

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

FOREST SUSTAINABILITY AND COMPETITIVENESS PROGRAM

(AR-L1067)

LOAN PROPOSAL

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REQUIRED	
1. Annual work plan (AWP)	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37182209
2. Monitoring plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37130546
3. Impact evaluation plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37175822
4. Procurement plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37179770
5. Environmental and social management report (ESMR)	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37130463
OPTIONAL	
1. Itemized results matrix	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37130561
2. Program economic assessment	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37155911
3. Program technical documents	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37158080
4. ICAS Institutional capacity analysis	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37179769
5. Program Operating Regulations	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37171986
6. Argentina's forestry sector	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36892686
7. Argentine Forestry Statistics Series	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37166310
8. Program itemized budget	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37182201
9. Preliminary PMR	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37148973
10. Environmental and social assessment (ESA)	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37079112

ABBREVIATIONS

AGN	Auditoría General de la Nación [Office of the Auditor General]
AWP	Annual work program
CERFOAR	Sistema Argentino de Certificación Forestal [Argentine Forest Certification System]
CQS	Selection based on the consultants' qualifications
DNPOIC	Dirección Nacional de Proyectos con Organismos Internacionales de Crédito [National Directorate for Projects with International Lending Agencies]
ESA	Environmental and social assessment
ESMP	Environmental and social management plan
ha	Hectare
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
INTA	Instituto Nacional de Tecnología Agropecuaria [National Agricultural Technology Institute]
IRR	Internal rate of return
MAGyP	Ministry of Agriculture, Livestock and Fisheries
MSMEs	Micro, small, and medium-sized enterprises
NCB	National competitive bidding
NPV	Net present value
OC	Ordinary Capital
OR	Operating Regulations
RMM	Risk mitigation matrix
SAGyP	Secretaría de Agricultura, Ganadería y Pesca [Agriculture and Fisheries Secretariat]
SAYDS	Secretaria de Ambiente y Desarrollo Sustentable [Environment and Sustainable Development Secretariat]
SDI	Spatial data infrastructure
SENASA	Servicio Nacional de Sanidad y Calidad Agroalimentaria [National Agrifood Quality and Health Service]
SEPA	Procurement Plan Execution System
SEPyME	Secretaría de la Pequeña y Mediana Empresa y Desarrollo Regional de la Nación [Secretariat for Small and Medium-sized Enterprises and Regional Development]
SIGEN	Sindicatura General de la Nación [Office of the Comptroller General]
SNSF	Sistema Nacional de Sanidad Forestal [National Forest Health System]
UCAR	Unidad para el Cambio Rural [Rural Change Unit]
UEPEX	Unidades Ejecutoras de Préstamos Externos [Execution Units of External Loans]

PROJECT SUMMARY

ARGENTINA FOREST SUSTAINABILITY AND COMPETITIVENESS PROGRAM (AR-L1067)

Financial Terms and Conditions			
Borrower: Argentine Republic Executing agency: Argentine Republic, acting through the Ministry of Agriculture, Livestock and Fisheries (MAGyP)		Flexible Financing Facility*	
		Amortization period:	25 years
		Original WAL:	15.25 years
		Disbursement period:	5 years
		Grace period:	5.5 years
Source	Total amount (US\$)	Interest rate:	LIBOR-based
IDB (OC)	60.0 million	Inspection and supervision fee:	**
Local	14.8 million	Credit Fee:	**
Total	74.8 million	Currency of approval: U.S. dollars from the Ordinary Capital (OC)	
Project at a Glance			
Program objective: The program objective is to contribute to the sustainable management and competitiveness of forest plantations by raising product quality in both primary production and initial processing, diversifying the productive base, and improving access to supply chains and markets for micro, small, and medium-sized enterprises (MSMEs).			
Special contractual clauses: Conditions precedent to the first disbursement: (i) Entry into force of the program Operating Regulations (OR), on terms previously agreed upon with the Bank (see paragraph 3.7); and (ii) evidence that a technical team has been formed within the Rural Change Unit (UCAR) to coordinate program execution, on terms previously agreed upon with the Bank (see paragraph 3.1). Execution conditions: (i) Signature and entry into force of the execution agreement between the UCAR and the Province of Misiones, on terms agreed upon with the Bank, including evidence that the provincial execution unit has been established with qualified staff dedicated full-time to the program, prior to program investments being made in the province (see paragraph 3.4); (ii) expansion of the existing framework agreement between the UCAR and the National Agricultural Technology Institute (INTA), as well as signature and entry into force of a specific agreement for this program, on terms previously agreed upon with the Bank, prior to the actions under the Research and Technology Transfer subcomponent (see paragraph 3.3); and (iii) works contracting and/or goods procurement for each of the centers included in the Competitiveness Gains for Forest Industry Chains subcomponent will be contingent on determination of their eligibility by a study that (a) projects demand for the center's services and (b) demonstrates the center's financial sustainability after two years, once the respective works are concluded or goods procured (see paragraph 3.6).			
Exceptions to Bank policies: None.			
Project consistent with country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>			
Project qualifies as: SEQ <input checked="" type="checkbox"/> PTI <input checked="" type="checkbox"/> Sector <input type="checkbox"/> Geographic <input checked="" type="checkbox"/> Headcount <input type="checkbox"/>			

* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as conversions of currency and interest rate, subject in all cases to the final repayment date and the original weighted average life (WAL). The Bank will take market conditions and operational and risk management considerations into account when reviewing such requests.

