

## RESTRUCTURING OF MANOS DEL URUGUAY

(TC-95-03-33-6)

### EXECUTIVE SUMMARY

**REQUESTER:** Manos del Uruguay

**MIF FACILITY:** Small Enterprise Development Facility (Facility III)

**EXECUTING AGENCY:** Manos del Uruguay

**PROJECT AMOUNT:**

MIF (nonreimbursable):	US\$ 970,000
Local counterpart:	US\$ 200,000
Total:	US\$1,170,000

**BENEFICIARIES:** The project will directly benefit 400 craftswomen belonging to 18 producers cooperatives spread throughout Uruguay.

**OBJECTIVES:** The overall objective is to make Manos del Uruguay more competitive in the wool textiles sector. Specific objectives are to upgrade management and strategic planning, boost productivity and improve the design and marketing capacity of the cooperatives.

**DESCRIPTION:** The program will entail two stages: (1) preparation of a diagnostic study and drawing up a strategic plan for Manos del Uruguay; and (2) carrying out the strategic plan. The latter stage will be further divided into two subprograms: (a) creation of a capitalization fund through a contribution in kind (raw materials) by Manos del Uruguay, and an infusion of nonreimbursable financial resources from the MIF for purchase of knitting machines and looms and yarns of other fibers, to be distributed among member cooperatives according to the strategic plan and the restructuring business plan submitted by each cooperative; and (b) technical assistance to provide resources for implementing the strategy developed in stage (1), including at a minimum the purchase of equipment for Manos del Uruguay's Central Services Office, and the hiring of consultants to assist both Central Services and the cooperatives. In addition to advising on any other activities set out in the strategic plan, consultants will be needed for at least the following: (i) to conduct a study and determine the training needs of the craftswomen; (ii) to provide training in design and marketing;

(iii) to provide training in inventory management and cost controls; (iv) to increase the international competitiveness of Manos del Uruguay products; and (v) to improve the association's organizational efficiency.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

- a. As a condition precedent to disbursement of the resources needed to carry out the activities of the first stage (conducting the diagnostic study and drawing up the strategic plan), the executing agency must hire an internationally recognized consulting firm, using the Bank's procedures (paragraph 4.8).
- b. As a condition precedent to disbursement of the resources for the second stage (implementation of the strategic plan), the executing agency must hire an international consultant to coordinate execution of the various components that make up that stage (paragraph 4.8).
- c. The technical cooperation agreement will contain provisions requiring the Bank's prior clearance of the content and execution of the strategic plan, as well as the submission of audited financial statements, monitoring and evaluation of the project, and adherence to the Bank's procedures in the procurement of goods and services, and the contracting of consulting services.

**PROCUREMENT OF  
GOODS AND  
SERVICES:**

The threshold value beyond which procurement of goods for the project must be carried out by means of international competitive bidding is US\$250,000. The contracting of consulting services will be in accordance with the Bank's procedures, which will form part of the loan contract. No contract for consulting services is expected to exceed US\$200,000.

**PROJECT EXECUTION  
PERIOD:**

A maximum of 24 months will be allotted for execution of the project, and a total of 30 months for disbursement of the MIF resources, both deadlines to be reckoned from the effective date of the agreement.

**ENVIRONMENTAL  
CLASSIFICATION:**

The Environment Committee, at its meeting of August 8, 1995, classified this as a Category II operation.

## I. ELIGIBILITY OF THE COUNTRY FOR FUNDING

- 1.1 On October 6, 1993, the Donors Committee declared Uruguay eligible for all forms of financing under the Multilateral Investment Fund (MIF).

## II. BACKGROUND

### A. General

- 2.1 Manos del Uruguay is a legally incorporated nonprofit association made up of 18 cooperatives and 53 associate members. Originally formed in 1968 to give work to women living in the country's interior and working out of their own homes, the association today has a total of 400 female artisans organized in 18 producers' cooperatives throughout the country, plus a Central Services Office located in Montevideo responsible for marketing activities and the financial operations of the association. Annual turnover is approximately US\$2 million at present, some 25% of which is in export sales. The association recorded annual sales as high as US\$3.6 million during the period 1986-1988, with exports accounting for 50%; since then, foreign sales have declined steadily.

### B. Financial position

- 2.2 A review of Manos del Uruguay's finances reveals a high level of indebtedness caused by various factors:

- (i) **Inadequate administration.** Faced with the loss of certain of its international markets, Manos del Uruguay failed to gear down its production, attempting instead to honor its corporate purpose of generating employment. This made it necessary to sell a given number of units, which could only be done by curtailing price increases. Meanwhile, expenses remained unchanged since the level of activity continued unabated or even quickened, necessitating still greater efforts in marketing, promotion and sales — eventually eating up past reserves. Converting to the local market by increasing the number of sales outlets means larger inventories and higher selling costs (rental fees, commissions, packaging, credit card fees, etc.) which are contributing to the association's financial woes.
- (ii) **Loss of market share.** During this same period, Manos del Uruguay had to deal with problems created by a misguided choice of distributor in Argentina who sold off old, shoddy stock and thereby seriously damaged the

association's reputation in that country. On top of this, the association's distributor in the United States returned to Uruguay, to be replaced by an individual who has no contacts and little knowledge of the market.

