PILOT PROJECT TO ENHANCE THE COMPETITIVENESS OF THE LIVESTOCK SECTOR

(UR-0137)

EXECUTIVE SUMMARY

Borrower:	Eastern Republic of Uruguay	
Executing agency:	Ministry of Agriculture and Fisheries	
Amount and source:	IDB: (OC) Local: Total:	US$ 7,700,000 US$ 3,300,000 US$11,000,000
Financial terms and conditions:	Amortization period: Grace period: Disbursement period: Interest rate: Inspection and supervision: Credit fee: Currency:	20 years 30 months 30 months variable 1% 0.75% Single Currency Facility in U.S. dollars

Objectives: The general objective of the project is to introduce and validate new institutional strategies to enhance the competitiveness of the Uruguayan livestock sector through the adoption of innovations by private agents all along the production chain, with emphasis on the incorporation of small- and medium-scale breeders into the innovation process.

Description: The project seeks to encourage the formulation and execution of innovative business plans proposed by the private agents in the sector themselves, utilizing various types of partnership arrangements. The project will promote three categories of business plans, which also constitute the three components of the project:

a. **Innovations in production management at the breeding stage** (US$3.02 million). This component includes the preparation and execution of business plans presented by producers themselves in order to increase the competitiveness of sheep- and cattle-breeding. The plans will have two innovative features: (i) the

activities proposed under the plan, which will represent innovations in comparison with current practices in the local environment; and (ii) the use of private facilitators as intermediaries in the process.

b. **Innovations in linking the sheep and cattle production chain** (US$5.0 million). This component provides for the execution of business plans aimed at enhancing competitiveness through new modalities for integrating the sheep and cattle production chain. A variety of partnerships will be eligible for financing under this component, provided they are based on vertical integration. The partnerships may be established through agreements, contracts, corporations, or other legally valid means of association. Additional incentives will be available for proposals involving small- and medium-scale breeders. The innovative aspect of this component is the negotiation and proposal of horizontal and vertical integration schemes by the private agents themselves.

c. **Innovations in marketing** (US$0.5 million). This component will provide support for marketing campaigns included in business plans, whose objective is to position new products on the market or open up new markets at the international level.

Justification for an innovation loan:

The Bank has made available to Uruguay more than US$200 million in resources, which have cofinanced investments in the agricultural sector for a total of US$350 million. Currently in execution are two programs that benefit the livestock subsector: the Dairy Farm Infrastructure Program (914/OC-UR) and the Agricultural Services Program (1131/OC-UR). Although these programs do support the livestock sector, they do not provide direct incentives for the introduction of changes in management and production methods, as does the Program for Farm Modernization and Development (PREDEG, 1063/OC-UR) in the case of fruit and vegetable growers. The experience of PREDEG shows that it is possible to structure specific sectoral programs aimed at boosting competitiveness and that such programs are well received by producers and have significant economic impacts.

The project proposed here will draw on the Bank's institutional experience with instruments designed to enhance competitiveness through the formulation and execution of business plans under various partnership arrangements as yet untried in Uruguay. Although interest exists on the part of the government and cattle and sheep producers, there is no guarantee of demand for a larger-scale program without a prior pilot experience. A small pilot innovation project will make it possible to gain experience in the application of new management strategies in the livestock sector and identify changes to be

implemented in a broader program (livestock program), which will ultimately have a significant impact on the country's economy. The project therefore establishes *direct performance indicators* to measure progress in achieving changes (innovation). The evolution of these indicators will yield lessons that will serve to guide the future development of a larger-scale livestock program. The progress indicators to be used in the pilot project will be: *ratio of total resources mobilized to resources disbursed by the project (annual indicator); number of business plans being executed in a satisfactory manner (annual indicator); cost of executing each business plan (dollars per plan averaged for each component); increase in reproductive efficiency; improvements in managerial practice; improvements in linkage of the chain; improvements in marketing; and impact of dissemination.*

The Bank's country and sector strategy: The Bank's strategy in Uruguay supports: (i) in the area of **competitiveness and regional integration,** initiatives that enhance competitiveness and increase private sector investment, based on export-oriented production that exploits the country's comparative advantages; (ii) in the area of **modernization of the State and governance**, the State modernization process, with the aim of reducing the State's presence in the economy, increasing its efficiency and efficacy by rationalizing and targeting its interventions, and reducing its influence on national goods and services production; and (iii) in the area of **welfare and social equity,** activities aimed at increasing equity and drawing the most vulnerable groups into the development process and raising living standards.

The project is in keeping with this strategy inasmuch as it seeks to enhance competitiveness through various innovations, using novel approaches from the standpoint of public institutionality and enabling groups of small producers to compete more effectively at the regional level.

Environmental and social review: The Technical Review Group of the Committee on Environmental and Social Impact (CESI/TRG) reviewed the profile of the operation and made recommendations concerning the design, monitoring, and supervision of the project. Those recommendations were incorporated into the guide for implementation of business plans. Given the characteristics of the livestock sector in Uruguay, in which the majority of producers—and especially small- and medium-scale breeders—graze their animals over large expanses of natural pastureland, the possibilities for intensive use of resources and agrochemicals are much more limited than in other agricultural activities. Therefore, no direct negative impacts on the environment are anticipated. In fact, the development of business plans will afford opportunities to incorporate improvements in environmental

conditions into the production process. From a market standpoint, the Uruguayan livestock sector enjoys a series of environmental advantages that may offer important opportunities in the commercial sphere, such as the production of organic meat. This pilot project will provide a framework for exploring such opportunities.

The guide for implementation of business plans includes, as part of the eligibility criteria and project approval process, procedures for assessing environmental quality and social equity. As part of the monitoring of project execution, the semiannual technical reviews will include a system for monitoring the socioenvironmental aspects of approved business plans. The effective application of procedures for assessing environmental quality and social equity, as well as monitoring and oversight of socioenvironmental aspects of approved projects, will be assured through the inclusion of a socioenvironmental specialist on the staff of the project executing unit (see paragraph 3.24).

Benefits:

The primary benefit will be the increase in the competitiveness of the livestock sector, which will be achieved through two means: (i) successful execution of innovative business plans; and (ii) dissemination of those successes through replication of the plans by others. This enhanced competitiveness will have a dual impact, improving incomes and opportunities for small- and medium-scale breeders, while also generating increased foreign currency earnings in the country. A second benefit will be the institutional innovations introduced under the project, which will make it possible to explore new ways of promoting increased competitiveness based on a simple system of incentives that encourage efficiency from a cost-impact point of view.

Risks:

Aversion to risk: The extent of breeders' resistance to change will be evaluated through this project as one of the lessons it is intended to teach (this will also make it possible to determine the incentive threshold levels necessary to spur a process of innovations).

Resource mobilization: Implementation of the innovative business plans will require the mobilization of additional resources, which is another risk factor to be evaluated under this project. With a view to mitigating possible problems in this area, the project will include a study of possible financial innovations that might facilitate linkages between the livestock sector and capital markets.

Foot-and-mouth disease: An escalation of the recent resurgence of foot-and-mouth disease (FMD) would be damaging from the standpoint of the expectations of the stakeholders, particularly with regard to opening up new markets and raising the value of exports.

The emergency action currently being taken by the government—creating internal barriers within the country and eliminating animals that are shown to have the disease—have allayed the concerns of importing countries. In addition, the Bank, through the Agricultural Services Program (1131/OC-UR) has made available resources to enable Uruguay to maintain its FMD-free status.

Special contractual clauses:

Conditions precedent to the first disbursement:

a. the coordinating unit must be up and running, and its staff must be appointed (see paragraph 3.4);

b. the project oversight committee must also be up and running (see paragraph 3.4);

c. the monitoring and evaluation system must be implemented, and personnel must be trained to operate it (see paragraph 3.27); and

d. the institution of the guide for implementation of business plans agreed on with the Bank (see paragraph 3.10).

Other conditions:

a. within six months following to the effective date of the loan, the operating guidelines for the project coordinating unit must be implemented (see paragraph 3.6); and

b. semiannual reviews of the operation must be conducted in order to verify the progress achieved (see paragraph 3.25).

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 Replenishment (document AB-1704).

Exceptions to Bank policy: None

Procurement: Current Bank policies, including the procedures indicated in document GN-1679-3, will be applied in the procurement of goods and in contracting for works and consulting services to be financed with project resources. When resources from the IDB financing are used, the minimum amounts for which international competitive bidding will be required will be: US$350,000 for procurement of goods and US$200,000 for consulting services.

I. BACKGROUND

A. The agricultural and livestock sector

1.1 The agricultural sector is of considerable importance in the Uruguayan economy. Products of agricultural origin make up 75% of the country's total exports. Although the primary sector accounts for only 5.6% of total GDP, a significant proportion of manufacturing activity (25% of GDP) relies on raw materials from the agricultural sector (meat-processing industry, wool industry, and rice mills, among others). The agricultural sector also plays a central role in the country's strategy of economic liberalization, since a large proportion of agricultural production is export-oriented. During the second half of the 1990s, agricultural exports grew 36%, compared to a 30% increase in total exports. Among the exports of agricultural origin, food exports rose 73% during the same period.

1.2 The cattle- and sheep-breeding sector constitutes one of the most important segments of the Uruguayan agricultural sector. The foundation on which this sector rests is a large and widely dispersed group of ***breeders,*** most of whom are small- and medium-scale producers with low incomes. Many produce both beef and wool, and, as is the case in other countries with similar comparative advantages in the livestock sector, their productive system is extensive in nature. Thirty-five percent of livestock-breeding activities take place on surface soils that that are largely unsuited to the introduction of intensive pasture improvements, 35% on soils that offer some possibility of improvement, and the rest on pasturelands adjacent to crop-farming areas. In the last decade, the area devoted to grazing encompassed around 14.5 million hectares. Approximately 85% of this pastureland is managed naturally, without the use of fertilizers or improved forage species. The levels of management and technology employed by the vast majority of small-and medium-scale breeders in Uruguay are low compared with those seen in other beef-exporting countries such as New Zealand. This group of producers has also been slow to adopt new production methods and introduce products with greater potential added value.

