

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**ARGENTINA**

**CREDIT PROGRAM FOR THE REACTIVATION OF PRODUCTION IN THE  
PROVINCE OF SAN JUAN**

**(AR-L1334)**

**LOAN PROPOSAL**

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REQUIRED LINKS	
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3.	<a href="#">Safeguard Policy Filter</a>

## ABBREVIATIONS

ASJDI	Agencia San Juan de Desarrollo de Inversiones [San Juan Investment Development Agency]
BCRA	Banco Central de la República Argentina [Central Bank of the Argentine Republic]
ECLAC	Economic Commission for Latin America and the Caribbean
EPH	Encuesta Permanente de Hogares [Continuous Household Survey]
FONDEFIN	Fondo de Financiamiento de Inversiones Productivas [Fund for Productive Investment Financing]
FOP	Fundación Observatorio PYME [SMEs Observatory Foundation]
GDP	Gross domestic product
GGP	Gross geographic product
IDB	Inter-American Development Bank
IFC	international Finance Corporation
IIEE	Instituto de Investigaciones Económicas y Estadísticas [Economic and Statistical Research Institute]
IMF	International Monetary Fund
INDEC	Instituto Nacional de Estadísticas y Censos [National Statistics and Census Institute]
MSMEs	Micro, small, and medium-sized enterprises
NRC	Nonreimbursable contributions
OEDE	Observatorio de Empleo y Dinámica Empresarial [Employment and Business Dynamics Observatory]
OVE	Office of Evaluation and Oversight
PEU	Program execution unit
SMEs	Small and medium-sized enterprises
UNDP	United Nations Development Programme

## PROJECT SUMMARY

### ARGENTINA CREDIT PROGRAM FOR THE REACTIVATION OF PRODUCTION IN THE PROVINCE OF SAN JUAN (AR-L1334)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility <sup>(a)</sup>	
Province of San Juan			Amortization period:	25 years
Executing agency:			Disbursement period:	5 years
San Juan Investment Development Agency (ASJDI)			Grace period:	5.5 years <sup>(b)</sup>
Guarantor:			Interest rate:	LIBOR-based
The Argentine Republic			Credit fee:	(c)
Source	Amount	%	Inspection and supervision fee:	(c)
IDB (Ordinary Capital): <sup>(d)</sup>	US\$58 million	85%	Weighted average life:	15.25 years
Local:	US\$10 million	15%	Currency of approval:	U.S. dollar
Total:	US\$68 million	100%		
Project at a Glance				
<b>Project objective/description:</b> The general objective of the program is to contribute to the recovery of production in the Province of San Juan and support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as a mainstay of employment in the province. The specific objective is to promote the economic recovery of MSMEs operating in the Province of San Juan by providing access to production-oriented financing.				
<b>Special contractual conditions precedent to the first disbursement of the financing:</b> The following will be special contractual conditions precedent to the first disbursement of the loan proceeds: (i) creation of the program execution unit (PEU) and designation of its team; (ii) approval and entry into force of the program <a href="#">Credit Regulations</a> , in accordance with the terms previously agreed upon with the Bank; (iii) signature and entry into force of the subsidiary execution agreement between the borrower and the executing agency for the transfer of loan proceeds, under the terms agreed upon with the Bank; and (iv) signature and entry into force of the project document signed between the executing agency and the United Nations Development Programme (UNDP), under the terms agreed upon with the Bank (paragraph 3.12).				
<b>Special contractual condition of execution:</b> As a special contractual condition of execution, the executing agency will submit the operations manuals, setting out the roles and responsibilities of the ASJDI, departments, subdepartments, and units, as well as a manual stipulating integrity standards, prior to the start of execution of the activities under program Component II (paragraph 3.13).				
Exceptions to Bank policies: None				
Strategic Alignment				
Challenges: <sup>(e)</sup>	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>	
Crosscutting themes: <sup>(f)</sup>	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input type="checkbox"/>	

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

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

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

<sup>(d)</sup> In accordance with document AB-2990, the disbursement of the Bank loan proceeds will be subject to the following restrictions: (i) a maximum of 15% in the first 12 months; (ii) a maximum of 30% in the first 24 months; and (iii) a maximum of 50% in the first 36 months, counted in all instances from the date the loan operation is approved by the Board of Executive Directors (paragraph 2.3).

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

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

## I. DESCRIPTION AND RESULTS MONITORING

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

- 1.1 **Macroeconomic context.** The recessionary trajectory of Argentina's economy over the past two years has been compounded significantly by COVID-19, with a 9.9% drop in GDP in 2020. The government is taking steps to get the economy on the path to recovery, improve fiscal and external liquidity, negotiate a new agreement with the International Monetary Fund (IMF), and carry out a fiscal adjustment of two percentage points of GDP. Better export prices are expected to underpin this effort, and a partial recovery of 6.4% of GDP is anticipated for 2021. There are macroeconomic risks associated with monetary financing of the primary fiscal deficit (projected to reach 4.5% of GDP in 2021), significant liquidity surpluses and interest-bearing liabilities of the Central Bank of the Argentine Republic (BCRA), and a meager net reserve position. A haphazard correction of these monetary and exchange rate imbalances could lead to an acceleration of inflation, which in April stood at a monthly rate of 4.8%. The government has been applying capital controls and other measures to manage the exchange rate as a nominal anchor.
- 1.2 **Local productive fabric.** The Province of San Juan covers a total area of 89,651 square kilometers, over 80% of which are mountain ranges that enclose the valleys where most of the economic activity is concentrated. San Juan's gross geographic product (GGP) was Arg\$264.647 billion (current Argentine pesos) in 2019,<sup>1</sup> equivalent to US\$5.484 billion, representing 1.32% of Argentina's GDP.<sup>2</sup> A report by the IDB (Schneider, 2020) shows that San Juan's geography provides it with great metal and non-metal mineral wealth. In addition, the favorable climate conditions of the province are optimal for industrial and agricultural activities, such as grape cultivation for winemaking, olive production, and fruit and vegetable farming. San Juan is the country's main pistachio-growing region and the second largest producer of grapes, wines and musts, white garlic, and tomatoes. The largest productive sectors are manufacturing; commerce; agriculture, livestock, hunting, and forestry; mining; and real estate, business, and rental services, which represent, respectively, 16%, 15%, 12%, 11% and 10% of GGP,<sup>3</sup> as shown in Figure 1. Other important sectors in the province are tourism and the generation of renewable energy. Employment in hotels, restaurants, and travel agencies in San Juan represents 3.7% of formal private sector employment in the province and 1% of the sector's employment at the national level.<sup>4</sup> In terms of renewable energy generation, the province has developed a complex water management system comprising canals, irrigation ditches, and dams that allow it to generate hydroelectric power. The province benefits from high levels of sunlight and

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<sup>1</sup> Preliminary data provided by the Province of San Juan.

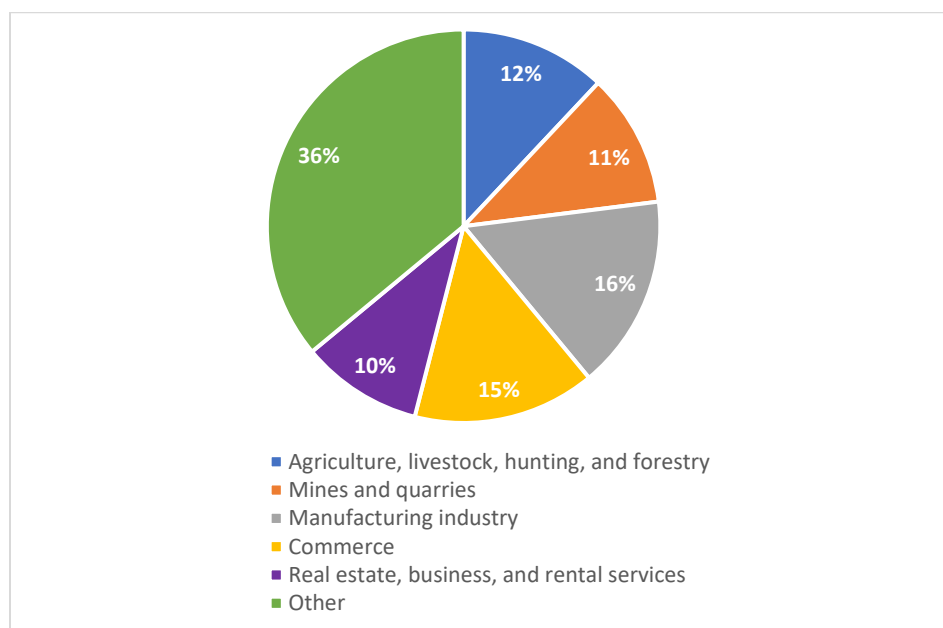
<sup>2</sup> Preliminary figures from the Economic and Statistical Research Institute (IIEE) (2021) [PGB de la Provincia de San Juan. Series 2004-2019](#).

<sup>3</sup> [Idem](#).

<sup>4</sup> Secretaría de Política Económica [Department of Economic Policy] (2019). [San Juan Informe Productivo Provincial. June 2019](#).

constant winds from the mountain range, which position it as a force for the development of wind and solar power.<sup>5</sup>

**Figure 1. A breakdown of GGP by main economic activities. 2019**



Source: Preliminary figures. IIEE data.

- 1.3 According to data from the Continuous Household Survey<sup>6</sup> (EPH) conducted by the National Statistics and Census Institute (INDEC), in the last quarter of 2019 the economically active population was approximately 231,000 people and the employment rate was 41.9%.<sup>7</sup> Statistics by the Employment and Business Dynamics Observatory (OEDE)<sup>8</sup> show that in the Local San Juan Economic Area, the average number of registered wage earners working in the private sector in 2019 was 78,606. They were distributed mainly among commerce (16.92%), manufacturing (16.63%), construction (15.46%), real estate, business, and rental services (9.01%), teaching (8.63%), and agricultural activities (8.3%).
- 1.4 Private sector enterprises in the Province of San Juan are concentrated in commerce (28.58%), followed by agriculture (15.59%), business activities (10.82%), and manufacturing (9.99%). According to 2019 figures, there are 8,863 registered enterprises in the province (5,272 microenterprises, along with 2,043 small, 734 medium-sized, and 814 large enterprises). Micro, small, and medium-sized

<sup>5</sup> IIEE Preliminary figures (2021). [PGB de la Provincia de San Juan. Series 2004-2019.](#)

<sup>6</sup> INDEC (2020). Trabajo e ingresos. Vol. 4, no. 1 Mercado de trabajo. Tasas e indicadores socioeconómicos. According to INDEC, the economically active population is made up of those who are employed, or who are not currently employed but are actively seeking employment. It is comprised of the employed population plus the unemployed population.

