



# Board of Executive Directors

## No-Objection Procedure

Expires on 31 October 2018

PR-4622  
17 October 2018  
Original: Spanish  
**Public**  
**Simultaneous Disclosure**

**To:** The Executive Directors  
**From:** The Secretary  
**Subject:** Uruguay. Proposal for a loan for the "Rural Productive Development Program II"

**Basic Information:** Loan type ..... Specific Investment Operation (ESP)  
Borrower ..... Eastern Republic of Uruguay  
Amount ..... up to US\$24,232,000  
Source ..... Ordinary Capital

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**Remarks:** The Executive Directors are requested to inform the Secretary, in writing, no later than **31 October 2018**, if they wish to interrupt this procedure. If no such communication is received by that date, the attached resolution will be considered adopted by the Board of Executive Directors, and a record to that effect will be made in the minutes of a forthcoming meeting.

Management has determined that this loan proposal meets the requirements for presentation by No-Objection Procedure, in accordance with Part III, Section 2 (paragraph 3.29(b)) of the Regulations of the Board of Executive Directors and Part III, paragraph 3.5 of document GN-1838-3.

**Reference:** GN-1838-3(6/18), DR-398-18(8/18), GN-2915(2/18), GN-2915-2(8/18), PR-3758(10/11), DE-120/11



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**URUGUAY**

**RURAL PRODUCTIVE DEVELOPMENT PROGRAM II**

**(UR-L1147)**

**LOAN PROPOSAL**

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This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

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2.	<a href="#">Monitoring and evaluation plan</a>
3.	<a href="#">Environmental and social management report (ESMR)</a>
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## **ABBREVIATIONS**

ATDR	Agente Territorial de Desarrollo Rural [Regional Rural Development Agent]
DGDR	Dirección General de Desarrollo Rural [Rural Development Bureau]
ESMP	Environmental and social management plan
ESMR	Environmental and social management report
GHG	Greenhouse gas
ICAS	Institutional Capacity Assessment System
ICTs	Information and communication technologies
INIA	Instituto Nacional de Investigación Agropecuaria [National Agricultural Research Institute]
IPNEs	Institutos Públicos no Estatales [Nonstate Public Institutes]
MGAP	Ministry of Livestock, Agriculture, and Fisheries (MGAP)
PMU	Project Management Unit
RPDP	Rural Productive Development Program
RTAE	Rural Technical Assistance and Extension

## PROJECT SUMMARY

### URUGUAY RURAL PRODUCTIVE DEVELOPMENT PROGRAM II (UR-L1147)

Financial Terms and Conditions				
<b>Borrower:</b> Eastern Republic of Uruguay		<b>Flexible Financing Facility<sup>(a)</sup></b>		
		<b>Amortization period:</b>	24 years	
<b>Executing agency:</b> The borrower, through the Ministry of Livestock, Agriculture, and Fisheries (MGAP)		<b>Disbursement period:</b>	6 years	
		<b>Grace period:</b>	6.5 years <sup>(b)</sup>	
		<b>Interest rate:</b>	LIBOR-based	
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Credit fee:</b>	(c)
<b>IDB (Ordinary Capital)</b>	24,232,000	89	<b>Inspection and supervision fee:</b>	(c)
<b>Local</b>	2,889,000	11	<b>Weighted average life:</b>	15.25 years <sup>(d)</sup>
<b>Total</b>	27,121,000	100	<b>Approval currency:</b>	United States dollars
Project at a Glance				
<b>Project objective/description:</b> To help improve the sustainability of small and medium-sized family-owned agricultural production units. The specific objectives are to increase the adoption of climate-smart technologies and to build capacities for technology generation and transfer, technical assistance, and rural extension.				
<b>Special contractual conditions precedent to the first loan disbursement:</b> Submission, to the Bank's satisfaction, of evidence of the entry into force of the <a href="#">program Operating Regulations</a> , including the environmental and social management plan (ESMP), in accordance with the terms previously agreed with the Bank (paragraph 3.1). For contractual conditions of a socioenvironmental nature, see Annex B of the environmental and social management report ( <a href="#">ESMR</a> ).				
<b>Special contractual conditions for execution:</b> For the use of resources allocated to subcomponents (i), (iii), and (iv) of Component II, the signing and entry into force of Standard Framework Agreements between the MGAP (through the Rural Development Bureau (DGDR)), and the National Agricultural Research Institute (INIA) and Nonstate Public Institutes (IPNEs) (paragraph 3.2).				
<b>Exceptions to Bank policies:</b> None				
Strategic Alignment				
<b>Challenges:<sup>(e)</sup></b>	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
<b>Crosscutting themes:<sup>(f)</sup></b>	GD <input checked="" type="checkbox"/>	CC <input checked="" type="checkbox"/>	IC <input type="checkbox"/>	

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

<sup>(d)</sup> The original weighted average life of the loan may be shorter, depending on the signature date of the loan contract.

<sup>(e)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(f)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale<sup>1</sup>

- 1.1 **The agriculture sector: importance, features, and challenges.** The agricultural sector<sup>2</sup> is of critical importance for Uruguay's economy. In 2016, it accounted for 7% of GDP, or 12% of GDP when associated food industries are included (Ackermann et al., 2018). It represented 15% of employment and more than 75% of total exports, the main categories being beef, agricultural produce, dairy products, and forestry products (Uruguay XXI, 2016). Compared with other productive activities, the sector has the greatest multiplier effect on the economy (6.22, versus 5.47 for the manufacturing industry and 6.08 for services) and the greatest impact on employment (0.42, versus 0.33 for the services sector) (Terra et al., 2009). The sector received annual support equivalent to 0.58% of GDP over the 2014-2016 period, of which 63% was for general services and 37% consisted of producer support (direct or price support) (Ackermann et al., 2018).<sup>3</sup>
- 1.2 Between 1981 and 2012, total agricultural productivity in Uruguay grew at a higher average rate than in the region as a whole (1.5%, compared to 1.2%) (Nin-Pratt, Falconi, Ludena, & Martel, 2015). This growth has been uneven, however, with [small and medium-sized family](#) producers left behind (Instituto Nacional de Investigación Agropecuaria [National Agricultural Research Institute] (INIA), 2016). Family systems account for more than 70% of farm enterprises and contribute around 25% of gross agricultural product. They are characterized by low levels of technology adoption and production efficiency, with high levels of variation from one year to the next (Albin, 2017); they are also focused primarily (60%) on livestock (Dirección General de Desarrollo Rural [Rural Development Bureau] (DGDR) and the Ministry of Livestock, Agriculture, and Fisheries (MGAP), 2018c). Climate variability and change have a particular impact on small and medium-sized producers (MGAP, 2017a), as it is reported that family-owned livestock farms tend to be located in areas of greater climate vulnerability (de Torres Álvarez et al., 2014).
- 1.3 Against this backdrop, the sustainability of smaller-scale production units faces challenges across two main dimensions:
- 1.4 **Dimension 1 – Productive.** The productivity of smaller-scale units could be enhanced by technical assistance and technology adoption. The results of the 2014 dairy survey show that the level of productivity is, in general, directly related to farm size (Instituto Nacional de la Leche [National Dairy Institute] (INALE), 2017). Based on the same survey, Pérez-Quesada and García-Suárez (2016) report that productivity can be increased among smaller producers because their level of technical efficiency stands at 74%. This indicates that they can use available inputs and technologies more efficiently in order to increase production (by 26% on average). These authors also indicate that agronomic, veterinary, or accounting technical assistance is associated with higher production efficiency. Nonetheless, knowledge management difficulties and limited access to extension services are barriers that have a particularly marked impact on smaller-scale producers (INIA, 2016). In 2011, only 46% of farms received technical assistance (Hegedus, 2013),

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<sup>1</sup> See [bibliographical references](#).

<sup>2</sup> Includes forestry and agroindustrial activities.

<sup>3</sup> Estimate based on the methodology of the Organization for Economic Cooperation and Development (OECD).



while it has been observed that technical assistance coverage increases in tandem with farm size (Arboleya, 2018).