1.3 In the beef production "chain," the stages that follow breeding comprise *feeding* and *processing* operations. Feeding operations feed and finish the weaned calves, while the processing plants slaughter and sell the finished product on both domestic and foreign markets. On the foreign market, thanks to its status as a country free of foot-and-mouth disease and its comparative advantages, Uruguay has achieved an export presence in 85 countries. However, the average unit returns on Uruguayan beef exports are lower than those registered by other beef-exporting countries, such as Argentina. As is the case in other countries that enjoy similar comparative advantages (New Zealand and Australia, for example), the land devoted to feeding and finishing are well-suited to livestock-grazing, and growing use is beginning to be made of intensive practices (supplementary feeding in some cases). The latter is increasingly favored by the availability of low-cost grains and byproducts in Uruguay.

1.4 As in other countries, the industrial organization of the subsector is marked by growing concentration at successive stages in the production chain: from fifty thousand cattle breeders at the initial stage to only seven companies, which carry out 60% of all slaughtering operations in the final processing stage. Nevertheless, in contrast to other countries, in Uruguay there is a lesser degree of specialization between the breeding and finishing stages. Often, the breeder, even if his land is largely unsuitable, will undertake not only to breed but also to feed and finish the cattle in an attempt to deliver a "finished" product to the processing plant, which results in higher costs than would exist with a higher degree of specialization. The lack of specialization thus has negative consequences on the competitiveness of the entire production chain.

B. Livestock sector policies and their impact

1.5 Prior to the reforms of the last two decades, Uruguay had adopted an "inward" strategy of development, which encouraged and provided incentives for industrial activities geared toward import substitution, to the detriment of primary and export activities. Given the export orientation of the meat and wool sectors, this strategy translated into direct and indirect price discrimination against these industries. The discriminatory interventions included, inter alia, multiple rates of exchange, which frequently placed these sectors at a disadvantage; taxes on meat exports; restrictions on trade of cattle; and multiple interventions in the domestic market, such as the establishment of state-run processing plants with a monopoly over meat distribution in Montevideo and, later, policies that encouraged the construction of new processing plants, resulting in over-investment.

1.6 The legacy of these policies and the disadvantages they created for the sector continue to hinder its competitiveness:

a. The restrictions on international trade in cattle led to marked fluctuations in domestic cattle prices, in particular relative prices for calves versus finished cattle. These fluctuations increased the perceived risk of specialization and generated a culture of production that explains why many breeders today refuse to specialize exclusively in breeding, even though their competitiveness suffers as a result.

b. Chronically low domestic prices for calves—far below international standards—eliminated the incentives for investment in and modernization of the sector, as a result of which a large segment of breeders failed to benefit from the influx of new knowledge and technological change that other countries with large livestock sectors have experienced in the last three decades. In the basalt plateau region, with the current state of management, technology, and investment, a producer needs 1,800 hectares of land to cover the cost of a market basket of goods and services for his family, but 99% of the producers in the area have less than that. This situation is particularly worrisome in that it affects the base of the production chain and thus is a determining factor in its overall competitiveness. Moreover, it affects mainly a large group of small- and medium-scale producers

with low incomes, more and more of whom have been abandoning their livestock activities and migrating from rural areas in recent years.

c. The promotion of investments in processing plants led to the creation of considerable installed capacity that remained idle, which has translated today into insolvency and a high risk of nonpayment, raising transaction costs and increasing the business risk for the primary sector.

d. The solvency problems of many of the processing plants often end up being resolved through unfair competition on the domestic market (evasion of the value-added tax), a situation which has created a dual structure in the industry (with the domestically oriented industry on one side and the export industry on the other), characterized by few clear incentives for opening up new markets or producing export products with higher added value. An indicator of this is the lower average price that Uruguay receives for its Hilton quota beef exports in comparison with Argentina.

e. The interventions in the domestic market (e.g., the state monopoly in Montevideo) served as a disincentive to foreign investment—which has only recently begun to return to this sector. These interventions may therefore have been an important factor in the sector's failure to adopt technological change and boost competitiveness over several decades.

f. Lastly, decades of policies that failed to promote the primary sector have resulted in low levels of capitalization, low levels of entrepreneurial human capital, and managerial deficiencies that have left the sector inadequately prepared to compete on the new global market. Over time, the negative incentives for the primary sector also generated a rural-urban migratory process.

1.7 Reforms introduced during the last two decades have established a more suitable framework of incentives for the sector, including elimination of export taxes in the late 1970s, lifting of the ban on live cattle exports in the last decade, and liberalization of the processing industry and the domestic market in general.

1.8 These changes have had positive effects, notably the following: (i) *higher livestock prices,* which rose from US$0.63 per live kilogram in the early 1990s to US$0.75 per kilogram at the end of the decade, measured in current dollars; (ii) *reduction of price variations during the cattle cycle*, measured by standard dispersion indicators; (iii) *growth in beef exports*, which increased from US$243 million in 1990 to US$342 million in 1999; (iv) *higher demand for beef*, with 42% growth in the domestic market and 38% growth in the external (export) market between 1990 and 1998; and (v) *reduction of the gap between FOB unit prices for exported beef and the dollar price of live cattle*, which decreased from 2.01 in 1990 to 1.88 in 1998.

1.9 Nevertheless, the economic reforms of the 1990s occurred in a context in which external factors had a negative impact on the sector, which limited its capacity to take full advantage of the new opportunities. Those factors included a *decline in the*

real exchange rate, which fell 59% overall between 1990 and 1999. As a result, despite the increase in the dollar price of cattle, the real peso price dropped 33.5% during the decade (Banco Central de Uruguay, 2000). Another factor was *the decrease in the real price of wool,* from US$2.31 per kilogram in 1989 to US$1.22 per kilogram in 1998. The latter seriously affected breeders, owing to their dual status as producers of both meat and wool, and the number of sheep fell from 26 million in 1991 to 13 million in 1999.

1.10 Recognizing the impact that the fall in the real exchange rate has had on the sector's competitiveness, the Uruguayan authorities have granted producers in the agricultural sector a partial (though temporary) exemption from payment of social security taxes. However, notwithstanding any other adjustments and reforms that might be introduced to improve conditions in the sector,[1] it seems clear that the only real way of increasing its profitability in the short and medium terms, while also ensuring the economic viability of the sizable group of small- and medium-scale breeders, is to increase the competitiveness of the entire production chain.

C. The challenge of enhancing competitiveness

1.11 The entire cattle and sheep production chain needs to undergo major changes in order to increase its competitiveness and take full advantage of the possibilities afforded by an economic framework with fewer distortions. Enhancing competitiveness will require the stakeholders to introduce innovations in various areas.

1.12 Innovations are particularly urgent at the *breeding stage*. The vast majority of breeders are small- or medium-scale producers, with low income and capitalization levels, who have not taken part in the learning curve and process of technological change, as have their counterparts in other countries and, as a result, today they show indicators that are far below their competitors' benchmarks. Innovation efforts are also needed to find ways of *linking all the components of the production chain* in order to exploit the advantages of greater specialization (for example, for breeders who are currently producing finished products but who would benefit if they focused exclusively on breeding) and encourage the development of products with higher added value. At the level of the last link in the chain, innovations in *marketing* are required in order to take better advantage of external markets—whether by seeking product differentiation and market niches, or by improving the management of existing market quotas and spaces—and put Uruguay on an equal footing with countries that have been more successful in this area (for example, Argentina and New Zealand). As for the wool production chain, significant changes are needed to respond to the situation of low prices. One of the challenges is to shift from dual production (i.e., combined meat and wool production) to specialized strategies, with production of high-quality wool, on one hand, and meat of higher

[1] Some of these possible changes and reforms will be examined in the framework of the studies to be conducted under PPF-1270/OC-UR.

value, on the other. This, too, will require adjustments and greater coordination throughout the production chain.

1.13 In sum, the sector urgently needs to boost its competitiveness, which calls for innovations of three types in the productive chain: (i) in *management of production by breeders*; (ii) in *current modalities of linking the chain* in order to take better advantage of gains in efficiency thanks to greater specialization; and (iii) in *marketing*, through the introduction of new differentiated products and improvement of the performance of existing markets.

1.14 To implement these innovations it will be necessary to surmount two major obstacles. The first is *resistance to innovations*. Breeders need to innovate in their management in order to put themselves on an equal footing with their international competitors; the production chain needs to innovate, shifting from traditional ways of structuring itself toward greater specialization; and the export link in the chain needs to innovate in the area of marketing. But such innovations require the assumption of risks, coupled with a cultural disposition favorable toward change. Resistance exists at various points along the chain, but especially among those in the most traditional, most fragmented, and least business-oriented sector—breeders.

1.15 The second obstacle is the *need to mobilize resources*. Any innovations that are introduced in the cattle and sheep production chain will require the mobilization of financial resources, both by the individuals directly involved, but also by the system. This raises the challenge of improving the linkage between the livestock sector and the financial sector, in which there is a notable absence of financing innovations found in more developed markets (securitization, factoring, payment insurance, etc.). This situation compounds the obstacle that low levels of capitalization represents among many participants in the chain, in particular breeders.