** 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 the applicable policies. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and design

- 1.1 Argentina has 1.2 million hectares of forest plantations—the majority pine, eucalyptus, willow and poplar—meeting 89% of industrial roundwood needs. Planted woodlands have grown by approximately 30,000 hectares/year over the past decade, and annual timber extraction from these woods came to 8.6 million tons, with growth of 16% between 2002 and 2009.¹ An estimated 5 million hectares is suitable for reforestation. Statistics on the exploitation of the 31.5 million hectares of native forest indicate that, in addition to timber for industrial uses, they provide 3.0 million tons a year of timber for firewood, charcoal, and other uses. However, these figures are known to be underestimated. The largest forest ecosystem is the Chaqueño Park, covering 21.7 million hectares in the provinces of Chaco, Formosa, Santa Fé, eastern Salta, Santiago del Estero, and Córdoba. This woodland provides the majority of firewood and has been under considerable pressure from the expansion of soy production and ranching. The country's deforestation rate is estimated at around 200,000 hectares/year.
- 1.2 **Institutional framework.** The regulatory framework in force for the administration of forests and woodlands is Law 13273/48, as updated by Decree 710/95, to which all of Argentina's provinces have acceded.² The exploitation of native forests is subject to the authorization of management plans by the forestry authority, and there are documentation requirements for timber transport. The agency with jurisdiction over native forests is the Environment and Sustainable Development Secretariat (SAyDS). The passage of the Minimum Budgets for Environmental Protection of Native Forests Act (Law 26331/07) strengthened its scope of action with new regulatory instruments, adding the zoning of woodland areas and economic instruments that create incentives for forest conservation. The law is intended to accelerate the process of formalization and substitution of the use of native forest with plantations.
- 1.3 The national agency responsible for issues concerning forest plantations is the Ministry of Agriculture, Livestock and Fisheries (MAGyP), acting through its Forestry Production Directorate. The main incentives for plantation development come from the Cultivated Forests Investment Act (Law 25080/99), which was extended for ten years in 2009. The system of incentives envisages both tax benefits and a subsidy (reimbursement) of the costs of planting, pruning, and thinning until the third year. To access these benefits, plantations must be on land suitable for afforestation or reforestation under the territorial plan for native forests. The tax

¹ See: Niklitschek, Mario. "[Sector forestal argentino, desafíos y oportunidades.](#)" [Argentina's forestry sector, challenges and opportunities]. May 2012.

² The law recognizes the authority of the provinces in forest management and establishes a voluntary accession mechanism giving them access to benefits to promote afforestation.

benefits include a fiscal or tax stability arrangement applicable for thirty years from the approval of a project.³

- 1.4 **Economic importance of the sector.** Argentina is a net exporter of wood pulp, solid timber, and timber products, and a net importer of paper and cardboard. The forestry sector produced exports that hovered around US\$950 million between 2008 and 2011, dipping substantially in 2009 in the wake of the global financial crisis and construction slump in the United States. However, the trade balance has been moving into increasingly negative territory, with the deficit increasing from US\$121.1 million in 2008 to US\$375.5 million in 2011. Paper and wood pulp exports have recovered since 2009, but timber and manufactured wood products have not, and domestic consumption of paper and cardboard has continued to rise. Argentina's main trading partners are the MERCOSUR countries, the United States, and China. Brazil is the main destination for exports in all categories (paper and cellulose pulp products, wood pulp, cellulose fiber materials, timber, and manufactured wood products), followed by the United States for timber, Chile for paper, and China for wood pulp. Over the last few years Argentina's furniture industry has faced strong competition from manufacturers in Brazil and China.
- 1.5 **Sector development and main problems.** Plantations have expanded over the last 50 years driven by policies to promote a forest industry system capable of supplying mainly the cellulose and paper industry. This goal has not been fully achieved. However, with the increase in plantations the sector was substantially less dependent on native forest for industrial uses, and small, medium-sized, and large timber processing companies grew up around these areas. At present, 65% of the forested area and a large share of logging operations are concentrated in the provinces of Misiones and Corrientes, given the availability of suitable land, exceptionally rapid growth rates in uniform plantations or forest-pasture systems,⁴ enabling them to compete very well with other primary producers. Some areas in Misiones have achieved a significant degree of industrial development, with cellulose and paper complexes, wood panel factories, wood remanufacturers, and furniture manufacturers. Alongside this more innovative sector, which has managed to integrate with international value chains, approximately 40% of the country's forested land is in the hands of some 21,000 small forest farmers, limited by management constraints, and an initial processing sector comprising around 4,000 companies (7,600 including the furniture industry) with low levels of technology, automation, and efficiency.⁵ There has been less development in other

³ 80% for plantations of up to 300 hectares, and 20% for those between 300 and 500 hectares. Of the 301,604 hectares reforested in the first 10 years of the act's application, 51,400 were planted in 16,000 small plantations, and the remainder in 4,890 large plantations. In 2011 the Agriculture, Livestock and Fisheries Secretariat (SAGyP) paid US\$17.5 million in reimbursements: 82% for planting, and the remainder for thinning, pruning, and woodland enrichment. The average payment was US\$504/hectare.

⁴ Diagnostic assessment for the [Forestry Research and Development](#) subcomponent (Table 2).

⁵ Diagnostic assessment of the Competitiveness Gains for Initial Processing Industries subcomponent.

parts of the country, where the genetic materials available are more limited, serving only specific local demand, such as fruit producers in the irrigated valleys.

- 1.6 Analysis of the main forest industry chains⁶ in the commonly identified stages (preplanting, planting/management, initial processing) has identified key problems preventing the sector from improving its sustainability and reaching its potential, as described in the box below.

Information. The existing statistical base is very limited, which represents an obstacle to effective investment planning and sector development. In particular, there are no up-to-date inventories of plantations with the exception of Misiones and Corrientes, there is no register of forest industry MSMEs and no reliable statistics on their characteristics and activities.

Forest certification. There are only about 250,000 hectares of certified forest, primarily large plantations, although the international pressure to prevent trade in illegal wood (in response to problems of land tenure, compliance with labor laws, and sustainable forest management) will clearly increase further in the next few years.⁷ The Argentine Forest Certification System (CERFOAR), which can benefit MSMEs, is not yet up and running.

Research, technology transfer, and health. Argentina's forestry development has been based on just a few species (pine, eucalyptus and willow), and there are restrictions on: (i) development of plantation forestry and forest management for new species; (ii) availability of native and exotic genetic materials to diversify plantations in developed areas and extend the forest frontier in other parts of the country with a high degree of improvement that meets demand not only in terms of volume, but also in terms of shape, size, and resistance to internal strains originating from temperature changes, and which may become critical with climate change. In addition, the system of disease prevention and control is weak, there are already serious health problems, and the country has over 9,500 kilometers of border with countries that have large plantations of similar species.⁸

Nurseries. Many small and medium-sized nurseries use fairly conventional technology and produce low quality material, due to the lack of infrastructure and training.