- 1.5 This production gap may also be narrowed through technology adoption, including improved management practices. In the case of cattle ranching, for example, producers that have not received technical assistance report average annual beef yields of 50-70 kg per hectare, versus 250 kg per hectare in specialized establishments (World Bank and the International Center for Tropical Agriculture, 2015). A recent project demonstrated the potential for increasing beef productivity levels from 70 kg per hectare to 100 kg by using existing technologies and implementing practices based on the improved use of available resources (Gómez Miller, 2017). In the case of family-owned dairy producers, a project aimed at improving production practices—coordinated by INALE in partnership with dairy cooperatives—indicates that 70% of beneficiaries either maintained or increased production over the 2013-2017 period, even under extreme climatic conditions (Arboleya, 2018).
- 1.6 Despite the potential for increased productivity, there are significant barriers to the adoption of agricultural technologies. In Uruguay, this is influenced by farm size, access to information, technical and managerial capacities, costs, risk, and the availability of appropriate technologies (Gómez Miller, 2017; Saravia and Gómez, 2013). Technology adoption is also directly linked to technical assistance and rural extension services (Saravia and Gómez, 2013), and technological change requires the identification, validation, and dissemination of technologies that are appropriate for family agriculture (Comisión Nacional de Fomento Rural [National Rural Development Commission], 2009).
- 1.7 **Social factors.** Knowledge and adoption of technologies is influenced by social networks, which are an important source of information and learning that strengthen producers' capabilities (Aramburu et al., 2014; Doss, 2006). Rural associations provide positive externalities and produce public and semi-public goods, in addition to serving as a tool for economic and social inclusion (Bijman et al., 2012). The experience in Latin America indicates that membership of such associations among rural extension users helps to overcome scale constraints, as it allows them to access the services offered by rural organizations (Escobar, 2012). Collective processes are therefore important for family agriculture, and support is needed to strengthen these organizations (de Torres Álvarez et al., 2014).
- 1.8 In Uruguay, rural associations (cooperatives, rural development enterprises, and agricultural trade associations) have sought to meet the diverse needs of producers, with the existence of around 200 such organizations with the potential for implementing rural technical assistance and extension (RTAE) services (Arboleya, 2018). In family agriculture, collective approaches have proven effective in supporting technological changes, reduced price variability, integration into value chains, lower transaction costs, and access to goods and services (Programa Fida Mercosur ClaeH and Centro Cooperativista Uruguayo, 2014), as well as participation in programs to support technology adoption (DGDR/MGAP, 2018a). There is evidence of the effectiveness of collective strategies for supporting production: increased implementation of such strategies is correlated with economic and production improvements (66% increase in per capita farm earnings and 39% in liters per hectare) (García Ferreira et al., 2011). Collective approaches also help to

ensure that producers continue to implement activities once an intervention has been completed (Universidad de la República, 2006). Nonetheless, collective activities aimed at facilitating access to technology face difficulties in terms of access to capital; minimum scales for achieving economic and organizational viability; visualization of the benefits from an activity (particularly where the impact is long term); and a scarcity of the skills necessary for collective work (INIA & DGDR, 2016). With respect to RTAE, the critical factors for improving these services include the training of technical staff, interagency coordination, and the availability of suitable technologies (Hegedus, 2013).

- 1.9 At the same time, there are gender and age gaps in access to government rural development policies, technical assistance, access to land, assets, own revenues, independent work, and farm titles (DGDR, 2018). For example, women account for just one in four beneficiaries of policies to improve the productivity and income of family producers (compared to 44% of potential beneficiaries), while data from the 2011 Agricultural Census indicate that women producers receive less technical assistance (38% versus 43% for producers) (Mascheroni, 2016). Likewise, the advancing age of producers in the sector (MGAP, 2017b) is a barrier to increased productivity, as producer age is inversely correlated with the use of new technologies (INIA, 2016).
- 1.10 **Dimension 2 – Environmental.** Climate change magnifies the aforementioned problems, as the country is vulnerable to extreme events. For example, preliminary estimates by the MGAP indicate that the immediate impact of the 2017-2018 drought caused agricultural sector losses equivalent to US\$560 million. This amount rises by more than US\$600 million if delayed impacts are taken into account, relating to a decline in the number of calves born and the consequent impact on future exports. The sector is also the main source of greenhouse gas (GHG) emissions (74% of the total in 2012). Within this, beef production accounts for more than 66% of emissions (Eastern Republic of Uruguay, 2017). This underscores the importance of implementing adaptation and mitigation measures. In fact, Uruguay's production strategy is to rely on technological innovation and inclusion in value chains to double output by 2050 in a sustainable and inclusive manner, with greater climate resilience and lower rates of emissions (MGAP, 2017b). In addition, the objectives of the First Nationally Determined Contribution include reducing the rate of emissions from food production, while also indicating the priority given to adaptation in the agricultural sector (Eastern Republic of Uruguay, 2017).
- 1.11 To achieve these proposals, climate-smart agricultural technologies warrant particular consideration, as these either maintain or enhance productivity while reducing emissions and/or contributing to climate resilience (World Bank and the International Center for Tropical Agriculture, 2015). Accordingly, the 2010 "Agrointelligent Uruguay" policy has promoted the incorporation of climate-smart measures to enhance productivity in an environmentally sustainable manner (Ministry of Housing, Land Management, and the Environment, 2016). For example, implementation of the policy has facilitated a reduction in emissions rates for beef production through the use of feed management technologies and animal husbandry methods that help to boost productivity (Eastern Republic of Uruguay, 2017). In family-based livestock farming, specifically, estimates indicate that climate-smart practices (focused on adjustments in the number of animals per hectare, the use of rotational grazing systems, and herd optimization) can increase productivity by 25%

- and reduce emission rates by 30%, while simultaneously improving drought resilience (Ministry of Housing, Land Management, and the Environment, 2017). This reduction in GHG emissions through the implementation of climate-smart technologies tends to increase over time, reaching up to 40% in the third year in some cases (INIA, 2018).
- 1.12 **Previous experience.** The Food and Agriculture Organization (2009) identifies the central elements of agricultural policy that agricultural institutions should focus their efforts on. These include government policies to protect and support weaker economic sectors; strengthening of the institutional framework for agriculture; and the provision of technology transfer and rural extension services.
- 1.13 In this sphere, with respect to the implementation of differentiated policies for family agriculture in Uruguay, the following issues have been identified as important: (i) ensuring strong interagency coordination; (ii) creating synergies with other policy instruments (e.g., the promotion of collective endeavors and support for investments to enhance resilience); (iii) establishing a technical assistance network consisting of professionals committed to the programs and involved in them; (iv) working with producers that are nonbeneficiaries of public programs, as well as with those already served to incorporate more complex technologies or processes; and (v) leveraging the potential of rural organizations to facilitate the promotion and implementation of activities ([Arboleya, 2018](#)). The importance of addressing these factors is consistent with the findings of the Rural Productive Development Program (RPDP) (loan 2595/OC-UR), whose impact evaluation showed a significant effect on beneficiaries' productivity, with an increase of at least 10% in milk and beef yields per hectare ([Aguirre et al., 2018](#)). This study also reports that the impact is generally greater among those benefiting from MGAP support for the first time, and it indicates that the program has helped to strengthen beneficiary organizations, with an improvement in their collective processes. Nonetheless, data on program participation (DGDR/MGAP, 2018a) show that there is potential for improving the inclusion of women and young people as beneficiaries (44% of potential beneficiaries are women, yet only 25% benefited, while in the case of young people<sup>4</sup> 4% of the total benefited, compared to a potential of 12%) ([Beneficiaries of RPDP requests for proposals](#)).
- 1.14 An analysis carried out for Latin America (Food and Agriculture Organization and the IDB, 2016) indicates the need for government funding to ensure that the most vulnerable producers are able to access RTAE. It also reports that for these services to be effective, they should have a territorial approach, involve the participation of public and private stakeholders, provide continuous training for their human resources, and be linked to the research. Cumulative experience points to the following good practices: emphasizing the inclusion of smaller-scale producers that face greater hurdles to increased productivity; the participation of producers in determining their needs and prioritizing their problems; the provision of information and alternatives based on local agroecological and socioeconomic conditions; the simultaneous provision of public and private services at the regional level; and the incorporation of information and communication technologies (ICTs) to help reach producers and provide information and services to them (Escobar, 2012). ICTs can help foster the adoption of technologies to optimize production and increase farmer

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<sup>4</sup> Individuals 15 to 29 years of age, according to the National Youth Institute.

incomes (Jack & Tobias, 2017). Evidence from small-scale farmers in India indicates that cellphone-based technical assistance helped to increase yields (28% for cumin and 9% for cotton), with an estimated private return of US\$10 for each dollar invested in the service (Cole & Fernando, 2016).

- 1.15 **Recent Bank experience.** The RPDP, which was approved in 2011 with a final disbursement date of 31 December 2018, is executed by the MGAP through its Rural Development Bureau (DGDR). Its objective is to help improve the incomes of small- and medium-scale farmers, by increasing their productivity through the adoption of new technologies. To this end, the program focused on providing financing for: (i) production support for technology transfer; (ii) the promotion of research into adaptive technologies; and (iii) institutional strengthening of the DGDR. The operation's intervention mechanism was based on requests for proposals for group management plans, and this serves as the foundation for this program. Its outcomes—some of which were measured in the aforementioned impact evaluation (paragraph 1.13)—include the following: (i) increases in average agricultural and livestock yields; (ii) the incorporation of new technologies validated under family agriculture condition; (iii) increases in the number of family producers belonging to rural organizations; and (iv) strategic territorial plans approved.
- 1.16 **Lessons learned.** Lessons learned during execution of the RPDP, in particular, have been taken into account in the proposed program, together with experiences from similar operations (Ions 1463/OC-UR, 2443/OC-DR, 1800/OC-PR, 2055/BL-NI, and 2223/BL-BO) and the Office of Evaluation and Oversight's (OVE) Review of the Bank's Support to Agriculture, 2002-2014. These lessons and way in which they have been incorporated into the program are presented in Table 1.