D. Need for an innovative strategy to promote change

1.16 The livestock sector in Uruguay needs to promote a set of innovations in production management at the breeding stage, in linkage of the production chain, and in the development of markets and products in order to increase its competitiveness to levels comparable with those of its international competitors. Although these innovations might eventually be instigated by the market itself in the long term, *there are two arguments to justify the implementation of a project to promote innovations with public-sector support.*

1.17 The first argument is that, in the absence of intervention, the market will tend to produce innovations at a slower rate than is economically optimal. This is because the benefits of the innovations, when they are replicated by others ("followers") who emulate the initial innovator (the "pioneer"), generate economic benefits that cannot be appropriated by the latter (externalities), as a result of which innovation-generating activity takes place at a slower rate than is optimal from an economic standpoint. The second argument is rooted in the fact that the base of the production

chain is formed by the breeders, the majority of whom are small- and medium-scale producers with low levels of income, capitalization, and management capacity. Consequently, if the introduction of innovations is left to market forces alone, most breeders are likely to remain outside the modernization process and will not benefit from the increase in competitiveness. In addition to the impact that this situation has in terms of slowing the growth of competitiveness throughout the chain, it has undesirable social consequences. Hence, the goal of a project to promote innovation in the production chain is two-pronged: *it would seek to promote innovation at a faster pace than would be generated by the market alone, while at the same time seeking to integrate breeders into this process to the greatest extent possible.*

1.18 The agricultural strategy employed by the public sector in Uruguay in the past cannot be considered an unqualified success in terms of promoting the competitiveness and productivity of the sector. Projects designed to encourage productivity and competitiveness have been based on institutional frameworks of a traditional nature, most of which are not suited to current conditions in the sector. Many of the projects were formulated with the assumption that the public sector knew which variables in the production system should be modified in order to make it more competitive, and the projects promoted under this philosophy biased the selection of productive factors. Thus, for example, a large pasture improvement project, supported with resources from a loan and technical assistance, had mixed results: while the forage species introduced were more productive under favorable climatic conditions, they were less resistant than native species to abrupt climatic changes brought on by drought.

1.19 Other projects—for example, the National Project for Development of Small- and Medium-scale Livestock Production (PRONADEGA), currently under way—have yielded important successes in working with small producers, but their framework and institutional costs make it difficult to extend those successes to the rest of the sector. Moreover, these projects have not incorporated elements aimed at strengthening linkages in the production chain, which is key to boosting competitiveness throughout the chain. Finally, the strategy of encouraging the formation of partnerships or associations—very common in projects involving small producers—has met with cultural and practical resistance to working in groups that would make it very difficult to extend the strategy to a larger group.

1.20 Therefore, in order to promote innovative effort, integrating small- and medium-scale breeders into the process, *new institutional frameworks are required.* These frameworks should be based on a philosophy that is different from the one that has traditionally prevailed. The first point of divergence from the past is to recognize that the public sector does not always know what is needed and should leave it to producers to choose their own projects (with whatever technical assistance they consider necessary), *the aim being to promote innovative activity itself and not the selection of any specific productive factor.*

1.21 Innovations are needed not just in the production sphere, but also with regard to industrial organization or linkage of the production chain. These innovations may

also translate into increases in competitiveness. Owing to the transaction costs that their initial implementation entails, such innovations tend to be generated at sub-optimal levels by the market, and they therefore warrant attention in a project aimed at promoting competitiveness. Past projects designed to support competitiveness, in contrast, have tended to ignore these needs and have been more oriented toward boosting production than toward enhancing business practices.

1.22 A third area requiring innovation has to do with the need to *reconcile the objectives of competitiveness with those of support for small- and medium-scale producers.* In the past, these issues have tended to be addressed separately: rural development projects aimed at small producers on the one hand, and direct and indirect subsidies for the capitalization of large operations on the other. In order to enhance the competitiveness of the entire production chain, the base of the chain—the small- and medium-scale producers—must be incorporated.

1.23 The last type of change needed is to take maximum advantage of private mechanisms to promote innovations. Once these relatively minor innovations (such as those required here) have been introduced, assuming that they generate business models that prove more profitable than the traditional models, the demonstration effect, in which other producers learn from the innovators, will become an important means of disseminating the innovations. The State should serve as a catalyst in this process, providing clear and simple incentives for innovative activities, but relying as much as possible on the market stakeholders themselves for the execution of initiatives.

E. Proposed elements of institutional innovation

1.24 The strategy proposed for the project aims to engender a process of innovations in the production chain, seeking to catalyze the process more than to provide direct financing for all or a significant proportion of it. Specifically, the strategy seeks to *promote innovative business plans* presented by participants in the production chain through various types of partnership arrangements, but providing clear incentives aimed at encouraging innovations and the incorporation of small- and medium-scale breeders into the process. The hypothesis is that, when the business plans are implemented, and the private profitability of the new business models that arise out of these innovations is proven, the demonstration effect will spawn a process of *dissemination* among other agents in the private sector. This process of dissemination, which will occur through the replication of the most profitable modalities of management, production, and marketing, will multiply the effects of this project on the production chain. The proposed support for the business plans should be attractive enough serve as an incentive to producers who are most open to change, but also small enough so that this support is not the crucial determinant of the plan's economic outcome. The idea is to promote, with modest resources, a process of innovation throughout the chain. Thus, the project, in addition to being innovative, will be a pilot experience whose successes can then be extended to the national level.

1.25 The innovative features of this strategy are:

a. *It promotes innovation generically*, without advocating a priori any particular scheme or change and without introducing biases into the selection of productive factors. For that selection, those involved can utilize the benchmarks in more competitive systems, such as those of New Zealand and Australia and even Argentina (at least in the area of marketing).

b. *It incorporates aspects that go beyond the productive sphere*, especially with regard to the set of innovations to be promoted, which include innovations in commercial linkage of the production chain and development of new products and markets.

c. *It relies on business plans developed by the interested parties themselves* (with the technical assistance that they deem necessary). This will make it possible to promote changes all along the production chain a much lower cost than with more traditional technical assistance or technology transfer projects.

d. *It incorporates private facilitators into the process* and gives them responsibility for coordinating and supervising the execution of the business plans presented by the breeders, with fixed schedules of payment contingent on demonstration of results. The facilitators will be accountable to the project coordination unit.

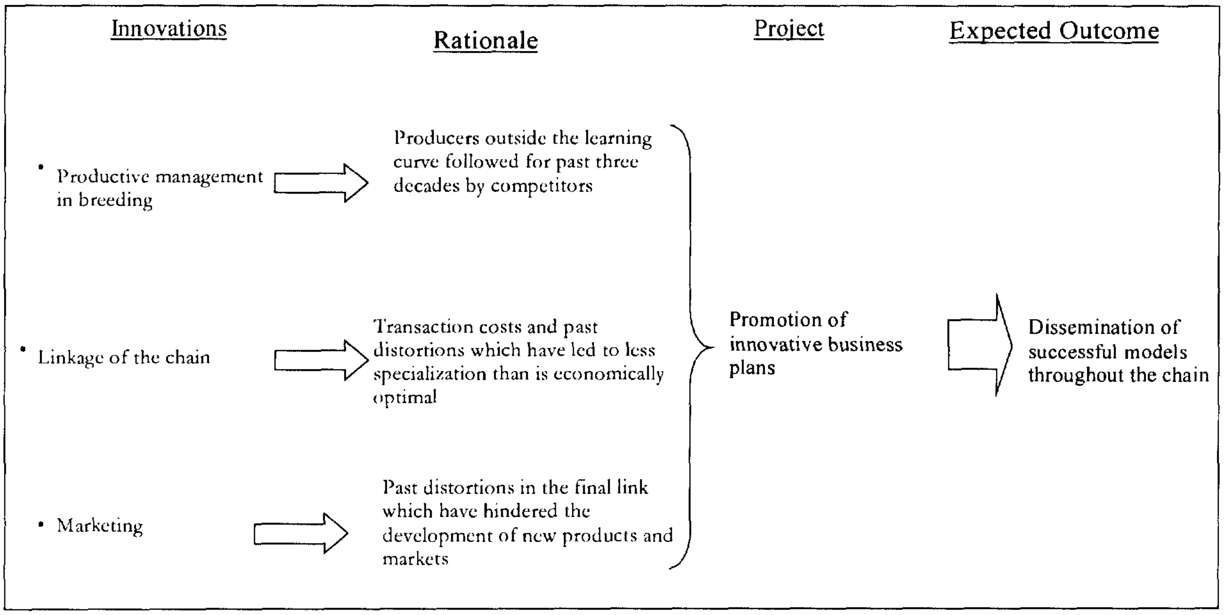
e. *It relies on a private process of dissemination and adoption of the innovations.* The aim is not to provide financial support for a special group of producers, which would make it impossible to replicate this project subsequently on a larger scale. Instead, the project seeks to promote, at a minimal cost per business plan, innovations that will lead to the establishment of successful business models that can then be emulated by others. The strategy is to catalyze changes and innovations to be carried out by the private sector itself, not finance those changes in any major way.

f. *It reconciles objectives of competitiveness and equity.* The strategy takes advantage of the current situation of the sheep and cattle production chain in Uruguay to reconcile the objective of increasing competitiveness with that of integrating small- and medium-scale breeders into the process. Small- and medium-scale producers, because they form the base of the chain, are a key part of the process and should be incorporated in order to achieve rapid results. The proposed project, while maintaining the ultimate objective of enhancing competitiveness, provides clear incentives for the integration of these producers into the process of innovation and modernization.

g. *It allows for a variety of partnership arrangements.* Unlike previous approaches, the proposed strategy does not force producers to adopt a particular partnership arrangement or way of working together. It even allows for participation by producers individually, although they will be required to coordinate their activities under very general master plans proposed to them by the facilitators.

1.26 Figure 1 shows an overview of the innovations required to enhance the competitiveness of the livestock sector and their connection to the proposed project.

Figure 1



F. Lessons to be learned from the project

1.27 The project strategy is promote innovations in the production chain at a minimum cost for the State and relying as much as possible on private initiative. Hence, a key lesson to be learned is the level of incentives necessary to activate this process. Specifically, the project will seek to determine the minimum incentives in which to invest in order to generate the process of change—i.e., the "thresholds" for overcoming the resistance to change and promoting linkage in the production chain, including the marketing of new products.

1.28 The lessons learned about these parameters will serve as the basis for a later expansion of this project into a national livestock development program, with the introduction of modifications suggested by the experience to be gained here.

II. DESCRIPTION OF THE PROJECT

A. General objective

2.1 The general objective of the project is to introduce and validate new institutional strategies to enhance the competitiveness of the Uruguayan livestock sector through the adoption of innovations by private agents all along the productive chain, with emphasis on the incorporation of small- and medium-scale breeders into the innovation process.

B. Specific objectives and instruments for achieving them

2.2 The specific objectives are the following:

a. to promote innovations in production management at the breeding stage among small- and medium-scale producers;

b. to promote innovations in modalities for linking the entire production chain;

c. to promote innovations in the marketing of new products and/or new opportunities in international markets; and

d. to learn lessons of an institutional and market nature regarding which systems and levels of incentives have the greatest impact at the lowest cost in order to apply those lessons in the design of a later livestock development project of broader scope and coverage.

