

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **URUGUAY**

### **PROGRAM TO SUPPORT AGRICULTURAL PUBLIC MANAGEMENT II**

**(UR-L1135)**

#### **LOAN PROPOSAL**

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4. <a href="#">Procurement plan</a>
<b>OPTIONAL</b>
1. <a href="#">Economic analysis of the project</a>
2. <a href="#">ICAS assessment</a>
3. <a href="#">Component I technical profile</a>
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6. <a href="#">Final evaluation report for Program to Support Agricultural Public Management I (2182/OC-UR)</a>
7. <a href="#">Component II technical profile</a>
8. <a href="#">Execution mechanism</a>
9. <a href="#">Integration document</a>

## ABBREVIATIONS

ESMP	Environmental and Social Management Plan
ESMR	Environmental and Social Management Report
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
IPPC	International Plant Protection Convention
MGAP	Ministry of Livestock, Agriculture, and Fisheries
NCB	National competitive bidding
OIE	World Organisation for Animal Health
PMU	Project management unit
SIGLA	Sistema Integral de Gestión de Laboratorios [Comprehensive Laboratory Management System]
SIIF	Integrated Financial Information System
TCR	Tribunal de Cuentas de la República [Audit Office of the Republic]

## PROJECT SUMMARY

### URUGUAY PROGRAM TO SUPPORT AGRICULTURAL PUBLIC MANAGEMENT II (UR-L1135)

Financial Terms and Conditions				
<b>Borrower:</b> Eastern Republic of Uruguay			<b>Flexible Financing Facility<sup>(a)</sup></b>	
			<b>Amortization period:</b>	25 years
<b>Executing agency:</b> The borrower, acting through the Ministry of Livestock, Agriculture, and Fisheries (MGAP)			<b>Original WAL:</b>	15.25 years <sup>(b)</sup>
			<b>Disbursement period:</b>	5 years
			<b>Grace period:</b>	5.5 years
<b>Source</b>			<b>Amount (US\$)</b>	<b>%</b>
<b>IDB (Ordinary Capital):</b>			7,600,000	95
<b>Local:</b>			400,000	5
<b>Total:</b>			8,000,000	100
<b>Project at a Glance</b>				
<b>Project objective/description:</b>				
<p>The objective of the operation is to continue strengthening the institutional management of the Ministry of Livestock, Agriculture, and Fisheries (MGAP) to help make Uruguay's agricultural sector more competitive and improve its international positioning. The specific objectives are (i) to improve the MGAP's services by developing e-government, strengthening capacities, and bringing its services closer to users throughout the country; and (ii) to keep the agricultural health and food safety services up to date.</p>				
<b>Special contractual conditions precedent to the first disbursement of the loan:</b>				
<p>(i) the MGAP resolution setting forth the PMU's obligations, structure, and tasks, so as to strengthen the powers and areas of responsibility for program execution, will have entered into force under terms agreed upon with the Bank; (ii) the executing agency will establish the program's Operational Technical Committee and designate a coordinator for each program component; and (iii) the executing agency will approve the Environmental and Social Management Plan (ESMP) and place it into effect under terms previously agreed upon with the Bank (paragraph 3.5).</p>				
<b>Special environmental and social contractual conditions:</b>				
<p>The conditions set forth in the Environmental and Social Management Report will be included (paragraph 2.3).</p>				
<b>Exceptions to Bank policies:</b> None.				
<b>Strategic Alignment</b>				
<b>Challenges:<sup>(d)</sup></b>		SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>
<b>Crosscutting issues:<sup>(e)</sup></b>		GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

<sup>(a)</sup> Under 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> The original weighted average life (WAL) and grace period may be shorter depending on the effective signature date of the loan contract.

<sup>(c)</sup> The credit fee and 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> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

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

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problems addressed, and rationale

- 1.1 **Overview of the agricultural sector.** Uruguay's agrifood sector (including agroindustry) is a mainstay of the country's economy due to its contribution to GDP (11.8%) and employment (18%) and its role in generating foreign exchange, accounting for 75.8% of total exports.<sup>1</sup> Production in the sector has undergone a major modernization process over the past decade, as the sector has gained a greater presence in international markets and grown much stronger in comparison with previous decades and with competitor countries. A growth trajectory in exports has thus been solidified, with Uruguay staking out a position as a supplier of reliable food products on the basis of advances in innovation, investment, new organizational forms of production, productive diversification, and differentiation based on product quality. The sector posted a cumulative growth rate of 120% over the 2003-2013 period, well above the cumulative growth rate in total GDP (73%) over the same period,<sup>2</sup> and recorded an average annual growth rate in total productivity of 1.5% over the 1981-2012 period, above the regional average (1.2%) and trailing only Brazil, Chile, and Peru (Nin-Pratt et al., 2015).
- 1.2 The sector's recent transformation is evidenced by the diversification both in production and in destination markets for exports. Grain exports have overtaken beef exports. Exports of soybeans alone—which have only been commercially grown since 2000, when the first 5,000 hectares were planted—totaled US\$1.616 billion in 2014, exceeding the US\$1.473 billion in beef exports. Corn and wheat exports also rose in the same period. In terms of markets, whereas more than 50% of Uruguay's agricultural exports went to Argentina and Brazil in the late 1990s, today the Southern Cone subregion has lost ground, relatively speaking, as a destination for these exports, with larger shares now going to Asia and other destinations. Uruguay has gained access to more-demanding markets such as the United States and Europe, thereby strengthening its position in international markets. While still dependent on commodity production, this position is supported by a sector with the capacity to compete in an ever-greater number of markets, and which aims to differentiate itself through production quality and food safety.<sup>3</sup> In 2015, 47% of Uruguay's beef exports went to China and the United States, 82% of its soybean exports went to China, and US\$615 million in dairy products were exported to nontraditional markets such as Venezuela, Russia, and Algeria.<sup>4</sup> In 2014, according to the Ministry of Livestock, Agriculture, and Fisheries (MGAP), 135 markets were open for meat products, 96 markets for dairy products, 71 markets for grains (oilseed and cereal crops), and 57 for fruits. Moreover, the country had not lost access to any market in the previous five years. The 2010-2014 period saw 20 new markets opened up for agroindustrial products.<sup>5</sup>

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<sup>1</sup> Agricultural Statistical Yearbook, DIEA, MGAP, 2015.

<sup>2</sup> Office of Agricultural Programming and Policy. 2015. *El desarrollo agropecuario y agroindustrial de Uruguay*.

<sup>3</sup> Uruguayan exports practically doubled as a share of world trade between 2003 and 2013.

<sup>4</sup> Office of Agricultural Programming and Policy yearbook 2015.

<sup>5</sup> Including exports of fresh citrus and boneless lamb to the United States; boneless beef to South Korea; lamb meat to Mexico; beef, lamb, pork, and horse meat to Vietnam; and barley and dairy cattle to China.

