

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

**MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISE CREDIT
ACCESS AND COMPETITIVENESS PROGRAM**

(AR-L1033)

LOAN PROPOSAL

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Annex I Logical framework

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/countries/home.cfm?id_country=AR&Language=English
Status of loans in execution and loans approved	http://ops/approvals/pdfs/ARen.pdf
Tentative lending program	http://opsgsl/ABSPRJ/tentativelending.ASP?S=AR&L=EN
Information available in the ICF/CMF technical files	http://idbdocs/WSDocs/getDocument.aspx?DOCNUM=1015021
Annex II - Procurement plan	http://idbdocs/WSDocs/getDocument.aspx?DOCNUM=975462

ABBREVIATIONS

BDSP	Business Development Support Program (loan 989/OC-AR)
CIP	Competitiveness Improvement Plan
ICAS	Institutional Capacity Assessment System
IFI	Intermediary financial institution
MAPA	Monitoring of small and medium-sized enterprises
MSME	Micro, small, and medium-sized enterprise
MTySS	Ministry of Labor and Social Security
PEU	Project Execution Unit
PROPEF	Project Preparation and Execution Facility
SEPYME	Subsecretaría de la Pequeña y Mediana Empresa y Desarrollo Regional [Under Secretariat for Small and Medium-sized Enterprise and Regional Development]

PROJECT SUMMARY

ARGENTINA

MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISE CREDIT ACCESS AND COMPETITIVENESS PROGRAM (AR-L1033)

Financial Terms and Conditions ¹				
Borrower: The Argentine Republic Executing agency: Subsecretaría de la Pequeña y Mediana Empresa y Desarrollo Regional [Under Secretariat for Small and Medium-sized Enterprise and Regional Development] (SEPYME)			Amortization period:	25 years
			Grace period:	5 years
			Disbursement period:	5 years
Source	Amount (in US\$ millions)	%	Interest rate:	Variable
IDB (Ordinary Capital)	50	68	Inspection and supervision fee:	0%
Local	24	32	Credit fee:	0.25%
Other/Cofinancing	0		Currency:	U.S. dollars from the
Total	74	100		Single Currency Facility
Project at a glance				
Project objective: The goal of the program is to contribute to the country's sustainable economic growth by making Argentine MSMEs more competitive and increasing their local value added. Its purpose is to provide technical assistance to MSMEs so that they generate investment projects banks can finance, thus facilitating their access to medium and long-term credit and investment.				
Special contractual conditions: (See paragraph 3.26) Conditions precedent to the first disbursement: (i) approval and entry into force of the Operating Regulations in accordance with terms of reference agreed on in advance with the Bank; and (ii) fulfillment by SEPYME of the minimum conditions with respect to institutional capacity set forth in paragraph 4.3. Special execution condition: The executing agency will present to the Bank, within 90 days following signature of the contract, the baseline for the corresponding performance indicators in the Logical Framework.				
Exceptions to Bank policies: None.				
Project consistent with country strategy: Yes [X] No []				
Project qualifies as: SEQ [] PTI [] Sector [] Geographic [] Headcount []				
Procurement: (See paragraphs 3.23-3.24)				
Verified by CESI on: 11 May 2007				

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Socioeconomic framework

- 1.1 From 1998 to 2002, Argentina underwent a financial, economic, and social crisis on a scale never before seen in its modern history. Economic recovery, which began in 2003, has remained steady, averaging 9% growth per year in the 2003-2006 period. That growth has spanned all sectors, particularly manufacturing, which, in 2006, reached its highest production levels, rising by over 50% above their nadir during the crisis. In January 2006, the government repaid all IMF debt (US\$9 billion), utilizing Central Bank reserves, which by mid-October, had regained their pre-repayment levels. Strong accumulation has continued and, in early April 2007, reserves reached record levels, in excess of US\$37.4 billion. The economy's sound performance went hand-in-hand with substantial improvement in social indicators. The percentage of persons living below the poverty line declined from 54.3% in October 2002 to 26.9% in the second half of 2006. Unemployment fell from 21.5% in May 2002 to 8.7% in the last quarter of 2006.
- 1.2 In late January 2007, real wages recovered to just 1% below pre-devaluation levels. In the formal private sector, real wages are now 18% above pre-devaluation levels, while in the informal and public sectors they remain at 16% and 24%, respectively, below those levels. The relative improvement in the country's exchange position has given the exporting industry, particularly micro, small, and medium-sized enterprises (MSMEs),¹ a temporary advantage, which may become long-term if they leverage this opportunity.

B. The sector

- 1.3 Argentine companies have benefited, to different extents, from the success of the country's recent economic recovery. The country's leading economy activities are concentrated in MSMEs, and those that were able to survive the crisis have shown substantial capacity for adaptation and flexibility. From 2003 to 2006, manufacturing and service sector MSMEs had sales consistent with the country's economic growth as a whole.
- 1.4 MSMEs now comprise a predominant segment of Argentina's business sector—an essential part of the engine for growth and job creation. Some illustrative data are: (i) MSMEs contribute over half of the country's GDP; (ii) they account for 75% of the country's jobs—up 43% from 2003 to 2006; (iii) they account for 12% of the

¹ At present, Law 25.300 of 16 August 2000, on promotion of micro, small, and medium-sized enterprise, and SEPYME Directive 147/06, Article 2, establish the following thresholds for total annual sales for a firm to be considered an MSME: (amounts in US\$)

Size/Sector	Agriculture	Ind./commerce	Commerce	Services	Construction
Microenterprise	456,000	1,250,000	1,850,000	467,500	480,000
Small	3,040,000	7,500,000	11,100,000	3,366,000	3,000,000
Medium enterprise	18,240,000	60,000,000	88,800,000	22,440,000	24,000,000

country's exports; and (iv) from 2003 to 2006, the rate of business start-ups, which had been in marked decline (averaging 7.8% from 1996 to 2001),² rose to a vigorous 12%.

- 1.5 Also noteworthy is the significant increase in the past three years in the production volume of production chains and clusters, for the most part on the export side. Extrapolating from studies done in different provinces and at the federal level, some 60% of all Argentine MSMEs are estimated to be in clusters and production chains.
- 1.6 **Opportunities.** The international environment and the relative cost advantages of the Argentine economy are providing a temporary window of opportunity for MSMEs to become long-term competitive players in the market and to lend continuity and sustainability to development and job creation in Argentina.
- 1.7 **Challenges.** In a world characterized by changing and uncertain economic conditions, ever-shorter product life cycles, against a backdrop of uncertainty and stark differentiation-based competition, MSMEs must address a series of challenges to take advantage of emerging opportunities, understand the new competitive contexts, and achieve the international competitive status they seek. These challenges include:
 - a. Access to professional technical services that meet their business needs, whether in the area of production, management, or commercial processes. The supply of business services is not always sufficiently developed or fully accessible to MSMEs, as the limited supply translates into certain costs being prohibitive for the vast majority of MSMEs. To be noted in that regard is the development capacity of business start-ups, in connection with both their creation and their subsequent management and growth. Argentine statistics for the sector indicate that, on average, 80% of MSMEs fail within five years, and 90% fail within ten. One of the most important reasons for this may be found in factors inherent to businesses, especially poor business management capacity. If MSMEs are to survive and grow, they must introduce corrective measures in a timely manner such as: (i) achieving a minimum level of managerial training, especially in administrative and production management; (ii) strengthening their capacities to formulate and implement investment plans, gaining access to more sophisticated resources, for which they must have access to information thereon; and (iii) accessing means that will enable them to conduct appropriate strategic planning, finance market and intelligence studies, improve production processes, gain market access, etc.
 - b. Coordination among companies. It is very important that adoption of an approach based on productive groups and associations among local businesses be promoted, as many of their problems have a component involving economies of scale, together with inclusion in the common strategic

² Source: Ministry of Labor and Social Security (MTySS) and Under Secretariat for Small and Medium-sized Enterprise and Regional Development (SEPYME).

leadership of the production chain. The competitive challenge is for these companies to maintain their flexibility and capitalize on their economies of sectoral and geographic agglomeration, thus overcoming problems of scale and dispersion. In that context, public-private linkages at the local level among the government, regional government, companies, research institutions, and other players is key.