- (iii) **Loss of competitiveness.** There has been a steady slip in the association's competitiveness due to a macroeconomic environment which combines inflation in the dollar costs of production with the recession in international markets in the early 1990s. To this must be added constantly rising production costs, as reflected in increases in the consumer price index; Manos del Uruguay cannot afford to pass on these cost increases by raising the price of its products on either export or local markets, given the level of competition.

#### C. Operations

- 2.3 Productivity among member craftswomen had been declining rapidly in recent years, but in 1995 there was a record surge in their efficiency. The knitting machines and looms in use are at least nine years old and generally in an advanced state of disrepair. Manufacturers of such equipment provide a two-year warranty which can be extended to four years under normal conditions of use. However, the machines owned by Manos del Uruguay are in continuous use every day for long periods, with two or three eight-hour shifts per day. The association reckons that production from these machines is only 65% of what it should be if they were operating at full capacity, and attributes the 35% reduction in output – and the corresponding increase in production costs – to their poor condition. The loss of competitiveness owing to the organization's increased production costs was made worse by the withdrawal of export incentives and an increase in finance charges due to steadily mounting debts.

#### D. Management

- 2.4 These trends were not recognized in time by Manos del Uruguay, which was already engaged in export expansion plans that were out of step with the market. The result was a financial deficit which, in turn, forced the association to undertake a thorough restructuring to improve its competitive position. A crucial factor at this point was the hiring of a new general manager whose experience and professionalism enabled him to bring about positive improvements in Manos del Uruguay. These included simplifying its internal organization and reducing Central Services Office staffing by two-thirds, decreasing the number of artisans from 1,000 to 400, and concentrating on products in greatest demand and with the highest returns. Bank debts and credit from suppliers have been

restructured as well, extending payment and grace periods and lowering interest rates to further improve the association's position.

E. Corporate approach and organization

- 2.5 Two basic factors have marked the way in which Manos del Uruguay runs its activities: (i) the association's social function has had priority over business or private sector goals (i.e. over requiring profitability); and (ii) professionalism has been lacking among management staff.
- 2.6 The first of these drawbacks was removed after the hiring of the present general manager in 1992, and with the support of the member-directors. The second is currently being corrected.

F. Social and labor considerations

- 2.7 To summarize, the association Manos del Uruguay has been and continues to be a leading player in the wool textiles sector, drawing on Uruguay's comparative advantages including abundant and high-quality raw materials, and the traditional skills of rural women in producing hand-crafted fabrics. Despite the difficulties it has encountered, Manos del Uruguay remains one of the country's principal employers for this type of microenterprise, the members of which are mostly women from the lowest-income groups who have managed to gain access to both export and domestic retail markets, developing brand recognition for their products and even franchising sales outlets.

G. Prior IDB lending to Manos del Uruguay

- 2.8 In 1978, Manos del Uruguay received a US\$500,000 expansion loan under the Small Projects Financing Program for the purchase of raw materials and equipment for member cooperatives and its central office. In addition to this, the Bank furnished technical cooperation under four operations to assist with specific problems: (i) US\$65,000 in 1977 for institutional strengthening and product marketing; (ii) US\$17,000 in 1988 to develop wicker and glassware crafts; (iii) US\$30,000 in 1989 for institutional strengthening and development; and (iv) US\$30,000 in 1990 for consulting services in design and marketing.
- 2.9 The most important of these (the US\$500,000 loan under the SPFP) labored under the following shortcomings: (i) lack of a strategic plan (the focus was operational aspects, not administration, marketing, merchandising, planning, etc.); (ii) defective controls and the lack of a logical framework; (iii) little attention to the export market; (iv) social aspect given priority over business considerations; (v) lack of experience among weavers; and (vi) products and volumes determined by Manos del Uruguay, not on the basis of market demand or preferences.

H. Current situation

- 2.10 Today the association is again on solid financial ground and foresees a balanced budget over the next several years as a result of restructuring already under way, the shift in focus from social to business concerns, a process of upgrading professional standards for management staff, and actions designed to correct those elements and situations that had led Manos del Uruguay to the brink of failure.