<sup>7</sup> According to INDEC data on the Greater San Juan agglomerate composed of the capital city of San Juan and neighboring departments. [Link.](#)

<sup>8</sup> SMEs Observatory Foundation (FOP). [Link.](#)

enterprises (MSMEs) provide 50.1% of all formal employment in the private sector and comprise 90.8% of San Juan's total number of private enterprises, according to 2019 data.<sup>9</sup>

- 1.5 **Impact of the current pandemic.** The main effects of the pandemic at the national level were observed in the second quarter of 2020, when stricter containment measures were put in place. The unemployment rate increased to 13.1%, up from 10.4% in the first quarter.<sup>10</sup> By the fourth quarter, the unemployment rate had recovered to 11%, though still above the 8.9% recorded in the same period of 2019. According to a survey conducted by IDB/Cornell (April 2020), female respondents were more likely to state that at least one adult in their household had lost their source of income. In terms of national economic activity, the second quarter of 2020 saw a year-on-year drop in GDP of 19.1%, moderating to a year-on-year rate of -4.3% in the fourth quarter.<sup>11</sup> The economic activities most affected by the pandemic were restaurants and hotels (-32%) and construction and community services (-20%). The effects on manufacturing varied, with moderate impacts on food and beverages and the chemical sector, and more pronounced effects on textiles, footwear, and leather; minerals, metals, and processed products; and the automotive sector.<sup>12</sup>
- 1.6 In the Cuyo region (San Luis, San Juan, and Mendoza provinces) in 2020, economic activity fell by 11.4% year-on-year and employment by 10% (the largest regional decline).<sup>13</sup> San Juan saw an 11.1% year-on-year drop in private sector wage employment. The largest reductions in employment occurred in construction, agriculture, livestock, hotels and restaurants, and manufacturing.<sup>14</sup> Commercial activity suffered a year-on-year decline of 44.9% in April 2020, moderating to a 4.2% year-on-year retraction in November 2020 and a -0.6% year-on-year rate in January 2021.<sup>15</sup> Much of San Juan's production is directed at external markets (paragraph 1.14). In the first half of 2020, provincial exports fell 8.9% year-on-year. In the third quarter of 2020, the decline in economic activity and employment eased, with year-on-year rates of -4.7% and -7.4%, respectively.<sup>16</sup> The weakened outlook was compounded by the magnitude 6.4 earthquake that hit the province in January 2021, affecting mainly substandard housing.<sup>17</sup> According to provisional quarterly calculations, a 12.4% drop in the level of activity is estimated for 2020.<sup>18</sup>

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<sup>9</sup> [Schneider \(2020\). Estudio sobre Identificación de las Necesidades y Oportunidades de Financiamiento a las Empresas de la Provincia de San Juan.](#)

<sup>10</sup> [INDEC \(2020\). Mercado de trabajo. Tasas e indicadores socioeconómicos \(EPH\).](#)

<sup>11</sup> [INDEC \(2020\). Informe de Avance del nivel de Actividad.](#)

<sup>12</sup> [ILO \(2020\). Argentina: Los retos en las respuestas a la pandemia y sus impactos socioeconómicos.](#)

<sup>13</sup> [Ministry of Economy \(2020\). Indicador Sintético de Economías Regionales, II Trimestre 2020.](#)

<sup>14</sup> [OEDE \(2020\). Empleos provinciales – Evolución del empleo registrado por rama de actividad.](#)

<sup>15</sup> [Centro de Estudios para la Producción \[Center for Production Studies\] \(2021\). Informe de Panorama Productivo Evolución de los principales indicadores de la actividad productiva.](#)

<sup>16</sup> [Ministry of Economy \(2020\). Indicador Sintético de Economías Regionales, III Trimestre 2020.](#)

<sup>17</sup> Government of San Juan Information Service. [Link.](#)

<sup>18</sup> San Juan government data (2021). Province of San Juan presentation.



- 1.7 **MSME vulnerability.** In Argentina, MSMEs represent 98.7% of the country's entire productive fabric.<sup>19</sup> And yet, credit to MSMEs represents just 3% of the gross domestic product. At the end of 2016, the majority of deposits (99.4%) had maturities of less than one year, which restricts medium- and long-term financing.<sup>20</sup> The crisis generated by COVID-19 has exacerbated MSME liquidity problems, affecting their risk profile and making it more difficult to obtain loans. In 2019, 60% of MSMEs did not take out bank loans due to: (i) high interest rates; (ii) failure to comply with the formalities required to apply for a loan; and (iii) terms that did not meet needs.<sup>21</sup> In the current context, this lack of credit is affecting MSME short-term survival, given that credit is needed for subsistence in order for things to return to normal, which will possibly require new ways of operating and a greater degree of digitalization. It also limits the capacity of enterprises to invest, innovate, and expand in the medium and long term, which hinders their ability to reduce the technology gap and increase productivity and growth.
- 1.8 San Juan is also confronted by this reality, in which the majority of private sector deposits are concentrated in the short term.<sup>22</sup> In the local market's main bank, Banco de San Juan, there is a maturity mismatch, with 99% of deposits corresponding to terms of less than 90 days, while nearly 40% of assets are concentrated in terms over 90 days.<sup>23</sup> Banco de la Nación Argentina also concentrates over 90% of its financial liabilities in terms of up to six months, while only 50% of its financial assets have comparable terms, and more than 35% have terms exceeding two years.<sup>24</sup> In the context of the pandemic, as of October 2020, only 55% of MSMEs in the Cuyo region reported that they were fully operational, while only 27% had an active full staff.<sup>25</sup> As of the first half of 2020, a large percentage of businesses in Cuyo were covering less than 60% of their fixed costs. About 42% of businesses resorted to soft credit at rates of 24%, and only 14% of businesses also used other loans.<sup>26</sup>
- 1.9 **MSME digitalization and recovery.** Quarantine measures have been a driving force behind accelerated digitalization as a means of subsistence, especially for MSMEs. Nevertheless, the digital transformation requires overcoming barriers such as low investment capacity, limited capacity for implementation of technology, lack of digital skills and business models for the new reality, limited access to financial resources, bottlenecks in logistics chains, and inadequate infrastructure. Regarding limited infrastructure, a study<sup>27</sup> on the economic impact of the

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<sup>19</sup> Sistema de Información Secretaría de la Pequeña y Mediana Empresa (2021) [SME Department Information System]

<sup>20</sup> BCRA data.

<sup>21</sup> [Schneider \(2020\). Estudio sobre Identificación de las Necesidades y Oportunidades de Financiamiento a las Empresas de la Provincia de San Juan.](#)

<sup>22</sup> [Idem.](#)

<sup>23</sup> [Fitch Ratings \(2019\). Informe Integral del Banco de San Juan S.A.](#)

<sup>24</sup> [Fitch Ratings \(2019\). Informe Integral del Banco de la Nación Argentina.](#)

<sup>25</sup> [SMEs Observatory Foundation \(FOP\) \(2020\). Coronavirus VI: ¿Hay espacio para una mayor eficiencia productiva de las PYME en la pospandemia?.](#)

<sup>26</sup> [FOP \(2020\). Coronavirus: Impacto sobre las PYME, producción y empleo.](#)

<sup>27</sup> Development Bank of Latin America (CAF) (2020). [El estado de la digitalización de América Latina frente a la pandemia del COVID-19.](#)

SARS-CoV virus concluded that those countries with a developed connectivity infrastructure were able to mitigate the effects of the pandemic. However, according to an IDB report (Schneider, 2020), only 15% of San Juan's enterprises have access to digital technology products. Regarding lack of skills, a report on inequality in Latin America and the Caribbean<sup>28</sup> cites that although there is a similar percentage of male and female graduates in tertiary education, there is a gap when it comes to science, technology, engineering, and mathematics (STEM) programs, leaving women at a disadvantage, particularly in specialties such as engineering and information technologies. This highlights the need for capacity-building in digitalization, promoting the participation of women.

- 1.10 **Financing gap.** According to the International Finance Corporation (IFC), MSMEs in Argentina obtain US\$13 billion in financing while the financing gap is US\$86 billion as of 2017, comprising a US\$66.6 billion gap for SMEs and a US\$19.3 billion gap for microenterprises, which, when combined, is the equivalent of 15% of GDP.<sup>29</sup> From a demand perspective, only 37.4% of all MSMEs are able to obtain financing, mainly for very short terms and under very restrictive conditions for their development, such as advances on current accounts and leasing. The problem is exacerbated indirectly by the size of the enterprise: 56.3% of medium-sized enterprises have access to credit, a figure that drops to 42.8% and 34% for small businesses and microenterprises, respectively. On the supply side, the main providers of credit for MSMEs are banks and finance corporations, 87% for working capital and 13% for investment. However, the restrictions are significant from the point of view of: (i) the perception of credit risk resulting from an information asymmetry and insufficient collateral among potential borrowers; (ii) the lack of funding for specialized entities that have a broader mission to work with MSMEs, particularly long-term; (iii) the viability of those same specialized entities considering their reduced scale; and (iv) the asymmetries and distortions that put upward pressure on the cost of credit.<sup>30</sup>
- 1.11 In the case of the Province of San Juan, estimates show that the current MSME financing demand is US\$187 million, between working and investment capital (Schneider, 2020). Of the potential businesses in need of loans, over 50% are microenterprises, approximately 30% are small businesses, and the remainder are medium-sized businesses. There is an insufficient credit supply for investment in machinery and equipment, in part due to the shorter financing terms. On the demand side, 76.8% of businesses have projects on hold due to lack of financing. Liquidity restrictions are exacerbated for smaller businesses. This disproportionately affects female employees because 50% of employed women work in businesses employing five people or less, exceeding by six percentage points the share of men employed in a business of that size.<sup>31</sup> The IDB's recent experience (2013-2018) supporting San Juan (paragraph 1.16) showed that the demand for production-oriented financing was distributed in the following manner:

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<sup>28</sup> IDB (2020). The Inequality Crisis: Latin America and the Caribbean at the Crossroads.

<sup>29</sup> International Finance Corporation (IFC) (2017). MSME Finance Gap. Assessment of the Shortfalls and Opportunities in Financing Micro, Small, and Medium Enterprises in Emerging Markets. Washington, D.C. World Bank Group. [Link](#).

<sup>30</sup> Ministry of Finance (now Ministry of Economy) (2019). "Política de Acceso al Crédito Productivo en Argentina 2019."