Initial processing. The vast majority of small and medium-sized sawmills are family businesses⁹ using very outdated technology and with limited access to finance. Few of these sawmills have driers and equipment enabling them to make better use of products and by-products. These limitations, compounded by the low quality raw material from poorly managed forests, result in the sawn timber being used in low value products.

- 1.7 **Lessons learned.** The proposed program has taken into account lessons from other, similar Bank-financed operations in the region. In particular, these include:

⁶ (i) Willows in the irrigated valleys; (ii) Northwestern Argentina chain (mainly hardwoods from native forest); (iii) Chaco Region (mainly native forest.); (iv) Mesopotamia (mainly eucalyptus for cellulose and timber); (v) Misiones (pine-based); and (vi) Corrientes (pine and eucalyptus, with limited industrial development to date).

⁷ The pressure is primarily from the Lacey Act in the United States, and European Union Regulation 995. For evidence of change in markets, see references in Niklitschek, Mario, op. cit.

⁸ See diagnostic assessments of Research/Transfer Systems and Forest Health System.

⁹ 49% employ fewer than five people, and 76% have machinery over 20 years old.

Table I-1. Lessons learned

Lesson learned	Reflected in program design
Movement toward a competitive, sustainable forest industry with high value-added depends on the delivery of high quality public goods and services.	The program components will address issues related to the scarcity of information, health, and support for the generation and transfer of technologies for reforestation, nurseries, and processing of timber products.
The relatively high initial investment and lack of experience with the technologies needed to participate in high value-added chains are major challenges for MSMEs.	The program offers grants and technical support to eligible groups of MSME producers, to facilitate the adoption of primary and secondary forestry production technologies.
Traditional “command and control” policies are necessary, but insufficient, to reduce breaches of environmental and social laws in the forestry value chain.	The program supports the development of market instruments, such as forestry certification, to create incentives for MSMEs to formalize and accelerate the process of utilizing legal timber along the forestry value chain.

B. Operation design

- 1.8 In the last 60 years Argentina has undergone a substantial “forestry transition,” moving from an industry that was 85% dependent on native forest, to one that is 89% supplied by planted forest. During this period the country has developed technical capabilities for research, a stock of plantations that continues to expand at a brisk annual pace based on a small group of species offering comparative advantages, and a processing industry base supplying products for the domestic market and export. Diagnostic assessments suggest that, although the sector has its weaknesses, many of them can be overcome, and there is considerable potential for improvements to the sector’s sustainability, competitiveness, and contribution to the country’s development.
- 1.9 The proposed program, which builds on investments at the execution stage focusing on the protection and management of native forest, aims to solve the critical problems limiting development at various links of the chains, mainly by providing sector public goods that will make the desired changes possible. These include: accurate and timely information on the sector; more diverse and productive genetic materials that can withstand the effects of climate change; plantation and nursery management techniques; better pest identification and control capabilities; and training for technical staff and small-scale entrepreneurs. These activities have been supplemented by limited incentives targeting MSMEs, to accelerate the adoption of innovations and improve their linkages to the higher-value chains.
- 1.10 **Consistency with the GCI-9 objectives and the Bank’s strategy.** The proposed program is consistent with the following GCI-9 objectives: (i) reduce poverty and inequality; through the targeting of over 50% of the investment to recipients in provinces with poverty indicators below the national average; (ii) support regional cooperation and integration, through strategic linkages with research/health institutions in countries of the region (see paragraph 1.18); and (iii) support climate change initiatives and environmental sustainability, through improvements in

sustainable forest management in the country (see paragraphs 1.14, 1.15, and 1.18). The program contributes to the regional development target of “increasing the annual growth rate of agricultural GDP,” and its expected outcome: “farmers given access to better agricultural services and investments.”¹⁰

- 1.11 **Alignment with the Bank’s country strategy.** The program is consistent with the [Bank’s country strategy with Argentina \(2009-2011\)](#) (document GN-2570), which includes forestry development as one of its priority areas, contributing to the strategic objective of promoting growth and competitiveness in a context more favorable to investment and productivity. The program is included in the country program document (CPD) for 2012 and complements the sector strategy the Bank has been supporting through programs focused on improving the quality of agricultural services and rural infrastructure, and producer access to them. These include the Agrifood Health and Quality Management Program, the Provincial Agricultural Services Programs (PROSAP I and II), and the Program to Strengthen the Agricultural Innovation System through INTA, and the Project to Integrate Small Producers into the Wine Production Chain. The program is consistent with the regional focus proposed in the Bank’s new country strategy with Argentina 2012-2015, now in preparation, which states that sustainable forestry development contributes to the objective of easing constraints on growth, and to the objective of climate change adaptation and mitigation.

C. Objectives, components, and cost

- 1.12 **Objective.** The program objective is to contribute to the sustainable management and competitiveness of forest plantations by raising product quality in both primary production and initial processing, diversifying the productive base, and improving access to supply chains and markets for micro, small, and medium-sized enterprises (MSMEs). The program will target regions of the country with significant forestry potential: (i) the Norte Grande region (Corrientes, Misiones, Chaco, Formosa, Santiago del Estero, Salta, Jujuy, and Tucumán); (ii) the irrigated valleys (mainly Río Negro, Neuquén, Chubut, Mendoza, and San Juan); and (iii) the Pampas region (Córdoba, Entre Ríos, Buenos Aires, and La Pampa). The program will have two components.
- 1.13 **Component 1. Management improvements (US\$13.12 million).** This component seeks to improve the conditions that facilitate and promote investment by focusing on two main areas: forest information and forest certification.
- 1.14 **Forest information.** This subcomponent seeks to enhance information access and availability for small and medium-sized producers and MSMEs engaged in initial processing. The activities to be financed include: (i) creation of an information services platform integrating public and private, national and provincial entities that generate, manage, and disseminate information of relevance to the forestry sector; (ii) introduction of an ongoing forest inventory that systematically updates

¹⁰ The agriculture sector includes crop farming, livestock, and forestry.

information relating to the forested area and the volume of wood produced; (iii) development of an online spatial data infrastructure (SDI) that hosts and links cartographic data, georeferenced databases, and satellite data, providing users with a tool to access geospatial data; (iv) a forestry statistics system to promote the systematic collection of raw data; and (v) a registry of forest industry MSMEs that identifies the universe of productive units making up the sector, provides basic information on them, and allows sampling frames to be generated for surveys and studies of the forestry sector.