**Table 1. Lessons learned and their incorporation into program design**

Lessons learned	Incorporation into program design
<b>In the RPDP<sup>5</sup></b>	
<b>Coverage</b> <ul style="list-style-type: none"> <li>– Include incentives aimed at incorporating RPDP non-beneficiary producers.</li> <li>– The lack of information is an obstacle to producers' participation in DGDR programs.</li> <li>– Lower proportion of women and young people among beneficiaries.</li> </ul>	<ul style="list-style-type: none"> <li>– Creation and/or strengthening of synergies with rural organizations or public institutions.</li> <li>– Strengthening of program dissemination.</li> <li>– Requests for proposals targeting exclusively women and young people.</li> </ul>
<b>Technical assistance</b> <ul style="list-style-type: none"> <li>– Assistance provided by individual technicians has posed limitations for: (i) the comprehensive, multidisciplinary consideration of technological options; (ii) reaching producers in remote or isolated areas; and (iii) high turnover.</li> </ul>	<ul style="list-style-type: none"> <li>– Introduction of comprehensive technical assistance arrangements provided by multidisciplinary teams linked to rural organizations and/or public institutions.</li> </ul>

<sup>5</sup> See Aguirre et al. (2018), DGDR/MGAP (2018) ([Encuesta a Productores/as Familiares No Beneficiarios de Convocatorias de la DGDR](#)), DGDR/MGAP (2018a) and Mendoza (2018) ([Evaluación del PDPR](#)).

Lessons learned	Incorporation into program design
<b>Monitoring and evaluation</b> <ul style="list-style-type: none"> <li>– Monitoring and evaluation require the availability and implementation of instruments for gathering and analyzing information.</li> <li>– The detailed prior design of the impact evaluation is essential for the robust analysis of program effectiveness.</li> <li>– A good practice yet to be implemented involves the categorization of technologies financed by the program, with a view to facilitating the monitoring and evaluation of expected outcomes and impacts.</li> </ul>	<ul style="list-style-type: none"> <li>– Incorporation of instruments that facilitate dynamic monitoring and allow evaluation of the effectiveness of execution processes.</li> <li>– Design of the impact evaluation, and the identification and planning of the instruments to be used for information gathering.</li> <li>– Inclusion of typologies of technologies and technology packages.</li> </ul>
<b>In similar operations</b>	
<b>Provision of technical assistance and technology linkage</b> <ul style="list-style-type: none"> <li>– The limited scale, high number, and scattered nature of smaller-scale producers lead to high costs in providing technical assistance and technology adoption on an individual basis. In addition, the development and/or adaptation of technologies for these producers is limited by a disconnect with researchers.</li> </ul>	<ul style="list-style-type: none"> <li>– Promotion of the creation of groups of producers and linkages with rural organizations and public institutions to provide technical assistance more efficiently.</li> <li>– Activities that foster interaction between producers and technology researchers/developers.</li> </ul>
<b>Sustainability of technology adoption</b> <ul style="list-style-type: none"> <li>– Projects frequently provide one-off improvements without altering the structural barriers experienced by beneficiaries; this reduces the sustainability of benefits over time.</li> </ul>	<ul style="list-style-type: none"> <li>– Long-term sustainability is sought through the work with rural organizations, complementary multidisciplinary technical assistance offered by the private and public sectors, and technologies designed and adapted for the target population.</li> </ul>

1.17 **Intervention strategy.** The proposed program is based on the evidence presented above, and it seeks to continue improving the productive and environmental sustainability of small-scale agricultural units. To this end, it focuses on technology adoption, with particular attention devoted to market failures caused by: information asymmetries (paragraphs 1.4 and 1.6), human capital (paragraphs 1.7 and 1.9), and coordination (paragraphs 1.10 and 1.11). Using the RPDP as a foundation, the lessons learned and good practices identified through the experiences of the MGAP, the Bank, and the region were incorporated into the program's design in order to amplify its reach and impact (paragraphs 1.10 to 1.14). These elements are summarized in Table 2.

**Table 2. Summary of key elements of program design**

<b>Targeting</b>
<ul style="list-style-type: none"> <li>– Emphasis on new beneficiaries.</li> <li>– Previous producers may benefit, but with more complex technologies.</li> <li>– Producers determine their needs and priorities, but solutions focus on climate-smart technologies (inputs and processes, including ICTs).</li> <li>– Special consideration for women and young people.</li> </ul>
<b>Structure</b>
<ul style="list-style-type: none"> <li>– Strengthening of interagency coordination and synergies.</li> <li>– A territorial approach with the participation of rural organizations and key institutions that contribute to promotion and implementation of the program.</li> <li>– Comprehensive technical assistance provided by multidisciplinary teams that are committed to the program and involved in it.</li> <li>– Public and private sector participation.</li> </ul>

1.18 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is expected to contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) through the development challenge of productivity and innovation, as it fosters increased productivity through the adoption of new technologies. It also contributes to the indicator of government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery. It is also aligned with the crosscutting themes of: (i) gender equity, with a special focus on women's participation, thus contributing to the indicator of women beneficiaries of economic empowerment initiatives; and (ii) climate change and environmental sustainability, as it includes climate-smart technologies that contribute to resilient, low-carbon, sustainable development and thus supports farmers through access to improved agricultural services and investments (see Table 3 for specific indicators). It also contributes to the Sector Framework Documents on Agriculture and Natural Resources Management (document GN-2709-5), Food Security (document GN-2825-8); Climate Change (document GN-2835-5); and Innovation, Science, and Technology (document GN-2791-8). This is a result of its focus on the following dimensions of success, respectively: high levels of agricultural productivity and the management of climate impacts in the sector; reducing the vulnerability of food systems to climate change and natural disasters; progress in the countries on including climate considerations in the sectors; and investment in innovation, science, and technology. In addition, it supports the results matrix for the IDB Country Strategy with Uruguay 2016-2020 (document GN-2836), as it is linked to the strategic pillar of productivity and competitiveness through its support for innovation. It is also included in the Update of Annex III of the 2018 Operational Program Report for Uruguay (document GN-2915-2).

1.19 It is estimated that 100% of the operation's funds will be invested in climate change adaptation and mitigation activities, based on the [multilateral development banks' joint methodology](#) for estimating climate finance ([Climate Change](#)). These funds contribute to the IDB Group's target of increasing financing for climate-change related projects to 30% of all approved operations by the end of 2020.

## **B. Objectives, components, and cost**

1.20 **Objective.** To help improve the sustainability of small and medium-sized family-owned agricultural production units. The specific objectives are to increase the

adoption of climate-smart technologies and to build capacities for technology generation and transfer, technical assistance, and rural extension.

- 1.21 Climate-smart technologies help to strengthen climate resilience and/or reduce GHG emissions while also improving performance in terms of yield or return. Based on this criterion, priority will be given to those aligned with the actions identified in the First Nationally Determined Contribution.
- 1.22 **Component I. Improved productivity through technology adoption and alliance-building (IDB: US\$17.94 million; local: US\$380,000).** This component focuses on financing the implementation of plans to improve productivity while taking climate considerations into account. It will provide direct support to producers who, as a group and in response to open and competitive requests for proposals organized by the MGAP, submit management plans that propose the use of climate-smart technologies to address their challenges. Groups of at least three producers ([family, small, and medium-sized](#)) will be eligible, the majority being family producers and not necessarily members of rural organizations. Support for the implementation of these plans will comprise financing for: (i) investments in technology, providing up to 50% of the total cost of materials, inputs, and specialized technical assistance for technology adoption (with a maximum value of US\$8,000 per producer); and (ii) comprehensive technical assistance. The comprehensive technical assistance will consist of support and training in the areas of production, marketing/value added, and administration, provided by teams set up in either rural organizations or public institutions.
- 1.23 Support will be differentiated, emphasizing the participation of beneficiaries who have not previously received support from the DGDR. In the case of beneficiaries who have already received DGDR assistance, the management plans will need to include more advanced technologies (as defined in the [Technology evaluation](#)). In no case will support be provided for practices that have already received cofinancing. New beneficiaries will also have the option of receiving greater comprehensive technical assistance as determined by the management plan and the technology selected (this support will be determined, in due time, in the documentation for the request for proposals). To encourage greater participation by women and young people, requests for proposals will be issued exclusively for these groups, offering them up to 80% financing for technology adoption and alliance-building processes.
- 1.24 **Component II. Capacity-building in technology generation and transfer, technical assistance, and rural extension (IDB: US\$5.2 million; local: US\$1.97 million).** This component involves financing for activities aimed at generating and transferring technologies, as well as strengthening the delivery of rural technical assistance and extension (RTAE). To this end, strategic partnerships will be established with key rural organizations and/or nonstate public institutes (IPNEs) that have a local presence and work directly with producers. The component encompasses the following subcomponents:
  - a. **Generation and adaptation of climate-smart technology for family agriculture.** This seeks to spark the development of new technologies or adjustments to existing ones through farm-based research and experimentation, based on strategic partnerships between producers'



associations and public and/or private research entities. This will allow newly developed or adapted technologies to meet to the needs of producers.

- b. **Strengthening of private sector RTAE capacities.** This focuses on strengthening the ability of rural organizations to provide services to producers. It includes the creation of multidisciplinary teams to provide comprehensive technical assistance, training, as well as programs to disseminate and build awareness of the requests for proposals.
  - c. **Strengthening of public sector RTAE capacities.** This is focused on improving capacities and coordination between the MGAP and IPNEs to support the delivery of RTAE to producers.
  - d. **Promotion and adoption of ICTs in family agriculture.** This encompasses support for the use, dissemination, and development of ICTs for family agriculture through strategic partnerships with key entities.
- 1.25 **Monitoring and administrative costs (IDB: US\$1.09 million; local: US\$540,000).** This includes the costs of administration, monitoring, audit, determination of baselines and final targets, and the midterm and final evaluations.

