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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

5280/102

URUGUAY - AGRICULTURAL COOPERATIVE (CALFORU)

AID DLC/- 2080

LA/DR
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UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

UNCLASSIFIED
AID DLC/P-2080
June 3, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Uruguay Agricultural Cooperative

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed two million United States dollars ($2,000,000) in furtherance of the Alliance for Progress to Cooperativa Agropecaria Limitada de Sociedades de Fomento Rural ("CALFORU") the "Borrower" to assist in financing the United States dollar and local currency costs of a project to provide capital goods and fertilizer imports, technical assistance and training to expand the Borrower's institutional capacity for continued expansion of marketing and farm supply distribution activities, in order to better the needs of its local affiliates and their members ("Project").

No meeting is scheduled for this proposal. However, please advise us of your concurrence or objection as early as possible, but in no event later than close of business on Wednesday, June 11, 1975. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development
Program Review

Attachments:
Summary and Recommendations
Project Analysis
Material not printed in CAP - may be found in LA/DR official files.

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COOPERATIVE DEVELOPMENT LOAN

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Summaries of Data contained in Annexes appear in CAP as appropriate.
*Material not printed in CAP - may be found in LA/DR official files.

PART I - SUMMARY AND RECOMMENDATIONS

A. BORROWER

The Borrower will be CALFORU, a federation of primary cooperatives and societies for rural development.

B. GUARANTEE

The Government of Uruguay will execute a Payment and Guaranty Agreement.

C. AMOUNTS AND TERMS OF LOAN

The loan is not to exceed $2,000,000. It will be a two-step loan. The terms to the Borrower will be 20 years with a 7-year grace period on principal repayments. The annual interest rate will be 5% during the grace period and thereafter. The terms to the Government of Uruguay will be 40 years with a 10 years grace period. Interest will be at 2% during the grace period and 3% thereafter.

D. GOAL AND PURPOSE

The project supports Government (GOU) priority objectives to achieve (1) sustained increases in agricultural production and exports; (2) reduction of food imports; and (3) increased income for small and medium farmers.

The purpose of the project is to strengthen the institutional capacity of a federated national cooperative, CALFORU, to meet the needs of its small and medium members who are predominantly producers of non-traditional exports.

E. PROJECT DESCRIPTION

The proposed AID loan will assist in creating the basis for self-sustained expansion of CALFORU's primary operations, (1) farm supplies distribution, and (2) marketing; and (3) enable the institution to manage these expanded operations efficiently and effectively.

(1) Farm Supply Distribution: The loan will help CALFORU's Farm Supply Distribution Department expand its sales from the present yearly level of $2,000,000 to over $24 million by the end of the third year of the project (1978). These supplies, including fertilizer, agricultural chemicals, burlap bags and seed, will reach a total of 15,000 farmers by the end of the third year of the project. Loan funds will provide $965,500 for the importation of fertilizer and $35,000 for capital goods (fertilizer bagging equipment and a fork lift truck), while CALFORU's own funds and approximately $2,100,000 borrowed locally (of which $300,000 will be incremental to previous borrowing levels), will purchase all other supplies.

(2) Marketing: The loan will help CALFORU's Marketing Department install two deciduous fruit packing and accompanying cold storage plants for peaches, pears, apples and quince. The cold storage will be used off-season to hold citrus (oranges grapefruit and lemons) for export. Loan funds amounting to $831 000 will finance capital goods (cold storage chambers and equipment fruit-packing lines and fork lift trucks). These new elements and existing cold storage capacity will provide for exports and local sales of deciduous fruits up to $1,446,000 and exports of citrus up to $682.000 by the end of the third year. CALFORU will also continue to expand its processing and marketing of honey, garlic and beans to a yearly total of $3,119,000.

(3) Management and Administration: Successful expansion of CALFORU activities must be supported by an improved and more sophisticated system of management. Loan funds up to $100.000 will be provided for technical assistance and training. An additional $68,500 in loan funds will provide for office and accounting equipment. CALFORU will finance expanded office space and staffing increases needed to assure a more efficient operation.

F. FINANCIAL PLAN

1. Cost of Project (1976 - 1978)

a) Farm Supply Distribution		$1,300,000
Import Credit	1,265,500	
Equipment	35,000	
b) Marketing		$1,803,625
Buildings	292,656	
Equipment	1,510,969	
c) Central Office		$ 280,466
Building	70.000	
Equipment	80,648	
Vehicles	29,818	
Technical Assistance	100.000	
Total Cost of Project		$3,384,091

2. Financed by:

AID CY Year	Fertilizer	T. A. and Training	Capital Goods	
1976	$495.000	$70.000	$604.500	$1,169 500
1977	470.500	30.000	330 000	830.500
	$965,500	$100.000	$934.500	$2,000.000

Counterpart

CALFORU	390,635	
Credit (local sources)		
Farm Supplies $300,000		
Cold Storage $331,300	631,300	
UFRUCA & JUMECAL Coops and National Commission (local construction)	362,656	
		$1,384,591

3. % of Financing

Counterpart	41%
AID	59%
Total:	100%

G. OTHER SOURCES OF FINANCING

The IBRD IDB and the EximBank have indicated they are not interested in financing this project.

H. VIEWS OF THE COUNTRY TEAM

The Country Team considers this program to be a key element of the U.S. assistance program in Uruguay and recommends its approval at the earliest possible date.

I. STATUTORY CRITERIA

All statutory criteria have been met.

J. RECOMMENDATIONS

On the basis of the Capital Assistance Committee's conclusions that the project is technically, economically and financially justified, it is recommended that a loan to CALFORU not to exceed $2,000,000 be authorized with the following conditions:

1. Conditions Precedent to Initial Disbursement

a. The Borrower and the Guarantor shall provide legal signature certifications and satisfy all other standard provisions for A.I.D. loans.

b. The Borrower shall have completed a financial audit as of its fiscal year ending April 30, 1975 by a reputable auditing firm acceptable to USAID.

c. The Borrower shall provide a certification from the appropriate GOU Agency that said Borrower is operating within the requirements of Laws 10.008 (Cooperative Law) and 14.330 of December 1974 (CALFORU system reorganization Law).

d. The Borrower shall present to the USAID a plan for. (1) conversion of CALFORU's membership from individuals to cooperatives and/or local rural development societies (SFRs) by December 31, 1975 including progress benchmarks for same· and (2) the disposition of present paid-in capital, and retained earnings.

e. The Borrower will present to the USAID a revised personnel policy, that will include among other things position titles and job descriptions, salary levels, the use of direct hire and contract personnel, formulas for determining commission payments and bonuses, and benchmarks for measuring progress in carrying out loan-related personnel actions.

2. Conditions Precedent to Specific Disbursements For:

a. Fertilizer imports and related capital goods

Borrower will present a satisfactory plan for the bidding, importation, bagging, distribution and use of the fertilizers.

b. Importation of Two Fruit Packing Lines and Related Capital Equipment

Borrower will present a satisfactory time-phased plan for the solicitation of bids. selection of supplier importation, installation and operation of all equipment· final engineering and architectural plans for the construction of all buildings andimprovements: copies of contracts for financing local construction and installations· copies of legal documents concerning ownership and/or leases of said facilities and operating plans for the plant.

c. Importation of Equipment for the Two Cold Storage Facilities

Borrower will present a satisfactory time-phased plan for solicitation of bids. selection of supplier. importation, installation and operation of all equipment: engineering and architectural plans for the construction of all buildings and improvements, copies of contracts for financing local construction and installations, copies of legal documents concerning ownership and/or leases of said facilities and operating plans for the plant.

d. Technical Assistance and Training

Borrower will present a satisfactory time-phased plan identifying specific institutional development problems to be addressed: type and probable source of technical assistance and/or training required to address each. Prior to disbursement for specific items of technical assistance or training, Borrower shall present satisfactory scopes of work for consultant services or plans for training of selected CALFORU participants, as appropriate. Proposals for technical assistance or training related to meeting Conditions Precedent to this loan may be submitted and approved for disbursements, prior to submission of the complete technical assistance plan.

3. Covenants

The Borrower shall covenant:

a. To establish prices at which farm supplies are sold by the Borrower, and amounts paid by the Borrower, to the farmer taking into account amounts charged or paid by the competition and maintenance of a balance between greater benefit to the farmer and CALFORU's capitalization needs; and, to the extent that investments cannot be carried out in accordance with the approved five-year expansion and capital investment plan, to return to members the excess capital in the form of reduced prices for goods and services, until such time as Borrower is able to carry out planned investments.

b. To maintain administrative and operational expenses at a minimum consistent with good and prudent management; and to take advantage of means available to decrease costs of operations (e.g. benefits allowed by the Government for agricultural and for agro-industrial enterprises) in order to maximize benefits to CALFORU members in accordance with the objectives of this project.

c. To retain and capitalize all earnings either in general reserves or as capital in an amount equal to the outstanding balance of the A.I.D. loan.

d. To develop a five-year expansion and capital investment plan to be approved by A.I.D.; and to seek A.I.D. approval in writing prior to making any major capital investment before the five-year plan is approved.

e. To identify the smaller, less advantaged of its members and develop operational measures to insure that its services are channeled with some priority to this group.

K. PROJECT COMMITTEE

A. I. D.

Rural Development Officer: Thomas O. Stephens, USAID/Montevideo
Executive Assistant to AID Representative: Juan C. Crespi, USAID/Montevideo
Agricultural Assistant: A. Jaime Barceló, USAID/Montevideo
Controller: Lauryn C. Drengler, USAID/Montevideo
Rural Institution Development Advisor: Lewis Townsend, Consultant
Agricultural Economist: Francis Kutish, U.S.D.A.

Engineer: James Cooperman AID/Washington
Engineer/Economist: Michael De Metre, AID/Washington
Procurement Specialist: John Tannhauser, AID/Washington
Agricultural Economist: James McGrann, Penn State Consortium
Cooperative Specialist: Daniel Chaij, AID/Washington
Legal Advisor: Douglas Robertson, USAID/Colombia
Loan Officer: Ann McDonald, AID/Washington
Project Support Officer: Mary Katherine Stephens

<u>Counterparts</u>

CALFORU Legal Advisor: Patricio Rodé
IPRU Liaison: Raúl Bidart
CALFORU Rural Development Manager: Clever Alba
Financial Analyst: Alberto Bensión
CALFORU: Rafael Amábile
CALFORU: Roberto Redín
CALFORU: Winston Davies

Approved By: Leonard J. Horwitz, A.I.D. Representative

PART II - ECONOMIC SETTING AND OUTLOOK

A. THE SETTING

Uruguay's economic performance over the past two decades has been among the poorest of any country in the free world not afflicted by war or natural disaster. It has been beset variously by stagnation of production, chronic high inflation recurring fiscal and balance of payments deficits, high unemployment and underemployment, declining real income, deteriorating physical infrastructure, institutional paralysis and continuing emigration.

The basic causes stem from a long history of inappropriate economic policies resulting in serious structural distortions in the economy.

A serious imbalance exists between a large urban sector (80% of the population) which is heavily dependent on the small agricultural sector (17%of GDP) which contributes 85% of Uruguay's export earnings and pays for most imports. The resulting balance of payments constraint on imports has been the principal factor in limiting growth, particularly in the industrial sector.

To support the consumption and social welfare aspirations of the urban sector, the agricultural sector has, in the past, been subjected to tax, pricing and exchange rate policies designed to produce large income transfers to the urban sector. The result has been to provide disincentives to agricultural investment, inhibit the introduction of new technology and stagnate production. Likewise, a highly protected urban industrial sector, mostly geared to supply a small domestic market, soon exhausted its growth possibilities and produced stagnation in that sector as well. To mitigate the economic squeeze, past Uruguayan governments have sought to control every economic variable in sight. The GOU created a large, costly bureaucracy designed to allocate scarce resources and intervene in private economic decision-making. To the extent the bureaucracy became dysfunctional in carrying out its interventionist role, the private sector was adversely affected together with economic growth.

B. GOU ECONOMIC POLICIES

After a political restructuring took place in 1973, the Bordaberry Administration began a fundamental development-reform effort. It approved a National Development Plan (1973-77) and at the San Miguel and Nirvana meetings (August and October 1973), translated the broad goals of the Plan into specific policy and program guidelines. Essentially these guidelines call for (1) a gradual reduction of state intervention in the economy to allow productive patterns to be determined by market forces, (2) rejuvenation of agriculture through a variety of incentives, including higher producer prices and a gradual substitution of land productivity taxes for export taxes, (3) realistic exchange rates, (4) elimination of impediments to export and liberalization of imports, and (5) restructuring of production toward an export orientation and along the lines of international comparative advantage.

The development-reform program was dealt a series of external blows during 1974. Sharp increases in prices of oil and other imports, together with restrictions on beef imports into the European Common Market, resulted in a 1974 balance of payments deficit (loss of reserves) of about \$ 79.0 million. The trade deficit was about \$100.0 million but a late year inflow of private and official capital (including IMF oil facility assistance) reduced the payments deficit. The fiscal deficit reached 26% of expenditures partly as a result of public sector wage increases, lower export earnings, consumer subsidies, deficits of state enterprises, and adjustments which reduced certain taxes adversely affecting production without offsetting revenue increases. The inflation rate reached 107% reflecting, inter-alia, easing of some price controls, the budget deficit, the lack of a coherent incomes policy, and some uncontrolled Bank of the Republic credit emissions. However, with the response to production incentives, overall GNP is estimated to have risen in 1974 by between 1.5% - 2.0%.

Nevertheless, the GOU has made steady progress during 1974 in implementing the San Miguel and Nirvana policy guidelines. There has been a gradual movement away from statist intervention in the economy toward a free market orientation. There has been good progress in selective liberalization of price controls and more rational criteria are being applied in considering price increases. Industrial promotion and foreign investment laws have been put into effect. A civil service reform is being carried out. A perceptible improvement has come about in the operations and financial management of several state enterprises (airlines ports, postal and rail systems). Prices of goods and services provided by state enterprises have been raised to reduce operating deficits. A basic reform of the banking system is being prepared to help develop a functioning capital market and channel savings and private investment into productive development areas. Export procedures have been simplified and capital goods imports liberalized. A basic reform of tax policy took place in 1974 to reduce or eliminate a number of low-yield nuisance taxes and increase the value-added tax (IVA) and the land productivity tax (IMPROME). In line with the GOU's fiscal strategy, these taxes will become the GOU s principal revenue sources.

A positive factor greatly benefitting the GOU's development-reform effort was the appointment, in July 1974, of Alejandro Vegh Villegas as Minister of Economy and Finance. Vegh, an experienced and highly regarded development planner, committed himself to vigorous implementation of the National Development Plan and the San Miguel and

Nirvana action program. In a series of audacious measures carried out in October 1974, he liberalized the financial exchange market.

In addition, free convertibility of the peso into hard currency is now legally permitted for the first time since the early 1950s. Interest rates on bank loans and deposits have been raised substantially which has moved them closer to positive interest rates. The GOU has also taken a number of steps to stimulate a functioning capital market in Uruguay, including permitting private firms to issue readjustable obligations for trading on the stock market, and dollar denominated Treasury bonds with attractive interest rates. These bonds sell well and have atracted significant new capital inflows which helped reduce the payments deficit in 1974. In addition, the GOU recently presented legislation to the Council of State providing for monetary correction (readjustment) of loans beyond two years to agricultural and industrial enterprises declared to be in the national interest.

In respect to the agricultural crop sector, a series of positive measures have resulted in an expansion of production (5% over 1973). Favorable price policies, correcting previous distortions, have spurred agricultural crop output. Non-traditional exports, primarily agricultural products, increased some 60% over 1973. Support prices for wheat, sugar and sunflower oil have been raised to levels designed to eliminate deficits. A significant example of how the Uruguayan farmer responds to price incentives has been demonstrated in the case of wheat production. With a price to the producer close to the world market price, wheat production in the 1974/1975 harvest rose to approximately 526,000 tons, leaving about 100,000 tons available for reserves and export. This compares to a 380,000 tons wheat harvest in 1973-1974, which fell some 20,000 tons short of requirements. Unfortunately, due to world market conditions, the livestock sector was seriously depressed in 1974, accounting for a growth rate of around 1%.

During 1974, export taxes on wool have been virtually eliminated and those on beef substantially reduced. While there was some revenue loss in 1974 which contributed to the fiscal deficit, the GOU is compensating for the loss by increasing the land productivity tax, (IMPROME). Collections from IMPROME have risen from 5.2 billion pesos in 1972 to 26.8 billion in 1974 (in real terms an increase of 40%), thus shifting the major tax burden for farmers to land ownership and away from other production factors (inputs). This should serve as an incentive to more productive use of agricultural land.

In October 1974, Minister Vegh Villegas requested an IMF Standby and IBRD development assistance. The IMF/IBRD agreed to begin negotiations on the basis of GOU agreement to prepare a comprehensive macro-economic program encompassing both stabilization and development goals. The program was developed between December 1974 and March 1975, and was finally accepted by the country's highest political and military authorities. The IMF has accepted the GOU economic program set forth in a formal letter of intent recently submitted and IMF Board of Director's authorization of the Standby is scheduled for mid-May.

The new GOU stabilization-development program is designed to reduce inflation to around 50% in 1975 (or 30% for the March-April program year), the fiscal deficit to 15% of expenditures in 1975, and the year's balance of payments deficit to about $70 - 80 million.

To meet these program targets, the GOU in early April, announced a comprehensive series of economic reform measures, involving a strengthened price control system, wage restraints a phased liberalization of the import regime, reduction of the fiscal deficit through tax hikes, improved collections, and price increases on public sector goods and services, a carefully controlled credit policy and a 10% devaluation of the commercial exchange rate, which has about eliminated past over-valuations, and places it within 3% of the current financial rate (e.g. commercial rate is now 2,300 pesos/US$ and the financial rate is 2,500 pesos/US$). Minister Vegh has the intention to unify both rates eventually and allow the resulting equilibrium rate to float freely in response to supply and demand.

This package is probably the most ambitious and comprehensive series of economic reforms Uruguay has undertaken in recent years. Unlike previous IMF Standbys which focused primarily on austerity measures to reduce inflation, the present program seeks to link austerity with a complementary development effort assisted by IBRD and private bank loans, which will stimulate productive sectors and help maintain reasonable levels of employment and economic activity.

Most important however, it represents an effort simultaneously to stabilize and restructure the economy away from its past inward looking focus on import-substitution industrialization toward an export orientation for both agricultural and agri-industrial products and agricultural diversification through expanding non-traditional exports.

Equally significant to the economic policy reforms are the institutional reforms announced. The Bank of the Republic (BOR) has been virtually stripped of its past pervasive control over foreign commerce and its freedom to operate independently of GOU credit programs. Hereafter, the Central Bank, now dominated by supporters of Minister Vegh, will manage the import regime and control BOR credit emision through its rediscount facilities. This latter reform was insisted on by the IMF to ensure that the BOR would not emit credit beyond the limits of the agreed credit program indicated in the Standby.

On the basis of the IMF authorization of a Standby, the IBRD is actively moving ahead to provide substantial development assistance in the industrial, agricultural, energy, and transportation sectors. It is well advanced toward making a $30 million industrial sector loan and a $15 million livestock development loan in 1975. In addition, it is planning a major lending program in the energy sector in 1976 including partial financing for the Palmar Dam and a national power distribution network. It is also carrying out sectoral analyses in agriculture and transportation which could lead to substantial new Bank lending in these sectors by 1977.

Implementation of the GOU's stabilization-development program will naturally involve some short term strains including some decline in real incomes and liquidity problems in the private sector as Uruguayans take the long awaited "cure" toward the restoration of the country's economic health. However, given the critical economic problems afflicting the country, and the firm political-military support given so far to Minister Vegh's program, Uruguay appears to be in the most auspicious position in years to make real progress in attaining its goal of self-sustaining growth.

An IMF Standby should also likely trigger additional credits from international banking institutions to assist the GOU in dealing with its balance of payments problems in 1975. GOU agreement with a syndicate of private banks for a $110 million loan, guaranteed by gold, is in final stages of negotiation.

Thus, the IMF Standby, which Vegh believes is important for internal economic discipline, will also lead to significant additional international assistance geared both to help Uruguay to cope with her short term balance of payments problems and also to provide the necessary external resources for the country's longer term development effort.

An important new factor to be taken into account is a new economic cooperation agreement between Uruguay and Argentina. The agreement provides credits and trade concessions which will permit a range of Uruguayan exports to enter the Argentine market without duties. The agreement also provides a $50.0 million credit to the GOU Central Bank for financing private sector capital goods imports. A similar agreement is being negotiated with Brazil and should be signed in 1975. Conversations have been held with Bolivian and Paraguayan authorities for complementary economic cooperation agreements. Thus, for the first time in many years, Uruguay will have access to the markets of her large neighbors and expanded trade relations with Bolivia and Paraguay. This is especially significant for the proposed AID Loans in agriculture since Brazil in 1974 became Uruguay's most important export market, especially for meat. There are many indications that the Brazilian market is ready to absorb substantial amounts of agricultural exports from Uruguay, particularly wheat, and a variety of non-traditional products. If these new agreements begin to function as expected and if Uruguay can effectively implement its export development strategy, the medium and long term development prospects would appear to be favorable.

Outlook

Perhaps a significant long term factor favoring Uruguay's prospects is the role it can play in helping to alleviate world food problems. For Uruguay has an extraordinary resource base and comparative advantages in food production. Given the right set of internal policies which stimulate the producer, and with the application of appropriate new technology, Uruguay can one day hope to become a contributor of food exports to a hungry world. While Uruguay may never loom large in the world food market, her expanding contributions of food supplies can be instrumental in covering shortages in Latin America and in so doing, relieve somewhat the burden on the U.S. of covering such shortages.

PART III. THE PROJECT

A. Project Rationale

1. Summary

The National Agricultural Development Plan sets forth the goals and production targets for 1973-1977 and contains an extensive diagnosis of the factors contributing to the stagnation of the agricultural sector over the past two decades. It also sets forth a sectoral strategy, an investment plan and indicates policy, program and institutional reforms necessary to achieve Plan goals and targets.

The proposed loan will contribute to the attainment of these goals and production targets by supporting CALFORU's continuing process of institutional development and expansion of services designed to help the smaller farmers overcome the principal constraints they face.

The Plan contains three major goals which relate to the proposed loan: (a) to increase exports of traditional and non-traditional agricultural products so as to expand foreign exchange earnings and import capacity for economic growth; (b) to expand rural employment opportunities and integration of agriculture with other key sectors by promoting diversification into lines of production which take advantage of external markets and are labor intensive while permitting adequate agri-industrial development; and (c) to distribute income more equitably within the agricultural sector through pricing, taxation, credit and exchange rate policies which will accelerate this process.

Over the past two years, the GOU has made significant progress in improving the economic policy framework affecting agriculture, which has, in turn, begun to incentivize producers to invest in their land, apply modern technology and improve farm management practices. An improved economic policy framework is a necessary but not the only element in attaining Plan objectives since it cannot by itself increase productivity or efficiency of Uruguayan agriculture.

Other constraints must be overcome to assure improved land use, adequate credit, the application of modern technology, timely availability of inputs, and the development of profitable marketing alternatives. The latter three constraints have been diagnosed as the most critical to the smaller farmers and as such have been made the focus of this and the IATA loan projects.

This loan will specifically attend the key constraints by assisting CALFORU to make available inputs and provide new marketing alternatives.

The loan will provide assistance in expanding CALFORU's farm supply distribution program to an increasing portion of its membership with timely, reasonably-priced inputs, including fertilizer, chemicals, seeds, bagging, etc. Through financing the installation of fruit packing lines and related cold storage facilities, the loan will enable CALFORU to offer its members a new, profitable export marketing alternative.

AID assistance is being directed to CALFORU as the country's only national rural cooperative organization oriented toward assisting the small and medium farmers.

The basic rationale of the loan therefore is to assist the institutional and financial development of a national rural cooperative organization, CALFORU, in expanding its services to small and medium farmers who are the primary producers of non-traditional exports and who constitute a key production element of the GOU's basic agricultural strategy. All of these factors support the goals of the GOU's Agricultural Development Plan, and coincide with AID's sectoral priorities.

The more intensive cultivation of crop land by the smaller farmers depends in part on availability of modern technology and credit. AID is assisting in overcoming the technology constraint through the Agricultural Research and Technical Assistance Loan ($4.85 million to be authorized in FY1975) to assist the Ministry of Agriculture in expanding its national network of research and technical assistance centers (UEDPs) to better serve Uruguayan farmers. CALFORU members, together with other public and private farm service organizations, will participate in the benefits of this program.

The GOU strategy recognizes that the potential for expanding agricultural production using traditional extensive technology is extremely limited. Therefore, it will require improved efficiency in the use of livestock land and to release some of the more fertile land now in livestock for diversified crop production, particularly for non-traditional exports.

CALFORU s request for AID assistance for this project is based on its very limited access to domestic credit sources on reasonable terms. Given the absence of a functioning capital market in Uruguay, it is not presently possible to obtain medium or long term credit for investment projects, except through external financing. CALFORU does have access to short term credit from the Bank of the Republic (BOR) and private banks but the terms of such credit has limited CALFORU's financing capacity in meeting the expanding needs of its membership.

