Report Number : ICRR0022387

1. Project Data

Operation ID	Operation Name
P131440	UY-Public Sct Mgt & SocInclusion DPL/DDO
Country	**Practice Area(Lead)**
Uruguay	Macroeconomics, Trade and Investment

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-82070	30-Jun-2019	260,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
13-Nov-2012	30-Jun-2019	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	260,000,000.00	0.00
Revised Commitment	260,000,000.00	0.00
Actual	260,000,000.00	0.00

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2. Project Objectives and Policy Areas

a. Objectives

The Oriental Republic of Uruguay Public Sector Management and Social Inclusion Development (PSMSD) DPL-DDO aimed to “support the development and implementation of policies aimed at strengthening resilience to external shocks and improving growth opportunities, with a focus on poor and vulnerable groups" (Program document [PD], p.27).

For the purpose of this evaluation, the PDO has been unpacked to clarify the underlying objectives against which actions can be gauged. The three objectives are as follows:

- **Objective one:** Strengthening public resources management (Policy area one: Public resources management [PRM]).
- **Objective two:** Strengthening coverage of social protection for the poor and vulnerable (Policy area two: Social policies).
- **Objective three:** Reducing informality and promoting financial inclusion (Policy area three: informality and financial inclusion).

b. Pillars/Policy Areas

The operation was structured around three policy pillars (PD, p. 27 and p. 68), spanning public resource management, social sector policies, and informality and financial inclusion.

Policy area/pillar one: Achieving more efficient and strategic public resource management (PRM). This policy area supported Objective one. The prior actions under Objective 1 aimed to increase fiscal space and raise resilience of the economy through effective and strategic PRM.

Pillar one had three prior actions:

- PA1: Implemented detailed reporting on budget results in the Budget Reporting Law (2010, 2011) in seven priority areas: (i) housing; (ii) infrastructure; (iii) public security; (iv) education; (v) productive development; (vi) social protection; and (vii) health.
- PA2: Through the Central Bank (i) agreed with five private banks on specific procedures to allow the Borrower's treasury to make payments, on behalf of the Borrower's ministries, to providers of goods and services through bank accounts held in said private banks; and (ii) reduced the number of bank accounts held by the Borrower's ministries in Banco de la República Oriental del Uruguay (BROU) from 1900 accounts on December 31, 2011 to 1695 accounts as of August 31, 2012.
- PA3: Issued National Tax Directorate (DGI's) Resolution No. 798/2012, dated May 8, 2012 which establishes the framework that regulates the use of electronic invoices (factura electrónica) in the Borrower's territory.

Policy area/pillar two: Rendering social policies more effective in promoting social inclusion, supported Objective two. The prior actions under Objective 2 aimed to increase poor and vulnerable groups' resilience to shocks through inclusive social policies.

Pillar two had three prior actions:

- PA4. The Borrower, through MIDES (Ministry of Social Development), has: (i) completed phase 1 of SIIAS (Sistema Integrado de Información para el Area Social); and (ii) signed an inter-institutional agreement, with the nine public institutions participating in SIIAS, to define their roles and responsibilities thereof.
- PA5. The Borrower: (i) through Ministry of Social Development (MIDES), Ministry of Economy and Finance (MEF), and Banco de Prevision Social and Oficina de Planeamiento y Presupuesto, has updated the eligibility criteria of individuals that may receive benefits under the Borrower's social programs,

including Asignaciones Familiares-PE and Tarjeta Uruguay Social; and (ii) through MIDES, has assessed at least 40,000 households, from September 1, 2011 until August 31, 2012, to determine if said households met said updated eligibility criteria.

- PA6. The Borrower has expanded health insurance coverage to: (i) individuals who: (a) are spouses and domestic partners of public and private sector workers with health insurance coverage; and (b) have two children; (ii) retirees that, as of December 2010, were covered by a private insurer; and (iii) retirees that, as of December 2010, were not covered by a private insurer, but are older than 74 years old and whose total income is below three Bases de Prestaciones y Contribuciones (BPC).

Policy area/pillar three: Reducing informality and promoting financial inclusion, supported Objective three. Prior actions under Objective 3 aimed to mitigate risks and increase opportunities for growth of marginalized groups through financial inclusion. In addition, lower informality would be expected to lead to higher tax compliance and tax revenues and indirectly foster productive inclusion.