I. Rationale for the project

- 2.11 The rationale for the present operation can be summed up on three fronts: (i) restructuring of Manos del Uruguay and consolidation of gains already made; (ii) economic-financial improvements; and (iii) enhancing the association's commercial viability.
- 2.12 **Restructuring of Manos de Uruguay and consolidation of gains already made.** The restructuring process carried out by the present general manager of Manos del Uruguay beginning in 1992 has accomplished much. First, it has brought about a change in mentality, which in a business environment is the key to organization and decision-making. Second, it began introducing features of the planning process. Third, it started a string of cost reductions that in 1995, for the first time in the history of Manos del Uruguay, produced a balanced operating budget. The gains made to this point include a number of achievements, among them: (i) gaining access to markets by making sure that supply matches demand; (ii) maintaining domestic sales at a high level; and (iii) reduction of operating costs.
- 2.13 **Economic-financial improvements.** Among the most important advances in this area are: (i) easing repayment terms and conditions, which considerably improved debt structure and relieved the pressure on the association; (ii) reversing the downward trend in profits over past years; (iii) producing an increase in productivity; (iv) reducing costs and expenses, resulting in a margin of profit; and (v) forecasts of net present value of US\$3 million.
- 2.14 **Enhancing the association's commercial viability.** There are three major foreign markets that together determine the commercial viability of Manos del Uruguay: (i) Argentina, where replacement of the association's agent and the introduction of brandname apparel and new clothing products bearing the Manos del Uruguay label have done much to improve the image of the company; (ii) Brazil, within which new markets have been developed; and (iii) United States, with the sale of spun fabric to Ralph Lauren Polo bearing their label, and operations with Peruvian Connection. In all three cases, the changes made were instigated by the clients themselves, proving that these were heretofore unexploited markets for Manos del Uruguay's products.

### III. MANOS DEL URUGUAY PRODUCTION AND ORGANIZATIONAL STRUCTURE

- 3.1 Manos del Uruguay's products are made by women who live in the country's interior and belong to the member cooperatives of the association. These cooperatives act as the association's production units, receiving specific product orders, inputs and necessary instructions from the Central Services Office in Montevideo. The necessary production standards are determined by Central Services based on the experience of representative weavers from the cooperatives and Central Services. Each cooperative distributes the work among its artisans and returns finished products to Central Services within agreed deadlines and in the agreed quantity and quality. The Central Services Office provides quality control and coordinates production. The cooperatives pay the craftswomen on a piecework basis (based on established hourly equivalent units), and Central Services reimburses them for these payments plus an additional amount for worker reserve accounts.
- 3.2 Marketing is handled primarily by the Central Services Office, which receives and inspects the products shipped to it from the cooperatives, and then allocates these for either the domestic or the export market. As part of its marketing activities, Central Services is responsible for responding to demand, determining products and selecting sales outlets, research and development of new products, pricing policies, etc. Distribution on the domestic market is through the association's own stores in Montevideo and Punta del Este, and by means of franchise operations in Colonia, Rivera and Piriápolis. Exports are handled through shipping agents and against client purchase orders in each case.
- 3.3 The association's Central Services Office, located in Montevideo, is made up of the General Manager's Office which oversees the Marketing and Finance Offices, and purchasing and supplies, maintenance, laboratories, production, and style and design units. The primary duties of Central Services are planning, coordination, supply, maintenance, design and product marketing, and management of the association's finances.
- 3.4 Manos del Uruguay's organizational structure is headed by a General or Members' Assembly, which is the highest decision-making body and is made up of the entire membership. Its duties are to elect the Executive Council, approve the annual report, and study and consider proposals submitted to it by the Executive Council. The Executive Council has nine members, six of which must be artisans belonging to the cooperatives, and three associate members. The Council has very broad administrative powers and the authority to take such decisions as may be necessary or appropriate to fulfill the association's objectives, and to appoint the general manager.

- 3.5 The Executive Council delegates responsibility for day-to-day operations to the general manager, who also has signing authority for Manos del Uruguay. The general manager advises the Executive Council in the determination of the association's objectives and policies, conducts and coordinates the activities of Manos del Uruguay, defines its human resource and material requirements, and periodically reviews and evaluates the results obtained. The marketing, finance, purchasing and supplies, maintenance, laboratories, production, and style and design units report to the general manager.
- 3.6 The general manager takes decisions under programs and in keeping with guidelines approved in advance by the Executive Council, with the assistance of the aforementioned support areas. These units deal with operations matters, in accordance with framework plans worked out with the manager's office.

#### IV. THE PROGRAM

##### A. Background

- 4.1 Given its recent history of declining competitiveness, the company could decide to develop a strategy for increasing its productivity and improving its marketing. Such a strategy would tap market opportunities (e.g. the clear preference for natural and environmentally-friendly products), drawing on the comparative advantages enjoyed by the association, including expertise with handmade products. Emphasis will be on brand recognition, handwoven designs that cannot be duplicated by mass-production methods, the quality of apparel made from natural fibers, environmentally-friendly processing, the experience of the co-op weavers and ready availability of raw materials. To overcome current shortcomings, a strategic plan would be devised and implemented to eliminate faulty organizational, administrative and business management methods. By replacing worn-out equipment, Manos del Uruguay will be able to increase both productivity and output, thus lowering average production costs.