- 1.3 The changes in the sector's productive structure have been accompanied by strengthened management of the MGAP, with a focus on (i) improving public services for the sector (both at the central level and in the departmental offices) by integrating its information systems, further incorporating information technologies into its processes, and updating its human resources strategy in order to reduce transaction and consultation times for producers and enterprises, thereby making agricultural value chains more cost-competitive; and (ii) strengthening the technical management of agricultural health and food safety services in order to reduce disease risk and support the sector's positioning in international markets.
- 1.4 **Ongoing institutional and organizational reforms.** Two of the main areas for these reforms have been the decentralization of services toward regions and departments and the streamlining of service transactions, as well as capacity-building for management of food safety, as reflected in the recent creation of the MGAP's Office of Food Safety Control.<sup>6</sup> Thus far, the MGAP has equipped 19 departmental offices for online operations. These reforms have been particularly significant and should be deepened, since the sector's services have historically been concentrated in Montevideo and some transactions still can only be carried out in the capital. In general, an individual or producer makes an average of 2.1 visits to the respective offices to complete an in-person transaction with the central government (World Bank, 2015). Some transactions are still very time-consuming, and costs are high in comparison with competitor countries. Uruguay ranked 153rd in the area of "trading across borders" in the *Doing Business* report series (World Bank, 2016), behind some of its main competitors: Brazil (145th), Paraguay (135th), Australia (89th), and New Zealand (55th).<sup>7</sup> There is much room for improvement in time and cost of documentary compliance (including time and cost of obtaining, processing, and submitting documents). The same source reports that exports take 96 hours to process in Uruguay, compared with a regional average of 68 hours for Latin America and the Caribbean, 42 hours in Brazil, 72 hours in Paraguay, 3 hours in New Zealand, and 7 hours in Australia. The cost of documentary compliance is US\$231 for Uruguay, compared with a regional average of US\$134 for Latin America and the Caribbean, US\$226 for Brazil, US\$200 for Paraguay, US\$67 for New Zealand, and US\$264 for Australia.
- 1.5 The services provided by the MGAP to producers and enterprises in the sector entail a number of transactions, many of which are part of the agricultural health and food safety system (control and surveillance activities) and information system that are needed to provide assurances to markets and consumers. These transactions impose costs on producers and enterprises, and these costs are high due to such factors as (i) the quantity and cost of documents required for the transactions (prerequisites); (ii) the number of steps in each transaction and the time that each step takes; (iii) the fact that certain transactions must be conducted in person in Montevideo, which requires people to travel; (iv) duplication of controls or studies within a single transaction; and (v) the average person's low level of knowledge and self-confidence when it comes to conducting transactions online.
- 1.6 For the private sector, when it comes to transactions related to foreign trade (exports and imports), the MGAP's delayed responses, as well as service times and direct

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<sup>6</sup> Article 273 et seq. of Law 19355, enacted on 19 December 2015.

<sup>7</sup> The countries mentioned here are, like Uruguay, exporters of commodities: soybeans, meat, dairy products.

transaction costs, have a negative impact on business performance and, as a result, on competitiveness.<sup>8</sup> Business transactions costs have become a topic of strategic importance in the region due to the increasing geographic fragmentation of production and the sensitivity of trade to the time variable,<sup>9</sup> all while other costs, such as transportation costs, have been on the decline. Lower transaction costs help to increase foreign trade and attract foreign investment.<sup>10</sup> An evaluation in Uruguay (Volpe et al., 2015) found that a 10% increase in time at the border results in a 3.8% drop in exports. This has an impact on exporters, in the form of higher costs, and on importers, who tend to choose companies that can deliver more quickly. Delays also have a greater impact on goods that depreciate over time, such as fresh products. With regard to lowering transaction costs by making transactions with public entities available online (e-government), a study on such services in Spain showed significant savings for enterprises and individuals, as well as greater administrative efficiency in the public sector (De la Nuez, et al., 2015).

- 1.7 **Continuous upgrades to agricultural health and food safety.** Despite institutional progress and the sector's success in gaining access to markets with stricter agricultural health and food safety requirements, equipment and technical and professional skills must be kept up to date to ensure that services are able to address evolving threats to plant and animal health and meet increasingly stringent market requirements in the area of food safety. The country's experience has revealed the benefits of maintaining agricultural health in order to preserve access to foreign markets: the 2001 outbreak of foot-and-mouth disease came at an estimated cost of US\$700 million to the beef sector and the country's economy (Knight-Jones and Rushton, 2013; Otte et al., 2004). Meanwhile, in the United States, Carter (2007) estimated US\$2 billion in losses for the livestock sector in the state of Michigan due to lack of capacities for a new veterinary diagnostic laboratory to support the industry.
- 1.8 The MGAP, acting through the Office of Livestock Services, the Office of Agricultural Services, and the National Office of Water Resources, is the country's authority on agricultural health and is responsible for compliance with the standards and guidelines of the major international agencies (World Organisation for Animal Health (OIE), International Plant Protection Convention (IPPC), Codex Alimentarius). A food export strategy requires appropriate levels of quality in government services responsible for certifying aspects of agricultural health and food safety. Destination countries have varying levels of requirements, and the ability to satisfy the most stringent among them will open up greater opportunities for trade and make the exporting country more competitive.
- 1.9 With regard to food safety, the rules of international trade (as substantially reflected in the WTO Agreement on the Application of Sanitary and Phytosanitary Measures) allow a country to restrict access to certain products in order to protect the health of its human, animal, or plant population, but these restrictions should be based on scientific studies or recommendations from authoritative technical sources on these matters (OIE, Codex Alimentarius, IPPC). Uruguay lacks statistics on safety-related

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<sup>8</sup> See consultant's report completed as part of program design: [Report on transactions prioritized by the private sector](#).

<sup>9</sup> IDB. 2015. Uruguay. Sector Note on Trade and Investment.

<sup>10</sup> The Organization for Economic Cooperation and Development estimates that a 1% reduction in global transaction costs would yield a gain of US\$40 billion in worldwide income, which would benefit trade operators, consumers, and, indirectly, national governments.



impacts on human health, but, for example, studies published by the U.S. Centers for Disease Control and Prevention report that some 48 million people fall ill, 128,000 are hospitalized, and 3,000 die every year from foodborne illness in the United States (International Food Information Council, at [foodsafetynews.com](http://foodsafetynews.com)). A foundational aspect of any food safety management system is the capacity to evaluate the state of food items and inputs, at any stage of the process, using objective laboratory analyses. Access to export markets is heavily dependent on buyers' assessment of the coverage, capacity, technical competence, and credibility of the government-run laboratory system, and this is a basic determining factor of competitiveness in the food industry. In the latest [OIE evaluation of the performance of veterinary services](#) in Uruguay, conducted in 2014, the level of advancement in laboratory quality assurance was rated a 3 out of a possible 5, compared with its rating of 4 in the 2007 OIE report. Actions are needed, therefore, to update and certify laboratory methods in accordance with changing requirements and to enable laboratories to meet increasing demand.

- 1.10 Although the International Trade Centre ranks Uruguay, out of 180 countries, among the 20 that are best positioned in the trade in fresh food, recent rejections of export shipments could undermine confidence in the country's agricultural health system. In the United States, 15 shipping containers, primarily containing rice, were rejected in 2014-2015, and a number of beef shipments were rejected in 2016 due to the presence of pesticide residue (Food and Drug Administration, 2015). China, too, rejected some beef shipments in 2015, and 48 rejections occurred in Europe between 2010 and 2015 (Rapid Alert System for Food and Feed, 2015).
- 1.11 Uruguay is seeking to capitalize on opportunities in the global food trade. Between 1970 and 2013, trade in food grew at an average annual rate of 8% (Food and Agriculture Organization Statistics Division, 2014). And over the past two decades, region's economies have undergone a major liberalization process, which has enabled them to benefit from reduced tariffs in food-importing countries but also exposed them to an increasing number of para-tariff barriers, such as sanitary and phytosanitary measures. The growth in world trade in agricultural products has been accompanied by a tightening of agricultural health and food safety regulations in developed countries. The global population, meanwhile, is expected to increase by more than a third by 2050, and, as a result, demand for food is expected to rise substantially over this period (Food and Agriculture Organization, 2013), creating new opportunities and challenges for food-exporting countries such as Uruguay. To continue strengthening agricultural health and food safety services, active public-private coordination is needed, with actions based on technical and scientific knowledge related to management of health risks and on information gathered and processed by efficient systems, all while enforcing the standards recommended by the major international agencies, with emphasis on strengthening continuous services in surveillance, sanitary barriers, quarantine, laboratories, and sanitary and phytosanitary interventions to eradicate diseases of economic and public-health importance.
- 1.12 **The Bank's experience.** The Program to Support Agricultural Public Management I (2182/OC-UR, 2010) marked the start of support for a process to strengthen the institutional framework and health and safety services, with US\$10.5 million in Bank financing. The program outcomes and outputs, which have been used as input and experiences for the proposed operation, include the following: (i) [the MGAP master plan for an information, information technology, and telecommunications system](#);

