PROGRAM TO STRENGTHEN THE RETAIL TRADE

(TC-98-01-29-3-UR)

EXECUTIVE SUMMARY

EXECUTING AGENCY:	Centro de Almaceneros Minoristas, Baristas y Afines del Uruguay (CAMBADU)
OBJECTIVES:	The general objective of the program is to assist in efforts to make the retail industry and allied trades more competitive. Specific objectives are to: (a) improve retail business management; (b) foster alliances among retail establishments; (c) consolidate CAMBADU; and, in so doing, (d) accomplish an endeavor that can have a demonstration effect.
COST AND FINANCING:	Beneficiary: US$1,950,000 MIF: US$1,950,000 Total: US$3,900,000 The MIF contribution will be nonreimbursable (Facility III).
EXCEPTIONS TO POLICY:	None.
SPECIAL CONTRACTUAL CONDITIONS:	<u>Conditions precedent to the first disbursement</u> - Selection of the program director in accordance with terms of reference agreed upon in advance with the Bank. <u>Conditions during implementation</u> - The program will run for 42 months. The contribution will be disbursed over 48 months. - Proceeds of the financing may be used to pay a maximum of 70% of the cost of any item of equipment procured. - The training and technical assistance coordinators are to be hired within the first 12 months of the program, in accordance with terms of reference agreed upon in advance with the Bank. - Three evaluations will be conducted: (a) 12 months after signature of the agreement; (b) 24 months after the start of the project; and (c) 30 months after the

start of the project. CAMBADU will hire the external consultants in accordance with terms of reference agreed upon in advance with the Bank.

- The advance of funds will be 10%.

I. COUNTRY ELIGIBILITY

1.1 The Eastern Republic of Uruguay was declared eligible for MIF financing on October 6, 1993.

II. FRAME OF REFERENCE

2.1 Uruguay has a diversified economy, in which commerce and the restaurant and hotel industry together account for 12% of GDP.

2.2 Uruguay's economic program, against the backdrop of globalization, is transforming consumer market behavior and marketing approaches. Traditional retailers are feeling the impact of large supermarkets, fast-food chains, and informal vendors.

2.3 As retailers see their market share diminish, they are setting about to change their way of doing business, aware that they have no choice but to become more competitive. This will mean lowering their operating costs and improving conditions of supply. One crucial element in becoming more competitive will be to build partnerships or alliances and tap into business management services.

INDUSTRY SHARE OF GDP*

SECTOR	%
Agriculture and fishery	10
Industry and mining	17
Electricity, gas and water	4
Construction	4
Commerce, restaurants and hotels	12
Transportation and communications	7
Financial services, insurance	8
Business services, real estate	17
Other services	21
TOTAL	**100**

* Source: Uruguay XXI, Investment and Export Promotion Agency, 1996

2.4 A number of Uruguayan organizations offer services to the business community, but none of them specifically target the retail and allied trade. One institution that does supply some services to help businesses in this sector to better manage their operations is Centro de Almaceneros Minoristas, Baristas y Afines del Uruguay.

III. THE PROGRAM

A. Objectives

3.1 The general objective of the program is to assist in efforts to make the retail industry and allied trades more competitive. Specific objectives are to: (a) improve retail business management; (b) foster alliances among retail establishments; (c) consoli-

date CAMBADU; and, in so doing, (d) accomplish an endeavor that can have a demonstration effect.

B. Beneficiaries

3.2 The program would benefit retail merchants 1/ and operators of comparable businesses who employ up to 19 people and have the means to participate in the program.

C. Program description

1. Support for business management

3.3 The aims of this component are to: (a) institute a business training plan to help convert traditional businesses; (b) provide technical assistance to resolve problems associated with business innovation; (c) expedite access to lines of credit, by preparing dossiers for presentation to banks; and (d) expand current advisory services on tax, legal, financial, and accounting matters, and on projects to modernize marketing infrastructure.

2. Strategic alliances

3.4 This component will: (a) strengthen retailers' bargaining capacity with financial institutions (credit cards) and wholesale food and beverage suppliers; (b) set up bulk buying centers or other facilities, by locality, so retail merchants can obtain discounts and better payment terms; and (c) pool efforts to raise awareness of the program and promote it.

3. Consolidation of CAMBADU

3.5 This component will: (a) bring in small retail establishments, primarily those operating in the country's interior, fostering demand for CAMBADU's services and activities to improve business management; (b) set up a database containing information relevant to the sector, such as products, suppliers, and prices of interest to retail merchants and similar businesses; (c) conduct sector surveys to be able to devise integrated strategies and action plans; (d) expedite home-delivery services using portable computers; and (e) form alliances with other trade organizations (bakers, butchers, etc.) to share services such as business training.

1/ The Commercial Code defines retailers as those persons who, being intermediaries between producers and consumers, purchase an item with the intention of reselling it to ultimate consumers either in the same state in which the item was purchased or after adding value to it, and who engage in this activity repeatedly and habitually, as a livelihood.

