

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



ANNUAL BUDGET SUBMISSION

FY 1977

URUGUAY

**DEPARTMENT
OF
STATE**

JULY 1975



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URUGUAYAnnual Budget Submission for Fiscal Year 1977

I. Mission certification of continued validity of the DAP.

The Mission has reviewed the FY 1975 DAP, as approved by AID/W, and certifies as to its continued validity. The GOU continues to make progress in carrying out its stabilization-development program. The other major international assistance agencies (IMF, IBRD, IDB, UNDP, SAS) continue to provide important financial and technical support to the GOU program complementary to AID activities. The GOU is also receiving important credits from private commercial banks and foreign governments. AID's primary areas of concentration continue to be the agricultural sector and that of development policy and management. Three AID loans were authorized for Uruguay in FY 1975, all of which are fully supportive of the DAP strategy. Plans for phase-out of the AID program in FY 1978 as indicated in the DAP and the FY 1976-77 CASP are being prepared and will be submitted to AID/W in December, 1975.

II. Opportunities for centrally funded research - See Annex A.

III. Summary tables for FY 1976, Interim Quarter and FY 1977. See Annex B.

IV. New Projects.

(1) FY 1976 and IQ - No requirement for additional documentation. Two new projects are planned. One, Fiscal Policy and Management, was presented as a PROP to AID/W in June 1975 and approved. The other, Agricultural Management, was submitted to AID/W in February 1975 as a Preliminary Project Paper. We anticipate that the project will be further refined and the PP submitted to AID/W in the first six months of FY 1976.

(2) FY 1977 - The only grant activity Mission is considering for FY 1977 is a General support grant (block grant) to the GOU to be administered by the Office of Planning and Budget (OPP). The grant would be for \$200,000 to be disbursed over a two year period, \$100,000 in FY 1977 and \$100,000 in FY 1978. This grant would be an essential element in the Mission's phase-out strategy in Uruguay. See Annex C for details.

NOTE: Mission has had preliminary discussions with two Uruguayan organizations regarding the possibility of PVO Operational Program Grants. We expect to receive project proposals from them or other PVOs during FY 1976 and will keep AID/W informed. We are tentatively programming \$100,000 in each FY for these activities.

V. Ongoing Grants

See Annex D for narratives for the following projects for which FY 1976 funding is planned:

Agricultural Institutional Development
Development Studies
Economic Management and Training
Special Development Activities

The fiscal tables will be provided, as requested, by July 31.

VI. PL 480 - No program in Uruguay

VII. HIG - No program in Uruguay

VIII. Assistance to FVOs and Cooperatives - See Annex E

IX. Contraceptive Tables - No program in Uruguay

Centrally Funded Research:

The Mission has considered Uruguayan needs and possibilities for centrally funded research activity in support of the development effort and consonant with AID priorities. The most important areas for basic research in support of GOV development appear to be in the following areas:

1. Economic Research

There is a great need for basic economic research in all aspects of economic and social trends to help guide policy making and program management. While some ministries and official banks have research staff, the scope and quality of output remains generally low and inadequate to the needs of a developing country. Although there exists an Economic Research Institute at the University, it is inadequately funded and does not presently constitute a reliable source of quality economic research.

AID is helping the Planning Office under the Development Studies Project to improve its economic research capability.

Any centrally funded AID research that could benefit Uruguay in the area of economic or social policy and development would be of interest to the GOV.

In this regard, any centrally funded research on world market conditions and short and medium term prospects for key Uruguayan exports - beef, wool, hides - would be of invaluable assistance to GOV economic planning and policy-making. The GOV, through its commercial officials is endeavoring to obtain expert market information but its efforts need to be complemented with professional analyses of world market conditions and trends for such commodities that international agencies concerned with world food problems may be undertaking.

2. Applied Industrial Research:

Given the past stagnation of Uruguay's sector, little has been done to establish industrial research and development institutions which can be useful in adapting modern technology to industrial development programs. The GOV and the private sector are jointly financing the Laboratory of Testing and Analysis, a dependency of the Ministry of Industry and Energy. This Ministry also sponsors a Center of Technology and Productivity which carries out special sub-sectoral studies for promising new industries. There is no national facility engaged in applied industrial research, the absence of which will become an increasingly serious gap as the GOV's industrial development program moves ahead.