- c. Access to credit. Argentine MSMEs have serious financing problems stemming from: (i) defaults and Public Treasury and Social Security debt; (ii) lack of eligible guarantees for financial system institutions; (iii) high transaction costs; (iv) high costs of structuring lending vehicles (with sound guarantees based on the application of future flows), which are prohibitive for individual MSMEs; (v) low levels of capitalization; (vi) insufficient (or nonexistent) development of alternatives to bank loans; and (vii) a series of difficulties on the part of financial intermediaries with regard to the supply of credit. In that connection, the main reason for the lack of medium- and long-term loans is that the banks lack long-term funding. The perception of high country risk on the part of the financial agents themselves, together with the absence of a tradition of long-term bank loans, also hampers development of the know-how required to provide instruments of this type, all the more so when trying to evaluate projects that start from zero.³

- 1.8 **To summarize**, if the process of making MSMEs more competitive is to be sustainable, they must address a series of challenges that consist essentially of accessing professional technical assistance; better management, productive project formulation capacity, and coordination among enterprises in the context of production chains and clusters; and, lastly, their ability to access medium and long-term financing, which at present is virtually nonexistent. It is especially important to note that, in the Argentine context, **the three challenges must be faced simultaneously and in coordination, since providing technical assistance to generate business projects may be of little value if businesses lack adequate sources of financing that enable such projects to be implemented.**

C. The country's sector strategy

- 1.9 The Under Secretariat for Small and Medium-sized Enterprise and Regional Development (SEPYME) of Argentina's Ministry of Economy and Production, is responsible for designing, implementing, and supervising public policies to promote the development of Argentina's MSMEs by moving towards integration of the productive structure in all regions of the country.
- 1.10 SEPYME's strategic objective is to promote sustainable regional development by formulating and carrying out activities targeted at MSMEs that are members or may

³ All these issues are developed and quantified in: (i) IERAL Fundación Mediterránea: *Inversión en Argentina: Evolución reciente y perspectivas. Estudio* (AR-P1040) (2006); and (ii) Fundación Observatorio PYME: *Evolución reciente, situación actual y desafíos futuros de las PYME industriales*. (Buenos Aires: Bononiae Libris, 2006).

become members of production complexes. Accordingly, it seeks to strengthen and integrate the different productive networks at the regional level by promoting partnering, involving the public sector (national, provincial, and municipal), and collaborating with academic and research and development institutions (public and private).

- 1.11 SEPYME has developed different lines of action to help Argentine MSMEs overcome these challenges. Notable among current SEPYME programs are:
- a. **Financing access programs:** (i) rate discount, in which SEPYME discounts the annual nominal interest rate offered to MSMEs; (ii) Fondo Nacional de Desarrollo para MiPyMEs [National MSME Development Fund] (FONAPYME), a trust to provide financing for productive investment; (iii) Fondo Nacional para la Creación y Consolidación de Microemprendedores [National Fund for Microentrepreneur Creation and Consolidation] (FOMICRO), a trust fund for granting loans to create productive units of groups of unemployed and underemployed workers and to consolidate existing microenterprises; (iv) Fondo para el Desarrollo Regional [Regional Development Fund] (FONDER), for financing regional development projects for the integration of production chains; (v) Global Small Business and Microenterprise Credit Program II (loan 1192/OC-AR), which provides commercial banks with long-term financing to enable them to grant loans on similar terms to MSMEs; (vi) reciprocal guarantee companies, whose objective is to provide MSMEs with guarantees so that they are able to access credit more readily; and (vii) Fondo de Garantía para MiPyMEs [MSME Guarantee Fund] (FOGAPYME), which seeks to provide guarantees to back those issued by reciprocal guarantee companies and other funds.
 - b. **Training, technical assistance, and foreign trade programs:** (i) tax credit, which refunds, through endorsable tax credit certificates, MSME training expenditures; (ii) the Business Development Support Program (BDSP) (loan 989/OC-AR), which provides financing for business development projects; and (iii) PROARGENTINA, an Internet portal to promote exports from Argentine MSMEs.
 - c. **MSME support network:** SEPYME has a reasonably efficient network of institutions that provide services to MSMEs. However, through program execution, it will be strengthened to further specialize services and achieve nationwide coverage.
- 1.12 This program with the Bank will involve the deepening of current lines of activity, focusing on assisting businesses and groups of businesses (production chains, clusters, etc.) to meet the above-mentioned challenges successfully, so that they can take advantage of the opportunities afforded by today's economic environment.

D. The Bank's country strategy

- 1.13 The Bank's strategy with Argentina (2004-2008) seeks to support sustainable economic growth through three lines of action: (i) institution-strengthening and fiscal sustainability; (ii) creating a more favorable climate for expanding investment and productivity growth to enhance competitiveness; and (iii) poverty reduction, rebuilding of human capital, and promotion of sustainable social development. This program comes under the second line of action, supporting activities to overcome barriers to investment and competitiveness.

E. The Bank's strategy in the sector

- 1.14 This program is the first step in a joint strategy for collaboration between the Bank and SEPYME. To that end, the Bank and SEPYME are preparing a CCLIP operation that would establish a policy, shepherded by SEPYME, to define and implement a long-term plan for supporting MSMEs in which SEPYME would play a pivotal role in coordination. Accordingly, this program was designed to be implemented in a complementary fashion to the Global Small Business and Microenterprise Credit Program II (loan 1192/OC-AR). The latter program is aimed at facilitating commercial banks' access to long-term liabilities, thus helping them be able to finance long-term investment projects.

F. Lessons learned

- 1.15 The program design took into account the lessons learned in preparing, executing, and evaluating IDB projects in both the competitiveness and finance areas.⁴ The main and most important lessons pertain to the need to ensure coordination at different levels:
- a. **Among businesses:** Coordination among businesses should promote the productive group and local association approach. More extensive coordination must take place among stakeholders and approaches at both the national and decentralized levels with the aim of establishing an organized model of support for the competitiveness of clusters and production chains at the local level. The competitive challenge is for such businesses to maintain their

⁴ The Bank is supporting different production development and financial support operations in Argentina., including for example: (i) at the national level: Technological Modernization Program II (loan 1201/OC-AR); Technological Modernization Program III (loan 1728/OC-AR), approved in April 2006; the Business Development Support Program (loan 989/OC-AR); the Global Multisector Credit Program (loan 798/OC-AR); Global Small Business and Microenterprise Credit Program II (loan 1192/OC-AR); the Program for Strengthening Production-related Provincial Institutions and Fiscal Management (AR-L1002); and (ii) at the provincial level: the Program to Support the Modernization of Production in the Province of Río Negro (loan 1463/OC-AR); Program to Support the Integrated Development of the Tourism Sector in the Province of Salta (loan 1465/OC-AR); the Program for Financing Small Projects for Cooperatives (ATN/SF-4340-AR); the Program for Productive-Sector Development and Competitiveness in the Province of Mendoza (loan 1640/OC-AR, AR-L1003); and the Lending Program for Productive and Job Development in the Province of San Juan (loan 1798/OC-AR). Also to be noted are two MIF operations: Program for Supply Chain Development in the Province of Córdoba (MIF/AT-511) and Local Development and Small Business Competitiveness Program (MIF/AT-479).

flexibility and capitalize on economies of sectoral and geographic agglomeration, thus overcoming their problems of scale and dispersion. In that context, public-private linkages at the local level among the government, regional government, companies, research institutions, and other players are key. There is also a MSME sector that will find it difficult to access credit as a result of transaction cost issues. Such costs emanate from the need to structure lending vehicles with sound guarantees based on the assignment of future flows. Although such costs are prohibitive for individual MSMEs, they may potentially be overcome through the use of associative techniques. Production chains or production complexes are the ideal mediums for generating associative projects.

- b. **Between financing and technical assistance:** Under certain conditions, the effectiveness of lending operations and competitiveness may be substantially enhanced if such operations are designed and executed in coordination, as proposed in this program, since this enables their joint impact to be optimized. The technical assistance program for competitiveness should in fact culminate in business plans and investment projects. One of the main criteria for determining the validity of such investment projects is whether private funding is obtained to finance them. From that perspective, the existence of new private credit would be the “acid test” for their success. However, if financial intermediary channels manifest deficiencies, that criterion might be invalidated. Accordingly, in such cases, such shortcomings would need to be mitigated in a coordinated manner by providing: (i) technical assistance for competitiveness that will enable businesses to borrow for their investment projects; (ii) information and appropriate incentives for financial intermediaries so that they are in a position to provide credit if projects involve a level of risk appropriate to their return; and (iii) long-term funding for such intermediaries so that maturities are not mismatched on their balance sheets, should they decide to assume such risks.
 - c. **Among programs:** Examples abound of the need to make available to entrepreneurs an array of instruments to make MSMEs more competitive, tailored to the different requirements of the demand. However, linking such programs based on strategic criteria enables the policies implemented to have greater impact by pursuing a vision of comprehensive support that translates into greater efficiency in the application of MSME support instruments.
- 1.16 An important precursor is the Business Development Support Program (BDSP) (loan 989/OC-AR), launched in 1999 and completed in November 2006. It benefited businesses by providing nonreimbursable financing for up to 50% of their investment in engaging services to make them more competitive. During execution, the BDSP experienced a series of operational modifications dictated by the brusque changes in the macroeconomic environment and the country’s ensuing fiscal requirements. Initially, until December 2000, two private managers ran the BDSP.

