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LN. 2843-UR

Report No. P-4519-UR

MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
IN AN AMOUNT EQUIVALENT TO US\$1 MILLION
TO THE
REPUBLICA ORIENTAL DEL URUGUAY
FOR A
TECHNICAL ASSISTANCE PROJECT

May 18, 1987

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CURRENCY EQUIVALENTS

Currency Unit - Uruguayan New Peso (N\$)

US\$1.00 = N\$195
N\$100 = US\$0.00513
(February 28, 1987)

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

OPP - Office of Planning and Budget

URUGUAY

TECHNICAL ASSISTANCE PROJECT

LOAN AND PROJECT SUMMARY

BORROWER: Government of Uruguay

Amount: US\$1 million

Terms: 15 years, including 3 years of grace, at the
Banks's standard variable interest rate

Financing Plan:

IBRD	US\$1,000,000
Government	US\$255,000
<u>Total</u>	<u>US\$1,255,000</u>

Economic Rate of Return: n.a.

Staff Appraisal Report: n.a.

**MEMORANDUM AND RECOMMENDATIONS OF THE PRESIDENT
OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN TO THE REPUBLIC OF URUGUAY
FOR A TECHNICAL ASSISTANCE PROJECT**

1. The following report on a proposed loan to Uruguay for US\$1 million equivalent is submitted for approval. It would finance several studies related to policy areas included in the Structural Adjustment Loan which is submitted for your approval under a separate cover. The loan would be repayable over 15 years, including three years of grace, at the Bank's standard variable interest rate. Contracting of the consultants for the various studies will be carried out by the Office of Planning and Budget (OPP) on behalf of the Government.

2. Background. Since its assumption of power in March 1985, the Government of Uruguay has been developing a medium term economic strategy designed to stabilize the economy (which had been in a deep recession from 1982 to 1985) and restore economic growth, reduce the burden of Uruguay's existing external debt, improve public finances, reduce inflationary pressures, and encourage investments and exports. In pursuit of these goals, the Government has: (i) negotiated a stand-by arrangement with the IMF for the eighteen-months period that ended in December 1986; (ii) signed an agreement with commercial banks rescheduling US\$2.1 billion in external debt over twelve years at substantially reduced interest rates; (iii) reduced export taxes and eliminated restrictive regulations within the agricultural sector; (iv) implemented a scheme to restructure existing internal debt of over-indebted private enterprises; and (v) continued its policy of allowing free convertibility of the domestic currency through a managed float and non-interference in private banking operations including capital flows and interest rates.

3. In early 1986, the Government obtained the approval of the opposition parties for a far reaching economic program to follow-up and deepen existing reforms and encourage further economic growth without reigniting inflationary pressures. In support of this program, the Government requested Bank support for a structural adjustment program. The planned structural adjustment program will address the serious imbalances in public finances, which present a critical obstacle to growth, first and foremost by launching a far-reaching reform of the social security system, and second by other reductions in current public expenditures and continued measures to increase revenues. The program also entails measures to increase investment, which is crucial for higher growth. Public investment is to be increased and its effectiveness enhanced through measures to program and monitor investment more effectively. Private investment will be stimulated by continuing measures to restructure the financial sector, notably dealing with the over-indebtedness affecting many firms and creating a new legal framework to facilitate the development of a capital market. Finally, the program includes measures to promote export growth and above all diversification, because Uruguay remains critically dependent on a few exports, which face market uncertainties.

4. Project Objectives. The proposed project will provide the Government with the analytical base for preparing specific action programs and with needed technical assistance to implement key elements of the Structural Adjustment Program. The studies and technical assistance activities are designed to define policy options, prepare medium-term strategies, and strengthen and reorganize key public sector management functions.

5. The specific objectives are:

- (a) to support the program to strengthen social security finances and administration, and its initial implementation;
- (b) to improve the technical capacity of the OPP to analyze, program, and monitor public sector investments;
- (c) to support Government efforts to improve the tax system and to reduce tax evasion;
- (d) to modernize capital market legislation;
- (e) to update import tariff analysis; and
- (f) to initiate a program of administrative reform with emphasis on personnel policies.