The loan does not directly address all of the constraints to increased smaller farmer production and income in Uruguay. Its purpose is to address the key constraints previously described: (a) availability of farm inputs, and (b) provision of alternative marketing channels. By assisting the institutional development of CALFORU, it seeks to help promising cooperative service organization with limited financial resources and management capacities, evolve over the life of the loan into a mature and efficient entity capable of self-financing its own medium and long term growth, and becoming over time a significant element in Uruguay's rural development.

2. Agriculture in the Uruguayan Economy

Uruguay, with its 65,000 square miles, is about the size of Iowa and, like Iowa, well over 95 percent of the land area is classified as agricultural. Since beef, wool, mutton and other crops generate most of the foreign exchange earnings on which future growth depends, the agricultural sector is the backbone of the Uruguayan economy.

For well documented reasons, all the land use pattern in Uruguay is one of extensive rather than intensive use of the available soil and water resources. Over 90 percent of the total agricultural land area is used for livestock production. Much of the crop land is now used for wheat, other cereal grains and vegetable oil crops. Present production of other crops is still of very minor importance.

Uruguayan agriculture has been stagnant for the past twenty years. In five of the past ten years, there have been production decreases. This problem has been studied exhaustively but little effective remedial action was taken until the present administration initiated a series of corrective measures, including pricing, tax, exchange rate, and credit reforms. These have caused a healthy shift in attitudes of farmers and ranchers.

Short term production credit appears adequate and responsive to demand. However, with the exception of the projects supported by IBRD and IDB, there is practically no intermediate and long-term credit. This is true of the private banking system as well as with the Bank of the Republic (BOR). The GOU is trying to introduce readjustable loans and improve credit administration to increase capital flow for on-farm investments in order to increase productivity and exports.

On the important question of marketing policy, the GOU is well along in organizing several special marketing commissions to coordinate all aspects of marketing key agricultural commodities. Both the public and private sector representatives have membership on these commissions.

The need for land reform is a less serious constraint in Uruguay than in other Latin American countries. Relatively speaking, there are good agricultural land resources to satisfy a small, diminishing rural population. Much land in large properties is not being used productively and a large part of the farming population suffers from having inadequate land resources, as well as the lack of technical assistance.

Through a revitalized colonization program being carried out by the National Colonization Institute (INC), implementation of a new land taxation system based on soil productivity (IMPROME), and by income redistribution schemes favoring the small farmer, the GOU is carrying out a land reform program emphasizing improved land use. Under the INC program, individual properties that exceed 5,000 hectares are to be expropriated, as well as parts of holdings between 2,500 and 5,000 hectares that are not being used productively. Lands so acquired will be distributed so that the farmers will be able to acquire economic-size units. In this way, it is planned to redistribute over one million hectares.

3. <u>CALFORU and the Agricultural Cooperative Movement</u>

CALFORU is a secondary federated cooperative with a membership of over 250 primary level cooperatives and societies for rural development, involving approximately 18,000 farmers, or 24 percent of all the farmers in Uruguay.

The organizational structure, composed of four operating departments: Farm Supply Distribution, Marketing, General Services, and Finance, has gradually come into existence over the past three years. Experience indicates that assistance to CALFORU presents a viable way to help the low income farmer.

Although there has been considerable state intervention in the agricultural production process through price setting, export taxes, subsidies, etc., until very recently only minimal attention had been devoted to the necessity of providing the basic institutional services usually considered essential to agricultural development.

There are a number of private and public agricultural organizations in Uruguay, such as, the Rural Association, the Rural Federation, the Livestock Development Plan, the Citrus Development Plan, the Crops Development Plan, the National Wool Commission, the National Meat Board, and the National Silo Plan.

Additionally there are a number of prosperous Agricultural Cooperatives which have a history of effective operation. These cooperatives are controlled principally by the larger agricultural producers who either concentrate on one commodity, or are geographically located in one area. While these organizations are effective and contribute to the sector, they do not generally concern themselves with the interests of the smaller farmer.

An exact time and place cannot be cited as the beginning of formal agricultural cooperation in Uruguay. The concept seems to have grown slowly over the years and was probably nurtured by those who had learned of cooperative activity in other countries or who had brought the idea into Uruguay as immigrants. The first rural cooperatives were apparently organized in the early 1920s and had as their major objectives the improvement of agricultural techniques, more effective marketing procedures, and assistance to farm laborers and tenants in becoming owners.

Farmers began to organize local cooperatives under Law 10,008 shortly after it was enacted in 1941. There was, however, no rush to take advantage of the legislation. In 1941 there was only one cooperative established. During the first 15 years of the law, 56 cooperatives were recognized by the Ministry of Agriculture, an average of about four per year. In the 22 years from 1941 to 1962 inclusive, 136 farmer cooperatives were organized, of which 31 terminated their operations, leaving a total of 105 active agricultural cooperatives in 1963.

During the above period a substantial number of urban consumer cooperatives were established whose principal purpose was to supply their members with cheaper consumer items, especially those items that had to be imported. Most of these were formed by the employees of a large business and public sector agencies. Many of these cooperatives still exist and their principal function remains supplying consumer goods through cooperative retail stores.

According to the Department ofCooperatives of the Ministry of Agriculture and Fisheries, the number of agricultural cooperatives has remained about stable for the last 10 years; at slightly more than 100 viable organizations. At present there are 104 registered agricultural cooperatives broken down as follows:

Primarily crop cooperatives	40
Primarily livestock cooperatives	35
Dairy cooperatives	12
Other processing cooperatives (wine, sugar, vegetable oil)	9
Poultry cooperatives	1
Flower cooperatives	2
Rabbit cooperatives	2
Bee cooperatives	2
Other agricultural cooperatives	1
	104

Because the law contains relatively detailed provisions for the organization and operation of agricultural cooperatives, the different cooperatives are relatively uniform with respect to organizational structure. These local cooperatives are distributed over the entire country, with one or more located in each of the 18 interior departments as well as in the department of Montevideo. These locals vary considerably in size and financial strength; in number of members from 15 to 851; and total assets vary from slightly less than $1,000 to about $1.5 million. Most of the locals are engaged in marketing for their members, and in distributing farm supplies to them. There are no agricultural credit cooperatives, rural electric cooperatives or other service cooperatives. The marketing and purchasing cooperatives do not engage in production credit and financing, as is true in some countries.

Agricultural cooperatives are founded on a sound membership base, having developed from the "grass roots". Groups of farmers interested in forming a cooperative have received assistance from the Ministry of Agriculture, but the initiative has come from the local people themselves. There has been no ready source of financing to underwrite the organization of cooperatives; local farmers have had to assume this responsibility themselves. Farm organizations, government agencies, have encouraged the organization of cooperatives, but none of them have underwritten the formation of small cooperatives. Rather the local farmers have had to dig deeply into their own pockets to establish their cooperative. They have had to subscribe and put up the membership stock. More well-to-do farmers have had to offer their personal assets as collateral so that the cooperative could borrow the needed operating and investment capital. Officers, directors and committee members have donated their time and travel expenses, not only for organizing the cooperative, but for operating it as well. Many have served without salary or other stipend on nearly a full-time basis for a number of years.

Cooperative members who have had to make sacrifices of time and money which they badly need in their own farming operations are well informed about their cooperative and loyal to it. They know that the cooperative belongs to its own members; they know it isn't a branch of a government agency, a farm organization or the cooperative federation. They want the cooperative to succeed for recognized personal reasons, and will do all they can to make it succeed. This is the kind of understanding, attitude and support on the part of the members which provides a sound foundation for cooperative development.

The National Commission for Rural Development was organized in 1915 and its affiliated societies for rural development were formed along the railway. The general objective of this organization from its beginning has been to defend the smaller and medium size farmers' interests at the national level, and to promote the cooperative movement in the agriculture sector. Thus was CALFORU founded in the early 60s under the auspices of the CNFR. A recent law enacted at the request of the CNFR and CALFORU provides for the present structure; income producing activities are carried out by CALFORU, while the CNFR continues to concern itself with the farmers overall welfare and to carry out special developmental projects with both national and international resources. In addition to the historical relationship, common membership, and overlapping board membership, there are contractural arrangements between the two organizations for cooperative efforts.

CALFORU, as a second-degree cooperative, is at present the only Uruguayan federation of farmer coops and SFRs. Formerly, another federation, Federación Nacional de Cooperativas Agropecuarias (FENACOA), used to be active in the agrarian cooperative sector, and its experience was carefully studied by CALFORU's leaders and key personnel.

FENACOA was established in 1956 as a farmer's cooperative federation, all of its members being local cooperatives. FENACOA's operational structure consisted of departments for manufacturing, grain and oil seeds, farm supply, membership relations, accounting, and business. In 1960, FENACOA was instrumental in the formation, and dominant owner of the Production and Consumption Bank (BPC). BPC was a bank for cooperatives, not a cooperative bank This Bank expanded and prospered for some six years, after which it was caught in a general banking crisis and failed along with many other private banks in Uruguay. The failure of the BPC was a mortal blow to FENACOA.

CALFORU at this time was an Agricultural Service Cooperative with close association to the CNFR and with an almost exclusive orientation to the smaller producers. From FENACOA's operating departments, CALFORU salvaged some manufacturing activities (burlap bags) and the farm supply business; and eventually assumed the accounting and financial service functions to support its local cooperative membership, carefully avoiding FENACOA's mistakes.

CALFORU is dedicated to representing the interest of the smaller farmers and assisting them directly through the provision of reasonably priced inputs, marketing and technical assistance. CALFORU is development business skills in the procurement and distribution of farm supplies, plus the techniques of marketing non-traditional exports. It understands international banking procedures; and it can effectively deal with bureaucratic procedures in obtaining export permits, customs clearances for imports; and arranging for both local and international transportation. It has made substantial progress in developing and managing marketing channels for non-traditional agricultural commodities.

While CALFORU recognizes the need to strengthen its management capacities and will do so, it has received significant assistance from AID consultants in the process of developing the proposed loan. This has benefitted it greatly in understanding its management limitations, program and project development, and long-term planning.

B. Description

1. Introduction

The CALFORU project was selected in support of GOU priorities and policies to resolve long-term problems in the agriculture sector (Part III - A).

Although CALFORU has experienced successful growth to date, primarily in sales and distribution of farm supplies, further institutional growth is impeded by lack of capital and management capacity for expansion. This project will address these constraints to further growth by: (a) expanding CALFORU's marketing and farm supply distribution systems; and (b) strengthening CALFORU's ability to manage its expanded activities in order better to meet the needs of its local affiliates and their producer members.

Marketing operations will be expanded by the installation of a fruit packing and cold storage system to support the processing and exporting of deciduous fruits and citrus. The further development and expansion of CALFORU's marketing system will focus on overall farm to final market needs which will serve over 1,500 farmers (who produce non-traditional agricultural export commodities) by the end of the third year of operations.

Working capital will be available to advance the farmer between 35 percent and 75 percent of the estimated value of his crop upon delivery to the packing plants. Once the product has been marketed, a detailed accounting will be made with the farmer, beginning with the market price received, discounting the advance, a fixed percent for CALFORU's capitalization, packing and marketing costs, maintenance of value, etc., with the net balance being paid to the farmer. Also, included as part of the marketing system is working capital to carry out the actual local or export marketing process.

The fruit packing plants will be constructed in each of the two existing cooperatives where 50,000 crate cold storage facilities have already been installed, and financed through the use of PL 480 counterpart and Brazilian supplier credits. Also, additional cold storage facilities will be installed to double the present capacity of 100,000 crates to 200,000 crates. These facilities will include a packing plant building built and owned by a local cooperative and leased to CALFORU, complete packing lines, including dumpers, washers, waxers, dryers, graders and sizers, packing stations and related conveyors, hand and fork lift trucks, pallets, etc. The cold storage chambers, constructed locally and located on land leased from a local cooperative, will have imported refrigeration equipment installed by CALFORU.

The farm supply distribution activity will be expanded and the number of farmers reached will be increased, particularly through a greater volume of operations in farm supplies. At present, the farm supply distribution system is selling more than $2.0 million of supplies a year to over 10,000 farmers. Loan financed provision of a fork lift truck, bagging plant equipment and increased procurement of fertilizers and agricultural chemicals will assist this system to reach 15,000 farmers by the end of the third year. CALFORU will sell supplies for either cash or purchase orders issued by the BOR. Selected small farmer members who may have credit problems are targeted for receipt of production and other assistance on an experimental basis under a recent grant to the National Commission from the Inter-American Foundation (Part IV - A).

To support the institutional growth and expansion of CALFORU the following specific actions will be undertaken to improve central organization for delivery and management of services: expansion and reorganization of office space; purchase of two field vehicles; additional furniture and fixtures; office and accounting equipment; and development of management control systems. This will include installation of systems for centralized accounting, data gathering, statistical analysis, and management information (Part IV - A), and will improve CALFORU's ability to serve its member local organizations with accounting services on a fee basis. The Borrower's counterpart contribution will cover all present and increased salary and administrative costs as needed to carry out the total project. CALFORU will arrange with the National Commission (its landlord) for expansion of office space, paid for through advance rental payments by CALFORU.

A total of 15 man/months ($75,000) of contracted technical assistance will be provided under the loan. CALFORU will contract for this technical assistance will be provided under the loan. CALFORU will contract for this technical assistance through international cooperative organizations of consultants acceptable to USAID in the specific areas of: administrative organization, systems analysis, marketing, processing, purchasing and special studies. This assistance will be provided by short-term consultants (1 to 3 man/months), depending upon the requirements of each specific activity (Part IV - A).

A total of $25,000 of loan funds will support international costs of training. The objective of this training is to upgrade CALFORU management capability through experience and observation of on-going cooperative activities. A major portion of this training will provide on-the-job training for cooperative managers and employees (Part IV - A).

Arrangements will be made for key CALFORU personnel to visit and actually work in cooperatives involved in fruit packing, processing, farm supply and marketing activities. This training will be short-term and for the most part will be carried out in Argentina, Brazil and the United States.

As a result of DAEC review of the IRR for this project, AID/Washington advised the Mission (IRR cable - Part VII) that the AID loan should not include financing proposed for (a) the machinery pool or Small Farmer Technical Assistance Fund, and (b) working capital for CALFORU. On the latter point, USAID was advised to explore the possibility of local cost financing by the Borrower. CALFORU will supply its working capital needs from local credit sources and AID counterpart funds, as described in Part IV - B. Guidance from Washington indicated that the intensive review should explore ways to expand the project's impact to raise substantially the number of member beneficiaries. This accounts for revisions to the original project proposal involving $965,500 of loan funds which will be used to finance an increased volume of fertilizer imports for sale by CALFORU to its members. This in turn will enable CALFORU to meet a greater proportion of member demand for all farm supplies presently handled by CALFORU. The original fruit packing-cold storage facilities and technical assistance components remain unchanged.

2. <u>Beneficiaries - Target Groups</u>

The primary beneficiaries of this project will be 15,000 smaller producers who by the end of the third year will be participating in the expanded and improved farm supply distribution system of CALFORU; the 1,500 (500 fruit; 1000 other crops) producers of fruits, vegetables and other non-traditional export crops who, by the end of the third year will be marketing their produce through the CALFORU marketing system; and the CALFORU cooperative service system benefitting from its improved management, accounting, budgeting, planning functions and its more efficient administration.

CALFORU does not now maintain data that would distinguish member producers by economic or production levels. To fill this information gap basic data must be developed. In the course of assisting local organizations to reorganize in accordance with new Law 14,330, CALFORU will require its member SFRs to establish registers of their members which will show such things as: (1) land owned and/or rented, (2) types of agricultural commodities produced, (3) machinery owned, (4) number and kind of farm animals owned, etc. These registers will serve as an important source of baseline data for CALFORU, from which information about members' income and production can be developed. This activity will be underway in the very near future. CALFORU will require that SFR registers be revised annually. In the absence of valid baseline data depicting the economic and production levels of CALFORU members, it is believed that data and farm models for fruit and field crops, developed by the Ministry of Agriculture, provide the best available profile of the beneficiaries of this project.

Uruguay considers "minifundia" to be defined as follows:

Livestock	Less than 200 ha.
Crops	" " 50 ha.
Dairy	" " 50 ha.
Fruits & VEgetables	" " 20 ha.
Vineyards	" " 5 ha.

Under the above definition, 68 percent of Uruguay's farmers qualify as small farmers.

Small farmers are located in greater intensity in the Departments of Canelones, San José, the southern part of Florida and the southeastern part of Lavalleja. In the rest of the country, small farmers are located near department capitals and the larger towns, due primarily to better transportation and other facilities, rather than to type or quality of land.

Uruguay has very few subsistence-level farmers who live on a fractional piece of land, are outside the market economy, and who would be considered the "poorest of the poor" in other Latin American countries. Nor does Uruguay have large numbers of farm workers (empleados rurales). The great majority of farmers is producing one or more cash crops, however, there is little useful income distribution data available. (A national census planned for 1975 should produce this type of data.)

In Uruguay, producers of non-traditional export crops (e.g., fruits and vegetables) are typically at the lower range of the farm income scale, i.e., relative to producers of traditional exports (beef, hides) and dairy farmers. Such non-traditional producers constitute the majority of CALFORU's membership, and non-traditional producers will be the beneficiaries of this project. Therefore, the selection of this target group is consistent with AID priorities to reach lower income farmers in the context of the country being assisted.

CALFORU believes the majority of members who will be benefitted by the project actually earn substantially less than indicated in the two farm models which follow. However, as indicated above, data does not exist to substantiate that belief.

a. Economic Profile - Fruit Farm

Deciduous fruits are produced in Uruguay, essentially on farms from 1 to 500 hectares in size. However, two thirds of the peaches and a half of the Delicious apples in 1970 were produced on farms less than 20 hectares in size. Average per farm capital investment in land and equipment is estimated at about $30,000.

A unit of fifteen hectares of fruit which typically would have a hectare of vineyard and a few more hectares of uncultivated or grazing land for the family cow, is used for the economic profile of this target farmer.

Orchard	Hectares	
Peaches	5.8	
Apples	2.8	
Pears	.7	
Plums	.7	
Quince	1.0	
Total Orchard	11.0	
Vineyard	1.0	
Uncultivated Land	2.0	
Grazing	1.0	
Total Farm	15.0	
Gross Income from Sales		$4,800
Production Costs		3,000
Net Farm Income		$1,800
Plus Value of "on farm" consumption		400
Net Family Income from Fruit Farm		$2,200

b. Economic Profile - Field Crop Farm

Most farms which produce field crops also raise livestock. The most typical combination is wheat and livestock.

The following profile is of a 200 hectare farm with about a third of its land in wheat and the remainder used for grazing. Total capital invested in land, livestock and machinery on this farm would amount of approximately $60,000. The returns from grazing are based upon the results obtained using traditional Uruguayan methods.

Land Use	Net Returns 1973 Prices	1974 Prices
60 hectares wheat	$2,100	$2,100
140 hectares grazing	1,260	840
Farm Total	$3,360	$2,940
Plus value "on farm" consumption	400	400
Net Family Income from Field Crop Farm	$3,760	$3,340

Field crop producers are included in the discussion of farm models, as some of these will benefit from the project, due to increased availability of farm supplies. However, CALFORU imports primarily farm supplies in demand by smaller producers (fruit, vegetable). Therefore, the majority of increased volume in farm supplies is expected to benefit smaller, rather than larger producers (Part IV - A).

Although employment generation is not a purpose of this project, by 1978 CALFORU is expected to employ approximately 174 persons (full and part time) in its expanded operations (both in its central operations and in the operation of the packing and cold storage plants).

In addition, it can be assumed that with the provision of alternative marketing channels for certain crops and the increased use of farm supplies that the demand for farm labor will increase.

3. The Benefits

A large number of producers for some time have suffered from GOU preoccupation with urban problems. It has been difficult, some times impossible, for the farmer to obtain the basic services and inputs necessary for his production operations. Production options have been restricted; opportunities for innovation have been limited; and his marketing alternatives have been very limited. He may be at the mercy of middlemen or one large purchaser or processor where his bargaining power is practically nil. It is almost impossible for the individual farmer to improve the situation by himself. For example, if he understood the import procedure regulations, if he understood how to obtain foreign exchange resources, if he could manage exports through permits, taxes, fees, and financial arrangements - all of these processes are so time-consuming that, should he attempt to carry them out himself, he would not have time to work his farm.

It is only through a cooperative organization, which the member producers control, that all of these services can be made available in a low-cost timely manner. CALFORU has demonstrated experience and capability in these areas. The AID loan will enable the organization to expand significantly its members' access to needed farm supplies and marketing alternatives.

4 . Implementing Agent;

a. Historical Background

The present National Commission for Rural Development was organized in 1915 to serve local affiliated Societies for Rural Development which formed along the railway. The Commission acts as a trade organization, represents small and medium farmers' interests with the Government, and receives very nominal budget support from the Government as well as other special benefits, such as tax exemptions. Commission activities are financed primarily through members' dues and some development grants from other donors.

CALFORU was organized in 1960 as a primary agricultural service cooperative by farmer members of the Commission for the purpose of carrying out specific farm supply and marketing activities.

The Tables which follow show organizational relationships between and within CALFORU and the National Commission (CNDR) as well as operations of CALFORU's four management departments.

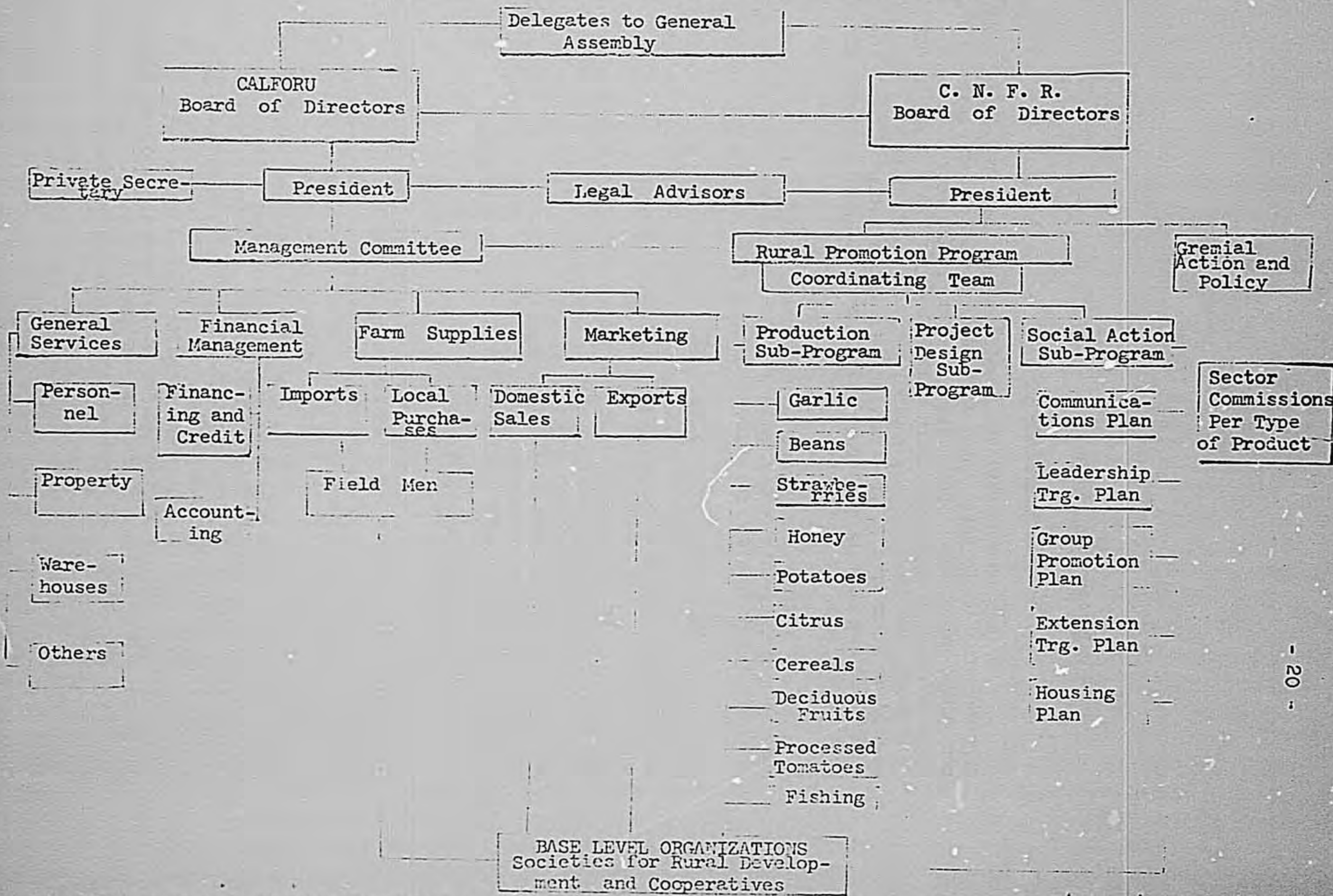
Income-producing business activities are carried out by CALFORU, while the Commission continues to concern itself with the farmers' overall welfare and to carry out special developmental projects with national and international resources. In addition to the historical relationship, common membership and overlapping board membership, there are contractual arrangements between the two organizations.

b. CALFORU's Structure

Law 14,330, recently enacted at the request of CALFORU and the Commission, provides for reorganization of CALFORU. As a result of this law, CALFORU is in the process of becoming a secondary-level federated cooperative with a membership of over 250 primary level agricultural cooperatives and Societies for Rural Development (SFR's). Law 14,330 also authorizes SFR's to operate as commercial entities. CALFORU's members form the General Assembly which elects a Board of Directors. The President of the Board of Directors is the Chief Executive who, with Board concurrence, selects the heads of the four operating departments: Farm Supplies; Distribution; Marketing; General Services: and Financial. These four department heads form a management committee operating by consensus. Final decisions are the responsibility of the President. Of the four departments, two are income-producing or "profit centers" - Farm Supply and Marketing - while the others are non-income producing administrative support functions.