Any centrally funded AID activity that can assist the GOV in planning or establishing this type of entity would be beneficial and a matter of interest to the GOV. While such assistance may not be the type provided under AID's on-going research program, consideration might be given to ways AID could, at minimum cost, provide information to the GOV on how other countries have planned, funded and organized such entities.

3. Agricultural Research

Under an on-going grant project and a recently authorized loan, AID is assisting the Ministry of Agriculture in a comprehensive program of agricultural research and technical assistance.

Apart from such assistance, the Ministry of Agriculture has identified and to some extent is working on some specific problem areas which could possibly benefit from centrally funded AID research. These are:

Noxious Birds: Bird damage is causing 25% - 30% losses in cereal grain and sunflower production. These are two important crops in Uruguayan agriculture. Grain sorghum production has increased substantially since 1970 and represents an important resource to the livestock sector and also has export possibilities. Historically sunflower production has been Uruguay's principal source of edible oil for internal consumption and also has good export potential. Many of the production problems, such as, varieties, fertilizers, etc. have been for the most part resolved. Bird damage is now the critical problem. Short term technical assistance has been provided on two occasions from the Wildlife Center in Denver, Colorado, and a third consultant is planned for October-November, 1975. This assistance has been very successful and has enabled the GOU to implement a campaign against parrots and doves which are the birds causing the most damage. Additional research and study is needed to improve existing bird control methods and develop new approaches to noxious bird control.

Cereal Grain Storage: The GOU is now constructing seven regional grain storage facilities. Two of these facilities are now operational and the other five will be on line within the next year. Additional information is needed in modern grain storage techniques, including drying, blending, fumigation, moisture control and handling losses.

Cereal Grain Marketing: Uruguay urgently needs to modernize its grain marketing system and to insure supplies for internal consumption and to effectively meet world market criteria for small exportable surpluses. Information is needed in the areas of organization, legislation, grades and standards, milling criteria, and producer payment procedures.

Vampire Bats: Due principally to Uruguay's geographical location and terrain, vampire bats have not been a major problem. However, bat infestations have now been identified in the northern part of the country and damage to cattle, although limited at this point, has been identified. The GOU has implemented a campaign to control vampire bats before this becomes a major problem. Information is needed concerning modern techniques for bat control and elimination.

Centrally funded research could attack these problems and produce information on a continuing basis that would assist in solving these particular problems.

SUMMARY TABLE

INTERIM QUARTER

(\$000)

| | F & N | PL | E. & H | E. & HR | SDP | SCO | Dev. Assist. Sub-total | Supporting Assist. | Total |
|----------------------------------|-------|----|--------|---------|-----|-----|------------------------|--------------------|-------|
| ONGOING GRANTS | | | | | | | | | |
| Agri-cultural Management | 13 | | | | | | 13 | | 13 |
| 528-11-714-99 | | | | | | | 40 | | 40 |
| Economic and Management Training | | | | 30 | | | | | 30 |
| 471-11-714-996 | | | | | | | | | |
| Fiscal Policy and Management | | | | 13 | | | 13 | | 13 |
| 528-11-714-99 | | | | | | | 5 | | 5 |
| Special Development Activities | | | | | 5 | | | | 5 |
| 528-15-998-016 | | | | | | | 5 | | 5 |
| Technical Support | | | | | 5 | | | | 5 |
| 528-15-999-000 | | | | | 10 | | | | 10 |
| total | 13 | | | 43 | | | 66 | | 66 |

MEMORANDUM FOR THE SECRETARY
 FISCAL YEAR 1977
 (in \$100)

| | F & N | FF & H | F & HR | DDP | 27% | Inv. Avail. Sub-Total | Total |
|--|-------|--------|--------|-----|-----|-----------------------|-------|
| APPLYING GRANTS | | | | | | | |
| Agricultural Management 5,00-11-77(0-000) | 10 | | | | | 10 | 10 |
| Economic and Management Training 5,00-11-77(0-000) | | | 50 | | | 50 | 50 |
| Financial Policy and Management 5,00-11-77-00 | | | 100 | | | 100 | 100 |
| Special Development Activities 5,00-13-77(0-000) | | | | 75 | | 75 | 75 |
| Technical Support 5,00-13-77(0-000) | | | 150 | 75 | | 225 | 225 |
| Sub-Total | | | | | | | |
| New Products | | | | | | | |
| FF | 100 | | | | | 100 | 100 |
| FF (incl. over-alloc.) | | | | 100 | | 100 | 100 |
| Sub-Total | | | | | | | |
| FF | 100 | | | | | 100 | 100 |
| FF | 110 | | 10 | 10 | | 130 | 130 |
| * approximately \$100,000 to be disbursed in FY 1977 and \$100,000 in FY 1978. | | | | | | | |

General Support Grant (Block Grant) for Development Advisory Services to
GOU Office of Planning and Budget (OPP) (\$200,000)

The goal of the block grant would be to upgrade the GOU's development planning and program management capabilities during a two year transition period prior to phase out of the AID program by the end of FY 1978.