### C. Key results indicators

- 1.26 A total of 3,100 producers are expected to benefit directly from the program, of which 50% have not previously benefited from DGDR support. Of this total number of beneficiaries, 32% are expected to be women (see [Gender annex](#)), with young people accounting for 11%. The expected impacts are increased productivity and reduced GHG emissions. The following intermediate outcomes are expected: (i) increased adoption and availability of climate-smart technologies; (ii) increased participation of new beneficiaries, women, and young people; and (iii) greater use of agricultural services, including technical assistance. Key indicators are presented in Table 3.

**Table 3. Main indicators in the results matrix**

Impact indicators	Timing of measurement	Rationale for selection
Increase in partial land productivity (kg of meat/hectare, liters of milk/hectare)	Impact evaluation	Measures the contribution to the production dimension of sustainability
Reduction in emissions per unit of output (kgs CO <sub>2</sub> equivalent/kg of meat)	Years 1 and 6	Measures the contribution to the environmental dimension of sustainability
Increase in the rate of adoption of climate-smart technologies by beneficiaries	Years 1 and 6	These measure the use of climate-smart technologies, a proxy that indicates that producers have improved their climate resilience and reduced emissions
Increase in the percentage of beneficiary producers that manage their lands with a safe carrying capacity	Years 1 and 6	
Increase in the percentage of beneficiary family producers that continue to receive comprehensive technical assistance once the plan has been completed	Years 1 and 6	Indicator of the intervention's sustainability



Impact indicators	Timing of measurement	Rationale for selection
Increase in the percentage of users of services provided by rural organizations.	Years 1 and 6	The supply of services provided by rural organizations is a proxy that indicates whether producers are better able to buy inputs, sell their products, and/or purchase services on a group basis, thus favoring productivity levels
Increase in new technologies validated for family production	Years 1 and 6	Measures the availability of new technologies for family agriculture
Increase in the rate of adoption of ICTs by family production units	Years 1 and 6	Measures the effectiveness of training and other efforts to promote the use of ICTs by family producers
Increase in the percentage of new beneficiaries	Years 1 and 6	Indicates whether targeting and promotion efforts were effective in encouraging the participation of new beneficiaries
Increase in the percentage of women beneficiaries	Years 1 and 6	Indicates whether targeting and promotion efforts were effective in encouraging women's participation
Increase in the percentage of young beneficiaries	Years 1 and 6	Indicates whether targeting and promotion efforts were effective in encouraging youth participation

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

2.1 **Program cost and financing.** Total program cost is US\$27.12 million, of which US\$24.23 million (89%) will be financed through a specific investment loan from the Bank's Ordinary Capital. Table 4 presents the costs broken down by component.

Table 4. Program cost and financing (US\$ million)

Investment component	IDB	Local counterpart	Total	%
<b>I. Improved productivity through technology adoption and alliance-building</b>	<b>17.94</b>	<b>0.38</b>	<b>18.32</b>	<b>68</b>
i. Individual plans	17.09	0.38	17.47	64
ii. Plans, women and young people	0.85	0.00	0.85	3
<b>II. Capacity-building in technology generation and transfer, technical assistance, and rural extension</b>	<b>5.20</b>	<b>1.97</b>	<b>7.17</b>	<b>26</b>
i. Generation and adaptation of climate-smart technologies	0.42	0.13	0.55	2
ii. Strengthening of private RTAE	4.26	0.96	5.22	19
iii. Strengthening of public RTAE	0.19	0.79	0.98	4
iv. Promotion and use of ICTs	0.33	0.09	0.42	2
Administration and monitoring	1.09	0.54	1.63	6
<b>Total (US\$)</b>	<b>24.23</b>	<b>2.89</b>	<b>27.12</b>	<b>100</b>
<b>%</b>	<b>89.00</b>	<b>11.00</b>	<b>100.00</b>	

- 2.2 The disbursement period will be six years, based on the expected annual budgetary space in the national budget, and also to allow the impacts in the producers' management plans to materialize. See Table 5 for disbursement details.

**Table 5. Disbursement schedule (US\$ million)**

Year	2019	2020	2021	2022	2023	2024	Total
Amount	4.0	5.9	4.9	4.4	3.5	1.5	24.2
%	16.5	24.4	20.2	18.2	14.5	6.2	100

- 2.3 **Economic viability.** Based on the experience and evaluation of the RPDP, the level of support for technology implementation is maintained at up to 50% of total costs, with a maximum of US\$8,000 per producer. Analyses of the ex ante economic evaluation show that subsidies of 50% are sufficient to ensure that investments yield a return over that time period (Mendoza, 2018). In comparative terms, a similar World Bank program currently under way in Uruguay provides maximum support of 80% of an investment of up to US\$16,000 per producer. However, financing is limited to activities with substantial positive environmental externalities (reductions in pollution in tributaries and improvements in the efficiency of water usage).
- 2.4 The program's economic viability is based on the cost-benefit analyses carried out using a model of the support for climate-smart technology adoption by producers. Economic benefits were estimated by calculating the value of increased productivity in the targeted farms. Support to producers will be concentrated mainly in the segments of livestock farming for beef and wool (65%) and dairy (16%), which will be offered incentives for a wide variety of climate-smart technologies. For the program as a whole (including both administration, supervision, and monitoring costs and investments to strengthen the rural organizations supporting adoption by the producers), an internal rate of return of 15.4% was obtained, with a net present value of US\$5.0 million (based on a 10-year time horizon and a discount rate of 12%). In light of these results, the benefit/cost ratio is 1.11 for each unit invested. The results were subject to a sensitivity analysis indicating that even under more conservative assumptions (relating to the technology adoption process, higher costs, limitations in access to technical assistance once the intervention has been completed), program returns remain above 12%. The program also offers parallel benefits in terms of the reduction in GHG emissions, which are accounted for separately ([Program economic evaluation](#)).

## **B. Environmental and social risks**

- 2.5 This program has been classified as Category B operation in accordance with the Environment and Safeguards Compliance Policy (Operational Policy OP-703), as its potential direct and indirect impacts are reversible and temporary, of low magnitude, and localized in nature. Well-known measures are readily available to mitigate and compensate for them, and the implementation thereof is viable. It has also been determined that the level of natural disaster risk is low to moderate, taking into account the focus on climate-smart technologies. At the same time, highly positive effects are expected from the delivery of agricultural extension services, training, and climate-smart technology packages that will impact producers and the different beneficiaries throughout the entire production chain, as well as consumers across the country.

- 2.6 An environmental and social analysis was prepared for the program, and its corresponding environmental and social management plan ([ESMP](#)) sets out procedures, responsibilities, guidelines, and criteria for identifying, evaluating, avoiding, mitigating, and monitoring the environmental and social impacts of the specific actions financed. A significant consultation process was implemented during preparation of the operation, and there is no evidence of any environmental or social liabilities or compliance failures that could affect the future performance of this new initiative.
- 2.7 The ESMP will be included as an annex to the program Operating Regulations, and both documents will establish environmental and social requirements to ensure that the project is executed in compliance with the Bank's safeguards and the conditions included in Annex B of the environmental and social management report ([ESMR](#)).
- 2.8 **Environmental and social sustainability risks.** Adverse climate conditions represent a medium risk to the program. In order to mitigate this, the program will focus on climate-smart technologies; requests for proposals that support the development and adaptation of climate-smart technologies; the development of ICTs that contribute to adaptation to climate change and variability; and the inclusion of climate risk management in training for associations, technical staff, and producers.

**C. Fiduciary risks**

- 2.9 Based on the MGAP's prior experience in executing similar operations, no specific weaknesses have been identified in its institutional capacity. Neither the fiduciary activities included in the Procurement Plan nor the financial management activities are regarded as complex, thus confirming—together with the executing agency's track record of performance and compliance—the low level of risk for this project (see Annex III).