<sup>31</sup> Dirección General de Estudios y Estadísticas Laborales [Bureau of Labor Studies and Statistics]. [Link](#).

industry (35%), services (23%), construction (15%), commerce (15%), agriculture (8%) and mining (4%).<sup>32</sup> The beneficiary enterprises used proceeds mainly for purchasing machinery (69%), vehicles (13%), infrastructure (9%), irrigation systems (3%), computer equipment (2%), and the rest for inputs, merchandise, and furniture.

- 1.12 **Gender.** In Argentina, only 7.9% of MSMEs are majority-owned by women, below the Latin American and Caribbean average of 20.3% and the world average of 14.5%.<sup>33</sup> Likewise, only 8% of MSMEs in Argentina have women in senior management positions, compared with 21.6% in Latin America and the Caribbean and 18.6% in the world. These gender gaps in business ownership and leadership are also seen in access to financing. Only 15.4% of businesses led by women finance their working capital with bank loans, a proportion that drops to 4% for investments, while in the case of businesses led by men the percentages are 31% and 25%, respectively. Women-owned businesses face the problems affecting access to business financing mentioned above, in addition to being subject to other specific barriers, such as less availability of collateral or less extensive credit histories, greater time and mobility constraints, as well as supply-side limitations. In Argentina, in particular, the rate of rejected applications for business loans is 42% for women versus 2.5% for men (in Latin American and the Caribbean it is 7.4% versus 3%), which is not fully explained by the characteristics of the businesses and is therefore indicative of potential gender biases. Furthermore, empirical studies have found that a demand-side problem also exists: while 81% of male-led businesses applied for a bank loan in the last three years, only 59% of female-led businesses did so (Auguste, 2020). Women-led enterprises are therefore more financially constricted in Argentina (60% versus 17% of male-led enterprises, according to the SME Finance Forum), which points up the need to mobilize greater resources for financing women-led businesses and to implement activities that address the barriers contributing to the gender gap in financing, such as financial institution bias, while promoting activities that generate demand among women entrepreneurs. This operation will help measure and narrow the gender gap in production-oriented financing.
- 1.13 **Climate change.** Sustainable investments lead to lower emissions, reducing exposure to climate change risks. In Argentina, the sectors with the highest greenhouse gas emissions are energy and agriculture.<sup>34 35</sup> Argentina is very vulnerable to the effects of climate change given its productive profile and geographic characteristics, with several regions that may be exposed to extreme climate risks, such as droughts and floods, desertification, water scarcity, forest fires, and glacier retreat, among others. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the costs of the impacts of

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<sup>32</sup> IDB (2020). [Project completion report. Lending Program for Productive Development in the Province of San Juan.](#)

<sup>33</sup> Enterprise Survey (2017). [Link.](#)

<sup>34</sup> Secretaría de Ambiente y Desarrollo Sustentable (2019) [Department of Environment and Sustainable Development] [Tercer Informe Bienal de Actualización de la República Argentina a la Convención Marco de Las Naciones Unidas sobre el Cambio Climático.](#)

<sup>35</sup> Ministry of Environment and Sustainable Development (2020) [Segunda Contribución Determinada a Nivel Nacional de la República Argentina.](#)

climate change could reach 5% of GDP by 2020 and 6% of GDP by 2030.<sup>36</sup> For Cuyo in particular, the main problems linked to climate change stem from intense droughts and extreme heat waves, which affect primary production and the associated supply chains, as well as hydropower generation and water availability. Worsening water scarcity in the region would, in turn, have significant negative consequences for the population and for economic activities, namely agriculture and livestock.<sup>37</sup> Given the importance of its agriculture sector, San Juan is highly vulnerable to extreme weather that generates volatility in crop yields. The current crisis situation provides an opportunity to advance in green investments<sup>38</sup> and in training for the transition to green economies that promote renewable energies and energy efficiency. Along these lines, in December 2020, Argentina adopted more ambitious climate change mitigation targets, committing to a goal of not exceeding net emissions of 359 million tons of carbon dioxide equivalent by 2030. This is equal to a total emissions reduction of 19% with respect to the peak registered in 2007.<sup>39</sup> The country has incorporated a climate change adaptation goal and plans to build capacity and raise awareness in order to strengthen the resilience of the various sectors, including direct support programs for MSMEs and cooperatives. By 2030, Argentina aims to: (i) have its energy transition under way, promoting energy efficiency and the use of renewable energies; (ii) strengthen ecosystem protection; (iii) reduce deforestation levels; (iv) improve livestock and agricultural yields through the use of new technologies; (v) leverage the private sector to promote sustainable production practices; and (vi) promote a circular economy with suitable waste management.<sup>40</sup> In San Juan, since 2015, progress has been made on a project for an environmental social pact,<sup>41</sup> which seeks to harness synergies for environment stewardship through sectoral climate change agreements. The decisive role played by MSMEs in promoting growth, innovation, and development, coupled with a growing clean technology sector, offers significant opportunities to invest in clean energy in developed and emerging economies.<sup>42</sup> According to the International Energy Agency, initiatives to reduce MSME energy demand, in addition to benefiting the businesses themselves, can help countries achieve various policy goals. From the country's point of view, reducing energy consumption by MSMEs is cheaper than investing in new generation and transmission facilities. The potential for achieving energy efficiency among MSMEs has generally been found to be more cost-effective than in other sectors, as relatively few MSMEs have made such improvements.<sup>43</sup> This operation

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<sup>36</sup> ECLAC (2014). La economía del cambio climático en la Argentina. Primera Aproximación

<sup>37</sup> [Ministry of Environment and Sustainable Development \(2020\). Segunda Contribución Determinada a Nivel Nacional de la República Argentina.](#)

<sup>38</sup> Investments in climate change adaptation or mitigation.

<sup>39</sup> Ministry of Environment and Sustainable Development (2020). [Cambio Climático: un compromiso frente a la crisis global.](#)

<sup>40</sup> [Ministry of Environment and Sustainable Development \(2020\). Segunda Contribución Determinada a Nivel Nacional de la República Argentina.](#)

<sup>41</sup> [Diputados San Juan. Un pacto social ambiental para un mundo mejor](#) [San Juan Legislators: A Socioenvironmental Pact for a Better World].

<sup>42</sup> Building Competitive Green Industries: The Climate and Clean Technology Opportunity for Developing Countries, World Bank, 2014.

<sup>43</sup> Accelerating EE in SMEs, International Energy Agency (IEA), 2015.

will support the design and implementation of new instruments to facilitate access to credit for sustainable investments in MSMEs.

- 1.14 **Regional integration.** A large part of San Juan's production is destined for export. According to INDEC information, as of 2019, exports from San Juan totaled US\$1.246 billion, with a 36.3% share with respect to Cuyo and a national share of 1.9%.<sup>44</sup> Of the exports, 73% were rocks, precious metals, and their products. The second largest share, 5.3%, were exports of dried or processed fruits. In third place, representing 5.2% of the province's exports, were vegetable preparations, fruits, and vegetables. The main destination countries for San Juan exports in 2018 were Canada, Brazil, the United States, Chile, and Uruguay.<sup>45</sup>
- 1.15 **Institutional framework.** San Juan is employing the San Juan Strategic Plan 2030,<sup>46</sup> a long-term participatory planning tool that serves as a guide for provincial authorities while also allowing citizen participation and monitoring. Its third pillar, Economy, Production, and Employment, prioritizes the promotion of investment conditions and the use of financing as a development tool. The San Juan Council for Strategic Planning is the agency under the provincial government that coordinates, facilitates, and articulates the strategic planning process, promoting spaces for collective construction and participation. At the end of 2019, with a view to moving forward with implementation of the strategic plan, an action plan was agreed upon among the various stakeholders called the San Juan Agreement, which defines 22 key actions for the development of the province, including: (i) improving access to credit; (ii) promoting energy efficiency; and (iii) attracting investment.<sup>47</sup> The San Juan Investment Development Agency (ASJDI), an autonomous agency of the provincial government, has assumed a key role in executing these actions in accordance with its mandate to promote, attract, and facilitate productive investments in the province.
- 1.16 **Prior action with the Bank.** For over a decade, the IDB has been supporting San Juan in its strategy to make the productive structure more competitive. The Bank has financed: (i) Lending Program for Productive and Job Development in the Province of San Juan (loan [1798/OC-AR](#)) "San Juan I," which was completed in 2013; and (ii) Lending Program for Productive Development in the Province of San Juan (loan [2763/OC-AR](#)) "San Juan II," which was completed in 2019. It is worth noting that in both programs the local counterpart was receiving support from the United Nations Development Programme (UNDP), as an agency specialized in procurement processes, with successful results. In 2015, the Fund for Productive Investment Financing (FONDEFIN) was created under the ASJDI in order to provide sector loans in promotional conditions to selected productive sectors. Its capital comes from provincial, national, and international contributions, and from the recovery of loans from the two lending programs approved by the IDB for San Juan. It is a financial intermediation fund (second-tier) that operates with the

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<sup>44</sup> INDEC (2020). Comercio exterior. Vol. 4, no. 5. Origen provincial de las exportaciones. 2019.

<sup>45</sup> [Secretaría de Política Económica \(2019\) \[Department of Economic Policy\]. San Juan Informe Productivo Provincial. Junio 2019.](#)

<sup>46</sup> Plan Estratégico San Juan, [Link](#).

<sup>47</sup> [IIEE \(2019\). Plan de acción para la provincia en el marco del Acuerdo San Juan.](#)



province's established intermediary financial institutions in order to finance MSME medium-and long-term investments.