The purpose of the block grant is to assist OPP and other key development agencies in obtaining timely short term advisory services and training. Such assistance will be required to overcome development bottlenecks, strengthening existing capabilities to analyze priority development problems and formulate appropriate remedial policies and programs, and otherwise deal with emerging or unanticipated problems for which short term advisory services are required and which are not expeditiously available from other sources.

The immediate beneficiaries will be the Planning Office (OPP) and other key agencies responsible for development planning and program execution. The ultimate beneficiary will be the economy as a whole, as the private sector is incentivized by better quality GOU economic policies and programs which result in increased employment, economic activity, and expanded productivity. As GOU development planning and program execution capacity is upgraded, improved resource allocation will result as well as a higher productivity of fiscal investment.

The block grant is proposed on the assumption that the GOU generally and the Planning Office particularly has made progress in enhancing its capacity to plan, program, design, administer and evaluate discrete development projects working in close collaboration with international donors. The Planning Office has reorganized its unit charged with coordination and management of external assistance and is beginning to perform in a highly professional manner. The Chief of this unit has visited the headquarters of the major international assistance agencies including AID and has become familiarized with the program cycle, project design, implementation and evaluation procedures of these agencies. There is now growing evidence that the Planning Office has improved capability of defining its assistance requirements, designing projects, and identifying external assistance sources best suited to its needs. Through close collaboration in AID loan preparation with the Planning Office and the Ministries of Agriculture and Industry and Energy, key personnel of these institutions have had intensive practical experience in preparing inputs for loan project justification including project design, implementation and evaluation documentation.

The key rationale of the proposed block grant is to provide transitional AID assistance to GOU development agencies through the Planning Office, during the phase down of the AID program in Uruguay until its planned termination at the end of FY 1978. The grant will provide a flexible means for the Planning Office to meet its short term requirements for external advisory

assistance and training to solve unanticipated development problems and bottlenecks, analyze emerging policy trends and formulate remedial policies and programs, and obtain external help on development problems for which normal programming procedures of international agencies are not equipped to deal with in a timely manner. It is anticipated that up to 20 percent of block grant funds will be used for short term training.

The areas initially identified as those in which block grant assistance would be used are:

1. Development policy and program management services.

With the phase out in FY 1976 of the Development Studies project, there will remain a continuing need for the GCU to obtain short term professional development planning assistance of the type provided under the project.

2. Agricultural Development Assistance

With the phase out in FY 1976 of the Agricultural Production and Marketing project, we anticipate a continuing Ministry of Agriculture interest in receiving short term consultant services and training in such fields as grain storage problems, noxious bird control, grain marketing practices, etc. which fields are not being covered by AID or other international agencies.

In this area, we anticipate special attention will be directed to providing short term technical assistance to the Ministry of Agriculture's rural cooperatives programs and services designed to support such groups in respect to planning, programming, operational and financial management, training, and cooperative development. The coops served will not be receiving such assistance under AID Loan L-025.

3. Program and Project Design, Evaluation and Implementation of Public Sector Activities.

While substantial international agency assistance is being provided to GCU agencies in upgrading their capacity to evaluate private sector industrial and agricultural projects, there will remain an unattended need for improving such capacities in respect to the planning, project design, evaluation of public sector projects, which responsibility to a large extent rests with the Planning Office. Block grant assistance would be available through the Planning Office for short term advisory services and training to upgrade GCU capacity in this regard.

The mechanism for administering this grant will be similar to that used by USAID/Colombia for its block grant. An overall agreement will be negotiated with the GCU Planning Office, defining the purposes of the program, defining the criteria for sub-project selection, establishing the terms of the sub-project approval procedure, and setting forth the financial terms, including disbursement and auditing procedures. Sub-projects

prepared by OPP for financing under the grant will be reviewed by the Mission for approval. It is planned that up to \$100,000 of the grant will be disbursed in FY 1977 and an equal amount in FY 1978.