**D. Other project risks**

- 2.10 **Development risks.** There is a medium level of risk associated with farm management plans lacking a comprehensive approach and difficulties in attracting new beneficiaries. To mitigate the former, the following activities are planned: training for each request for proposals, with specific training regarding the comprehensive approach; periodic monitoring and territorial coordination meetings; and preparation of a dissemination plan. In the case of the second risk, in addition to a dissemination plan, adjustments are planned to the requirements in the requests for proposals, as well as the signing of agreements with other public institutions.
- 2.11 **Macroeconomic risk.** The new regional context poses a medium level of macroeconomic risk over the next few years for growth in Uruguay, trends in the dollar, and the resulting impact on inflation. Nonetheless, country risk remains low and stable (172 basis points in September 2018). At the same time, the increase in the dollar exchange rate may favor the competitiveness of the export-oriented agricultural sector.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of execution arrangements

- 3.1 The borrower will be responsible for program execution, through the Ministry of Livestock, Agriculture, and Fisheries (MGAP). The MGAP, in turn, will act through the Rural Development Bureau (DGDR) with support from the Project Management Unit (PMU). The DGDR will be responsible for technical execution and the direction of the program, while the PMU will be responsible for fiduciary and administrative matters (see [Organizational chart](#)). The guidelines and procedures for program execution are set out in the program Operating Regulations. **As a special contractual condition precedent to the first loan disbursement, evidence will be provided to the Bank's satisfaction that that the program Operating Regulations (including the ESMP) have entered into force, in accordance with the terms previously agreed with the Bank.** The aim of this is to establish the guidelines and procedures to be followed for successful program execution.
- 3.2 **Special contractual conditions for execution.** Standard Framework Agreements are expected to be signed with the National Agricultural Research Institute (INIA) and other Nonstate Public Institutes (IPNEs) that are considered key to the execution of certain program activities. For the use of resources allocated to subcomponents (i), (iii), and (iv) of Component II, the signing and entry into force of Standard Framework Agreements between the MGAP (through the DGDR) and the INIA and IPNEs will be a special contractual condition for execution. The signing of these agreements is essential for implementation of the activities financed under each of the subcomponents.
- 3.3 Execution arrangements are based on those used during implementation of the RPD, with adjustments aimed at incorporating lessons learned. Details of the arrangements are provided in the draft [program Operating Regulations](#), and Table 6 provides a summary of their key features.

**Table 6. Key implementation features**

<p><b>Technologies financed.</b> These will be determined based on the producers' needs, taking into account local conditions, technical viability, and contribution to climate change mitigation and/or adaptation. Multidisciplinary technical teams—the formation of which is supported under Component II—will prepare the management plans.</p> <p><b>Management plans.</b> A management plan is considered implemented once at least 60% of the activities included in the approved plan have been fulfilled and an evaluation of technology adoption has been completed.</p> <p><b>Rural organizations.</b> As part of execution, rural organizations interested in becoming Regional Rural Development Agents (ATDRs) will be convened and selected. The ATDRs are rural organizations authorized by the DGDR to provide support for the following activities: (i) raising awareness among producers; (ii) training for technical staff and producers; (iii) dissemination of the requests for proposals; (iv) provision of comprehensive technical assistance; (v) preparation of management plans; and (vi) monitoring of the implementation of approved plans. The program will finance institutional strengthening of the ATDRs, training of their human resources, and the services of promotion, extension, and technical assistance that they provide.</p> <p><b>Program dissemination.</b> The requests for proposals will be widely publicized, using communication and awareness-building strategies by the DGDR and the ATDRs.</p>
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- 3.4 **Procurement of goods, works, and consulting and nonconsulting services.** Procurement financed in whole or in part with Bank resources will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). The Procurement Plan contains details of the procurement processes that will be implemented during execution, as well as the procedures used by the Bank for their review.
- 3.5 **Direct contracting.** Direct contracts totaling US\$6,048,153 are envisaged, of which US\$4,025,963 will be financed with Bank resources and the rest with local counterpart funds. The Bank-financed amount will be used to renew the contracts of consultants belonging to the RPDP team (US\$3,885,736) and for fuel purchases (US\$140,227).
- 3.6 Single-source selection of consultants is permitted under sections 3.10(a) and 3.11 of the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), which establish the principle of continuity of service where such continuity is more efficient than a new competition. In this case: (i) initial selection of the consultants was done on a competitive basis in 2012 and received the Bank's prior no objection; (ii) the consultants whose contracts are to be renewed are subject to an annual performance evaluation; and (iii) in the event of unsatisfactory results, a consultant's contract will not be renewed and alternative human resources will be sought through a competitive process. With regard to the direct purchase of fuel from the state-run Administración Nacional de Combustibles, Alcohol y Portland [National Fuel, Alcohol, and Cement Administration] (ANCAP), this is based, first, on the requirements of section 3.6(c) of the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9), which allow direct contracting in cases where a product may only be obtained from one source, and, second, on section 33.C.1 of the Texto Ordenado de Contabilidad y Administración Financiera [Consolidated Text on Accounting and Financial Administration] (TOCAF), which indicates that government bodies or departments may engage in direct contracting with each other.
- 3.7 The fiduciary agreements and requirements (Annex III) establish the framework for financial management and planning, as well as the supervision and execution of procurement applicable to program execution.
- 3.8 **Disbursements.** The primary disbursement modality will be advances of funds based on actual liquidity needs. These advances will preferably be made every six months, once reporting has been filed for at least 70% of the amount advanced. As documentary support, the accounting forms will need to be presented along with the financial planning spreadsheet. Documentation will be subject to ex post review.
- 3.9 **Audit.** For the duration of program execution, the PMU will submit the program's audited financial statements on an annual basis in accordance with Bank requirements. As agreed with the executing agency, audits will be performed by the Tribunal de Cuentas de la República [National Audit Office] (TCR). The audited annual financial statements will be submitted within 120 days after the end of each fiscal year or, in the case of the final statements, within 120 days following the date of final disbursement.

**B. Summary of arrangements for monitoring results**

- 3.10 Throughout program execution, the DGDR, in coordination with the PMU, will prepare semiannual progress reports and submit them to the Bank within 60 days after the end of each six-month period. These reports will indicate the level of physical and financial progress toward the indicators and activities included in the results matrix, the annual work plan, and the procurement plan, analyzing any problems encountered and describing the corrective measures adopted to resolve them. The monitoring reports for the second half of each year will include the annual work plan for the following year, the updated procurement plan, the status and maintenance plan for the executed works, as well as the status of compliance with the environmental and social requirements established for the program in the ESMP.
- 3.11 The DGDR, in coordination with the PMU, will also submit two evaluation reports: (i) midterm, within 90 days after the date on which 50% of resources have been committed, or after 50% of the execution period has elapsed, whichever occurs first; and (ii) final, within 90 days after the date on which 95% of resources have been disbursed. These reports, which will be prepared independently using loan resources, will include (i) financial execution by subcomponent and source of financing; (ii) progress toward attainment of the outputs, outcomes, and impacts contained in the results matrix; (iii) fulfillment of the ESMP; and (iv) a summary of the financial accounts, procurement, disbursements, and internal control.
- 3.12 The monitoring and evaluation plan agreed with the MGAP and considered in the budget includes detailed information on indicators and means of verification; the critical path for activities and outputs; monitoring instruments; responsible parties; and the methodology and budget for implementation of the plan.

**C. Impact evaluation**

- 3.13 A quasi-experimental impact evaluation will be conducted that makes use of producers' voluntary registration for the requests for proposals, implementing a random promotion to increase the participation rate in a randomly selected treatment group. This promotion will be used as an instrumental variable for evaluating the program's impact on beneficiary productivity. A pilot test will be carried out at the end of 2018 with a view to selecting an effective promotion tool. Once this tool has been fine-tuned, the evaluation will be conducted for the meat and dairy segments at a minimum, given that these are representative of the majority of program beneficiaries. The source of information for this analysis will consist of surveys administered before and after the intervention (in 2019 and 2024), with a total sample of approximately 1,000 producers.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Gender Equality and Diversity -Climate Change and Environmental Sustainability	
Country Development Results Indicators	-Beneficiaries of improved management and sustainable use of natural capital (#)* -Women beneficiaries of economic empowerment initiatives (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Farmers with improved access to agricultural services and investments (#)* -Beneficiaries of IDBG projects that contribute to at least one key dimension of food security (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2836	Boosting productivity and competitiveness by promoting innovation
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	9.1	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	3.6	
3.3 Results Matrix Quality	2.5	
4. Ex ante Economic Analysis	9.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	1.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	0.0	
5. Monitoring and Evaluation	9.3	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	6.8	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control.  Procurement: Information System.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The objective of the Program is to contribute to improving the sustainability of family, small and medium-sized agricultural production units. The specific objectives are the increase in the adoption of climate-smart technologies (CS), and the strengthening of capacities in the generation and transfer of technologies, technical assistance and rural extension. CS technologies are those that contribute to increasing climate resilience and/or reducing greenhouse gas emissions while improving performance in terms of production or profitability. The diagnosis provided is solid and substantiated in evidence, evaluation and lessons learned from the first Rural Productive Development Program.

The results matrix exhibits a clear vertical logic and is anchored in the two main dimensions that the program addresses to achieve the sustainability of production units of smaller scale: productive and environmental. The indicators of impact, result and product in general are SMART, with baselines and defined targets and with the means to verify compliance.

The economic analysis is based on the estimation of the benefits of increased productivity in the farms that benefit from the Program. The assumptions are reasonable and are based on the findings of previous evaluations, including of the first program. The results of the sensitivity analysis indicate that even under more conservative assumptions (linked to the rate of adoption of technologies, higher costs, limitations in access to technical assistance after the end of the intervention), the return of the program remains at levels above 12%.

The Monitoring Plan complies with the requirements of the DEM. The evaluation proposal is to carry out a quasi-experimental impact assessment that takes advantage of the voluntary registration of producers to the calls made by the Program, implementing a random promotion to increase the participation rate in a group of randomly selected producers. This promotion will be used as an instrumental variable to evaluate the impact of the program on the productivity of the beneficiaries.