##### B. Objectives

- 4.2 The overall objective of the project is to make Manos del Uruguay more competitive in the wool textiles sector.
- 4.3 The specific objectives of the project are to: (i) upgrade management and strategic planning within Manos del Uruguay; (ii) boost productivity; and (iii) improve design and marketing capacity. Achieving these objectives will facilitate the restructuring process currently under way in Manos del Uruguay, which was



launched by its present general manager as an efficient means of developing and consolidating its production and marketing systems.

C. Description

- 4.4 To achieve these objectives, a program consisting of two clearly defined stages is proposed: (i) preparation of a diagnostic study and drawing up a strategic plan for Manos del Uruguay; and (ii) carrying out the agreed strategic plan.

1. Preparation of a diagnostic study and drawing up a strategic plan

- 4.5 The diagnostic study will cover the following aspects, among others: (i) production (methods, procedures, planning and controls); (ii) administration (optimization, equipment, systems and procedures); (iii) marketing; (iv) finances (optimization, controlling of costs, flow of funds, investments, projects and profitability); and (v) organization (type of organization and optimal structure).
- 4.6 Benchmarks will be established for each element of the strategic plan, and it is essential that each such element be monitored very closely and periodically.
- 4.7 The strategic plan should cover the following topics listed under the abovementioned headings:
- (i) Production: identify a range of competitive and profitable products; set production standards; plan production; provide training and development for a unit to purchase raw materials and other inputs.
  - (ii) Administration: set up management sectors; introduce production controls; provide training and specialization for cooperatives; establish targets and objectives for all areas of the association; replace production equipment and administrative infrastructure; set up continuing training programs for member artisans.
  - (iii) Marketing: determine potential of domestic and foreign markets; create a design unit to study market needs and trends, and ensure that products reflect these; set up an expert retail operation to manage sales outlets in Uruguay; create an international unit.
  - (iv) Finances: create a cost and price control unit; monitor and maintain inventories; create a management information and control system; devise an investment and development project program.

- (v) Organization: devise the optimal organizational structure for the association; determine its strengths and weaknesses; address legal and tax issues.

4.8 The diagnostic study and strategic plan will be developed by an internationally known consulting firm. Selection of this firm will be primarily on the basis of its experience conducting diagnostic studies and devising strategies and systems based on the following thematic criteria: (i) production (methods, procedures, planning and control); (ii) administration and management controls (optimization, equipment, systems and procedures); (iii) marketing (competitive strategy); (iv) finances (costs, budgets, flow of funds, investments, rate of return and break-even); and (v) organization (organizational structure). This work is to be carried out over a period of three months, at a maximum cost of US\$150,000 for consulting services.

## 2. Carrying out the strategic plan

- 4.9 The strategic plan must be duly approved by Manos del Uruguay and must have received a statement of nonobjection from the Bank before it can be implemented.
- 4.10 The proposal calls for implementing the strategic plan developed by the consulting firm hired to carry out the above-mentioned mandate by means of two subprograms: (A) creation of a capitalization fund in the amount of US\$450,000; and (B) technical assistance in an amount to be determined in accordance with the strategic plan, but which in no event is to exceed US\$500,000. Program costs include US\$70,000 for evaluations and contingencies, bringing the total cost to US\$1,020,000. The two subprograms are described below.

### D. Subprogram A: Capitalization fund (US\$450,000)

- 4.11 Resources provided under this subprogram will be used by Manos del Uruguay to capitalize its member cooperatives. The fund will be created by means of a contribution in kind (raw materials) by Manos del Uruguay valued at US\$200,000, and an infusion of US\$250,000 in nonreimbursable resources from the MIF. The MIF funds will be used to purchase knitting machines, looms and yarns of other fibers, to be distributed among member cooperatives according to the restructuring business plan submitted by each of the latter.

#### a. Working capital (US\$200,000 - local contribution by Manos del Uruguay)

- 4.12 **Description.** The contribution of wool yarn and imported fibers by Manos del Uruguay will be a one-off operation intended to provide the working capital necessary to carry out this project. Some 15,000 kilograms of wool and 3,000 kilograms of imported (alpaca and flax) fibers will be distributed among the cooperatives for

processing and sale as the market will bear, thereby helping each cooperative to begin operating as an autonomous company, and not solely as a subcontractor under Manos del Uruguay. This means that cooperatives will be able to sell their products to other companies even though they retain their relationship with Manos del Uruguay. In other words, they will become the owners not only of the output of their member artisans, but also of their primary inputs - hence, they will be free to develop their own entrepreneurial skills and sell to anyone they choose. These raw materials will be provided in quantities estimated by the co-op itself, and will be credited back over an agreed interval worked out between the cooperatives and Central Services. In principle, the restoration timeframe will be limited to no more than 10 years, similar to that of the fund for replacement of equipment. By ensuring competition and market conditions, this contribution will stimulate an increase in both productivity and the volume of production. And allowing the market to determine prices will also force Manos del Uruguay to increase its efficiency in order to remain competitive as a buyer of products from the women comprising these craft co-ops.