- (ii) a pilot management tool; (iii) a human resources management system integrated into the MGAP's systems; (iv) [a human resources training plan](#); (v) [a one-stop window system with simplified, redesigned procedures](#); (vi) a new MGAP office in Tacuarembó, designed to be part of a shared campus alongside entities involved in research and innovation in the sector;<sup>11</sup> (vii) improved and equipped MGAP service centers; (viii) the Food Safety Coordination and Planning Unit, created by [MGAP Resolution 0221/20145](#); (ix) [the MGAP food safety strategic plan, promoted by the Food Safety Coordination and Planning Unit](#); (x) [a plan for a new organizational structure for sanitary barriers](#); and (xi) [a master laboratory plan](#), as well as improved, well-equipped laboratories with information management tools. The aforementioned plans include a range of activities to be financed under the Program to Support Agricultural Public Management II. The operation concluded on 31 July 2016, and its final evaluation is in the review phase. In addition, the Program for Improvement of Public Services and State-Citizen Interaction (3625/OC-UR), approved in 2015, will support the development of e-government, and the proposed operation will complement this initiative for the MGAP (paragraph 1.25).
- 1.13 This operation will also continue the broad support that the Bank has been providing the sector continuously since the 1980s, especially for agricultural health institutions, through the Animal Health Program (518/OC-UR, 1987) and the Agricultural Services Program (1131/OC-UR, 1998). The Bank has also financed operations in Argentina (1950/OC-AR, 2008-2015), Bolivia (2061/BL-BO, 2008-2014), Nicaragua (1500/SF-NI, 2003-2011; 2738/BL-NI, 2012), and Peru (1647/OC-PE, 2005-2009), among others. On the basis of prior operations, and particularly the experience gained in operation 2182/OC-UR, as well as the conclusions and suggestions set forth in the OVE document [Comparative Project Evaluation of Agricultural Health and Food Safety, 2002-2014](#), Table I presents the main lessons learned and how these lessons have been incorporated into the design of the proposed operation.

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<sup>11</sup> The campus also includes the National Institute for Agricultural Research, the University of the Republic, the northern regional laboratory of the Veterinary Laboratory Division, and the Department Council of Tacuarembó. It fosters the pursuit of joint projects, such as in forestry and livestock farming, as a way of promoting regional development.

**Table I. Incorporation of main lessons learned**

Lesson learned	Incorporation in program design
An effective diagnostic assessment should be conducted to refine identification and design, and in cases where there is insufficient information to conduct a diagnostic assessment, the option of starting interventions with a pilot project should be considered.	The program's first phase will generate a large number of inputs (paragraph 1.12), which will serve as the basis for identifying actions and designing the new operation.
Decisions on agricultural health services should be independent and based on purely scientific considerations, due to the nature of the threats to be addressed and the demand for local and international credibility.	The program aims to keep the government authority overseeing agricultural health and food safety at the technological and procedural vanguard while maintaining the broadest possible presence in international markets for agrifood products.
For the sustainability of agricultural health and food safety projects, it is important to support financial sustainability arrangements, which, in the case of laboratories, involves considering the principle of cost-sharing with beneficiaries.	The program calls for implementing a comprehensive laboratory management system to provide detailed cost information, which currently does not exist but is essential for rationalizing service fees.
Agricultural health control institutions need ongoing programs for continuing education and training of staff members. Resistance to change in management processes calls for efforts to raise awareness among, and train, human resources.	Training events are planned for both components, and particularly in relation to new equipment and management systems.
Progress is needed in Uruguay toward laboratory systems that include process monitoring and control.	The program will finance a comprehensive laboratory management system to help control processes and analyze information from a risk-management perspective.
Mechanisms for evaluating and managing health risks need to be further developed, beyond reactive measures in the wake of adverse events.	The program will implement risk-based analysis in the main agrifood value chains, thereby replacing the reactive approach.
Managing agricultural health and food safety requires interagency efforts across divisions and departments, and this necessitates effective planning and coordination.	The MGAP has made progress by establishing the Food Safety Coordination and Planning Unit, and the program will have an operational technical committee with the participation of the MGAP units and divisions involved in each component.
For enhanced evaluability, it is important to identify indicators that are directly related to the activities supported by the projects.	The program includes outcome indicators that are directly related to the activities planned under the two components: transaction costs, safety-related observations in exports, and laboratory efficiency. In addition, the operation will support an observatory to monitor requirements and trends in exports, which will improve information related to program impacts.

1.14 **Program design.** The program has been designed to support improvements in the provision of agricultural public goods that are especially important for Uruguay due to the sector's role in the country's economy. It will bring attention to the need to protect Uruguay's agricultural resources from health risks and provide the safety assurances sought by foreign markets, especially high-value ones, as part of the government's bid to position Uruguay as a reliable and safe supplier of quality food products. To this end, efforts will be based on lessons learned in executing the Program to Support Agricultural Public Management I and on plans and studies developed during execution of the program (paragraph 1.12), by prioritizing a

number of key actions to help ensure that a food safety management system is in place to respond to new international practices.

- 1.15 The program will promote the following pillars: (i) strengthening **agricultural public goods**; (ii) reducing **MGAP transaction costs**; and (iii) decreasing the country's vulnerability to the **most stringent requirements related to agricultural health and food safety**.
- 1.16 For the first pillar, the economic literature shows that investments for the provision of rural public goods (e.g. technological innovation, agricultural health, market information, rural infrastructure, etc.) yield higher economic returns and greater impacts on productivity, income, and sustainable management of natural resources than does public spending for the provision of private goods (e.g. purchase and distribution of inputs, subsidies for production). Specifically, the evidence in Latin America and the Caribbean shows that the composition of rural public expenditure is more important than the magnitude of expenditure (López and Galitano, 2007, and Foster et al., 2015). Uruguay is the second-ranking country in the region in terms of percentage of agricultural public expenditure allocated to public goods ([Agrimonitor](#)). Against this backdrop, the program aims to strengthen the provision of agricultural public services, specifically in the area of agricultural health and food safety.
- 1.17 For the second pillar, efforts will focus on reducing the costs faced by agricultural producers and enterprises in transactions with the MGAP, by simplifying the various types of transactions, increasing the online availability of transactions, and bringing services closer to users.<sup>12</sup> The time and steps needed to complete transactions tend to increase operating costs for agents of agrifood value chains, thereby undermining competitiveness.
- 1.18 Lastly, to ensure market access given agricultural health and food safety requirements, countries need the following: (i) a thorough understanding of international standards and market-specific requirements; (ii) a vigilant mindset in striving to neutralize or mitigate any requirements that may pose arbitrary or unjustified barriers to trade; (iii) effective oversight capacity for exported products and processes involved in production (which necessarily entails a risk analysis to help prioritize control efforts); (iv) the capacity to record data and process information as guarantees for control mechanisms; (v) institutional prestige based on proven capacities in control and consistency in enforcing penalties or mitigating measures; and (vi) effective capacity to control borders to prevent agricultural imports and the movement of persons from jeopardizing the agricultural health and safety of foods to be used as inputs for export or domestic consumption.
- 1.19 For food safety management, the program aims to implement the risk analysis process so that decisions are based on scientific criteria, mainly by strengthening capacities in the critical components of risk assessment and dissemination. The risk analysis provides information on hazards to human or animal health that are associated with the presence of contaminants or pathogens at any stage of production, transportation, or marketing of a food product. The risk analysis helps target controls to critical points entailing the greatest risk, thereby multiplying the effect of the analyses and helping to develop well-founded intervention strategies.

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<sup>12</sup> Simplifying transactions and making them available online will also help reduce the time spent by MGAP personnel on these transactions, thus creating opportunities to improve internal efficiency.

These processes will help keep foreign markets open and protect domestic consumers.