- 1.17 **Lessons learned.** The design of this program reflects lessons learned from prior operations with San Juan, namely: (i) using an auction system makes the process of allocating resources to the different financial intermediaries more efficient (paragraph 1.24); (ii) developing diagnostic assessments and consensus-based solutions with productive and social stakeholders improves the governance of supply chains<sup>48</sup> (paragraph 1.25); and (iii) contracting the UNDP as a specialized agency offers technical and institutional advantages by streamlining procurement processes (paragraph 3.3). The impact evaluation of San Juan I found that the program increased the likelihood of investment by 6.9%, sales by 9.7%, employment by 4.3%, and labor productivity by 6.4% in the beneficiary enterprises. Similarly, the impact evaluation of San Juan II found that there was a positive effect on job creation and business survival. It is also important to note the lessons learned and compiled by the Office of Evaluation and Oversight (OVE) in Annex VII: direct support for MSME producers, from the Country Program Evaluation: Argentina 2009-2015. The main lessons that OVE highlights are related to the importance of diagnostic assessments, the design, and the strategy of intervention and targeting, which can improve the effectiveness of nonreimbursable contributions (NRCs), given that Argentina's case studies showed that the impact of NRCs was strongly affected by macroeconomic conditions. Therefore, OVE recommends administering the NRCs in a targeted manner that responds to specific local market failures, offering adequate support at the design stage, based on an intervention strategy that includes coordination with other production-oriented programs. The studies included in Component II (paragraph 1.25) ensure this targeted approach.
- 1.18 **Coordination with the IDB Group.** This operation was designed as part of a sector collaboration arrangement with Science, Technology, and Innovation using a multisector approach. In addition to MSME access to financing, the operation addresses issues such as: (i) developing human capital by including activities to improve MSME employee skills; (ii) furthering regional integration by supporting the formulation of diagnostic assessments and supply chain projects; and (iii) developing tourism by including the tourism sector as one of the priority sectors. Crosscutting themes were also addressed, such as designing innovative financial solutions for sustainable finances and impact investments, with a view to narrowing the gender gap and increasing climate change investments.
- 1.19 **Complementarity with other portfolio operations.** This operation complements the following IDB-financed projects in Argentina: (i) Competitiveness Program for Regional Economies ([3174/OC-AR](#)), which seeks to improve the competitiveness of value chains nationally through access to credit and technical assistance; (ii) Promoting Risk Mitigation Instruments and Finance for Renewable Energy and Energy Efficiency Investments ([4565/GN-AR](#)), which offers concessional lending for energy efficiency and renewable energy investments; and (iii) Global Credit Program for Reactivation of the Productive Sector ([5057/OC-AR](#)), which aims to support the sustainability of MSMEs as employment providers in Argentina amid the crisis caused by COVID-19.

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<sup>48</sup> Project completion report [2763/OC-AR](#).

- 1.20 **Complementarity with other development agencies.** This operation will generate synergies with the “Triple Impact Project for the Sustainable Development of the Province of San Juan” (ARG/20/006),<sup>49</sup> which seeks to promote production-oriented impact investments and boost sustainable finance in San Juan by strengthening the ASJDI and raising awareness in the private sector.
- 1.21 **Strategic alignment.** The program is consistent with the Second Update to the Institutional Strategy (document AB-3190-2) and is aligned with the challenges of: (i) social inclusion and equality, because this is a program that will help reduce the financing gap affecting women-led or women-owned enterprises; (ii) productivity and innovation, through its production-oriented financing to support MSMEs and strategic value chains, which will promote reactivation of the productive sector; and (iii) economic integration, given the impact that production-oriented financing for MSMEs has on their capacity for exportation, their access to international markets, and their integration in regional value chains. The program is also aligned with the crosscutting issues of: (i) gender equity, as women benefit from economic empowerment initiatives; and (ii) climate change, because according to the [joint methodology of multilateral development banks](#), estimates indicate that 12.93% of loan proceeds correspond to climate financing, by supporting productive economic reactivation through green investments to strengthen resilience and reduce greenhouse gas emissions in the agriculture and livestock sector. These resources count towards the IDB’s target of increasing financing for climate-related projects to 30% of annual approvals. The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following indicators: (i) micro, small, and medium-sized enterprises financed; (ii) enterprises provided with technical assistance; (iii) women beneficiaries of economic empowerment initiatives; and (iv) agencies with strengthened digital technology and managerial capacity. The program is consistent with the following sector framework documents: (i) Support to SMEs and Financial Access/Supervision Sector Framework Document (GN-2768-7), which underscores the importance of facilitating access to finance for the productive sectors; (ii) Climate Change Sector Framework Document (GN-2835-8), as part of the program supports the design and implementation of new instruments to facilitate credit access for sustainable investments in MSMEs; (iii) Gender and Diversity Sector Framework Document (GN-2800-8), since it will help measure and narrow the gender gap with respect to production-oriented financing, as well as Annex I to the Update to the Gender Action Plan for Operations 2020-2021 (GN-2531-19), which includes economic opportunities for women among its lines of action; (iv) Labor Sector Framework Document (GN-2741-7) with regard to the priority of boosting the productivity of workers; and (v) Skills Development Sector Framework Document (GN-3012-1) by providing the labor force with the relevant skills needed to obtain and maintain quality jobs.
- 1.22 **Country strategy and 2021 operational program.** The proposed program is aligned with the IDB Group Country Strategy with Argentina 2021-2023 (document GN-3051), particularly with the following strategic objectives: expand coverage and access to financing for the sustainable productive sector; and promote the adoption and effective use of digital technologies and innovation by companies. This operation is in line with the San Juan Strategic Plan 2030, which

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<sup>49</sup> This project is being executed by the ASJDI with UNDP support and began at the end of 2020.

includes, within one of its strategic priorities, promoting investment conditions and using financing as a tool for development,<sup>50</sup> and also with the San Juan Agreement approved as a result of COVID-19, whose lines of action include three that are directly associated with this program: (i) access to credit; (ii) energy efficiency; and (iii) investment attraction.<sup>51</sup> Lastly, the operation is included in the 2021 Operational Program Report (document GN-3034).

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

- 1.23 **Objective.** The general objective of the program is to contribute to the recovery of production in the Province of San Juan and support the sustainability of MSMEs as a mainstay of employment in the province. The specific objective is to promote the economic recovery of MSMEs operating in the Province of San Juan by providing access to production-oriented financing.
- 1.24 **Component I. Financial support for the economic reactivation of production (IDB, US\$50 million).** This component will facilitate access to production-oriented financing for beneficiary companies (paragraph 1.27). To this end, funds will be channeled through eligible financial intermediaries by means of a competitive auction mechanism (paragraph 3.10). This mechanism ensures that at least 25% of the portfolio will be earmarked for women-led or women-owned companies,<sup>52</sup> and at least 15% will be used for green investments that contribute to climate change mitigation and/or adaptation.<sup>53</sup>
- 1.25 **Component II. Nonfinancial support for the economic reactivation of production (IDB, US\$8 million; Local counterpart, US\$7 million).** In order to improve the capacity of businesses to access production-oriented financing and to support fulfillment of the Component I targets (paragraph 1.24), technical assistance will be provided to the ASJDI, along with nonreimbursable contributions (NCRs) to beneficiary MSMEs (paragraph 1.27). Technical assistance will include: (i) formulating diagnostic assessments and projects with priority supply chains that will help identify specific actions in support of beneficiary MSMEs (including establishing the baseline in terms of access to financing for businesses led or owned by women, as well as diagnostic assessments of needs and opportunities for MSMEs in terms of green investment and digitalization); (ii) developing action plans to close the gaps identified in the diagnostic assessments mentioned in the previous point, especially those related to closing the gender gap in financing and digitalization of businesses, including activities to improve the skills of employees; (iii) implementing a monitoring system to track the use of loans issued for green investments; (iv) developing a strategy to attract national and regional investment

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<sup>50</sup> Plan Estratégico San Juan. [Link](#).

<sup>51</sup> [IIEE \(2019\). Plan de acción para la provincia en el marco del Acuerdo San Juan.](#)

<sup>52</sup> The operation took into account the small share of enterprises led or owned by women, the constraints on demand mentioned in paragraph 1.12, and the gender-based activities that will be implemented as part of this program. According to international best practices, an enterprise is understood to be owned or led by women if women own more than 50% of the enterprise, or if the enterprise is at least 25% owned by women and at least one of the decision-making positions is held by a woman.

<sup>53</sup> The program Credit Regulations will include a positive list of investments aligned with climate change.



to the Province of San Juan;<sup>54</sup> and (v) designing new instruments to facilitate access to credit that encourage the type of investments aligned with point (ii) above, such as an impact catalyst fund used as a new tool under provincial law for promoting sustainable investments. The impact catalyst fund is in the design phase, and the Province of San Juan has committed to a contribution of US\$3 million (or the equivalent in local currency) for its initial capitalization, as part of its local counterpart contribution to the program. With respect to the NRCs, they will target beneficiary MSMEs or MSME clusters (paragraph 3.8) for the purpose of executing the projects identified during the studies conducted, including actions to narrow the gender gap, promote green investments, and/or advance the digitalization of enterprises.

- 1.26 **Administration, audit, monitoring, and evaluation (Local counterpart, US\$3 million).** This will be used to cover the costs of the program execution unit (PEU) within the ASJDI structure and administering the proceeds used for loans, including supervision, evaluation, and audits.
- 1.27 **Beneficiaries.** MSMEs are expected to benefit in the agriculture, industry, commerce, research/development/innovation, construction, tourism, renewable energy, knowledge economy, and services and logistics sectors,<sup>55</sup> which are identified as priorities in the San Juan Strategic Plan 2030.<sup>56</sup>

### C. Key results indicators

- 1.28 **Expected results.** The indicators that will be used to measure achievement of the general objective of the program will be: (i) average annual growth rate of sales revenue in MSMEs supported under the program; and (ii) average annual growth rate of employment in the beneficiary MSMEs. The indicators used to measure achievement of the specific objectives of the program will be: (i) the ratio of the arrears rate on the relevant portfolio supported with program resources to the arrears rate on business loans in the national banking system; (ii) percentage of the relevant portfolio financed with a term equal to or greater than 36 months; (iii) total amount of the relevant portfolio for production-oriented financing; and (iv) percentage of loan proceeds used to finance women-owned or women-led MSMEs.
- 1.29 **Economic viability.** The economic evaluation identifies the flows of costs and benefits generated by the program. The benefits consist of the economic value of the increase in sales revenues and the benefits derived from the jobs created by the program. Once these flows are calculated and discounted at 12%, benefits of US\$36 million and an internal rate of return of 18.5% are obtained. Additionally, the sensitivity analysis shows that the net present value remains positive in

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<sup>54</sup> The ASJDI has a Framework Cooperation Agreement with the Regional Corporation for Productive Development of the Coquimbo Region (Chile), the purpose of which is to promote and foster integration between the Province of San Juan and the Coquimbo Region, through trade partnerships between businesses from both territories and the consolidation of initiatives that allow the development of investments.

<sup>55</sup> Approximately 650 enterprises operating in the province should benefit; however, this figure is an estimate, and the final tally of beneficiaries will depend on demand.

<sup>56</sup> The San Juan Strategic Plan seeks to coordinate and implement policies that foster sustainable economic and social development. The plan has trained its sights on a dynamic, diversified economy, leveraging its competitive advantages, adding value, and aiming for full employment, while taking advantage of the opportunities afforded by globalization. [Link](#).

scenarios involving potential variations in a wide range of critical parameters ([optional link 1](#)).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 Due to its financial intermediation nature, the program will be funded through an investment loan of up to US\$58 million under the global credit modality, with resources from the Bank's Ordinary Capital in the framework of the Flexible Financing Facility, and the borrower will provide a local counterpart contribution in the amount of US\$10 million. The operation's disbursement period will be five years, consistent with the size and type of demand identified.