2.3 To achieve the first three objectives, the instruments of the project will be its three components, which in essence support the development of business plans that will introduce innovations in production management at the breeding stage, linkage of the production chain, and marketing, respectively. The instrument for achieving the last objective—i.e., learning—is the pilot project itself, along with the evaluation and monitoring thereof.

C. Project components[2]

1. Innovations in production management at the breeding stage (US$3.02 million)

2.4 This component includes the preparation and execution of innovative business plans presented by producers themselves in order to increase the competitiveness of sheep- and cattle-breeding. Producers may submit proposals under this component jointly or individually, but they must always do so through a facilitator (see

[2] More detailed information about the components and their beneficiaries and execution may be found in the guide for implementation of business plans.

paragraph 3.9). The number of producers supervised by a facilitator may not be less than 10 or more than 100. Plans presented jointly will include activities to be carried out as a group, and the business plan will be a group plan. Plans presented individually will be organized by facilitators under a master plan, which will provide guidelines aimed mainly at generating a homogeneous product among the producers involved.

2.5 The types of innovations contained in the business plans will be broad in scope and may include production management, administration, and new forms of organization in general that are not being applied presently by livestock producers, but that could, nevertheless, have a significant impact on the sector's competitiveness. The nature of the innovations will be determined based on local modes of production in the areas where the candidate producers are located. The innovation in production management promoted under this component should not be viewed as a means of capitalizing the sector. Moreover, the project is not intended to replicate past experiences that provided incentives for capitalization of the sector by encouraging the purchase of machinery and inputs in general.

> **Eligible beneficiaries**: Breeders with between 300 and 1,250 hectares of land (productivity index established by the Comisión Nacional de Estudio Agroeconómico de la Tierra [National Commission for Agroeconomic Land Studies] (CONEAT) = 100). A maximum of 10% of the producers in each group may fall outside these limits (above or below). The producer "group" may be either a horizontal partnership or a group of individual producers linked under a master plan.
> **Expenses eligible for subsidization**: All components of the business plan, except working capital and capital goods expenditures. In other words, eligible expenses are expenses for project management and research personnel, technical assistance, general support personnel, services and materials, and pasture improvement.
> **Maximum amount of support:** 25% of eligible expenses, with a cap of US$7 per hectare or US$7,000 per producer, whichever is less.
> **Complementary subsidy**: A complementary subsidy of US$250 per business plan submitted and approved is proposed in order to cover the costs associated with presenting the plan.

2.6 The eligibility criteria for the business plans will be: (i) for acceptance, whether or not the proposal meets the conditions of size, innovation, and managerial capacity; and (ii) subsequently, the business plans that meet the conditions will be ranked in ascending order according to the ratio of expected present value per hectare to amount of support per hectare, taking into account the potential for subsequent dissemination of the proposed innovation.

2.7 This component of the project is expected to incorporate around 450-500 producers with their respective business plans. Some specific projects have already been tentatively identified in the formulation stage. One of these projects concerns early weaning. This project is aimed at improving basic production indices (reproduction rate, weight gain, and age at first mating) through innovations in pasture, land, and herd management. The group promoting this project expects that a total of approximately 80 producers will adopt early weaning techniques as the proposed new management model is validated. To that end, seminars and other activities are to be organized to disseminate the results obtained by other producers, some of

which are already beginning the process. The gain in profitability expected from this project is attractive. According to information provided by the project promoters, the incremental cost of this measure would be US$31 per hectare, while the incremental profits would amount to around US$54 per hectare in a cycle of approximately two years.

2. Innovations in linkage of the sheep and cattle production chain (US$5.0 million)

2.8 This component will provide partial financing for the execution of innovative business plans aimed at improving the competitiveness of the production chain through the promotion of new linkage modalities that involve two or more links in the cattle or sheep chain. The maximum period for achieving these objectives will be two years. The beneficiaries in this case will be vertical partnerships of breeders, feeders, and processors in any combination of two or more. There may also be vertical partnerships between producers, processors, and marketers of wool in any combination of two or more. The partnerships will be of various types, created on the basis of agreements, ad hoc contracts, corporations, or limited companies. The crucial variable of eligibility will be that these partnerships constitute an innovative means of linking the chain in the country, establishing certain legal rights and obligations for the parties involved.

> **Beneficiaries:** Vertical partnerships among participants in the production chain that incorporate agents from two or more links who present innovative business plans and are obligated to one another by means of legally binding and valid contracts and commitments.
> **Expenses eligible for subsidization**: Three types of support are envisaged: (i) for breeders included in the plan, under the same terms as in the first component if they belong to the target group; (ii) for livestock feeders included in the plan, up to 25% of eligible incremental expenses associated with implementation of the plan (excluding working capital and capital goods expenditures and any in-pasture expenses). If the vertical partnership proposed in the business plan incorporates breeders from the target group under at least a two-year contract, real estate investments will be eligible as part of the plan; and (iii) for the vertical partnership, 25% of eligible incremental expenses associated with the implementation of the plan, including technical and legal assistance, management, and logistics associated exclusively with administration of the plan.
> **Maximum amount of support:** For breeders, the same cap as for the first component; for feeders, a cap of US$7,000; for vertical partnerships, a maximum of US$50,000 per plan. The maximum amount available will be US$500,000 per complete plan, which is the sum of the three links in the chain.

2.9 Three types of support for the plans will be provided under this component:

a. For any *breeders* included in the plan, these breeders may enjoy the same benefits accorded under the first component and the resources allocated for it, provided they meet the eligibility criteria established for the first component (see box in paragraph 2.5). They will also be subject to the same obligations and maximum amounts of support set out under the first component.

b. For livestock feeders included in the plan, 25% of eligible incremental expenses associated with implementation of the business plan will be covered, excluding capital goods investments, working capital, and investments and expenditures for real estate, with a limit of US$7,000 per feeder. If the vertical partnership in the business plan provides for a contract of at least two years with breeders from the target group defined under the first component, real estate investments will be eligible as part of the plan, although the cap of US$7,000 per feeder will still apply.

c. Twenty-five percent of all the incremental expenses associated with implementation of the vertical partnership will be covered. Eligible expenses will include those related to technical and legal assistance, management, and logistics associated exclusively with administering the partnership arrangement. Capital goods investments, working capital, real estate investments and expenses of any type, and expenses for promotional campaigns will be expressly excluded. The maximum amount available will be US$50,000 per plan.

2.10 The total amount of support provided for each plan (the sum of the three types of support) may not exceed US$500,000 per plan.

2.11 As with the preceding component, the eligibility criteria for the business plans under this component will be whether or not they meet conditions of size, innovation, managerial capacity. The eligible plans will then be ranked according to the ratio of expected present value per hectare to amount of support per hectare, taking into account the potential for subsequent dissemination of the proposed innovation.

2.12 Analysis of the current situation of the livestock sector in Uruguay indicates that the formation of groups for the purpose of implementing innovations in linkage of agents in the production chain is a promising modality, but greater organizational efforts are needed. It is expected that five to ten plans will be incorporated in this category. In the medium and long terms, there will probably be greater demand for this type of proposal because, as the new business models that come out of these initiatives are validated, more agents will be motivated to adopt similar innovations. The project proposals reviewed during the analysis envision several innovative modalities for linking the production chain. One project, for example, proposes involving breeders in the finishing stage, through centers designed specifically for that purpose. Under this project, the breeders (many of whom today attempt to finish their own livestock, though they do so at high cost) would turn over their cattle to be finished more intensively and efficiently, which would generate economies of scale. Taking greater advantage of the benefits of specialization would thus lead to increased profitability.

3. Innovations in marketing (US$500,000)

2.13 This component will provide support for marketing campaigns included in business plans, whose objective is to position new products on the market or open up new markets at the international level. Individual export companies may submit proposals for support under this component without necessarily being in a partnership with groups of producers. The financing awarded will amount to 25% of the expenses associated with marketing campaigns, with a maximum of US$250,000 per business plan.

2.14 The mechanism for allocation of resources under this component will be an open call for proposals. An international jury will be formed to select the business plans to receive support, based on their innovative features, potential for generating export growth and increasing export unit value, and commercial feasibility.

Eligible beneficiaries: Companies or groups of companies that are already exporting or that, owing to their overall volume of domestic sales and their proven managerial capacity, have unquestionable potential for exporting.
Expenses eligible for subsidization: Expenses for international marketing campaigns designed to position new products or open up new international markets, provided such promotional campaigns are part of a comprehensive business plan. No permanent physical infrastructure of any type will be covered.
Maximum amount of support: 25% of eligible expenses or an absolute maximum of US$250,000 dollars per business plan, whichever is less.
Selection criteria: A call for proposals will be issued in order to receive business plans that may be eligible for financing under this component. The basic criteria for selection will be the cost-benefit ratio of each business plan.

2.15 Among the projects that have been identified as potential beneficiaries of this component is one aimed at developing a niche market for organic beef exports to serve the growing demand for this type of product, especially in the United States and Europe. The business plan calls for identification of the production systems required, appraisal of the current supply and of other potential competitors, estimation of the effective size of the markets to be penetrated, establishment of contacts, and, finally, implementation of specific activities to penetrate the potential markets for organic beef exports. Other potential recipients of support include processing plants that have developed initiatives to open up markets for their products.

D. Scope

2.16 The scope of the project has been determined bearing in mind that there are approximately 30,000 livestock operations with more than 20 hectares of land, and within this group there are approximately 9,500 small- and medium-scale breeders with between 300 and 1,250 hectares of land apiece (CONEAT index = 100). Of the latter group, it is estimated that the minimum critical mass needed to implement innovations in production management would be 5%, or approximately 500 producers. In addition, it is proposed that support be provided for 5 to 10 projects that would make it possible to evaluate innovations in linkage of the production chain to complement the activities carried out at the base of the chain.