- 1.17 During that time, 720 projects were approved, totaling US\$15.5 million. However, for budgetary reasons, the contracts with the private operators were terminated as of January 2001 and management of the BDSP was assumed by SEPYME. The severe economic and institutional crisis (2001-2002) rendered normal program operation impossible (in that period, 84 projects totaling US\$1.7 million were approved). Since January 2004, as a result of the improved economic environment, the BDSP has been revitalized. In 2004 and 2005, 265 projects were approved, totaling US\$2.4 million. Lastly, in January 2005, project recruitment and some project monitoring was decentralized, by creating the BDSP Customer Care Platform, based on a network of customer service windows (known as PREFI windows), managed by third parties.
- 1.18 PREFI windows are the nexus between businesses, consultants, and SEPYME. They provide advice to MSMEs in formulating projects, prequalifying them, and assisting in their execution. The windows operate in institutions such as chambers of commerce or business promotion organizations, and may be private, public, or semiprivate. The main reason for the success of the PREFI windows was that they correctly aligned the program execution incentives, with results-based remuneration. From August 2005 to June 2006, letters of agreement were signed with 35 institutions that will serve as PREFI windows, and 400 projects, totaling US\$3 million were approved.

G. Program strategy

- 1.19 The program strategy is to support SEPYME in making MSMEs more competitive and increasing their local value added through interventions that reduce or eliminate barriers to their growth and increased productivity.
- 1.20 The program seeks to address a series of challenges that essentially entail: (i) improving business management and companies' capacity to formulate productive projects; (ii) promoting coordination among enterprises in the context of production chains, clusters, and other forms of productive association; and (iii) enabling businesses to access medium and long-term financing, which at present is virtually nonexistent. These three challenges must be faced simultaneously and in coordination, since providing technical assistance to generate business projects may be of little value if businesses lack adequate sources of financing.
- 1.21 In achieving these objectives, the program will work simultaneously to provide technical assistance to: (i) make individual MSMEs and groups of businesses more competitive, mitigating the effects of market deficiencies, enabling investment projects to emerge for which private banks can provide financing, and supporting the development of entrepreneurial activities in the country; (ii) provide businesses and/or groups of businesses with access to financing on the best possible terms (guarantees, business plans, project structuring, scale of loans, etc.); and (iii) strengthen the institutional environment for planning and implementation of public and private MSME support programs, instruments, and policies.

- 1.22 Loans will play a central part in the plan now being prepared. MSME demand for short, medium, and long-term credit is expected to increase in the coming years. This is the finding of a Bank-financed study by Kieguel, Memerlstein, and Filippini and a study by IERAL.⁵ The main findings of the two studies are: (i) that only in 2010 will bank deposits reach 30% of GDP—their level in the decade prior to the crisis. It is also expected that only toward the end of the decade will credit to the private sector reach 15% of GDP. Even in this period, the liability structure will be such that loans will be skewed towards the short term; and (ii) the available evidence suggests that there is unmet demand for financing in Argentina's MSME sector. Such unmet demand may now exist in some 15% of MSMEs, however it is highly likely that it will increase substantially in the near future, since: (i) businesses that are being financed with own resources (30%) will begin to note scarcity in this type of funding; (ii) companies that do not invest as a result of excess plant capacity (15%) will begin to note capacity restrictions; and (iii) MSMEs that do not invest, or only make investments of a defensive nature due to a perception of excessive risk in their environment (15%), will start to see the opportunity cost of doing nothing rise daily. Therefore, today's scheme to provide financing to the MSME sector has serious problems in terms of medium- and long-term sustainability. Therefore, in the interim, it will be crucial for business support programs to be supplemented by components to provide and support medium- and long-term credit. Otherwise, there is a risk that businesses and production chains benefiting from the assistance provided by programs will be unable to finance productive projects under their expansion and/or production reorientation plans.

H. Coordination with other donors

- 1.23 At the time of program preparation, neither SEPYME nor the sector had programs with other donors. However, both the Bank and SEPYME will follow SEPYME programs as they evolve to ensure mechanisms are in place to guarantee efficient coordination with other potential donors.

II. THE PROGRAM

A. Objectives and description

- 2.1 The goal of the program is to contribute to the country's sustainable economic growth by making Argentine MSMEs more competitive and increasing their local value added. Its purpose is to provide technical assistance to MSMEs so that they generate investment projects banks can finance, thus facilitating their access to medium- and long-term credit and investment.

⁵ Studies: (i) Kieguel, M., Mermelstein, D., and Filippini, F. *The New Reality of the Banking System*. Argentina: Econ views (2006); and (ii) IERAL Fundación Mediterránea: *Inversión en Argentina: Evolución reciente y perspectivas. Estudio* (2006) (AR-P1040).

- 2.2 To achieve these objectives, the program is structured as two components: (i) technical assistance to businesses and productive groups; and (ii) institution-strengthening.
- 2.3 The first component seeks to provide technical assistance to make individual MSMEs and groups of businesses more competitive. A further objective of this component is to provide technical assistance so that businesses and/or groups of businesses, so strengthened, are able to formulate investment projects resulting in loan portfolios. This component has been designed and will be executed in close coordination with loan 1192/OC-AR (the Global Small Business and Microenterprise Credit Program II). Lastly, the objective of the second component is to strengthen the institutional environment for planning, linkage, and delivery of MSME support policies, programs, and instruments. Each of these components is divided into the subcomponents outlined below.

B. Components

1. Component 1: Technical assistance to businesses and productive groups (US\$59.1 million)

- 2.4 The objective of this component is to provide technical assistance to individual businesses and groups of businesses to make them more competitive and support the development of new entrepreneurial activities within the country. The technical assistance seeks to mitigate the effects of market deficiencies, enabling investment projects to emerge.

a. Subcomponent 1.1: Direct business support (US\$29 million)

- 2.5 This subcomponent will provide financing, through nonreimbursable contributions, for technical assistance and/or training on activities identified to make businesses or groups of businesses more competitive. Expenditures for direct business support account for some 60% of program financing, with the highest percentage going to projects under the clusters in Subcomponent 1.2. For projects with a strong environmental component, the percentages can be as high as 80%. The specific cofinancing percentages will be established in the Operating Regulations at each juncture.
- 2.6 Activities that can be financed under this subcomponent include:
- a. **Development of quality systems.** This series of activities is for forward-looking development of the necessary basis to direct MSMEs toward ongoing improvement of their processes and better customer satisfaction. Activities may relate to the implementation of quality systems, and training on quality and certification processes.
 - b. **Development of products and services.** This includes activities related to: (i) developing new products; and (ii) implementing new product production processes.

- c. **Development of productive infrastructure.** This series of activities focuses on three objectives: (i) customer service; (ii) enterprises' competitive position; and (iii) process reengineering. It includes activities for plant location and design and for developing new production matrices. Business productivity activities include those designed to properly organize work areas and facilities by ensuring that they are appropriate, safe, and efficient for operators. Lastly, it includes planning and production control activities.
- d. **Market development.** This includes actions related to the opening and development of national or international markets for MSMEs, as well as activities to promote exports and marketing plans.
- e. **Organization and systems development.** Program support begins with an analysis/diagnosis of the initial situation and objectives sought in making system improvements (details of which are set out in an action plan), followed by a project cost evaluation and the preparation of a customized plan that is submitted to the program for financing. The customized plan typically includes a section on training of the company's management staff and key personnel.
- f. **Human resources.** This group of activities includes training of business managers on specific technical aspects or business management.
- g. **Clean production system projects.** This line of activity includes topics such as the waste management system, energy efficiency, use of renewable and recyclable materials, etc.