## RESULTS MATRIX

<b>Project Objective:</b>	To help improve the sustainability of small and medium-sized family-owned agricultural production units.
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### EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	Final target	Means of verification	Comments
<b>IMPACT 1 Improved sustainability of agricultural production by small and medium-sized family producers in Uruguay</b>						
Partial productivity increased	meat, kg/ha; milk, l/ha	Meat: 88 kg/ha Milk: 3.632 l/ha	2018	Meat: 96 kg/ha Milk: 3.995 l/ha	Impact evaluation	Production plans that have lasted at least 36 months are considered to be beneficiaries. Current values are based on the RPDP I evaluation (conducted in 2018) and will be updated once the baseline from the impact evaluation is available (expected in 2019). A 10% increase in productivity is expected based on the results of the RPDP I evaluation. Beef, mutton, lamb and wool and milk segmented. Meat equivalent = beef + mutton and lamb + wool.
Emissions per unit of output reduced	Kg CO <sub>2</sub> -eq/kg	18.6	2018	11.1	Initial survey: 2019 Final survey: 2024	INIA methodology (See annex to the Monitoring and Evaluation Plan). Values will be updated once the baseline from the impact evaluation is available.



### EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Baseline year	Final target	Means of verification	Comments
<b>OUTCOME 1: Climate-smart improvements in agricultural production units</b>						
Increased rate of climate-smart technology adoption by beneficiaries	%	8.4	2017	64	Impact evaluation	<p>Those participating for at least 36 months are considered to be beneficiaries.</p> <p>Provisional baseline: Livestock Survey 2016/2017; the adoption rate is based on the question on innovation, item 8: "Management of the production process:" "Have you adopted (for the first time) livestock management practices aimed at introducing changes or improvements in the establishment?" This was restricted to producers of less than 150 Livestock Units (the average for the two lowest strata). Value will be updated once the baseline from the impact evaluation is available (expected in 2019).</p> <p>The target is based on the implementation of RPDP II plans.</p>
Increased percentage of producers who manage their lands with a safe carrying capacity	%	28.5	2018	37.05	Impact evaluation	<p>Definition of safe carrying capacity (INIA/IPA) - see annex to the Monitoring and Evaluation Plan. Natural land systems are considered to exist where improved pastures are no more than 5% of the total area.</p> <p>The current baseline value represents the probability of exceeding carrying capacity based on data from the Livestock Survey for producers using natural lands.</p> <p>Increase of 30% over the baseline.</p> <p>The baseline value will be updated once the baseline from the impact evaluation is available.</p>

Indicators	Unit of Measure	Baseline	Baseline year	Final target	Means of verification	Comments
<b>OUTCOME 2: Inclusion of new beneficiaries in MGAP (DGDR) interventions</b>						
Increased percentage of new beneficiaries	%	30	2017	50	Monitoring system	New beneficiaries, in this context, are producers that have never participated in a DGDR program (including the first phase of the RPDP). The indicator shows the outcome of targeting actions on groups that do not typically have access to the incentives due to communication limitations.
<b>OUTCOME 3: Increase in the ongoing use of technical assistance from the RTAE system by family producers</b>						
Increased number of beneficiary producers that continue to receive comprehensive technical assistance once the plan has been completed*	Number of producers (% in parentheses)	Meat: 81 (4%) Milk: 323 (16%)	2016/2017 livestock 2014 dairy	Meat: 243 (12%) Milk: 972 (48%)	Rate for beneficiaries drawn from the monitoring system. Impact evaluation	The baseline and final target are based on the 2,025 producers whose management plans will be approved and implemented. The benchmark for the baseline is the current percentage for each group. The target is expected to be three times the number of producers to continue with technical assistance. This refers to technical assistance that is not provided by the DGDR, and which entails regular visits from technical staff (not one-off assistance). For livestock, agronomic technical assistance; for dairy, agronomic and veterinary technical assistance.
<b>OUTCOME 4: Strengthening the collective activities of rural organizations</b>						
Increase in the percentage of users of services provided by rural organizations*	%	29	2018	38	Monitoring system: application form and closing form (at the end of the project)	Includes: Technical assistance; Sale of inputs; Machinery or equipment services; Use of production services; Marketing of products. Increase of 30% over the baseline. The baseline is the percentage of nonbeneficiaries participating in one or more rural organizations. This indicative value will be adjusted based on information from the rural organizations' registration forms, which will include an information request regarding the number of users.

Indicators	Unit of measure	Baseline	Year	Final target	Means of verification	Baseline
OUTCOME 5: Improved availability of technologies for small and medium-sized family producers						
Increase in new technologies validated for family production	Number	0	2018	5	Monitoring system Final report on each technology validated by the INIA	Validation of a technology includes four categories of indicators: sociocultural, productive/economic, environmental, and reapplication. See annex to the Monitoring and Evaluation Plan.
OUTCOME 6: Increased participation in DGDR interventions by rural women and young people						
Number of female beneficiaries increased	Number of producers (% in parentheses)	775 (25%)	2018	992 (32%)	Monitoring system 2018 study of beneficiaries	Baseline source: Percentages are drawn from the RPDP I study of beneficiaries. Target source: Monitoring system. Target values are representative of the Uruguayan Registry of Family Producers.
Number of young beneficiaries increased	Number of producers (% in parentheses)	124 (4%)	2018	341 (11%)		Estimates of absolute values are calculated from the respective percentages, based on 3,100 beneficiaries. Young beneficiaries are those aged between 15 and 29 years, according to INJU.
OUTCOME 7: Increase in the use of information and communication technologies (ICTs)						
Increased rate of ICT adoption in family production*	%	7	2018	11	Monitoring system Specific baseline survey 2019 (Registry of Family Producers) Final survey 2024 (Registry of Family Producers)	The target is for a 70% increase with respect to the baseline. The baseline value will be updated once the baseline from the impact evaluation is available.

## OUTPUTS

Outputs	Estimated cost (US\$)	Unit of measure	Base-line	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
<b>Component I: Improved productivity through technology adoption and alliance-building</b>													
Management plans implemented	10,107,237	Number of plans	0	2019	0	0	600	750	450	225	2,025	Monitoring system	"Implemented" indicates that 60% of the activities included in the approved plans have been fulfilled and that the technology adoption evaluation has been conducted.
<u>Milestone 1:</u> Management plans approved		Number of plans	0	2019	400	600	600	700	400	0	2,700	Monitoring system	Approved plans are those presented by eligible producers that have passed technical evaluation and for which the contract has been signed.
Days of technical assistance provided to beneficiaries	6,353,121	Days of technical assistance	0	2019	2,000	5,000	6,000	6,500	7,000	0	26,500	Monitoring system	8-hour day.
Tools designed for promoting alliance-building initiatives, with emphasis on integration into the chain	106,955	Report	0	2019	0	1	0	0	0	0	1	Promotion tools approved by DGDR management Supporting technical document	
Producers participating in new alliance-building initiatives	898,421	Number of beneficiaries	0	2019	0	200	0	200	0	0	400	Monitoring system	Alliance-building initiatives to resolve limitations of scale: sales contracts for output, product differentiation.

Outputs	Estimated cost (US\$)	Unit of measure	Base-line	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
Number of women beneficiaries of specific plans	424,000	Number of women	0	2019	0	100	0	100	0	0	200	Monitoring system	
Number of youth beneficiaries of specific plans	424,000	Number of young people	0	2019	100	0	100	0	0	0	200	Monitoring system	Youth beneficiaries are those between 15 and 29 years old, according to INJU.
<b>Component II: Capacity-building in technology generation and transfer, technical assistance, and rural extension</b>													
Projects supervised for validating technologies aimed at family producers	560,603	Projects	0	2019	0	0	3	10	2	0	15	Reports by project	
Number of rural organizations with a “comprehensive technical assistance” team	4,270,304	Rural organizations	0	2019	20	10	10	0	0	0	40	DGDR reports	ATDR “Comprehensive” means that their function is to provide technical assistance to improve the productivity of medium-sized family producers.
Specific agreements implemented with IPNEs to provide RTAE to beneficiaries	819,508	Number of agreements	0	2019	2	1	1	0	0	0	4	Agreements signed	
Proposal for evaluation system formulated	25,000	Consultancy	0	2019	0	0	1	0	0	0	1	Consultant report	

Outputs	Estimated cost (US\$)	Unit of measure	Base-line	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
Monitoring tool for the RTAE system developed	59,769	System	0	2019	0	0	1	0	0	0	1	Confirmation that system is operating	Conceptual definition, methodology defined, procedures established, and computer program developed.
Private technical staff trained in providing comprehensive support to producers	270,000	Number of technical staff	0	2019	100	50	25	25	0	0	200	Training records	Content: - Projects; - Technology; - Management; - Extension; - Communication; - Socioenvironmental area. * In coordination with the Acreditación de Saberes [Knowledge Accreditation] process.
Public sector technical staff trained in strategy and methods for providing assistance and consolidation of rural extension processes	72,600	Number of technical staff	0	2019	50	30	10	10	0	0	100	Training records	Content: - Projects; - Technology; - Management; - Extension; - Communication; - Socioenvironmental area. * In coordination with the Acreditación de Saberes [Knowledge Accreditation] process.