E. Cost of the project

2.17 The total cost of the proposed project is estimated at US$11 million. The distribution of costs by sources of financing and categories of investment is shown in the following table.

Table II.1
Project costs in thousands of U.S. dollars

Categories	IDB-OC	Local	Total	(%)
1. Administration and supervision	**864**	**350**	**1,214**	**11.0%**
2. Direct costs	**6,390**	**2,126**	**8,516**	**77.4%**
2.1 Innovations in breeding	2,265	751	3,016	27.4%
2.2 Innovations in chain linkage	3,750	1,250	5,000	45.4%
2.3 Innovations in marketing	375	125	500	4.6%
3. Associated costs	**370**	**0**	**370**	**3.4%**
3.1 PPF	370	0	370	3.4%
Subtotal	**7,624**	**2,476**	**10,100**	**91.8%**
4. Financing costs	**76**	**824**	**900**	**8.2%**
4.1 Interest	-	740	740	6.7%
4.2 Credit fee	-	84	84	0.8%
4.3 Inspection and supervision	76	-	76	0.7%
Grand total	**7,700**	**3,300**	**11,000**	**100%**
% per source	**70%**	**30%**	**100%**	

2.18 The main categories of investment are described below.

1. Administration and supervision (US$1.21 million)

2.19 This category accounts for 11% of the total cost of the project. It includes expenditures for the purchase of equipment for the coordinating unit (US$35,000) and managerial personnel (manager, technical coordinator, and administrative-financial coordinator), as well as specialists in monitoring and evaluation, livestock production, information dissemination, environmental issues, and legal matters, who will support the project coordinating unit in evaluation, implementation of all project components, and activities related to information dissemination and training. This category also includes operating expenses (per diems, fuel, etc.) associated with project administration.

2. Direct costs (US$8.52 million)

2.20 This category accounts for 77% of the total cost of the project and includes the financing provided for business plans aimed at introducing innovations in management of breeding, linkage of the cattle and sheep production chain, and marketing.

3. Associated costs (US$370,000)

2.21 This category makes up 3.4% of the total cost of the project and includes US$370,000 to totally amortize loan 1270/OC-UR under PPF line of credit 006/OC-UR, to be used to support the Ministry of Agriculture and Fisheries in fulfilling the conditions precedent to first disbursement, including establishment of the project coordinating unit, review of proposed business plans, and strategic studies to enable the government to implement measures to improve the environment in which the livestock subsector operates. It also includes resources for design and installation of the project monitoring and evaluation system.

F. Financing for the project

2.22 The amount being requested from the Bank is US$7.7 million, which is 70% of the total cost. The resources would come from Ordinary Capital, to be disbursed U.S. dollars pursuant to Bank policies. The local contribution, which is equivalent to US$3.3 million, or 30% of the total cost of the project, would come from the Ministry of Agriculture and Fisheries.

2.23 If approved, the loan would be subject to the following conditions: (i) variable interest rate; (ii) credit fee of 1% annually of undisbursed balances; (iii) inspection and supervision fee of 0.75%; (iv) disbursement period of 30 months; (v) grace period of 30 months; and (vi) amortization period of 20 years.

III. PROJECT EXECUTION

A. Borrower and executing agency

3.1 The borrower will be the Government of the Eastern Republic of Uruguay. The executing agency will be the Ministry of Agriculture and Fisheries. The Ministry will carry out the functions of executing agency through the project coordinating unit (PCU). The unit will be supervised by an oversight committee composed of five members: 2 representatives of producers, 1 representative of the processing industry, and 2 representatives of the Ministry. The Ministry representatives will be appointed by the Minister and one of them will chair the committee.

3.2 The coordinating unit will be created by executive order. The normative and operational procedures for the coordinating unit will be set out in operating guidelines designed for that purpose, which will be approved by the Bank and the Ministry. The oversight committee will be created by ministerial resolution, and its operations will be carried out in accordance with guidelines agreed to by the members.

3.3 Structurally, the PCU will be divided into two areas: (i) the evaluation, learning, and monitoring unit, and (ii) the administration and finance unit. It will also have advisors in the legal and environmental areas. The technical personnel of the PCU will be responsible for coordination of the activities under the components.

3.4 **Establishment of the project coordinating unit and initiation of its operations, appointment of the project manager, and selection and hiring of the specialized technical personnel, according to the terms of reference approved by the Bank, as well as the creation of the oversight committee and appointment of its members, will be conditions precedent to the first disbursement.** Resources from the Project Preparation Facility (PPF) will be used to cover the costs associated with meet these conditions and other conditions precedent to disbursement.

3.5 The PPF resources will enable the project coordinating unit to get its activities under way. The unit will hire three professionals and an assistant on a full-time basis, a socioenvironmental specialist on a part-time basis, and five professionals to perform temporary functions. During project execution, this basic staff may be expanded if needed, up to a limit of eight full-time professionals and four full-time administrative staff. In addition, specialized consultants will be hired for the execution of temporary activities, such as support for the evaluation of business plans. The framework for execution also provides for the use of private facilitators to assist in the preparation and presentation of projects under component 1.

3.6 Considering that the framework for execution is one of the most notable innovations of the project, the best division between the permanent personnel, specialized consultants, and activities delegated to the producer partnerships will

not be decided until the execution phase. **The guidelines relative to the composition and operation of the PCU will be established in an internal procedures guide for the unit (operating guidelines) to be presented to the Bank by the Ministry of Agriculture and Fisheries within nine (6) months of the effective date of the loan contract.**

3.7 Draft budget legislation currently under consideration in the Uruguayan national congress allocates to the PCU and the project the counterpart resources required for project execution. Under national law, the deadline for approval of this legislation is 31 December 2000.

3.8 The PCU will implement an administrative system that includes an accounting system for financial management of the Bank and counterpart resources. It will also maintain separate bank accounts for Bank and counterpart resources. The transfer of project resources to other entities will be recorded in the PCU accounting system and in the accounting subsystems of those entities.

B. Project facilitators

3.9 The project facilitators will be private entities accredited by the project coordinating unit, which will be included in a list of facilitators authorized for the project. The facilitators will have two functions: (i) to identify, negotiate, and channel the presentation of business plans under the component of innovations in production management at the breeding stage; and (ii) to monitor and supervise the implementation of the business plans presented by themselves and approved by the PCU and verify the distribution of the resources allocated by the PCU to these projects. The functions to be delegated to the facilitators will be established in the *guide for implementation of business plans*, on the basis of which contracts will be established between the facilitators and the PCU. The compensation of these entities will be based on their level of activity as measured by the amount of financing awarded, which may be up to 10% of the resources allocated for the respective business plan. Payments to facilitators will be made together with the disbursements for the business plans that they are overseeing.

3.10 The PCU will issue an open call for proposals by parties interested in being listed as accredited facilitators. The list may include consulting firms, agroindustrial companies, or private service providers that are—or have technical departments or entities that are—nonprofit entities (producer groupings, NGOs). In all cases, the entities will be required to demonstrate that they have specialized technical and administrative services capable of performing the functions to be carried out. The *guide for implementation of business plans* will detail the requirements and eligibility criteria for facilitators. **Implementation of this guide will be a condition precedent to the first disbursement.**

C. Framework for project execution

1. Responsibilities of the PCU

3.11 The PCU will be responsible for all administrative, financial, and technical activities relating to project execution, as well as monitoring and supervision thereof. It will also take responsibility for identifying the lessons learned from the project and establishing positive points of reference and evaluation criteria with a view to developing a future livestock project that will expand on some of the components of this project and develop others. The PCU will directly administer all activities relating to evaluation of proposals, disbursement of financing, and implementation, monitoring, and evaluation of the project. In addition, the PCU will coordinate the activities of facilitators and other units and entities of the Ministry of Agriculture and Fisheries involved in the project, and it will represent the Government of Uruguay in dealings with the Bank concerning technical and financial aspects of the project.

3.12 The PCU will not be authorized to delegate responsibility for activities associated with approval of business plans, approval of disbursements, or monitoring of adherence to and achievement of the goals established in the business plans it approves.

3.13 For the organization of activities relating to promotion and dissemination of the project, the PCU will subcontract for the specialized services required.

2. Mechanism for execution of the components

3.14 A *guide for implementation of business plans* has been drawn up. The guide establishes tentative execution mechanisms, as well as details regarding the elements that will be financed for each business plan and the eligibility criteria that will apply. Bank procedures will be followed in both the procurement of goods and equipment and the selection and contracting of consulting services under each component.

a. Plans for innovation in production management at the breeding stage

3.15 For the execution of this component, the PCU will delegate responsibility for receiving business plans, supervision, and, partially, promotional functions to the project facilitators. These entities will also take responsibility for supervision and monitoring of the execution of the business plans, and they will submit disbursement requests to the PCU. The facilitators will consolidate and organize the proposals of productive agents at the stage of breeding, individually or collectively.

3.16 The disbursement of resources to support the business plans will take place in three stages. The first disbursement will be equal to 20% of the total resources and will be made at the time the agreement between the coordinating unit and the beneficiary producer is signed. The second disbursement will be equal to 40% of

the funds allocated and will be made when 50% of the stages in approved plan have been implemented. The remaining 40% will be disbursed upon completion of the implementation of the business plan and achievement of the competitiveness objectives established therein.

b. Plans for innovation in linkage of the sheep and cattle production chain

3.17 Under this component, the PCU will take direct responsibility for receiving business plans, verifying eligibility, supervising, and promoting the component. For business plans that contain elements related to the component of innovation in production management, the PCU will apply the selection procedures established for that component, the only difference being that the PCU may or may not delegate responsibility for monitoring the implementation of such innovations. Finally, the PCU will be responsible for signing contracts for the execution of business plans, as established in the Operating Regulations of the project.

3.18 The schedule of payments provides for advances apportioned according to the stage of implementation of the business plan, with 20% paid out upon signature of the agreement with the coordinating unit, another 40% paid out upon execution of 50% of the business plan, and the remaining 40% at completion of the business plan and achievement of the increases in competitiveness proposed under the plan.