- 4.13 **Form of repayment.** This working capital, having been provided in kind, will be repaid in kind as well. To this end, amounts to reimburse the Central Services Office for the raw materials it provided will be deducted from payments made to the cooperatives for finished products.

b. Replacement of equipment (US\$250,000 - MIF contribution)

- 4.14 **Description.** A fund will be created with resources provided by the MIF to finance the purchase of equipment to replace that of member cooperatives of Manos del Uruguay. The objective is to replace 100 household knitting machines that are at least nine years old (whereas their useful life per manufacturer's warranty is no more than four years), and 20 handlooms that have likewise outlived their usefulness. The purchase price of the equipment includes training in its use provided by the vendor's instructors. The resources used to establish the fund will not belong to Manos del Uruguay, but rather to the cooperatives, and will be used for the purchase of goods that will become the property of the cooperatives as well. Hence, Manos del Uruguay will serve only as the administrator of these resources.

- 4.15 **Form of repayment.** The MIF will grant a nonreimbursable contribution to Manos del Uruguay in an amount equivalent to the total cost for replacement equipment, and that organization will pass the funds on to the individual cooperatives. The fund will operate in a manner similar to a lease-to-purchase loan in which the cooperatives will become the owners of the new equipment upon making the last payment. The cooperatives will owe the replacement value of the equipment, the payment of which debt will be subject to the following terms:

- (i) The leasing agreement will be denominated in dollars, with repayment in equal installments spread over four years (the useful life of the assets) at successive half-yearly intervals.
  - (ii) In addition to amortization, each installment will include an amount to cover for inflation, administrative costs, and a bad-debt allowance.
- 4.16 Amounts received by Manos del Uruguay in the form of principal and interest will be deposited in a special account opened for each cooperative. The funds collected through each cooperative, for the life of the agreement, will be earmarked for the purchase of new equipment.
- 4.17 In this way, the capitalization fund will be maintained indefinitely, and may be used to finance equipment purchases on an ongoing basis.
- E. Subprogram B: Technical assistance (US\$500,000)
- 4.18 The technical-assistance funds will be used to hire consulting services and purchase equipment for Manos del Uruguay's Central Services Office. In addition to any other activities set out in the strategic plan, consultants will be needed for at least the following: (i) to provide advice in the areas covered by the strategic plan; (ii) to conduct a study and determine the training needs of member artisans; (iii) to advise on inventory management and cost controls; (iv) to boost international competitiveness of Manos del Uruguay's products and improve its organizational efficiency; (v) to provide design and marketing advice aimed at adjusting production to international demand and trends, and producing up-to-the-minute styles without sacrificing its image of handwoven products and building on its internationally recognized brandname; (vi) to evaluate the marketing channels and methods used by Manos del Uruguay with a view to deepening its inroads into foreign markets; (vii) to provide advice on methods of optimizing the management of inventories of raw materials and finished products; (viii) to help draft specific guidelines that cooperatives can follow to control costs and maintain a balanced operating budget; and (ix) to carry out training activities on the topics listed here for directors and senior staff of the cooperatives.
- 4.19 The following activities would be the minimum requirements for the project; others may be included as part of the strategic plan.

a. Training of craftswomen (manual skills retraining)

4.20 **Description.** In order to guarantee that the artisans taking part in the project can maintain their income level during the three months needed to learn to use the new equipment, loans will be provided covering wages foregone during training. These loans must be repaid to the equipment replacement fund in monthly installments. Amounts repaid in this way will be used to cover the cost of future training programs.

4.21 The amount of such loans will be as follows:

(i) For a weaver belonging to a cooperative that requires retraining: an amount equivalent to the difference between her average income for the latest two months of production, and the income she receives for her actual production during training.

(ii) For a new weaver: an amount equivalent to the difference between the average income of the lowest-paid cooperative member for the latest two months of production, and the income that the new member receives for her actual production during training.

4.22 The obligation to repay this loan will be evidenced by a bill of exchange duly endorsed to the equipment fund. Repayment will be in nine installments payable in months 4 to 12 of production (i.e., following the three months of training), including an interest adjustment. Installments will each be equivalent to one-ninth of the amount of the loan, payable in successive months.

b. Advice on reorganization and the streamlining of management

4.23 **Description.** The advisory services in question will include drafting a manual of procedures that sets out the strategies of the company; its immediate, medium-term and long-range objectives; its policies governing human resources and oversight; the necessary operating and management information systems; and position and function descriptions based on the optimal organizational structure for the association.

c. Design and marketing advice

4.24 **Description.** Hiring of a consultant and purchase of software to aid in the design and marketing of Manos del Uruguay products, better adjust its production to international demand and trends, produce up-to-the-minute styles without sacrificing its image of handwoven products, and take advantage of the brand recognition it has earned in both local and regional markets. In addition, training will be provided for saleswomen so that they are better able to serve the public. Finally, the association's marketing

channels and methods will be reviewed with a view to penetrating deeper into foreign markets.