- 1.20 **The country's sector strategy.** One of the MGAP's five guidelines for the 2015-2020 period is to promote competitiveness and international presence by (a) positioning Uruguay as a supplier of reliable food products; (b) selling products to international consumers in high-value market niches; (c) differentiating products on the basis of environmental added value and specific attributes in demand among consumers with high purchasing power; and (d) promoting improved positioning in terms of tariffs and trade. The government has also set an operational target of making all transactions with the public sector available online by 2020. The proposed program is aligned with this sector strategy.
- 1.21 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is aligned with the development challenges of (i) productivity and innovation, by supporting quality government services for the agroindustrial productive sector; and (ii) economic integration, by promoting the safety of foods that will help bring producers into value chains characterized by quality and added value (see [link](#)). Also, in terms of the Corporate Results Framework 2016-2019 (document GN-2727-6), the program is aligned with regional context indicators 7, intraregional trade in goods, and 12, government effectiveness, through the impact indicators set out in the program's results matrix: (i) increased value of Uruguay's agrifood exports and (ii) increased number of markets open to agrifood exports; and also through the outcome indicators: (i) lower MGAP export transaction costs for meat and dairy products; and (ii) agrifood sector product categories with MGAP export transactions incorporated into the one-stop foreign trade window. The program is also aligned with the crosscutting area of institutional capacity and rule of law, inasmuch as it will strengthen the technological and managerial tools needed to improve the MGAP's service delivery, as reflected in the aforementioned outcome indicators and the indicator of improved laboratory efficiency. The program is also aligned with several country development results, specifically indicator 5, public agencies' processing times of international trade of goods and services, through the aforementioned outcome indicators; indicator 11, beneficiaries of improved management and sustainable use of natural capital, by improving agricultural health and food safety services in order to help maintain agricultural resources, a key input enabling producers to use natural capital more efficiently; and indicator 25, government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery, through the following and other output indicators: 100% of transactions fully available online, e-notification tool in operation, and comprehensive laboratory management system implemented.
- 1.22 The program is also consistent with the Sector Framework Document on Agriculture and Natural Resources Management (document GN-2709-5), which emphasizes the need to strengthen the provision of public goods in the sector; with the Food Security Sector Framework Document (document GN-2825-3) along the dimension of access to safe, nutritional food; and with the Integration and Trade Sector Framework Document (document GN-2715-6), which addresses problems related to logistics costs, including facilitation costs, as the main obstacle to international trade today. The operation is aligned with the Bank's country strategy with Uruguay 2016-2020 (document GN-2836), inasmuch as it contributes to the objectives of

boosting productivity and competitiveness and strengthening public sector management.

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

- 1.23 The objective of the operation is to continue strengthening the institutional management of the Ministry of Livestock, Agriculture, and Fisheries (MGAP) to help make Uruguay's agricultural sector more competitive and improve its international positioning. The specific objectives are (i) to improve the MGAP's services by developing e-government, strengthening capacities, and bringing its services closer to users throughout the country; and (ii) to keep the agricultural health and food safety services up to date.
- 1.24 **Component 1. Improvement of MGAP service delivery (US\$3.63 million).** This component aims to improve the services provided by the MGAP to the agricultural sector by further developing and implementing e-government, strengthening capacities, and carrying out actions to bring services closer to users throughout the country. It is expected that further export-related transactions will be added to the one-stop foreign trade window.<sup>13</sup> This approach is reflected in two subcomponents: (i) improved MGAP services through information technologies and simplified transactions; and (ii) improved interagency networks throughout the country.
- 1.25 **Subcomponent 1.1** aims to improve interactions with the public and associated transactions, resulting in lower transaction costs for private-sector actors (paragraph 1.17), through the following specific projects: (i) implementation of e-notifications from the MGAP to those conducting transactions with the entity; (ii) implementation of e-filing to manage files, documents, and work flows, by providing online support, going paperless, and improving service quality; (iii) the 100% online transaction initiative, in coordination with the national initiative (Decree 184/015), for the purpose of promoting the online availability of transactions with and services of the central government and other public entities;<sup>14</sup> (iv) elimination and simplification of transactions, with the aim of reducing the total number of transactions and/or simplifying transactions without compromising service delivery, by streamlining processes; and (v) creation and development of the integrated in-person service system, by strengthening the one-stop window system (begun under the Program to Support Agricultural Public Management I) to ensure that any transaction with the MGAP's nine divisions or execution units can be conducted in person at any of the administrative offices in the system. These projects include training activities for MGAP personnel.
- 1.26 **Subcomponent 1.2** will help create an interinstitutional campus for research, learning, and innovation in the eastern part of the country (department of Treinta y

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<sup>13</sup> The one-stop foreign trade window is a mechanism for facilitating foreign trade that was created as part of Uruguay XXI, the institution tasked with promoting investment and exports of goods and services, which reports to the Ministry of Economy and Finance and the Ministry of Foreign Relations. Operation UR-L1060 is currently financing this initiative.

<sup>14</sup> The program is coordinating with operation 3625/OC-UR, which supports the initiative at the general level of the administration, in order to help achieve its objectives.

Tres).<sup>15</sup> The program will finance construction of an MGAP office<sup>16</sup> at an interinstitutional campus on land owned by the State of Uruguay, where the National Institute for Agricultural Research is located. The Agricultural Plan Institute is building its facilities at the same site, and the University of the Republic will build a regional office there as well. The idea is that collective actions with producers in the area of influence (e.g. on agricultural health campaigns to control various pests and diseases, and support initiatives and efforts in conjunction with the other institutions at the campus) will lead to greater competitiveness and efficiency in managing the MGAP and the sector. The establishment of the MGAP office on the campus will also help bring its offices and its technical and administrative personnel together at a single physical location<sup>17</sup> and will help coordinate actions between public and private entities. This is also expected to help lower costs, increase efficiency, and develop and disseminate solutions to local production problems.

**1.27 Component 2. Strengthening of food safety management (US\$3.84 million).**

This component aims to bolster safety assurances in food production by continuing to strengthen management in this area; to ensure continual improvements in laboratory management; to implement risk assessment and management in a comprehensive manner; and to strengthen the MGAP's new Office of Food Safety Control. Accordingly, this component will generate information and tools that will help carry out preventive actions, on the basis of effective public-private interaction, throughout the various supply chains. The new management system and the investment in equipment will be accompanied by training activities and efforts related to risk assessments and sanitary barriers. To this end, work will be carried out in three subcomponents:

**1.28 Subcomponent 2.1. Comprehensive laboratory management system.**

Financing will be provided to develop and implement a system with the following features: (i) a sampling management system to help target controls and enhance their efficiency on a technical basis; (ii) input of samples through mobile devices; (iii) a costing system to help calculate total costs of laboratory analyses; (iv) integration (providing and receiving information) into existing health data collection systems; (v) a portal for communicating with qualified private labs; (vi) a portal for communicating with cold laboratories; (vii) tools to support specific preventive or corrective sanitary actions (based on an analysis of trends in analysis results, identification of atypical values, and analysis of georeferenced data); and (viii) the capacity to manage and plan inventories for laboratories, individually and collectively. Financing will also be provided for a building to house all laboratories for foods from animal sources in a single location (these laboratories are currently in various different locations; see [environmental and social analysis](#)), thus generating efficiencies in the use of human resources and equipment.

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<sup>15</sup> The eastern part of the country has been prioritized because it is less developed than the western part. Elsewhere, the north-central part of the country will be served by the Tacuarembó campus, which was supported by the Program to Support Agricultural Public Management I, while the existing Montevideo campus serves the southern part.

<sup>16</sup> The preliminary design work for these offices has been completed. Uruguay's legal framework does not allow construction work to begin until the required permits have been obtained from the appropriate agency. A permit can only be issued once the design work is complete, the site is determined to be viable, and the company is verified as current on its tax and social security obligations.

<sup>17</sup> The MGAP currently leases two separate locations, which it will vacate when it moves to the proposed offices.

- 1.29 **Subcomponent 2.2 Implementation of risk assessment in food safety control.** Financing will be provided to (i) generate baseline protocols for risk assessment at the value-chain level; (ii) establish a system (observatory) for monitoring requirements and trends in international destination markets, which will provide feedback for reviewing protocols and control efforts as a whole; and (iii) train human resources to act as “risk managers” (with the mission of ensuring that risk assessments are performed, as well as the ultimate responsibility for selecting and implementing food safety control measures).
- 1.30 **Subcomponent 2.3. Pilot plan for sanitary barriers.** Financing will be provided to implement and bring into operation three pilot sanitary barriers at the border,<sup>18</sup> to improve the existing system, through the incorporation of equipment (scanners, hardware, and surveillance cameras), software, and modern infrastructure.<sup>19</sup> This will bring an orderly, intelligent approach to inspections and potential confiscations of items identified as risks, inasmuch as sampling will be conducted on the basis of relevant, case-specific information, thus striking an efficient balance between the need for the smooth flow of people and the need to protect plant and animal health.