**Table 1. Estimated program costs (US\$ millions)**

Components	IDB	Local	Total	%
Component I. Financial support for the economic reactivation of production	50.0	0	50.0	73.5
Production-oriented financing for MSMEs in strategic sectors	42.5	0	42.5	62.5
Financing for MSMEs to invest in climate change adaptation and/or mitigation	7.5	0	7.5	11.0
Component II. Nonfinancial support for the economic reactivation of production	8.0	7.0	15.0	22.0
Technical assistance to the ASJDI and MSME NRCs	6.4	4.0	10.4	15.3
NRCs aimed at promoting MSME digitalization	1.5	0	1.5	2.2
Capitalization of the Impact Catalyst Fund	0	3.0	3.0	4.4
Action plan to reduce gaps in access to financing for women-led/owned businesses	0.1	0	0.1	0.1
Administration, audit, monitoring, and evaluation	0	3.0	3.0	4.4
<b>Total</b>	<b>58</b>	<b>10</b>	<b>68</b>	<b>100.0</b>

- 2.2 The borrower may commit the resources of the Bank's loan within four years from the effective date of the respective onlending contract between the financial intermediary and the beneficiary enterprise. The program seeks to ease the burden of restrictions on access to credit for investments required by MSMEs in San Juan, supporting their sustainability as a mainstay of employment.

**Table 2. Disbursement schedule (US\$ millions)**

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB amount	8.7	8.7	11.6	17.4	11.6	<b>58.0</b>
%	15.0	15.0	20.0	30.0	20.0	<b>100.0</b>

- 2.3 **Limits on the pace of disbursements.** As established in the document "Enhancing Macroeconomic Safeguards at the Inter-American Development Bank" (document AB-2990), the disbursement of loan proceeds will be subject to the

following maximum limits: (i) up to 15% in the first 12 months; (ii) up to 30% in the first 24 months; and (iii) up to 50% in the first 36 months, in each instance running from the date on which the loan operation is approved by the Board of Executive Directors. These restrictions need not apply insofar as Bank policy requirements have been met, provided that the borrower has been notified in writing.

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

- 2.4 In accordance with Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation cannot be classified *ex ante* because it involves financial intermediation. The environmental and social due diligence was performed in compliance with Directive B.13, analyzing the program's potential socioenvironmental risks and the executing agency's capability to manage them. Based on the due diligence findings, and given the low risk profile of the loans eligible for program resources, this operation is regarded as having low financial intermediation risk. Given their size and nature, the loans will be classified as category "C." Loans in categories "A" and "B" will not be eligible for financing.
- 2.5 Loan proceeds for onlending will not be used to finance any activities on the program's exclusion list,<sup>57</sup> including: (i) activities/sectors involving high socioenvironmental risk; or (ii) activities that entail: (a) involuntary physical or economic resettlement; (b) negative impact on indigenous groups; (c) potential damage to cultural sites or critical cultural sites; (d) negative impact on protected areas or RAMSAR sites; or (e) the use of invasive species.
- 2.6 The requirements for managing and mitigating potential environmental and social impacts will constitute the program's Environmental and Social Risk Management System, included in the Credit Regulations, which will be approved as a condition precedent to the first disbursement (see [environmental and social management report](#)).

## **C. Fiduciary risks**

- 2.7 Two medium-high fiduciary risks were identified. The first relates to human resources: in the absence of sufficient specialized staff to take on the tasks associated with program fiduciary management, the fiduciary requirements may not be met, causing procurement delays and ineligible expenditures. To mitigate this, the Credit Regulations will include a detailed list of personnel assigned exclusively to the program, including specialized fiduciary staff.
- 2.8 The second risk relates to internal processes: an absence of effective procedures for the fiduciary oversight of Component II could result in execution delays and ineligible expenditures. To mitigate this, the Credit Regulations will define the systems and procedures to be used for monitoring and supervising the NRCs.
- 2.9 As an additional mechanism to mitigate the two risks mentioned above, the executing agency will rely on a project with the UNDP for the contractual management of individual consulting assignments, the procurement of goods, and management of the program's NRCs (paragraph 3.5). The Credit Regulations will describe in detail how the UNDP-managed funds will be tracked (paragraph 3.11).

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<sup>57</sup> Annex C of the [environmental and social management report](#).

The project document to be signed with the UNDP will also include the management arrangements and the necessary conditions that will guarantee and minimize exchange rate differences.

**D. Other key issues and risks**

- 2.10 **Other risks.** Two medium-high risks were identified, both of an economic/financial nature: (i) a potentially haphazard correction of the monetary and exchange rate imbalances currently affecting the country could lead to an acceleration of inflation, which would cause a reduction in the annual budget authorization for this program and a delay in its execution. This risk is mitigated by the fact that the Province of San Juan has a countercyclical reserve fund<sup>58</sup> in order to withstand such a situation; and (ii) if Argentina's economy continues to grow slowly or not at all, enterprises may be less predisposed to invest, causing a delay in lending, which would lead to a significant under-execution of Component I of the program. To mitigate this risk, extra effort will be made to disseminate information in order to stimulate demand in the business sector. Notably, the demand identified by the IDB (Schneider, 2020) far outweighs the program supply (US\$187 million versus US\$50 million).
- 2.11 **Sustainability.** After exhausting the funds of this operation, the supported credit lines will become part of the ASJDI's regular programs and will be financed with funds recovered from lending, as well as from the provincial budget. Both the Province of San Juan and the ASJDI have had fiscal resource flows in recent decades that have allowed them to successfully sustain execution of their programs and policies. Since its creation, the ASJDI has consolidated its position as a local development agency, incorporating new instruments to support the business sector such as the San Juan Guarantee, the Fund for Productive Investment Financing (FONDEFIN), and the Investment Attraction Unit. Moreover, upon completion of this operation, the Impact Catalyst Fund will have been implemented (paragraph 1.25), which underscores the provincial government's commitment to continue closing the gaps in financing that have been identified for women-led or women-owned enterprises and green investments.

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

**A. Summary of implementation arrangements**

- 3.1 **Executing agency.** The executing agency will be the San Juan Investment Development Agency (ASJDI), an autonomous agency of the Government of the Province of San Juan with legal capacity.<sup>59</sup> The borrower of the program will be the Province of San Juan, and the guarantor of the borrower's financial obligations will be the Argentine Republic. The executing agency will be responsible for program management and for the program's technical, financial, accounting, legal, and coordination aspects, as well as for monitoring program activities. As in the case of the Bank's previous operations with the Province of San Juan (paragraph 1.16), the executing agency will rely on the UNDP to assist with procurement for this program and in the execution of NRCs under Component II.

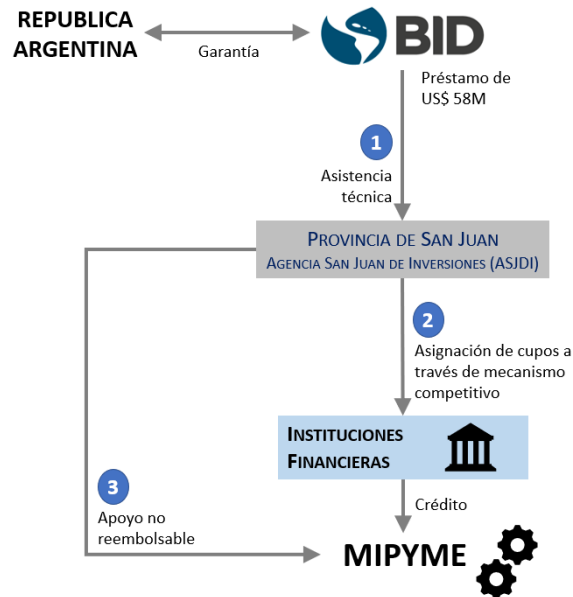
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<sup>58</sup> Chamber of Deputies of the Province of San Juan (2004). Countercyclical reserve fund. [Link](#).

<sup>59</sup> Created by Law No. 7871 of 27 August 2008 and regulated by Decree No. 2442 of 28 December 2008.

- 3.2 **Institutional capacity assessment.** During the program design, an assessment was performed to determine the institutional capacity of the executing agency, the ASJDI, taking into account its execution in recent years of the program financed under 2763/OC-AR. The borrower's and executing agency's sound equity and financial positions were confirmed, and they have the local counterpart resources to execute the program as well as the payment capacity to service the debts in a timely manner. The assessment also confirmed that the ASJDI has a satisfactory level of institutional capacity to execute the program, and specific measures will be employed to assist in closing the gaps that were identified, namely: (i) developing processes for internal audits; (ii) contracting a socioenvironmental specialist for environmental, social, health, and safety supervision; and (iii) designing operations manuals setting out the roles and responsibilities of the ASJDI, departments, subdepartments, and units, as well as a manual stipulating integrity standards. As the executing agency, the ASJDI is considered capable of resolving the issues identified in the evaluation in the short term and executing the bulk of the operation satisfactorily. Notably, the executing agency's capacity is bolstered by the support it will receive from the UNDP as regards both the program's procurement processes and execution of the NRCs (paragraph 3.1) under Component II.
- 3.3 **Program execution unit (PEU).** The executing agency will carry out the program through the PEU, which will have a core team comprised of: (i) a general coordinator, responsible for planning and coordinating program activities and for exercising oversight and technical, economic, financial, and administrative control over those activities; (ii) a coordinator for the financial support component, responsible for the technical and fiduciary management of the credit auctions; (iii) a coordinator for nonfinancial support, in charge of the technical and fiduciary management of technical assistance activities and NRCs; and (iv) an administrative coordinator, responsible for program monitoring, audits, and evaluation. The ASJDI director will act as the program's managing director, in charge of directing strategy and overseeing management. Details regarding the program's execution mechanism and governance structure will be set forth in the Credit Regulations. The PEU will be charged with executing the program and will act as the Bank's project team counterpart. Program team profiles will be included in the Credit Regulations.
- 3.4 In coordination with the Department of Strategic Affairs of the Office of the President of the Nation, the executing agency will conduct a strategic evaluation of the program from a public policy perspective, financed with its own resources. This will be in addition to the evaluations called for in the program (paragraph 3.19) and is part of the Argentine Republic's strategy for generating evidence on the contribution of international finance to: (i) achievement of the Sustainable Development Goals; (ii) the priority guidelines for government management; and (iii) its achievements in terms of institutional strengthening of national and subnational government.

Figure 1. Diagram of program execution



Source: Prepared by the authors.