Pillar three had two policy actions:

- PA7. The Borrower has (i) Promulgated Law No. 18.910, which, inter alia, permits the Borrower to reduce the value added tax for transactions paid with credit cards, debit cards and other electronic means of payment; and (ii) granted an elimination of VAT for transactions paid with: (a) debit cards for food support (TUS); and (b) debit card for family allowances (TBPSP), through the issuance and publication of Decree No. 288/012, dated August 29, 2012.

The first activity under PA7 is linked to promoting e-trade and reducing informality. The second activity under PA7 is linked to financial inclusion. Each has a relevant results indicator. In what follows, the two sub-actions under PA7 are considered separately, as PA7a and PA7b.

- PA8. The Borrower has introduced fiscal incentives for the installation of electronic points of sale (puntos de venta) in small businesses to permit customers to make payments through electronic means of payment, through the issuance and publication of Decree No. 459/011.

c. Comments on Program Cost, Financing, and Dates

The UPSMSI DPL was a USD 260 million Stand-alone Development Policy Loan (DPL) with a Deferred Drawdown Option from the IBRD.
The project was approved on November 12, 2012, and was due to close on June 30, 2016 (Loan Agreement [LA], p.8] effective January 13. As with the previous programmatic DPLs, the Government requested an extension to keep the DDO (Draw Down Option) alive, and the project was extended until June 30, 2019. (The Implementation Completion and Results Report [ICR] mistakenly states that the original closing date was June 30, 2019 – ICR, p.2.) The financing was allocated as a single withdrawal tranche of 260 USD million. The Government requested, but was not granted, a third period of extension. Given the worsening global economic climate, the Government chose to execute the DDO in June 2019, just before closure.

Structured as a single operation, this DPL followed a programmatic series of two DPLs, approved in 2010 and 2011, that had supported the government's reform efforts in the areas of tax reform, business climate and capital market development, and social protection. The second DPL under the was extended by 3 years in 2015 but was never disbursed as the economic situation in 2018 was considered relatively stable. The program was also accompanied by The Institutional Building Technical Assistance Loan (IBTAL) operation (ID: P097604 [Original Loan] and P123461 [Additional Financing]), which was approved in 2007 and closed in 2016. IBTAL supported core elements of the Government's plan to modernize public administration included in the DPL, including fiscal, financial, and social reform.

3. Relevance of Objectives & Design

a. Relevance of Objectives

By the time the DPL was approved in November 2012, Uruguay had recorded a decade of high and sustained economic growth, achieved a robust fiscal position, and reduced the gross public debt-to-GDP ratio from nearly 100 percent in 2002 to 56 percent in December 2011. Prudent macroeconomic management including an effective debt management strategy and a comprehensive set of structural reforms helped Uruguay build the fiscal space needed to successfully weather the international financial crisis in 2008-2009 and expand social programs that helped reduce poverty by two thirds (ICR, p.6).

In 2012, strengthening the resilience of the economy (through effective resources management and contingent financing, and strengthening the resilience of poor and vulnerable households, through greater inclusion) were central priorities for the Government of Uruguay (GoU). Strong macroeconomic management notwithstanding, the economy remained vulnerable, due to both commodity price volatility and a high risk of trade and investment-induced contagion from Argentina, Brazil and Europe (PD, p.7). Securing significant levels of low-interest, contingent financing from multilateral financial institutions - such as the series of DPLs provided by the World Bank –formed part of GoU's strategy (PD, p.8). The GoU envisaged broad-based reform of the state (Reforma del Estado) to strengthen the reach and quality of public services and social inclusion, all the while maintaining prudent fiscal and monetary stances (PD, p.16). A large part of the population remained vulnerable to relapsing into poverty (PD, p.9) and many in the population were unbanked, lacking means for mitigating household risk and increasing investment (ICR, p. 17). Improving public resources management on both expenditure and revenue sides and strengthening policies towards social and financial inclusion were thus highly relevant priorities.

The DPL was also fully consistent with the World Bank's CPS for 2010-2015. The operation was aligned with two of the four pillars outlined in the CPS: reducing macroeconomic vulnerability and strengthening public sector administration (pillar one) and increasing inclusion and social equity (pillar four) (CPS, p.19). A review of the previous country assistance strategy concluded that the programmatic nature of DPLs had provided the flexibility that helped Uruguay weather the global financial crisis 2008-2009. The World Bank was seen as adding value by providing customized global knowledge and implementation support.