### C. Key results indicators

- 1.31 The program’s [results matrix](#) has been agreed upon with the borrower (Annex II) and sets forth the impact, outcome, and output indicators, along with the corresponding baselines and targets. In line with the program’s objectives (paragraph 1.23), the impact indicators are designed to reflect, in a complementary manner, two program-related dimensions of competitiveness and market access: an increase in the value of Uruguay’s agrifood exports and an increase in the number of markets open to agrifood exports. The following outcomes are expected: (i) lower MGAP transaction costs for meat and dairy exports; (ii) agrifood sector product categories with MGAP export transactions incorporated into the one-stop foreign trade window; (iii) fewer safety-related observations in food exports; and (iv) improved laboratory efficiency. The operation will benefit the members of Uruguay’s main agrifood value chains (at least 50,000 producers in livestock chains, 7,000 in farming chains, 700 fishers, and 50 export companies) by reducing their transaction costs and helping to ensure food safety and market access.
- 1.32 **Economic viability.** The program’s economic viability was analyzed using a cost-benefit analysis model for two key aspects of the program: (i) reduction of transaction costs (direct, indirect, and opportunity costs) as a result of improved MGAP services; and (ii) reduction in export rejections as a result of strengthened controls, and especially as a result of improved laboratories, improved management on the basis of risk assessment, and provision of timely information on market requirements (see [link](#)). In Component 1, the main benefits stem from reduced opportunity costs associated with MGAP transaction times and with in-person transactions, on the basis of improved management and implementation of e-government. For Component 2, the evaluation assumed as a benefit the expected reduction in rejections of exports of the country’s main agricultural products for reasons related to food safety. The estimates yielded a net present value of US\$4.43 million (with a 12% discount rate) and an internal rate of return of 46%,

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<sup>18</sup> At present, there are 19 barriers at ports, airports, and border crossings with Argentina and Brazil.

<sup>19</sup> The pilot sanitary barriers will be installed at locations to be determined by the new authorities of the Office of Food Safety Control during the first year of program execution, on the basis of the health risk assessment.



showing that the program will generate positive economic returns. These results are robust to changes in the assumptions on which the sensitivity analysis is modeled, with respect to the level of reductions in both transaction costs and safety-related export rejections as a result of improved capacities at the MGAP.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 The program is designed as a specific investment loan under the Flexible Financing Facility (document FN-655-1). It has a total cost of US\$8.0 million, of which US\$7.6 million will be financed by the Bank from the Ordinary Capital.

**Table II. Program cost and financing (US\$000)**

Investment category	IDB	Local counterpart	Total	%
<b>I. Direct costs</b>				
Component 1. Improvement of MGAP service delivery	3,451	176	3,627	45.4
Component 2. Strengthening of food safety management	3,706	138	3,844	48.0
<b>II. Administration</b> (monitoring, evaluation, audits)	443	86	529	6.6
<b>Total</b>	<b>7,600</b>	<b>400</b>	<b>8,000</b>	<b>100</b>
<b>Percentage</b>	<b>95</b>	<b>5</b>	<b>100</b>	<b>100</b>

- 2.2 The program disbursement period will be five years starting on the effective date of the loan contract. Program resources will be disbursed in the form of advances of funds.

**Table III. Disbursement schedule (US\$000)**

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Total	1,262	2,014	2,401	1,271	1,049	8,000
%	16	25	30	16	13	100

### B. Environmental and social risks

- 2.3 In accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703), the program has been classified as a category "B" operation. The program's impacts will primarily be positive to neutral, and its potential negative impacts are minor, temporary, and easily mitigated by preventive measures, as described in the [Environmental and Social Management Report \(ESMR\)](#), which includes an Environmental and Social Management Plan (ESMP). The project management unit (PMU) will be responsible for monitoring the ESMP, including compliance with the environmental and social contractual conditions set forth in the ESMR (paragraph 5.2). The main impacts of the program are related to two small construction projects (a 320-square-meter building for the new MGAP office in the Department of Treinta y Tres, and a 420-square-meter building to house a consolidated laboratory for animal-source foods). These impacts are expected to be easily manageable. The environmental analysis concluded that, in view of their nature and magnitude, no significant or lasting social or environmental risks are expected.

### **C. Fiduciary risks**

- 2.4 In view of the MGAP's effective fiduciary performance in the execution of loan operation 2182/OC-UR, no fiduciary risks are expected to compromise fulfillment of the program objectives. Nevertheless, during preparation of this operation, the institutional capacity assessment of the MGAP was updated ([link](#)) for the dimensions of planning and organization; capacity to execute programmed, organized activities (administration of personnel, goods and services, and finances); and control. The consolidated findings of the assessment of MGAP using the Institutional Capacity Assessment System (ICAS) indicates a satisfactory level of development, which is associated with a low level of risk.

### **D. Other project risks**

- 2.5 The main identified risks, along with their corresponding mitigation measures, are as follows: (i) resistance to use, and lack of appropriation, of new e-tools and new processes among MGAP personnel, which will be mitigated through training, assistance from specialized personnel, and help desks; and (ii) resistance among personnel at the National Office of Water Resources to the move to the food safety laboratory, for which transportation services are currently in place and will be made available to these personnel.
- 2.6 The MGAP will be responsible for maintaining program-financed assets, and the costs, which are minimal compared with the MGAP budget, will be covered by savings generated by the project (by no longer leasing space and by improving efficiency as a result of housing the three food safety laboratories in a single location). Moreover, there is no plan to hire additional personnel, just to transfer them from other offices. As for the sustainability of the pilot sanitary barriers, a sanitary barrier management office was established within the MGAP structure, and this will help ensure a specific budget for this purpose. The MGAP will analyze the results of these pilot initiatives to determine future scalability.

## **III. IMPLEMENTATION AND MANAGEMENT PLAN**

### **A. Summary of implementation arrangements**

- 3.1 The borrower, acting through the MGAP, will be the executing agency for the program and will be fully responsible for program administration and oversight.
- 3.2 To fulfill its duties, the MGAP will have, under its General Secretariat, a [project management unit \(PMU\)](#) that will be responsible for managing, monitoring, and evaluating the program, as well as for ensuring fulfillment of contractual provisions related to program execution. To this end, it will coordinate with the appropriate divisions within the General Secretariat and the MGAP's other divisions and units responsible for activities related to program implementation (Office of Agricultural Services, Office of Livestock Services, Office of Food Safety Control). The program hierarchical structure will be as follows: (i) project director: general secretary; (ii) executive manager: PMU manager; and (iii) two technical coordinators, one for each component. In addition, the Operational Technical Committee will consist of the general secretary, who will serve as chair; the PMU manager or whomever the PMU manager designates; the directors of the MGAP units or divisions involved, or whomever such directors designate; and the technical coordinators of each program component. This will be a mechanism for strategic coordination of the program and for the monitoring of program risks.

- 3.3 The PMU's structure includes an executive office, an administration and finance unit, an operational technical unit, and an advisory services unit. The PMU will use this structure to carry out the following and other duties: (i) administration of proceeds from the Bank loan and the local counterpart contribution; (ii) planning, commissioning, and implementation of activities for program components, coordinating with various entities as appropriate; (iii) coordination and oversight of the processing of information to monitor outputs and evaluate program outcomes and impacts; (iv) management of fiduciary matters; (v) oversight of fulfillment of recommendations included in the program's ESMR and ESMP; and (vi) preparation of reports, plans, financial statements, and disbursement requests as described in the loan contract and others as reasonably requested by the Bank. The PMU will also provide support through its training and communication units, and its integrated information management system will be used to manage MGAP data, achieve transparency, and ensure availability of information related to technical experts and beneficiaries.
- 3.4 The technical coordinators of each component will be responsible for (i) helping to determine the lines of work alongside the other members of the Operational Technical Committee; (ii) developing, with support from the PMU, the annual work plans (AWP) for their respective component; (iii) developing the necessary technical specifications and providing support for procurement and contracting procedures; and (iv) implementing the program in coordination with the directors of the corresponding MGAP executing units and ensuring compliance with the requirements set out in the ESMR and the ESMP.
- 3.5 As contractual conditions precedent to the first disbursement of the loan: **(i) the MGAP resolution setting forth the PMU's obligations, structure, and tasks, so as to strengthen the powers and areas of responsibility for program execution, will have entered into force under terms agreed upon with the Bank; (ii) the executing agency will establish the program's Operational Technical Committee and designate a coordinator for each program component; and (iii) the executing agency will approve the Environmental and Social Management Plan (ESMP) and place it into effect under terms previously agreed upon with the Bank.**
- 3.6 **Procurement.** Procurement processes 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 the Policies for the Selection and Contracting of Consultants financed by the IDB (document GN-2350-9). The procurement plan contains detailed information on the procurement processes to be carried out during program execution, as well as the procedures used by the Bank for review.
- 3.7 **Retroactive financing and recognition of expenditures.** The Bank may provide retroactive financing of up to US\$305,000 (4% of the proposed loan amount) against the loan proceeds and may recognize up to US\$15,250 (4% of the estimated local contribution) against the local counterpart contribution for eligible expenditures made by the borrower prior to the loan approval date for the purpose of assembling a team of consultants, procuring equipment, and covering operating expenses in order to continue the process of strengthening the MGAP in line with the objectives of the Program to Support Agricultural Public Management II, provided requirements substantially analogous to those set forth in the loan contract have been met. Such expenditures must have been incurred no earlier than 5 July 2016 (the date on which