6. Project Description. The proposed technical assistance project will finance the cost of the studies which will be carried out over the period 1987-88 and which will provide the analytical framework and lead to action programs in various areas covered under the Structural Adjustment Program as follows:

- (a) on social security finances and administration, aiming at supporting the program to restore financial equilibrium to the social security system by determining long-term feasible level of benefits, sources of financing and the administrative arrangements to implement the program;
- (b) on fiscal reform, aiming at further rationalizing the tax system structure and reducing tax evasion;
- (c) on public investment programming, to help improve the planning and budgeting process;
- (d) on capital market improvements, to support revisions of the outdated bankruptcy and corporation laws;
- (e) on administrative reform study, to evaluate the Government's existing salary and incentive policies; and
- (f) on import tariff review, to examine the effect of alternative modifications to the tariff regime on particular subsectors.

7. The total cost of the project is estimated at about US\$1.255 million of which \$1 million is in foreign exchange, (including US\$225,000 for computing equipment). The detailed cost estimates and disbursements

are provided in schedules A and B. A timetable of key project processing events and the status of Bank group operations in Uruguay is given in schedules C and D, respectively. The terms of reference for the consultants were agreed upon during negotiations. The consultants will be selected in accordance with Bank guidelines. Contracting of the consultants will be handled by the OPP on behalf of the Government. Because of the small amount, procurement of computing equipment will be done under local procedures on the basis of quotations from at least three suppliers.

8. Rationale for Bank Involvement. The Bank has been involved in the Government's structural adjustment program since its inception, including major reforms in the agricultural sector which served as a basis for the US\$60 million agricultural sector loan in FY 85. The Bank supported a co-financing operation in the power sector which was part of the debt restructuring and new money package agreed upon with the commercial banks in September 1986. The present operation will finance the studies required for the action plans under the SAL. The studies will support a deepening of structural reforms and their implementation; the program is expected to lead to substantial improvement in Government finances (social security, tax system, civil service employment), better operations of capital markets, further tariff liberalization, and institutional improvements in the areas of programming and budgeting. The positive impact of these reforms through increased public sector efficiency, reduced inflationary pressures, and reduced competition for available savings, will result in increased investment and economic growth and will help attain the goals pursued by other Bank projects in the industrial, agricultural, transport and energy sectors.

9. Agreed Actions. With the Government on: (i) nominating the OPP to coordinate and supervise the implementation of all studies; and (ii) the timetable for execution of the studies. Agreement on the action plans related to the public investment programming and capital market improvements studies will form part of the conditions for release of the second tranche of the SAL.

10. Justification. The project will contribute towards the effort to achieve a substantial reduction in the Government's deficit through reforms of the social security system, tax administration, civil service employment, and improved investment budgets. Other actions will facilitate capital formation in the private sector and further import tariff rationalization.

11. Risks. The main risk is that some actions will encounter political opposition and might not be passed by the Assembly. However, the cost of the studies is relatively minor and the Government's demonstrated ability to obtain Congressional approval of sensitive reforms bodes well for success in implementing the recommendations of the studies.

12. Recommendation. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and recommend that the Executive Directors approve the proposed loan.

Barber B. Conable
President

Attachments
May 18, 1987

Schedule A

URUGUAY

TECHNICAL ASSISTANCE PROJECT

<u>Estimated Costs:</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u> ¹
	----- (US\$Thousands) -----		
<u>A. Consultants Services</u>			
Social Security Studies	35	100	135
Fiscal Reform Program	40	120	160
Public Investment Programming	40	120	160
Capital Market Legislation	20	60	80
Import Tariff Reform	15	35	50
Administrative Reform	<u>50</u>	<u>150</u>	<u>200</u>
Sub-total	200	585	785
<u>B. Computing Equipment</u>	-	225	225
<u>C. Training Fellowships</u>	30	100	130
 <u>Contingencies</u>	 <u>25</u>	 <u>90</u>	 <u>115</u>
 TOTAL	 <u>255</u> ====	 <u>1000</u> =====	 <u>1255</u> =====

Financing Plan:

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	----- (US\$Thousands) -----		
Bank	-	1000	1000
Government	<u>255</u>	<u>-</u>	<u>255</u>
 TOTAL	 <u>255</u> ====	 <u>1000</u> =====	 <u>1255</u> =====

^{1/} The project would be exempt from taxes and duties.