- 1.15 **Forest certification.** The objective of this subcomponent is to contribute to a level of formality in the activities of forestry and forest industry MSMEs (in terms of labor law, land tenure, forestry management) that makes them more competitive and sustainable. This subcomponent will finance the activities necessary to: (i) implement a program of independent “timber legality” verification; (ii) coordinate the forest certification initiatives of INTA and CERFOAR; and (iii) consolidate CERFOAR. This subcomponent will include a program of technical and financial assistance for MSME certification.
- 1.16 **Component 2. Technology development and transfer (US\$58.06 million).** This component seeks to guide and support technological improvements to plantations and the products of initial processing through: (i) technology research and transfer; (ii) pest prevention and control; (iii) improvement of nurseries; and (iv) competitiveness gains for forest industry chains. The planned activities for both INTA and the National Agrifood Quality and Health Service (SENASA) under items (i) and (ii) are complementary with those being financed with the proceeds of loans now in execution with those entities.
- 1.17 **Technology research and transfer to producers.** The objective is to generate and disseminate the technology necessary to: (i) increase forest plantations with high-value species in regions with high potential (Chaco, Northwestern Argentina, the Pampas, the irrigated valleys of Cuyo, and Patagonia); and (ii) in regions with a longer-standing forestry tradition (Mesopotamia and Patagonia), raise the quality of current plantations and diversify the range of species by increasing the share of high-value species. Research activities will therefore be financed in the following eight main target areas: (i) genetic enhancement and domestication of nontraditional native and exotic species that produce timber highly resistant to the effects of climate change; (ii) genetic enhancement of traditional native and exotic species to obtain high quality timber; (iii) improvements in forestry practices to obtain high quality wood; (iv) integrated pest and disease management; (v) plantation management to enhance productivity and sustainability of the existing germplasm in productive systems; (vi) improvement to silvopastoral and agroforestry systems; (vii) extension and transfer of available technologies to reduce gaps between producers; and (viii) funds awarded on a competitive basis for the participation of other research institutions in the generation of applied knowledge in prioritized lines.

- 1.18 **Pest and disease prevention and control.** The objective is to minimize the risk of arrival and entrenchment of new forest pests and diseases, and to mitigate the harm caused by those already present, by strengthening the SENASA-led National Forest Health System (SNSF). Activities will be financed in the following four main target areas: (i) strengthening of regional international linkages and capabilities for pest and disease management in the country and early detection of new threats; (ii) improve the infrastructure endowment of public entities (other than INTA and SENASA) dedicated to identification, quarantine, and adaptive experimentation for pests, diseases and/or predators; (iii) improvement of systems of surveillance and traceability to prevent the entry of new pests and diseases, and (iv) update of forestry regulations applicable to pest and disease control.
- 1.19 **Improvement of nurseries.** The objective is to improve the availability of quality planting material for both native and exotic species. The subcomponent will finance: (i) development and startup of nine model nurseries to serve as regional resources, and repair of two nurseries (in Patagonia), with a production scale of up to 500,000 seedlings a year; each nursery unit will include: installation of a research module, training center, office and storage sheds, seed laboratory, and other planting material; (ii) training of human resources to operate the nurseries; (iii) technical assistance, dissemination of information, and support for the sharing of experiences through tours, workshops, and training sessions; and (iv) grants to private sector nurseries, to accelerate adoption of improved seedling production technologies.
- 1.20 **Competitiveness gains for forest industry chains.** This subcomponent seeks to train MSMEs and improve their access to production technologies, in order to facilitate their linkage to better value chains, promote the addition of new products with higher value-added, and increase their competitiveness. The following activities will be financed: (a) construction and/or expansion and startup of 10 production, service/training, and technology centers in at least four provinces. The Province of Misiones may have three of these centers, which will be sited at universities or financially and institutionally stable public-private associations; and (b) grants to MSMEs, in order to accelerate the adoption of production technologies (87) and, additionally, in the Province of Misiones, to diversify primary producers (1,000) and so reduce pressure on conservation areas. Once the centers are up and running, it must be demonstrated that the timber they process (drying, etc.) complies with the applicable tax regulations. As of year 2 after startup of the “timber legality” verification program, priority will be given to timber that has been certified or begun the certification processes.

D. Key results indicators

- 1.21 The program will contribute to increase the value-added of the tree crop while improving environmental sustainability. The operation will benefit at least 10,000 small-scale foresters and 1,000 forest industry MSMEs. The program has a Results Matrix (see Annex II) agreed upon with the UCAR, which contains a breakdown of the outcome and output indicators with their respective intermediate and final

targets. Some of the main indicators are: (i) 750 forester and forest industry MSMEs will complete the timber legality verification program; (ii) the area forested with high-value species will increase by 30,000 hectares; (iii) the planting material available at the program beneficiary nurseries will increase by five million seedlings a year; and (iv) 30% of the beneficiary forest industry MSMEs will be integrated into better value chains.

II. FINANCING STRUCTURE AND RISKS

A. Financing instrument

- 2.1 The estimated total cost of the program is US\$74.8 million. The Bank loan will be for US\$60 million, drawn from resources of the Ordinary Capital (OC). The distribution of the Bank financing and the national government's counterpart contribution, which includes US\$2.65 million from the Province of Misiones, is shown in Table II-1.