the project profile was approved), but may in no case include expenditures incurred more than 18 months before the loan approval date.

- 3.8 The fiduciary agreements and requirements ([Annex III](#)) set forth the framework for financial management and planning, as well as for oversight and execution of procurement processes related to program execution. Individual consultants who were previously selected for loan 2182/OC-UR are expected to be contracted again to continue providing services under this operation. This is justified by paragraph 5.4 (a) of the Policies for the Selection and Contracting of Consultants financed by the IDB (document GN-2350-9), which allows such selection for tasks that are a continuation of previous work that the consultant has carried out and for which the consultant was selected competitively. In addition, there are plans to directly contract the firm Microsoft to expand and renew the software licenses that the MGAP currently uses. This is justified by paragraph 3.6 (c) of the Policies for the Procurement of Goods and Works financed by the IDB (document GN-2349-9), which allows direct contracting when the required equipment can only be obtained from one source.
- 3.9 **Disbursements.** Disbursements will be made in the form of advances on the basis of actual liquidity needs. These advances will preferably be made on a semiannual basis once accounts have been rendered for at least 70% of the advanced amount.<sup>20</sup> The reporting forms and the financial planning chart must be submitted as documentation. Documents will be reviewed on an ex post basis.
- 3.10 **Audits.** During execution, the PMU will submit audited financial statements for the program in accordance with the terms required by the Bank. As agreed with the executing agency, the audit will be performed by the Audit Office of the Republic or otherwise by a firm of independent auditors acceptable to the Bank. The audited financial statements will be submitted within 120 days after the end of the fiscal year, and the final statement will be submitted within 120 days after the final disbursement.

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

- 3.11 The program has a [monitoring and evaluation plan](#) agreed upon with the MGAP and incorporated into the budget (paragraph 2.1), which includes: (i) indicators for monitoring and evaluating the program, its baseline, and its means of verification; (ii) critical path of program activities and outputs; (iii) description, timeline, and parties responsible for monitoring instruments; and (iv) methodology, activities, and budget for implementing the plan.
- 3.12 The MGAP will submit monitoring reports during program execution no later than 60 days after the end of each six-month period. These reports will indicate the degree of physical and financial progress in the indicators and activities set out in the results matrix, the annual work plan, and the procurement plan, analyzing the problems encountered and presenting corrective measures. 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 of executed works, and the plan for maintaining these works, and they will also report on fulfillment of the program's

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<sup>20</sup> As part of Uruguay's budget execution process, the proceeds from payments are committed once the payments are obligated in the Integrated Financial Information System (SIIF). However, there can be a delay between the creation of the obligation and when it is executed, depending on the Ministry's monthly financial limit. This, in turn, can prevent justification of the expenditures and cause liquidity problems, which would affect financial execution of the program. For this reason, at the request of the execution unit, it was agreed that the percentage to be justified would be lowered to 70% of advances.

environmental and social requirements set forth in the ESMP. The MGAP will also submit the following evaluation reports, which will be performed independently and financed with loan proceeds: (i) a midterm evaluation, to be performed 90 days after 50% of the loan proceeds have been committed or 50% of the execution period has elapsed, whichever occurs first; and (ii) a final evaluation, to be performed 90 days after 95% of the loan proceeds have been disbursed. These reports will cover: (i) financial execution by subcomponent and source of financing; (ii) progress in achieving the outputs, outcomes, and impacts in the results matrix; (iii) fulfillment of the ESMP; and (iv) summary of financial statements, procurement processes, disbursements, and internal control.

- 3.13 **Performance evaluation.** As agreed, the program evaluation will use the methodology of design, implementation, and performance used by the Management and Evaluation Agency of the Presidential Planning and Budget Office. This agency and the Office of Agricultural Programming and Planning will provide support for this purpose. In addition, surveys will be conducted at the beginning and end of program execution to measure client satisfaction with services provided in transactions and at laboratories. An ex post economic evaluation will also be conducted, and outcome and output indicators will be monitored.

Development Effectiveness Matrix			
Summary			
<b>I. Strategic Alignment</b>			
<b>1. IDB Strategic Development Objectives</b>		<b>Aligned</b>	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration -Institutional Capacity and the Rule of Law		
Regional Context Indicators	-Growth rate of the value of total exports of goods and services (%) -Government effectiveness (average LAC percentile)		
Country Development Results Indicators	-Public agencies' processing times of international trade of goods and services -Beneficiaries of improved management and sustainable use of natural capital (#) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)		
<b>2. Country Strategy Development Objectives</b>		<b>Aligned</b>	
Country Strategy Results Matrix	GN-2836	i) Diversify export markets; and ii) Strengthen public management systems.	
Country Program Results Matrix		The intervention is not included in the 2016 Operational Program.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
<b>II. Development Outcomes - Evaluability</b>			
	Evaluable	Weight	Maximum Score
	8.9		10
<b>3. Evidence-based Assessment &amp; Solution</b>	<b>9.6</b>	<b>33.33%</b>	<b>10</b>
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	3.6		
3.3 Results Matrix Quality	3.0		
<b>4. Ex ante Economic Analysis</b>	<b>10.0</b>	<b>33.33%</b>	<b>10</b>
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
<b>5. Monitoring and Evaluation</b>	<b>7.1</b>	<b>33.33%</b>	<b>10</b>
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	4.6		
<b>III. Risks &amp; Mitigation Monitoring Matrix</b>			
Overall risks rate = magnitude of risks*likelihood		Low	
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	
<b>Environmental &amp; social risk classification</b>		<b>B</b>	
<b>IV. IDB's Role - Additionality</b>			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, External control. Procurement: Information System, Shopping Method.	
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

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

The aim of the operation is to consolidate the institutional management strengthening of MGAP in order to contribute to improving the competitiveness and international integration of the Uruguayan agricultural sector. The specific objectives are: (i) improve service provision by MGAP, through the development of e-government, strengthening their skills and bringing their services to users throughout the territory; and (ii) maintain current health services and food safety.

The proposed program is the second operation in support of a process of institutional strengthening and health and safety services driven by the MGAP. The diagnosis of the problems and their causes, as well as intervention proposed, have been enriched by the experience of the implementation of PAGPA I and the plans and studies developed during its implementation. The focus of the program in reducing transaction costs of MGAP services, and reduced vulnerability of the country to higher standards of health and food safety responds to the diagnosis and evidence presented.

The results matrix has vertical logic and contains clear outcome and output indicators, which are SMART, have baselines and targets, and the source of the information is identified.

Ex-ante cost-benefit analysis is conducted for components I and II of the program. Quantification of benefits is based on reducing transaction costs (direct and indirect, and opportunity) as a result of improved services by MGAP (component I); and decreased export rejections due to the strengthening of controls, especially improvements in laboratories, management based on risk analysis and timely information on market requirements (component II).

The Monitoring and Evaluation Plan meets the guidelines of the DEM. The Evaluation Plan proposes an ex-post cost-benefit and details the main assumptions that must be verified in quantifying the actual benefits and costs once the program concludes.