Schedule B

URUGUAY

TECHNICAL ASSISTANCE PROJECT

PROCUREMENT

Consultants will be contracted based upon a short list agreed upon with the Bank. Selection of the consultants will follow Bank guidelines. Computing equipment will be procured under local procedures on the basis of quotations from at least three suppliers.

DISBURSEMENTS

<u>Category</u>	<u>Amount</u> <u>(US\$000)</u>	<u>Percentage</u>
A. Consultant Services	585	75% of total expenditures
B. Computing Equipment	225	100% of foreign expenditures and 80% of local expenditures
C. Training Fellowship	100	100% of foreign expenditures

Estimated Disbursements

	<u>1988</u> <u>(US\$000 by Bank FY)</u>	<u>1989</u> <u>FY</u>
Annual	600	400
Cumulative	600	1000

Schedule C

URUGUAY

TECHNICAL ASSISTANCE PROJECT

Timetable of Key Processing Events

(a) Time taken to prepare project:	5 months
(b) Project Prepared by:	Planning and Budget Office
(c) First Bank Mission:	May 1986
(d) Appraisal Mission:	October 1986
(e) Negotiations:	April 1987
(f) Planned date for Effectiveness:	September 1987

STATEMENTS OF BANK GROUP OPERATIONS IN URUGUAY

A. STATEMENT OF BANK LOANS (as of March 31, 1987)

<u>Loan</u> <u>No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	(US\$ million)	
				<u>Bank</u>	<u>Amount</u> (Less cancellations) <u>Undisbursed</u>
Loans fully disbursed				274.6	
1594	1978	Uruguay	Vocational Training	9.7	1.4
1689	1979	Uruguay	Highways	25.4	0.8
1798	1980	ANP ^{1/}	Ports	37.0	5.0
1831	1980	Uruguay	Agricultural Development	24.0	11.2
1930	1981	Uruguay	Industrial Credit	13.7	0.0
2033	1982	ANTEL ^{2/}	Telecommunications	24.0	24.0
2238	1983	Uruguay	Highways	45.0	33.9
2484	1985	UTE ^{3/}	Power	4.0	3.7
2622	1986	UTE ^{3/}	Power	45.2	45.2
Total				502.6	
of which has been repaid				<u>205.6</u>	
Total now outstanding				297.0	
Amount sold				4.6	
of which has been repaid				<u>4.6</u>	
Total now held by Bank				<u>297.0</u>	
Total undisbursed					<u>125.0</u>

1/ National Port Administration

2/ National Telecommunications Administration

3/ National Power Company

STATEMENT OF IFC INVESTMENTS (as of March 31, 1987)

<u>Fiscal Year</u>	<u>Obligor</u>	<u>Type of Business</u>	<u>(Amount in US million)</u>		
			<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1979	Fabrica Uruguaya de Neumaticos*	Motor vehicles and accesories	3.80	-	3.80
1979	Acodike Supergas S.A.*	Chemicals and petrochemicals	0.95	-	0.95
1979/ 1983	Astra Pesqueras Uruguayas S.A.	Food processing	6.22	2.25	8.47
1980	Sur Invest Casa Bancaria S.A.	Money and capital market	10.00	0.59	10.59
1985	Azucitrus S.A.	Food and food processing	<u>7.80</u>	<u>2.40</u>	<u>10.20</u>
	Total gross commitments		28.77	5.24	34.01
	Less cancellations, terminations, repayments and sales		<u>12.47</u>	<u>-</u>	<u>12.47</u>
	Net held by IFC		<u>16.30</u>	<u>5.24</u>	<u>21.54</u>
	Total undisbursed		<u>3.81</u>	<u>0.75</u>	<u>4.56</u>

* Fully repaid

URUGUAY - TECHNICAL ASSISTANCE PROJECT
SCOPE OF CONSULTANTS STUDIES

I. BACKGROUND

1. The Bank has financed substantial technical assistance in the context of ongoing Bank operations in Uruguay as follows:

- (a) Vocational Training Project (Loan 1594-UR) - The loan includes consultants services for staff training and specific vocational training courses;
- (b) Highways II (Loan 1689-UR) and Highways III (Loan 2238-UR) - These loans include technical assistance to the planning unit of the Ministry of Transport and various expert services in the areas of highway engineering and traffic safety;
- (c) Port Project (Loan 1798-UR) - The loan finances consultants to carry out a maintenance dredging operation, a port master plan and cost accounting and administration;
- (d) Agricultural Development Project (Loan 1831-UR) - The loan includes funds for staff training and transfer of agricultural technology;
- (e) Second Industrial Credit (Loan 1930-UR) - The loan financed consultants to carry out a tariff reform study and to conduct a preliminary study of the social security system;
- (f) Telecommunications Project (Loan 2033-UR) - The loan provides funds for a management and administration study; and
- (g) Power Engineering Project (Loan 2484-UR) and Power Sector Rehabilitation (Loan 2622-UR) - These loans finance various operational and planning studies designed to improve operating practices and reduce system losses.

2. The experience with provision of technical assistance to Uruguay has been generally satisfactory and the consultants' recommendations are given adequate attention with a reasonable share of the recommendations properly implemented. However, consultant recruitment often takes longer than expected because of the complex approval procedures (involving various agencies including the Government's auditing organization) as well as the right of appeal given to firms whose bid is not successful. Also, the Uruguayan authorities have on occasion opposed the choice of consultants following the Bank guidelines (e.g. Port and Telecommunications Projects). The latter issue, however, has not proved an obstacle since the new Government took over from the Military in March 1985.

3. The previous policy-based loan to Uruguay (Agricultural Sector Project, Loan 2468-UR, US\$60 million) included two consultants studies. The first involved a review of the operations and regulations of the

National Meat Institute and the second involved revision of lending practices of Banco de la Republica (the state development bank). Both studies have resulted in action plans agreed upon with the Bank and in substantial improvements to the regulatory atmosphere in the sector, increased agricultural exports and acceleration of lending and investments.

II. PROPOSED STUDIES

4. The proposed loan includes several studies related to critical reform areas which are addressed under the Structural Adjustment Loan as follows:

(a) Social Security Finances and Administration

Introduction

5. Uruguay's social security system developed quickly during the early part of the present century. It has a comprehensive coverage in terms of population and programs. However, it is becoming increasingly difficult to finance the system and measures are needed to restore its financial equilibrium. The system required Central Government transfers amounting to 3.8% of GDP in 1985, not counting the Government contribution as employer. The system serves an aging population with high life expectancy; the ratio of active workers contributing to the system to beneficiaries is very low (1.2). Population growth is low (0.5% a year owing to emigration) and the system cannot handle the financial consequences of an increasing number of beneficiaries.

Objective

6. The principal aim of the technical assistance is to help prepare a specific administrative program and an implementation schedule for the reform to restore financial viability to the social security system. The program specific objective is to make the system self-financing by the year 2000.

Scope of Program

7. The program will support sustainable long-term levels of benefits, and contribution levels by source. It will consist of short-term (increased contributions) and medium- to long-term measures (e.g., increasing retirement ages, providing equal uniform benefits for all beneficiaries, eliminating special regimes and multiple retirement benefits) to achieve financial equilibrium of the social security system. The study will require about 10 months of consultants' input. About \$200,000 in computing equipment is also included.

8. The technical assistance will consist of:

- (A) Completion of the analysis of the situation of the social security, including the changes introduced by the Government's reform program. The study will cover:

- (i) classification of beneficiaries by age, sex, and average benefits;
 - (ii) projections of the working population, potential number of new beneficiaries by age, sex, proportion of average benefits to earnings, and proportion of active workers contributing to the system;
 - (iii) analysis of the financial implications of the projections;
 - (iv) detailed recommendations about the long-term soundness of the system;
 - (v) analysis of the impact of the proposed regime on employment, savings and investment, and Government transfers.
- (B) Preparation of a program of administrative reforms for:
- (i) establishing a single identification number for social security contribution and taxpayer's obligations;
 - (ii) establishing a penalty system to discourage non-compliance and late payments, and for control and reduction of evasion;
 - (iii) requiring periodic reporting by enterprises;
 - (iv) reduction of late payments;
 - (v) design of computer programs for the above, together with acquisition of equipment.