TABLE 1

ORGANIZATION CHART - CALFORU AND THE NATIONAL COMMISSION*



* Based on reorganized CALFORU structure.

TABLE 2

C A L F O R U

Management Committee
(4 Department Managers)

Farm Supply Distribution	Marketing Farm Produce	Finance and Accounting	General Services
Various Products - Imported - Local	Fruit Packing and Sales - Export - Local Other Product Marketing		
Profit Center	Profit Center	Administration	Administration
(+) Sales (-) Minus Cost of Goods Sold (=+) Gross (-) Minus Cost of Operations (-) Capitalization (=+) Net Farm Supply Distribution	(+) Sales (-) Minus Cost of Goods Sold (=+) Gross (-) Minus Cost of Operations (-) Capitalization (=+) Marketing	(-) Administrative Costs	(-) Administrative Costs

(+) Net Profit CALFORU
(-) Reserves
(=+) Capitalized Retained Earnings (Undistributed)

Note: A small net savings (profit) is expected for the overall organization at the end of year, after most savings have been distributed directly to the farmer(through lower farm supply prices and higher prices paid for items marketed) A fixed amount is also capitalized.

C. Background of the Project

1. Genesis

The USAID, in responding to State 099424, which in general terms called for innovative approaches to assisting those segments of the population of LDCs at the lower end of the economic scale, identified four areas where assistance might have significant impact. A project for financial and technical assistance to the Agricultural Cooperative of Societies for Rural Development (CALFORU) was one of these approaches. When this selection was made, assistance to CALFORU had to be considered a high risk endeavor, as information concerning its operations was very limited. A review of this proposed approach indicated that assistance was very possible to small farmers through CALFORU and its was suggested that assistance through a development loan be studied.

2. Review and Recommendations of the Country Team

The Capital Assistance Committee of the Mission, including the AID/W and other consultants has concluded that the project is technically, economically and financially sound and justified, recommends authorization of a loan to CALFORU for an amount not to exceed $2,000,000. The feasibility of the installation of two fruit packing and cold storage plants based on production and market demand has been determined (Annex I) and the capacity, financial and operational aspects defined.

3. Opinions of Other Institutions

The IBRD, IDB and the EximBank have indicated that they are not interested in financing the activities included in this project. Other donors are, however, assisting the CALFORU-National Commission system as described in Part IV.

4. Place of the Project in Country Program

As discussed more fully in the FY1975 DAP and CASP, and FY1976 FBS, the political and economic situation in Uruguay has undergone substantial change since 1973. The present Administration has taken a series of actions which indicate Uruguay has begun a serious development-reform effort that merits support. Conditions now are more propitious for helping to achieve the goals of the National Agricultural Development Plan emphasizing rapidly increased production and export of non-traditional, as well as traditional, crops.

For example, the World Bank is considering an additional loan in support of the livestock development project (Plan Agropecuario) that may almost double the total amount loaned over the past two decades. Likewise, the IDB is displaying more interest in the agricultural sector and hopes to approve a loan for citrus development and is studying others. These loans, with counterpart funds, are providing the intermediate and long-credit for capital investments essential for increasing production.

This project - which aims to expand the availability of farm supplies and marketing alternative for non-traditional producers - is of fundamental importance to the future success of the GOU's goals. Within the total country program of this Mission, this loan project will clearly have an important role in attaining AID objectives in Uruguay.

5. Impact on the U.S. Economy

Uruguay's production of fruits and vegetables will have no impact on the United States' economy. Being in the southern hemisphere, its production is "off season" in comparison with that of the United States. But, more important, the projected export quantities of fruits and vegetables involved are very small relative to the world market.

Uruguay currently is exporting only 0.3 percent to 3 percent of her relatively small deciduous fruit crop, for example. It could make 20 to 50 percent annual increases in its exports of these items, and still have no discernible effect on the world market.

The project will indirectly affect the Uruguayan production of grain as the greater level of fertilizer imports for the country as a whole should result in increased yields. The potential volume of grain exports, too, are trivial vis-a-vis the level of the world market.

A probable expansion in the production of sugar beets should have minimal effect upon the United States also. To the extent any effect is discernible, it should be in reduced world demand for sugar as Uruguay becomes more self-sufficient in this commodity. Increased sugar production in Uruguay would thus provide a slightly more favorable world sugar market.

6. Consistency with the CIAP Reviews

The October 1973 meeting of the Sub-Committee on Uruguay made the following recommendations:*

> "17. The sub-committee agreed with the Delegation from Uruguay in assigning fundamental importance to those efforts that they could make to increase productivity, especially in the agricultural sector. This augmentation of productivity is an essential condition in achieving an internal savings rate that would guarantee a process of more accelerated growth in the future. In this context, they emphasized the high priority of investments made in research, technology and agricultural extension."

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* Informe Final del Subcomité del CIAP sobre Uruguay, Wash., D.C., 23-26 Oct. 1973.

It is the Mission's opinion that the objectives of the proposed loan are fully consistent with the recommendations of the last CIAP review of Uruguay.

7. <u>Certification of the A.I.D. Representative</u>

The A.I.D. Representative certified on May 2, 1975, as to the capability of CALFORU to execute the project (PART VII).

PART IV - PROJECT ANALYSIS

A. INSTITUTIONAL DEVELOPMENT OF CALFORU

1. Background

CALFORU began commercial operations in 1963 as a purchasing cooperative, i.e. buying farm supplies direct from importers and national producers and selling them to its small and medium farmer members. Over time, CALFORU has become the primary source of farm supplies for producers of non-traditional crops in formulated fertilizers, urea, insecticides, herbicides, jute for bagging, seeds and seed potatoes; and by reducing profit margins has offered its members consistently lower prices for agricultural inputs than its private competitors. CALFORU has not been able to satisfy the estimated demand of its members for these inputs, the key constraint being limited capital and technical assistance necessary for increasing the volume of farm supplies handled.

Recognizing that increased earnings could be realized through exportation of the non-traditional crops typically produced by its members CALFORU elected to become a marketing as well as farm supplies cooperative. However, expansion of CALFORU's marketing activities is hampered largely by limited access to export marketing facilities, e.g. processing, packing, and storage, lack of marketing channels, and the improved management capability necessary to expand into exportation of more than a few commodities.

In slightly less than 10 years, CALFORU has become a major source of farm supplies for producers of non-traditional exports and a potential source of increased export earnings for this same group. There is no doubt that CALFORU would continue to expand its volume of supply operations and range of export marketing services to members without the A.I.D. loan. However, the institutional capacity to realize such expansion would be severely limited without A.I.D. loan assistance to address the primary capitalization and institutional constraints. A.I.D. assistance addresses the capital constraint by loan-financing an expanded volume of farm supplies (fertilizers) sales to generate sufficient capital for CALFORU to expand operations in the next few years. With an improved capital base, CALFORU will be able to increase local borrowing, both to meet growing demand for farm supplies (particularly fertilizer), and to support expansion of its marketing services. Expanded marketing services will begin with the fruit packing and cold storage plants also receiving A.I.D. assistance. (Importation of capital goods). At the same time, the A.I.D. loan will finance technical assistance to help facilitate CALFORU's institutional strengthening to foster expanded sales and services. This assistance is from other sources, as described later in this section (See Part III.B for detailed project description).

2. Projected Growth

It is one of CALFORU's guiding principles that the organization must engage in activities which increase members' income. CALFORU is particularly interested in increasing benefits to, and participation of, its members in theinstitution's earnings. This year, for example, CALFORU is planning to undertake a pilot project in tomato cultivation which will affect primarily small producers who predominate in the membership of the SFR's. Ultimately, CALFORU would like to develop tomato processing facilities (e.g. a tomato canning plant) which will increase earnings from exports. Several other export oriented agro-industrial operations (e.g. a potato dehydration plant) are under preliminary consideration by CALFORU, and will be developed more fully, i.e. to the pre-feasibility stage, as its five-year development plan is drawn up with technical advisory services financed under the A.I.D. loan . See Part IV.B for further discussion ofexpansion plans.

CALFORU anticipates that, as it becomes better able to meet the demand for agricultural inputs and provides profitable marketing outlets, it will attract more members, hence greater demand. CALFORU's 10-years goal is to meet almost all of this demand. In order to do this, it will have to continue to keep costs to a minimum and seek the most efficient methods of operation. CALFORU has already established such a pattern in farm supply imports and distribution. The A.I.D. loan will assist in adapting that pattern to a greatly expanded volume of farm supplies; and will give CALFORU initial experience in designing and operating a low-cost agro-industrial marketing channel, which will enable it to follow through more effectively on its plans for future growth in this area. Specific CALFORU technical assistance needs and plans for its provision are discussed later in this section.

The following discussion treats in detail the organization and operations of CALFORU, and specific ways in which it will be expanded and strengthened under the A.I.D. project.

3. Organizational Structure and Functions

As shown in the preceding organization chart (Part III - E), CALFORU's organizational structure reflects its dual functions as a farm supplies and marketing cooperative.

The heads of CALFORU's four departments, described in paragraphs 3.a - d. below, form an internal Management Committee which operates the cooperative on a consensus basis. CALFORU's president serves both as Chairman of CALFORU's Board of Directors (Annex III - A and E) and as CALFORU's Chief Executive Officer. CALFORU does not have a General Manager as is typical of other cooperative organizations.

However, the president performs the functions of a General Manager in the sense that he represents the views of management to the Board of Directors, and has final responsibility for management decisions made by CALFORU. While unique in a cooperative-type structure, the management by consensus approach has proved adequate to CALFORU's needs. The leaders of the four departments, as well as their key staff, are business-oriented, and have had many years of experience with CALFORU or other agricultural cooperatives (see Biographical Data - Annex III).

Prior to issuance of the December 1974, CALFORU system reorganization law (Law 14,330), CALFORU's status as a primary cooperative, and the organization of Societies for Rural Development (SFR's) as civil entities, meant CALFORU representatives were legally able to deal only with individual farmer members of SFR's. As a result of the new law, SFR's will be permitted to function as commercial entities. That is, the organizations will be able to deal with CALFORU directly in business agreements and transactions.

CALFORU's legal counsel is assisting the local SFR's in making the necessary bylaw changes to conform to the law. Revised model bylaws are being prepared. (See Annex III for Model Bylaws). SFR's will also be required to establish registers of their members, described in the preceding section.

CALFORU is modifying its bylaws as required and will operate as a secondary level federated cooperative, with both SFR's and local coops as members.

Over the next six months, individuals who up to the present were the only legal CALFORU members, will either resign or transfer their membership rights to their corresponding SFR's or local coops, to achieve the new membership requirements and to fully utilize the organizational opportunities granted by the new law. (Annex III).

A new membership agreement is being prepared to establish a formal relationship between CALFORU and the local SFR's and coops. Specific agreements will then be signed with these organizations detailing participation in one or more of the marketing, farm supply, crop promotion or other projects offered by CALFORU.

a. Farm Supply and Distribution

This department is responsible for CALFORU's entire farm supply operation. It procures fertilizers, chemicals, burlap, seed, tools, and equipment, from domestic and foreign sources. Retail sales throughout the country are made through the local cooperatives. Sales are cash. CALFORU fieldmen/salesmen service the various field areas, while the central staff arranges imports and local purchases.

Field agents collect crop by crop demand data at the local cooperative/individual farmer level. Total demand is aggregated, and procurement decisions are made based on available financing, competitor's prices, supplies available locally or to be imported, and sources of supply. Financing is arranged with the BOR or a private bank. CALFORU seeks credit with different banks to take advantage of different conditions governing credit for certain imports:

Bank	Crop	Time	Real Interest	Guarantees
BOR	Seed Potatoes	90 days	36%	Personal Equipment Liens Mortgages
BOR	Fertilizers	180 days	36%	Same
Private	Other Imports	90-120 days[x]	61%	Personal

x depends on need.

The GOU regulations concerning financing of imports in effect since 1971 was recently replaced by an interim measure requiring a deposit to be made in the Central Bank, prior to making imports. However, plans are to eliminate these deposits by year end and further free up the import process.

The department registers imports and places orders with suppliers. When received import orders are either shipped direct to the local cooperatives or SFR's or to an intermediate point for bagging, mixing, or other processing before dispatch to local recipients. Imports and domestic purchases are scheduled to arrive so they may be delivered to local organizations at the same time. All supplies are delivered to local organizations on consignment, with these organizations receiving a percentage of sales plus their cost of transportation. Farmers purchase the supplies for cash or against credit slips which they may obtain from the BOR. Such credit slips are deposited by the local organizations in CALFORU's account. When deposited in the BOR, the deposits are used as payments on CALFORU s loans. CALFORU does not arrange credit for, or make credit sales to local organizations or farmers.

The department constantly reviews its pricing policy to assure proper balance between maintaining a low price to the farmer and CALFORU's capitalization needs. This system has enabled CALFORU to maintain prices at 85 - 95% of those offered by private competitors on the average. Periodic checks on local organizations are also made to assure compliance with written distribution agreements made with CALFORU.

Although GOU subsidies for fertilizer imports were eliminated in 1974, CALFORU's relatively lower prices, plus new tax incentives for increased land productivity (Part I) are expected to result in steadily rising fertilizer demand. This demand will be primarily for DAP, 15/15/15, 46/0/0, and ammonium sulphonitrate (for CALFORU member crops such as wheat, corn, other grains, oilseed crops, fruits, grapes, potatoes, sugar beets, and vegetables). The phosphates, which are used mainly for fertilizing pastures, are purchased by farmers directly from the manufacturers. CALFORU's fertilizer demand and supply situation, calculated on the basis of the AID loan (in metric tons) is projected as follows:

	1975	1976	1977	1978 x
Demand	36,204	45,198	56,517	57,586
Imports	4,000	16,000	20,750	36,000
Unmet Demand	32,204	29,198	35,767	21,586
Unmet Percent	89%	65%	63%	37%

x See Annex I for back-up documentation on fertilizer demand analysis, and Part IV-B for financial analysis of fertilizer operations.

Without the AID loan andconcurrent measures to retain more of earnings for capitalization purposes, CALFORU would continue to operate at approximately present levels (i.e. meeting about 8.5% of affiliates' demand) with only small increments in volume over a long period of time. The AID loan will enable CALFORU initially to increase volume by more than ten times over the next few years, and significantly increase the earnings base from which capital may be retained.

CALFORU will require additional staffing and management capability to insure that the increased volume of sales and related transactions is handled efficiently. These requirements are described later in this section.

CALFORU currently meets only 4% of national fertilizer demand. Even with the A.I.D. loan, not quite 40% of CALFORU demand will still have to be met through private competitors by 1978. CALFORU does not expect to meet most of its affiliate demand for at least another ten years. In view of substantial increases projected in national demand, and the fact that most of CALFORU's imports are for non-traditional export crops (as opposed to the phosphates which make up the bulk of the competitors' imports), CALFORU's lower prices (which have not yet stimulated competitors to lower their own) should not result in such price competition as to prevent CALFORU from serving an increasing share of the market.

In the course of CAP, questions were raised with CALFORU concerning the feasibility of limiting AID-financed fertilizer sales to lower income farmers.

CALFORU's present information systems are not geared to identify individual demand by income. Data does not exist which would permit CALFORU to do more than distinguish in very broad terms, those local organizations which are active in fertilizer purchases, and produce mostly non-traditional export crops. CALFORU is undertaking new efforts to define the composition and economic status of its members more clearly (Part III - B). An effort to establish individual income or farm size eligibility for purchase of fertilizer at this time would be a difficult, time-consuming and costly effort not feasible within the amount of the loan.

Equally important is the possibility that limiting the eligibility of fertilizer purchasers might jeopardize the financial viability of the A.I.D. project. The project depends upon expected financial returns from the sale of fertilizer to help eliminate the capital constraint impeding CALFORU's institutional growth and expansion. In particular, the economic viability of the loan-financed fruit packing and cold storage depends upon CALFORU's ability to absorb operating deficits and/or minimum returns of the first few years. Most of this will, in fact, be absorbed by increased fertilizer sales. CALFORU's first responsibility under the loan is to maintain an economically viable institution (see Part I - Covenants). It is felt that no restrictions should be placed on fertilizer sales which would inhibit CALFORU's flexibility to charge in accordance with their capitalization and maintenance of value needs or adjust purchases and sales more toward traditional crop fertilizers (particularly wheat) in periods when crop failure or other circumstances reduce demand from smaller farmers.

b. <u>Marketing Department</u>

This Department processes stores and sells on both the domestic and international markets a variety of products which it receives directly from the farmer or SFR.

Present department processing storage and sales procedures for specific crops are as follows:

Beans - Each farmer harvests hand grades sorts and sacs his production. It is then delivered to a CALFORU-rented collection and processing point in the bean producing area. CALFORU carries out the cleaning, grading packing and exporting. Advances and final payments are similar to that of fruits.

Garlic - Each farmer harvests and grades his production. It is then delivered to a CALFORU garlic facility in Los Cerrillos for mechanical cleaning, grading and repacking in export sacks. Advances and final payments are similar to that of fruit.

Honey - Presently tanks are provided directly to the producer for filling for export. Export is arranged and handled by CALFORU. Once a new FAO-financed honey processing and homogeneization plant is installed (1976), the farmer will deliver his product from farm to processor tank. CALFORU will then process and prepare the honey for export in special export containers.

Fruit - CALFORU now carries on very limited marketing activities for deciduous fruit and citrus. Farmers wishing to market fruit through CALFORU receive an advance based on estimated sale value of the produce. CALFORU provides services such as locating cold storage facilities and buyers. The farmer receives full payment after the produce is sold.

Through the A.I.D. loan, this department will be able to expand its currently limited operations in the exportation of garlic, beans honey deciduous fruits (apples, peaches pears quince) and citrus (oranges lemons, grapefruit). Loan financing will be provided for imported capital goods and related equipment for two fruit packing plants and two cold storage facilities.

A total of 14 deciduous fruit packing plants (10 near Montevideo) and 4 citrus packing plants (in the main production area, Salto), are in operation now. Most cold storage presently available for fruit consists of older plants marginal to the meat exporting industry. Eighty percent of capacity is represented by two cooperative-owned plants installed in 1974 at the sites where CALFORU plans to install two fruit packing plants and related additional cold storage.

According to the feasibility study conducted for the proposed packing - cold storage facilities (Annex I), several factors in the existing fruit market combine to depress returns to the farmer:

- -- Lack of marketing services, information, and expertise in Uruguay which would expand farmer introduction into export markets;
- -- Inadequate packing and cold storage facilities and related services to absorb "peak" production of the various fruits, which forces fruit onto the domestic market in quantities which lower prices considerably; and denies farmers access to export markets where earnings are higher.
- -- A system of middlemen (notably self-employed truckers) who purchase fruit directly from thefarmer for cash, sometimes as much as a year in advance of the harvest. The price offered the producer by the middleman is considerably lower than could be obtained if he participated directly in the economic returns of marketing his produce.

At present, it is estimated that producers are receiving no more than 35% of the market value of their crops, due largely to the factors described above. The feasibility study (Annex I) shows production levels of the various deciduous fruits and market demand (particularly in the Brazilian export market), and indicates expected demand for packing and cold storage capacity:

Summary of Feasibility Study Findings

Eighty-five percent of the area planted to deciduous fruits (12,300 hectares) is within the project area, peaches make up 5,588 hectares, apples 4,192, pears 1,037 hectares, plums 859 hectares and quinces 461.

An analysis of varieties, yields and harvest cycles has been made. Normally, 80% of the various fruits are consumed locally in their raw form. Exports vary from minimum amounts to 3% of the crops, the remainder goes for canning, juices, and other uses.

The analysis of market demand indicates that while non-traditional exports have begun only recently and in small amounts, the potential is great, given the general quality of the fruit, the level of consumption demand in Brazil and the fact that Uruguay is closer to the Brazilian market than the competing areas in Argentina. In the case of citrus exported to Europe, demand is also great while exports to date have been small. Uruguayan production is off-season in comparison to other exporters to the European market.

Analysis indicates two packing plants with a capacity of 3,125 kilograms per hour each in capacity, located at the sites of present cooperative-owned cold storage facilities would be feasible. Additional cold storage capacity for 50,000 boxes each is also feasible at each packing plant site. The packing plants will process peaches, pears, apples, quince and lemons, while the cold storage will also be used for temporary storage of lemons, grapefruit and oranges grown and packed in Salto but exported to Europe via Montevideo.

Under the A.I.D. loan, the new fruit marketing operations will follow these processing, storage, and sales procedures:

Deciduous Fruits

Before harvest the farmer will make arrangements for CAIFORU to receive and process his production. Once harvested, he will deliver the fruit to the plant (or CAIFORU will arrange transportation on contract with local trucking firms to pick it up) where it is received and sorted and a record made of the yield of the various grades. The farmer will be advanced an amount between 35% and 70% of his crop's estimated final market value, (based on domestic and export market prices at the time, amounts of various grades that his fruit is expected to yield, and time required between fruit processing, sales, and collection).

Upon fruit sale and collection of payment, a final payment will be made to the farmer. Each type of fruit is treated separately by varieties in determining the final payment. Once packed, the fruit of participating farmers is mingled and sold in separate lots. Final payment will take into consideration thesale price received for the various lots of each variety, including export earnings plus export bonus (reintegros), and / or domestic sales. Costs of packing and cold storage will be deducted, based on the estimated costs to CALFORU of providing those services. Other predetermined percentages will be deducted to cover CALFORU's sales costs· general administration· and capitalization (credited to the individual farmers' membership account).

CALFORU increasesthe sale of fruit through its export agents, primarily in Brazil. Fruit is transported by private trucking companies under contract to CALFORU· thus eliminating the expense of owning and maintaining a fleet of vehicles year round for transportation requirements covering only 6 months of a year.

Although the farmer will be paying for CALFORU's costs and capitalization he will receive a total price for his fruit greater than he would secure under normal marketing conditions. The magnitude of CALFORU earnings on services will be constantly reviewed and adjusted to maintain a proper balance between what the farmer receives for his product and the amount he must capitalize in CALFORU.

Citrus

Although some lemons are grown near thesites of the two CALFORU packing plants, most citrus is produced in the northwest part of Uruguay, Salto. Packing is arranged by the farmers with private packing plants in the area. However, plans are being completed by a group of local SFR's and cooperatives to install a citrus packing plant in this area financed by local groups and Argentine supplier credits. Once packed by this consortium of farm groups, thecitrus will be turned over to CALFORU for storage andexport. As all citrus exported is to Europe, it must depart through the port of Montevideo.

Due to the shortage of fruit cold storage facilities throughout the country, the quantity which may be shipped is limited. For the same reason, producers in Salto must also wait for the ship to arrive in Montevideo before sending their produce to the port. Fruit which is ready for harvest when no ship is available or which exceeds cold storage capacity in Salto or Montevideo is often rapidly disposed of on local markets at a substantial loss to the producer.

Since the citrus processing and storage period are "off season" in relation to deciduous fruits, the CALFORU cold storage chambers will be available to collect and store the citrus destined for Europe until shipping becomes available. Only fruit not up to export quality will be sold directly by the farmer in the domestic market.

Thus, CALFORU will be able to take advantage of otherwise idle cold storage capacity to increase its earnings; and producers will benefit through increased access to export markets for their produce. Loan-financed technical assistance aimed at strengthening CALFORU's marketing expertise is discussed later in this section.

c. General Services Department

This department provides administrative support in the form of: (a) Personnel Management - planning and application of personnel policies; (b) Property Management - allocation of office and other space, control of furniture and equipment inventories, control and use of vehicles and drivers; (c) Operation of Warehouse - inventory control, receipt and despatch of merchandise; and (d) Other Services - contract management, communications, miscellaneous.

d. Financial Department

This department also provides central administrative support in the form of: operation of the accounting system; budgeting; management of cash flow and external credits; maintenance of accounts for farmer members and member cooperatives; and provision of centralized accounting on a contract basis.