- 3.5 **Contracting specialized agencies.** In accordance with paragraphs 3.11 of the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and 3.18 of the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), the executing agency is authorized to use local counterpart resources to engage the UNDP as a specialized agent to handle: (i) procurement of goods; (ii) selection and contracting of consultants; and (iii) granting of NRCs to program beneficiaries, in light of the UNDP's technical and institutional advantages. In order to handle the program's procurement, the UNDP will follow all of the contracting and selecting procedures indicated in the Procurement Policies, including use of standard bidding documents and the applicable review type, as set forth in the procurement plan, on a case-by-case basis.
- 3.6 **Use of program resources.** Loan proceeds may be used for: (i) funds for production-oriented credit, channeled through eligible financial intermediaries (paragraph 3.7); (ii) technical assistance to the ASJDI, financing diagnostic assessments and studies; and (iii) NRCs to beneficiary MSMEs or MSME clusters. NRC-eligible activities include: (i) implementing action plans to narrow the gaps identified during diagnostic assessments; (ii) conducting pre-investment studies so that enterprises can make efficient use of the program's credit lines; and (iii) executing group projects among beneficiary MSMEs.
- 3.7 **Financial intermediary eligibility.** Eligible financial intermediaries will meet the following requirements: (i) be financial institutions authorized and supervised by the Central Bank of Argentina (BCRA) or the country's compliance and oversight body for the financial sector; (ii) comply with the country's regulatory requirements for capital, portfolio quality and provisioning, liquidity, and governance; and

- (iii) pledge to comply with specific IDB program requirements, pursuant to the [Credit Regulations](#). The executing agency will determine periodically whether all financial intermediaries satisfy the above requirements in order to remain eligible for the program.
- 3.8 **MSME eligibility.** In order to be eligible, both for subloans and NRCs, MSMEs will meet the following requirements, pursuant to the laws of Argentina: (i) be incorporated; (ii) qualify as an MSME;<sup>60</sup> (iii) possess the licenses and permits required to operate; (iv) operate within the territory of the Province of San Juan; (v) operate in one of the priority sectors; and (vi) comply with the requirements listed in the Credit Regulations.
- 3.9 **Financing amount and limit.** Subloans to MSMEs may not exceed US\$600,000 or its equivalent in local currency.<sup>61</sup> Moreover, no MSME may receive from the program a total of more than US\$100,000 or its equivalent in local currency for NRCs, whether for a single project or a group of projects. MSME beneficiaries of NRCs will provide a minimum 10% matching contribution, pursuant to the criteria set forth in the Credit Regulations.
- 3.10 **Auction mechanism.** As indicated in Component I (paragraph 1.24), funds for onlending to MSMEs will be channeled through financial intermediaries by means of a competitive auction mechanism. The auctions are a process allowing the ASJDI to allocate quotas to eligible financial intermediaries to access the program's resources during a determined period, based on the borrowing rates offered by the financial intermediaries themselves. The purpose of this process is to find the market rate that balances the supply and demand of program funds. The specific conditions of each call will be divulged prior to each auction. A condition of each auction will also be that at least 25% of the funds provided by the program be allocated to companies led or owned by women, and at least 15% to green investments contributing to climate change mitigation and/or adaptation.
- 3.11 **Program Credit Regulations.** The [Credit Regulations](#) describe the program execution mechanism, including points for coordination between the executing agency and the UNDP (paragraph 3.1). They also include eligibility criteria for beneficiaries, subprojects, and financial intermediaries. The document also covers management and monitoring agreements, the application of rules pertaining to prohibited practices, and environmental and social aspects related to the use of program resources, among other topics. The Credit Regulations also specify how funds are to be transferred to the MSMEs, with respect to terms and rates, in order to comply with the program's objectives and the applicable fiduciary policies on a case-by-case basis. Finally, the Credit Regulations describe when and how the executing agency is to submit reports on the use of program resources, consistent with the provisions of the [monitoring and evaluation plan](#).

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<sup>60</sup> The most recent Resolution 220/2019 issued by the Department for Small and Medium-sized Enterprises and Entrepreneurs under the Ministry of Productive Development classifies MSMEs by annual sales up to the equivalent of US\$26 million (small enterprises up to the equivalent of US\$2.2 million, and microenterprises up to the equivalent of US\$362,000 according to the economic sector).

<sup>61</sup> The maximum amount of financing is intended to cover potential investment needs for infrastructure and machinery of medium-sized companies with a view to their productive reconditioning. According to data from San Juan II, the average loan amount was US\$76,000, and the highest loan was around US\$400,000.



- 3.12 **Special contractual conditions precedent to the first disbursement of the financing.** The following will be special contractual conditions precedent to the first disbursement of the loan proceeds: (i) creation of the program execution unit (PEU) and designation of its team; (ii) approval and entry into force of the program [Credit Regulations](#), in accordance with the terms previously agreed upon with the Bank; (iii) signature and entry into force of the subsidiary execution agreement between the borrower and the executing agency for the transfer of loan proceeds, under the terms agreed upon with the Bank; and (iv) signature and entry into force of the project document signed between the executing agency and the United Nations Development Programme (UNDP), under the terms agreed upon with the Bank. The first condition is considered essential to assure the Bank that the executing agency will have an adequate team in place to begin program execution. The second condition is necessary to guarantee satisfactory execution of the program, taking into account that the Bank's experience in the region has shown that prior approval of the Credit Regulations before the first disbursement assists in the internal organization of the executing agency for implementation of the operation. The third condition is justified by the importance of formalizing the legal and institutional structure for the transfer of loan proceeds to the executing agency. This requires formalizing the executing agency's powers and obligations related to execution under the program. Finally, the fourth condition is necessary for the purposes of contracting the UNDP for handling program procurement and managing NRCs. These requirements will ensure efficient execution, as well as establish the institutional coordination agreements needed to duly bind the program's parties to their obligations from the outset.<sup>62</sup>
- 3.13 **Special contractual condition of execution.** The special contractual condition of execution is that the executing agency submit the operations manuals, setting out the roles and responsibilities of the ASJDI, departments, subdepartments, and units, as well as a manual stipulating integrity standards, prior to the start of execution of the activities under program Component II. This condition is necessary given the findings of the institutional assessment of the executing agency, which showed that the executing agency should formalize internal processes and flows, such as those associated with internal audit functions, using specific operations manuals.
- 3.14 **Procurement.** Procurement financed in whole or part with Bank funds and carried out by the ASJDI and/or through the UNDP will be handled in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), or any others in force at the time of execution, the application of which the borrower will agree to in writing ([procurement plan](#)).
- 3.15 **Disbursements.** Bank proceeds will be disbursed in accordance with: (i) the disbursement modalities covered in the loan contract; (ii) the provisions of the Financial Management Guidelines for IDB-financed Projects (OP-273-12) or the

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<sup>62</sup> The authorities are in the process of preparing the project document, which is currently in an advanced stage.



IDB policies in force; and (iii) the conditions for eligibility included in the [Credit Regulations](#).

- 3.16 **Financial statements and audits.** The executing agency will deliver annual audited financial reports on the use of resources, under the terms of reference agreed upon with the Bank, within 120 days after the close of each fiscal year. The final financial statements for the program will be submitted within 120 days after the date of the last disbursement. An external audit of the program will be performed by an independent audit firm eligible to audit Bank-financed operations, selected and contracted in accordance with the terms of reference and contract model previously agreed upon with the Bank.

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

- 3.17 **Monitoring.** Program activities will be monitored via semiannual progress reports prepared by the executing agency and submitted within 60 days after the close of each six-month period. The reports will address the reporting commitments of the results matrix, as well as fulfillment of the eligibility criteria set out in the [Credit Regulations](#).
- 3.18 **Information for program monitoring and evaluation.** This proposal will have a program monitoring report, reporting compliance with the specific objectives listed herein. The executing agency will be responsible for maintaining systems to gather and monitor data as follows (see [monitoring and evaluation plan](#)): (i) commit to maintaining a system for monitoring and evaluating all components, which it will use to prepare the reports and data delivered to the Bank; and (ii) compile, store, and safeguard all information, indicators, and parameters, including annual plans and the final evaluation, all of which are required to prepare the project completion report. The additional information required for the evaluation process will be drawn from national and international secondary sources of statistical data and, potentially, reports from relevant organizations. The executing agency will bear the costs of monitoring in all cases.
- 3.19 **Evaluation.** The strategy for evaluating program activities will consist of a reflexive evaluation, before and after the program, to determine the scope of outcomes and impacts, and a qualitative evaluation. The final evaluation will be performed within 60 days after the expiration date of the program's closing period. An impact evaluation is also being designed. The study aims to evaluate the impacts on sales revenue and the employment gains generated as a result of the program. However, the data for evaluating the impacts associated with the general objective will not necessarily be available at the close of execution, and therefore the measurement and evaluation of impacts is tentative. In light of the fact that the evaluation is conditioned by the timeliness and quality of the data collected, it should not be considered a commitment to deliver this evaluation within the timeframe established for program evaluation. The evaluation strategy is described in detail in the [monitoring and evaluation plan](#).

Development Effectiveness Matrix		
Summary		AR-L1334
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	<div>-Social Inclusion and Equality</div> <div>-Productivity and Innovation</div> <div>-Economic Integration</div> <div>-Gender Equality and Diversity</div> <div>-Climate Change</div>	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	<div>-Micro / small / medium enterprises financed (#)</div> <div>-Enterprises provided with technical assistance (#)</div> <div>-Women beneficiaries of economic empowerment initiatives (#)</div> <div>-Agencies with strengthened digital technology and managerial capacity (#)</div>	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3051	Strategic objectives: Expand coverage and access to financing for the sustainable productive sector; Promote the adoption and effective use of digital technologies and innovation by companies
Country Program Results Matrix	GN-3034	The intervention is not included in the 2021 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.8
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.8
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Accounting and Reporting. Procurement: Information System.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Argentina was already amidst a recession two years prior to the crisis caused by COVID-19. During 2020, it is estimated that GDP fell by 20%. San Juan is a province that accounts for around 1.42% of Argentina's GDP and contributes US\$1,246 million to the country's exports. The productive sectors most important in the province are manufacturing, commerce, agriculture, cattle raising, hunting, forestry, and mining. Tourism and the generation of renewable energy are also relevant to San Juan's economy. In San Juan, due to the pandemic, there was a sharp decline in economic activity, and it is estimated that there was an interannual reduction in employment of 11%. To adapt to the new normal MSMEs need to be able to invest, including in digitalization. It is estimated that 77% of firms in San Juan have investment projects on hold due to the lack of financing. MSMEs were already limited in their ability to access credit relative to firms of larger size in pre-crisis times and MSMEs provide 50% of total employment in the province and constitute 91% of private firms. At a national level, data indicates that 60% of MSMEs did not access bank credit even prior to the crisis in 2019 – due to high interest rates, loan terms of short duration; among other reasons. The mismatch in the duration terms of bank deposits (liabilities) and banking assets in San Juan (loan credits) is high which in turn restricts banks' capacity to provide loans with longer terms for productive investment. For over a decade IDB has been supporting the Development Agency of San Juan. In this context, this credit program, in the amount of US\$68MM, has the general objective of contributing to the recovery of production in the San Juan Province and supporting sustainability of MSMEs as an important source of employment in the providence. The specific objective is to promote the economic recovery of MSMEs that operate in the San Juan Province through the provision of productive financing. The program will channel financing to FIs via a competitive auction mechanism and with it destining 25% of the monies provided for the benefit of women-owned firms and 15% to be earmarked for green investment. Moreover, the program will provide technical assistance to the Development Agency of San Juan and grants to MSMEs including toward supporting digitalization. Some of the program's main results in the medium-term include the percent of the supported portfolio with terms equal to or greater than 36 months, the total size of the backed portfolio, and the percent of resources directed to women-led MSMEs, among others. In the long-term, the program should benefit sales and employment of beneficiary firms. The cost benefit analysis shows the program is of net-benefit to society. At closure, results will mostly be evaluated through a reflexive methodology. Depending on data availability, this may be complemented by a quasi-experimental analysis of the impact indicators.