**b. Subcomponent 1.2: Support for production complexes
(US\$17 million)**

- 2.7 This subcomponent is based on the premise that an enterprise's competitiveness does not depend solely on the conditions of its macroeconomic environment and of the international market, but also on its capacity to cooperate with other businesses and institutions in the framework of a shared strategy. In fact, problems of coordination among businesses and with institutions are acknowledged to be a major obstacle to be overcome in making firms more competitive.
- 2.8 The objective of this subcomponent is to help surmount such problems by organizing promotional instruments and institutions that use them around the collective needs of businesses in clusters and production chains (referred to herein as production complexes).
- 2.9 The activities of this subcomponent are described below:
 - a. **Strategic planning of production complexes: Preparation of Competitiveness Improvement Plans (CIPs).** This group of activities will consist of providing support to production complexes in addressing demands and challenges, and developing action plans that meet their needs. Strategic planning of production complexes will include the following stages:

- (i) Raising awareness among production complex members and mobilizing them to cooperate among themselves in identifying challenges and viable strategic options with the shared aim of making the production complex more competitive in light of national and global trends in the sector. Each production complex will designate an entity to represent it.
 - (ii) Preparation of a CIP. The CIP will define the strategic lines that the production complex is to follow in becoming more competitive. For CIP preparation, consultants will be hired that contribute international experience and expertise in the specific market of each production complex. The CIP will: (a) summarize the analysis and diagnosis of the production complex's competitiveness; (b) set out the viable strategic options in making it and its members more competitive; (c) define the lines of action it is to follow in its efforts to make substantial improvements in its competitive position, specifying the technical assistance and training activities of the complex to be financed by the program; (d) establish the breakdown of responsibilities and create ad hoc working groups to carry out each of the actions agreed on among the production complex members; and (e) include an evaluation of its environmental sustainability.
- b. **Investment projects.** Preparation of a CIP will lead to the identification of a series of investment projects that could benefit from the technical assistance and access to credit promoted by this program.
 - (i) Individual and associative projects. Such projects, consistent with the CIP's strategy, will be eligible to receive technical assistance, in accordance with the activities mentioned in Subcomponent 1.1.
 - (ii) Strategic projects. These are projects identified in the CIP that: (a) show broad positive externalities for a substantial part of the chain; (b) generate benefits that cannot readily be appropriated by individual enterprises; and/or (c) seek to overcome coordination problems among enterprises in seeking to achieve a shared objective or benefit. They may include: small infrastructure works (productive development centers in areas such as product and equipment testing and evaluation), technical assistance in preparation for certification; centers for professional education and training; industrial waste treatment programs; programs for developing collective trademarks; improvement of local or provincial rules and regulations, etc.
- c. **Subcomponent 1.3: Support for entrepreneurial activity (US\$10.1 million)**

2.10 The program will provide support for entrepreneurial activity. Essentially, support will be provided for new enterprises and/or those with growth potential, without discrimination based on area or sector. Actions will be targeted at the general

public, including university students, with the capacity to undertake dynamic projects. The program will place particular emphasis on its actions reaching the most disadvantaged areas and minorities. However, it will not have as a priority objective the development of subsistence economic microunits.

2.11 The activities to be carried out under this subcomponent include:

- a. **Development of entrepreneurial skills.** Existing and potential entrepreneurs will be offered support in developing the skills needed for the successful implementation of business projects. This objective will be pursued mainly by training entrepreneurs and management personnel on topics related to business management and organization.
- b. **Institutional development.** To obtain this objective, SEPYME will select a series of institutions with experience in entrepreneurship activities. They will undergo a training and institution-strengthening program with the aim of ensuring that they are able to provide services of the highest quality to support entrepreneurs and business start-ups. The criteria for selecting and accrediting the entrepreneurship institutions include their experience managing business support programs, the availability of a professional team, physical infrastructure and a work methodology for supporting businesses, and presentation of a work plan for providing financial management and access services. The specific criteria and how they will be weighted in the evaluation of the institutions will be set forth in the Operating Regulations.
- c. **Technical assistance to business start-ups.** The above-mentioned institutions will ensure that projects arising from entrepreneurship promotion activities are able to access any SEPYME and program instruments. In addition, a series of activities will be promoted that are designed to assist business start-ups in accessing financing, by means of program or non-program instruments, such as the recently created business start-up investment fund sponsored by Endeavor and the MIF.

d. Subcomponent 1.4: Support for businesses and associative groups to promote access to credit and investment (US\$3 million)

2.12 The objective of this subcomponent is to make available technical assistance for the businesses and/or groups of businesses strengthened through SEPYME instruments, to be able to move through the stages from formulating investment projects to structuring loan portfolios.

2.13 Its purpose is to ensure that such businesses obtain financing on the best terms for maturities and rates. To that end, this subcomponent will be executed in coordination with the Global Small Business and Microenterprise Credit Program II (loan 1192/OC-AR), also executed by SEPYME.

2.14 The activities to be carried out under this subcomponent are:

- a. **Preparation of loan portfolios.** Financing will be provided for consulting assignments to support businesses or groups of businesses in preparing loan

portfolios for the investment projects. Remuneration for such consulting assignments will be contingent upon securing the loans.

- b. **Development of forms of association.** Financing will be provided for technical and legal assistance in forming trusts, temporary business associations, or such other associative forms as may be created that arise from associations among producers or other forms of financial integration within the production complexes. Financing will also be provided for the operating costs of trusts or other associative structures, including trustee fees and the costs of any assignment of guarantees.
- c. **Financing access services.** Among activities to support entrepreneurship, financing will be provided for: (i) selection and formulation of entrepreneurial project files that indicate the market targeted; identify the competition and its competitive advantages; and provide sales projections, cost projections, fund flows, characteristics of the business group to execute the projects, and the amount and objective of the financing requested; (ii) presentation of such files in requests for applications for the financial instruments of SEPYME and other sources; and (iii) development of instruments to help entrepreneurs move through the different stages of obtaining external financing for their firms: seed capital, connection with angel investors and venture capitalists, etc.
- d. **Development of incentives for intermediary financial institutions (IFIs).** A system of incentives will be promoted for IFIs to develop better MSME credit risk assessment mechanisms, with a view to: (i) increasing service for new bank clients (MSMEs); (ii) fostering the start-up and development of value chains; (iii) increasing the financing of long-term investment projects; and (iv) having the IFIs participate in devising the CIPs for the various production complexes, contributing their perspective as potential financiers of the resulting projects. To that end, the incentives will consist of: (i) training for human resources in banks' risk assessment areas, providing instruction to credit risk analysts and long-term investment project feasibility analysts; (ii) cofinancing of the analysis and assessment of loan proposals received by IFIs; and (iii) IFI access to specific information on this new clientele, when the MSMEs have so consented.
- e. **Dissemination of access to financing.** With program resources, financing may be provided for activities to disseminate program services related to access to financing in all productive areas and among the IFIs. In addition, activities will also be promoted to serve as a nexus between IFIs and entrepreneurs. This subcomponent's dissemination activities will be carried out in coordination with SEPYME's Communications Area.

2. Component 2: Institution-strengthening (US\$6 million)

- 2.15 The objective of this component is to strengthen the institutional environment for planning, linkage, and delivery of public and private policies, programs, and instruments to support MSMEs.

a. Subcomponent 2.1: MSME support platform (US\$4.52 million)

- 2.16 At present, SEPYME distributes its products and programs through a distribution platform composed of a series of public and private institutions. The objective of this subcomponent is to expand and strengthen the existing institutional structure so that it specializes and reaches all regions of the country. To that end, the following will be facilitated: (i) better linkage of the supply of public production promotion resources in connection with regional needs and challenges; (ii) improvement of participatory planning processes at the local level and of processes to organize the business community at the production complex level in preparing and implementing the CIPs; (iii) promotion of coordination among public and private entities in order to overcome problems in the environment that affect production complex competitiveness, in accordance with the findings of the CIP; and (iv) coordination among the different public productive sector support programs. Under this subcomponent, the program will provide financing to implement a plan to expand and strengthen the platform and its institutions. The strengthening plan will be structured around the following platform functions:

- a. **Reaching the local level.** This function will ensure that SEPYME's public policy guidelines reach the local level. The program will establish a line of financing designed to strengthen this function by providing incentives so that the need is met for feedback in both directions—between the localities and SEPYME and vice versa—regarding public policy.
- b. **Delivery.** This function entails distributing and providing all SEPYME instruments to MSMEs (including program instruments). The platform should ensure that this function is fulfilled efficiently and that the service delivery system itself facilitates accessibility for MSMEs. The program will strengthen this function by developing and streamlining entrepreneur access and expanding the scope of services. A results-based remuneration system will be implemented for the platform with the aim of promoting greater efficiency in the provision of support services to entrepreneurs.
- c. **Information.** This function will ensure that in those localities where there is no institutional structure, it is at least possible for information to be provided on SEPYME and program instruments so that potential beneficiaries can contact existing channels for access to services. This function complements the other two mentioned above, to ensure that the program has the broadest possible national coverage.

b. Subcomponent 2.2: Implementation and strengthening of an Information, Monitoring, Supervision, and Intelligence Unit (US\$1.48 million)

- 2.17 Activities to design and reformulate SEPYME programs and instruments require considerable information and evaluation. Accordingly, the program proposes to strengthen the Information, Monitoring, Supervision, and Intelligence Unit, through which SEPYME will coordinate and link its policies. The program will carry out the following activities under this subcomponent:
- a. **Monitoring of Small and Medium-sized Enterprise (MAPA).** This will provide information on the MSME sector, sectoral changes in the last 10 years, the main factors impeding their competitiveness, and MSME use of public instruments. Based on this information source, the Unit will develop information on the status and challenges of MSMEs.
 - b. **Activities to supervise, monitor, and evaluate MSME support programs and instruments.** The Unit will supervise SEPYME's programs in a coordinated manner by using a common methodology that enables results to be compared and conclusions drawn regarding best practices and the quality of outcomes. In this framework of activities, the Unit will implement a Customer Relationship Management System through which customers (beneficiaries of public policies) will be able to access SEPYME personally via the Internet to manage their active files.
 - c. **Dissemination activities.** Also to promote and improve the accessibility of SEPYME instruments, this group of activities includes dissemination of instruments and programs. Based on its earlier experiences, SEPYME has established the effectiveness of such activities. Dissemination activities will be carried out in close coordination with SEPYME's Communications Area.
 - d. **Intelligence and strategic planning.** SEPYME's interventions to make businesses more competitive must rely on the use of a system that compiles best practices and updates its knowledge on an ongoing basis. This Unit area will work based on the information generated by the activities described in this subcomponent and that compiled on other emerging programs and instruments elsewhere in the world, to obtain input for the redesign of SEPYME programs.

C. Cost and financing

- 2.18 The total program cost is US\$74 million. The Bank will provide financing of US\$50 million, and the local counterpart contribution will be US\$24 million. Resources under Component 1, "Technical assistance to businesses and productive groups," can be distributed interchangeably among its subcomponents. The Cost and Financing Table for this component lists the forecasted amounts. For the purposes of recording in Bank systems, funds will only be drawn on the main category, "Technical assistance to businesses and productive groups."

Table I: Preliminary Cost and Financing (in US\$ thousands)

Categories	IDB	Counterpart	Total	%
Direct costs	47,750	17,350	65,100	88
Component I – Technical assistance for businesses and productive groups	42,950	16,150	59,100	80
1. Direct business support	19,000	10,000	29,000	39
2. Support for production complexes	12,600	4,400	17,000	23
3. Support for entrepreneurial activity	8,600	1,500	10,100	14
4. Support for businesses and associative groups to promote access to credit and investment	2,750	250	3,000	4
Component II – Institution-strengthening	4,800	1,200	6,000	8
1. MSME support platform	3,320	1,200	4,520	6
2. Implementation and strengthening of an Information, Monitoring, Supervision, and Intelligence Unit	1,480		1,480	2
Administration	250	6,150	6,400	9
Audits and evaluation		500	500	1
PROPEF	1,500		1,500	2
Contingencies	500		500	1
%	68	32	100	
TOTAL	50,000	24,000	74,000	100

III. PROGRAM EXECUTION

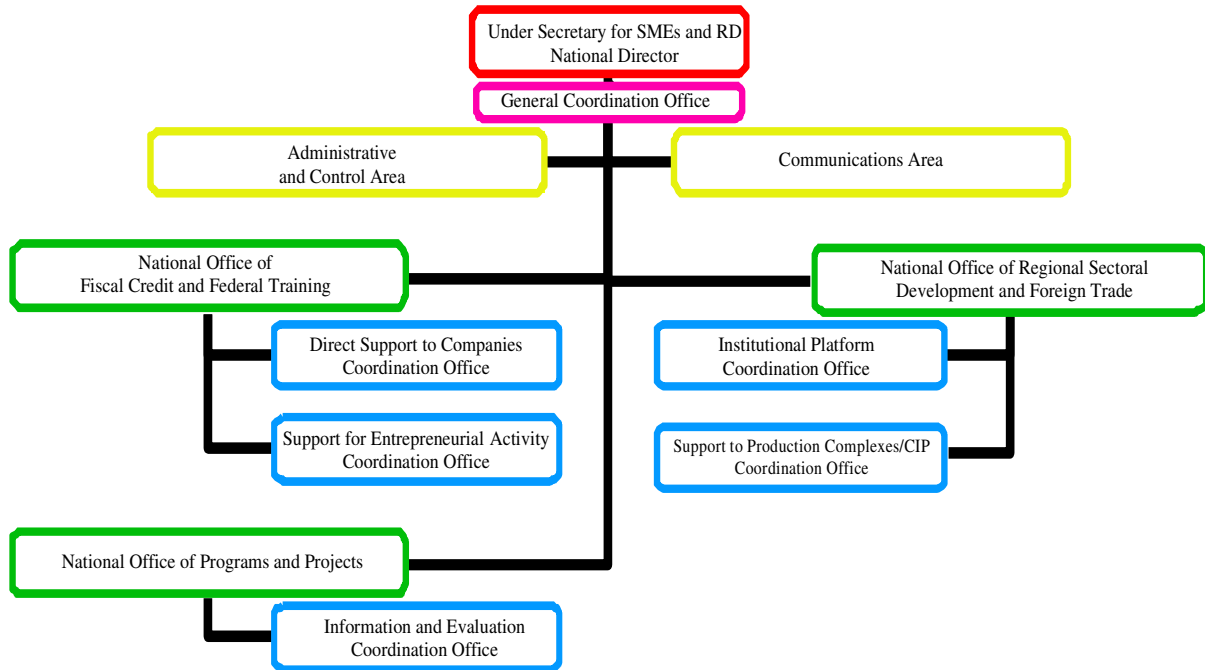
A. Borrower and executing agency

- 3.1 The borrower is the Argentine Republic. The executing agency is the Ministry of Economy and Production, through the Under Secretariat for Small and Medium-sized Enterprise and Regional Development (SEPYME).

B. Organization for program execution

- 3.2 SEPYME will be responsible for program management, execution, and general supervision, and will be attuned to timely fulfillment of program objectives and targets. SEPYME will be responsible for managing both technical and coordination aspects of the program. It will also have responsibility for program financial, accounting, and legal aspects and for the monitoring and evaluation functions. For execution of each component, the program would proceed in a manner integrated with SEPYME instruments, respecting their structure and execution mechanisms and introducing some new elements, as recommended in the ICAS report. SEPYME and the Bank have experience from other programs that were executed efficiently, namely the Global Small Business and Microenterprise Credit Program II (loan 1192/OC-AR) and the Business Development Support Program (loan 989/OC-AR).

Figure 1
Program Executing Unit (SEPYME)



- 3.3 The Operating Regulations will be the contractual and regulatory document defining and governing relations between the parties involved in the program. They will be consistent with the rules and policies of the Bank and with the country's financial laws and practices, and will establish: (i) the eligibility criteria for program participants and beneficiaries; (ii) technical assistance allocation mechanisms; (iii) eligibility of expenditures; and (iv) the operational and contractual relations among the parties involved in the program. Approval by the Bank of the final version of the Operating Regulations and their implementation by SEPYME will be a condition precedent to the first disbursement.

C. Program execution scheme

1. Component 1: Technical assistance for businesses and productive groups

- 3.4 **Execution mechanism.** The component will be executed by SEPYME, with support from the member institutions of the MSME support platform. Said platform will promote within the business community demand for projects that could be financed (both direct assistance and financing projects arising from the CIPs) by assisting in their preparation, and will receive them and make a preliminary technical assessment. After the initial evaluation, the platform will forward them to SEPYME for rating. To that end, SEPYME will take account of the following principles: (i) consistency between the objectives and planned strategies; (ii) strengthening of competitiveness; (iii) job creation potential; (iv) environmental

improvements generated by the project; and (v) local production impact. The Operating Regulations will spell out the specific rating criteria.