(b) Fiscal Reform Program

Introduction

9. With the structural reforms initiated in the early 1970s, the tax system has been the subject of several efforts to streamline its structure and eliminate distortions in relative prices between capital and labor, as well as those favoring import-substitution compared to export activities. The Government has already undertaken several tax measures under the Agriculture Sector Loan and the SAL program, such as reduction of import tariffs, reduction in agricultural export tax, revision of the income tax regime for agricultural producers, and extension of the value added tax to agricultural sales. Nevertheless, there is still room to further rationalize the tax system structure.

Objective

10. The principal aim of the study is to analyze the impact of the most recent tax reforms and to look at the current structure and possible ways of restructuring the tax system to provide adequate incentives for investment, production and exports, and reduction in tax evasion.

Scope of the Study

11. The analysis will require about 12 months of consultant time. Some computer equipment (\$25,000) will also be acquired under this component. The study should include the following topics:

- (i) analysis of effectiveness of current direct and indirect taxation;
- (ii) impact of the tax system on economic activities by sector;
- (iii) relationship of the various taxes to domestic production;
- (iv) proposed changes to existing consumption tax (IMESI) patrimony taxes and corporate tax;
- (v) preferential treatment of exports and investments (e.g., tax exemptions and their impact on increasing exports), and relationship to the GATT agreements;
- (vi) changes to strengthen the antidumping mechanism; and
- (vii) conclusions and recommendations, including an action plan to implement the proposed reforms of the tax system, and to increase effectiveness of tax collection.

(c) Public Investment Programming

Introduction

12. Public investment in Uruguay has been traditionally concentrated in a few large parastatals (Power Co., Telecommunications Co. and Ports Administration) and the Ministries of Transport and Defense. Within these entities, some large projects play a major role in determining investment levels. Under the Uruguayan planning system, all Ministries and public sector enterprises prepare five-year investment programs, which are submitted to the Ministry of Economy and Finance and the Planning and Budget Office (OPP). The Ministry of Economy concentrates on the investment plans of the various Ministries and the OPP on the public enterprises. However, the investment plans are to a large extent now formulated as a list of projects prepared by each implementing agency with limited screening and review. The OPP authorizes yearly investment ceilings for all public sector agencies. The responsibility for making the project selection within this ceiling and for implementation rests primarily with the executing agencies.

Objective

13. The objective of the proposed technical assistance is to strengthen the OPP and the sectoral planning units to improve investment programming and project formulation, execution and monitoring.

Scope of the Study

14. Preparation of a public investment program consistent with the country's financial resources and priorities is a critical component of the structural adjustment program. The OPP has requested technical assistance to strengthen its capacity to analyze, program, and monitor investments as well as its capacity to provide guidance to other public agencies in the preparation and evaluation of new investment projects. In preparing the SAL program, the Bank has assisted the Government in preparing a public investment program for 1987-89 and has completed a preliminary review of the OPP's capabilities and technical assistance needs, including those currently provided by the IDB. The proposed loan would finance two experts for a total of about twelve months, to be attached to the OPP. In addition, the loan would finance training fellowships for OPP staff for about US\$100,000.

15. The technical assistance should cover the following elements:

- (i) strengthening of the structure and procedures used by the main implementing agencies to identify, prepare, select and follow-up projects;
- (ii) improvements of budgetary procedures and their relationship to programming public investments in a medium-term framework;
- (iii) analysis of the institutional framework and procedures for decision-making regarding the level and composition of public investment in each sector, including the role, staffing and methodology used by the Ministry of Economy and the OPP;
- (iv) generation of information for monitoring projects under execution, and for preparation of new projects;
- (v) adequacy of budget allocation for recurrent expenditures and institutional framework to determine such allocations, at the agencies, Ministerial and OPP levels;
- (vi) design of procedures to measure actual vs. programmed investments and analysis of deviations; and
- (vii) a program to support OPP in the implementation of the action plan to strengthen its planning procedures and the sectoral planning units in the Ministries and other executing agencies.