These objectives remained largely relevant between 2012 (DPL approval) and 2020 (ICR), throughout which the Government program continued to maintain macroeconomic balance, modernize public resource management, and improve outreach of social programs. Reform achievements were sustained through the new administration in 2014, with policy priorities moving towards increasing the competitiveness of the private sector and, on the social agenda, inclusion of poor and vulnerable children and youth. The World Bank's program for 2016-2020 supported the new Government's agenda with specific emphasis on efficiency of public expenditures, inclusive early childhood interventions and education, and international competitiveness. Thus the strategic purpose of the PSMSD was relevant to the development priorities of the country throughout the operation

Rating

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b. Relevance of Design

Rating

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4. Achievement of Objectives (Efficacy)

Objective 1

Objective

Strengthening public resources management (Policy Area 1: Public Resources Management); Supported by PA 1-3; Progress measured by RI 1-6.

Rationale

Under PA1, the steps being taken towards results-based budget processes were already underway when the operation was launched, as the Government had begun organizing the budget around programmatic areas and had begun formulating objectives and indicators in the Five-Year Budget 2010-2014. During the project's regular and extended phases (2012-2015, 2015-2018), budget reporting on these 7 areas became well established and budget execution was reported on each year, thus meeting the target of at least 7. The efficacy of establishing results-based budget contributing to stronger PRM as measured by RI1 is rated **High.**

A system of regular evaluations was established and made operational, through OPP's evaluation units, as well as evaluation units within different line ministries (ICR, p. 15). By 2015, OPP had undertaken 17 performance agreements with different units, above the RI2 target of 10 by 2015; and by 2018, the number had increased to 37, showing that the reform process had maintained momentum. This review confirms that evaluations as well as follow-up commitments continue to be regularly published on the website of AGESIC (Agency for E-government and the Information Society). The efficacy of establishing performance management processes as measured by RI2 is rated **High.**

Under PA2, the share of government payments conducted via bank accounts (RI3) increased from 82 percent at the outset. By 2015 the target of 90 percent was "overachieved", at 97 percent, and by 2019, stood at 100 percent. RI2 did not measure the impact of opening up for private banks. The efficacy of improving treasury and cash management, as measured through RI3, is rated **Modest**.
Against a target of 1400, the number of government accounts (RI4) fell from 1900 in 2010 to 1695 in 2012, further to 1485 in 2015, and 1432 in 2018. This level still falls slightly short of the target of 1400 set for 2015. RI3 is relevant for the objective and targets have almost been achieved. The efficacy is rated **Substantial.**
Under PA3, the share of firms with commercial transactions undertaken through e-invoices (RI5) increased rapidly, from one (1) firm in 2012, to 1801 firms in 2015, and 18,405 and 41,699 firms in 2018 and 2019 respectively. This represented an increase from an unknown baseline to 41% in 2015, passing the target of 25%. However, these achievements are more strongly related to commercial development than to the objective of strengthening PRM. The efficacy of strengthening PRM as measured through RI5 is rated **Modest.**
Progress on e-government services also far exceeded the target of 50 percent of for the share of administrative processes and services that can be completed on-line (RI6). By 2019 1396 processes and services could be undertaken online, representing about 80 percent of all processes provided through Central Administration. This must be considered a significant advance in providing public services in a client-oriented and resource efficient manner. RI6 represents progress towards the pillar's key objectives. The efficacy of the DPL in achieving more effective public resources management and social inclusion by increasing access to public services is rated **Substantial**.

- **Pillar one efficacy**: 4 out of 6 RI targets were rated as substantial or high. All targets for pillar 1 but one (number of accounts) were overachieved. Not all RIs or PAs were relevant to the PRM objectives. However, significant and sustained progress on critical areas such as budget reporting, evaluations, strengthening of treasury cash management, and access to online government services, supports a rating of the efficacy of pillar one in meeting objective one as Satisfactory.

Rating
Substantial

Objective 2

Objective
Strengthening coverage of social protection for the poor and vulnerable (Policy Area 2: Social Policies)
Supported by PA4-6. Progress measured by RI7-9

Rationale
Over the course of the DPL, the SIIAS expanded from 9 signatory institutions to 16 institutions with full access to data by 2015, surpassing the RI7 target (9 institutions). By 2018 and 2019, the system incorporated 26 and 32 participating institutions respectively, pointing to a rapid and steady process of reform, in fact higher than anticipated by RI7. The efficacy is rated **High.**

By 2015, “practically all” (ICR, p. 23) Social Protection programs in MIDES had access to the updated beneficiary registry, and this was still the case in 2018 and 2019, fulfilling the target (All MIDES programs). Visits to households to determine eligibility are now continuously undertaken by MIDES, with ongoing revisions to the registry (ICR, p.16), suggesting that the practice of regular updating has indeed become institutionalized. The efficacy is rated **High.**