Table II-1. Program Cost and Financing
(in US\$000)

Investment category	IDB	Local	Total	%
I. Component 1. Management improvements	7,490	5,630	13,120	17.6
I.1 Forest information	3,940	2,020	5,960	9.6
I.2 Forest certification	3,550	3,610	7,160	8.0
II. Component 2. Technology development and transfer	52,010	6,050	58,060	77.6
II.1 Technology research and transfer to producers	13,910	0	13,910	18.6
II.2 Pest and disease prevention and control	900	130	1,030	1.4
II.3 Improvement of nurseries	11,610	3,980	15,590	20.8
II.4 Competitiveness gains for forest industry chains	25,590	1,940	27,530	36.8
Component III. Implementation, monitoring, and evaluation	500	3,120	3,620	4.8
Total	60,000	14,800	74,800	100

- 2.2 The program is structured as a specific investment operation, to be executed over five years with the following disbursement schedule:

Table II-2. Disbursement Schedule
(in US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
IDB	6.85	17.92	18.66	10.12	6.45	60.0	80
Local	1.68	4.42	4.60	2.50	1.60	14.80	20
Total	8.53	22.34	23.26	12.62	8.05	74.80	100
%	11	30	31	17	11	100	

B. Economic viability

- 2.3 An ex ante economic evaluation was done both for the main subcomponents and for the program as a whole. Economic viability was measured via cost-benefit analysis with a 25-year horizon applying a discount rate of 12%. A detailed analysis, including sensitivity of the results, was done for the components on forest certification (IRR = 24%; NPV = US\$2,139,024), improvements to initial processing (IRR = 21%; NPV = US\$22,912,443), and technology research and transfer, based on an ex post analysis of a portfolio of projects representing the main lines of work to be supported by the program (IRR = 15%; NPV = US\$3,135,475), as well as the nurseries subcomponent (IRR = 17%; NPV = US\$3,149,614). To estimate the economic impact of the program as a whole, the productive effects were evaluated at the level of the plantations and initial timber processing (IRR = 15%; NPV = US\$15,669,247). The results of the program's economic viability analysis are conservative, since they do not include benefits deriving from better environmental management of forestry resources, such as carbon capture and increased biodiversity.

C. Environmental and social safeguard risks

- 2.4 This operation has been classified as category "B" under the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703). An [environmental and social analysis](#) was done during program preparation, as agreed in the environmental and social strategy. The program will have positive environmental and, principally, social impacts, given the nature of the interventions to: (i) improve productivity; (ii) promote the use of sustainability-based technology packages enabling rationalization of natural resource and production factor management; and (iii) promote forest certification, to help make production more environmentally sustainable and raise producer incomes.
- 2.5 The environmental and social perspective has been fully incorporated into the program design through the inclusion of forest certification activities, strengthening of institutional research, technology, and pest control capabilities, to ensure better utilization of forestry resources, develop waste utilization processes and genetic enhancements, and develop of forest nurseries for high-quality species. The increase in privately owned woodland area under protection, where possible in a comprehensive, participatory, and community-based manner, helps reduce climate change vulnerabilities and promotes adaptation. These features give the program a high potential to generate positive environmental impacts on biodiversity and climate change adaptation, as well as an estimated reduction in carbon emissions of approximately 180,000 tons. The interventions relating to the production of planting material and delivery of other forestry services have the potential to generate certain negative environmental impacts that, given the nature and scale of the planned activities, are limited to the local level and fully mitigable with the measures included in the [environmental and social management plan](#) (ESMP).

- 2.6 The proposed program includes measures to strengthen gender equity in access to, and active participation in, activities along the forestry chain, measured with proactive indicators. Some of the program's target regions are inhabited by indigenous groups, and the planned activities are not expected to adversely affect them. Potential opportunities for their involvement were evaluated, and mechanisms included to guide work with the indigenous groups wishing to participate.
- 2.7 The planning, design, and execution of the program interventions will follow the ESMP requirements and guidelines, in accordance with the applicable Bank policies (Operational Policies OP-703, OP-710, OP-765, OP-710, and OP-102), attached as an annex to the Operating Regulations (OR). To ensure that the measures are adopted effectively, the program includes actions to strengthen the UCAR's Social and Environmental Unit for the relevant technical and environmental supervision. The results of the analysis are presented in the [environmental and social management report](#) (ESMR).

D. Fiduciary and other risks

- 2.8 An institutional evaluation was performed during program preparation using the Bank's [Institutional Capacity Assessment System](#) (ICAS). The institutional capacity assessment was done on the Rural Change Unit (UCAR), the Strategic Management Subsecretariat of the Province of Misiones, and the National Agricultural Technology Institute (INTA). The ICAS assessment included analysis of the following systems: (i) activities and components programming system; (ii) administrative organization system; (iii) personnel administration system; (iv) goods and services administration system; (v) financial administration system; (vi) internal control system; and (vii) external control system. The ICAS assessment found that the UCAR's risk level was low with no significant weaknesses, whereas the Strategic Management Subsecretariat of the Province of Misiones had medium risk, and must institute all the technical/fiduciary administration mechanisms for program execution, establishing a monitoring, supervision, and evaluation system. In the case of INTA, the institutional analysis also recommended the need to strengthen use of the Execution Units of External Loans (UEPEX) system at the institution from the outset for program-related transactions.
- 2.9 Risks (including fiduciary risks) were identified using the methodology for risk management in projects with sovereign guarantee at a joint workshop with members of the executing agency and other agencies. The risks identified and included in the Risk Matrix are: (i) delay in the flow of national counterpart funds, and (ii) delays in program fund flows. The following mitigation measures were proposed: (a) systematic training for those responsible for providing information for budget preparation; (b) negotiations with the relevant budgetary authorities; and (c) criteria and guidelines for financial planning, aligning financial management with the project cycle and production cycle. The mitigation actions have been built into the design of the operation itself, with comprehensive technical assistance and strengthening mechanisms.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Program execution and administration