4. Required Staffing Increases

Since its founding CALFORU has tried to stimulate its employees through participation in the earnings of the operation, and at the same time avoid maintaining a fixed number of full-time employees at a fixed cost.

CALFORU attributes a great part of its present success to the incentives of commission-based earnings. Employees are encouraged to form groups with which CALFORU can contract to carry out various activities for a predetermined percentage of operations.

Initially, CALFORU limited personnel and administrative costs to a maximum of 5% of each sale price. As the volume of operations has increased the percentage has been reduced, while the number of persons employed has increased. Recently, several employees left outside employments to dedicate their services full time to CALFORU. In order to insure that commissions do not result in inordinately high earnings for some employees. periodically CALFORU reviews and adjusts the percentage allowed for commissions. At present the commission percentage is set at 2.65%. CALFORU has agreed that the increased volume of farm supplies to be sold with AID financing will require a downward adjustment in the commission rate to avoid windfall profits to groups of its personnel. The new rate will be set taking into account earnings levels required to maintain employee motivation. CALFORU's capitalization and expansion needs. volume of workload and number of employees involved. The new commission formula will be presented by CALFORU in satisfaction of the loan's Conditions Precedent.

During 1975 a review will be made of the entire personnel situation in preparation for the increase in volume or activities contemplated under the loan. Conditions precedent to the loan require a new personnel policy which includes conversion of administrative, clerical. accounting and service staff (currently on contract) to a direct-hire salaried basis. The operating staffs of the farm supply and marketing departments will continue to be paid on a commission or incentive basis.

The following charts indicate the past and present staff levels. and projections which are subject to further review during 1975.

TABLE 3 — TOTAL PERSONNEL (DEPTS.) 1/

	Actual			Projected			
	73	74	75	76	77	78	79
A. Presidency	2	3	4	4	4	4	4
B. General Services	3	4	8	12	19	23	28
C. Finance Departament	3	4	5	8	8	8	8
D. Farm Supplies	7	7	11	17	17	17	17
E. Marketing	5	7	11	18	22	27	27
Total:	20	25	39	59	70	79	84

1/ Non-salaried President is included.

A. Presidency	Actual			Projected			
President 1/	1	1	1	1	1	1	1
Lawyer 2/	1	1	1	1	1	1	1
Secretaries	-	1	2	2	2	2	2
Sub-Total:	2	3	4	4	4	4	4

1/ Not Salaried.
2/ Part time - also serves the National Commission.

B. General Services	Actual			Projected			
	73	74	75	76	77	78	79
Manager	-	1	1	1	1	1	1
Warehouses - Packing Plants	1	1	2	2	4	4	4
Property - Vehicles	-	-	1	2	2	3	4
Administrative Personnel	1	1	2	5	7	9	11
Service Personnel	1	1	2	2	5	6	8
Sub-Total	3	4	8	12	19	23	28

C. Finance	Actual			Projected			
	73	74	75	76	77	78	79
Manager	1	1	1	1	1	1	1
Accounting (Technician)	2	2	3	4	4	4	4
Operators	-	1	1	3	3	3	3
Sub-Total	3	4	5	8	8	8	8

D. Farm Supplies	Actual			Projected			
Manager	1	1	1	1	1	1	1
Imports	1	1	2	3	3	3	3
Purchases (Local)	1	1	2	3	3	3	3
Salesmen (Recorredores)	4	4	6	10	10	10	10
Sub-Total	7	7	11	17	17	17	17

E. Marketing	Actual			Projected			
Manager	1	1	1	1	1	1	1
Exports	2	2	2	3	4	5	5
Sales (Local)	-	-	1	3	4	5	5
Crop Technicians	2	4	7	11	13	16	16
Sub-Total	5	7	11	18	22	27	27

Packing plant employees are not included.

CALFORU will absorb all costs of staffing increases out of profits expected to be generated under the A. I. D. loan.

5. Technical Assistance and Support from other Projects

The level of training and experience of CALFORU's staff generally is adequate for the realization of this project, particularly in the farm supplies distribution and related administrative areas. However, the organization is expected to grow rapidly as business expands. To assist CALFORU in this process, including strengthening management control systems to meet expanded operational needs, both short term advisors and training will be loan funded.

It is estimated that a combined total of $100,000 in loan funds will be used for technical advisory services and training. This is based on a calculation of up to 15 man/months, or US$ 75,000 required in short-term, outside consultancy at an average of US$ 5,000 per man/month. Approximately US$ 25,000 would be required to cover the U.S., Third Country, and /or local costs of training.

Tentative plans and approximate schedules for technical assistance and training are indicated in the table which follows.

TABLE 4

CATEGORY	ALTERNATIVE SOURCES	AMOUNT*	APPROXIMATE TIMING Last 1/2 1975	First 1/2 1976	Last 1/2 1976	First 1/2 1977	Last 1/2 1977
A. Technical Assist.							
1. Engineering operations- Assist in design -two packing lines; related items.	*U.S. Consult. *AID/W	1 m/m	Sept/Oct.				
- Follow-up on operation of packing plant & cold storage	*Company Reps. *U.S. Consult. *Argentine Consult.	1 m/m				May	
- Review farm supply operat. for improvem.	* U.S. COnsult.	1 m/m				June	July
2. Management & Administration							
-Assist in design Mgt.Info System	* U.S. Cons. * AID/W	2-3 m/m		March/ May			
-Assist in design data gathering/ statistical syst.	*U.S.Cons. *AID/W	2-3 m/m		April/ June			
3. Institutional Planning							
-Develop. of 5 yr. plan/pre-feasibility studies	*U.S.Cons. *AID/W	2-3 m/m				January/ March	
-Program for strengthening SFR's/local coop.	*U.S.Cons. *AID/W *Chilean or Brazilian Consultant	2-3 m/m		June	July/ August		

* Technical Assistance man/months figures are for non-AID personnel only.

CATEGORY	ALTERNATIVE SOURCES	AMOUNT *	APPROXIMATE TIMING Last 1/2 1975	First 1/2 1976	Last 1/2 1976	First 1/2 1977	Last 1/2 1977
B. TRAINING							
1. Engineering/ Operations -Visit manufacturers packing lines /related equipm. prior to development of specs.	Fruit Packing Coops - Argentina	4 CALFORU Reps.-2 weeks	August				
-On-the-job trg. for plant supervisors	Fruit Pckg. Plants - Argentina	4 Plant Foremen/ Mechanics 1 m.m. each				January - February	
-Market analysis	Brazil - CALFORU agents	2 CALFORU Reps - 2 weeks ea.		January / March			
2. Institutional Planning							
-Cooperative Development - various areas of specialization	Coops in Chile, Brazil Argentina, U. S.	6 CALFORU Reps - 3 weeks ea.			August / December		

* Technical assistance man/month figures are for non-AID personnel only.

It will be noted that, in some cases, AID/Washington assistance is proposed as an alternate source. This would be supplemental, rather than a substitution for, outside consultants; with the primary objective of working with the Mission staff to provide assistance to CALFORU in areas where the Mission does not have specific expertise. If at a later date it should appear that insufficient loan funds have been provided for technical assistance and training, the Mission will increase this budget line item by up to 10% (or U.S. $10,000), and deduct a corresponding amount from amounts remaining for disbursement against the fertilizer line item.

Specific technical assistance and training elements which appear on the preceding chart are described below.

Up to two man/months of outside technical advisory services are contemplated in the area of engineering and operations. One man/month would be devoted to assisting CALFORU to complete all engineering, financial, and legal documentation required to satisfy conditions precedent to disbursement for construction andequipping of two fruit packing and two cold storage installation. An additional man/month of consultancy would be scheduled to insure that all plant related systems are operating at an optimum, e.g. line scheduling, transportation of produce, marketing channels, utilization of manpower, and make any necessary recommendations for improvement.

Additional short-term assistance of a refrigeration technician will be considered to assure optional utilization of the cold storage facility. A similar follow-up would be scheduled to review operations under the expanded farm supplies distribution system.

Technical assistance may be supplemented by training for CALFORU representatives. The first component would consist of visits by key personnel (involved in designing the packing-cold storage facilities) to Argentine fruit packing cooperatives to observe equipment and operations prior to formulating the final design and specifications for the CALFORU installations.[x]

CALFORU feels that its key staff would benefit by broader exposure to other cooperatives (in other Latin countries) actively engaged in the kinds of agro-industrial/marketing operations into which CALFORU wishes to expand. CALFORU staff participants would be selected to make visits to other cooperatives according to their probable future involvement in the particular marketing activity. Participants would serve as CALFORU's first source of information on potential feasibility of such activities, as a start toward determining the directions which CALFORU's five year development plan should take.

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x Argentine fruit operations (cooperative and non-) are preferred due to the similarity between Argentine and Uruguayan fruit produced and marketed.

CALFORU also recognizes that its local member organizations, particularly the SFR's may require some strengthening in areas such as accounting, record keeping, obtaining local credit, etc. Therefore, consultant services would be needed in performing a survey to identify the weaknesses of these organizations, and formulating a plan to obtain assistance to address such problems. Such assistance might be obtained in the U.S., or from other Latin countries (Brazil, Argentina, Chile) with strong agricultural cooperative structures.

A.I.D. loan funds will be utilized to purchase mechanized accounting equipment which will enable CALFORU to handle expanded accounting workloads generated by the Farm Supplies and Marketing Departments, and provide the means for strengthening CALFORU's overall data collection and management capability. The purchase contract for the equipment will include manufacturer assistance in installation and adaptation of CALFORU's present records to the equipment. Following this phase (expected to be complete by March 1976), loan financed consultants would be hired to assist CALFORU in developing an improved accounting system and designing the format for a management information system. Additional assistance would be required to design a system for data gathering and statiscal analysis. The new systems will include a capacity to maintain and update baseline records on member farmers, in turn permitting CALFORU to better estimate demand for its sales and marketing services, and measure the impact thereof.

In order to build systematically on the expanded base of operations financed under the A.I.D. project, CALFORU has requested technical assistance to formulate a plan for future development (1978-1982). Such a plan would be based upon experience with expanded farm supplies and marketing operations under the A.I.D. loan. Its development would include loan funded participant travel by key CALFORU staff to third countries in Latin America to observe cooperative marketing operations (e.g. agro-industrial enterprises) of possible interest to CALFORU. Pre-feasibility studies will be carried out for additional marketing facilities, which have potential to increase earnings and income for CALFORU and its members. Outside consultant services would be required both to assist in conducting such pre-feasibility studies, and in formulating the overall CALFORU development plan.

CALFORU expects to supplement loan-financed technical assistance, at no cost to the institution, from sources such as the Volunteer Development (Cooperative) Corps and the A.I.D. globally funded cooperative organizations.

In the tentative technical assistance plan described above an attempt has been made to strike an appropriate balance between training and outside consultant services in order to keep costs to a minimum, and avoid an unduly large number of foreign consultants. The latter would be inconsistent with CALFORU's own capabilities to execute this project.

CALFORU will continue to receive assistance through the National Commission, and the GOU's IATA which is receiving loan-financed assistance from A.I.D. In addition to its on-going program of representation and technical assistance to small producers, the CNFR has received a $234.000, one -year (June 1974) grant from the Inter-American Foundation (IAF) for a long-range program of commodity production support, education, and marketing assistance to benefit farmers not reached by formal credit and extension services. IAF seeks to prove that credit and technical assistance can stimulate sustained growth of family income among this group. Field work and data gathering will be carried out among 500 selected small farm families who belong to CALFORU-affiliated local organizations. The initial questionnaire to be used in implementing the IAF project, and baseline data derived therefrom, will be utilized by CALFORU, as well, in establishing an evaluation system and plan, as described later.

CALFORU and the National Commission (CNFR) presently are providing limited technical assistance to affiliated producers. The CNFR provides Uruguayan technical advisors and publishes technical leaflets and bulletins. CALFORU also publishes and distributes technical information, due to its interest in improving the quantity and quality of members ' production.

The FAO, through the CNFR, is also sponsoring a project which will benefit small farmer members of CALFORU. The FAO is providing capital goods to construct a honey processing plant aimed at exporting to Europe the honey produced by CALFORU members with technical assistance from the FAO.

In addition, with CALFORU encouragement and participation the National Commission (CNFR) is assisting the SFR's to organize crop-specific Producer Boards. That is, interested members of CALFORU-affiliated SFR's serve on boards which receive crop-specific information on inputs availability, domestic and export market prices, etc. from CALFORU.* With CNFR advice and assistance, the Boards decide upon courses of action (e.g. amount and type of investment to put into crops, and best marketing alternatives), in order to maximize income. This information is transmitted through the SFR's to the appropriate producers. At this time the CNFR sponsored Producer Board system is confined to three pilot Boards (fruit, citrus, garlic). It is hoped that eventually all crops will be covered by separate Boards elected by the producers, which will serve as channels for transmitting information and new technology, and for keeping CALFORU better informed of producer concerns and needs. In view of, (a) the present experimental nature of the Producers Boards, (b) the fact that this is a CNFR, rather than directly CALFORU-sponsored project, and (c) CALFORU's other, more pressing needs for capital and technical assistance, A.I.D. loan funds will not be used for

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* The Producer Board system is operating effectively for Uruguayan producers of traditional exports, such as wool. Its adoption by CALFORU would extend the system to producers of non-traditional crops for the first time.

development of Producer Boards. Funds will, however, be made available for technical assistance to CALFORU in developing its five-year plan. The role of Producer Boards as receivers and transmitters of information, as well as possible eventual decision-making bodies representing producers, should be examined in detail in the course of CALFORU's forward planning exercise.

This and the A.I.D. Agricultural Research Technical Assistance Loan (IATA), are inter-related, as both serve part of the same group of target farmers. The two loans complement each other, while serving separate and distinct purposes.

As part of the A.I.D. loan project, IATA will cooperate with the Bureau of Census and Statistics in conducting special socio-economic surveys of low income farmers during the 1975 national census. IATA's research stations (including those which serve CALFORU members) will collect data to identify small farmer needs for assistance in increasing income and productivity. Based on these findings, IATA will develop special small farmer assistance programs. CALFORU's predominant membership of small, non-traditional export producers will qualify it for participation in and assistance from, IATA's special programs. In addition, data developed by IATA on CALFORU members will be useful to CALFORU in developing its own baseline data.

Both CALFORU and IATA will designate liaison officers who will maintain contact and exchange information on their respective activities to insure that CALFORU is made aware of IATA activities of potential benefit to the target farmers. CALFORU will also continue to maintain regular contacts with local research stations. In this way, CALFORU can advise IATA of agricultural problems needing research (thus helping IATA to be more responsibe to farmers' needs) while learning of new technology which has proven feasible and profitable.

Through its system of publications and field agents, CALFORU will encourage its producer members to visit the facilities of IATA to learn how to adapt new technology to their use. In addition, CALFORU may be asked to participate in evaluating the success of special IATA programs to assist small farmers.

B. FINANCIAL ANALYSIS

1. Financial Review

CALFORU's current financial situation is sound. Profits from their farm supply department (mainly sales of imported fertilizer, seed potatoes, burlap bags and pesticides) have increased capital from less than $ 10,000 on April 30, 1972 to $ 300,000 on December 31, 1974. CALFORU's earnings from farm supply operations have easily sustained the small deficits incurred in its new venture into the export marketing of fruits and vegetables. To meet the existing and ever-increasing demand, especially in fertilizer (See Demand Study, Annex I, Exhibit D) and to reach 15,000 farmer members in the system, farm supply operations are projected to greatly expand during the next four years from its present volume of $ 2 million annually to $ 6,000,000 in CY 1975, $ 12,000,000 in CY 1976, $ 17,000,000 in CY 1977 and $ 24,000,000 in CY 1978. To finance this expansion, A.I.D. will provide $ 2,000,000 in long-term credit, CALFORU will increase its annual short-term lines of local bank credit from $ 1,800,000 to more than $ 2.1 million. Its capital will increase from $ 300,000 to approximately $2.3 million.

Marketing of fruits and vegetables for export, as mentioned above, has in the past, been subsidized. This "cost of marketing experience" however, has developed a technical capability within CALFORU which, when applied to the packing and cold storage facilities included in this loan, will enable it to increase the volume of sales, market selection and sales timings (e.g., option to sell locally or export; hold for future sales, either locally or for export; or combinations thereof). Low sales volume and small net profits are projected for years 1975-77 after which, with the completion of the packing plant and installation of additional cold storage, sales volume of $ 5.7 million and gross profits of 6.5% are projected. For the marketing operations, A.I.D. will finance the packing line equipment ($ 450,000), cold storage units ($ 330,000) and fork lift-trucks ($ 51,000) for a total of $ 831,000.

Administration and accounting for both the farm supply and marketing operations, as well as for the member accounts will be done by CALFORU centrally rather than by the cooperatives. A.I.D. will finance the purchase of accounting and office machines for CALFORU at an estimated cost of $ 68,500.

2. Capitalization

CALFORU's net worth on December 31, 1974 was $ 300,000. All reserves required by the Cooperative Law have been met. Other than a nominal amount of "paid-in" capital from farmer members, CALFORU's net worth represents earnings retained from the farm supply operations. Projected capitalization of $ 3.0 million by the end of 1978 will also result from retained earnings. Although the Cooperative Law requires a minimum of 60% of earnings be distributed to members, it does not require cash dividends and CALFORU meets this requirement by capitalizing earnings and maintaining accounting registers of members' capital. (Although CALFORU members will only consist of primary cooperatives and societies, CALFORU's accounting register for members' capital will identify the individual farmer as well as the local cooperative or society to which he belongs). As a safeguard for A.I.D., the loan agreement will include a covenant whereby CALFORU will not pay cash dividends, and will retain earnings (as general reserves or as capital) in an amount at least equal to the outstanding balance of the A.I.D. loan.

3. Maintenance of Value (MOV)

All financial projections included in this CAP are stated in constant local currency units. In discussing maintenance of value and its effect on CALFORU, it was the consensus of the Project Committee that the effect on CALFORU's marketing operations are minimal inasmuch as both the revenue earned from the export of fruit and vegetables and the A.I.D. dollar indebtedness assumed by CALFORU are directly related to the dollar exchange rate. Consequently, the dollar value of exports and the MOV of the dollar loan keep pace with each other. Also, future devaluation of the peso can be expected to enhance the profitability of the marketing operations by increasing export sales.

However, there are some maintenance of value risks in regard to the farm supply import operation. From March 1972 to date (March 1975), the Uruguayan peso has been devalued at the rate of 60% annually. For comparison purposes, this can be considered as an acceptable indicator of CALFORU's exchange risk in borrowing almost $1.0million from AID for fertilizer imports. Also, at the present time, both CALFORU and its competitors import fertilizer using short-term peso financing obtained from the Bank of the Republic. (Terms are 3% interest a month, 30-60-90-120 day credit, no MOV). Once this interest is added to the cost, an importer can then set and maintain a fixed sales price even if a currency devaluation takes place. In other words, replacement cost does not have to be considered so long as the importer is using the BOR's money at the present terms and without maintenance of value. In the case of CALFORU, by using long-term dollar debt financing, CALFORU will only be in a better or similar position as their competitors if devaluations do not exceed 36%, the prevailing BOR interest rate. If devaluations continue to exceed prevailing BOR interest rates by 27% (60% devaluation, 3% A.I.D. interest versus 36% BOR interest), CALFORU must either (a) increase its price,

(b) absorb the cost in other operations (marketing) not subject to exchange risks, or (c) be decapitalized over time. Alternative (a) is not realistic because competitors do not have to (and are not likely to) take the same action. Alternative (b) assumes that CALFORU'S marketing operations will be profitable enough to absorb these costs. In the near future, this is unlikely. As stated previously, in the past, export marketing has been subsidized by the farm supply operation (and not vice versa). Only after the packing plant and the cold storage units are in place will production increase sufficiently bu 1978 to sustain losses from other operations.

Thus the wisdom of using long-term dollar debt for short-term credit purposes is based on two assumptions which should be looked at more closely. First, the BOR's negative interest rate on short-term lending will continue together with the BOR's ability to provide credit. Both are being carefully studied by the Central Bank and the Ministry of Economy and Finance and there is a strong possibility that changes are likely. It is the Project Committee's opinion that the gap between the BOR's rate of interest for importation credits and the rate of local currency devaluation will greatly narrow if not disappear with the implementation of Minister of Finance Vegh Villegas' new economic measures. See Part II - "Economic Setting and Outlook". In addition, if a tighter credit policy is applied to the BOR, the A.I.D. loan would allow CALFORU to maintain a greater importation volume than their competitors.

CALFORU's present operating system also includes several important methods of maintaining the value of its capital:

1. The marketing operations as mentioned in para. 1, will have a positive effect on MOV.

2. In the farm supplies operation, inventory is virtually non-existent because CALFORU only buys for the member cooperatives on advance orders. Therefore no stock is on hand for which a sales price adjustment would be needed from the GOU wage and price board (COPRIN) in order to cover the replacement cost of the inventory.

3. The cyclical excess working capital from both the marketing and from supplies operations will be invested temporarily in GOU dollar bonds.

So, although there is some MOV risk in using long-term dollar debt to finance CALFORU's farm supply operations, there are also positive forces at work which tend to reduce this risk. On balance, the Project Committee feels that the effect of MOV on CALFORU's overall operations is minimal either way (positively or negatively) and that CALFORU is capable of managing and keeping abreast of its finances in such a way that decapitalization will be prevented.

4. Analysis of Gross Income

a. Marketing - Annex II, Exhibit D, "Marketing Project Financial Projections" contains the detailed breakdown of sales, cost of sales and cash flow for each of the projects to be marketed. Both the volume of sales and the selling price of each product are considered to be reasonably stated in the yearly forecasts. Sales, by product, for 1978, - a representative year - are as follows: (in millions of dollars)

Product	Sales	%
Dried Beans	2.2	39
Garlic	1.0	17
Oranges	0.5	9
Pears	0.5	9
Peaches	0.4	7
Apples	0.3	6
Quince	0.3	5.3
Honey	0.2	4
Lemons	0.2	3
Grapefruit	0.1	0.7
	5.7	100

An important "income" accruing to CALFORU, as a result of their marketing operations, is the export incentive and exchange rate differential payment from the GOU called the "reintegro". The "reintegro", at this time, is 35% for fruit and vegetables and 30% for honey. No change in these percentages is considered likely. Under the "reintegro" system, CALFORU receives the peso equivalent of $1.35 for each dollar's worth of fruit and vegetables it exports. Thus, for example, "reintegro" income in 1978 based on estimated export sales of $ 3.5 million, will amount to approximately $ 1.2 million for CALFORU.

b. Farm Supplies - Annex II, Exhibit E, "Farm Supply Projections" contains the same projected financial data as the Marketing Project. Pages 330 to 363 summarize the sales and cost of sales by product for the years 1976 (Year 1) /1978 (Year 3). These sales figures, converted into dollars, (all projections are based on the exchange rate of UP$ 1.811 = US$ 1.oo) strikingly show how the injection of $ 965,500 by A.I.D. and $ 300,000 of additional local credit for fertilizer imports, with an inventory turnover of three times a year, can substantially increase the sales volume and profitability of CALFORU:

Sales (in millions of dollars)

Year	Total	Fertilizer	Potatoes	Pesticides	Burlap	Other
1976	12.4	8.2	1.9	1.3	.5	.5
1977	16.1	10.7	2.1	2.1	.6	.6
1978	24.1	17.7	2.1	3.0	.6	.7
1979	26.5	20.1	2.1	3.0	.6	.7

Net Profit (in thousands of dollars)

Year	Total	Fertilizer	Potatoes	Pesticides	Burlap	Other
1976	496	216	120	132	15	13
1977	687	284	138	219	22	24
1978	946	448	138	307	25	28
1979	1.009	511	138	307	25	28

Although the growth in fertilizer sales is considerable (from $ 8.2 to $ 20.1 million), CALFORU will still only meet 65% of the demand of the member cooperatives and 33% of the total country demand for the year 1978. Current percentages are 8% and 4% respectively. For seed potatoes, CALFORU will continue to supply approximately 40% of the country demand. The GOU's recently reiterated policy of placing a high priority on the importation of fertilizer is adequate assurance that CALFORU will be able to obtain the foreign exchange necessary to carry out their farm supply import program.

5. Financial Projections

Historical and projected financial reports (Balance Sheet, Operating Statement and Cash Flow) follow pages 51, 52, 53; Tables 5, 6 and 7. The following comments relate to these reports:

Balance Sheet (Table 5)

Cash and Treasury Bonds - The large balances reported on December 31, of each year are due to the cyclical nature of crop planting, fertilizer use and fruit/vegetable harvesting in Uruguay. Fertilizer, for example is purchased in February, May and September and sold during the following three months. Seed potatoes are bought in December and one-half is sold in December and the other half in January. Thus, all of the cash from the sale of fertilizer and one-half of the cash from sale of seed potatoes has been collected by December 31 of each year. During these periods of surplus cash, CALFORU will purchase GOU Treasury Bonds which are dollar denominated, pay 11% interest annually and are readily marketable. Ordinarily, such bonds would be held for periods of no more than 30 days as a cash management device to insure maintenance of value (pg. 45)

Accounts Receivable - Approximately 20% of the accounts receivable year-end balance represent cash advances to fruit and vegetable exporters. For details see "Marketing Operations", Annex II, Exhibit D.

