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PR-2471 Rev.  
6 December 1999  
Original: Spanish

**To:** The Board of Executive Directors

**From:** The Secretary

**Subject:** Uruguay. Executive summary of the proposal for financing and technical-cooperation funding for recycling enterprises in Montevideo. Social Entrepreneurship Program

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**Inquiries to:** Mrs. María Victoria de Lleras (extension 3002)

**Remarks:** Attached for your information, in accordance with the procedures set out in document GP-75-9, is the executive summary of a proposal for financing and technical-cooperation funding for recycling enterprises in Montevideo, Uruguay.

On December 13, 1999, the date on which the five-day circulation period required for this document expires, the President, or such officer as he may designate, will approve this operation.

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**Reference:** GP-75-9

**Other distribution:** Managers, Division Chiefs, Representative in Uruguay

## URUGUAY

### PROPOSAL FOR FINANCING AND TECHNICAL-COOPERATION FUNDING FOR RECYCLING ENTERPRISES IN MONTEVIDEO

(SP/TC-98-00-55-0)

#### EXECUTIVE SUMMARY

**Executing agency:** Organización San Vicente (OSV)

<b>Amount and source:</b>	OSV contribution:	US\$ 16,000
	Recyclers' contribution:	US\$ 14,400
	Financing:	US\$250,000
	Technical cooperation:	<u>US\$250,000</u>
	Total:	US\$530,400

The financing will be from the net income of the FSO in foreign exchange.

<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Grace period:	5 years
	Disbursement period:	48 months
	Interest rate:	5% annually in Uruguayan pesos

**Objectives:** The general objective of the project is to establish microenterprises based on productive initiatives by solid waste sorters in Montevideo. This process will help mainstream the sorters and will get them involved in the market for goods and services, generating an alternative source of income for them and contributing to solid waste disposal and environmental management in Montevideo.

The specific objectives of the project are to provide: (i) business and commercial training to some 300 recyclers; and (ii) financing for the working capital they need to start up their microenterprises.

**Description:** The proposed project consists of providing training for solid waste recyclers and promoting the microenterprises they start up in Montevideo.

Solid waste sorters in Montevideo are a floating group of about 5,000 who work by combing the city streets at night in search of useful materials that can be sold on the recyclables market.

They recover materials for major markets, such as metals, textiles and rags, glass and bottles, wood and sawdust, and paper and cardboard. Some have learned to handle these materials and have become middlemen, while others remain sorters but would like to set up their own businesses. To do so, however, they need management and technical training to learn how to overcome market barriers and they need working capital to launch their activities to recycle waste or transform it into another product (piping and other hardware out of iron, crafts in copper and brass, material for plant nurseries and ornamental items from PET plastic, etc.).

The program will be carried out through agreements with institutions specializing in both credit and training for microenterprises. However, OSV will be responsible for administration and execution of the proposed program and will have the following duties: (i) identify the most suitable candidates to participate in the program; (ii) assess whether the businesses they propose are feasible; (iii) participate actively on the credit committees; (iv) provide support for loan monitoring and repayment; and (v) oversee the new businesses on a temporary basis.

For the project to represent a higher value added, the credit component will be executed by any institution specializing in microcredit that operates in Montevideo, most of which have received support for institutional strengthening from the Bank. The financial NGO would do so at its own risk and with its own credit technology, and would be responsible for the entire lending process, from loan analysis to approval and repayment. The only stages in the lending process that would be covered by OSV would be borrower identification and project monitoring. OSV would have a permanent seat on the NGO's loan committee and on its portfolio analysis committee.

Under the institutional strengthening component, training and technical assistance will be provided for both the microentrepreneurs and OSV. To strengthen the managerial capacity of the recyclers, OSV will also hire the services of institutions specializing in microenterprise training that would be in charge of imparting the know-how, transferring technology, and providing technical assistance in management and investment project preparation for recyclers, agroecology, environmental protection, occupational health, and accident prevention.

In addition, OSV will be strengthened so that it improves its internal procedures for program monitoring and for finance, accounting, and systems.