D. Replicability of the experience

3.6 Because retailers throughout the region are going through the same changes as their Uruguayan counterparts, there are expectations as to the operation proposed herein. If it runs well, it could be replicated elsewhere in Uruguay and in the region.

IV. PROGRAM IMPLEMENTATION

A. Executing agency

4.1 Centro de Almaceneros, Baristas y Afines del Uruguay (CAMBADU) was founded on October 26, 1892. It is an apolitical civil organization representing 3,300 retail merchants, who operate shops, bars and cafés, and allied trades.

4.2 CAMBADU's mission is as follows: 2/ (a) foster ties between all its member businesses, to advocate as one body for their general business interests and those of the retail trade generally; (b) defend the material and moral interests of its membership; and (c) promote the technical and cultural advancement of its members. In pursuit of this mission, CAMBADU may establish such administrative services as it considers necessary or advisable, and foster ties with similar organizations.

4.3 CAMBADU's supreme authority is its general assembly. Its board of directors oversees, manages, and represents the organization in all acts and contracts, being vested with broad powers. The manager reports to the board for all administrative matters. CAMBADU's capital and assets consist of member dues, real estate, securities and rights.

4.4 CAMBADU currently provides services in the following areas: (a) taxes and tax payments; (b) labor matters and legal services; (c) social security and contribution payments; (d) accounting (payroll, taxes, social security, etc.); (e) free life insurance, with no age limit and no medical-exam requirement, through an agreement with Banco de Seguros; (f) bulk purchasing and "weekly specials"; and (g) payment arrangements for Macrocard, Cabal, and OCA. The cost of these services is defrayed by member dues and by fees charged for some services.

2/ CAMBADU revised by-laws, Article 1, January 17, 1991.

B. Implementation

1. Organization for implementation

4.5 CAMBADU would implement the program using its own administrative infrastructure, with support from outside consultants to manage the program and provide services.

4.6 The program director will administer program activities and track fulfillment of objectives. He/she will be responsible for the operations elements of the program, including terms of reference of consultants hired for the program. The program director's office will operate out of CAMBADU headquarters and will report to the organization's manager. Selection of the director will be a condition precedent to disbursement of the MIF funds.

4.7 The program also will have a training coordinator and a technical assistance coordinator, who will be hired during the program for as long as necessary.

4.8 The program is intended to be demand-driven. The program director, coordinators, and consultants will identify specific training and technical assistance needs of merchants and operators of allied businesses, and on that basis the different activities will be organized and funds will be allocated to contract for courses and/or technical assistance, using modern business management methods.

4.9 Aspects to be addressed include, but are not limited to, the following: strategic planning, organizational restructuring, marketing mechanisms, quality, design, adoption of new technologies, environmental protection, health and occupational hygiene, and generally, any matter that can optimize a business's overall management or any specific elements of its operation. Every business will have access to this system in a number of forms: individually, in association with other businesses, for diagnostic or implementation projects.

4.10 When requirements in the conditions precedent to disbursement of the funding have been fulfilled, the Bank may advance up to 10% of the contribution to establish a revolving fund, provided the need for such an advance to defray costs that are required to implement the program and that are eligible for financing from the contribution is duly justified.

2. Procurement

4.11 Because the executing agency and the beneficiaries are private companies, 3/ the IDB and MIF procurement policies and provisions that will apply are those having to do with appropriate use of funds of the contribution, eligibility of goods (MIF member countries), and the rule of economy and efficiency.

4.12 For the planned purchases and contracts CAMBADU will use competitive methods that are in line with market practices and the organization's needs, with prices, terms, and conditions that conform to the program requirements. To that end, CAMBADU and the Bank are to agree upon thresholds and/or cases for which a prior non-objection will be required based on terms of reference and equipment specifications and selection and/or procurement procedures.

3. Environmental and social impact

4.13 The Bank's Committee on Environment and Social Impact considered this operation at meeting TRG07/98 on February 27, 1998, and recommended that (a) the Bank's environmental guidelines for microenterprise operations be followed, and (b) the training and technical assistance activities cover environmental protection considerations in the participants' business activities. These elements will form part of the monitoring and evaluation process.

V. COST AND FINANCING

A. Cost

5.1 The estimated cost of the program is US$3.9 million. CAMBADU will furnish US$1.95 million of the total and the MIF will provide the US$1.95 million balance on a nonreimbursable basis. The following is a breakdown of the program's cost and financing.

3/ As provided by the IDB, businesses in which the government holds no equity interest or owns less than 50% of the capital stock.

(in thousands of U.S. dollars)

ACTIVITIES	CAMBADU	MIF	TOTAL
Program management	500	477	977
Specialized services	505	588	1,093
Equipment	300	290	590
Promotion	400	300	700
Auditing, monitoring, evaluation	50	100	150
Contingency	195	195	390
TOTAL	**1,950**	**1,950**	**3,900**
Percentage	50	50	100

5.2 The MIF funds will be used to hire consultants for the following work: (a) management of the program, technical assistance, training, and expansion and technification of services now being offered; (b) database and software development; (c) sector surveys; and (d) publicizing the program.