(d) Capital Market

Introduction

16. The capital market in Uruguay is in a very rudimentary stage. Ownership of stock in public corporations is not very popular since

information is scarce, existing stock is closely held, and minority rights are not well protected. The use of industrial bonds is rare and companies are relying on the commercial banking system for all their financial needs which results in an undesirably high portion of short-term debt on their balance sheet. Most of the activity of the Montevideo Exchange is concentrated in trading of Government notes and bonds. Uruguay needs to strengthen its capital market by providing adequate incentives to investors and protecting the rights of shareholders and creditors. The Government has already taken steps to improve capital market operations by introducing a leasing law and an investment banking law (now under Parliamentary consideration).

Objectives

17. The aim of the technical assistance would be to improve the capital market framework and reduce financing cost to corporations by introducing new laws in the fields of corporate, securities, and bankruptcy procedures.

Scope of the Study

18. The consultants will assist with the preparation of new laws in the fields of corporate, bankruptcy and securities procedures. About six months of consultant's time is programmed. The corporation law will update the existing law and will ensure that its provisions are adequate to meet the requirements and operations of modern corporations, including dissemination of information, auditing requirements, protection of minorities' rights, etc., which will encourage wider public participation in channeling savings for equity and long-term bond financing. The bankruptcy law will eliminate the existing obstacles to creditors in exercising their rights in case of non-payment and will streamline liquidation procedures in cases of default. The combined regulations will provide incentives to corporations, creditors (including commercial banks) and the public to participate in capital formation beyond the existing media of deposits, short-term loans and purchases of Government bonds.

(e) Import Tariff Regime

Introduction

19. Uruguay's efforts at a tariff reform began in the early 1970s. As a result, significant progress has been achieved in reducing effective and nominal protection. Currently, import tariff rates are in a range of 10-45% down from a level of over 100% in the late 70's. This represents a very serious effort on the part of the Government to reduce protection and force Uruguayan producers to be competitive.

Objective

20. The study will update and review the analytical basis to guide further tariff reductions, and assure that tariff rationalization is consistent with the Government's economic growth and development targets.

Scope of the Study

21. The promotion of exports is a key objective of the Structural Adjustment Program. The Government is concerned with the impact that further changes in the tariff regime will have on particular subsectors. To assist the Government in analyzing the impact of import tariff reforms, as well as in determining what additional tariff adjustments or other measures may be needed to reduce effective protection, the proposed loan would finance the continuation of previous studies initiated under the Second Industrial Credit (Loan 1930-UR). About 3.5 months of consultant's time would be required to update the tariff protection studies as the Government proceeds with further tariff rationalization.

(f) Administrative Reform Program

Introduction

22. The Government recognizes that the increase in public sector employment registered in recent years must be checked and then reversed. In addition, the authorities share the widespread perception that public services are inadequately delivered and that there is a mismatch between required skills and the qualifications of many public employees.

23. To address the above-noted issues, the Government reinstated the National Civil Service Office in July 1985, recognizing the need for substantial reforms aimed at a more equitable public service in which promotions are linked more closely to quantifiable performance.

24. The Government has already under consideration: (i) a modernization of the Statute of Personnel to define more clearly the rights, duties and obligations of civil servants and to introduce new techniques of recruitment and performance coordination; (ii) the orderly reclassification of posts and grades according to established performance criteria; (iii) a national computerized register of public servants; and (iv) the establishment of a national institute dedicated to the training of high-level personnel.

Objectives

25. The study will analyze general levels and qualifications of civil service employment aiming at developing a leaner and adequately staffed civil service. The study will also examine and revise the procurement procedures of public organizations which impede delivery of efficient services.