**Environmental impact:** At its August 9, 1999, meeting, the Committee on Environment and Social Impact considered this operation and made recommendations that have been incorporated into the program design and proposal.

**Beneficiaries:** An estimated 300 waste sorters will benefit from the proposed program.

**Risks:** The main program risk is that the recyclers may not take the proper approach towards repaying the loans. To mitigate this risk, an institution specializing in microcredit management will execute this component, at least in the first few years. OSV will be actively involved in the process, closely monitoring the program, and may even award performance bonuses. In addition, the sorters will be given training that will help them assess the risks of the projects they are going to implement, and they will be monitored by OSV on an ongoing basis.

To mitigate the potential risk associated with the quality of the training provided, the contract for this component will be awarded through a competitive process and will be executed by two different institutions at the same time in order to stimulate competition (see paragraph 5.8).

**The Bank's country strategy:** The Bank's strategy in Uruguay is to support: (i) structural reforms in the central government; (ii) initiatives to improve the environment for private investment, including financing for basic infrastructure and assistance for implementation of a business development strategy; and (iii) efforts to improve the delivery and quality of social services, modernizing the education and health sectors (Programming Memorandum CP-1013 of March 1996). The proposed program is consistent with subparagraph (ii) above.

**Special contractual clauses:** In addition to the general contractual conditions, it is recommended that the agreement for financing and technical-cooperation funding include the following special conditions:

**Conditions precedent to the first disbursement of the financing:**

- a. As a condition precedent to disbursement of the credit component resources, the executing agency must submit, to the Bank's satisfaction, the documentation for the competitive process through which the contract for execution of this component will be awarded, and must demonstrate, by means of statistical reports on the institutions providing the training services, that this component is under way (paragraph 4.8).

**Conditions precedent to the first disbursement of the technical-cooperation funding for recycler training:**

- b. As a condition precedent to disbursement of the technical-cooperation funding for recycler training, the executing agency must submit, to the Bank's satisfaction, the documentation for the competitive process through which the contract for execution of this component will be awarded (paragraph 4.13).

**Conditions precedent to the first disbursement of the technical-cooperation funding for institutional strengthening of OSV:**

- c. As conditions precedent to disbursement of the technical-cooperation funding for institutional strengthening of OSV, the executing agency must submit the terms of reference for the business advisor and must demonstrate that the financial and accounting adviser and the public information expert have been selected (paragraph 4.13).

**Recognition of previous expenditures:**

Up to the equivalent of US\$3,000 in Uruguayan pesos may be recognized as chargeable to the technical-cooperation funding since the latter includes financial support to defray the cost of the consultant who prepares the documentation for the competitive selection and subsequent evaluation of the institutions that carry out the various components (paragraph 4.13).

**Evaluations:**

- a. In order to correct any problems that may arise during program implementation, a consultant specializing in institutional development will conduct a mid-term evaluation. The Bank's Country Office in Uruguay will directly hire the necessary consulting services using resources from the technical-cooperation funding. The evaluation will be conducted once 40% of the credit component resources have been disbursed or half of the term for program execution has elapsed, whichever occurs first.
- b. The purpose of the evaluation will be to: (i) review the progress made in program execution and determine to what extent OSV has achieved its goal of developing productive commercial recycling businesses; (ii) evaluate the technology used by the institutions providing the training and credit services and the degree to which it was accepted by the recyclers; (iii) evaluate the performance of the recyclers as borrowers; (iv) evaluate execution of the agreement with the financial NGO; (v) evaluate

strengthening of the OSV; and (vi) design the final project evaluation.

- c. The Bank will review the findings and recommendations of the evaluation and, if it deems them satisfactory, will authorize OSV to commit the balance of the credit component resources. Should any deficiencies be detected in execution of the training component, disbursements for that component will be suspended until such time as it can be demonstrated that the problems identified have been remedied. Should any deficiencies be detected in execution of the credit component, the remaining resources under that component (60%) may not be committed until the OSV submits evidence that the necessary measures have been taken to correct them.
- d. The OSV will submit to the Bank a final report on the results of the program and the benefits obtained. A consultant hired by the Bank will conduct the final evaluation of the program, as designed in the mid-term evaluation.