- 3.5 **Business eligibility.** To be eligible, private companies must qualify as MSMEs,⁶ produce goods or services, already exist in the market, be located in Argentina, have a Unique Tax Identification Number (CUIT), have no callable tax or pension debt, be incorporated, have a level of organization that ensures efficient utilization of program resources, and have the financial operational capacity (in the required counterpart) to execute the proposed project within the established timeframes. Companies will sign an agreement with the program that establishes the rights and obligations of the parties in executing the actions and/or projects to be cofinanced.

a. Subcomponent 1.1: Direct business support

- 3.6 **Financing.** Once declared eligible, projects will be eligible to receive a nonreimbursable contribution, which will be provided as a reimbursement for activities already financed, or as an advance, if the corresponding guarantee is provided. The Operating Regulations will stipulate the financing percentages.
- 3.7 **Function of the MSME support platform.** In exercising its information and delivery functions, the platform will make its services available to entrepreneurs, promoting closer ties to offer support and disseminate the program's benefits. The platform will be entrepreneurs' gateway to the program. It will facilitate their preparation of projects so that they accurately reflect their needs for support and present activities the program can finance. SEPYME may delegate to the platform such activities as it deems advisable, pursuant to the Operating Regulations, including granting fidelity guarantees, making recommendations on the proposals, etc.
- 3.8 **Eligibility for nonreimbursable contributions.** Financing may be provided for projects submitted by the platform to SEPYME for financing in the "direct business support" category if they meet the following conditions: (i) they submit activities eligible for financing with the nonreimbursable direct business support contributions described in the Operating Regulations; and (ii) they are received in SEPYME with the formal evaluation approved by an MSME support organization in the platform. The Operating Regulations will stipulate the cofinancing percentages for the different activities that can be financed.

b. Subcomponent 1.2: Support for production complexes

- 3.9 **Calls for applications and selection of production complexes.** SEPYME will issue periodic calls for applications from production complexes seeking program support. SEPYME will have different mechanisms for identifying them: (i) through open calls, from SEPYME itself; (ii) by giving priority to the formation of production complexes in sensitive areas with regard to: (a) job creation capacity;

⁶ Under Law 25.300, on promotion of micro, small, and medium-sized enterprises, of 16 August 2000, and the provisions in place (currently SEPYME Directive 147/06, Article 2).

- (b) export potential; (c) environmental protection; and (d) poor segments of the population; and (iii) by validating preexisting cluster initiatives that currently receive SEPYME support. Production complexes that submit proposals will be prequalified and selected by SEPYME based on a matrix assigning weights to eligibility and selection criteria, to be defined in the Operating Regulations, as well as to how such evaluation criteria are to be applied.
- 3.10 **Preparation of CIPs.** The selected production complexes will prepare their CIPs. The facilitators will coordinate, together with a group of representatives, the work of the consultants hired for the CIPs. The consultant team will prepare: (i) an initial assessment report of the production complex; (ii) workshops and activities with businesses to validate the initial report and generate a strategic vision shared by a majority of the production complex's stakeholders; (iii) a second report, which will present the findings of the studies conducted in order to define in greater depth strategies, scenarios, and lines of action, and form working groups composed of businesses with shared interests; and (iv) workshops to validate and prioritize actions within the CIP. The production complexes will submit the CIPs to SEPYME for approval.
- 3.11 **CIP approval.** SEPYME will approve the CIPs based on criteria of quality, utilizing factors such as: (i) inclusion of strategic partnerships in the CIP; (ii) clear identification in the CIP of the process leaders, who are to be representative of their area of action (entrepreneurial, institutional, academic, public sector, etc.); (iii) clear identification of contributions of businesses, what their cofinancing will be; and (iv) inclusion of a long-term sustainability plan that will ensure the survival of the production complex.
- 3.12 **Activities that can be financed.** When the CIP has been prepared, it will give rise to a series of activities that can be financed, either by individual companies or as an associative or strategic project. Financing will be provided for individual and associative activities in accordance with the mechanism described under Subcomponent 1.1. In both cases, when the initiative arises from an approved CIP, project processing (project eligibility evaluation and approval for financing) will be fast-tracked. The Operating Regulations will provide details on the mechanism for this. Financing will be provided for strategic projects by SEPYME through platform institutions.
- 3.13 **CIP execution.** SEPYME will be responsible for program execution, making disbursements to beneficiaries either as reimbursement for activities carried out effectively or as advances through a fidelity guarantee. SEPYME may delegate such activities as it deems advisable to the platform.

c. Subcomponent 1.3: Support for entrepreneurial activity

- 3.14 For this subcomponent, SEPYME will execute the planned activities through the following processes:

- a. **Strengthening of entrepreneur and enterprise support services.** SEPYME will issue a series of calls for proposals, in order to select institutions to act as service providers to entrepreneurs and business start-ups with potential to become competitive firms. Institutions will be selected through a SEPYME Technical Committee.
 - b. **Activities to be carried out by the institutions.** The institutions selected will carry out activities such as: (i) identifying and preselecting projects; (ii) preparing entrepreneurs to submit external financing applications; (iii) monitoring projects that have received external financing; (iv) preparing and submitting the plans for strengthening in the institution's entrepreneurship area; and (v) other complementary dissemination activities.
 - c. **Financing of entrepreneurial activities.** Entrepreneurship activities will be financed through the channels described in Subcomponents 1.1 and 1.4.
 - d. **Subcomponent 1.4: Support for businesses and associative groups to promote access to credit and investment**
- 3.15 **Eligible enterprises.** Firms that have participated in any of the program strengthening activities will be eligible.
- 3.16 **Services to facilitate access to financing and to manage it.** Platform institutions will provide MSMEs with services to facilitate access to financing by supporting the business teams, production complexes, and new entrepreneurs in formulating their external financing application portfolios.
- 3.17 **Formulation, technical preparation, and monitoring of loan portfolios.** The system to be used by MSMEs to access credit and financing will be developed in the following stages:
- a. **Formulation and technical preparation of project portfolios.** The MSME support platform will promote business demand for credit and will assist in preparing loan portfolios containing projects that could be financed through intermediary financial institutions (IFIs). Particular consideration will be given to investment projects arising from CIPs. Described below are types of loan projects that may arise: (i) individual loan portfolios reflecting firms' specific investment needs; (ii) portfolios that request collective investment vehicles. Financing may be provided for technical and legal assistance in forming trusts, temporary business associations, or such other forms of association as may be created that emanate from associations among producers or other forms of financial integration within production complexes; and (iii) portfolios that request structures for financing supplier chains.
 - b. **Obtaining loans from IFIs.** Projects that obtain financing from IFIs will be eligible to receive reimbursement of part of the costs of preparing the project as a percentage of the total.

2. Component 2: Institution-strengthening

a. Subcomponent 2.1: MSME support platform

- 3.18 This subcomponent will be executed by SEPYME. Two categories of expenditure are eligible: (i) incentives to platform member institutions; and (ii) actions to strengthen the platform's structure and operation.
- 3.19 Platform member institutions will be selected based on weighted criteria set forth in the Operating Regulations, including: (i) experience in project administration, implementation, and evaluation, primarily with MSME beneficiaries; (ii) experience carrying out training, technical assistance, and/or other support services for MSMEs; (iii) experience working specifically with SEPYME tools or those of similar institutions; (iv) an organizational structure that guarantees quality service in providing assistance to MSMEs in the region; and (v) presentation of an action plan outlining the activities to be carried out, the goals for the period, and the strategy for supporting MSMEs.
- 3.20 **Incentives to platform member institutions:** For each of the above-mentioned platform functions (reaching the local level, delivery, and information), a system of economic and qualitative incentives will be established. Economic incentives include fees for individual operations or for the total amount of operations carried out within a given period. For qualitative ones, participating institutions will be subject to periodic inspection based on a matrix of evaluation parameters set forth in the Operating Regulations, which will determine the organization's level of access to the different platform services. The former will be charged to Component 1 and the latter to Component 2.
- 3.21 **Actions to strengthen platform structure and operation:**
- a. **Strengthening plans.** Platform institutions may formulate and present their respective strengthening plans for approval. When these have been prepared, they will present them to SEPYME, thus initiating the evaluation stage at the times and in the manner established in the call for proposals, pursuant to the Operating Regulations.
 - b. **Coordination activities among platform institutions.** The program will finance coordination activities through the platform forwarding to SEPYME the recommendations and reflections on activities with the different existing programs. This could be done through regional discussion panels or other integration bodies in which all system stakeholders participate.
 - c. **Process reengineering.** The program will assist SEPYME and the platform in comprehensively reviewing process management of services to MSMEs to identify bottlenecks that limit their operating capacity and scope within the business community. In that connection, it is planned to provide financing for a series of consulting assignments to generate a system of incentives to improve process management, simplify procedures, and streamline administrative procedures.