Outputs	Estimated cost (US\$)	Unit of measure	Base-line	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Final target	Means of verification	Comments
Annual dissemination and awareness-building plans implemented and evaluated	684,859	Number of plans	0	2019	1	1	1	1	1	1	6	DGDR reports	
ICT projects developed for family production	305,000	Projects	0	2019	0	0	5	5	5	0	15	DGDR reports	
Tools implemented for supporting the use of ICTs in family agricultural production systems and RTAE services	117,000	Number of tools	0	2019	2	1	1	2	1	2	9	DGDR reports	Guiding strategy, surveys (3), workshops, training, events to exchange experiences.

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

<b>Country:</b>	Uruguay
<b>Project:</b>	UR-L1147 - Rural Productive Development Program II
<b>Executing agencies:</b>	The Ministry of Livestock, Agriculture, and Fisheries (MGAP) through the Rural Development Bureau (DGDR) and its Project Management Unit (PMU)
<b>Fiduciary team:</b>	Abel Cuba and Emilie Chapuis (FMP/CUR)

### I. EXECUTIVE SUMMARY

- 1.1 This operation is for US\$27,121,000, of which US\$24,232,000 will be financed by the Bank. The borrower is the Eastern Republic of Uruguay and the executing agency is the Ministry of Livestock, Agriculture, and Fisheries (MGAP) with the support of the Rural Development Bureau (DGDR) and its Project Management Unit. The MGAP's execution of loans 1131/OC-UR (the Agricultural Services Program), 1643/OC-UR (Program to Support the Productivity and Development of New Livestock Products), and 2182/OC-UR (Program to Support Agricultural Public Management I) has been satisfactory. It is currently executing loan 2595/OC-UR (Program to Support Agricultural Public Management II), for which fiduciary risk has been measured as low based on the Institutional Capacity Assessment System (ICAS) methodology.<sup>1</sup> The Project Monitoring Report indicates a satisfactory level of execution.
- 1.2 The objective of the new loan (UR-L1147) is to help improve the sustainability of small and medium-sized family-owned agricultural production units. The specific objectives are to increase the adoption of climate-smart technologies and strengthen alliance-building among participating producers. The expected impacts are an increase in income and productivity. The fiduciary activities—both financial execution arrangements and the procurement contracts included in the Procurement Plan attached to the Proposal for Operation Development for this operation—were identified based on the aforementioned objectives. The following sections describe the fiduciary mechanisms identified during the analysis mission. It should be noted that no exceptions to Bank policies are envisaged with respect to either financial management or procurement. Likewise, no retroactive financing or advance procurement is expected, consistent with the definitions in Section 1.9 of document GN-2349-9 (Policies for the Procurement of Goods and Works Financed by the IDB) and section 1.12 of document GN-2350-9 (Policies for the Selection and Contracting of Consultants Financed by the IDB).

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<sup>1</sup> Program to Support Agricultural Public Management II, loan 3800/OC-UR, ICAS Analysis Report, May 2016.



## **II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT**

- 2.1 As mentioned above, the MGAP will be the executing agency for this operation through the DGDR and its Project Management Unit (PMU). Accounting, financial management, and procurement activities, together with support for the planning and monitoring of all operations involving external borrowing, are centralized in the PMU. Based on the information gathered during the analysis mission, the executing agency will have the same staff as for execution of the Program to Support Agricultural Public Management II. It was established that the executing agency has satisfactory experience in executing Bank-financed operations.
- 2.2 As reflected in the 2016 ICAS assessment mentioned in the previous section, "the MGAP's key functions have been clearly defined in the areas of administration and financial accounting, and in management of the procurement cycle, on the basis of prior experience [...]." As further detailed in this Annex, the MGAP has executed several Bank-financed projects with a satisfactory level of performance, leading to the conclusion that its institutional capacity, as evaluated, is high.
- 2.3 In addition, the Ministry will be supported by its DGDR and PMU, as indicated in the matrix that describes the execution arrangements (comparing, in particular, the arrangements for loan 3800/OC-UR and the structure envisaged for the execution of UR-L1147). The aforementioned tool provides information including the following:
- a. With respect to the fulfillment of conditions in the area of procurement, technical aspects will be the responsibility of the DGDR while the UGP will be responsible for fiduciary requirements.
  - b. The PMU will be responsible for: managing financial and audit reports; reporting on expenditure and requesting advance disbursements from the IDB; making payments to providers; preparing the procurement plan and the financial plan; and the accounting system.
  - c. The DGDR will be responsible for: coordinating, implementing, and monitoring activities; planning, preparing, and organizing work plans; human resources; and filing documentation relating to program activities with the aim of providing information to the IDB and ensuring that supporting documentation is kept.
- 2.4 As indicated, execution arrangements are well established. Bearing in mind also the MGAP's prior experience in executing similar operations, no specific weaknesses have been identified in the executing agency's institutional capacity.

## **III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS**

- 3.1 Fiduciary risk is considered to be low. This finding is based on the institutional capacity assessment carried out under UR-L1135. It was agreed during the orientation mission for this new loan that since: (i) the exercise had been completed within a reasonable period; (ii) the fundamental structure of the executing agency remained identical; (iii) the indicators for measuring execution and the fulfillment of Bank requirements were satisfactory; and (iv) the new operation would use the same team of qualified staff with experience in executing

Bank-financed operations, the May 2016 ICAS assessment identifying a low level of risk remained valid.

- 3.2 In addition, neither the fiduciary activities included in the Procurement Plan nor the financial management activities are regarded as complex, thus confirming the low level of risk for this new operation due to the executing agency's track record of performance and compliance.

#### **IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT**

- 4.1 The following considerations will be included in the special provisions:
- a. The program Operating Regulations will be updated to identify the administrative and financial management arrangements for the component involving the distribution of support. The total value of support will be US\$20,231,000, of which \$19,631,000 will be financed with Bank loan proceeds and US\$600,000 with local counterpart funds.
  - b. Exchange rate: for financial reporting in U.S. dollars, the exchange rate used will be the one prevailing on the date of payment.
  - c. Audited financial statements: During the project disbursement period, audited project financial statements will be submitted to the Bank within 120 days after the end of each of the MGAP's fiscal years. The statements will be audited by the Tribunal de Cuentas de la República [National Audit Office] (TCR), or by an independent audit firm acceptable to the Bank based on terms of reference agreed with the Bank. The final audit report will be submitted to the Bank within 120 days after the date stipulated for the final disbursement under the loan.

#### **V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 5.1 The Fiduciary Agreements and Requirements for Procurement establish the rules governing the execution of all procurement planned under the project.

##### **A. Procurement execution**

- 5.2 The Bank's procurement policies—documents GN-2349-9 (Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank) and GN-2350-9 (Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank)—will apply to all planned procurement activities under this operation. These will be included in the Procurement Plan, which will cover an initial minimum period of 18 months with annual updates thereafter. Before initiating procurement, this procurement plan will be registered, approved, and published in the Procurement Plan Execution System (SEPA, [www.iniciativasepa.org](http://www.iniciativasepa.org)). Once registered, the plan will be updated annually, or whenever required by substantial changes to the original plan.
- 5.3 The relevance of each expenditure (i.e. terms of reference, technical specifications, and budget) is the responsibility of the project's sector specialist and always requires a no objection before the procurement process may begin, based on the operational criteria of the Project Team Leader.

- a. **Procurement of works, goods, and nonconsulting services:** Project-related contracts for works, goods, and nonconsulting services<sup>2</sup> subject to international competitive bidding will be carried out using the standard bidding documents issued by the Bank. Contracts subject to national competitive bidding will be carried out using national bidding documents satisfactory to the Bank. The review of technical specifications for procurement during preparation of the selection processes is the responsibility of the project sector specialist.
- b. **Selection and contracting of consultants:** Contracts for consulting services under the project will be executed using either the Bank's Standard Request for Proposals (in the case of all contracts above the applicable threshold for international shortlists) or one satisfactory to the Bank (in the case of bidding processes for amounts below the threshold applicable to international competitive bidding). The project sector specialist is responsible for reviewing the terms of reference for consulting service contracts.
- c. **Direct contracting:** As set out in the table below, direct contracting for a total amount of US\$6,048,153 is envisaged, of which US\$2,022,190 will be financed with local counterpart funds and US\$4,025,963 with Bank resources. Direct contracts financed with local funds will not be subject to Bank review.

**Table 1. Direct contracts (US\$)**

	IDB	Local counterpart	Total
Consulting services, RPDP team	3,885,736	1,211,681	5,097,417
Fuel	140,227	-	140,227
Training	-	444,100	444,100
Travel expenses	-	101,350	101,350
Vehicle maintenance	-	109,686	109,686
Postage	-	54,843	54,843
Bank fees	-	10,530	10,530
Audit, TCR	-	90,000	90,000
<b>Total</b>	<b>4,025,963</b>	<b>2,022,190</b>	<b>6,048,153</b>

- (i) The contracts of the consultants belonging to the RPDP team are expected to be renewed under the operation. The team is made up of advisors, assistants, and the rural development field teams that are currently working under loan 2595/OC-UR. Consequently, and in accordance with sections 3.10(a) and 3.11 of the Policies for the Selection and Contracting of Consultants (document GN-2350-9) (which establish the principle of continuity of service where such continuity is more efficient than a new competition), the executing agency's request has been deemed consistent with Bank policies based on the following factors: (i) initial selection of the consultants was done on a competitive basis in 2012 and received the Bank's prior no objection; (ii) the consultants whose contracts are to be renewed are

<sup>2</sup> Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank ([document GN-2349-9](#)), paragraph 1.1: The treatment of nonconsulting services is similar to that of goods.

subject to an annual performance evaluation; and (iii) in the event of unsatisfactory results, a consultant's contract will not be renewed and alternative human resources will be sought through a competitive process. The value of this activity is expected to total US\$5,097,417 over the six-year loan execution cycle, with US\$3,885,736 financed from Bank loan proceeds and US\$1,211,681 from local counterpart funds. This amount is considered reasonable given that: (i) the team comprises a total of 28 people; and (ii) their monthly salaries average US\$2,462, which is within the reference scale for the Office of the President of the Republic.