Scope

26. The study should cover the following topics: (i) analysis of the salary and incentive policies, including the impact of multiple employment practices on the efficiency of the public administration, and possible steps to remedy the situation--appropriate salary levels, changes in working hours, etc.--to retain and attract an adequate number of skilled civil servants; and (ii) analysis of the organization and practices in public administration, including staffing levels, personnel policies, skills and qualifications of public employees, administrative procedures, etc. The analysis will cover Central Government, public enterprises, and the Municipality of Montevideo; (iii) legal framework constraining the reform, such as the constitutionally guaranteed job security for those who hold budgeted posts; and (iv) procedures governing procurement for public investment projects and the relationship and control exercised by the central administration over state enterprises. The study will elaborate specific recommendations and plans of action to implement suggested changes leading to a more efficient and leaner public administration while retaining a satisfactory number of qualified personnel.

Project Organization and Implementation

27. The Office of Planning and Budget (OPP) would have overall responsibility for coordinating the implementation of the technical assistance program. Detailed terms of reference for the studies will be agreed during negotiations. The consultants selection will be in accordance with Bank guidelines, and consultants' contracts would include specific timetables for each phase of their work. Implementation arrangements for each study, including the appointment of needed counterpart staff, would be reviewed by the Bank prior to the appointment of the consultant or expert concerned. The bulk of the studies is expected to be completed by mid-1988. The project is expected to be completed by March 31, 1989.

28. The OPP will send to the Bank quarterly progress reports. In addition, progress of the studies will be monitored by the Bank during supervision of the SAL. The Government will review with the Bank the findings and recommendations of each study and prepare, when appropriate, plans of action, satisfactory to the Bank. The studies on public investment programming and capital market improvements will be completed by August 31, 1988 and all other studies not later than March 31, 1989.

(g) Project Cost and Financing

29. Total cost of the technical assistance program, net of taxes and duties, is estimated at US\$1.255 million equivalent. This total includes: studies costing US\$785,000, equipment US\$225,000, training US\$130,000, and contingencies US\$115,000. The loan would finance the US\$1 million foreign exchange component (see Schedule A).

Procurement and Disbursement

30. Contracting of consultants will be carried out by the OPP, on behalf of the Government, in accordance with Bank guidelines. Procurement

of computing equipment, financed out of the loan proceeds and estimated to cost US\$225,000, would be carried out under local procedures on the basis of quotations from at least three suppliers. Contracts above US\$50,000 will be submitted for prior Bank review. The Bank would disburse 75% of the total cost of consultants, 100% of foreign expenditures and 80% of the local expenditures of the cost of computing equipment purchased locally, and 100% of foreign expenditures for training fellowships.