- 4.25 Possible cooperation with other recognized brandnames in the textile sector, related to products made by Manos del Uruguay, should be explored.

d. Advice for Central Services and cooperatives on inventory management and cost controls

- 4.26 **Description.** Contracting of consultants to advise individual cooperatives and the Central Services Office on optimizing the management of inventories of both raw materials and finished products, and to help draft specific guidelines to control costs and maintain a balanced operating budget. Included under this heading are training activities on the topics listed above for directors and senior staff of the cooperatives.

e. Advice on the purchase of software systems for management, financial and budget control applications

- 4.27 **Description.** Hiring of a consultant to advise on systems management as part of an institutional strengthening program, adding the purchase of software that will enable Manos del Uruguay to institute administrative, financial and budget controls to replace those currently being carried out by hand.

F. Implementation of Subprogram B (technical assistance)

- 4.28 It is proposed that the hiring of an international consultant to coordinate all aspects involved in implementing the various components of subprogram B, as well as to assist in the selection of the other consultants, and coordinate and compile their input, be made a condition precedent to the first disbursement. This consultant will coordinate other aspects of project implementation as well, including the training of craftswomen, the purchase of computer hardware, and the operation of the capitalization fund (subprogram A).
- 4.29 The procurement of goods will be carried out using the procedures set out in Annex B of the loan contract. International competitive bidding will be mandatory for the procurement of goods whose value exceeds US\$250,000. Bidding on contracts for lesser amounts will be conducted in accordance with local legislation.

G. Costs and financing of the program

- 4.30 The total cost of the program is estimated at US\$1,170,000, of which it is requested that US\$970,000 be provided in nonreimbursable MIF resources. Manos del Uruguay will contribute a

total of US\$200,000 for subprogram A (capitalization fund), in addition to paying the corresponding taxes.

- 4.31 Following is an estimated budget summary with a breakdown by component:

	Estimated budget (US\$)			
Category	Component	MIF	Local counterpart	Total
	Preparation of diagnostic study and strategic plan			
1.1	Consulting services	150,000		150,000
-	Subprogram A:			
6.3	Capitalization fund	250,000	200,000	450,000
-	Subprogram B:			
2.1	Technical assistance	500,000	-	500,000
8.1	Evaluations	60,000	-	60,000
98	Contingencies	10,000	-	10,000
-	Total	970,000	200,000	1,170,000
-	Percentage	82.9	17.1	100.0

- 4.32 The execution period for the program will be established in the strategic plan, and is not to exceed 24 months; the period for disbursement will be up to 30 months, both deadlines to be reckoned from the effective date of the agreement.

- 4.33 The resources of this operation will be disbursed in accordance with the Bank's procedures and MIF eligibility criteria. All disbursements will be administered by Manos del Uruguay. For this purpose, and upon written request, a revolving fund will be established in an amount equivalent to 10% of the grant.

#### H. Financial reports

- 4.34 Within 90 days after the close of each year during the project execution period, and within 90 days following the date of the final disbursement, the executing agency will forward to the Bank a financial report on the use of funds provided by the Bank and by Manos del Uruguay. These financial reports must be audited to the Bank's satisfaction by a firm of independent auditors.

## V. FEASIBILITY AND RISKS

- 5.1 The main characteristics that determine feasibility and the risks inherent in the program are summarized in this section under internal and external factors enabling the association to organize and develop its competitive strategy. A summary rationale for the Bank's support by way of the financing proposed for the proposed program is given below.

Rationale	Explanation
Economic and financial	<ul style="list-style-type: none"> <li>• Financial statements (positive outlook)</li> <li>• Indebtedness (restructuring of payments and terms)</li> <li>• Profitability (reversal of trend and very promising forecasts)</li> <li>• Productivity (results exceeding expectations and record levels)</li> <li>• Costs and expenses (positive trend, operating budget balanced for first time in history)</li> <li>• Profit margins (positive trend)</li> </ul>
Restructuring of Manos del Uruguay and gains made	<p><i>Restructuring of Manos del Uruguay:</i></p> <ul style="list-style-type: none"> <li>• Change in mentality. Business approach given priority.</li> <li>• Creation of a system of planning.</li> <li>• Reduction of costs and expenses.</li> <li>• Operating budget balanced for first time in history.</li> </ul> <p><i>Gains made by Manos del Uruguay:</i></p> <ul style="list-style-type: none"> <li>• Access to markets gained by matching supply to demand.</li> <li>• Downsizing of personnel in Central Services Office.</li> <li>• Reduction of operating costs.</li> <li>• Promoting the use of business criteria.</li> <li>• Maintaining level of domestic sales despite adverse factors affecting the textile sector.</li> <li>• Good brand recognition for Manos del Uruguay.</li> </ul>