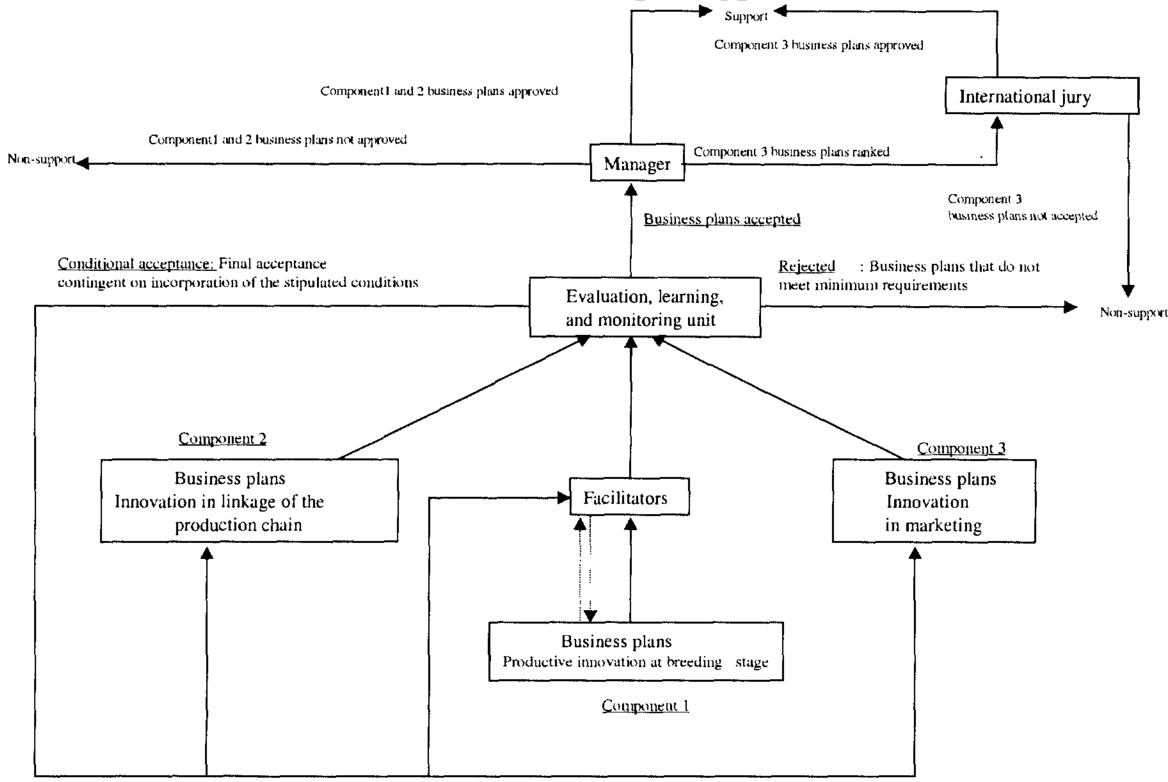
c. Plans for innovation in marketing

3.19 The PCU will issue a call for proposals in order to allocate the funding to be provided under this component. Its responsibilities will include both activities related to the organization and dissemination of information about the component and receiving the business plans submitted for funding under the component. In subsequent stages, the PCU will be responsible for formalizing the agreements and/or contracts with beneficiaries under this component and for monitoring and supervising the execution of those contracts.

3.20 Payment of the agreed support will be made upon execution of all the expenditures provided for under the business plan.

3.21 The flowchart in Figure 2 gives an overview of the approval process for business plans.

Figure 2
Flowchart of business plan approval



D. Socioenvironmental considerations during execution

3.22 Several environmental and social protection measures have been built into the project, including the following: (i) inclusion in the training and technical assistance activities of topics related to (a) effective handling of agrochemicals and integrated pest management and (b) water and soil protection and conservation measures; (ii) implementation of a system for assessment and control of environmental and social impacts of individual projects; (iii) inclusion of a study that will enable the incorporation of environmental monitoring indicators; (iv) inclusion of a study to examine the possibility of introducing the ISO 14,000 standards into the livestock production process; and (v) hiring of an environmental expert for the coordinating unit to address environmental issues related to the project.

3.23 The project is intended to function proactively and includes actions and methods aimed at ensuring the feasibility of the potential expected benefits. The guide for implementation of business plans will incorporate environmental principles, such as criteria for resource conservation and production management, waste generation, and minimization of chemical inputs. These will be taken into account in the design of the plans for innovation under the various components, in the evaluation of those plans, and in training and technical assistance activities. In addition, as the project is

implemented, it is expected that new environmentally positive opportunities will be identified as part of the effort to gain access to specific markets, such as the certified organic meat market, which will be promoted in a future program for the livestock sector. In this connection, the Project Preparation Facility (PPF) is currently providing support for a study to analyze the feasibility of introducing an environmental certification process for livestock production, along the lines of the ISO 14,000, as well as a study of possible environmental indicators to be included among the direct performance indicators for a future livestock program.

3.24 The PCU will have a socioenvironmental specialist, whose main responsibilities will be the following: (i) to finalize the criteria for socioenvironmental management to be incorporated in the guidelines for preparation of business plans; (ii) to develop and implement a system for socioenvironmental monitoring and evaluation of the components of the project; (iii) to develop and coordinate the implementation of training activities for facilitators and technical assistance for producers under components 1 and 2; (iv) to coordinate socioenvironmental monitoring of the business plans; (v) to identify opportunities for promoting environmentally sound activities to be explored under projects for innovation in the production chain and marketing; and (vi) to evaluate the results of the project and make recommendations for a system of socioenvironmental assessment, management, and monitoring applicable to livestock development.

E. Monitoring, reporting, and evaluation

3.25 Monitoring and supervision of project execution will be carried out through the Bank's Country Office in Uruguay. The project team and Country Office will conduct semiannual technical reviews to assess progress in execution over the previous six months, using the agreed indicators as a reference. These reviews will enable the Bank team to propose the adjustments needed to achieve the expected performance levels, as well as any other adjustments to the work plan that are deemed necessary.

3.26 At 15 months after the effective date of the loan contract, the Bank will conduct a midterm evaluation, which will build on the analysis undertaken in the semiannual evaluations. The performance indicators described in section IV.A. A final evaluation report will be submitted at the completion of project execution. The latter report will measure the extent to which the objectives and goals established in the logical framework for the project have been achieved.

3.27 Considering the various innovative aspects of the project for the country, it is proposed that a database be implemented, with PPF resources, to facilitate evaluation of the achievement of the objectives and goals established for the project in the logical framework. This database and the monitoring and evaluation system to be implemented will contain socioeconomic and environmental management indicators relating to the interventions and beneficiaries of the project. Minimally, the indicators should encompass the indicators established in section IV.A. **Prior to the first disbursement, the executing agency will be required to submit**

evidence that the monitoring and evaluation system has been implemented and that PCU personnel have been trained to operate it. Beginning 12 months after the implementation of the system, technical audits will be carried out to detect any needed adjustments. Refresher seminars will also be held to update the training of the technical personnel involved.

3.28 The project is expected to yield real economic impacts only in the medium and long terms. However, the Ministry of Agriculture and Fisheries, through the project monitoring and evaluation system, will compile information on the subsector, market conditions, costs and performance of the plans financed under the project, and relevant economic parameters in the event that it is necessary to evaluate the project's economic impact at the completion of its execution.

F. Audits

3.29 The financial statements for the project will be audited by the Office of the Auditor General of the Republic. These statements are to be submitted within 120 days following the close of each government budget year (31 December) during project execution.

G. Disbursement schedule

3.30 The execution and disbursement periods for the project will be up to 30 months. Disbursements will be authorized periodically, taking into account the recommendations contained in this document and in the pertinent regulations, as well as the timely availability of the counterpart resources.

Table IV-1
Disbursement schedule (in thousands of U.S. dollars)

Year	IDB-OC	LOCAL	TOTAL	%
1	1,994	645	2,639	26
2	2,675	865	3,540	35
3*	2,956	965	3,921	39
Total	**7,625**	**2,475**	**10,100**	**100%**

*Project execution will end 6 months into the third year.

H. Revolving fund

3.31 The resources from the Bank financing will be disbursed to the executing agency through a revolving fund equal to up to 5% of the loan amount.

I. Procurement of goods and services

3.32 All procurement of goods and equipment and contracting for consulting services to be paid for out of project resources will be carried out in accordance with Bank

procedures, including those established in document GN-1679-3. International competitive bidding will be required for procurement of items valued at US$350,000 or more for goods and US$200,000 or more for consulting services, when the bidder is a government entity. No investments in public works are anticipated under the project. Procurement of items of lesser value will be accomplished in accordance with national legislation, provided it is consistent with the Bank procedures. Supervision of contracting for the consulting services to be provided under the project with Bank financing will be carried out ex post for services valued at under US$20,000 for individual consultants and US$50,000 for consulting firms. Procurement of goods and services will take place according to the procurement schedule shown in Annex III-1.

IV. EVALUATION AND LESSONS LEARNED

A. Performance indicators

4.1 As a small pilot innovation project, it is hoped that one of the outcomes of the project will be identification of changes that, once implemented in a project of greater scope (a livestock development program), will have a significant impact on the country's economy.

4.2 The project therefore establishes *direct performance indicators* to measure progress in achieving changes (innovation) in three areas: land management (herd, pasture, and farm management), linkage of the production chain, and identification of new products and markets. The evolution of these indicators will yield lessons that will suggest changes to be incorporated in a future, larger-scale livestock program. The ultimate impact expected from the future livestock program is to increase profitability at the farm level and in the entire production chain.

4.3 The indicators established for the pilot project are therefore approximations which will make it possible to make adjustments and assess whether the changes (innovations) introduced during the first two years will be sufficient to bring about the proposed gains in profitability.