- 3.1 The borrower will be the Argentine Republic, and the executing agency will be the Ministry of Agriculture, Livestock and Fisheries (MAGyP), acting through the Rural Change Unit (UCAR), which will manage and provide strategic direction for the program, supervise the execution of each of its components, and act as the program counterpart for dealings with the IDB and others. To that end, the UCAR will have a coordination team made up of the executive coordinator and a specific national technical coordinator for the program, as well as technical and administrative support from the UCAR. **Evidence that a technical team has been formed within the UCAR to coordinate program execution, on terms previously agreed upon with the Bank, will be provided as a special contractual condition precedent to the first disbursement.**
- 3.2 The National Agricultural Technology Institute (INTA) and the Province of Misiones will also take part in program execution as subexecuting agencies for certain activities. Other provinces and national and provincial institutions will participate as beneficiary entities, according to their jurisdiction and the specific nature of their activities.
- 3.3 The INTA, and specifically its project execution unit for loan 2412/OC-AR, will be strengthened as and when necessary to carry out activities under the Research And Technology Transfer subcomponent. Expansion of the existing framework agreement between the UCAR and INTA, as well as signature and entry into force of a specific agreement for this program, on terms previously agreed upon with the Bank, will be a special contractual execution condition, prior to the actions under the Research and Technology Transfer subcomponent.
- 3.4 For the execution of the actions envisaged in the Province of Misiones, for which the Province will act as subexecuting agency, an execution unit will be established with qualified staff dedicated full-time to the program within the Strategic Management Subsecretariat of the Province of Misiones. The MAGyP will transfer resources to the government of the Province of Misiones for the execution of activities under the Forest Information, Forest Certification, Improvement of Nurseries, and Competitiveness Gains for Initial Processing subcomponents, in accordance with a work plan determined under an agreement between them. Signature and entry into force of the execution agreement between the UCAR and the Province of Misiones, on terms agreed upon with the Bank, including evidence that the provincial execution unit has been established with qualified staff dedicated full-time to the program, will be a special contractual execution condition, prior to program investments being made in the province.
- 3.5 In addition to the two subexecution arrangements described, the UCAR will interact with other agencies as follows: (i) an interagency cooperation mechanism will be established with the National Agrifood Quality and Health Service (SENASA) for

- the execution of the health subcomponent and coordination with other forest health bodies in the country; (ii) an agreement will be signed with the Argentine Forest Certification System [CERFOAR] Association for coordination of the independent timber legality verification program; (iii) specific technical assistance and strengthening agreements will be entered into with other participating provinces (Buenos Aires, Chaco, Corrientes, Entre Ríos, La Pampa, Mendoza, Neuquén, Río Negro, Santiago del Estero, Salta, San Juan, Tucumán) for activities under the Forest Information, Forest Certification, Improvement of Nurseries, and Competitiveness Gains for Forest Industry Chains subcomponents. In all these cases, the UCAR will be responsible for all procurements, and no transfers of resources to any of the beneficiary bodies is envisaged, although in cases of small amounts, the respective agreements may call for certain clearly defined financial transfers for small procurements acknowledged as operating and maintenance expenses, which will follow the administrative procedures of the beneficiaries, provided they do not violate the principles of competition, efficiency, and economy, and their performance at the central level is not justified.
- 3.6 The works contracting and goods procurement for the nurseries and centers under the Competitiveness Gains for Forest Industry Chains subcomponent will be contingent on the signature and entry into force of agreements between the UCAR and the beneficiary province or university/association participating in the program, on terms previously agreed upon with the Bank. The agreements will establish the beneficiary entity's commitment to cover the operation and maintenance costs of the nurseries and/or centers after two years, once the respective works are concluded or goods procured. Works contracting and/or goods procurement for each of the centers included in the Competitiveness Gains for Forest Industry Chains subcomponent will be contingent on determination of their eligibility by a study that (i) projects demand for the center's services and (ii) demonstrates the center's financial sustainability after two years, once the respective works are concluded or goods procured.
- 3.7 The program will be governed by Operating Regulations (OR) that establish: (i) the responsibilities and functions of each of the program actors; (ii) the procedures for the transfer of resources; (iii) the eligibility, prioritization, justification, and evaluation criteria for investments under the program; and (iv) the grant allocation criteria, including the maximum amounts and counterpart requirements of the beneficiaries, among others. The program OR will also define instruments for calls for proposals, agreements with universities, and cooperation agreements with various beneficiary entities and participants. **Entry into force of the program OR, on terms previously agreed upon with the Bank, will be a special contractual condition precedent to the first disbursement.**
- 3.8 The allocation of grants under the Competitiveness Gains for Forest Industry Chains subcomponent and the Improvement of Nurseries subcomponent will be governed by the following basic principles: (i) a project or business plan must be presented that the investment from the economic and technological standpoint,

prepared by the existing business incubators at Forestry Engineering Schools or other entities with recognized capacity financed by the program; (ii) minimum contributions of 20% to 60% of the project investments will be required, increasing according to the processing stage and size of the enterprise, as well as compliance with labor laws and regulations, and potentially the delivery of services to other MSMEs; (iii) the equipment and machinery in the case of MSMEs, greenhouses and irrigation/fertilization/climate control systems for nurseries needed to supplement the current operations of the selected enterprise will be eligible for financing; (iv) the grants for forest industry MSMEs will be awarded as a priority to cooperatives, producer associations, and other forms of partnership comprising a representative number of productive networks that constitute links in the value chain; and (v) the amounts of the grants will not exceed maximum limits per associated producer, which will be established in the OR, based on the type of investment and lessons learned from other programs in the country. The grants will be approved by the UCAR in the order requested, based on the procedures established in the OR.

- 3.9 **Procurement.** The procurement of works, goods, and consulting services financed with program resources will be conducted in accordance with the Bank policies established in documents GN-2349-9 and GN-2350-9 of March 2011. It was also confirmed that program procurements will be subject to ex post review, with the exception of international competitive bidding, if any, which will be subject to ex ante review. International competitive may also be subject to ex post review, if the executing agency so requests and demonstrates the technical and administrative capacity to manage it, including making the deadlines for bid preparation flexible to bring them into line, where possible, with the time frames established in local laws and regulations (see Annex III).

B. Monitoring and evaluation plan

- 3.10 The program envisages a monitoring and evaluation arrangement described in the [monitoring](#) and [evaluation](#) plan. The UCAR will produce and maintain the information required for effective monitoring of each of the indicators listed in the Results Matrix previously agreed upon with the government, as well as implement the plan.
- 3.11 **Monitoring.** The UCAR will prepare and deliver a monitoring report to the Bank no later than 60 days after the end of each six-month period during program execution. These will focus on the fulfillment of output indicators and progress toward outcomes, as well as the identification of issues encountered and corrective measures taken. The UCAR will deliver the annual work plan (AWP) for the following year, to the Bank's satisfaction, no later than in the last quarter of each year during program execution. Two independent evaluations will be conducted during program execution, a midterm review and a final evaluation. The midterm review will be delivered to the Bank no later than 90 days after 50% of the loan proceeds have been executed, and the final evaluation no later than 90 days after 90% of the loan proceeds have been executed.