Inventory - Inventory balances at year end are low for reasons explained in Cash and Treasury Bonds. In general, the inventory account could better be called "Goods-in-transit". Farm supply imports are purchased by CALFORU based on the orders received from base cooperatives. Upon arrival, the products are immediately delivered to the cooperatives which placed the order and the sale is recorded in Accounts Receivable. An analysis of Accounts Receivable as of December 31, 1974, is included in Part VII, B.

Accounts Payable - Two major sub-accounts are maintained by CALFORU, the largest being the 30-60-90 day short-term credits from the Bank of the Republic and private banks; the other is a fruit-vegetable export marketing account. (The farmer usually gets his net sales proceeds, plus "reintegros" less cash previously advanced, within 30 days from date of sale).

Long-term debt - Other - Additional cold storage capacity will be needed in 1977 as determined by the packing plant feasibility study. Refrigeration equipment imports of $ 330,000 will be financed from the A.I.D. loan (Included in "Long-term debt-A.I.D."). Six hundred million pesos will be financed by the Central Bank (10 yrs, 2 yr. grace) from a counterpart fund established under A.I.D. Capital Goods Loan 528-L-022 and the rest (U$P 220,000,000) will be provided from working capital.

Working Capital Ratio - CALFORU, in requesting an A.I.D. loan, presented a three-year investment projection (1976-1978). Therefore, at the end of 1978 and thereafter, the working capital (excess of current assets over current liabilities) far exceeds CALFORU's normal working capital requirements and was presented by CALFORU to show funds available for future investments. These investments are discussed in Part IV, B.7 "Projections beyond 1978".

While it is expected that CALFORU will rapidly utilize capital generated under this loan to expand into new marketing enterprises, it is conceivable that any delays in actual investments could create a temporary surplus of capital to operating needs. If such a situation should develop, there are three alternative means for reducing cash on hand: (1) accelerating repayment of the A.I.D. loan; (2) CALFORU payment of dividends to its members; or (3) reduction of the price to members of CALFORU's goods and services.

The first alternative would substantially reduce the total capital base available for expansion through new investments; thereby defeating the developmental purposes of the loan. According to the laws governing CALFORU's operation, a minimum of 60% of profits must be paid out to members, if a dividend is declared. Although the second alternative would benefit CALFORU's members, it would have the same net effect as the first in draining off the necessary capital for expansion. Therefore, the third alternative will be utilized (PART I-J-3 Covenants). Price reductions may be direct or in the form of rebates to members for goods or services purchased.

Statement of Operations (Table 6)

Gross Income from Operations - This section consists of the consolidation of "Farm Supplies" (Annex II, Exhibit E) and "Marketing Operations" (Annex II, Exhibit D). It is the Project Committee's opinion that CALFORU's projected sales and related costs are reasonably stated and, along with the A.I.D. inputs shown in the financial plan, are within CALFORU's physical, financial and technical capability to attain.

Salaries and Related Expenses - The increases projected for years 1976, 1977 and 1978 reflect CALFORU's intent to convert administrative, accounting and service employees previously on a commission basis to direct hire. This subject is discussed in Part IV A. 4.

TABLE 5

CALFORU
Balance Sheet
(in thousands of Pesos)

	1976	1977	1978	1979
Assets:				
Current Assets:				
Cash	508,249	1,731,667	1,072,676	1,427,292
Treasury bonds	-	-	2,600,000	4,300,000
Accounts receivable	2,288,147	2,776,463	2,878,957	2,878,957
Inventory	289,760	463,616	463,616	463,616
Total Current Assets	3,086,336	4,971,746	7,015,249	9,069,865
Fixed assets:	1,502,031	3,057,717	3,057,717	3,057,717
Less depreciation	16,487	161,516	409,421	657,326
Net fixed assets	1,485,544	2,896,201	2,648,296	2,400,391
Total assets	4,571,700	7,867,947	9,663,545	11,470,256
Liabilities				
Current liabilities	933,706	1,067,434	1,201,162	1,201,162
Long term debt				
A.I.D.	2,115,250	3,734,843	3,734,843	3,734,843
Other	-	600,000	600,000	525,000
Total long term debt	2,115,250	4,334,843	4,334,843	4,259,843
Net Worth	1,522,744	2,465,670	4,127,540	6,009,251
Total liabilities and Net Worth	4,571700	7,867,947	9,663,545	11,470,256

TABLE 6

CALFORU
Statement of Operations
(in thousands of Pesos)

	1976	1977	1978	1979
Gross Income from Operations:				
Sales from Farm Supplies	22,463,827	30,586,778	43,875,011	48,184,474
Less: Cost of Goods Sold	21,566,849	29,341,674	42,162,636	46,358,871
Gross Profit	896,978	1,245,104	1,712,375	1,825,603
Sales from Marketing Operations	3,327,854	5,831,339	10,425,409	10,528,349
Less: Cost of Goods Sold	3,110,470	5,519,983	9,667,685	9,751,186
Gross Profit	217,384	311,365	757,724	777,163
Total Gross Profit	1,114,362	1,556,460	2,470,099	2,602,766
Overhead Expenses:				
Salaries and related expenses	182,100	229,257	283,261	301,146
General and Administrative expenses	192,540	204,025	216,226	229,200
Total overhead expenses	374,640	433,282	499,487	530,346
Profit from Operations	739,722	1,123,178	1,970,612	2,072,420
Other Income and Expense				
Other Income	-	-	-	134,033
Interest expense - A.I.D.	55,417	146,252	186,742	186,742
Interest expense - other	-	-	44,000	48,000
Total interest less other income	55,417	146,252	230,742	100,709
Net Profit before Taxes	684,305	976,926	1,739,870	1,971,711
Less Taxes	30,000	34,000	78,000	90,000
Net Income [redacted]	654,305	942,926	1,661,870	1,881,711

TABLE 7

CALFORU
Cash Flow
(in thousands of Pesos)

	1976	1977	1978	1979
Cash (Beginning)	37,957	508,249	1,731,667	1,072,676
Cash Source				
Net income	654,305	942,926	1,661,870	1,881,711
Plus depreciation	15,255	145,029	247,905	247,905
Cash from operations	669,560	1,087,955	1,909,775	2,129,616
Other Sources				
Increase in current liabilities	-	133,728	133,728	-
Increase long term debt - A.I.D.	2,013,834	1,619,593	-	-
Increase long term debt - other	-	600,000	-	-
Decrease in inventory	32,948	-	-	-
Cash from other sources	2,045,882	2,353,321	133,728	-
Total cash available	2,753,399	3,949,525	3,775,170	3,202,292
Cash Applied				
Increase in Treasury Bonds	-	-	2,600,000	1,700,000
Increase in Acct. Rec.	523,292	488,316	102,494	-
Increase in inventory	-	173,856	-	-
Increase in fixed assets	1,297,740	1,555,686	-	-
Decrease in current liabilities	424,118	-	-	-
Decrease in long term debt - other	-	-	-	75,000
	2,245,150	2,217,858	2,702,494	1,775,000
Cash (Ending)	508,249	1,731,667	1,072,676	1,427,292

6. Counterpart Contribution

Local Sources of Credit

As CALFORU's initial paid-in capital and the retained earnings from recent year's operations are limited, (equivalent to $ 300,000 as of December 31, 1974). it has continued to secure the maximum in credits from both public and private banks. Also, since all banks require high level of guarantees and CALFORU's assets are limited, some of CALFORU's leaders have chosen to pledge personal assets as guarantees for CALFORU's debts. More recently, arrangements have been made with several of the local cooperatives and societies to pledge some of their assets to support CALFORU's expansion efforts.

During 1973, CALFORU had approved lines of credit in the BOR for $ 1,008,000 and private banks for $ 174,000. In 1974, these amounts were increased to $ 1,366,000 in the BOR and $ 429,000 in private banks. It is estimated that these lines of credit will expand to a total of over $ 2,000,000 during the next three years even though new guarantees will be secured from the local societies to replace the personal guarantees presently in effect. The bar chart (Table 8) plots the estimated "draw-down" of these local short-term credits during the years 1976-1979 and graphically shows the cyclical nature of CALFORU's credit needs. After 1978, with net worth of $ 4,127,540, CALFORU will only occasionally require short-term bank credit, unless by then it has become involved in other investments or lines of services for its members.

Other Counterpart

The two local cooperatives (UFRUCA and JUMECAL) will finance the buildings for the packing lines along with access roads, ramps and other modifications. Estimated cost is $ 292,000. The National Commission will contribute $ 70,000 to office expansion.

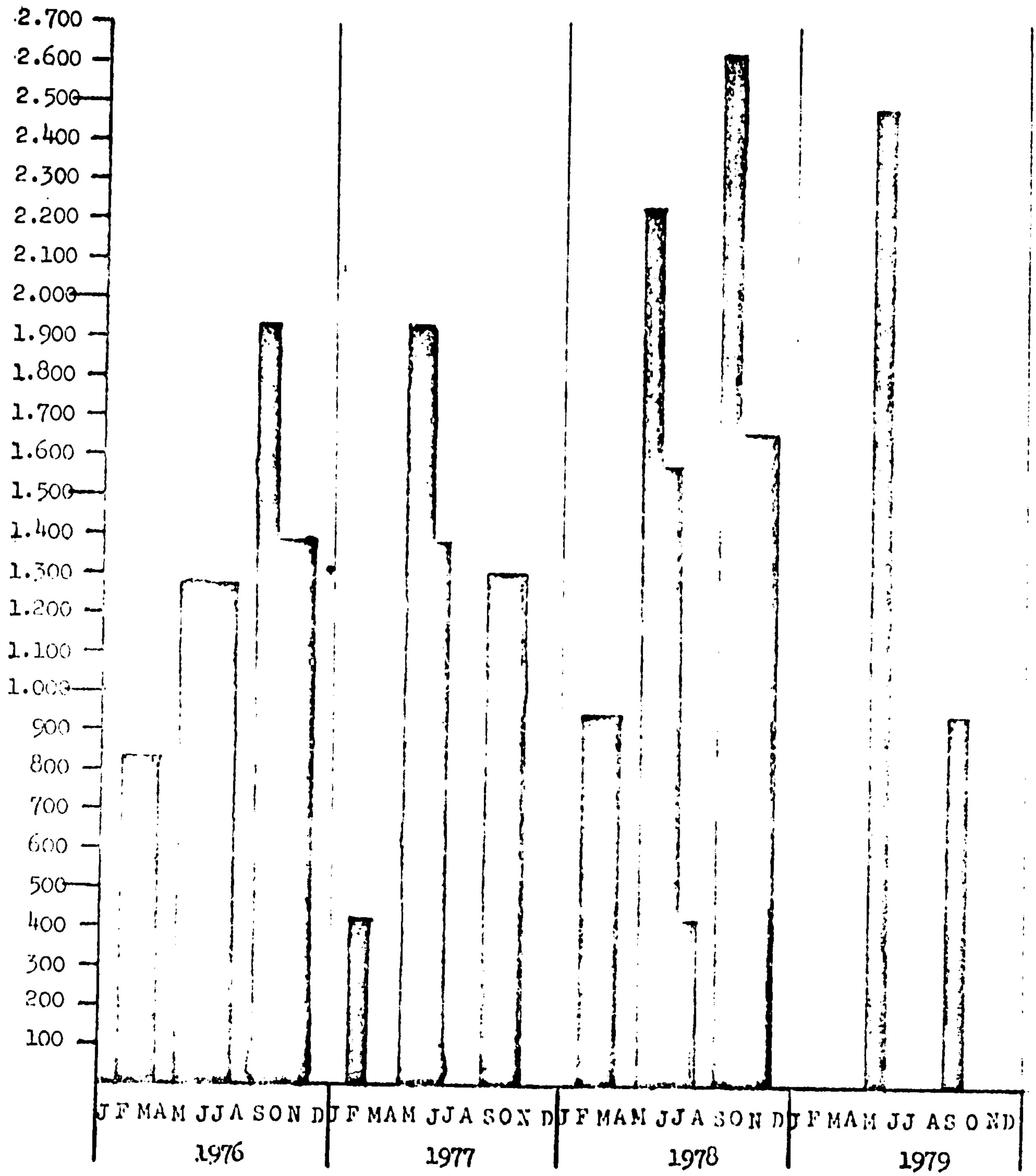
7. Projections Beyond 1978

As stated in the Balance Sheet analysis, "Working Capital Ratio", no new investments were quantified by CALFORU beyond 1978. It should be noted, however, that CALFORU does have future investments in mind. The feasibility of a canning plant and a potatoe dehydrating plant will be studied once the packing plants get in operation. CALFORU is also planning to operate grain storage facilities, now being constructed by the GOU, and assist with the marketing of grain for its members, including exportation. Sales expansion of both domestic and imported farms supplies is also expected to continue beyond 1978.

TABLE 8

C A L F O R U

USE OF LOCAL SHORT TERM CREDIT
(Thousands of U.S. Dollars)
1976 - 1979



8. Rates of Return

"The rate of Net Income to the total of Long Term Debt and Net Worth for the four years ending 1979 is 18%. See Annex II for computation."

By 1979 CALFORU will be operating at a profit that would permit repayment of the A.I.D. loan from the profit of two years operations. Furthermore, CALFORU could make such payment and still operate at the same level and profit. However, the bulk of the capital generated under this project is expected to finance new investments under CALFORU's five year development plan. If for any reason such investments cannot be carried out according to schedule, and undue cash surpluses develop, CALFORU will pass on such benefits to members through reduced prices and/or rebates (see Covenants, p. xi; Draft Annex A to Loan Agreement, p. 106).

9. Working Capital

In the past, CALFORU has been able to obtain only local short-term production credit to finance their farm supply importations. From the sale of the long-term A.I.D. financed fertilizer ($495,000 in 1976 and $470,500 in 1977), CALFORU will obtain the necessary working capital to expand its farm supply operations and finance its new marketing operations during start-up and initial operations. Increases to working capital after 1977 will be provided by CALFORU from the capitalization of members' profits.

C. ENVIRONMENTAL IMPACT

While loan funds will be used for traditional import of fertilizer, the danger of contamination by over use is remote, the principal impact of this loan on the environment is the fruit packaging plant and it is minimal. The packaging line is a relatively small unit consisting of simple conveyors and fruit handling equipment. It is not noisy, emits no fumes, nor requires a large amount of utilities which may indirectly affect the surroundings.

The one discharge from the plant is the wash water used to clean and treat the fruit. The fruit at harvest time may contain traces of pesticides. The washing processes will remove these traces. Traces of fungicides for the prevention of fungi damage and chemicals from the protection of apples against scald may also remain in the waste waters.

The chemicals ordinarily used for these purposes are relatively innoxious to mammals. In any case, the contaminated water will not be discharged into a sewage system, but discharged into the cooperative's own septic tanks or used for irrigation purposes. This is the practice of the fruit packaging industry in the U.S. Residual chemicals will eventually be diodegraded to CO_2 water and nitrogen.

D. ROLE OF WOMEN

Few women participate or hold positions of leadership in the agricultural cooperative movement in Uruguay. CALFORU recognized the importance of increased participation by women in member cooperatives, especially in positions of executive leadership, and has developed the following plan to improve their opportunities in connection with the design and implementation of this project.

1. CALFORU will sponsor a study during 1975 on the role of women in the cooperative movement in Uruguay, with recommendations for their increased participation in leadership positions. Special emphasis will be given to CALFORU

2. At least 10% of the training funds provided through this loan will be used for female participants.

3. CALFORU will actively support the placement of qualified women in executive positions in member cooperatives, within CALFORU, and in the two packing/cold storage plants to be constructed through this loan.

4. CALFORU will give greater support to the farm youth movement which provides leadership training opportunities for large numbers of young women.

5. The packing/cold storage plants to be constructed through the loan will provide additional paid employment opportunities for rural women.

PART V - LOAN ADMINISTRATION

A. IMPLEMENTATION TIMETABLE

Based on the assumption that the loan will be authorized by May 31, 1975, it is believed that the loan agreement should be signed not later than mid-July, 1975. Conditions precedent to initial disbursement should be met by September 31, 1975, allowing disbursement for office and accounting equipment and technical assistance to begin. Initial technical assistance will be used to assist CALFORU with implementation plans, engineering designs, and specifications for the packing lines and cold storage, and related construction and equipment. Conditions precedent for disbursements against specific activities should be met by October 1975 to permit letting bids for equipment.

At the same time during September the implementation plan for the importation of fertilizer and related equipment will be completed. Conditions precedent will be met by October to allow for immediate disbursement for equipment and the first fertilizer imports by January 1976.

Initial projections anticipated fruit being packed in March of 1976. However, the packing line, if ordered in October 1975, will be operational by December 1976. The initial fertilizer shipment will be ordered in January 1976 prior to the demand for fertilizer in the U.S. See Part VII for source guidance on fertilizer procurement. The cold storage facilities will be ordered so that they are installed and operational by December 1977. Additional fertilizer orders will be made during 1976 and 1977.

[illegible] CHART [illegible] PROJECT
[illegible] BY EARLY START

o-SPAN OF EARLY START TO EARLY FINISH
*-SPAN OF LATE START TO LATE FINISH
□-COMPLETED ACTIVITY EARLY START TO EARLY FINISH

I	J	Activity	JAN FEB MAR 1Q 1975	APR MAY JUN 2Q 1975	JUL AUG SEP 3Q 1975	OCT NOV DEC 4Q 1975	JFMAMJJASOND 1976
A	B	DRAFT LOAN AGREEMENT		OOO********	**		
B	C	NEGOTIATE LOAN AGREEMENT		OOOOO***	******		
C	D	IMPLEMENTATION LETTER NO. 1		OOOO	********		
D	EE1	CP NO. 1 SIGNATURE			OOO**********		
D	EE2	FINAL AUDIT			OOO**********		
D	EE3	LEGAL CERTIFICATION			OOO**********		
D	EE4	REORGANIZATION PLAN			OOOO*********		
D	EE5	TECHNICAL ASSISTANCE PLAN			OOOO*********		
E	F	SPECS. OFFICE EQUIPMENT			●	●●●	
E	J	T.A. / JOB DESCRIPTION			O	OOO*****	
E	M	DESCRIBE TRAINING			●	●●●	
E	ES1	FERT. SPECS. NPK			O	OOO*********	**
E	ES2	INVIT. TO SUPPLY FERT.			O	OOOOOO******	**
E	ES3	LEASE AGMT. FOR BAGGING PLANT			O	OOOO********	**
E	E11	PREPARE IMPORT. + DISTRIB. PLAN			O	O●●●**	
E	E12	FERT. EQUIP. SPECS.			O	OOO***	
F	G	INVITATION TO BIDS				●●●	
J	K1	INVITATION TO PROVIDE				OO******	
J	K2	LETTERS OF INTEREST				OO******	
M	N	REQUEST FOR TRAINING PROSPECTS				●●	
K	LL1	NEGOTIATE CONTRACT WITH A + E				OOO******	
K	LL2	NEGOTIATE ADM. ADVISORS				OOO******	

Event		Activity	F	JFMAMJJASOND 1974	JAN FEB MAR 1Q	APR MAY JUN 2Q	JUL AUG SEP 3Q (1975)	OCT NOV DEC 4Q	JFMAMJJASOND 1976	JFMAMJJASOND 1977	F
N	01	SELECTION OF PARTICIPANTS				+		●●●			
N	02	CONTRACT FOR TRAINING				+		●●●			
E1	E2	INVIT. TO BID BAGG. EQUIP.				+		OO●●●**			
G	H1	PURCHASE ORDER				+		●●●			
G	H2	AWARD BIDS				+		●●●			
O	P	TRAINING				+		●●●●●●●	●●●		
L	L1	CP NO. 3 P. PLANT + COLD STORAGE				+		OOOOOO●	**		
K	I	OFFICE EQUIPMENT RECEIVED + PLACED				+		●●●●●●	●		
E2	E3	SELECTION + AWARD				+		OO●●*	*		
F3	E4	SHIPMENT				+		OO	●*		
L1	L2	WORKING DRAWINGS + SPECS.				+		O	O●**		
F4	E5	INSTALL EQUIPMENT				+			O●*		
E71	E7	SHIP/RECEIVE FERT. 1				+			●●		
L2	L31	LETTER TO PROCEED WITH CONST.				+			OO**		
L2	L32	INVIT. TO BID IMPORTED EQUIP.				+			OO●*		
E7	E81	BAG FERT. 1				+			O***		
E7	E82	DISTRIBUTION 1				+			●●●●		
P	P41	CP NO. 4 LEASE AGREEMENT				+			●●●●●		
P	P2	A + E FIRM SELECTED-COLD STOR.				+			●		
P2	P3	DESIGN				+			●●●●		
L3	L41	LETTER OF CREDIT(P. PLANT)				+			O**		
L3	L42	MOBIL. OF CONST. FORCES				+			O**		

	P	JFMAMJJASOND 1974	JAN FEB MAR 1Q	APR MAY JUN 2Q	JUL AUG SEP 3Q (19:75)	OCT NOV DEC 4Q	JFMAMJJASOND 1976	JFMAMJJASOND 1977	F
L4 L51 CONST. SHEDS FOR P. PLANT				↑			OOO●***		
L4 L52 ORDER PACKING LINE + RECEIVE				↑			OO●●●**		
L4 L53 EQUIP. PADS(FOUNDATIONS)				↑			OO*****		
L4 L54 ELECTRICAL				↑			OO*****		
L4 L55 WATER + HEATER INSTALL.				↑			OO*****		
L4 L44 SELECT SUPERVISORS				↑			OO****		
E771 E77 SHIP/RECEIVE FERT. 2				↑			●		
L44 L56 SELECT PERSONNEL				↑			OO****		
E77 E83 BAG FERT. 2				↑			OO***		
E77 E84 DISTRIBUTION 2				↑			●●●●●		
P3 P42 CALFORU ACCEPTANCE				↑			●●		
P4 P5 CP NO. 4 SUBMIT PLAN				↑			●		
P5 P61 CONSTRUCTION AT COLD STORAGE BLDGS.				↑			●●●●●●	●	
P5 P62 MANF. LOCAL EQUIP.				↑			O●●●●●	*	
P5 P71 ORDER FOREIGN EQUIPMENT				↑			OOOO**	***	
P5 P83 PROVIDE PADS SHEDS ELEC. WATER				↑			OOO●●●	●***	
L5 L61 TRAINING				↑			OO●**		
L5 L62 PLACE EQUIPMENT				↑			OO●**		
L5 L63 TRIALS				↑			OO***		
E7771 E777 SHIP/RECEIVE FERT. 3				↑			●		
E777 E85 BAG FERT. 3				↑			OOO*	*	
E777 E86 DISTRIBUTION 3				↑			●●●●	●	

Events	Activity	P	JFMAMJJASOND 1974	JAN FEB MAR 1Q	APR MAY JUN 2Q	JUL AUG SEP 19:75 3Q	OCT NOV DEC 4Q	JFMAMJJASOND 1976	JFMAMJJASOND 1977	F
L6 L7	START UP P. PLANT				↑			●		
L7 L81	PROCESS PEACHES				↑			●	●●	
L7 L32	STORE PEARS FOR PROCESS				↑			o	**	
L7 L132	STORAGE (GRADED + UNGRADED)				↑			o	oo●●●●●●●●***	●
P6 P81	MAINTENANCE + SUP. TRAINING				↑				oo**	
P6 P72	TEST + INSTALL LOCAL EQUIP.				↑				●●●	
L8 L9	PROCESS PEARS				↑				●●●	
P7 P82	INSTALL FOREIGN EQUIP.				↑				●●	
P8 R	COMPLETE PLANT START UP				↑				●●	
L9 L101	PROCESS QUINCES				↑				o●●*	
L9 L102	PROCESS APPLES				↑				●●●●	
L10 L11	PLANT MAINT.				↑				●●	
L11 L12	PROCESS LEMONS				↑				●●●	
L12 L131	STAND BY (SEPT.-NOV.)				↑				●●●	●
		P	JFMAMJJASOND 1974	JAN FEB MAR 1Q	APR MAY JUN 2Q	JUL AUG SEP 19:75 3Q	OCT NOV DEC 4Q	JFMAMJJASOND 1976	JFMAMJJASOND 1977	F