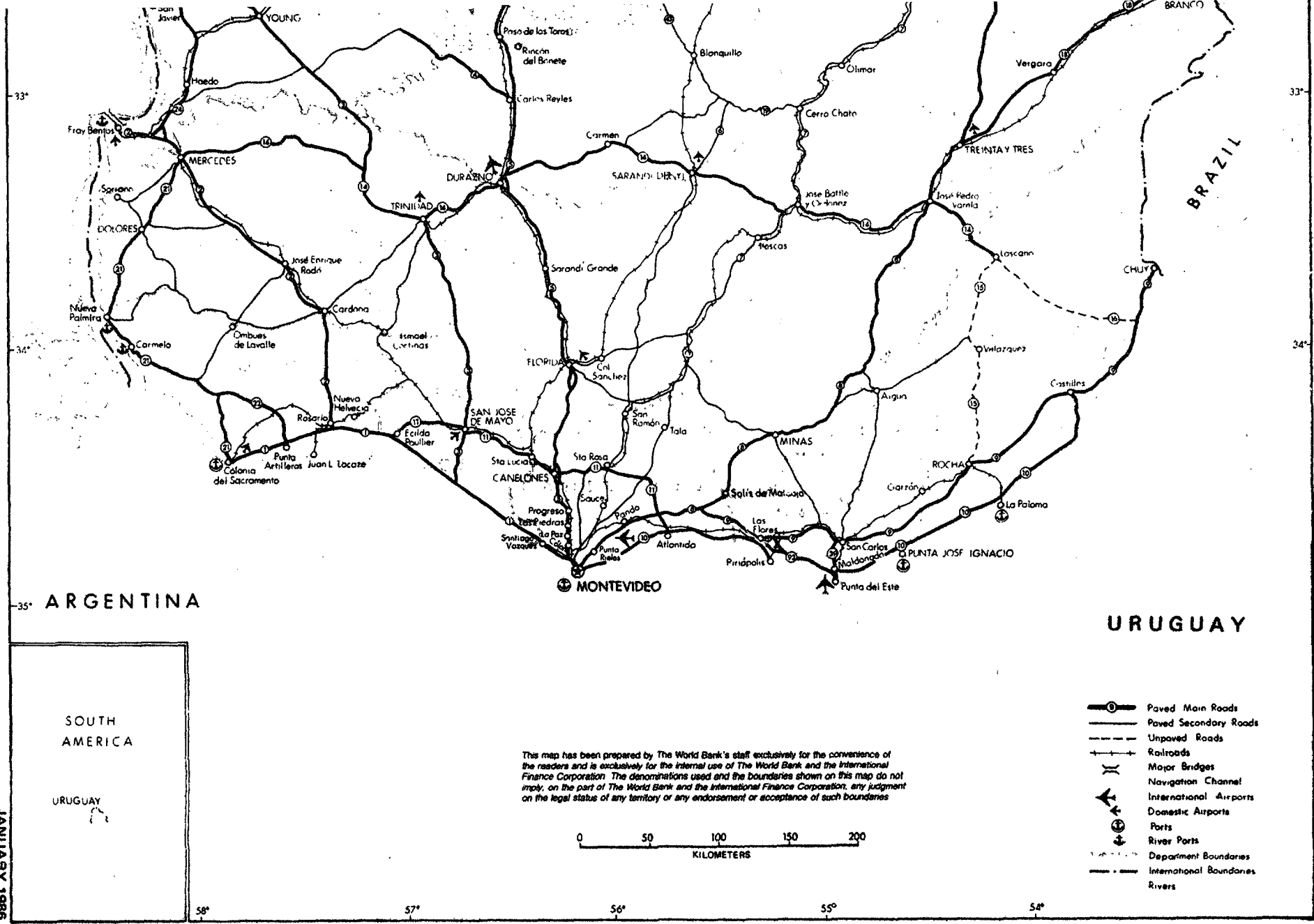
31. The OPP would establish and maintain accounts for all project expenditures under the proposed loan in a clearly identifiable manner. Such accounts and supporting records would be audited annually by independent auditors acceptable to the Bank and the audit reports would be submitted to the Bank within six months after the end of the year.

Benefits and Risks

32. The technical assistance to be provided under the proposed loan is designed to support implementation of the Government's Structural Adjustment Program, both in carrying out policy actions and programs already agreed, as well as in preparing the way for additional reforms in key areas. The program will support the Government's efforts to reduce the fiscal deficit by controlling the transfer to the social security system, reducing cost of public service employment, and improving tax structure and collection. The studies will also support increased investment, production and economic growth through improvements in incentives for capital formation and better public sector investment programming.

33. There is a risk of delays in the appointment of consultants, which could jeopardize timely implementation. However, since the completion of some studies is required to develop the action plans for the second tranche disbursement of the SAL, we expect that the delays will be minimized. There is also a risk that some recommendations of the studies will not be implemented as fully or in as timely a fashion as desired, given the political nature of some of the issues. However, implementation of policy recommendations and specific action programs would be closely monitored as part of continuing discussions between the Bank and the Government in the context of the Structural Adjustment Program, and the Government's satisfactory record in obtaining Parliamentary approval of sensitive economic measures, assures the program a reasonable success.

May 18, 1987



33°
34°
35°
58°
57°
56°
55°
54°

33°
34°
35°

ARGENTINA

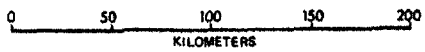
URUGUAY

BRAZIL

SOUTH AMERICA

URUGUAY

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- Paved Main Roads
- Paved Secondary Roads
- Unpaved Roads
- Railroads
- Major Bridges
- Navigation Channel
- International Airports
- Domestic Airports
- Ports
- River Ports
- Department Boundaries
- International Boundaries
- Rivers

JANUARY 1986

IBRD 19541