## RESULTS MATRIX

<b>Project objective:</b>	The objective of the operation is to continue strengthening the institutional management of the Ministry of Livestock, Agriculture, and Fisheries (MGAP) to help make Uruguay's agricultural sector more competitive and improve its international positioning.
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### EXPECTED IMPACT

Indicators	Unit of measurement	Baseline		Targets		Means of verification	Observations
		Value	Year	Value	Year		
<b><u>EXPECTED IMPACT</u></b>							
Increase in the value of Uruguay's agricultural exports	US\$000	4,060	2015	4,400	2021	Uruguay XXI	Indicator includes only meat, dairy products, and grains
Increase in the number of markets open to agrifood exports	Number of open markets	302	2015	312	2021	MGAP and Uruguay XXI	Total number of markets for meat, dairy products, and grains

EXPECTED OUTCOMES

Expected outcomes	Unit of measurement	Baseline		Intermediate		Targets		Means of verification	Observations
		Value	Year	Value	Year	Value	Year		
<b>EXPECTED OUTCOME</b>									
Component 1									
Lower MGAP export transaction costs for meat and dairy products	Cost per ton (US\$)	5.55 meat, 2.15 dairy	2016			2.78 meat, 1.07 dairy	2021	MGAP e-filing tool and Uruguay XXI	Estimate based on 262,000 tons of meat and 118,934 tons of dairy products, 2015
Agrifood sector product categories with MGAP export transactions incorporated into one-stop foreign trade window	Product categories	1	2015			4	2021	One-stop foreign trade window of Uruguay XXI	Fish is the baseline category; expected additions are meat, dairy products, and grains.
Component 2									
Fewer safety-related observations in food exports	Number of annual alerts from the Rapid Alert System for Food and Feed	6	Average 2012-2014			4	Average 2021-2023	Annual report of the Rapid Alert System for Food and Feed	
Improved laboratory efficiency	Average time to complete analysis (days)	7 (crops) 10 (livestock)	2015			3 (crops) 5 (livestock)	2021	MGAP and the comprehensive laboratory management system's report	Laboratory services for crops and livestock



**OUTPUTS**

<b>Component 1</b>									
<b>OUTPUT</b>	<b>INDICATOR</b>	<b>Baseline 2016</b>	<b>Year 1 2017</b>	<b>Year 2 2018</b>	<b>Year 3 2019</b>	<b>Year 4 2020</b>	<b>Year 5 2021</b>	<b>Program target</b>	<b>Means of verification</b>
1.1 E-notification tool in operation	Number of e-notifications issued per year	0	0	0	9,720	9,720	12,960	32,400	E-notification tool report
Milestone	MGAP help desk created	0			1			1	
1.2 Email address database created.	Number of email addresses in the database	0	0	1,000	2,000	2,000	5,000	10,000	Email address database report
1.3 E-filing tool in operation	% of files managed electronically	0	0	0	0	40%	60%	100%	E-filing tool report and annual report of the document management system. The number of files varies year to year; currently, it is 13,600.

OUTPUT	INDICATOR	Baseline 2016	Year 1 2017	Year 2 2018	Year 3 2019	Year 4 2020	Year 5 2021	Program target	Means of verification
1.4 Key offices (equipped, with e-filing and staff trained) established in all MGAP executing units	Number of key offices	0	0	0	0	4	5	9	Report by MGAP's Continuous Improvement Unit
1.5 100% of transactions fully available online <sup>1</sup>	% of transactions fully available online	17	23	10	20	10	20	100%	AGESIC annual report
1.6 MGAP office on Treinta y Tres interagency campus	Office built and in service	0	0	0	1	0	0	1	Work completion certificates issued by MGAP Architecture Unit. Final evaluation report for the program.
1.7 Administrative centers with total management	Number of administrative centers	0	0	1	1	1	1	4	Report by the Continuous Improvement Unit. All MGAP transactions may be performed at these offices.
1.8 MGAP staff members trained in accordance with the e-government specialization plan	Number of staff members trained	20	5	5	5	5	5	25	Staff members who pass evaluation

<sup>1</sup> Many transactions involve multiple steps. The target is that all transactions may be performed online from start to finish. In 2016, only 25 of 147 transactions (17%) could be fully performed online.

Component 2									
OUTPUT	INDICATOR	Baseline 2016	Year 1 2017	Year 2 2018	Year 3 2019	Year 4 2020	Year 5 2021	Program target	Means of verification
2.1 Comprehensive Laboratory Management System (SIGLA) implemented	% progress in development and implementation	0%	10%	20%	30%	20%	20%	100%	Consultant's progress report verified by MGAP
2.2 MGAP laboratories with SIGLA implemented	Laboratories in SIGLA	0	0	0	0	0	10	10	SIGLA report
2.3 Animal-source foods laboratory in operation	Degree of progress in construction and equipment	0	0	20%	60%	20%	0%	100%	Work progress certificate issued by MGAP Architecture Unit
2.4 Analysis of substances in crop and fish laboratories with quality management system implemented in accordance with UNIT-ISO 17025 guidelines	Number of substances	0	3	4	4	2	10	23	Application for accreditation to the Uruguayan Accreditation Agency. Includes 8 reaccreditations for transfer of National Office of Water Resources laboratory to the animal-source foods laboratory.

<b>OUTPUT</b>	<b>INDICATOR</b>	<b>Baseline 2016</b>	<b>Year 1 2017</b>	<b>Year 2 2018</b>	<b>Year 3 2019</b>	<b>Year 4 2020</b>	<b>Year 5 2021</b>	<b>Program target</b>	<b>Means of verification</b>
2.5 Food safety protocols for agrifood chains implemented by MGAP	Protocols approved	0	2	2	2	2	0	8	MGAP resolution. Protocols for beef, dairy, poultry, pork, fish, cheese, lamb, and citrus chains.
2.6 Risk analysis training	Participants at training events (specialists and professionals)	0	0	300	300	300	300	1,200	PMU registration list in comprehensive management system and evaluation outcomes
2.7 Observatory on export-related requirements and trends	Number of observatory reports	0	0	6	6	6	6	24	Reports
2.8 Sanitary barriers with smart barrier system in operation	Total number of sanitary barriers with smart system	0	0	2	1	0	0	3	Midterm and final evaluation

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Country:** Uruguay  
**Project number:** UR-L1135  
**Name:** Program to Support Agricultural Public Management II  
**Executing agency:** Ministry of Livestock, Agriculture, and Fisheries (MGAP)  
**Prepared by:** Nadia Rauschert and David Salazar

### I. EXECUTIVE SUMMARY

- 1.1 This operation is an investment project in the amount of US\$8 million, of which US\$7.6 million will come from the loan. The borrower is the Eastern Republic of Uruguay and the program's executing agency will be the Ministry of Livestock, Agriculture, and Fisheries (MGAP), acting through the General Secretariat with support from the project management unit (PMU), which was created by an MGAP resolution in 2012 and reports to the General Secretariat. The PMU coordinates the execution of MGAP projects, including those financed by multilateral organizations. The PMU has an organizational and administrative structure consisting of approximately 20 staff/consultants and will be responsible for executing the operation's resources and for arranging for the timely financing of local counterpart contributions. Seven projects are currently being managed.
- 1.2 The fiduciary agreements and requirements established for this program are based on the MGAP's background as the executing unit for loan 1643/OC-UR for the Program to Support the Productivity and Development of New Livestock Products (completed) and loan 2182/OC-UR for the Program to Support Agricultural Public Management, nearing completion. They are also based on the institutional capacity assessment performed using the ICAS tool in May 2016, which yielded satisfactory results in all areas except internal control, which received an average rating of medium risk primarily due to the lack of self-evaluation mechanisms to improve the MGAP's control environment and the lack of a structured methodology for risk assessment. These areas are being strengthened by use of the risk management methodology for the program, with the upcoming creation of an internal audit unit at the MGAP (internal resolution slated for September 2016) and the hiring of two part-time professionals to monitor the technical aspects of control within the executing unit.