PROJECT: CALFORU PROJECT
SORTED BY SLACK

PRED	SUCC	DUR	ES	EF	LS	LF	SLACK	DEPT.	DESCRIPTION
E	F	2.00	09/30/75	10/15/75	09/30/75	10/15/75	0	LOAN	SPECS. OFFICE EQUIPMENT
F	G	3.00	10/15/75	11/06/75	10/15/75	11/06/75	0	LOAN	INVITATION TO BIDS
G	H1	2.00	11/06/75	11/20/75	11/06/75	11/20/75	0	LOAN	PURCHASE ORDER
G	H2	2.00	11/06/75	11/20/75	11/06/75	11/20/75	0	LOAN	AWARD BIDS
H	I	6.00	11/20/75	01/05/76	11/20/75	01/05/76	0	LOAN	OFFICE EQUIPMENT RECEIVED + PLACED
E	M	2.00	09/30/75	10/15/75	09/30/75	10/15/75	0	TRNG	DESCRIBE TRAINING
M	N	2.00	10/15/75	10/30/75	10/15/75	10/30/75	0	TRNG	REQUEST FOR TRAINING PROSPECTS
N	O1	2.00	10/30/75	11/13/75	10/30/75	11/13/75	0	TRNG	SELECTION OF PARTICIPANTS
N	O2	2.00	10/30/75	11/13/75	10/30/75	11/13/75	0	TRNG	CONTRACT FOR TRAINING
O	P	16.00	11/13/75	03/10/76	11/13/75	03/10/76	0	TRNG	TRAINING
E71	E7	4.00	02/02/76	03/02/76	02/02/76	03/02/76	0	FERT	SHIP/RECEIVE FERT. 1
E771	E77	4.00	05/03/76	05/31/76	05/03/76	05/31/76	0	FERT	SHIP/RECEIVE FERT. 2
E7771	E777	4.00	09/01/76	09/30/76	09/01/76	09/30/76	0	FERT	SHIP/RECEIVE FERT. 3
E7	E82	16.00	03/02/76	06/22/76	03/02/76	06/22/76	0	FERT	DISTRIBUTION 1
E77	E84	16.00	05/31/76	09/22/76	05/31/76	09/22/76	0	FERT	DISTRIBUTION 2
E777	E86	16.00	09/30/76	01/27/77	09/30/76	01/27/77	0	FERT	DISTRIBUTION 3
P	P2	3.00	03/10/76	03/31/76	03/10/76	03/31/76	0	PPCS	A + E FIRM SELECTED-COLD STOR.
P2	P3	12.00	03/31/76	06/24/76	03/31/76	06/24/76	0	PPCS	DESIGN
P3	P42	2.00	06/24/76	07/09/76	06/24/76	07/09/76	0	PPCS	CALFORU ACCEPTANCE
P4	P5	2.00	07/09/76	07/23/76	07/09/76	07/23/76	0	PPCS	CP NO. 4 SUBMIT PLAN
P5	P61	24.00	07/23/76	01/17/77	07/23/76	01/17/77	0	PPCS	CONSTRUCTION AT COLD STORAGE BLDGS.
P6	P72	6.00	01/17/77	03/01/77	01/17/77	03/01/77	0	PPCS	TEST + INSTALL LOCAL EQUIP.
P7	P82	6.00	03/01/77	04/12/77	03/01/77	04/12/77	0	PPCS	INSTALL FOREIGN EQUIP.
P8	R	3.00	04/12/77	05/03/77	04/12/77	05/03/77	0	PPCS	COMPLETE PLANT START UP
L6	L7	2.00	12/01/76	12/15/76	12/01/76	12/15/76	0	PPCS	START UP P. PLANT
L7	L81	10.00	12/15/76	02/28/77	12/15/76	02/28/77	0	PPCS	PROCESS PEACHES
L8	L9	8.00	02/28/77	04/25/77	02/28/77	04/25/77	0	PPCS	PROCESS PEARS
L9	L102	12.00	04/25/77	07/20/77	04/25/77	07/20/77	0	PPCS	PROCESS APPLES
L10	L11	4.00	07/20/77	08/17/77	07/20/77	08/17/77	0	PPCS	PLANT MAINT.
L11	L12	8.00	08/17/77	10/14/77	08/17/77	10/14/77	0	PPCS	PROCESS LEMONS
L12	L131	12.00	10/14/77	01/11/78	10/14/77	01/11/78	0	PPCS	STAND BY (SEPT.-NOV.)
P	P41	16.00	03/10/76	07/01/76	03/17/76	07/09/76	1.00	PPCS	CP NO. 4 LEASE AGREEMENT
E	E11	4.00	09/30/75	10/30/75	10/14/75	11/12/75	1.80	FERT	PREPARE IMPORT. + DISTRIB. PLAN
E1	E2	4.00	10/30/75	11/27/75	11/12/75	12/11/75	2.00	FERT	INVIT. TO BID FAGG. EQUIP.
E2	E3	3.00	11/27/75	12/18/75	12/11/75	01/05/76	2.00	FERT	SELECTION + AWARD
E3	E4	4.00	12/18/75	01/19/76	01/05/76	02/02/76	2.00	FERT	SHIPMENT
P5	P62	22.00	07/23/76	12/31/76	08/06/76	01/17/77	2.00	PPCS	MANF. LOCAL EQUIP.
E4	E5	4.00	01/19/76	02/16/76	02/02/76	03/02/76	2.20	FERT	INSTALL EQUIPMENT
E	E12	2.00	09/30/75	10/15/75	10/29/75	11/12/75	3.80	FERT	FERT. EQUIP. SPECS.
L9	L101	8.00	04/25/77	06/21/77	05/23/77	07/20/77	4.00	PPCS	PROCESS QUINCES
E	J	2.00	09/30/75	10/15/75	11/12/75	11/26/75	5.80	TA	T.A. / JOB DESCRIPTION
J	K1	2.00	10/15/75	10/30/75	11/26/75	12/11/75	5.80	TA	INVITATION TO PROVIDE'
J	K2	2.00	10/15/75	10/30/75	11/26/75	12/11/75	5.80	TA	LETTERS OF INTEREST
K	LL1	2.00	10/30/75	11/13/75	12/11/75	12/26/75	5.80	TA	NEGOTIATE CONTRACT WITH A + E
K	LL2	2.00	10/30/75	11/13/75	12/11/75	12/26/75	5.80	TA	NEGOTIATE ADM. ADVISORS

PRED	SUCC	DUR	ES	EF	LS	LF	SLACK	DEPT.	DESCRIPTION
L	L1	6.00	11/[illegible]/75	12/26/75	12/26/75	02/09/76	6.00	PPCS	CP NO. 3 P. PLANT + COLD STORAGE
L1	L2	8.00	12/26/75	02/24/76	02/09/76	04/06/76	6.00	PPCS	WORKING DRAWINGS + SPECS.
L2	L32	6.00	02/24/76	04/06/76	04/09/76	05/18/76	6.00	PPCS	INVIT. TO BID IMPORTED EQUIP.
L3	L42	3.00	04/06/76	04/27/76	05/18/76	06/09/76	6.00	PPCS	MOBIL. OF CONST. FORCES
L4	L52	16.00	04/27/76	08/19/76	06/09/76	10/01/76	6.00	PPCS	ORDER PACKING LINE + RECEIVE
L5	L61	8.00	08/19/76	10/18/76	10/01/76	12/01/76	6.00	PPCS	TRAINING
L3	L41	2.00	04/06/76	04/20/76	05/25/76	06/09/76	7.00	PPCS	LETTER OF CREDIT(P. PLANT)
P6	P81	4.00	01/17/77	02/14/77	03/15/77	04/12/77	8.00	PPCS	MAINTENANCE + SUP. TRAINING
L5	L62	6.00	08/19/76	10/01/76	10/18/76	12/01/76	8.00	PPCS	PLACE EQUIPMENT
L7	L82	2.00	12/15/76	12/30/76	02/11/77	02/28/77	8.00	PPCS	STORE PEARS FOR PROCESS
D	EE4	4.00	07/01/75	07/30/75	08/29/75	09/29/75	8.40	LOAN	REORGANIZATION PLAN
D	EE5	4.00	07/01/75	07/30/75	08/29/75	09/29/75	8.40	LOAN	TECHNICAL ASSISTANCE PLAN
A	B	2.00	04/18/75	05/02/75	06/26/75	07/11/75	9.60	LOAN	DRAFT LOAN AGREEMENT
B	C	4.00	05/02/75	06/02/75	07/11/75	08/08/75	9.60	LOAN	NEGOTIATE LOAN AGREEMENT
C	D	3.00	06/02/75	06/23/75	08/08/75	08/29/75	9.60	LOAN	IMPLEMENTATION LETTER NO. 1
D	EE1	2.00	07/01/75	07/16/75	09/15/75	09/29/75	10.40	LOAN	CP NO. 1 SIGNATURE
D	EE2	2.00	07/01/75	07/16/75	09/15/75	09/29/75	10.40	LOAN	FINAL AUDIT
D	EE3	2.00	07/01/75	07/16/75	09/15/75	09/29/75	10.40	LOAN	LEGAL CERTIFICATION
E	E62	6.00	09/30/75	11/13/75	12/18/75	02/02/76	10.80	FERT	INVIT. TO SUPPLY FERT.
L2	L31	1.00	02/24/76	03/02/76	05/11/76	05/18/76	11.00	PPCS	LETTER TO PROCEED WITH CONST.
E7	E81	4.00	03/02/76	03/30/76	05/25/76	06/23/76	12.00	FERT	BAG FERT. 1
E77	E83	4.00	05/31/76	06/28/76	08/24/76	09/22/76	12.00	FERT	BAG FERT. 2
E777	E85	4.00	09/30/76	11/01/76	12/29/76	01/27/77	12.00	FERT	BAG FERT. 3
P5	P83	24.00	07/23/76	01/17/77	10/19/76	04/12/77	12.00	PPCS	PROVIDE PADS SHEDS ELEC. WATER
L4	L51	10.00	04/27/76	07/08/76	07/22/76	10/01/76	12.00	PPCS	CONST. SHEDS FOR P. PLANT
L5	L63	2.00	08/19/76	09/02/76	11/16/76	12/01/76	12.00	PPCS	TRIALS
E	E63	3.00	09/30/75	10/22/75	01/12/76	02/02/76	13.80	FERT	LEASE AGMT. FOR BAGGING PLANT
L4	L44	4.00	04/27/76	05/25/76	08/05/76	09/02/76	14.00	PPCS	SELECT SUPERVISORS
L44	L56	4.00	05/25/76	06/23/76	09/02/76	10/01/76	14.00	PPCS	SELECT PERSONNEL
L7	L132	40.00	12/15/76	09/29/77	03/28/77	01/11/78	14.00	PPCS	STORAGE (GRADED + UNGRADED)
E	E61	2.00	09/30/75	10/15/75	01/19/76	02/02/76	14.80	FERT	FERT. SPECS. NPK
P5	P71	12.00	07/23/76	10/19/76	12/02/76	03/01/77	18.00	PPCS	ORDER FOREIGN EQUIPMENT
L4	L55	4.00	04/27/76	05/25/76	09/02/76	10/01/76	18.00	PPCS	WATER + HEATER INSTALL.
L4	L53	3.00	04/27/76	05/18/76	09/10/76	10/01/76	19.00	PPCS	EQUIP. PADS(FOUNDATIONS)
L4	L54	2.00	04/27/76	05/11/76	09/17/76	10/01/76	20.00	PPCS	ELECTRICAL

B. EVALUATION PLAN

A joint CALFORU/USAID Evaluation Committee shall be established within two months after conditions precedent to initial disbursements under the loan have been met. The Committee shall consist of the four department heads and the legal advisor of CALFORU, representatives of the National Commission, and the USAID Agricultural Division and/or Program Offices. A CALFORU representative shall be selected Chairman, as CALFORU will assume the major responsibility for evaluation. Representatives of the Ministry of Agriculture and eventually other GOU agencies, will be invited to attend specific evaluation sessions of mutual interest to the GOU and CALFORU.

Members of the Committee shall determine when and how evaluations are to be conducted; define the need, if any, of outside assistance (including consulting services or short term assistance from AID/W); and arrange to procure such outside assistance if required. A.I.D. shall bear the cost of any AID/W personnel; loan funds may be used to procure short term contract assistance as appropriate.

The evaluation capability of the Committee members will be strengthened as necessary through training given in the A.I.D. funded Project Design and Evaluation Seminars.

The objectives of periodic evaluations shall be to determine the extent to which (1) loan purposes are being achieved, and (2) loan outputs are being produced, as measured against Indicators established in the Logical Framework. In addition to periodic reviews of progress in specific areas, the Evaluation Committee will conduct an overall evaluation of project progress against the indicators once annually over the life of the project. A final evaluation of overall project success and effectiveness will be conducted at project termination. Results of all reviews will be documented in a report from the Committee's Chairman to the President of CALFORU and to USAID. Such reports will identify any problems in project implementation, and recommend corrective action(s) to be taken. The President will determine the individual(s) responsible for taking such actions.

The Committee will schedule reviews at appropriate times during project implementation to evaluate progress against benchmarks established by plans submitted in satisfaction of conditions precedent to the loan. It is expected that reviews will occur as follows:

TABLE 10

EVALUATION PLAN

Subject	Problem	First Review	Subsequent Review
A. Organization & Management			
Conversion and data base for CALFORU membership	To determine whether, (a) local organizations are prepared to deal with CALFORU as commercial entities, rather than on individual farmer basis, and (b) local organizations are establishing registers of members as required.	3 months after meeting CP.	Every 3 months thereafter as necessary.
Personnel Policy	To determine whether, (a) new personnel policies are being implemented; (b) experience indicates modifications needed in any of these policies; and (c) staffing increases required for project implementation are ocurring on schedule.	3 months after meeting CP.	Every 6 months thereafter as necessary.
Management Systems	To determine whether, (a) the new accounting system is installed and operating in accordance with plans, and (b) new management info and control systems are being implemented/utilized efficiently.	2 months after installation of new accounting equipment.	(a) 3 months aft[er] acceptance of reports from outside consultants. (b) Every 3 mos. thereafter as necessary.
Forward Planning	To determine the acceptability of five-year development plan components in view of, (a) experience and capital accumulation from expanded supplies and marketing activities; (b) CALFORU objectives for improving services/benefits to member producers of non-traditional exports.	1 year after start of project.	Every 4 months thereafter; or as pre-feasibility studies are completed.
B. Farm Supplies Operations			
Effectiveness/ Efficiency of Expanded Operations	To determine whether targets are being met to, (a) increase the number of farmers benefitted by CALFORU's distribution system; (b) increase the availability (volume) of farm supplies handled; and (c) increase the amount of demand for farm supplies met by CALFORU	6 months after meeting CP; or after distribution of first fertilizer shipment.	1 month after distribution of second fertilizer shipment.

EVALUATION PLAN

Subject	Problem	First Review	Subsequent Revie
C. Marketing Operations			
Effectiveness/ Efficiency of Expanded Operations	To determine whether targets are being met to (a) expand export operations, through new fruit packing - cold storage facilities; (b) increase the percentage of deciduous and citrus fruit exported ; (c) increase export earnings; and (d) train operational personnel in fruit processing.	3 months after meeting CP.	(a) 3 months aft meeting CP 2-c. (b) every 3 mont thereafter; or following export sale of fruit processed, as appropriate.

Sources of data for periodic, annual, and final evaluations will include, but not be limited to, base data on CALFORU members developed from registers to be established by local organizations and under the Inter-American Foundation Project through the National Commission; regular CALFORU management reports as described under A.I.D. Monitoring Responsibilities; and the reports of technical consultants financed under, or otherwise involved in, the project.

C. DISBURSEMENT AND PROCUREMENT PROCEDURES

Disbursement of loan funds for dollar costs of goods and services will be handled through Letters of Commitment procedures. Procurement will be carried out in accordance with normal A.I.D. procedures. Further AID/Washington guidance on fertilizer souce procurement appears in Part VII. B.

Given a changing international fertilizer supply situation, the expiration of the present approval of A.I.D. financing of fertilizers from A.I.D. geographic code 899 on June 30, 1975 (State 043762) and A.I.D.'s continuing policy of not financing shipments of fertilizer from the U.S. during the months of February through May (State 017912); it is understood that procurement of fertilizer under this loan will be within the approved policies and geographic code in effect at the time of each purchase.

D. A.I.D. MONITORING RESPONSIBILITIES

Primary responsibility for administering the project will belong to CALFORU. Greater USAID involvement is expected in the early phases of the program - until conditions precedent are met. Thereafter, USAID's role is expected to be principally one of monitoring loan performance, and participation in periodic reviews and evaluations outlined above.

This monitoring will be primarily the responsibility of USAID's Food and Agriculture Office, with the Loan and Program Offices providing backup support. TDY will be requested from AID/W as needed to assist the Mission in review of legal requirements, loan administration, contracting and procurement implementation. Frequent USAID contact will be maintained with CALFORU to assist in carrying out the project objectives.

For monitoring and evaluation purposes, CALFORU will provide the following information to USAID.

TABLE 11

TABLE OF CALFORU MANAGEMENT REPORTS AND SCHEDULE OF SUBMISSION TO USAID

	Monthly	Quarterly	Semestral
Financial Statements and Aging of Accounts Receivable/Payable	X		
Inventory - Farm Supplies (on hand and in transit)	X		
Balance and Source of Local Credit/ Cash Holdings in Bonds	X		
Volume of Fruit Packed/Stored by Variety (by boxes)	X		
No. of CALFORU Members Served by Fruit Packing and Cold Storage Facilities		X	
Value of Marketing (Export and Domestic Sales, by Commodity)		X	
Dollar value of Farm Supplies Distributed (by Commodity)*		X	
No. of CALFORU Members Served through Farm Supplies System		X	
Staffing Pattern (No. of Employees Earnings)			X

* May also be determined from monthly financial statement.

Initial reporting formats will be agreed to by CALFORU and USAID, to be replaced by formats developed in the course of installing CALFORU's new accounting and management information-control system.

In addition, data will be collected and maintained on a monthly or more frequent basis of, (1) CALFORU and competition prices for all farm supply items handled by CALFORU; and (2) prices paid to farmers and received for both domestic and export sales, and comparative prices in the international markets. CALFORU will aggregate this data as appropriate for evaluation purposes, or on request by A.I.D.

PART VI - ISSUES

A. LOAN TERMS

In previous discussions with AID/Washington and State 093106 (Part VII - B) an issue was raised with respect to the terms of the proposed A.I.D. loan to CALFORU. Specific data requested by State 093106 (e.g. return to equity, cost of local credit, and maintenance of value) are addressed in the CAP.

From a purely financial point of view, the projected internal rate of return from this project would enable CALFORU to bear less than concessional loan terms (assuming that 18% is the minimum acceptable return based on risk and alternative investments open to CALFORU). For discussion purposes, however, the maximum possible interest rate is considered to be 8%; approximately the current rate in international lending. Table 12 (attached) demonstrates the effect of incremental increases in interest terms on CALFORU's profits. At 8% interest, profits would be reduced by 10%.

However, the Mission believes that the question of loan terms cannot be answered on financial grounds alone:

(1) AID and GOU policy objectives - This project is consistent with both AID and GOU objectives in that it supports the only Uruguayan institution capable of, and actively engaged in, providing services to small and medium producers of non-traditional exports. The GOU strongly supports private agricultural cooperative development as a major means of economic recovery; as evidenced by the National Development Plan; and supports CALFORU in particular, as evidenced by the GOU's unconditional guarantee at no cost of a loan to this private institution.

(2) Institutional Development - CALFORU's present financial needs are for medium and short term foreign exchange financing. For reasons discussed elsewhere in the CAP, medium and long term credit is not available in Uruguay except from specific external official loans. Although the fruit packing plant component of the proposed loan has been proven technically and financially viable, given the lack of a functioning capital market, CALFORU could not obtain local financing for this or similar medium or long term expansion projects (to be developed under CALFORU's five-year growth plan) for at least the next 2 - 3 years, when it is expected that Uruguay will either have a development bank or some other mechanism for providing medium or long term investment financing.

Local short-term credit is available. Therefore, without the A.I.D. loan, CALFORU could continue to increase its capitalization for expansion through increased farm supplies sales. However, this would have to be done by increasing the amount of members, personal and real guarantees for loans to CALFORU. At this time CALFORU has reached the limit of its ability to offer such personal guarantees. In the process of converting SFRs to their new status as commercial entity members, CALFORU will seek to utilize the additional real guarantees which may be available from this source. However, this will limit CALFORU's expansion efforts to a lengthy, sporadic process which will severely constrain the organization's ability to meet its members needs during a period when both GOU agricultural development strategy and market opportunities favor a more rapid incorporation of this key sector into the expo t effort.

(3) AID practice - The Mission considers this to be a development loan, even though the Borrower is a private institution. In fact, current A.I.D. practice has been to encourage cooperative organizations, in addition to public entities, to stimulate agricultural development in Latin American countries. There

TABLE 12

CALFORU

EFFECTS OF A.I.D. INTEREST RATES ON PROFIT

(In thousands of U.S. dollars)

		1976	1977	1978	1979
Profit after A.I.D. Interest					
	2%	687	1030	1773	1993
	3%	676	1001	1736	1950
	4%	665	972	1699	1919
	5%	654	943	1662	1882
	6%	643	914	1625	1845
	7%	632	885	1588	1808
	8%	621	856	1551	1771

does not appear to be any precedent for seeking maximum loan terms even when the Borrowe is a profit-making institution, particularly where risk to A.I.D. is eliminated by a host government guarantee.

In light of the preceding factors, the Mission believes that the loans terms for CALFORU (7 year grace at 2% - 18 year amortization at 3%) are appropriate to the developmental nature of the project, consistent with GOU and A.I.D. priorities, CALFORU's expansion needs, and A.I.D. practice.

B. MAINTENANCE OF VALUE

MOV is a major concern of the Borrower; even though the GOU is guaranteeing repayment to A.I.D. within the framework of the regular and substantial devaluations that have taken place in the recent months.

However, the nature of CALFORU operations and the procedures it follows in carrying out both the import of farm supplies and the export/marketing of the farmer's produce are such as they minimize MOV risk. Also the importance of cash surplus management and the use of dollar GOU treasury bonds is recognized (see Financial Analysis, Page 45 for a full explanation of MOV).

AID 1020-28 (1-73)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 1975 to FY 1978
Total U.S. Funding: $2,000,000
Date Prepared: April 1975

Project Title & Number: AGRICULTURAL COOPERATIVE LOAN

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measures of Goal Achievement: (A-2)	(A-3)	Assumptions for achieving goal targets: (A-4)
Sustained increase in agricultural production and exports: reduction of food imports: and increased income for producers.	Production - 4% annual increase by 1977. Net export growth - 5% by 1977. Increase in farmer income - 4.5% by 1977. Reduction of food imports (imports coefficients from 11.4 to 7.0 by 1977). Sales of agricultural inputs. Note: These are GOU projections. The AID loan will contribute to achievement of the GOU goals with respect to producers of non-traditional export crops.	Production data. Census. Customs and Central Bank statistics. International studies of performance of agricultural sector.	Present and projected policies and programs affecting prices. imports. exchange rates. credit taxes. marketing. land use. investments. and technical assistance/extension services will continue to provide incentives for increased agricultural production and exports.

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: AGRICULTURAL COOPERATIVE LOAN

Life of Project:
From FY 1975 to FY 1978
Total U.S. Funding $2,000,000
Date Prepared: April 1975

PAGE 2

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose: To strengthen and improve the institutional capacity of a federated national cooperative. CALFORU for sustained growth and diversification of services provided to members: with emphasis on providing a greater number of producers of non-traditional export crops with increased farm supplies and access to better marketing alternatives.	**Conditions that will indicate purpose has been achieved: End of project status.** (December 31, 1978): CALFORU will have: 1. A 5 year plan (1978-1982) including provisions for financing institutional growth and development, i.e., increasing volume of farm supplies sales, expansion into additional export and domestic marketing enterprises; necessary adjustments to staffing, organization, and management systems; and programs to strengthen member organizations.	CALFORU financial data and statistical data and statistical records. Imports and Exports data. CALFCRU and local organization records. Periodic USAID-CALFCRU evaluations. USAID records.	**Assumptions for achieving purpose:** 1. CALFCRU is the only institution presently able to provide large numbers of target farmers with lower priced farm supplies and a system of marketing alternatives based on non-traditional export. 2. The primary constraints to CALFCRU's continued growth and institutional development are capital and technical assistance. 3. CALFCRU's present management skills and staff are capable of executing the project.