4.4 The direct indicators of progress to be used in the pilot project will be as follows:

a. *Ratio of total resources mobilized to resources disbursed under the project (annual indicator).* "Resources mobilized" means the total resources applied to the execution of business plans, including the support provided under this project, but also the resources applied by the beneficiaries and third parties (private financing). "Resources disbursed under the project" means all resources provided for support of business plans, as well as funds for administrative expenses and studies. This ratio will be measured cumulatively as the progress of the project is evaluated. To estimate total disbursed resources, the reports prepared by the beneficiaries and project facilitators on the status of the plans—duly monitored by the project coordinating unit—will be used. As a complement to this indicator, the operational ratio can be measured. In this ratio, the denominator will be disbursements to support business plans only. Given that support for business plans accounts for 25% of eligible expenditures, but also taking into account that the plans to be supported here involve innovations, some of which may be discontinued, a satisfactory operational ratio would be around 3 (if, for example, 30% of the plans—for which 20% of the resources had been advanced—were discontinued). An indicator significantly below 3 would suggest that the project has a low multiplier effect.

b. *Number of business plans being executed in a satisfactory manner (annual indicator).* The baseline will be the number of business plans developed

originally under the project; satisfactory execution will mean that the plan is being carried out as agreed. A level of 70% will be considered satisfactory for this indicator.

c. *Cost of executing each business plan (dollars per plan averaged for each component).* The baseline will be the budget amount estimated at the time the plan is developed. If 70% or more of the plans are being executed according to the original estimates, this indicator will be considered satisfactory.

d. *Increase in reproductive efficiency.* This indicator will apply to beneficiaries of the first component. It measures improvements in breeders' management of production. The indicator is number of calves divided by number of breeding cows older than one year. For sheep, it is number of lambs divided by number of breeding ewes older than one year. The baselines are average national aggregate data for breeders in the same segment as the beneficiaries of this project (segment defined by the scale). A statistically significant improvement with respect to the baseline will be considered satisfactory.

e. *Improvements in managerial practices.* This indicator will also be applicable to the first component. It is defined as the percentage increase in breeders who use registries (files) instead of booklets (expense vouchers).

f. *Improvements in linkage of the production chain.* This indicator applies to the second component and actually comprises two indicators: first, the number of agreements between two or more links in the chain and their expected impact, and, second, the number of head of livestock involved in the agreement as a percentage of the total number belonging to the group. The second indicator serves as a proxy for the benefits received by the members with respect to the linkage scheme being used.

g. *Improvements in marketing.* Number of additional products (and markets) attributable to the project and their expected impact.

h. *Impact of dissemination.* The last indicator on which it would be desirable to compile information—although it is highly unlikely that much information will be available, even at the end of the project—is the extent to which the successful business plans supported by this project begin to be emulated by producers who did not participate in the project. Nevertheless, it is recommended that the following information be collected: (i) number of seminars held to disseminate information on the plans and number of participants, and (ii) number of business plans which were proposed for the project but which did not receive support owing to lack of resources and follow-up on those projects.

B. Economic evaluation of the project

4.5 To estimate the economic benefits of the project, it will be necessary to have an estimate of the benefits generated by the innovative business plans implemented by

the producers with financing from the project. However, precisely because of the project's innovative nature, no explicit information on these plans is currently available, since they are to be formulated by the producers in the course of the project. Consequently, it is not possible at present to undertake a precise economic evaluation of the benefits of the project. More specific information on the expected benefits will become available following the process of selecting business plans, when the present value of the proposed plans will be a key factor in ranking them. It should therefore be possible to carry out an evaluation of the expected benefits one year after the initiation of the project, provided that, in addition to a profile of expected present value, information on several of the indicators described above is available. The paragraphs below outline the basic methodological elements to be borne in mind in such an evaluation. These guidelines might also be used in an ex post evaluation of the project.

4.6 Basically, the evaluation should distinguish the difference between the expected economic benefits of the business plans (EBBP) and the economic benefits *of the project* (EBP). The former will be determined by comparing cash flows, measured at efficiency prices "with" or "without" the business plan in question, which will yield the present value of the business plan. The second concept, on the other hand, will be determined by comparing scenarios "with" or "without" the project, which will make it possible to assess what might have happened if the business plans had not existed. For example, in an extreme case, it might be argued that even with highly profitable business plans (positive present value at efficiency prices), the innovations would have been implemented even if there had been no project. In that case—clearly an extreme—the EBBP would be positive but the EBP would be equal to zero (because the gains to society would be the same without or without the project).

4.7 To estimate the EBP, a plausible hypothesis must be advanced for the counterfactual scenario. It is proposed that the counterfactual scenario—i.e., what would have occurred in the absence of the project—be constructed taking as a reference a sample of producers with characteristics similar to those of the beneficiaries, *but who have not participated in the project.* To that end, it is suggested that once a critical mass of beneficiaries exists (six months from the start of the project), their principal characteristics be synthesized, based on a set of pertinent attributes (age, net worth, number of hectares, number of head of livestock, etc.). The database of the División de Control de Semovientes [Livestock Control Division] (DICOSE) will then be used to extract a random sample of producers who have a similar set of attributes but who are not participating in the project. This sample, known as the *control group*, will be used as a counterfactual reference to estimate the EBP and discern to what statistically significant extent the performance of the project beneficiaries differs from that of producers with similar characteristics who are not participating in the project. This will provide a solid basis for estimating the EBP since, in addition to the control group, information will be available on the evolution of the sector as a whole (the national average produced by DICOSE). The sample will make it possible to control the project results for other possible variables that might have a bearing on the ultimate

economic performance of the producer. The control group will be the instrument used for project supervision. Monitoring and comparison with the control group will continue throughout the project.

C. Benefits and risks

1. Benefits

4.8 The project will yield two types of benefits. One type of benefit is related to the learning that will take place with respect to innovative institutional strategies for addressing competitiveness problems. The second type encompasses the benefits that will arise from the implementation of the business plans and their subsequent adoption by other productive agents. Each type of benefit is described in greater detail below.

4.9 As regards learning, the innovation project will afford the opportunity to learn lessons about cost-effective institutional strategies for implementing a larger-scale innovation process. Specifically, the project will make it possible to ascertain the minimum levels of support necessary to induce private producers to adopt innovations that will lead to more successful business models. In addition, the project will make it possible to gage how each of the components is received with a view to scaling them up in the future.

4.10 The benefit from the business plans will be the increase in economic profitability resulting from implementation of the innovations supported by the project and their later dissemination and adoption by others. In other words, the aggregate economic benefit of the business plans will comprise the added value generated by the project beneficiaries plus those benefits that arise from the process of adoption by other agents.

2. Risks

4.11 The following risks to the project's success have been identified: (i) lack of a sufficiently large *critical mass of eligible business plans* to permit scaling up the project; (ii) *insufficient mobilization of financial resources* to finance the innovations supported by the project; and, finally, (iii) *escalation of the recent resurgence of foot-and-mouth disease (FMD).*

4.12 With regard to the uncertainty as to the existence of a critical mass of projects, it is worth noting that polls taken on the ground suggest that the current number of potentially eligible business plans, combined with those that may be proposed subsequently, is sufficient for the implementation of the project. However, the same is not true of the number of projects needed to develop a larger-scale project. Among other things, the pilot project will serve to determine whether or not the number of business plans would permit the implementation of a larger project. Moreover, the execution of a pilot project will have indirect benefits in that it may be a good means of incentivizing and promoting the development of new business plans.

4.13 As for the possibility that the FMD problem might worsen, it should be acknowledged that this is an element that could prove detrimental to the project, as it would affect the expectations of the economic agents involved, particularly with regard to the development of new export markets and products. Nevertheless, this is a risk that should not be overemphasized, given the potential that still exists in the FMD circuit (notably the possibility of raising the average return obtained on the Hilton quota) and the possibilities for mitigating the FMD problem in the commercial sphere through appropriate trade negotiations (e.g. reiterating the principle that there are no health risks associated with exports of chilled meat off the bone, as has been shown by the experience of Chile, an FMD-free country that nevertheless imports half the meat consumed domestically from countries that are not FMD-free under the aforementioned conditions).

4.14 Finally, the success of the project hinges on mobilization of economic resources to finance the implementation of the innovations proposed under the various business plans. In other words, if the necessary resources are not mobilized for the sector, it will not be possible to implement the innovations supported by the project, and the economic benefits of the project will be lower than expected. It will be important to explore possible financial innovations that might facilitate the mobilization of resources. The allocation of resources for that purpose under the PPF is therefore justified.

D. Environmental and social feasibility

4.15 Livestock breeding operations are located in regions that almost always have serious physical limitations, including surface soils characterized by low fertility, with little possibility for incorporating intensive pasture improvements. These limitations are reflected in extensive grazing on natural pastures with low technology and very limited use of chemical inputs. These practices are well exemplified in the basalt plateau region, where major technological change and production intensification measures have already proven to be largely unfeasible. Hence, livestock production in these areas has not caused the environmental degradation problems that have been seen in other agricultural activities. The project aims to facilitate changes in the management of the factors existing in the environment where the property is located in order to overcome the barriers to competitiveness, mainly by supporting the process of productive innovation through components relating to management of the breeding process, implementation of new approaches to reduce transaction and intermediation costs along the production chain, and, in the area of marketing, the search for new market niches.

4.16 From a social standpoint, the impact of the project is expected to be highly positive, since it proposes to create conditions that will allow those producers who so desire to remain on their lands without the economic imperative of looking for new income opportunities in urban areas. By mobilizing producers to submit business plans, the project will help strengthen processes of open discussion, which will lead

to greater social equity and transparency in the allocation and expenditure of the resources.

4.17 Given the project's characteristics and scope, it is not expected to produce any direct negative impacts on the environment. However, in spite of extensive management on natural pastures, livestock production as currently practiced in Uruguay may be causing negative impacts, mainly related to overgrazing and improper pasture management, which could lead to the degradation of vegetation, increased erosion, and deterioration of soil fertility and structure. This impact could be particularly critical in some areas of the basalt plateau, owing to the natural limitations of that region. Moreover, use of agrochemicals, especially those used to treat animals, poses a risk of surface and ground water contamination, as well as a risk of poisoning to farmers, as a result of handling the substance without protective equipment and improper disposal of waste solutions from treatments, with the attendant risk of contaminating local water sources.