It is anticipated that during the implementation of the grant, the GOU Planning Office will gain experience and a professional competence in preparing useful sub-projects, preparing technically sound sub-projects justifications, design and evaluation plans, and in implementing these activities according to good management standards.

With such experience, we anticipate that by AID program phase out in FY 1978, the Planning Office will be in a position to continue the project after the AID Mission termination. If GOU performance in implementing the block grant so merits, as AID phase out nears, the Mission would propose amending AID loan agreements on L-022 and L-026, to authorize a certain portion of AID loan peso recuperations to be annually assigned to OPP to finance a continuation of the same type of activities as would be carried out under the block grant. Such amendments would be necessary to permit peso reflows to be used for public sector purposes.

In this way, the formal ending of the AID program in Uruguay would not mean an end of USG association and assistance to the GOU's development effort. AID financing for these activities through use of peso reflows would continue well into the 1980s. Thus, USG will be directly, if modestly, assisting Uruguayan development in the post AID period with benefits both to U.S. interests and Uruguayan development.

AGRICULTURAL INSTITUTIONAL DEVELOPMENT

This project continues to be the single most important technical assistance program being carried out by the Mission. Its principal objective is to assist the Ministry of Agriculture in its research and training programs geared to faster expanded production and marketing of non-traditional export crops. The AID assistance is provided through a Tri-University Consortium Contract (Penn. State, Michigan State and Texas A & M). This project is now slightly better than two-thirds complete and the termination date of March, 31, 1976 remains firm. An in-depth evaluation of this project was carried out in November 1974 by an outside consultant, which stated: "In general it is felt that this project, is well conceived and is now being carried out in a satisfactory manner. The University Consortium activity, focussing on the small farm fruit and vegetable production areas surrounding Montevideo, is filling a critical need that is clearly expressed in GCU Development Plans and that is quite appropriate for AID grant assistance. It is exceedingly difficult to measure progress in this kind of research activity in terms of production and export increases. While there are indications of good progress (higher value of non-traditional exports, etc.) it is difficult to relate this directly to the work of IATA (The GCU Agricultural Research entity). Unfortunately, we are dealing with a long-range enterprise at a time when the GCU has an urgent need to reduce imports and increase exports. Establishment of a fruit orchard requires several years. Increases of vegetable production are constrained by such problems as selection of varieties, seed production, and disease control". The evaluation report continues: "The usual tendency is to measure outputs or results only in quantitative terms. In this type of activity, however, the more significant outputs are qualitative and often quite difficult to measure. In-service training, for example, is quite important as formal participant training, but its results are usually described in such terms as changing attitudes and developing leadership qualities. On the other hand the verifiable indicators listed in the logical framework have been met and surpassed in almost all cases".

| <u>Verifiable Indicators</u> | <u>Planned</u> (through FY 1975) | <u>Accomplished</u> |
|---|-------------------------------------|---------------------|
| Number of participants | 143 | 142 |
| Number of research projects carried out | | |
| Fruits | 91 | 97 |
| Vegetables | 26 | 25 |
| Plant Pathology | 33 | 27 |
| Potatoes | 10 | 14 |
| Publications | | |
| Printed or in Process | 6 | 34 |
| Proposed | 31 | 35 |
| Special Reports | 7 | 13 |
| Number of IATA personnel on board | | |
| Technicians | 21 | 19 |
| Assistant Technicians | 11 | 8 |
| Operations services | 16 | 15 |
| Administration | 6 | 6 |
| Field Labor | 16 | 19 |

During FY 1976, the Mission will provide the Ministry of Agriculture both long and short-term advisors in the priority areas jointly identified. Emphasis will continue on agricultural marketing. The major portion of participant training will be loan-financed with only a small amount of short-term training grant funded. Many of these same activities will be continued and expanded in FY 1977 under the Agricultural Research and Technical Assistance Loan (L-024).

The most recent evaluation for this project was submitted in November, 1974.