Indicator	1975	1976	1977	1978
2. Farm Supply System				
a. No. of producers served by farm supply system	10,000	11,500	13,500	15,000
b. Dollar value of fertilizer sold by CALFORU to members (000 of US$)	1,833	8,242	11,390	17,722
c. Dollar value of other Farm Supplies sold to members (000 of US$)	4,312	4,162	5,499	6,504
d. Amount of Estimated Fertilizer Demand Met (CALFORU members)	11%	35%	37%	63%
3. Marketing System				
a. No. of farmers assisted with marketing operations	300	700	1,200	1,505
b. Amount of fruit packed in packing plants (boxes)	0	287,500	547,876	729,875
c. Dollar value of fruit (deciduous and citrus) marketed (000 US $)	-	1,090	1,725	2,008
d. Dollar value of other products marketed (000 US $)	.022	.613	1,278	3,118
4. Able to produce data/reports per Table II on a timely basis; & which will enable CALFORU to perform statistical analyses therefrom.				
5. Capital & reserve base sufficient to finance selfsustained growth & diversification of operations as shown in 5-yr. development plan. (000)	479	996	1,732	3,059

AID 1020-28 (1-73)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: AGRICULTURAL COOPERATIVE LOAN

Life of Project:
From FY 1975 to FY 1978
Total U.S. Funding $2,000,000
Date Prepared: April 1975

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Outputs: (C-1)	Magnitude of Outputs: (C-2)	(C-3)	Assumptions for achieving outputs: (C-4)
1. Installation of a new: a. Accounting system b. Management Info/Control Syst. c. Statistical Data Analysis System.	Details of systems to be worked out with technical assistance supplied under the loan.	CALFORU accounting and management records/reports. Periodic AID - CALFORU evaluations.	Farm Supply System 1. CALFORU will have no difficult[y] obtaining local credit to increas[e] volume of fertilizer imports: nor will there be difficulties in obtaining fertilizer or other farm supplies.
2. Fertilizer available for sale by CALFORU	1975 / 1976 / 1977 / 1978 $1,833 / 8,242 / 11,390 / 17,722		
3. Capital equipment installed/operation	Fruit Packing / Cold Storage		
4. No. of CALFORU people trained in technical operations.	3 / 5 / 4 / -		
5. Number of CALFORU particip. receiving trg. in various aspects of institutional development.	4		

* Subject to revision at a later date

AID 1020-28 (1-73)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1975 to FY 1978
Total U.S. Funding $2 000 000
Date Prepared: April 1975

Project Title & Number: AGRICULTURAL COOPERATIVE LOAN

PAGE 4

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS		MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Inputs: (D-1)	Implementation Target (Type and Quantity) (D-2)		(D-3)	Assumptions for providing inputs: (D-4)
AID	1976	1977		
Fertilizer imports	$ 495.000	$ 470.500	CALFORU records/reports.	1. Availability to CALFORU, UFRUCA and JUMECAL of local credit.
T. A. and Training	70.000	30.000	USAID records.	
Capital Goods	604.500	330.000		
Total	$1.169.500	$ 830,500		
BORROWER				
CALFORU	$ 300.000	90.135		
Local Credit	300.000	331.300		
(Farm Supplies)	(300.000)			
(Cold Storage)		(331.300)		
UFRUCA & JUMECAL Coops & National Commission	362.656			
Total :	$ 962.656	$421.435		

PART VII - B

DEPARTMENT OF STATE

TELEGRAM

AE MONTEVIDEO DEC 7, 1974

R. 061944Z DEC 74
FM SECSTATE WASHDC
TO AMEMBASSY MONTEVIDEO 0387
UNCLAS STATE 268274
AIDAC
E.O. 11652: N/A.
SUBJECT: IRR REVIEW, AGRICULTURAL COOPERATIVE DEVELOPMENT LOAN

1. THE DAEC REVIEWED SUBJECT IRR NOVEMBER 22. THE MISSION IS AUTHORIZED TO PROCEED WITH AN INTENSIVE REVIEW LIMITED AS FOLLOWS: EXPANSION OF THE SUPPLY AND MARKETING ACTIVITIES, TECHNICAL ASSISTANCE AND TRAINING COMPONENTS ARE APPROVED. FINANCING OF THE MACHINERY POOL AND THE SELECTED SMALL FARMER ASSISTANCE FUND ARE NOT APPROVED. DOLLAR COST FINANCING FOR CONSTRUCTION OF THE PACKING PLANT IS APPROVED. THERE IS, HOWEVER, A PRESUMPTION IN FAVOR OF REQUIRING BORROWER TO ARRANGE FOR THE WORKING CAPITAL AND TO EXPLORE THE POSSIBILITY OF LOCAL COST FINANCING BY THE BORROWER.

2. FOLLOWING ADDITIONAL GUIDANCE IS PROVIDED FOR PRESENTATION OF CAP.

(1) CAP SHOULD PROVIDE DETAILED STATEMENT OF THE LEGAL STATUS, MEMBERSHIP, ADMINISTRATIVE STRUCTURE, STAFF AND OPERATIONS OF CALFORU. ALSO, CAP SHOULD INCLUDE MECHANICS OF HOW PROJECT WOULD OPERATE AND IDENTIFICATION OF THE TARGET GROUP. WHAT IS MAKEUP OF COOP MEMBERSHIP (AVERAGE NET ASSETS, SIZE OF AND HOLDINGS AND INCOME LEVEL) WHO OF THE COOP MEMBERS WILL BENEFIT?

(2) FINANCIAL ANALYSIS OF CALFORU SHOULD INCLUDE EXAMINATION OF EXISTING PORTFOLIO, COLLECTION RECORD AND CAPACITY, DEBT.EQUITY RATIO AND PROJECTED IMPACT OF PROPOSED LOAN OVER CAPITALIZATION, MEMBER INCOME, SUPPLY AND MARKETING ACTIVITIES. A CLEAR STATEMENT OF HOW REPAYMENTS/REVENUE GENERATED BY THE AID LOAN WILL BE USED, IS REQUIRED.

As of December 31, 1974, CALFORU's accounts receivable amounted to pesos 436,793,071 less advances of pesos 102,294,866 received from customers for seed potatoes delivered in January 1975 for a net total accounts receivable of pesos 324,498,205.

Aging of the accounts receivable is as follows:

	Pesos	%
Under 30 days	461,517,107	94.8
30 - 60 days	7,103,091	1.4
60 - 90 days	8,881,202	1.4
Over 90 days	11,291,671	2.4
TOTAL:	486,793,071	100.0

The positive picture presented by this aging schedule is directly attributable to CALFORU's sale of farm supplies on a "cash and carry" basis whereby the coop members (through their individual coops) pay CALFORU either in cash or in production credits obtained from their own bank (usually the Bank of the Republic).

Of the pesos 11,291,671 over 90 days, pesos 9,500,032 (84% of the 2.4%) is due from the Government of Uruguay and represents fertilizer subsidies.

Until now, CALFORU has been expensing bad debts as they were "written off". Starting in fiscal year 5/1/75 - 4/30/76, an expense equal to 1% of accounts receivable will be charge to annual operations as a reserve for future write offs.

(3) PURPOSE OF LOAN SHOULD BE CLEARLY EXPRESSED. WHAT IS SIGNIFICANTLY ADDITIVE ABOUT THE PROJECT? HOW IS INSTITUTIONAL CAPACITY BUILT UP? HOW ARE PRODUCTIVITY AND INCOME OF FARMER AFFECTED? LOGICAL FRAMEWORK SHOULD HAVE CLEAR STATEMENT OF GOALS, PURPOSE. EVALUATION PLAN SHOULD BE INCLUDED.

(4) AN ADEQUATE FEASIBILITY STUDY WHICH ENCOMPASSES ENGINEERING, FINANCIAL, AND OTHER PLANS NECESSARY TO CARRY OUT THE ASSISTANCE AND PROVIDE A REASONABLY FIRM COST ESTIMATES IS REQUIRED TO INCLUDE CONSTRUCTION COSTS OF THE PACKING PLANT IN THE LOAN. THIS STUDY MUST BE REVIEWED BY AID AND SATISFY OUR TECHNICAL REQUIREMENTS. PLEASE SUBMIT MATERIALS NOW AVAILABLE ASAP. A COST-BENEFIT ANALYSIS ON DEVOTING SUCH A LARGE PERCENTAGE OF THE LOAN TO THIS PACKING PLANT AND DESCRIPTION OF THE FRUIT MARKETING SYSTEM SHOULD BE UNDERTAKEN. CAN THE NUMBER OF BENEFICIARIES BE INCREASED?

IF EQUIVALENT FEASIBILITY STUDY OF CANNING PLANT NOT ACCOMPLISHED PRIOR TO PREPARATION CAP, MISSION CAN EXPLORE POSSIBILITY OF INCLUDING FUNDING OF STUDY IN LOAN BUT DAEC PREFERENCE IS FOR EXCLUSION OF SUCH RELATIVELY MINOR ITEMS FROM LOAN.

(5) CREDIT SUPPLY/DEMAND ANALYSIS IS NEEDED. WHAT ASSURANCES CAN BE BUILT INTO THE PROGRAM THAT THE NECESSARY CREDIT WILL BE AVAILABLE?

(6) THE 1972 IDS EXPORT DEMAND STUDIES SHOULD BE REVIEWED AND UPDATED AS APPROPRIATE. MISSION MAY WISH TO CONTACT USAID.BRASILIA FOR INFORMATION OR ASSISTANCE IN THIS REGARD.

(7) BASELINE DATA REGARDING WOMEN IN THE COOP MOVEMENT, THEIR EMPLOYMENT IN THE AGRICULTURAL AND PROCESSING ACTIVITIES TO BE FINANCED, AND OTHER SUCH CONCERNS SHOULD BE EXPLORED AND REVELOPED DURING INTENSIVE REVIEW.

(8) SINCE THE TARGET GROUPS OF THIS PROPOSED LOAN AND OF PROPOSED AGR. RESEARCH/TA LOAN OVERLAP, CAP SHOULD INDICATE WHY TWO LOANS ARE NEEDED AND HOW, IN SPECIFIC DETAIL, THE VARIOUS ACTIONS UNDER THESE TWO LOANS WILL BE COORDINATED. KISSINGER

Department of State

AM MONTEVIDEO APR 23, 1975

ACTION
AID

UNCLASSIFIED
Classification

P 231716Z APR 75
FM SECSTATE WASHDC
TO AMEMBASSY MONTEVIDEO PRIORITY 1665
BT
UNCLAS STATE 093166
AIDAC

ACTION COPY
Action taken:
Date:
Initials:

E.O. 11652: N/A

TAGS:

SUBJECT: CALFORU LOAN - SEIFMAN/MCDONALD TELCON APRIL 18

1. AID/W RECOMMEND PURSUING TWO-STEP APPROACH (IN LIEU OF GUARANTY) WITH STANDARD A.I.D. MOST CONCESSIONAL TERMS TO GOU (2/3 PERCENT INTEREST; 10/30 YEARS).

2. TWO STEP TERMS TO CALFORU SHOULD BE DEVELOPED DURING DISCUSSIONS WITH GOU AND CALFORU, AND REFLECT PROJECTED CALFORU NEEDS. THESE TERMS SHOULD BE LESS CONCESSIONAL, PROBABLY BOTH WITH REGARD TO INTEREST AND PAYMENT PERIOD.

3. CAP SHOULD ESTABLISH MINIMUM REPEAT MINIMUM TERM AND APPROPRIATE INTEREST RATES ON LOAN TO CALFORU, BASED ON PROJECTED CASH FLOW AND PROFITABILITY PROJECTIONS FOR PACKING PLANT AND FERTILIZER OPERATIONS. (FYI -- WE NOTE THAT USEFUL LIFE OF PACKING PLANT IS 25 YEARS, WHICH PERIOD WOULD BE THE MAXIMUM POSSIBLE REPAYMENT PERIOD (INCLUDING GRACE PERIOD) WITH RESPECT TO THIS COMPONENT -- END FYI). IN EXAMINING ALTERNATIVES, SUGGEST USE OF SENSITIVITY APPROACH OUTLINED BY DEMETRE. WE DO NOT EXPECT THAT THE ABOVE ANALYSES WILL YIELD A UNIQUE SET OF TERMS BUT RATHER ESTABLISH THE REASONABLENESS OF THE TERMS PROPOSED TAKING INTO ACCOUNT THE RELEVANT FACTOR (E.G.,

RETURNS TO CALFORU EQUITY, COST OF CREDIT IN URUGUAY, AND MAINTENANCE OF VALUE ON LOAN CAPITAL, RISK AND UNCERTAINTY, ETC.). KISSINGER
BT
#3166

UNCLASSIFIED
Classification

FORM FS-413(H)
4-63

NNNN

Responses to State 268274 (IRR Cable) and State 093106 (Loan Terms)

PARA	SUBJECT	CAP REFERENCE
State 268274		
2 (1)	Detailed statement CALFORU legal status, etc.	PART IV - A - 3
	Mechanics of project	PART III - B PART IV - A & B PART V - ANNEX I - C
	Target Groups/Beneficiaries	PART III - B - 1 & 3
2 (2)	Financial Analysis	PART IV - B ANNEX I & II Remarks on IRR Cable
2 (3)	Project's additive aspects	PART III - B
	Institutional capacity	PART III - B PART IV - A
	Productivity/Income of farmers	PART III - B - 3 & 4 PART IV - A & B
	Logical Framework/ Evaluation Plan	PART VII - A PART V - B
2 (4)	Feasibility Study	ANNEX I - C & K
	Cost estimates	PART I - PART III - B PART IV - B ANNEX I - C ANNEX II - F & I
	AID review of technical feasibility	ANNEX I - C
	Description & cost/benefit of fruit marketing component	ANNEX I - C,D,H,J,K ANNEX II - A,C,D
	Increasing number of beneficiaries	PART III - B - 1
2 (5)	Credit supply/demand analysis	PART IV - B ANNEX II - G
2 (6)	Export demand studies	ANNEX I - A
2 (7)	Women in coop movement	PART IV - D
2 (8)	Relationship with IATA	PART III - A & B PART IV - A - 5
State 093106		
1.	Two Step Agreement	PART VII - F
2. & 3.	Loan Terms	PART VI - A

CERTIFICATION PURSUANT TO SECTION 611 (e) of the FAA of 1961, as amended

I, Leonard J. Horwitz, the principal officer of the Agency for International Development in Uruguay, having taken into account among other things, the maintenance and utilization of projects in Uruguay previously financed or assisted by the United States, do hereby certify that in my judgement CALFORU has the financial and human resource-capability to utilize effectively the proposed Agricultural Cooperative Development Loan, and the Government of the Oriental Republic of Uruguay is in a financial position to guarantee the Loan.

This judgement is based primarily on the facts developed in the Capital Assistance Paper for the proposed loan of $ 2,000,000 which discusses in detail the capabilities of CALFORU and finds that organization in possession of adequate financial and human resource capability to utilize and maintain effectively the project.

Leonard J. Horwitz

Leonard J. Horwitz
AID Representative

CALFORU

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Programs Appropriation Act, 1974.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. *FAA § 103; § 104; § 105; § 106; § 107. Is loan being made*

a, for agriculture, rural development or nutrition;	1. a) This loan is being made for agriculture and rural development.
b. for population planning or health;	b) N/A
c. for education, public administration, or human resources development;	c) N/A
d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;	d) N/A

e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.

e) N/A

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. *FAA § 208; § 251(b).*

A.. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

A. 1) The GOU is stimulating expanded food production and marketing by a series of measures including favorable pricing policies, reduction of export taxes, and imposition of land productivity tax to foster better land use and provide incentives for the application of new technology.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

2) Consistent with the National Development Plan, the GOU is making a determined effort to foster foreign and domestic private enterprise and investment by liberalizing the private economy from paternalist controls, and incentivizing savings and investment through positive foreign investment and industrial promotion laws.

AID 1240-2 (6-74)

(3) Increasing the public's role in the developmental process.

(3) The private sector is being encouraged to play a more active development role through such measures as industrial promotion laws, tax and price incentives for industrial and agricultural producers, and mechanisms for mobilizing domestic savings for development. The GOU actively consults with the private sector on economic policy and the GOU has launched an ambitious program to expand the participation of lower income groups in worthwhile social development activities.

(4) (a) Allocating available budgetary resources to development.

(4) a) A series of reform measures being undertaken during 1975 involving fiscal, monetary, credit and commercial policy should serve to reduce the fiscal deficit, stimulate domestic savings and permit an expanded level of public investment.

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11)

(b) Uruguay is not diverting development resources for unnecessary military expenditures.

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(5) The GOU is carrying out a reform of the costly social security system, is improving its tax collection capability with AID assistance, and through the land productivity tax and colonization program, is endeavoring to improve land use. Uruguay has traditionally respected the rule of law and individual freedoms consistent with public order. It also favors an expanded private sector role in the development process.

(6) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

(6) Uruguay adheres to the principles of the Act of Bogotá and the Charter of Punta del Este.

AID 1240-2 (5-74)

(7) Attempting to [illegible] capital [illegible] countries by its [illegible]

(7) [illegible]

(8) Otherwise [illegible] the vital economic, [illegible] and social [illegible] people, and [illegible] clear determination [illegible] effective self-help [illegible]

(8) [illegible]

B. Are above factors [illegible] account in the [illegible] subject assistance?

B. [illegible]

Treatment of U.S. [illegible]

3. FAA § 620(c). If [illegible] to government, is the [illegible] liable as debtor or [illegible] guarantor on any [illegible] citizen for goods or [illegible] furnished or ordered [illegible] citizen has exhausted [illegible] legal remedies and [illegible] not denied or contested by such government?

3. [illegible]

4. FAA § 620(e)(1). If [illegible] is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing [illegible] or control of property of U.S. citizens or entities [illegible] owned by them without taking steps to discharge its [illegible] toward such citizens or [illegible]

4. [illegible]

AID 1240-2 (5/74)

5. FAA § 620(o); Fishermen's Protective Act, § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,

5. N/A

a. has any deduction required by Fishermen's Protective Act been made?

a. N/A

b. has complete denial of assistance been considered by A.I.D. Administrator?

b. N/A

Relations with U.S. Government and Other Nations

6. FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

6. No.

AID 1240-2 (5-74)

7. *FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?*	7. The Secretary of State has determined that Uruguay is not controlled by the international Communist movement.
8. *FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?*	8. N/A
9. *FAA § 620(f). Is recipient country a Communist country?*	9. No.
10. *FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?*	10. No.
11. *FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?*	11. No.

AID 1240-2 (5-74)

12. FAA § 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?

12. Uruguay is now considering an OPIC investment guarantee agreement.

13. FAA § 620(n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?

13. Uruguay does not permit trade with North Viet-Nam.

14. FAA § 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?

14. Uruguay is not in default on the payment of interest or principal of any A.I.D. loan covered by this Act.

15. FAA § 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

15. Not applicable. Uruguay has consistently maintained diplomatic relations with the United States.

16. FAA § 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?

16. Uruguay is not in arrears on its U.N. assessment.

AID 1240-2 (5-74)

17\. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

17. No. Uruguay has provided exemplary cooperation with U.S. authorities in control of international narcotics traffic.

18\. FAA, 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?

18. Not applicable.

Military Expenditures

19\. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

19. a) 15 - 20% go to military expenditures.

c) Uruguay has not purchased sophisticated weapons systems.

AID 1240-2 (5-74)

CONDITIONS OF THE LOAN

General Soundness

20. *FAA § 201(d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.*

20. Terms are legal and reasonable under both U.S. and Uruguayan law.

21. *FAA § 251(b)(2); § 251(e).*

Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

21. The activity is considered to be economically and technically sound. The application for this loan, plus detailed discussions before and after receipt of the application give sufficient information and assurance that the funds will be used in an economically and technically sound manner.

22. *FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.*

22. It has been concluded that the Borrower, CALFORU, has the capacity to repay the loan. Furthermore, there will be a Payment and Guarantee Agreement signed by the Government of Uruguay. There is reasonable assurance of repayment.

23. *FAA § 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.*

23. Financing for this project is not available from other free-world sources, including private sources within the U.S. at a reasonable cost.

AID 1240-2 (5-74)

24. *FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?*

24. a) Yes.

b) Yes.

25. *FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of loan?*

25. Other than the normal legislative approval for the loan, no further legislative action is required.

26. *FAA § 611(e). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?*

26. Yes, see Annex A. Mission Director's Certification.

Loan's Relationship to Achievement of Country and Regional Goals

27. *FAA § 207; § 251(a); § 113. Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs;*

27. a) Cooperatives are both democratic and economic institutions.

b) A major thrust of the project is increased crop production.

c) Some training for CALFORU is planned in the companion loan for Agricultural Research and Technical Assistance.

d) N/A

AID 1240-2 (5-74)

(e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy.

e) The Cooperative connection is obvious.

f) The role of women in Uruguay and in this project is very important (see Part IV, section F).

28. *FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?*

28. The project is not susceptible to execution as part of a regional project.

29. *FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.*

29. The project is consistent with the objectives of other developmental activities of the U.S. Government in Uruguay. It will contribute to the economic development of Uruguay by increasing foreign exchange earnings and by increasing the incomes of small farmers.

30. *FAA § 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*

30. The project to be financed will contribute to the achievement of self-sustaining economic growth and is necessary to 1) improve the distributi[on] of income and 2) increase the rate of growth of the agricultural sector of the Uruguayan economy.

31. *FAA § 209; § 251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.*

31. Not applicable.

32. FAA § 251(a); § 111. Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

32. The loan will directly assist a Uruguayan Cooperative, CALFORU.

33. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

33. The last CIAP review (October 1973) emphasized the high priority of investments made in the Agricultural Sector.

34. FAA § 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.

34. Since this is a cooperative development project it directly assists participatory democratic private institutions.

35. FAA § 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

35. Cooperatives a) are a response to peoples needs and desires, b) utilize and increase the capacity of their members and c) are institutions that train people in participatory democracy.

AID 1240-2 (5-74)

36. FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

36. a) Yes (agricultural products).
b) Yes, directly.
c) Yes, directly.
d) Yes, directly.
e) Yes, of agriculture.
f) Not applicable.

37. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?

37. Not applicable.

Loan's Effect on U.S. and A.I.D. Program

38. FAA § 251(b)(4); § 102. Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

38. The effect on the U.S. economy will be negligible.

39. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

39. All of the commodity procurement under this loan will be used to procure goods from private enterprise.

40. FAA § 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	40. U.S. suppliers will be able to bid on the first packing plant on the agricultural production inputs and in the office warehouse equipment to be procured under this loan.
41. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?	41. Yes.
42. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.	42. Yes, the Loan Agreement will so provide.
43. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?	43. No.
44. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on	44. All technical assistance will be procured from private enterprise.

whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Loan's Compliance with Specific Requirements

45. FAA § 110(a); § 208(e). Has the recipient country provided assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made?

45. Yes.

46. FAA § 112. Will loan be used to finance police training or related program in recipient country?

46. No.

47. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions?

47. No.

48. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

48. Yes.

49. FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?

49. Commodities procured with loan funds will have their source and origin in the U.S. and Geographic Code 941 countries.

50. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?

50. The only possible bulk procurement would be for fertilizers which will be procured by AID/W.

51. *FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?*	51. Marine insurance will be placed in the U.S.
52. *FAA § 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?*	52. Not applicable.
53. *FAA § 604(f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable?*	53. The Loan Agreement shall so provide.
54. *FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.*	54. U.S. Government excess property will be used to the extent feasible.
55. *FAA § 611(b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?*	55. Not applicable.

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56\. FAA § 611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?

56\. A.I.D. procurement procedures will be followed.

57\. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

57\. The U.S. will finance all foreign exchange costs of the project and the borrower will assume most of the local costs. No U.S. owned foreign currency is available for this project.

58\. App. § 113. Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?

58\. No.

59\. FAA § 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

59\. No.

60\. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?

60\. The Loan Agreement will not allow funds to be used for this purpose.

61. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed $100 million?

61. No.

62. FAA § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?

62. No.

63. App. § 103. Will any loan funds be used to pay pensions, etc., for military personnel?

63. No.

64. App. § 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?

64. Yes. This provision will be included in the Loan Agreement.

65. App. § 107. Will any loan funds be used to pay UN assessments?

65. No.

66. App. § 109. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7).

66. Yes, it will be required.

67. App. § 110. Will any of loan funds be used to carry out provisions of FAA §§ 209(d) and 251(h)?

67. No.

68. App. § 114. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan.

68. The proposed Loan was not included in the FY 75 Congression Presentation. The Congress will be notified before any FY 75 funds are authorized.

69. App. § 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress?

69. No.

70. MMA § 901.b; FAA § 640C.

(a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

70. This provision will be included in the Loan Agreement.

(b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?

b) No.

PART VII-E

DRAFT LOAN AUTHORIZATION

A.I.D. Loan No. 513-T-024

FOR: URUGUAY - BORROWER: "CALFORU"

Provided From: FAA Section 103 ("Food and Nutrition")

Pursuant to the authority vested in the Deputy U. S. Coordinator, Alliance for Progress, by the Foreigh Assistance Act of 1961, as amended, ("The Act"), and the delegations of authority issued thereunder, I hereby authorize the establishment of a Loan ("Loan") pursuant to Section 103 of said Act, and in furtherance of the Alliance for Progress to Cooperativa Agropecaria Limitada de Sociedades de Fomento Rural ("CALFORU"), the "Borrower", of not to exceed two million United States dollars ($2,000,000) to assist in financing the United States dollar and local currency costs of a project to provide capital goods and fertilizer imports, technical assistance and training to expand the Borrower's institutional capacity for continued expansion of marketing and farm supply distribution activities, in order to better the needs of its local affiliates and their members ("Project"). The Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment.

A. Borrower shall repay the Loan in United States dollars within twenty (20) years from the date of the first disbursement under the Loan, including a grace period of not to exceed seven (7) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the Loan, and on any due and unpaid interest, interest of five percent (5%) per annum.