- 3.12 **Evaluation.** The program impact evaluation methodology is described in the [impact evaluation plan](#). This evaluation has been designed to identify the program's impacts on MSME and producer incomes, which are expected to increase as a result of more and better market access, use of technology, and higher quality in production. The evaluation will also provide important tools to analyze mechanisms that accelerate technology adoption in the forest industry chain, and rigorous evidence of the effectiveness of forest certification programs and nurseries.
- 3.13 The impact evaluation will use a combination of quasi-experimental methods that include difference-in-differences, instrumental variables, and random incentive design. These methods will be used to estimate the average effect of the program on impact and outcome indicators, comparing the beneficiary group to a control group. The evaluation calls for data to be collected at program start and end, for beneficiaries and the control group. The activities related to the impact evaluation will be financed with loan proceeds.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Lending to support: (i) poverty reduction and equity enhancement; (ii) climate change initiatives, renewable energy and environmental sustainability, and (iii) regional cooperation and integration.		
Regional Development Goals	Annual growth rate of agricultural GDP (%).		
Bank Output Contribution (as defined in Results Framework of IDB-9)	Farmers given access to improved agricultural services and investments.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2328-3, and GN-2570	Growth and competitiveness in a context more favorable to investment and productivity.	
Country Program Results Matrix	GN-2661-4	The intervention is included in the 2012 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.8		10
3. Evidence-based Assessment & Solution	10.0	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	9.1	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood	Medium		
Environmental & social risk classification	B		
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: (i) Budget and (ii) Accounting and Reporting.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	The program promotes opportunities for women.	
Labor			
Environment	Yes	The strategy of the program focused on the integration of environmental aspects in all components, also the activities will seek primarily to mitigate local impacts, good management of resources and promotion of measures to reduce greenhouse gases (GHGs). The aim is not only not generate environmental damage, but to improve the conditions of ecosystems, natural resources and sustainability, through their sustainable management in an integrated resources approach.	
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	Yes	The impact evaluation methodology aims at providing rigorous evidence on the effectiveness of forestry programs in the LAC region.	

This is an investment operation with the general objective of contributing to sustainable management and competitiveness of forest plantations, increasing the quality of the products, both in the primary production and the first transformation, diversifying the productive base, and improving access to productive chains and markets for micro, small, and medium enterprises (MiSMes). The project documentation presents a diagnostic of the main factors that limit the sustainability and the development of the sector to its full potential. The project document identifies the target population and expected beneficiaries of the project. The results matrix is adequately defined with a baseline and targets at all levels.

The economic analysis is complete, consistent with the program logic and based on reasonable assumptions. The project document includes a monitoring and evaluation plan (MEP) that is complete and follows the DEM outline. Quasi-experimental approaches are proposed for the impact evaluation of different aspects of the project.

The risks identified in the risk matrix are reasonable and they include mitigation measures and related metrics to track their implementation.

RESULTS MATRIX

Project objectives	The program objective is to contribute to the sustainable management and competitiveness of forest plantations by raising product quality in both primary production and initial processing, diversifying the productive base, and improving access to supply chains and markets for micro, small, and medium-sized enterprises (MSMEs).		
Impact	Baseline (2012)	Target (2020)	Remarks
Impact: Increase the value-added of the tree crop Indicator: Share of forestry sector in total GDP (%).	1.5% (2009)	2.1%	Source: FAO
Impact: Increase forestry exports Indicator: Value of exports (US\$ million).	960	1,307	Source: TRADE.NOSIS
Impact: Reduce the country's dependence on native forest while maintaining sector growth Indicator: Percentage of timber from planted forests used by the forest industry sector.	89%	95%	Source: Statistics from National Forest Administration, National Forestry Service, IFONA, SAGPyA, Environment and Human Development Secretariat
Indicator: Annual growth rate of output.	2.4%	2.4%	Source: PEA, SIIA and MAGyP
Project outcomes	Baseline (2012)	Target (2017)	Remarks
Result: Increase the area forested with high-value species, managed with good practices for the production of quality timber Indicator 1: Area managed for the production of quality timber (hectares). Indicator 2: Area forested with high-value species (hectares).	600,000 50,000	1,200,000 80,000	<u>Means of verification</u> Ad hoc surveys of forest producers in base year 2013 and target year 2017, forest inventories, INTA reports, and DPF statistics. Total hectares currently planted is 1,200,000. The target of improved management of all current plantations is expected to be achieved with the program.

Project outcomes	Baseline (2012)	Target (2017)	Remarks
<p>Outcome: Improve access to high-value chains for forest industry MSMEs</p> <p>Indicator: Difference in the percentage of new MSMEs in beneficiary and nonbeneficiary areas integrated into new value chains.</p>	0	30%	<p>The service areas of the nurseries and initial processing programs are identified as the beneficiary areas. Service areas will be identified on the basis of where interventions take place.</p> <p>Forest industry MSME categories are defined on the basis of average monthly output of sawn lumber, as follows:</p> <ol style="list-style-type: none"> 1. Micro: Up to 25 cubic meters 2. Small: Up to 75 cubic meters 3. Medium: Up to 150 cubic meters 4. Corporations are excluded <p>High-value chains are those involving the sale of products requiring dry wood.</p>

Component 1. Management improvements								
Subcomponent 1.1: Information and statistics	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Remarks
Intermediate outcome: Increase information availability and access for forest industry MSMEs. Indicator: Number of forest industry MSMEs stating that they use the information system in decision-making.	0	0				14000	14000	<u>Means of verification:</u> Baseline surveys and online records.
Subcomponent 1.2: Promotion of certification	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Remarks
Intermediate outcome 1: Increase the level of formality among forest industry MSMEs. Indicator 1: Number of forester and forest industry MSMEs that complete the timber legality verification program (first and second onsite verification of legal compliance) Indicator 2: Percentage of legal wood, with certificate of verification, processed at centers financed by the program. Intermediate outcome 2: Increased sustainability of MSME forest management and custody chain. Indicator: Number of forest industry MSMEs having certified their sustainable forest management and custody chain with CERFOAR.	0			200	200	350	750	<u>Means of verification:</u> CERFOAR records
	0				5	30	30	Service center records
	0				40	40	80	CERFOAR forest certification records