4.18 The development of business plans will afford opportunities to incorporate possible improvements in environmental conditions in the production sphere. For example, the breeding techniques proposed under the business plans might alleviate animal pressure on pasturelands through the use of rotational and deferred grazing, coupled with strategies for the placement of water and salt, since animals frequently congregate at these points and they are therefore more vulnerable to pasture degradation and erosion. From a market point of view, given the natural conditions and the production methods employed, the Uruguayan livestock sector has several advantages of an environmental nature. In addition to its status as a country free of FMD without vaccination, Uruguay offers notable opportunities in the commercial sphere that have not yet been adequately explored, including the following: (i) livestock production through open-air grazing, primarily on natural pastures; and (ii) prohibition of the use of growth hormones and other hormones. Meat produced under these conditions can therefore be classified as natural, and with relatively little additional effort, it could be classified as organic—a real possibility that will be explored under the pilot project. In order to take advantage of these opportunities, which will make it possible to add value to exports, commercial promotion instruments are needed, as is the establishment of typing and tracing mechanisms that can demonstrate the quality and reliability of products and processes.

4.19 In order to avoid possible negative impacts and, above all, maximize the environmental benefits of the project, procedures for the analysis of environmental quality and social equity have been incorporated into the guide for implementation of business plans as part of the eligibility criteria and process for approval of projects. These criteria emphasize adherence to laws and standards relating to environmental protection, plant and animal health, natural resource management, use of agrochemicals, and protection of human health—all of which are currently being applied in the country—as well as identification of opportunities for improvement. As part of the monitoring of project execution, the semiannual technical reviews will include a system for monitoring socioenvironmental aspects

of approved business plans. The effective application of these procedures, as well as the monitoring and supervision of socioenvironmental aspects of approved projects, will be assured by the inclusion of a socioenvironmental specialist on the staff of the project coordinating unit, as described in paragraph 3.24. In addition, the technical audits of the project monitoring system scheduled for 12 months after the start of project execution will reveal any needed adjustments.

E. Learning

4.20 The analysis of the project results will not be limited to verifying that the performance indicators have been achieved, but will also seek to identify the crucial determinants of the success of the plans. Hence, the performance indicators and their degree of achievement will be analyzed in relation to the characteristics of the producers (age, education, size of operation, etc.) and the proposed plans (vertical integration modalities, for example) in order to reach conclusions regarding the decisive or explanatory factors in their success or failure. A clear understanding of these factors will be key for the development of a future livestock program of broader scope and coverage, since it will make it possible to focus efforts on those cases with the greatest possibilities of success, thus achieving gains in impact and efficiency in resource use.

LOGICAL FRAMEWORK: INNOVATION PROJECT TO ENHANCE THE COMPETITIVENESS OF URUGUAY´S LIVESTOCK SECTOR
UR-0137

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
Introduce and validate innovative institutional strategies to enhance the competitiveness of cattle and sheep production	Improvement in profitability throughout the production chain, greater specialization, wide dissemination of more competitive benchmarks, increase in the value of exports	Aggregate statistics on the sector	A stable macroeconomic framework, favorable for private investment, will be maintained, and the capital market will play an active role in the mobilization of the complementary resources needed for the innovations.
		Monitoring system of the Agricultural Services Program– UR-0116	The country will maintain its FMD-free status. A broad and dynamic process of private dissemination of the innovations will take place.
PURPOSE			
To promote innovations in production management at the breeding stage	1.1 Participation by approximately 500 small- and medium-scale breeders in innovative plans for production management and around 500 in innovative business plans for linking the production chain	Oversight and monitoring by the PCU of the business plans supervised by facilitators	The proposed incentive levels will be sufficient to engender a process of innovations by producers.
To promote innovations in linkage of the production chain To promote innovations in marketing	1.2 Presentation of two innovative business plans in the area of marketing 1.3 Improvement in reproductive indicators	Oversight and monitoring by the PCU of the business plans for vertical linkage and marketing innovations	The financial sector will be interested in mobilizing the complementary resources needed for the business plans supported by the project.
To learn lessons relating to institutional strategies and marketing for a future program of greater scope and coverage	1.4 Progress in specialization of the production chain and reduction of transaction costs	Comparison of technical and financial performance parameters of the producers involved in the plans, utilizing aggregate data from the country	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENTS			
BUSINESS PLANS			
1. Innovation in production management at the breeding stage	1.1.1 Approximately 500 breeders, working in groups or individually (coordinated under a master plan), assisted by various facilitators, formulate and execute their business plans for innovation in production management.	- Oversight and monitoring of the facilitators by the PCU	Incentives will be sufficient so that at least 5% of the breeders in the target group decide to formulate and execute innovative business plans. Incentives will be sufficient to attract skilled and experienced facilitators. The necessary complementary resources will be mobilized.
2. Innovation in linkage of the production chain	2.1 Implementation of 5–10 innovative business plans, each of them connecting two or more links in the chain 2.2 Participation by approximately 500 breeders from the target group in the plans, directly or by means of long-term contracts	- Oversight and monitoring of business plans by the PCU	Incentives will be sufficient to motivate the introduction of innovative strategies for linking the production chain. The necessary complementary resources will be mobilized.
3. Innovation in marketing	3.1 Implementation of 2 business plans for marketing campaigns and penetration of new markets for new products and/or markets for the Uruguayan meat sector	- Oversight and monitoring of business plans by the PCU	Incentives will be sufficient to motivate the introduction of innovations in marketing.

COMPONENTS	ACTIVITIES	INDICATORS	COSTS
1. INNOVATIONS IN PRODUCTION MANAGEMENT AT THE BREEDING STAGE	COST OF THE COMPONENT		US$ 3.02 million
1.1 Support for the formulation of innovative business plans for the breeding stage	1.1 Financial support for the preparation of business plans	- Formulation and submission to the PCU of approximately 500 business plans that are subsequently approved by the unit	US$ 0.13 million
1.2 Execution of business plans that introduce innovations at the breeding stage	1.2 Provision of financial assistance for selected business plans proposed by facilitators	- Approval and implementation of a total of 350 business plans in the first 12 months of project execution	US$ 2.65 million
1.3 Facilitators	1.3 Promotion, receipt, and submission to the PCU of business plans that meet the basic eligibility criteria for the component	- Submission to the PCU of a minimum of 500 business plans that meet the basic eligibility criteria.	US$0.26 million
2. INNOVATIONS IN LINKAGE OF THE PRODUCTION CHAIN	COST OF THE COMPONENT		US$ 5.0 million
2.1 Support for the execution of business plans that introduce innovative modalities of linking the production chain	2.2 Provision of financial assistance for the business plans selected, disbursements made according to the evolution of the business plans	- Support for the execution of 5–10 innovative plans, which are expected to involve approximately 500 small- and medium-scale breeders	US$ 5.0 million
3. INNOVATIONS IN MARKETING	COST OF COMPONENT		US$ 0.5 million
3.1 Support for the execution of business plans that introduce innovations in marketing	3.2 Support for promotional and market penetration campaigns included in the innovative business plans that have been selected by an international jury formed specially for that purpose	- Support for the execution of 2 business plans that will lead to the introduction of new products and/or open up new export markets for Uruguayan meat products	US$ 0.5 million
4. EXECUTING UNIT	COST OF THE COMPONENT		US$ 1.21 million
4.1 To administer human and financial resources in order to achieve the project's objectives	4.2 Draw up list of facilitators 4.3 Promote the preparation and submission of business plans 4.4 Receive and analyze business plans for the three components	- Development of list of facilitators - Evaluation and selection under component 1 of approximately 400 business plans that meet the basic eligibility criteria	

COMPONENTS	ACTIVITIES	INDICATORS	COSTS
	4.5 Select and approve financing for eligible business plans under components 1 and 2 4.6 Empanel the international jury that will select the business plans to be financed under component 3 4.7 Monitor and oversee progress in executing the business plans approved by the PCU and the international jury 4.8 Approve payments in accordance with the terms of contracts and/or agreements signed with the project beneficiaries 4.9 Promote and disseminate the experiences gained from project execution 4.10 Prepare for the implementation of a larger-scale livestock program 4.11 Identify the principal lessons learned from the project 4.12 Report to the oversight committee on progress in project implementation	- Receipt, evaluation, and selection of 5–10 business plans under component 2. - Receipt and pre-selection of business plans under component 3. - Monitoring of the execution and results of the business plans supported under the project - Evaluation of project - Lessons learned for the implementation of a larger-scale livestock program - Development of operating regulations for the implementation of a larger-scale livestock program - Organization of seminars and other activities to promote successful innovation experiences	

TENTATIVE PROCUREMENT SCHEDULE

ITEMS	PACKAGES	FINANCING		TYPE	COST (thousands US$)	TENTATIVE DATE
		IDB	LOCAL			
Consulting services[1]						
1. Consultancy in breeding innovations	Several	75	25	Firm/Indiv/IC/LC	2,753	2001/02
2. Consultancy in production chain innovations	Several	75	25	Firm/Indiv/IC/LC	5,000	2001/02
3. Consultancy in marketing innovations	Several	75	25	Firm/Indiv/IC/LC	500	2001/02
4. Facilitators	Several	75	25	Indiv/LC	263	2001/02
5. Consultancies executing unit[2]	Several	75	25	LC	688	2001/02
Equipment						
6. Furnishings and supplies	1	100		SH	5	2001
7. Vehicles	1	100		SH	35	2001

[1] No international competitive bidding is foreseen. Contracts will be awarded on the basis of calls for proposals or short lists of consulting firms or individuals, national or international.

IC = International consultancy
LC= Local consultancy
SH = Shopping

[2] Note: This percentage (92%) reflects the total resources available under this operation for staffing the executing unit. The PPF resources of US$370,000, which are also part of the loan , will be used to hire consultants to get the unit up and running. Some of these consultants may later be rehired with funds from this operation.

LEGIII/UR-2712

PROPOSED RESOLUTION

URUGUAY. LOAN ____/OC-UR TO THE
REPUBLICA ORIENTAL DEL URUGUAY
(Pilot Project to Enhance the Competitiveness of Uruguay's Livestock Sector)

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 the pilot project to enhance the competitiveness of Uruguay's livestock sector. Such financing will be for the amount of up to US$7,700,000, from 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.