B. The Government of Uruguay ("GOU") shall agree that the Borrower shall fulfill its dollar obligation under the Loan by paying to the GOU the equivalent in the currency of Uruguay of the United States dollar amounts payable to A.I.D. under A. above. The GOU shall pay to A.I.D.:

(i) the equivalent in United States dollars, determined as of the time and in a manner calculated to obtain repayment of all dollars disbursed plus interest, of all amounts paid to GOU as follows:

(a) all interest immediately upon receipt subject to GOU's right to retain all payments in excess of two percent (2%) per annum during a grace period of not to exceed ten (10) years from the first disbursement under the Loan ("Government Grace Period") and all payments in excess of three percent (3%) per annum thereafter.

(b) principal within forty (40) years, including the Government grace period.

(ii) interest in United States dollars of two percent (2%) per annum during the Government grace period, and three percent (3%) per annum thereafter on all amounts of outstanding principal paid by Borrower to GOU from the respective dates of such payments of principal.

2. <u>Other Terms and Conditions</u>.

A. Except for ocean shipping, goods and services financed under the Loan shall have their source and origin in Uruguay or countries included in A.I.D. Geographic Code 941, provided, however, that marine insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in A.I.D. Geographic Code 941, not including Uruguay.

B. United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.

C. The Loan shall be guaranteed by the GOU.

D. Prior to any disbursement or issuance of any commitment documents under the Loan, Borrower shall provide to A.I.D., in form and substance satisfactory to A.I.D. a cerification from the appropriate Government of Uruguay agency that the Borrower is operating within the requirements of LAW 10,008 (Cooperative Law) and LAW 14,300 of December, 1974 (CALFORU System Reorganization Law).

E. The Borrower shall covenant:

(i) To retain and capitalize earnings either in general reserves or as capital, in an amount equal to the outstanding A.I.D. loan balance;

(ii) To develop a five-year expansion and capital investment plan to be approved by AID; and to seek AID approval in writing prior to making any major capital investment before the five-year plan is approved.

(iii) To identify its smaller, less advantaged members and devise operational measures to insure that its services are channeled with some priority to this group.

F. The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy U.S. Coordinator

Date

Presidencia de la República
Oficina de Planeamiento y Presupuesto
Dirección

Nota N° 172/975

"AÑO DE LA ORIENTALIDAD"

Montevideo, 30 de abril de 1975.-

Sr. Director
de la Agencia para el Desarrollo
Internacional (A.I.D.)
D. Leonard J. Horwitz
PRESENTE.-

De mi mayor consideración:

Tengo el agrado de dirigirme a Ud., para expresarle, con referencia al préstamo solicitado por CALFORU, que el señor Ministro de Economía y Finanzas está dispuesto a efectuar un Acuerdo de Pago y Garantía en nombre del Gobierno del Uruguay, una vez que se haya realizado una revisión del Proyecto, por parte de los representantes del Gobierno y cuente con la aprobación de la Agencia para el Desarrollo.-

Aprovecho la oportunidad para reiterar a usted mi consideración.-

Ing. Q. JUAN JOSE ANICHINI
Director

JJA/rpe

C A L F O R U
Cooperativa Agropecuaria Ltda.
DE SOCIEDADES DE FOMENTO RURAL
VALPARAISO 1171 · MONTEVIDEO
TELEFS. 91 47 53 · 98 54 84

Montevideo, 29 de abril de 1975

Señor Representante de USAID
don Leonard Horwitz
Montevideo

De nuestra consideración:

Como es de su conocimiento hemos elaborado, conjuntamente con técnicos de AID, un Proyecto de Desarrollo Cooperativo en el sector agrícola de nuestro país, a ser ejecutado por CALFORU y por las Sociedades de Fomento Rural y Cooperativas locales afiliadas a ella.

Dicho Proyecto comprende actividades de mercadeo, de aprovisionamiento de insumos y de desarrollo institucional de nuestra Cooperativa; y tiende fundamentalmente a convertirla en un instrumento cada vez más apto para la promoción de la producción agrícola del Uruguay en concordancia con los lineamientos del Plan Nacional de Desarrollo, así como para el mejoramiento tecnológico, de los ingresos y de los niveles de vida de los pequeños y medianos productores vinculados al sistema de Fomento Rural.

El monto total del Proyecto asciende, al tercer año, a la suma de U$S 3:384.091.- de los cuales el aporte nacional es de U$S 1:384.091.- y el saldo se financiaría con un préstamo de la AID por una suma de U$S 2:000.000.- más las previsiones por incremento de los precios internacionales durante el período de desembolso previsto. Esa cifra global se discrimina, según lo establece el respectivo Proyecto, de la siguiente manera:

Desembolsos	Bienes de Capital	Insumos	Asistencia Técnica y Entrenamiento	Total
Año 1 (1976)	U$S 604.500.-	495.000.-	70.000.-	1:169.500.-
Año 2 (1977)	U$S 330.000.-	470.500.-	30.000.-	830.500.-
Año 3 (1978)	U$S ---	---	---	---
	U$S 934.500.-	965.500.-	100.000.-	2:000.000.-

don Leonard Horwitz
29/IV/75
Página 2

Plazo de Gracia: 7 años.

Tasa de Interés: 2% durante el período de gracia y 3% posteriormente.

Amortización: 25 años.

Aval: La garantía del mencionado Préstamo consistirá en aval del Gobierno de la República Oriental del Uruguay, sin costo alguno para nuestra Cooperativa. CALFORU pagará los intereses y amortización al Gobierno de la República Oriental del Uruguay (Ministerio de Economía y Finanzas o quien éste designe) en moneda nacional.

Por la presente hacemos llegar a Ud. nuestra solicitud formal y le rogamos se sirva disponer la realización de los trámites necesarios para la aprobación del Proyecto y el otorgamiento del Préstamo de referencia por parte de la AID a nuestra Cooperativa.

Saluda a Ud. con la mayor consideración,

por COOPERATIVA AGROPECUARIA LIMITADA DE SOCIEDADES DE FOMENTO RURAL (CALFORU)

Dr. Silvio F. Angüilla
Presidente

Juan M. Adano
Secretario

HR:msm

Department of State TELEGRAM

AMEMBASSY MONTEVIDEO 27 ...

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TAGS:
SUBJECT: FERTILIZER SOURCE WAIVER.

ACTION COPY
Action taken: NAN
Date: 2/27/75
Initials: TS

REF: (A) MONTEVIDEO 00508 (B) STATE 17912.

IN RESPONSE QUESTION RAISED PARA 2 REF A. AID ADMINISTRATOR HAS PROVIDED AUTHORIZATION FOR APPROVAL OF AID FINANCING OF FERTILIZER PURCHASES FROM AID GEOGRAPHIC CODE 899 COUNTRIES. SUCH AUTHORIZATION APPLIES TO CONTRACTS ENTERED INTO PRIOR TO JUNE 30, 1975. WE POINT OUT HOWEVER, THAT THIS IS NOT AN AUTOMATIC APPROVAL OF CODE 899 PURCHASES. THE AUTHORIZATION WAS PROVIDED TO ALLOW FINANCING OF RECIPIENT COUNTRY FERTILIZER NEEDS DURING A PERIOD OF CRITICAL SHORTAGE IN THE U.S. IT NOW APPEARS THAT THIS SHORTAGE HAS ABATED SOMEWHAT. APPROVAL OF FINANCING FOR FERTILIZER PURCHASES FROM SOURCES OTHER THAN CODE 000 OR 941 MUST BE REQUESTED FROM AID/W AND WILL BE FORTHCOMING ONLY AFTER IT HAS BEEN DETERMINED THAT THE PURCHASE WOULD AFFECT DOMESTIC AVAILABILITIES. KISSINGER
BT

Department of State TELEGRAM

AMEMBASSY MONTEVIDEO 14 FEB 1975

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AIDAC

FOLLOWING REPEAT STATE 0178912 ACTION SAIGON ISLAMABAD DACCA KABUL PHNOM PENH NEW DELHI COLOMBO ABIDJAN ACCRA ADDIS ABABA BAMAKO CONAKRY COTONOU DAKAR DAR ES SALAAM FREETOWN KHARTOUM KINSHASA LOGOS LOME MBABANE MONROVIA NAIROBI NIAMEY NOUAKCHOTT OUAGADOUGOU YAOUNDE TEGUCIGALPA GUATEMALA KINGSTON MANAGUA SANTIAGO PO
P AU PRINCE LIMA QUITA BOGOTA SAN JOSE SAN SALVADOR
DATED 24 JAN 75
QUOTE
UNCLAS STATE 017912

AIDAC

DAR ES SALAAM FOR USAID AND RDOEA/ARUSHA; NAIROBI FOR USAID AND REDSO/EA

E.O. 11652: N/A
TAGS:
SUBJECT: PRELIMINARY ESTIMATE OF AID FINANCED FERTILIZER PROCUREMENT IN FY 1976.

1. IN ADDITION TO THE CONTINUING AGENCY POLICY OF NOT FINANCING SHIPMENTS OF FERTILIZER FROM THE U.S. DURING THE MONTHS OF FEBRUARY THROUGH MAY, THE FOREIGN ASSISTANCE ACT OF 1974 NOW PLACES A CEILING ON FERTILPRER FOR VIETNAM. THE ACT PROVIDES THAT NO MORE THAN ONE-THIRD OF THE FUNDS OBLIGATED OF EXPENDED IN FY 1976 AND THEREAFTER FOR FERTILIZER MAY BE USED FOR THE PROCUREMENT OF FERTILIZER FOR VIETNAM. THE GENERAL COMMENTS ABOVE ARE THE PRELUDE TO WHAT IS BECOMING A PERIODIC EXERCISE, NAMELY; INPUT FROM THE LDC'S WHO ARE POTENTIAL PURCHASERS OF AID FINANCED FERTILIZER AS TO THEIR ESTIMATED AID FINANCED FERTILIZER PROCUREMENT. EA PROGRAM PLANNING FOR VIETNAM FOR FY 1976 CANNOT BE COMPLETED UNTIL WE HAVE AT LEAST SOME BALLPARK FIGURES ON AID FINANCED FERTILIZER PROCUREMENT BY ALL OTHER COUNTRIES. THE VIETNAM PROBLEM IS THE IMMEDIATE, COMPELL-

UNCLASSIFIED

ING REASON FOR OBTAINING FY 1976 FERTILIZER ESTIMATES. HOWEVER, WE CAN NOT OVER EMPHASIZE THAT THIS IS AN AGENCY WIDE PROBLEM AS THE STATUATORY REQUIREMENT DICTATES THAT WE PROVIDE ASAP OUR GLOBAL FERTILIZER NEEDS. THERE IS ALSO THE NEED TO EVOLVE A FERTILIZER PROGRAM FOR FY 1976 FOR GENERAL PROGRAM PURPOSES AND FOR OFFICIAL AND UN-OFFICIAL PRESENTATIONS TO THE CONGRESS.

2 BASED ON YOUR BEST ESTIMATES OF FUNDING AVAILABILI-TIES AND LOAN PRIORITIES, PLEASE FORWARD PROJECT IMPORT NEEDS FOR FY 1976 TO BE FINANCED BY AID, BROKEN DOWN BY PRODUCT I.E : UREA, N.P.K., DAP, TSP. INFORMATION SHOULD BE SUBMITTED BY JANUARY 30, 1975.

3 WHATEVER THE DATA SHOW, AID/W CAN GIVE NO ASSURANCE THAT AID FINANCED FERTILIZER WILL BE FORTHCOMING IN THE NECESSARY QUANTITIES OR THAT AID WILL FINANCE THE INDI-CATED QUANTITIES, EVEN IF AVAILABLE.

4; FOR YOUR GUIDANCE AND INFORMATION IT IS ANTICIPATED THAT CONGRESSIONAL CONCERN OVER AID'S ROLE IN FERTI-LIZER FUNDING WILL NOT LESSEN, PARTICULARLY AS THE DOMESTIC PLANTING SEASON APPROACHES. WHILE THE SUPPLY SITUATION WITH RESPECT TO PHOSPHATIC FERTILIZER APPEARS TGKBE EASING SOMEWHAT, THERE HAS BEEN NO APPRECIABLE IMPROVEMENT IN THE SUPPLY OF NITROGENOUS (MAINLY UREA) FERTILIZERS. INGERSOLL
UNQUOTE
INGERSOLL
B

DRAFT ANNEX A TO LOAN AGREEMENT

Project Description

The loan will support Government of Uruguay priority objectives, to achieve a sustained increase in agricultural production; to augment export earnings; reduce food imports; and increase small and medium farmer income and productivity.

The loan will be made directly to the Agricultural Cooperative of Societies for Rural Development (CALFORU), with a two-step Payment Guarantee Arrangement with the Government of Uruguay (GOU).

The purpose of the loan is to assist CALFORU to strengthen its institutional capacity to (a) expand its marketing system; (b) improve its farm supply distribution system; and (c) efficiently manage its expanded activities to better meet the needs of its local affiliates and their members.

A. Project Components

1. The Marketing Activity - The loan will help install two deciduous fruit packing and cold storage plants for peaches, pears, apples and quince. The cold storage will also be used off-season to hold citrus (oranges, grapefruit and lemons) destined for export to Europe. Loan funds amounting to $831,000 will finance capital goods (cold storage chambers and equipment, fruit packing lines and fork lift trucks). CALFORU will also continue to expand its processing and marketing of honey, garlic and beans to a yearly sales total of $3,119,000 by 1978.

The further development and expansion of CALFORU's marketing system will focus on overall farm to final market needs which will serve over 1,500 farmers, who produce non-traditional agricultural export commodities, by the end of the third year of operations. Field harvesting containers will be constructed by CALFORU and supplied to the farmers on credit. CALFORU financing will be available to advance the farmer between 35 percent and 75 percent of the estimated value of his crop upon delivery to his local producer organization.

Once the product has been marketed, a detailed accounting is made with the farmer, beginning with the market price received, discounting the advance, a fixed percent for CALFORU's capitalization, and payments for farm supplies, packing and marketing costs, etc., with the net balance being paid to the farmer. Also, included as part of the marketing system is CALFORU's working capital to carry out the actual local or export marketing process.

Two fruit packing plants will be constructed in the two existing cooperatives where 50,000 crate cold storage facilities have already been installed by member cooperatives of CALFORU through the use of PL 480 counterpart and Brazilian suppliers credit. Additional cold storage facilities will double the present capacity to 200,000 crates. Local cooperatives (UFRUCA and JUMECAL) will provide facilities, including a packing building and dock facilities. Complete packing lines including graders, washers, conveyors, waxers, fork lifts, tables, pallets, etc. and other related equipment and supplies form part of project.

2. Farm Supply Distribution - The loan will help expand sales from the present yearly level of $2,000,000 to over $24,000,000 by the end of the third year of the project (1978). These supplies, including fertilizer, agricultural chemicals, burlap bags and seed, will be sold to 15,000 farmers. Loan funds will provide $965,500 for the importation of fertilizer and $37,450 for capital goods (fertilizer bagging equipment and a fork lift truck), while CALFORU's own funds and approximately $2,100,000 borrowed locally, will purchase all other supplies.

The farm supply distribution activity will provide for the expansion of the system and the number of farmers reached particularly through a greater volume of operations in fertilizer and agricultural chemicals. CALFORU will sell supplies for cash. The smallest marginal farmers who may have input supply problems are targeted for an integrated credit and technical assistance package under activities being carried out by the National Commission.

3. Management and Administration - The expanded farm supply operations and the new marketing activities will require an expanded and strengthened management system. Loan funds up to $100,000 for

technical assistance and training, $68,500 for office and accounting equipment plus expanded office space and additional employees funded by CALFORU, will assure a more efficient operation.

New management systems and necessary staffing increases will be carried out concurrently with the other activities aimed at overall growth of CALFORU. CALFORU will undertake the following specific actions to improve its central organization and delivery of services: expansion and reorganization of office space, purchase of two field vehicles; and development of a management information and control system. An improved centralized accounting system will be developed which will also serve the local CALFORU's member organizations on a fee basis. Counterpart funds will cover all salary and administrative costs and provide for necessary expansion of facilities, such as rental of additional office space, needed to carry out the total project.

Up to 15 man/months ($75,000) of contracted technical assistance will be provided with loan funds. CALFORU will contract for this technical assistance through international cooperative organizations in the specific areas of: administrative organization, systems analysis, marketing, processing, and procurement. This assistance will be provided by short-term consultants (one to three months), depending upon the requirements of each specific activity.

A total of $25,000 of loan funds will support international costs of training. The objective of this training is to upgrade CALFORU management capabilities through experience and observation of on-going cooperative activities. This training for the most part will be on-the-job training for cooperative managers and employees. Arrangements will be made for key CALFORU personnel to visit and actually work in cooperatives involved in fruit packing, processing, and other marketing activities. This training will be short-term (1 to 3 months) and for the most part will be carried out in Argentina, Brazil and the United States.

B. Beneficiaries - Target Groups

The beneficiaries of this project will be (1) the 15,000 producer members of CALFORU who by the end of the third year will be participating in the expanded and improved farm supply distribution system of CALFORU, (2) the 1,505 producers of fruits, vegetables and other non-traditional export crops who, by the end of the third year will be marketing their produce through the CALFORU export marketing system, and (3) all of the 18,000 members of CALFORU benefitting from improved management, accounting, budgeting, and planning functions and efficient administration.

C. Administration

In accordance with CALFORU's present procedures, the President of CALFORU will manage the loan through delegations of authority to the heads of CALFORU's four central organizational units: the Farm Supplies Distribution Department, Marketing Department, General Services Department, and the Financial Department.

These four department heads will form a management committee operating by consensus. Final decisions will be the responsibility of the President.

1. The Farm Supplies Distribution Department will secure farm supplies, including fertilizers, chemicals, burlap, seed, tools and equipment, from domestic and foreign sources. Retail sales throughout the country will be made through the local cooperatives. Sales will be for cash. CALFORU fieldmen will service the various field areas, while the central staff will arrange for purchases and imports.

2. The Marketing Department will receive directly from the farmer a variety of products which it in turn will process, store and sell on both the domestic and international markets. Loan funds will provide packing and cold storage facilities at two sites for handling pears, peaches, apples, quince and citrus. Apart from the loan, a honey extraction plant will be installed as part of a FAO project and products such as garlic, onions and beans will be graded and sold in the export and domestic markets.

3. The General Services Department is one of two concerned with the administration of the overall organization and supports the two income producing departments. Functions include: (a) Personnel - preparation and application of personnel policies; (b) Property Management - allocation of office and other space, control of furniture and equipment inventories, control and use of vehicles and drivers; (c) Operation of Warehouse - inventory control, receipt and dispatch of merchandies; and (d) Other - contract management, communications, miscellaneous.

4. The Financial Department is the second administrative department. Functions will include: operation of the accounting system, budgeting, management of cash flow and external credit, maintenance of accounts for farmer members and member cooperatives and provision of centralized accounting on a contract basis.

Specific management and administrative activities that will be undertaken include management training, improved accounting, and managerial information systems, planning and budget functions.

Administration and accounting for both the farm supply and marketing operations, as well as the member capital accounts will be done centrally by CALFORU rather than by the 250 individual base cooperatives. For CALFORU's central office, AID will finance the purchase of accounting and office machines at an estimated cost of $68,500.

The two local cooperatives (UFRUCA and JUMECAL) will finance local construction of the buildings for the packing lines along with access roads, ramps and other modifications. Estimated cost is $362,656.

Pricing Policy - CALFORU will establish the price of each item sold based on import or local purchase cost, cost of sales and services, taking into consideration the market situation and the prices of the competition. Prices will be FOB Montevideo and the local cooperative adds transportation costs to the established price. Pricing policies will undergo continual review to assure the proper balance between benefits to the farmer in the form of low prices and the capitalization of CALFORU to develop a solid base for its operations.

Credit Policy - the general policy of CALFORU will be to sell all farm supplies for "cash", cash being defined as cash money or BOR "orders" (farm supply payment orders).

The working capital needs of CALFORU's farm supply distribution system cover only farm supply distribution, from the issuance of import license through placing an order, receipt in port, delivery to local cooperatives, sale to farmers, and the final deposit of payment in CALFORU's bank accounts.

The Borrower is expected to develop a five-year expansion and capital investment plan to be approved by AID. If investments cannot be carried out in accordance with that plan, undue cash accumulations will be passed on to CALFORU members in the form of price reductions and/or rebates for goods and services provided. Since CALFORU projects that the volume of operations will peak in 1979 (and remain at that level thereafter) generating 1.9 billion pesos net profit per year, profits above this level will be considered available for distribution to members through reduced prices and/or rebates beginning in 1980, unless these profits are invested in new or expanded enterprises.

D. Coordination with Other Organizations

Although this and the Agricultural Research/Technical Assistance Loans will serve part of the same target group of farmers, the two loans themselves serve two distinct purposes. CALFORU will work directly with that portion of the IATA target group which comprises members of the CALFORU affiliated cooperatives. It has a more operational goal to try to provide inputs for these farmers to use in their production and to provide profitable marketing outlets for members' production.

CALFORU likewise will play a role in alerting the producers to opportunities for adopting new technology being developed at the Government's regional demonstration farms. While research results of the loan-funded IATA activities will not be available for several years, research efforts previously undertaken by IATA (improved forage management, improved field crop cultivation practices, use of certified seeds, proper fertilization levels, improved dairy husbandry practices, improved fruit and vegetable management and cultural practices) are now moving into the demonstration and commercial application stages.

Once new technology has been proven profitable, CALFORU will call it to the attention of its cooperative members, encouraging them to visit the demonstration farms and learn how to adopt it. The adoption of new technology which raises the productivity of cooperative members not only is in the interest of the producers but also of the cooperative itself. It will mean increased volume of business for the cooperative which will reduce the cost per unit of the products which it markets for the producers.

E. Project Implementation

Prior to disbursements for specific activities, CALFORU will prepare and submit to A.I.D., project implementation plans, in satisfaction of the Conditions Precedent (Capital Assistance Paper - Part I).

Among the major activities to be carried out are:

(1) Install the fruit packing and cold storage facilities. This will include finalizing the technical

specifications for equipment, the provision of buildings to house these facilities, and any legal documentation, such as leases, for the operation of these services.

(2) Initiate procedures to purchase the fertilizer, chemicals, seeds, tools, equipment components of the projects.

(3) Develop a specific plan for technical assistance and training to be financed under the project, and develop detailed scopes of work for contract technical advisory services.

(4) Identify and assign counterparts for contract technical advisors; identify participants for technical training.

(5) Identify and acquire the additional personnel necessary to staff the project.

(6) Standardize procedures for customs clearance, inventory, assignment, and maintenance of equipment, machinery and vehicles.

F. Scheduling

The project will be carried out over a three-year period (1975-1978) with total annual financial contributions from the Borrower and AID becoming available according to the following schedule:

FINANCIAL PLAN

1. Cost of Project (1976-78)

a. Farm Supply Distribution		$1,300,000
Import Credit	1,265,000	
Equipment	35,000	
b. Marketing		$1,803,625
Buildings	292,656	
Equipment	1,510,969	
c. Central Office		$ 280,466
Building	70,000	
Equipment	80,648	
Vehicles	29,818	
Technical Assistance	100,000	
Total Cost of Project		$3,384,091

2. Financed by:

AID

Calendar Year	Fertilizer	TA & Training	Capital Goods	
1976	$495,000	$ 70,000	$604,500	$1,169,500
1977	470,500	30,000	330,000	830,500
	$965,500	$100,000	$934,500	$2,000,000

Counterpart

CALFORU		390,635	
Credit (local sources)			
Farm Supplies	$300,000		
Cold Storage	$331,300	631,300	
UFRUCA & JUMECAL Coops and National Commission (local construction)		362,656	
			$1,384,591

3. Percent of Financing

Counterpart	41%
AID	59%
Total	100%

G. Evaluation

A joint CALFORU/USAID Evaluation Committee will be established within two months after conditions precedent to initial disbursement have been met. The Committee will consist of the four department heads and legal advisor of CALFORU, representatives of the National Commission, and the USAID Agricultural Division and/or Program Offices. A CALFORU representative will be selected chairman as CALFORU will assume the major responsibility for evaluation. Representatives of the Ministry of Agriculture, and eventually other GOU agencies will be invited to attend specific evaluation sessions of mutual interest to the GOU and CALFORU.

Members of the Committee shall determine when and how evaluations are to be conducted; define the need, if any, for outside assistance; and arrange to procure same if required. AID shall bear the cost of any AID/Washington personnel; loan funds may be used to procure short-term contract assistance as appropriate.

The evaluation capability of members of the Committee will be strengthened as necessary through AID Project Design and Evaluation Seminars.

Results of all evaluative reviews will be documented in a report from the Committee's Chairman to the President of CALFORU and to USAID. Such reports will identify any problems in project implementation, and recommend corrective action(s) to be taken. The President will determine the individual(s) responsible for taking such actions.

The Committee will schedule reviews at appropriate times during project implementation (based on the Evaluation Plan and Schedule contained in the Capital Assistance Paper) to evaluate progress against benchmarks established in plans submitted in satisfaction of Conditions Precedent to this loan and indicators contained in the logical framework.