- (ii) A budget of US\$140,227 is also envisaged over the loan execution period for the direct purchase of fuel from the Administración Nacional de Combustibles, Alcohol y Portland [National Fuel, Alcohol, and Cement Administration] (ANCAP). The fuel will be used for transporting field teams in the project's area of influence. This line is consistent with the requirements of section 3.6(c) of the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9), which allow direct contracting in cases where a product may only be obtained from one source. ANCAP is an energy company that manages all of the country's fuel supply plants and has a monopoly over fuel imports and exports in Uruguay. It also proposes fuel prices, which are then approved by the Executive Branch. Lastly, section 33.C.1 of the Texto Ordenado de Contabilidad y Administración Financiera [Consolidated Text on Accounting and Financial Administration] (TOCAF) indicates that government bodies or departments may engage in direct contracting with each other. As ANCAP is a state-run company, direct contracts with it are aligned with national requirements and the Bank's policies.
- (iii) **Training:** The program includes training activities for a total of US\$444,100. These will be financed using local counterpart funds, meaning that no interventions are expected in relation to procurement contracts using either the ex ante or ex post modalities.

- d. **Selection of individual consultants:** Selection of individual consultants is anticipated for a total amount of US\$162,770, in accordance with the provisions of Section V of the Policies for the Selection and Contracting of Consultants Financed by the IDB, observing in particular the procedures envisaged for the competitive selection of these consultants.

**Table 2. Thresholds for international competitive bidding and shortlists with international participants (US\$ thousands)**

Works			Goods and services			Consulting services	
International competitive bidding	National bidding	Shopping	International competitive bidding	National bidding	Shopping	International advertising for consultants	Shortlist 100% national
≥3,000,000	≤3,000,000	≤100,000	≥250,000	≤250,000	≤50,000	≥200,000	≤200,000
	≥250,000			≥50,000			

## B. Main procurement processes

- 5.4 The procurement activities identified for this operation will be divided as set out in the following table:

**Table 3. Procurement activities**

Category	Total, IDB	Total, local counterpart	Total US\$
Goods	58,324	7,076	65,400
Training	-	444,100	444,100
Consulting firms	204,918	135,082	340,000
Individual consultants	3,992,282	1,267,905	5,260,187
Nonconsulting services	205,115	24,885	230,000
<b>Total procurement</b>	<b>4,460,639</b>	<b>1,879,048</b>	<b>6,339,687</b>

\*See [Procurement Plan](#).

## C. Procurement supervision

- 5.5 Given the experience and performance of the executing agency, procurement activities will be subject to ex post review, with the exception of those cases in which ex ante supervision is justified and explicitly specified in the Procurement Plan. The following table sets out the thresholds applicable to the foregoing:<sup>3</sup>

**Table 4. Thresholds for ex post review (US\$)**

Works	Goods	Consulting services
≤3,000,000	≤250,000	≤200,000

- 5.6 Ex post reviews will be conducted every 12 months in accordance with the project supervision plan.

## D. Records and files

- 5.7 The agreed formats or procedures set out in the program Operating Regulations will be used for the preparation and filing of project reports.

## VI. FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** For preparation of the Executive Branch's (five-year) national budget, the agencies of the central government submit their proposals to the MEF before 31 July of the first year of the administration's term in office. The MEF coordinates the budget preparation process with assistance from the Planning and Budget Office and the National Civil Service Office. It submits the national budget proposal to the Executive Branch, which approves it and forwards it to the Legislative Branch by 31 August of the same year. The Legislative Branch has 120 days to analyze, approve, and express its opinion on the amounts, and it may not make amendments that increase expenditure. Reallocations and any increases in the annual budget are prepared by the Executive Branch when it presents its annual accountability and budget execution statements. Within six

<sup>3</sup> Note: Ex post review thresholds are applied on the basis of the executing agency's fiduciary execution capacity. They may be modified by the Bank as a result of changes in that capacity.

months after the end of the fiscal year, the Executive Branch presents these reports to the Legislative Branch and may propose amendments for duly justified reasons.

- 6.2 The local counterpart contribution for this program is US\$2.89 million. The executing agency will provide evidence to the Bank that local counterpart funds have been allocated for the first year of execution, both at the time of fulfillment of the conditions precedent and annually thereafter (by the end of February).
- 6.3 **Accounting and information systems.** Project accounts will be maintained in the project's own system and in the country's Integrated Financial Information System (SIIF). Budget credits approved for the program under the five-year budget law are allocated and executed using the SIIF; as a result, the procedures established by the General Accounting Office (CGN) will be followed when processing project-related commitments and payments.
- 6.4 Project financial statements will be issued periodically on a modified cash basis. Project financial statements will be audited annually, and comprise the following: (i) statement of cash received and disbursements made; and (ii) statement of cumulative investment.
- 6.5 **Disbursements and cash flow** (*in coordination with the use or nonuse of the national treasury system*). Project funds will be managed through a National Single Account (CUN), to which end the National Treasury, at the request of the PMU, will open a special account at the Central Bank of Uruguay. This account will receive the funds disbursed by the Bank, but as it is a registered account (which cannot be used to make payments), a specific bank account will be opened for the program at the state-owned commercial bank (Banco de la República Oriental del Uruguay) for purposes of making the corresponding payments.
- 6.6 Disbursements will be made in the form of advances, based on actual liquidity needs and supported by adequate financial and disbursement projections. These advances will preferably be made every six months, once reporting has been filed for at least 70% of the amount advanced. As documentary support, the accounting forms will need to be presented along with the financial planning spreadsheet. Expenditures involving transfers to Rural Development Field Agents (ATDRs) will be documented in two stages: first, once the advances are made, and second, once the expense reports are received, supported by an accounting report that includes the exact amount used by each ATDR.
- 6.7 The eDisbursements system will be used to process disbursement requests. The exchange rate for the conversion of local currency payments into the currency used for the loan shall be the one prevailing on the date of payment.
- 6.8 **Internal control and audit.** The internal control system is based on the national system defined in the laws and regulations currently in force. As established in the Consolidated Text on Accounting and Financial Administration, the TCR will exercise preventive intervention in all expenditures related to program execution. The level of reliability for execution of this operation is high.
- 6.9 The MGAP will maintain the conditions established for the execution of loan 2595/OC-UR, thus ensuring the continuity and participation of fiduciary staff assigned full-time to the program, although for this program they will constitute a unit within the PMU. This will strengthen the fiduciary function, as the PMU's

structure includes an Executive Management Department and an Administrative and Financial Department. In light of the formal structure specified by the Ministry, it is anticipated that the human resources and defined processes necessary to meet the Bank's requirements will be available.

- 6.10 **External control and reporting.** The national external control system is executed by the TCR. The previous MGAP operation (2595/OC-UR) was audited by the TCR, and the corresponding annual reports were delivered in a timely manner and with unqualified audit opinions. For this program, the executing agency's intention is for the TCR to continue providing these services. The TCR's eligibility level is consistent with the type of entity and risk associated with the operation.
- 6.11 Annual financial audit reports and the respective evaluation of internal controls will be submitted for each fiscal year during the disbursement period by 30 April of the following year. The auditing standards issued by the International Organization of Supreme Audit Institutions will be considered. The cost of the audits will be agreed upon in the TCR Service Agreement Letter and will be financed with local counterpart funds.

## VII. FINANCIAL SUPERVISION PLAN

- 7.1 The initial financial supervision plan is based on the following:
- a. Participation in the launch workshop organized by the project team, with a brief presentation on project financial management considerations.
  - b. Review of the financial conditions precedent (chart of accounts, agreement with the TCR, evidence of budgetary allocation of resources).
  - c. Review of the annual work plan and initial financial plan prepared by the PMU as support for the first advance of funds (to be requested once the program's eligibility has been established).
  - d. If necessary, one financial visit will be carried out each year during program execution. The following issues will be covered: reconciliation of the account for advances and investments; implementation of external audit recommendations; quality and timeliness of accounting records; and maintenance of archives.
- 7.2 **Execution mechanism.** The MGAP will be accountable to the Bank for project execution, and it will maintain a direct relationship with the Bank. A description of the processes involving the use of the funds will be included in the program Operating Regulations; approval and entry into force of the Operating Regulations will be a condition precedent to the project's first disbursement.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Uruguay. Loan \_\_\_\_/OC-UR to the Eastern Republic of Uruguay  
Rural Productive Development Program II

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 Eastern Republic of Uruguay, as Borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Rural Productive Development Program II. Such financing will be in the amount of up to US\$24,232,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2018)