

TC ABSTRACT

I. BASIC PROJECT DATA

▪ Country/Region:	Uruguay
▪ TC Name:	Organizational Transformation of <i>Banco de la República Oriental del Uruguay</i> (BROU)
▪ TC Number:	UR-T1132
▪ Team Leader/Members:	Diego Herrera, Francisco Demichelis, Ramón Guzmán, Gloria Lugo, and Stephanie Suber (IFD/CMF)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Client Support
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	N/A
▪ Reference to Request¹: (IDB docs #)	In process
▪ Date of TC Abstract:	May, 2015
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Banco de la República Oriental del Uruguay, Uruguayan financial sector, Small and Medium Enterprises of Uruguay, citizens of Uruguay
▪ Executing Agency and contact name	Banco de la República Oriental del Uruguay (BROU)
▪ IDB Funding Requested:	US\$300,000
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes execution period):	24 months
▪ Required start date:	August, 2015
▪ Types of consultants:	Firms and Individuals
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	IFD/CMF
▪ Included in Country Strategy (y/n);	N
▪ TC included in CPD (y/n):	N
▪ GCI-9 Sector Priority:	Institutions for growth and social equity

II. OBJECTIVE AND JUSTIFICATION:

- 2.1 **Objective.** The objective of this TC is to provide support to the efforts of *Banco de la República Oriental del Uruguay* (BROU) in its institutional and organizational transformation process to improve its services to the citizens of Uruguay. This TC will support three out of the seven purposes defined by the BROU within its “Organizational Transformation Program”: (i) assessment of its current organizational structure and recommendations for change opportunities; (ii) improvement of BROU’s services to the citizens of Uruguay with focus in Small and Medium Enterprises; and (iii) reengineering of processes and costs reduction.

¹ A copy of the Letter of Request, Programming/Portfolio Review Mission Aide Memoire or Report requesting the TC should be submitted with the Abstract.

- 2.2 This support translates into an analysis of the current organizational structure in order to create a reengineering process to generate a direct impact on Uruguayan citizens through better services. This reengineering will also have as result the creation of efficiencies in human and physical capital leading to cost reductions. This analysis includes an assessment of the BROU's current qualified credit processes and products, with emphasis in those directed to Small and Medium Enterprises (SMEs) to establish a strategy to increase the share of the bank lending to this segment to around 40% by 2020.
- 2.3 The BROU is a public bank and the largest of Uruguay, holding 40% of Uruguayan financial sector total assets (US\$15 Billion), 40% gross loans to non-financial sector (US\$5.5 Billion) and 47% of Non-Financial sector deposits (US\$13 Billion)². The BROU has an important and traditional retail franchise which, in turn, is source of stable and constant funding in combination with deposits from the Uruguayan central government and Banco de Previsión Social³. However, the institution is creating a reengineering framework to better serve Uruguayan citizens through financial access, which currently is affected by low competition, low financial intermediation, and limited access to long term funding in the country, especially for SMEs⁴.
- 2.4 The BROU is a central piece of the Uruguayan financial sector. Strengthening it through organizational reengineering and reform will have a direct impact on Uruguayans. Its role is relevant to the country in terms of providing access to financing, which is a determining factor of productivity dynamics, as it has been widely documented⁵. Along these lines, increasing the BROU's share directed to SMEs would mean increased long term financing for productive development. Thus, this TC is intended to improve institutional capacity within the BROU, generating positive effects in its administrative and financial structure to add value to Uruguay's economy as a whole via productive development financing⁶.
- 2.5 This TC relates to operation UR-L1099 in the sense that the organizational changes that it supports will benefit its execution. In particular, TC will allow BROU to deliver efficient financing to agricultural and energy sectors.
- 2.6 Furthermore, the country, through BROU's management has expressed its interest in the support from the Bank to foster and increase impact of their organizational reengineering and reform.

² <http://www.brou.com.uy/web/guest/institucional/memorias/balances> , retrieved 03/07/2015.

³ By Law, central government and Banco de Previsión Social must deposit liquidity surplus and liquidity at BROU.

⁴ MOODY'S: "Informe de calificación: Banco de la República Oriental del Uruguay, Uruguay", Mayo de 2014.

⁵ See: "Support to SMEs and financial access/supervision sector framework document" (document GN-2768). See also, for example, Beck et al. (2000), "Finance and the sources of growth," *Journal of Financial Economics* 58(12), 261-300.; and Arizala et al. (2013), "Financial development and TFP growth: cross-country and industry-level evidence," *Applied Financial Economics* 23(6), 443-448.

⁶ The IDB supports Uruguay's businesses' productive investment by providing medium to long-term financing through the operation UR-L1099 (NAME OF THE OPERATION).

III. DESCRIPTION OF ACTIVITIES AND OUTPUTS

- 3.1 **Component 1 - Organizational restructuring and reengineering.** This component will provide support to the BROU’s efforts in its reengineering and organizational reform through an assessment of the current organizational structure and recommendations to better serve Uruguayans within its mandates.
- i. **Activity 1.1: Assessment and Recommendations for Organizational Structure.** This comprehensive study will include: (i) an assessment of the current organizational structure; (ii) recommendations for a new organizational structure that will be better aligned with the objective of better accomplishing the BROU’s mission, mainly, strategies directed to SMEs.
 - ii. **Activity 1.2: Reengineering and Cost Analysis.** A comprehensive cost analysis study will be performed, which will include recommendations towards the creation of efficiencies, reengineering processes, improvements in management of human and physical resources, among other changes.
- 3.2 **Component 2 - Strategic Improvement Plan** This component will develop a strategic plan to improve the BROU’s products to better serve Uruguayans.
- i. **Activity 2.1: Strategic Plan for Product Improvement.** This activity will have as a result a comprehensive assessment of current BROU’s products, and a plan to increase the delivery of high impact products such as long term credit to SMEs. The final delivery will include the determination of the proper commercial structure for SMEs, a demand study to determine product lines, a review of credit processes for SMEs, a review of Customer Relationship Management (CRM), among others.
- 3.3 **Component 3 – Dissemination and Results Communication Plan.** This component will aim at the design and implementation of a communication plan for the whole TC, within the BROU and for the public for both to understand the reengineering and institutional reform.

IV. BUDGET INDICATIVE BUDGET

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1	Org. Restructuring			
Activity 1.1	Assessment and Recommendation	80,000	0	80,000
Activity 1.2	Reengineering and cost analysis	80,000	0	80,000
Component 2	Strategic Improvement Plan			
Activity 2.1	Strategic Plan for	130,000	0	130,000

	Improvement			
Component 3	Dissemination	10,000	0	10,000
Total		300,000		300,000

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

5.1 The executing agency will be the BROU.

VI. PROJECT RISKS AND ISSUES

6.1 **Development:** the BROU is a relatively large and bureaucratic organization and this fact could affect the efficiency of project delivery. However, the BROU is committed to its Organizational Transformation Program, and human and technological resources have been already assigned to the project, mitigating this risk.

VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

7.1 No social or environmental risks associated with the TC. This operation is classified as a Category “C”. See [Safeguard Policy Filter Report \(SPF\)](#), and [Safeguard Screening Form \(SSF\)](#).