Under PA6, the Government had increased coverage from 22 percent in 2007, to 47 percent in 2011 (the baseline for RI9); coverage more than reached the target of 70 percent by 2015 (72 percent by 2019). The social inclusion aspect of health policy cannot be fully assessed since it is not possible to confirm whether the remaining uncovered 28 percent of the population are non-poor. However, the careful expansion and accompanying reforms on the governance of the health sector has ensured that public spending on health has been kept at sustainable levels (currently approximately 6.5 percent of GDP [ICR, p. 16]). **The efficacy is rated Substantial.**

Pillar two efficacy: Pillar two’s targets, which largely were relevant for the strengthening coverage of social programs for the poor and vulnerable, were more than achieved. The Covid-19 pandemic provided the ultimate stress test and Uruguay’s health system and social safety nets system were credited with having managed the pandemic very well by June 2020. This supports the overall rating of the efficacy of pillar two as Satisfactory

Rating
Substantial

Objective 3
Objective

Objective three: Reducing informality and promoting financial inclusion (Policy Area 3: Informality and Financial Inclusion). Supported by PA7-8. Progress measured by RI10-12.

Rationale
In 2012, no beneficiaries received family allowances via debit cards (RI10 baseline). The launch and expansion of these debit cards connected with social programs, was initially much slower than foreseen and reached no more than 15 percent by 2015, compared to a target of 50 percent of recipients. However, the rate of take-up of social program debit cards increased rapidly after 2015, reaching 75 percent in 2018 and 81 percent in 2019. The digitization of payments of benefits proved extremely efficient in 2020, when the Government needed to rapidly scale up benefits to mitigate the impact of Covid-19 on vulnerable groups. Efficacy is rated **Substantial.**

The move towards electronic forms of payment, measured through the number of electronic payments by credit cards (RI11), and the number of POS in small businesses (RI12), increased dramatically during the operation. Electronic transactions increased from 2 to 34 million per year by 2015, compared to a target of 10 million. By 2019, the number of yearly credit-card transactions reached over 200 million. The number of POS was targeted to increased by 80 percent, from 13,000 to 23,400, but *de facto* increased by over 300

percent by 2015, and by nearly 600 percent by 2019. RI11 and RI12 are imperfect measures of lower informality/higher tax compliance or financial inclusion, and progress depend on many different factors beyond the PAs. In fact, the ICR suggests that the fiscal incentives (PAs) were not the main contributing factor to these increases (ICR, p. 19, fn 11). Nonetheless, the ICR estimates that VAT evasion fell from 20.8 to 14.8 percent between 2011 and 2016 (ICR, p. 18), suggesting lower informality. The efficacy of achieving tax compliance/reduce informality is rated **Substantial.**
Pillar three efficacy: The efficacy of Pillar 3 in reducing informality and promoting financial inclusion is comparatively high given that the take-up of social program debit cards and the expansion of POS. **The overall efficacy of Pillar 3 is rated Satisfactory**

Rating
Substantial

5. Outcome

The overall relevance of prior actions is rated Satisfactory, as is the achievement of objectives. The operation was relevant to Uruguay and outcomes often more than achieved. The underlying rationale for the operation, fully consistent with the Government's reform priorities towards strengthening resilience, was that stronger public resources management practices around transparency, accountability and performance evaluation, a focus on increasing fiscal incidence and more inclusive social policies, lower informality and higher financial inclusion would assist in providing inclusive growth opportunities and strengthen resilience of the overall economy as well as individual households. Most prior actions were credible steps towards intermediate and final outcomes. They were consistent with, and built on, previous DPLs. A few prior actions could contribute indirectly to inclusion or PRM, but were more clearly aimed at increasing overall e-trade, reducing opportunities for tax evasion, and promoting financial sector deepening.
The overall outcome rating is Satisfactory.

a. Outcome Rating
Satisfactory

6. Rationale for Risk to Development Outcome Rating

The ICRR concurs with the ICR in rating that the risk to development outcomes is low.
First, the political will not to reverse priorities is high. Government reform priorities have not changed materially during the course of the operation which included a change in presidents, and a significant deterioration in