ECONOMIC AND MANAGEMENT TRAINING

This is a participant training project designed to send qualified middle and upper level personnel in the key GOU development agencies, primarily the Ministry of Economy and Finance, including the Office of Planning and Budget (OPP), and the Central Bank, for training in three priority areas: (a) macro-economic studies; (b) development planning and programming; and (c) development administration. The project got underway in FY 1975 and it was planned to send long and short term participants in the areas of Industrial Economics, Tax and Fiscal Policy Studies, Macro-Economic Studies, Monetary Studies, Transportation Economics and Planning, Project Evaluation, and Public Enterprise Management. During FY 1975 the GOU encountered some difficulties in recruiting and obtaining clearance for some of the long-term participants. To date two long-term participants have departed for training and three more have been selected. There has been better performance on the short-term participants; two have been sent and seven more have been selected. The FY 1976 program is to send 8 long-term and 10 short-term participants in the above areas. Mission believes the difficulties involved in recruiting participants are being overcome and that the project plans for FY 1976 will be met.

DEVELOPMENT STUDIES

This project was initiated in FY 1974 to provide the GOU Planning Office with short-term advisory services in order to carry out a program of macro-economic policy studies designed to give GOU officials professional analysis of key economic problems together with a coherent set of policy and program options for dealing with them and also to assist the Planning Office and other GOU agencies in dealing with specific policy or program problems constituting bottlenecks in the development process.

The main project outputs are studies in the following five general areas.

- (a) Inflation Control and the Balance of Payments
- (b) Fiscal Policy and Tax Reform
- (c) Commercial Policy
- (d) Employment, Unemployment and Social Security
- (e) Historical Analysis of the Reasons for Economic Stagnation in Uruguay. (To be completed during FY 1976).

During FY 1975, a team of 6 well-known U.S. and Latin American economists under the supervision and coordination of Dr. Larry Sjaastad, of the University of Chicago, worked on the studies, of which the following have been submitted to the GOU:

Notes on the Value Added Tax in Uruguay (Dr. A. Harberger)

The Taxation of Income from Capital in Uruguay (Dr. A. Harberger and Dr. D. Wisecarver)

The Role of Fiscal Factors in Uruguay's Inflation (Dr. A. Harberger)

Gradualism or Shock Treatment - Considerations on the Cost of Stabilization (Dr. A. Pastore and Dr. R. Almonacid)

The study on Uruguayan Commercial Policy has been completed by Dr. L. Sjaastad and Dr. Rodríguez. Final version of Dr. Sjaastad's study on Employment, Unemployment and Social Security has been completed and will be submitted to the OPP shortly.

An important by-product of the Development Studies project was the opportunity for the distinguished group of AID consultants to consult occasionally with the GOU economic team on general economic policy matters. Such consultations have contributed to the positive orientation of GOU economic policy as reflected in the ongoing stabilization-development program, now being supported by the IMF and IBRD.

The Mission plans to extend the life of this project for one additional year through FY 1976.

In addition to these main studies, assistance has been provided to the Office of Planning and Budget, the Central Bank and the Ministry of Agriculture in the form of special studies and surveys on Land Investment Returns, Industry Level of Activity, Milk Production Subsector, Monetary Research and Analysis, and preparation of an Agricultural Policy Studies program.

SPECIAL DEVELOPMENT ACTIVITIES

Nine projects totaling \$24,000 were approved during FY 1975. The funds were used to provide assistance to projects which contain a significant self-help and community effort component.

These projects included such activities as assisting (a) a school and orphanage to purchase construction materials to build two classrooms, (b) a children's home workshop to purchase a carpenter's bench and saw, (c) a private non-profit organization to help poor children whose parents work during the day with construction materials to repair seven nurseries, (d) a cooperative formed by low income people who work in gardens to buy a second hand tractor, etc.

Since the life of the project, which started in FY 1965, 169 projects have been assisted under SDA, for a total amount of approximately \$351,000.

Mission plans to continue this project on an annual basis through FY 1978.

SUMMARY TABLEA.I.D. Financial Support for Private Voluntary Organizations

(\$ 000)

| Country: URUGUAY | FY 1976 | EST. QTR. | FY 1977 |
|--|---------|--------------|---------|
| ONGOING GRANTS: | | | |
| A. Ongoing CPG (initiated FY 75) | | | |
| Community Farms | 50 | -- | -- |
| Subtotal | 50 | -- | -- |
| of which cooperatives (non-add) | (--) | (--) | (--) |
| B. Non-OPG - None | | | |
| NEW GRANTS: | | | |
| A. CPGs - No specific Proposals received yet, but Mission expects to receive some. Funding requirements are estimates. | | | |
| | 100 | | 100 |
| Subtotal | | | |
| of which cooperatives (non-add) | (--) | (--) | (--) |
| B. Non-CPG - None | | | |
| LOANS: None | | | |