## RESULTS MATRIX

<b>Project objective:</b>	The specific objective of this operation is to promote the economic recovery of micro, small, and medium-sized enterprises (MSMEs) operating in the province of San Juan by providing access to production-oriented financing. Achieving this objective will further the general objective of contributing to the recovery of production in the Province of San Juan and supporting the sustainability of MSMEs as a mainstay of employment in the province
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### General Development Objective

Indicators	Unit of measure	Baseline value	Baseline year	Expected year of achievement	Target	Means of verification	Comments
<b>General development objective:</b> To contribute to the recovery of production in the Province of San Juan and support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as a mainstay of employment in the province.							
<b>Indicator 1:</b> Average annual growth rate of sales revenue in beneficiary MSMEs.	%	0	2020	2027	9.7	Program monitoring and supervision information collected by the ASJDI.	MSME beneficiaries are expected to increase average annual sales revenues. The target was obtained based on prior impact evaluations performed by earlier productive development programs. The data will not necessarily be available at the close of the program, which is why the expected achievement year is later.
<b>Indicator 2:</b> Average annual growth rate of employment in beneficiary MSMEs.	%	0	2020	2027	4.3	Program monitoring and supervision information collected by the ASJDI.	MSME beneficiaries are expected to be able to expand their employment levels in the medium to long term. The target was obtained based on prior impact evaluations performed by earlier productive development programs. The data will not necessarily be available at the close of the program, which is why the expected achievement year is later.

### Specific Development Objectives

Indicators	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
<b>Specific development objective:</b> To promote the economic recovery of MSMEs operating in the province of San Juan by providing production-oriented financing.						
<b>Indicator 1:</b> Ratio of the arrears rate on the relevant portfolio supported with program resources to the arrears rate on business loans in the national banking system.	%	1.8	2021	1.8	Program monitoring and supervision information collected by the ASJDI.	The arrears rate of the relevant portfolio is calculated based on the rates reported by the financial intermediaries accessing the ASJDI's credit lines. Based on available information, the denominator is the rate of the business loans in arrears in the national financial system. The baseline relative arrears rate will be a ratio of 1.8 and is expected to at least be the same at the end of the program. A figure less than or equal to 1.8 would mean that the target was met.
<b>Indicator 2:</b> Percentage of the relevant portfolio financed with a term equal to or greater than 36 months.	%	50	2020	50	Program monitoring and supervision information collected by the ASJDI.	In consultation with the ASJDI, the current average term of the relevant portfolio is 36 months, and 50% of the portfolio is concentrated at this term or longer terms. Given the current period of crisis, the percentage of the portfolio with a term equal to or greater than 36 months is expected to stay the same. So, in consensus with the ASJDI, the target is to keep the indicator at 50%.
<b>Indicator 3:</b> Total amount of the relevant portfolio for production-oriented financing.	Arg\$ million	539	2021	5,263	Program monitoring and supervision information collected by the ASJDI.	The baseline is Arg\$539,243,363, which is equivalent to US\$5.7 million, the current amount of the relevant portfolio of the ASJDI, self-reported. For the conversion to U.S. dollars, the BCRA exchange rate on 26 May 2021 was used: 94.48 Arg\$/US\$. The target is the sum of the baseline and Component I, expressed in billions of Arg\$. Component I is US\$50 million, which equals Arg\$4.724 billion, and added to the baseline sets the target at Arg\$5.263 billion.

Indicators	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
<b>Indicator 4:</b> Percentage of loan proceeds used to finance women-led or women-owned MSMEs.	%	0	2021	25	Program monitoring and supervision information collected by the ASJDI.	<p>Pro-gender indicator.</p> <p>Women-led/women-owned MSMEs are at least 50% owned by women, or at least 25% owned by women when at least one decision-making position is held by a woman. Please note that this definition is consistent with the one adopted by the Investment and Foreign Trade Bank (BICE) and the National Productive Development Fund (FONDEP).</p> <p>Prior to the present, the ASJDI has not gathered the information necessary to classify MSMEs in this manner. That information will be recorded as a result of this program and its corresponding baseline study. The baseline value and the growth target will be confirmed in accordance with study findings and will refer to the percentage of the financing amount. The information for the baseline and target is expected to be confirmed before the program's first progress report. For the time being, in consensus with the ASJDI, a target of 25% of the financing amount was established, although this will depend on product demand. Funds will be channeled through eligible financial intermediaries using a competitive auction mechanism, which will include this target among the conditions of each call. Financial intermediaries will implement the necessary measures to reach the target of this indicator, which is why it is an outcome of the program as opposed to an output.</p>

### Outputs

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
<b>Component 1:</b> Financial support for the economic reactivation of production (US\$50 million)											
<b>Output 1*</b> : Amount issued to MSMEs in strategic sectors for production-oriented financing.	US\$ million	0	2020	6.375	6.375	8.5	12.75	8.5	42.5	Monitoring and supervision information processed by the ASJDI.	The value of the final target is US\$42.5 million, or 60% of the financing amount.
<b>Cost of output 1</b>	US\$ million	0	2020	6.375	6.375	8.5	12.75	8.5	42.5	Monitoring and supervision information processed by the ASJDI.	The total estimated cost is US\$42.5 million.
<b>Milestone 1:</b> Number of MSMEs benefiting from financing issued by the operation.	Number	0	2020	To be determined**						Monitoring and supervision information processed by the ASJDI.	The final number of beneficiaries will be determined by the demand. This indicator covers beneficiaries in all segments.
<b>Milestone 2:</b> Number of women-led/owned MSMEs with financing issued by the operation.	Number	0	2020	To be determined**						Monitoring and supervision information processed by the ASJDI.	MSMEs are considered to be women-led/women-owned if they are at least 50% owned by women, or at least 25% owned by women when at least one decision-making position is held by a woman.
<b>Output 2*</b> : Amount of operation resources used to finance MSME investments in climate change mitigation and adaptation.	US\$ million	0	2020	1.1	1.1	1.5	2.3	1.5	7.5	Program monitoring and supervision information collected by the ASJDI.	Green investments, i.e., climate change mitigation and adaptation investments, will be identified in the ASJDI portfolio. The baseline and target refer to the amount of financing used for green investments, defined in greater detail in the <a href="#">Credit Regulations</a> .

\* The value of the final target matches the sum of all the years of execution.

\*\* Values will be measured once the execution information is compiled.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
Cost of output 2	US\$ million	0	2020	1.1	1.1	1.5	2.3	1.5	7.5	Program monitoring and supervision information collected by the ASJDI.	The total estimated cost is US\$7.5 million.
Milestone 3: Number of MSME beneficiaries who make climate change mitigation and adaptation investments.	Number	0	2020	To be determined**						Monitoring and supervision information processed by the ASJDI.	The final number of beneficiaries will be determined by the demand. This indicator covers beneficiaries who make climate change mitigation investments.
Component 2: Nonfinancial support for the reactivation of production (US\$15 million)											
Output 3*: Amount of financing issued for technical assistance and NRCs.	US\$ million	0	2020	2.0	2.0	2.2	2.6	1.6	10.4	Monitoring and supervision information processed by the ASJDI.	This output covers: (i) formulating diagnostic assessments and projects for priority supply chains that will assist in the identification of specific actions to support MSME beneficiaries; (ii) implementing a monitoring system for tracking the use of loans issued for green investments; and (iii) developing a strategy to attract national and regional investment to the province of San Juan. The value of the final target is US\$10.4 million.
Cost of output 3*	US\$ million	0	2020	2.0	2.0	2.2	2.6	1.6	10.4	Monitoring and supervision information processed by the ASJDI.	The total estimated cost is US\$10.4 million.
Milestone 4: Total number of enterprises benefiting from NRCs.	Quantity of enterprises	0	2020	To be determined**						Monitoring and supervision information processed by the ASJDI.	The final number of beneficiaries with NRCs will be determined by the demand.

\* The value of the final target matches the sum of all the years of execution.

\*\* Values will be measured once the execution information is compiled.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
<b>Milestone 5:</b> Number of women-led/owned enterprises benefiting from NRCs.	Quantity of enterprises	0	2020	To be determined**						Monitoring and supervision information processed by the ASJDI.	The final number of women-led/owned beneficiary MSMEs with NRCs will be determined by the demand.
<b>Output 4*:</b> Amount of financing issued for NRCs aimed at promoting digitalization.	US\$ million	0	2020	0.2	0.2	0.4	0.4	0.3	1.5	Monitoring and supervision information processed by the ASJDI.	The value of the final target is US\$1.5 million.
<b>Cost of output 4*</b>	US\$ million	0	2020	0.2	0.2	0.4	0.4	0.3	1.5	Monitoring and supervision information processed by the ASJDI.	The total estimated cost is US\$1.5 million.
<b>Milestone 6:</b> Number of enterprises benefiting from NRCs aimed at promoting digitalization.	Quantity of enterprises	0	2020	To be determined**						Monitoring and supervision information processed by the ASJDI.	The final number of beneficiaries with NRCs aimed at promoting digitalization will be determined by the demand.
<b>Output 5:</b> Amount of financing used to capitalize the Impact Catalyst Fund.	US\$ million	0	2020	0	0	0	0	3	3	Monitoring and supervision information processed by the ASJDI.	The value of the final target is US\$3 million.
<b>Cost of output 5</b>	US\$ million	0	2020	0	0	0	0	3	3	Monitoring and supervision information processed by the ASJDI.	The total estimated cost is US\$3 million.
<b>Output 6:</b> Action plan to reduce gaps in access to financing for women-led/owned enterprises designed and implemented.	Implemented action plan	0	2020	0	0	0	0	1	1	Monitoring and supervision information processed by the ASJDI.	The action plan is a response to diagnostic assessments of women-led/owned enterprises, with a set schedule and activities to reduce the gender gaps and leverage trade opportunities. It will be considered implemented when the schedule proposed for carrying out specific activities is underway.
<b>Cost of output 6</b>	US\$ million	0	2020	0	0	0	0	0.1	0.1	Monitoring and supervision information processed by the ASJDI.	The total estimated cost is US\$100,000.