Rationale	Explanation
Internal factors, strengths and weaknesses	<p><i>Strengths:</i></p> <ul style="list-style-type: none"> <li>• Identification of product with country.</li> <li>• Textile crafts.</li> <li>• Collaboration craftsworker/designer.</li> <li>• Markets prize handmade goods.</li> <li>• Women entrepreneurs who are motivated and proud of their craft.</li> <li>• Exemptions from some taxes.</li> <li>• Defined competition, few suppliers.</li> <li>• Highly experienced weavers.</li> <li>• Strategically located sales outlets.</li> <li>• Readily available raw materials.</li> </ul> <p><i>Weaknesses:</i></p> <ul style="list-style-type: none"> <li>• Lack of coordination in the production area.</li> <li>• Rejects due to obsolete and worn-out equipment.</li> <li>• Little possibility of investment.</li> <li>• Inefficient and unprofitable product mix.</li> <li>• Deficiencies in information systems.</li> <li>• Deficiencies in marketing and merchandising.</li> <li>• Sluggish decision-making.</li> <li>• Lack of training for weavers.</li> <li>• Deficiencies in transport and distribution systems.</li> </ul>
External factors, opportunities and drawbacks	<p><i>Opportunities:</i></p> <ul style="list-style-type: none"> <li>• Existence of export market.</li> <li>• Lack of competition.</li> <li>• International preference for natural products.</li> <li>• Handcrafted products impossible to duplicate with industrial processes.</li> </ul> <p><i>Drawbacks:</i></p> <ul style="list-style-type: none"> <li>• Variable and unstable economic policies.</li> <li>• Exchange-rate lag. Decline in competitiveness on foreign markets.</li> <li>• Deteriorating economic conditions in neighboring countries.</li> </ul>
Diagnostic study of primary export markets	<p><i>Argentina:</i></p> <ul style="list-style-type: none"> <li>• Replacement of agent resulting in improved image.</li> <li>• Introduction of clothing bearing well-known labels (GUESS and US41).</li> <li>• Introduction of new lines bearing the Manos del Uruguay label.</li> </ul> <p><i>Brazil:</i></p> <ul style="list-style-type: none"> <li>• Development and entry into new markets.</li> </ul> <p><i>United States:</i></p> <ul style="list-style-type: none"> <li>• Sale of spun fabric to Ralph Lauren Polo. Apparel bearing Polo label.</li> <li>• Development and entry into new markets.</li> <li>• Operations with Peruvian Connection.</li> </ul>
Forecasts	<ul style="list-style-type: none"> <li>• NPV of over US\$3 million, discounted at 12%.</li> </ul>

- 5.2 Under the internal factors, deficiencies in the marketing strategy of the association represent a substantial risk to the success of the project. The difficulties which Manos del Uruguay has with worn-out equipment, deficient in its information systems, and cash flow problems must also be classified as risks. Among external risks are those involving variable and unstable economic policies, the lag in the exchange rate affecting the Uruguayan peso, which can undermine competitiveness on foreign markets, and deteriorating economic conditions in countries that have traditionally been good customers of Manos del Uruguay, such as Argentina and Brazil.
- 5.3 In the event that one or more of the indicators identified in the strategic plan is not attained, the operation of the program can be adjusted as necessary. From a technical point of view, execution of the project entails no particular complexities. Financially, so long as the required funding is made available, the program should proceed without any difficulty. Consequently, this project can be considered technically, economically and financially justified.

#### VI. COMPLIANCE WITH PROJECT ELIGIBILITY CRITERIA

- 6.1 This project is consistent with the general purposes of the MIF as established in the Agreement Establishing the Multilateral Investment Fund inasmuch as it specifically promotes development of small businesses - Article I, points (b) and (c), and Article III, Section 4(a) and 4(c). The proposal falls within Window 3 of the MIF since it supports institutional strengthening for an entity that will provide job opportunities and business development support for microenterprises and small businesses.

#### VII. COMPATIBILITY WITH THE BANK'S COUNTRY STRATEGY

- 7.1 The proposed project is compatible with the Bank's strategy as set forth in the most recent country programming paper for Uruguay. That document indicates that the overall objective of the Bank's strategy is to support efforts by the Government of Uruguay to achieve sustainable development, notably by promoting reforms that attract private capital and investment, provide incentives for development of the private sector, create jobs and promote small business.