economic growth. The overall consensus-building and gradual approach to reform has paid off in terms of sustainability of the overall reform agenda across administrations and to a wider set of stakeholders.
Second, financial and economic risks have indeed materialized through, first, a global economic slowdown and, more recently, the sharp downturn caused by Covid-19. The DPL financing formed part of the Government's overall debt management strategy, which aimed at reducing Uruguay's vulnerability in access to global private capital markets in turbulent times by guaranteeing access to contingent finance from international finance institutions such as the WB and the Inter-American Development Bank (IADB). The operation was specifically designed to increase Uruguay's capacity to build fiscal space and a social protection system that effectively could protect the population against systemwide or idiosyncratic shocks. By weathering the global recession of 2008-2009, Uruguay had proven the validity of its overall structural reform agenda. Accompanying reforms, such as in financial sector oversight and health governance systems, have also contributed to building additional resilience to protect the outcomes of the reform. The Uruguay social safety net system and health system had, by June 2020, managed the effects of the Covid-19 pandemic well. These achievements have also built support for sustaining outcomes.
However, capacity constraints proved a binding constraint to reform implementation in one area and may continue to constitute a risk to sustained outcomes as e-government reforms and data-driven resource management require technical capacity. The operation was accompanied by a technical assistance operation, but this could not mitigate the shortage of public sector staff with technical capacity. The digital platform to consolidate and disseminate information on budget performance has not been fully operational across all areas, due to capacity constraints within line ministries.

a. Risk to Development Outcome Rating

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7. Assessment of Bank Performance

a. Quality-at-Entry

Quality-at-Entry Rating

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b. Quality of supervision

Quality of Supervision Rating

Overall Bank Performance Rating

Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

Government Performance Rating

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b. Implementing Agency Performance

Implementing Agency Performance Rating

Overall Borrower Performance Rating

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9. M&E Design, Implementation, & Utilization

a. M&E Design

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b. M&E Implementation

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c. M&E Utilization

M&E Quality Rating

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10. Other Issues

a. Environmental and Social Effects

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b. Fiduciary Compliance

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c. Unintended impacts (Positive or Negative)

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d. Other

None.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Bank Performance	Satisfactory	Satisfactory	---
Relevance of Results Indicators		Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

This review concurs with three lessons drawn by the ICR:

- Evaluations should be undertaken closer to program closure, even in the case of extensions. The time lapse between design and evaluation makes it difficult to track knowledge.
- Technical assistance is a critical contribution by the World Bank and a strong comparative advantage among Uruguay’s development partners. Capacity constraints are a serious risk, especially in a country of Uruguay’s size, and did materialize. The IBTAL, which spanned several DPLs, hence provided critical complementarity to the DPL.
- Finally, the DPL served an important purpose for strengthening Uruguay’s resilience, as shown by the fact that the Government did execute the DDO in 2019. At that time, economic growth had stagnated, due to contagion from Argentina and Brazil and lower global commodity prices – all of which had been identified as substantial risks to Uruguay’s stability.

IEG adds the following lessons:

- To facilitate M&E, PAs should be unpacked when they contain several actions that have different objectives. This was the case for PA7 which involved VAT reductions and exemptions, but with two different purposes and with very different outcomes.
- There may be a trade off between the pace of reform and the level of ambition of targets. Although targets were considered low for some RIs, the reforms have been maintained and have continued to advance throughout the extension of the DPL.
- Program design needs to clarify relationships to previous operations. The DPL is a stand-alone operation, and yet, some PAs appear more closely associated with previous DPL reform areas than to the present one. Examples include reforms related to e-invoices, involving private banks in government payments, and raising e-transactions through credit cards which appear to foster financial deepening. Where reform areas still overlap between operations, the relationship to previous DPL targets could be explicitly clarified.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a clear and logical assessment of the operation. Due to Covid-related traveling restrictions, no ICR field mission could take place. The ICR uses the findings from an ICR mission from June 2019 for the assessment, together with interviews and relevant documents. Despite these limitations, the ICR provides a comprehensive and evidence-based review. It situates the rationale of the operation clearly in the context of World Bank and Government strategies, Uruguay’s long term reform process, the experiences from previous operations, and the international environment. It highlights some weaknesses in design, such as insufficient links between PAs and the overall development objective or inadequate results indicators. The ICR provides significant detail on the broad achievements within reform areas, backed up by evidence beyond the RIs. The ICR could have emphasized more the difficulties with unpacking the high-level Program Development Objective to correspond to policy areas, prior actions, and outcomes, especially with respect to vulnerability and inclusion. Two errors occur in the results framework presented on p. 23 of the ICR: RI2 target is set to 17 (should be 10); for RI7, the ICR lists 9 (institutions) as baseline and 16 as the RI target in the results framework (ICR, p. 23), but this baseline and target are not supported by the policy matrix in the PD (PD, p. 68).

a. Quality of ICR Rating

Substantial