5.3 The local counterpart resources will cofinance the same activities as the MIF, but mainly items such as taxes on fees, other levies, administrative support staff, furnishings, work materials and supplies, office equipment, and 30% of computer hardware costs.

B. <u>Sustainability</u>

5.4 CAMBADU is already providing services whose costs it is covering with fee revenues for the services themselves and/or with member dues. The intention is that before year 4 of the program implementation period, for the new services and expanded existing ones, the prices being charged will defray the costs of the services.

5.5 Additional operating assumptions for the proposed program are an adjustment in the operation's human resources in year 4, declining organization costs, and steadily rising revenues, all of which will assure a positive flow of funds in the program and hence the sustainability of the new services.

VI. VIABILITY, BENEFITS, AND RISKS

A. Viability

6.1 The program funds would pay for the delivery of specialized services required by retailers and allied businesses, to be provided via CAMBADU, a business association with a solid track record in Uruguay, and consultants and providers of services of this kind. Serving to underpin these actions would be the consistency of the program's objectives with the basic guidelines of policies in the government's development strategy that seek to foster and improve the quality and competitiveness of small business.

B. Benefits

6.2 The program will strengthen the business community, improving management and service quality and promoting action to: (a) adapt techniques for training and technical advisory support to the needs of retailers; (b) develop management tools for retail businesses, small-scale service techniques, neighborhood marketing strategies, and accounting systems geared to sales cycles; (c) strengthen the innate skills of retail business operators to negotiate in better conditions, thereby producing more revenue and jobs; and (d) demonstrate that service delivery to retail merchants can be profitable and sustainable as long as approaches are adapted so that the client will choose the product.

6.3 The program will foster alliances between retailers and large suppliers, based on trust and respect, with support from enabling technologies and micromarketing studies, so the businesses can build a satisfied, loyal customer base.

C. Risks

6.4 In its analysis of the proposed operation and of potential complications the project team found nothing that would hamper the program's implementation or compromise its sustainability. Reasonable service-demand assumptions were used, with tariffs progressively moving toward the operating cost of services and market prices, so that the mechanism would become financially self-sustaining in the short term. Moreover, the program can be rescaled if this would improve it.

VII. MONITORING AND EVALUATION

A. Monitoring

7.1 The program will be monitored and its implementation evaluated using a program planning by objectives approach.

7.2 The program will be monitored by the Bank's Country Office, through administration of the operation and the inspection and supervision activities. The principal monitoring instruments will be the progress reports, consultants' reports, and audited financial statements that CAMBADU is to submit to the Bank, and the findings of the planned evaluations explained below.

B. Evaluation

7.3 Three evaluations would be conducted by external consultants: 12 months after signature of the agreement, and 24 and 30 months into the program. CAMBADU will hire the external consultants in accordance with terms of reference agreed upon in advance.

7.4 Elements to be looked at in the evaluations are: (a) operation of the new services; (b) type of businesses benefiting; (c) quality of services offered and client satisfaction; and (d) outcome with regard to fees paid for services and financial sustainability.

7.5 If the evaluation findings are satisfactory to the Bank, it will authorize CAMBADU to continue committing funds. If not, CAMBADU will have to make the adjustments necessary for the Bank to give authorization for disbursements to resume.

VIII. EXCEPTIONS TO POLICY

8.1 None.

IX. SPECIAL CONTRACTUAL CONDITIONS

A. Conditions precedent to first disbursement

9.1 Before funds may be disbursed, the program director must have been selected in accordance with terms of reference agreed upon in advance with the Bank.

B. Conditions during execution

9.2 The program will run for 42 months. The proceeds of the contribution will be disbursed over 48 months.

9.3 Proceeds of the financing may be used to pay a maximum of 70% of the price of any item of equipment acquired.

9.4 The training and technical assistance coordinators must be hired within 12 months after the program begins, in accordance with terms of reference agreed upon in advance with the Bank.

9.5 Three evaluations are to be conducted, at the following points: (a) 12 months after signature of the agreement; (b) 24 months into the program; and (c) 30 months into the program. CAMBADU will hire external consultants to perform the evaluations in accordance with terms of reference agreed upon in advance with the Bank.

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PROPOSED RESOLUTION

URUGUAY. NON REIMBURSABLE TECHNICAL COOPERATION FOR A PROGRAM TO STRENGTHEN THE RETAIL TRADE

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Centro de Almaceneros Minoristas, Baristas y afines of Uruguay (CAMBADU) and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT-______with respect to a technical cooperation, the purpose of which is to strengthen the retail trade in Uruguay.

2. That up to the amount of US$1,950,000 is authorized for the purpose of this resolution, chargeable to the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above mentioned sum is to be provided on a non-reimbursable basis.