b. Subcomponent 2.2: Implementation and strengthening of an Information, Monitoring, Supervision, and Intelligence Unit

- 3.22 The execution mechanisms for activities under this subcomponent are outlined below:
- a. **Monitoring of small and medium-sized enterprises (MAPA).** SEPYME will develop a database of all recent beneficiaries, for inclusion in the sample that will participate in evaluating the management of its instruments. This monitoring consists of: (i) a global statistical survey, by sector, of the business base; and (ii) specific studies for programs that so request.
 - b. **Activities to supervise, monitor, and evaluate MSME support programs and instruments.** These activities will be carried out by analysts who, by compiling data on program activities and their outcomes, draw conclusions regarding best practices.
 - c. **Dissemination activities.** Dissemination activities include sector meetings with entrepreneurs, SEPYME visits to member institutions of the MSME support platform to increase their level of involvement and awareness, advertising, production of brochures, exhibitions, and seminars.
 - d. **Intelligence and strategic planning.** In accordance with information obtained on monitoring activities, future interventions will be strategically planned, with greater emphasis on those that have the best outcomes during the program.

D. Procurement

- 3.23 Goods and services will be procured in accordance with the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-7) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-7), both of July 2006. These documents are available on the Bank's website. Wherever possible, private entities acting within the program will procure the goods and services they require during program execution. In accordance with the Bank's policies, businesses in which the government has less than a 50% stake will be considered private.
- 3.24 The procurement plan is ready for the first 18 months of the program and will be reviewed each year. Documents supporting the procurement of goods and services will be subject to ex post review. However, the Bank may, at any time, exercise its right to review any procedures it deems fit on an ex ante basis. As a result of the findings of the ex post reviews, the Bank, depending on the circumstances, may refuse to allow them to draw on the financing from the Bank loan or counterpart resources. The executing agency will update the procurement plan at least once each year during the life of the loan.

E. Execution period and disbursement schedule

- 3.25 The execution period will be five years. Program resources will be managed through a specific account to be used solely for the project, and disbursed in accordance with Table II, which may be revised on a quarterly basis.

Table II: Disbursement schedule (US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	5	15	15	10	5	50
Local	4	6	6	5	3	24
Total	9	21	21	15	8	74
%	12%	28%	28%	20%	11%	100%

F. Special contractual conditions

- 3.26 Conditions precedent to the first disbursement are: (i) approval and entry into force of the Operating Regulations in accordance with the terms of reference agreed on in advance with the Bank; and (ii) fulfillment by SEPYME of the minimum institutional capacity conditions set forth in paragraph 4.3 herein.

G. Monitoring and evaluation

- 3.27 Program execution will be monitored through half-yearly progress reports prepared by the executing agency and submitted to the Bank within 60 days following the end of each six-month period. The reports will be based on fulfillment of the commitments established in the Logical Framework. In that regard, the executing agency will present to the Bank, within 90 days following signature of the contract, with the baseline for the corresponding performance indicators in the Logical Framework.
- 3.28 **Midterm evaluation.** Within 36 months after the date of the first disbursement, or when 50% of the loan has been committed, whichever comes first, the borrower and the Bank will conduct a midterm evaluation on: (i) fulfillment of the objectives and outcomes obtained, based on the Logical Framework; (ii) the environmental requirements; and (iii) whether necessary measures are to be taken if it finds that the program has not substantially fulfilled its objectives.
- 3.29 SEPYME will compile, store, and hold onto all information, indicators, and parameters, including the annual plans, the midterm review, and the final evaluation, needed to help the Bank prepare the project completion report (PCR).
- 3.30 **Audits.** SEPYME, through the Administrative, Financial, Accounting, and Legal Office, will keep records of program expenditures in accordance with the chart of accounts approved by the Bank, and will submit evidence that it has implemented, to the Bank's satisfaction, appropriate accounting, administrative, and financial control systems.

- 3.31 SEPYME will submit to the Bank the program's financial statements, duly audited by the Office of the Auditor General of Argentina. Audits will be conducted in accordance with the terms of reference approved in advance by the Bank (document AF-400) and the Bank's external auditing policy and requirements (documents AF-100 and AF-300). The annual audit report will be submitted within 120 days after the close of the fiscal year and the final audit report within 120 days after the last disbursement. The program's performance indicators are: (i) sales growth rates for program enterprises have increased more than has the average for the respective sector; and (ii) rates of access to credit by program enterprises have increased more than has the average for the respective sector.
- 3.32 **Revolving fund.** A revolving fund of up to 5% of the amount of the operation will be set up. During program execution, the executing agency will present to the Bank semiannual reports on the use and balances of the revolving funds, which will be submitted within 60 days after the close of each six-month period during the calendar year for the life of the project. The program will basically finance two types of expenditures: (i) nonreimbursable contributions to private sector agents (institution or MSME); and (ii) direct expenditures for goods and services contracted by the Project Executing Unit. For rendering of accounts for the former, the Bank will accept as final receipts for nonreimbursable contribution expenditures: a bank transfer receipt or receipt or conformed invoice from the beneficiary of the nonreimbursable contribution (institution or MSME). For the latter, it will accept as final receipts for expenditures incurred by the PEU: the receipt or conformed invoice from the provider of the good or service.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 The ICAS report states that SEPYME will be able to efficiently manage achievement of the objectives assigned to it and therefore to manage the project satisfactorily to the extent that it can implement the recommendations made in said report in the following areas: (i) the activities scheduling system; (ii) the administrative organizational system; and (iii) the internal control system, all of which have a significant impact on the other capacities evaluated.
- 4.2 The report also proposes the following options to improve the management and autonomy of the programs executed within SEPYME: (i) establishment of an Institutional Financial Unit to centralize project procurement and financial management so as to generate synergies that result in more efficient use of resources and achieve a stable unit that remains in place despite political changes; and (ii) incorporation of the technical areas into the organizational framework so that they interact with the other SEPYME programs.
- 4.3 In order to strengthen execution of all of its programs, SEPYME will present a work plan to the Bank's satisfaction, prior to the first disbursement, to strengthen and streamline execution mechanisms and implement the following

recommendations from the ICAS report: (i) creation of an institutional framework below the National Office level to enable greater delegation and assignment of responsibilities; (ii) inclusion in the organizational chart of a Management Unit, the Office of the Cabinet Chief, and Legal Advisory Services; (iii) dissemination of the organizational chart; (iv) verification of each contract's terms of reference; (v) definition of forms of intercommunication, coordination, and control; (vi) planning and intensification of training courses for personnel who handle queries from MSMEs regarding SEPYME's programs; (vii) definition of the programming, planning, and monitoring methodology; (viii) development of a comprehensive information system to generate information automatically and reliably on the monitoring and control of operations; (ix) formalization of administrative procedures; preparation or updating of procedural manuals; and (x) adjustments to the internal control system in accordance with the paper by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

B. Socioeconomic and financial viability

- 4.4 Since this is a technical assistance program to provide access to credit and financing, its return should be calculated using the net present value (NPV) method. Specifically, under that method the assistance provided to enterprises and groups of enterprises should be incorporated as equity or assets (including on their balance sheets). Accordingly, the measure of program return should be the return on the asset base incorporated in businesses through their participation in this program. For the program to have additionality, this return must be higher than that obtained by a control group of companies (with similar characteristics, but which did not participate in the program). Other program additionalities are: (i) program serves as a catalyst for additional investments arising from entrepreneurs' contributions, currently expected to be US\$16.15 million—some 38% of total technical assistance; and (ii) SEPYME will determine the value of other intangible program benefits which, by their nature, cannot be measured directly. Based on this analysis, it will be possible to make a quantitative determination as to whether program benefits justify the subsidies it offers in the form of nonreimbursable contributions—a mechanism customarily used in other Bank projects.