**Country:** Argentina      **Division:** IFD/CMF      **Project number:** AR-L1334      **Year:** 2021

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Executing agency:** Agencia San Juan de Desarrollo de Inversiones [San Juan Investment Development Agency] (ASJDI)

**Name:** Credit Program for the Reactivation of Production in the Province of San Juan

### I. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

1. Use of country systems in the operation. (Any system or subsystem approved subsequently may be used for the operation under the terms of the Bank's validation.)

<input checked="" type="checkbox"/> Budget	<input checked="" type="checkbox"/> Reporting	<input checked="" type="checkbox"/> Information system	<input type="checkbox"/> National competitive bidding
<input type="checkbox"/> Treasury	<input type="checkbox"/> Internal audit	<input type="checkbox"/> Shopping	<input type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input type="checkbox"/> External control	<input type="checkbox"/> Individual consultants	

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Fiduciary execution details	The ASJDI will execute the program through: (i) Component I. Financial support, which seeks to facilitate access to production-oriented financing for beneficiary enterprises, channeling the funds through intermediary financial institutions by means of a competitive auction mechanism with the participation of the Central Bank of the Argentine Republic (BCRA); and (ii) Component II. Nonfinancial support, technical assistance, and nonreimbursable contributions (NRCs) will be executed through a project with the United Nations Development Programme (UNDP). Each component will be treated as a subloan with respect to disbursement requests and reporting in order to avoid bottlenecks between the two components.
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3. Fiduciary capacity

Fiduciary capacity of the executing agency	The executing agency has implemented similar operations over the past five years, and the assessment confirmed its institutional capacity. The main recommendations for closing the identified gaps are: (i) strengthening the technical team assigned to the program in the environmental area; and (ii) incorporating a manual for organization and functions that primarily specifies: (a) the structure and roll of staff assigned to the program; and (b) guidelines on coordination mechanisms and project supervision processes.
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4. Fiduciary risks and risk response

Area (Financial management/ Procurement)	Risk	Risk level	Risk response
Human resources	In the absence of sufficient specialized staff to take on the tasks associated with fiduciary management, the fiduciary requirements may not be met, causing procurement delays and ineligible expenditures.	Medium-high	<p>The <a href="#">Credit Regulations</a> will include the personnel assigned exclusively to the program, including specialized fiduciary staff.</p> <p>The executing agency will rely on a project with the UNDP for the contractual management of individual consulting assignments, the procurement of goods, and management of the program's NRCs; and the traceability of the UNDP-managed funds will be described in detail. The project document to be signed with the UNDP will also include the management arrangements and the necessary conditions that will guarantee and minimize exchange rate differences.</p>
Internal processes	An absence of effective procedures for the fiduciary management of Component II could result in execution delays and ineligible expenditures.	Medium-high	<p>The <a href="#">Credit Regulations</a> will define the systems and procedures to be used for monitoring and supervising the NRCs; and the traceability of the UNDP-managed funds will be described in detail.</p> <p>The executing agency will rely on a project with the UNDP for the contractual management of individual consulting assignments, the procurement of goods, and management of the program's NRCs. The project document to be signed with the UNDP will also include the management arrangements and the necessary conditions that will guarantee and minimize exchange rate differences.</p>

5. Policies and guidelines applicable to the operation: Document GN 2349-15 and document GN 2350-15.

6. Exceptions to policies and guidelines: None.

## II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

**Special conditions precedent to the first disbursement:** These will be included in the special provisions of the loan contract.

**Applicable exchange rate for substantiating expenditures incurred in the local currency of the borrower's country:** Option (b)(i) of Article 4.10 of the General Conditions of the Loan Contract will apply. The program will therefore use the exchange rate in force on the date on which the approval currency or disbursement currency is converted into the local currency of the borrower's country. In order to determine the equivalent of expenditures incurred in the local currency chargeable to the local counterpart contribution, the rate used will be the exchange rate in effect on the first business day of the month in which the respective payments were made to the contractor, supplier, or beneficiary.

**Audit type:** The program's audited annual financial statements will be submitted to the Bank no later than 120 days after the close of each fiscal year of the executing agency, duly audited by an independent auditing firm acceptable to the Bank. The final audited financial statements will be submitted within 120 days after the last program disbursement.

## III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Bidding documents	Works, goods, and nonconsulting services procured in accordance with the Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (document GN- 2349-15) and subject to international competitive bidding will use the Bank's standard bidding documents or those agreed upon between the executing agency and the Bank for a specific procurement. Consulting services will be selected and contracted in accordance with the Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank (document GN-2350-15) using the standard request for proposals issued by the Bank or another agreed upon with the executing agency for a specific selection.
<input checked="" type="checkbox"/>	Projects with financial intermediaries	The <a href="#">Credit Regulations</a> will include the agreements between the ASJDI, the financial intermediaries, and the final beneficiaries, including eligibility criteria and the obligation regarding inclusion of the clauses covering Bank-prohibited practices.
<input checked="" type="checkbox"/>	Special procurement provisions applicable to the operation	The executing agency will rely on the UNDP, as a specialized agency, contracted with local counterpart funds, to carry out or continue executing the processes of: (i) procurement of goods; and (ii) selection and contracting of consultants. For the procurement process, the UNDP will observe all contracting and selection procedures outlined in the procurement policies, including the use of standard documents for bidding and contracting of consultants and the appropriate review type as described in the procurement plan.

<input checked="" type="checkbox"/>	Procurement supervision	<p>The: (i) ex ante or (ii) ex post supervision methods, as determined for each selection process in the procurement plan. The default method will be ex post. Ex post reviews will be conducted each year in accordance with the project's supervision plan, subject to changes during execution. Reports on ex post reviews will include at least one physical inspection visit over the operation's execution period. The threshold amounts for ex post review are:</p> <table border="1" data-bbox="513 453 1424 541"> <tr> <th data-bbox="513 453 764 489">Works</th><th data-bbox="764 453 1117 489">Goods/services</th><th data-bbox="1117 453 1424 489">Consulting services</th></tr> <tr> <td data-bbox="513 489 764 541">N/A</td><td data-bbox="764 489 1117 541">US\$500,000</td><td data-bbox="1117 489 1424 541">US\$200,000</td></tr> </table>	Works	Goods/services	Consulting services	N/A	US\$500,000	US\$200,000
Works	Goods/services	Consulting services						
N/A	US\$500,000	US\$200,000						

Main procurement items

Procurement description	Selection method	Estimated amount (US\$)
<b>Goods</b>		
Computer licenses and equipment	Shopping	78,000
Office equipment and supplies, filing and storage expenses	Shopping, various	282,000
<b>Nonconsulting services</b>		
Fees for participating in business events	Direct contracting	60,000
Event organizing	Shopping, various	500,000
Tradeshows and networking events (various)	Shopping, various	750,000
<b>Firms</b>		
Auditing	QCBS	82,000
MSME training	QCBS	3,000,000
Formulating diagnostic assessments of supply chains	QCBS	350,000
<b>Individuals</b>		
Component II team	3CV	1,000,000
Impact Catalyst Fund monitoring team	3CV	200,000
Consultants team for the ASJDI	3CV	1,462,000
Program execution unit team	3CV	292,000

See: [Procurement plan](#).

#### IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	Programming and budget	The provincial budget is prepared by the Provincial Budget Office of the province's Ministry of Finance. This budget is prepared with data provided by the various provincial agencies and is submitted by the executive branch to the legislative branch for its approval. It has programming categories and other items of expenditure classification (sections), which are personnel, consumer goods, nonpersonnel services, fixed assets, transfers, financial assets, debt service and reduction of other liabilities, and other expenses. According to their economic nature, the items are current expenditures, capital expenditures, or investments. The province's internal sources of financing may be the provincial treasury, own resources, specific allocations, and internal transfers. External financing includes transfers and external loans.
<input checked="" type="checkbox"/>	Treasury and disbursements	<b>Bank accounts.</b> For the exclusive and separate management of the loan proceeds, the executing agency will open: (i) a dollar account for Component I; and (ii) a dollar account for Component II and administration. The funds transferred to the UNDP will also go to a dedicated UNDP account for administering IDB funds. Bank fees for project accounts and Component I transfers to financial intermediaries will be considered eligible expenses. Transfers to MSMEs may be recognized as eligible expenses upon the Bank's no objection, and the <a href="#">Credit Regulations</a> will include detailed instructions regarding their treatment. The accounts used for the administration of funds will be reconciled on a monthly basis.
<input checked="" type="checkbox"/>	Internal control and internal auditing	The Accounting Office of the Province is the entity responsible for the government accounting system and is also the internal controller and auditing entity of the Public Treasury, with ex ante and concurrent oversight conducted by fiscal delegates. This is established in the accounting law of the province.
<input checked="" type="checkbox"/>	External control and financial reports	The external audit of the program will be performed by an independent auditing firm eligible to audit Bank-financed operations, selected and contracted in accordance with the terms of reference and the model contract previously agreed upon with the Bank.
<input checked="" type="checkbox"/>	Operation financial supervision	The initial financial supervision plan will be based on the risk and fiduciary capacity assessments of the executing agency and will include field supervision visits and desk reviews, as well as analysis and the monitoring of recommendations and outcomes resulting from audits of the program's annual financial statements.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/21

Argentina. Loan \_\_\_\_/OC-AR to the Province of San Juan. Credit Program for the  
Reactivation of Production in the Province of San Juan

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Province of San Juan, as borrower, and with the Argentine Republic, as guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Credit Program for the Reactivation of Production in the Province of San Juan. Such financing will be for an amount of up to US\$58,000,000 from the resources of the Bank's Ordinary Capital and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2021)