reduction of the ratio (No. of delinquent CEDE taxpayers / Total no. of CEDE taxpayers)</p> <p>Annual increases not less than 10% with respect to complete audits carried out in a base period</p> <p>Annual increases not less than 10% with respect to cross-checks carried out in a base period</p> <p>[(Total no. of audits of accounts with repayments > 25,000 pesos) / (Total no. of audits of accounts, excluding operations – actions to certify credits)] > 50%</p> <p>Availability of new public information and assistance services (e.g., telematic submission of income tax returns for C.E.D.E. taxpayers, Internet access to databases with answers to frequently asked questions, more access to telephonic information systems)</p> <p>Availability of new information systems and automated modules to support DGI operations</p>		

ACTIVE SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	Number of DGI employees / Number of work stations < 2.5 75% of technical employees (excluding administrative support personnel) participating in at least 10 hours of training per year Standardization and simplification of tax returns Refining the RUC information Requests sent to 100% of delinquent CEDE taxpayers Establishment of the DGI's new corporate strategy Development of a complete annual management by objectives planning and control system with quantitative and qualitative indicators Establishment of an internal oversight unit		
Procedures and oversight on systems projects resources management tion of information and cy ation of new human resources ent system and oversight of operations g of tax obligations tion of information and taxpayer on of information systems ent of facilities	Execution of the budget for Project B of the technical cooperation loan.	Project follow-up reports regarding the results of budget execution. Accounting information.	The DNA and the DGI have adequate financial, and technological resources and assistance to implement the planned activities during the projected time periods.

PROPOSED RESOLUTION

**URUGUAY. LOAN /OC-UR TO THE REPUBLICA ORIENTAL DEL URUGUAY
PUBLIC MANAGEMENT MODERNIZATION 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 República Oriental del Uruguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Public Management Modernization Program. Such financing will be for the amount of up to one hundred and fifty million dollars of the United States of America (US\$150,000,000), which are part of the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.

PROPOSED RESOLUTION

URUGUAY. LOAN FOR TECHNICAL COOPERATION
TO THE REPÚBLICA ORIENTAL DEL URUGUAY

PROGRAM TO SUPPORT THE PUBLIC MANAGEMENT MODERNIZATION PROGRAM

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is hereby authorized, in the name and on behalf of the Bank, to enter into such agreements with the República Oriental del Uruguay and to adopt such other measures as may be necessary for the execution of the proposal referred to in Document ____ with respect to a loan for technical cooperation for a Program to Support the Public Management Modernization Program.
2. That up to the equivalent of three million six hundred thousand dollars of the United States of America (US\$3.600.000), is authorized for the purposes of this resolution, chargeable to the resources of the Single Currency Facility of the Ordinary Capital resources of the Bank.
3. That the above-mentioned sum is to be provided on a reimbursable basis, in accordance with the relevant conditions set forth in the corresponding Technical Cooperation Loan Agreement.