### II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY AND THE CO-EXECUTING AGENCY

- 2.1 The MGAP has experience in executing projects with the Bank, and its fiduciary context is satisfactory. For this operation, this area is further strengthened by the establishment of the PMU as the fiduciary support services unit for projects and by the government's own internal control processes, which are deemed reasonable overall with the presence of delegated accountants and the preemptive involvement of the Audit Office of the Republic (TCR) in expenditures.

- 2.2 The country systems, or their equivalents, that will be used for this operation are as follows:
- a. Budget: Budgetary resources for this operation have been taken into account in the new Five-year Budget Law 2015-2019.
  - b. Treasury: In order to manage program resources, a special account will be opened in the name of the MGAP, specifying the program's name, in the Central Bank of Uruguay, as part of the Unified National Account.
  - c. External control: This will be performed by the TCR, which has Tier 1 eligibility on the Uruguay Country Office's list of eligible auditors.

### III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 During the risk workshop on 4 August 2016, when the Project Risk Management methodology was applied, only two fiduciary risks were identified, which were rated low.

### IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS

- 4.1 **Exchange rate.** To convert expenditures in local currency into U.S. dollars (currency of the operation), the exchange rate in force on the payment date will be used. The same criterion will be used to report expenditures from the counterpart and for the recognition of expenditures.
- 4.2 **Justification of advances.** Given the significant volume of transactions and expenditures under this operation and the country's budget regulations, which assign Bank resources to commitments in the SIIF (SIR code), it was agreed that justification of 70% of advances would be included, in order to minimize the risk of slowing down execution of any of the components and ensure that the executing unit has no liquidity problems.<sup>1</sup>
- 4.3 **Audited financial statements.** Annual statements are to be submitted within 120 days following the close of each fiscal year, as well as a final statement at the end, to be submitted within 120 days after the date of the final disbursement. As agreed with the executing agency, the audit will be performed by the Audit Office of the Republic (TCR) or otherwise by a firm of independent auditors acceptable to the Bank.

### V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The procurement policies applicable to this loan are the Policies for the Procurement of Works and Goods financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants financed by the IDB (document GN-2350-9).

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<sup>1</sup> As part of Uruguay's budget execution process, the proceeds from payments are committed once the payments are obligated in the Integrated Financial Information System (SIIF). However, there can be a delay between the creation of the obligation and when it is executed, depending on the Ministry's monthly financial limit. This, in turn, can prevent justification of the expenditures and cause liquidity problems, which would affect financial execution of the program. For this reason, at the request of the execution unit, it was agreed that the percentage to be justified would be lowered to 70% of advances.

5.2 Procurement execution:

- a. Before carrying out any procurement process, the executing agency will present the procurement plan to the Bank for approval, with details indicating:
  - (i) the contracts for goods and services required to carry out the program;
  - (ii) the proposed methods for the contracting of goods and for the selection of consultants; and
  - (iii) the Bank's contract supervision procedures. The borrower will update the procurement plan at least once every 12 months and based on program needs. Any proposed change to the procurement plan must be presented to the Bank for its approval.
- b. The agreed procurement plan calls for contracting individual consultants previously selected for loan 2182/OC-UR again so they can continue to provide services for this operation. This procedure is considered appropriate, due to the need for continuity and based on the satisfactory performance of the consultants. It is justified in paragraph 5.4 (a) of the Policies for the Selection and Contracting of Consultants financed by the IDB (document GN-2350-9), which allows such selection for tasks that are a continuation of previous work that the consultant has carried out and for which the consultant was selected competitively. In addition, there are plans to directly contract the firm Microsoft to renew and expand the software licenses that the MGAP currently uses. This is justified in paragraph 3.6 (c) of the Policies for the Procurement of Goods and Works financed by the IDB (document GN-2349-9), which allows direct contracting when the required equipment can only be obtained from one source.

5.3 The following are the provisions applicable to the execution of procurement:

- a. **Procurement of works, goods, and nonconsulting services:**<sup>2</sup> Contracts generated and subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Procurement subject to national competitive bidding (NCB) will be executed using bidding documents satisfactory to the Bank.
- b. **Consulting firms:** These will be selected and contracted according to IDB policies. Calls for bids involving international publicity (for amounts above US\$200,000) will be subject to ex ante review.
- c. **Selection of individual consultants:** Pursuant to Section V of the Bank's policies (document GN-2350-9), use of a short list or the standard request for proposals is not required. The executing agency will follow national procedures, which are complementary to those required by the Bank's policy and do not conflict with the provisions contained in that policy. However, the executing agency must ensure that timeframes are complied with and that publicity for the calls for bids is valid.

5.4 Advance procurement/retroactive financing. The Bank may provide retroactive financing of up to US\$305,000 (4% of the proposed loan amount) against the loan proceeds and may recognize up to US\$15,250 (4% of the estimated local contribution) against the local counterpart contribution for eligible expenditures made by the borrower prior to the loan approval date for the purpose of

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<sup>2</sup> Policies for the Procurement of Goods and Works financed by the IDB (document [GN-2349-9](#)), paragraph 1.1: Nonconsulting services are treated as goods.

assembling a team of consultants to continue the process of strengthening the MGAP in line with the objectives of the Program to Support Agricultural Public Management II. Such expenditures must have been incurred no earlier than 5 July 2016 (the date on which the project profile was approved), but may in no case include expenditures incurred more than 18 months before the loan approval date. In this context, the PMU has proceeded with advance procurement, contracting individual consultants and procuring some minor goods. The Bank has reviewed the procurements carried out thus far and determined that they are eligible for financing. Detailed information on these procurements can be found in the procurement plan.

**Thresholds for Uruguay (US\$000)**

Works			Goods <sup>3</sup>			Consulting services	
ICB	NCB	CP	ICB	NCB	CP	International publicity	Short list 100% national
≥ 3,000	250-3,000	≤ 250	≥250	50-250	≤ 50 <sup>4</sup>	> 200	≤ 200

- 5.5 **Major procurements:** See the [procurement plan](#).
- 5.6 **Procurement supervision.** The ex post review method, subject to modification by agreement to be reflected in the procurement plan, will be used initially. Procurements using ICB and the contracting of consulting services for amounts above US\$200,000 will be reviewed on an ex ante basis.

## VI. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

- 6.1 **Programming and budget.** Proper budgetary allocation within the 2015-2019 Five-year Budget will be verified and execution will be monitored to ensure that the operation is executed on schedule, as established in the annual work plan.
- 6.2 **Accounting and information systems.** International Financial Reporting Standards will be followed in preparing the project's financial statements. The MGAP is in the process of rolling out a management system that includes an accounting and reporting module that is expected to be used for this operation. Discussion was held during the administration mission on the use of the country accounting system, the International Projects System of the Integrated Financial Information System (SIIF), in the event that the management system is not ready for use on this program.
- 6.3 **Disbursements and cash flow.** To use the loan proceeds, the MGAP will open a special account in the Central Bank of Uruguay, in the name of the program. The funds will be disbursed in the form of advances, based on cash programming for a maximum of six months.
- 6.4 **External audit.** The program's external auditing reports and the review of procedures and disbursement requests are to be presented for each fiscal year during the disbursement period, within 120 days following the end of that period.

<sup>3</sup> Includes nonconsulting services.

<sup>4</sup> For technically simple goods, the shopping method may be used up to the threshold for NCB.



International Auditing Standards and the guidelines issued by the Bank for those purposes are to be taken into consideration.

## **VII. FINANCIAL SUPERVISION PLAN**

- 7.1 The supervision plan will take the following factors into account:
- a. For the first year of execution, a financial visit is expected to take place to examine the operation of the internal audit unit for potential use in the program, and implementation of the management system for recording program transactions will be monitored.
  - b. Disbursement requests will be reviewed on an ex post basis, and verification will be done by the external auditor, together with the presentation of the program's annual reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/16

Uruguay. Loan \_\_\_/OC-UR the Eastern Republic of Uruguay  
Program to Support Agricultural Public Management 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 to cooperate in the execution of the Program to Support Agricultural Public Management II. Such financing will be for an amount of up to US\$7,600,000 from the Ordinary Capital resources of the Bank, 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 \_\_\_ \_\_\_\_\_ 2016)

LEG/SGO/CSC/IDBDOCS: 40684012  
Pipeline No.: UR-L1135