C. Social and environmental impact

- 4.5 The program will promote environmental and social improvement measures for participating enterprises through the implementation of good management practices and by ensuring compliance with environmental regulations. The program will include measures to encourage beneficiary companies to adopt appropriate environmental and social management practices in order to promote environmental sustainability; health, safety and worker protection-related considerations; and the rights of minority peoples and groups.
- 4.6 Specifically, the program will include the following activities to effectively manage environmental and social consideration: (i) SEPYME will continue to link actions with the Secretariat for Environment and Sustainable Development, under the

Office of the Cabinet Chief. Under the Interest Rate Discount Program, a call was issued for awarding credit lines for the procurement of capital goods to optimize, convert, or restructure production processes so as to improve MSME environmental performance. Special coordination will also be provided in connection with execution of the Environmental Management Program for Sustainable Development in the Productive Sector (AR-L1026); (ii) SEPYME will request sworn statements from participating firms stating that there is no environmental impact and that processing of their environmental permits is in order; (iii) nonreimbursable contributions for actions directly related to clean production will be higher (as a percentage of costs) than those for other types of actions; (iv) CIPs for production chains will include an environmental sustainability and social impact management component; (v) investments to improve the environmental sustainability of clusters and production chains will have priority for financing; (vi) priority will be given to the implementation of production complexes in sensitive areas as regards job creation capacity, export potential, environmental protection, and poor sectors of the population; (vii) an exclusion list specifying what environment-related activities are not eligible; (viii) the program will establish criteria prohibiting discrimination in project selection on the basis of gender or ethnicity; (ix) the program will ensure dissemination of the operation within the country by according special attention to dissemination activities, reflected in the program structure (specifically, the Communications Area in the organizational chart and the dissemination activities under each component); (x) the incentive system for the networks of institutions in the MSME support platform will prevent interventions from being concentrated in any given region; and (xi) the mechanisms for participation by public stakeholders in the MSME support platform (regional production development agencies and the offices for dissemination established by SEPYME in localities without SEPYME windows or production development agencies) provide for the presence of such agencies in the country's most disadvantaged areas, and particularly emphasize service to traditionally marginalized sectors, in an effort to promote access to program services and increase the beneficiary population.

D. Benefits and beneficiaries

- 4.7 **Benefits.** Program benefits will be expressed as more competitive Argentine MSMEs, which will translate into higher company revenue, the emergence of more production complexes and other associative projects, and better access to credit instruments. The experience of similar programs has shown that they have a positive impact on production and employment. Other benefits are: (i) professionalization and consolidation of institutions providing technical assistance to entrepreneurs; (ii) the development of a climate that facilitates business start-ups; and (iii) institutional strengthening of SEPYME and the MSME support platform.

- 4.8 **Beneficiaries.** The main beneficiaries are the MSMEs. Through program intervention, steps will be taken, in the key areas of professional technical assistance and access to credit, to overcome obstacles to MSME competitiveness.

E. Preliminary PTI/SEQ classification

- 4.9 This operation does not qualify as a poverty-targeted investment or social equity enhancing project.

F. Risks

- 4.10 If this operation is to proceed smoothly, reasonably stable macroeconomic and political environments conducive to investment must be maintained. There is nothing to suggest any significant disruption of such stability in the next five years.
- 4.11 In view of the numerous actions to support the productive sector and MSMEs now under way or being prepared in the country, by both the Bank and other institutions, there is a risk of overlapping activities and duplication of efforts. To mitigate this risk, the program will create an execution structure that includes an Information, Monitoring, Supervision, and Intelligence Unit for programs and instruments. It will seek special coordination with the Fondo Tecnológico Argentino [Argentine Technological Fund] (FONTAR) in connection with execution of Technological Modernization Program III (AR-L1012). This Unit will monitor, on a centralized basis, the different programs and instruments, to disseminate achievements strengthening societal ownership of SEPYME's activities and also as feedback for the areas that design policies and instruments, for decision-making on their redirection.
- 4.12 The risk of slow disbursement has been mitigated by means of Component 2 (Institution-strengthening), Subcomponent 2.1 (MSME support platform), which is designed specifically to streamline program disbursement.

MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISE CREDIT ACCESS AND COMPETITIVENESS PROGRAM (AR-L1033)
LOGICAL FRAMEWORK

Narrative summary	Indicators	Means of verification	Assumptions
Goal:			
To contribute to the country's sustainable economic growth by making Argentine MSMEs more competitive and increasing their local value added.	<ol style="list-style-type: none"> Sales growth rates for program enterprises have increased more than has the average for the respective sector.* Rates of access to credit by program businesses have increased more than has the average for the respective sector.* <p>* Baseline values for these indicators will be the data gathered by SEPYME in the framework of Monitoring of Small and Medium-sized Enterprise (MAPA-SME). They will be set within 90 days following signature of the contract.</p>	<ul style="list-style-type: none"> Entrepreneur surveys: Monitoring of Small and Medium-sized Enterprise Instituto Nacional de Estadística y Censos (INDEC): Emerging Markets Bond Index (EMBI) and national accounts MTySS: Employment dynamics and company turnover 	<ul style="list-style-type: none"> Stable political and macroeconomic environments favorable to investment
Purpose:			
To provide technical assistance to MSMEs so that they generate investment projects banks can finance, thus facilitating their access to medium- and long-term credit and investment.	<p><i>By program end:</i></p> <ol style="list-style-type: none"> At least 75% of entrepreneurs participating in the program state that it contributed significantly to improving their competitive position. Among enterprises that participated in the program as potential requesters of financing for their investment projects, 51% obtained it. At least 200 companies created and consolidated with program support. 	<ul style="list-style-type: none"> Program midterm and final evaluation Entrepreneur surveys Financial institution reports Periodic SEPYME monitoring reports 	<ul style="list-style-type: none"> Stable macroeconomic environment (exchange rate maintained within an acceptable range). The financial system remains sound and operating with regard to increasing the supply of credit. There is continuity in national policies to support the enhancement of MSMEs competitiveness.

Narrative summary	Indicators	Means of verification	Assumptions
			<ul style="list-style-type: none"> Enterprises and other organizations are interested and participate. An economic environment appropriate for private investment is maintained.
Components			
Component 1: Technical assistance to businesses and productive groups			
<p>Subcomponent 1.1: Direct business support</p> <p>Subcomponent 1.2: Support for production complexes</p> <p>Subcomponent 1.3: Support for entrepreneurial activity</p> <p>Subcomponent 1.4: Support for businesses and associative groups to promote access to credit and investment.</p>	<p><i>By program end:</i></p> <ol style="list-style-type: none"> At least 2,000 nonreimbursable technical assistance operations executed. Program technical assistance services accessed by at least 50% of companies in each group of production complexes with approved CIPs. Participation in cooperative actions by at least 50% of companies of each CIP approved under the program. At least 30 CIPs prepared and validated with entrepreneurs. At least 4,500 entrepreneurs have participated in the program. At least 1,500 young entrepreneurs have received services to facilitate access to financing and manage it. At least 600 young entrepreneurs/business start-ups received nonreimbursable contributions for business start-up expenditures. At least 100 enterprises (individually, and as participants in collective investment projects) have received technical assistance to prepare and structure projects for presentation to IFIs. Financing provided for at least 50% of such projects. 	<ul style="list-style-type: none"> Program management reports Surveys of businesspeople and entrepreneurs Surveys of platform institutions Entrepreneur participation reports IFI reports on projects financed 	<ul style="list-style-type: none"> Enterprises and other organizations are interested and participate in the competitiveness promotion process. An economic environment appropriate for private investment is maintained.

Narrative summary	Indicators	Means of verification	Assumptions
Component 2: Institution-strengthening			
<p>Subcomponent 2.1: MSME support platform</p> <p>Subcomponent 2.2: Implementation and strengthening of an Information, Monitoring, Supervision, and Intelligence Unit</p>	<p><i>By program end:</i></p> <ol style="list-style-type: none"> At least 40 institutional strengthening plans presented by platform institutions have been implemented. At least 20 new institutions have joined the platform. Program monitoring and evaluation system implemented at the general SEPYME level and at the level of its programs. At least 10 studies on the structural characteristics and evolution of the MSMEs conducted. 	<ul style="list-style-type: none"> Program management reports Entrepreneur surveys Periodic monitoring reports, measuring the indicators 	<ul style="list-style-type: none"> There is continuity and interest among stakeholders in carrying out monitoring, learning, and evaluation activities.