### VIII. AVAILABILITY OF MIF RESOURCES

- 8.1 **Form of funding.** The proposal calls for partial financing of the project with a grant, based on the following considerations: (i) the Donors Committee declared Uruguay eligible for all forms of MIF financing on October 6, 1993; (ii) section III of the country eligibility memorandum specifies that Uruguay has complied with the necessary criteria and is among those countries eligible for grant assistance; and (iii) the proposed project will have a major catalyzing effect on investment flows, as required under Article III, Section 5(a), of the Agreement Establishing the MIF, in terms of the objective of creating conditions for expanding the private sector. The Donors Committee reaffirmed the validity of these criteria at its meeting held on March 30, 1994 (MIF/GN-23).

### IX. MONITORING AND EVALUATION

- 9.1 The assessment of this project will be an ongoing process, to be carried out by means of the reports and evaluations described below.
- A. Approval of the diagnostic study and strategic plan
- 9.2 The Bank must have approved both the diagnostic study and the strategic plan, as a condition precedent for implementing their recommendations or provisions.
- 9.3 The strategic plan must be cleared by all of the parties involved in the project, i.e. the Bank and Manos del Uruguay.
- B. Progress reports
- 9.4 Within 30 days after the close of each six-month period, the executing agency must submit a summary of activity during the period, including details of activities carried out and the degree to which the objectives of the operation have been achieved. These reports must also describe any difficulties encountered and any changes or redirection of the work that may be proposed, and a work plan for the following six months.
- C. Mid-term evaluation
- 9.5 Within 60 days following completion of year one of the project, a mid-term evaluation will be carried out by an independent consultant. This assessment will include analysis of progress under the institutional strengthening plan, improvements in productivity, design and marketing capabilities, and the financial

performance of the association, as measured by the indicators contained in the projections.

D. Final evaluation

- 9.6 Given the nature of the program and the need to ensure its continuation over time, the project team and the executing agency felt the need to include a final independent assessment of its activities and achievements. Therefore, upon completion of the program, Manos del Uruguay and the Bank will hire outside consultants to evaluate its operation and accomplishments. The responsible units in the Bank will participate both in developing the methodology to be used and in drafting terms of reference and selecting the consultants that will conduct this independent evaluation.

**Logical Framework (preparation of diagnostic study and strategic plan)**

<b>SUMMARY OBJECTIVES</b>	<b>INDICATORS</b>	<b>MEANS OF VERIFICATION</b>	<b>ASSUMPTIONS</b>
<p>Study of the current circumstances of Manos del Uruguay.</p> <p>(formulation of basic strategy and identification of the diagnostic study).</p>	<p>Preparation of a document containing all of the elements necessary for developing a comprehensive strategy.</p>	<ul style="list-style-type: none"> <li>Documents concerning earlier contributions by the Bank to Manos del Uruguay.</li> <li>Preliminary report on the restructuring of Manos del Uruguay.</li> <li>Statistics and data provided by Manos del Uruguay.</li> <li>Official economic statistics for Uruguay.</li> </ul>	<p>Close coordination with Manos del Uruguay.</p>
<p>Establish a basis for improving the operating, administrative, marketing and financial conditions of Manos del Uruguay.</p>	<p>Measurement: Establishment of benchmarks for each element to be addressed in regard to the operating, financial, administrative, marketing and organizational conditions of Manos del Uruguay (see points 4.5 through 4.8 of the Donors Memorandum).</p>	<ul style="list-style-type: none"> <li>Documents concerning earlier contributions by the Bank to Manos del Uruguay.</li> <li>Preliminary report on the restructuring of Manos del Uruguay.</li> <li>Statistics and data provided by Manos del Uruguay.</li> <li>Official economic statistics for Uruguay.</li> </ul>	<p>Close coordination with Manos del Uruguay.</p>
<p><b>TERMS:</b></p> <p>Study (must be approved by Manos del Uruguay and must have received a statement of support from the Bank).</p>	<p>As established in the diagnostic study and the strategic plan.</p>	<ul style="list-style-type: none"> <li>Documents concerning earlier contributions by the Bank to Manos del Uruguay.</li> <li>Preliminary report on the restructuring of Manos del Uruguay.</li> <li>Statistics and data provided by Manos del Uruguay.</li> <li>Official economic statistics for Uruguay.</li> </ul>	<p>Close coordination with Manos del Uruguay.</p>
<p><b>CONSULTANTS:</b></p> <p>Hiring of a consulting firm with experience in strategic planning to conduct the diagnostic study and the strategic plan.</p>	<p>As indicated in the strategic plan.</p>	<p>Hiring of consultants.</p>	<p>Coordination to ensure that the consultants bring together the specialized consultants.</p>

PROPOSED RESOLUTION

URUGUAY. TECHNICAL COOPERATION PROGRAM FOR THE  
RESTRUCTURING OF MANOS DEL URUGUAY

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 Manos del Uruguay 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 the Restructuring of Manos del Uruguay.

2. That up to the amount of US\$970.000 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.