Component 2: Technology development and transfer								
Subcomponent 2.1: Forestry research and development	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	
Intermediate outcome: Increase the availability of high value species for forest producers in priority regions (Chaco, Northwestern Argentina, irrigated valleys, Pampas). Indicator 1: Number of new species in widespread use in commercial forest plantations. Indicator 2: Number of new clones in widespread use in commercial forest plantations.	0					12	12	<u>Means of verification:</u> INTA reports, publications, field visits, and producer surveys. Target: 8 exotic and 4 native species
	0					20	20	Target: 20 intra- and interspecies clones
Subcomponent 2.2: Forest health	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Remarks
Intermediate outcome: Reduce the risk of arrival and entrenchment of new forest pests and diseases, and to mitigate the harm associated with those already present. Indicator: Number of new quarantine pests detected in Argentina or that have high levels of prevalence.	0					0	0	<u>Means of verification:</u> FAO, SENASA
Subcomponent 2.3: Support for the construction and startup of forest nurseries	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Remarks
Intermediate outcome: Increase the availability and adoption of quality planting material. Indicator 1: Planting material available at nurseries (number of seedlings). Indicator 2: Number of nursery businesses using technologies promoted by the project in their production. Indicator 3: Difference in likelihood of adoption of planting material available at nurseries between producers in the service area and in other areas.	22,500,000						27,500,000	<u>Means of verification:</u> Nursery output reports. SIIF data and producer surveys. The service area refers to the area in which the nursery has greater power to act. It is expected that producers located in this area will be more likely to use the seedlings raised in the nurseries. Service areas will be identified on the basis of where interventions take place.
	0						61	
	0						30	

Subcomponent 2.4: Improvement of initial mechanical processing	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Remarks
Intermediate outcome: Improve MSME access to production technologies and training, in order to facilitate their linkage to value chains and promote the addition of new products with higher value-added.								<u>Means of verification:</u> Surveys of MSMEs and producers, records of training and timber processing centers.
Indicator 1: Difference in likelihood of adoption of oven drying, sawing and/or peeling technologies between participating and nonparticipating MSMEs.	0%					25%	25%	Service areas will be identified on the basis of where interventions take place.
Indicator 2: Difference in use of roundwood in initial processing between participating and nonparticipating MSMEs.	0%					15%	15%	Service areas will be identified on the basis of where interventions take place.
Indicator 3: Difference in the proportion of dry timber produced between participants and nonparticipants.	0%					15%	15%	Participating MSMEs are defined as those whose employees or employers receive training at training and processing centers.
Indicator: Number of studies conducted, available to the public, and approved by the Rural Change Unit (UCAR).	0	1	4	3	2	0	10	

For more details, see the [itemized Results Matrix](#)

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Argentina
Project number:	AR-L1067
Name:	Forest Sustainability and Competitiveness Program
Executing agency:	Rural Change Unit (UCAR) of the Ministry of Agriculture, Livestock and Fisheries (MAGyP).
Fiduciary team:	Gustavo Sierra (FMP/CAR), Gumersindo Velázquez (FMP/CAR), and Maximiliano Marqués (consultant)

I. Executive summary

1. The “Procedures Guide for Risk Management in Projects with Sovereign Guarantee” was used to assess risks, and the Institutional Capacity Assessment System (ICAS) was used for institutional analysis. The executing agency will be the Rural Change Unit (UCAR) of the Ministry of Agriculture, Livestock and Fisheries (MAGyP), which will establish an execution unit for program management.
2. Certain weaknesses and fiduciary risks were identified and have been stated in the Risk Mitigation Matrix (RMM). The executing agency ‘s fiduciary management systems were assessed using the procedures given in section I.1, and were found to be adequate but in need of strengthening.
3. The program does not include financing of another agency, but there will be two subexecuting agencies: National Agricultural Technology Institute (INTA) and the Province of Misiones.

II. Fiduciary context of the executing agency

The executing agency’s fiduciary systems are considered to be satisfactory, although they have certain weaknesses that will require strengthening measures included in the RMM.

III. Fiduciary risk evaluation and mitigation measures

The fiduciary capacity analysis was performed as part of the ICAS analysis. Risks (including fiduciary risks) were identified using the methodology for risk management in projects with sovereign guarantee at a joint workshop with members of the executing agency and other agencies. The risks identified and included in the Risk Matrix are: (i) delay in the flow of national counterpart funds, and (ii) delays in program fund flows. The following mitigation measures were proposed: (a) negotiations with the relevant budgetary authorities, and (b) criteria and guidelines for financial planning, aligning financial management with the project cycle and production cycle. The mitigation actions have been built into the design of the operation itself, with comprehensive technical assistance and strengthening mechanisms. Therefore, the executing agency has been assigned a low level of risk.

The supervision modality applicable for financial management and procurement management has been determined on the basis of the identified risks. The supervision modality initially established may change during program execution as a result of the evaluations conducted.

The ICAS assessment found that the Strategic Management Subsecretariat of the Province of Misiones has medium risk, and so must institute all the technical/fiduciary administration mechanisms for program execution, establishing a monitoring, supervision, and evaluation system. In the case of INTA, the institutional analysis also recommended the need to strengthen use of the Execution Units of External Loans (UEPEX) system at the institution from the outset for program-related transactions.

IV. Considerations for the Special Conditions of the loan contract

- a. *Conditions precedent to the first disbursement:* (i) Entry into force of the program Operating Regulations (OR) approved by the participating agencies, on terms previously agreed upon with the Bank.
- b. The executing agency will deliver annual financial statements for the project, audited by the Office of the Auditor General (AGN) or an independent audit firm acceptable to the Bank, on terms previously agreed upon with the Bank.
- c. The executing agency will adopt the e-disbursements modality, enabling it to prepare and send disbursement requests to the Bank electronically.
- d. Exchange rate. The U.S. dollar equivalent of expenditures in the borrower's national currency will be determined using: (i) the same exchange rate used for the conversion of the resources disbursed in U.S. dollars to the borrower's national currency. In this case, the exchange rate in effect on the date of submission of the request to be Bank will be used for reimbursements of expenditures chargeable against the loan proceeds and the recognition of expenditures chargeable against the local counterpart.

V. Agreements and requirements for procurement execution

1. Procurement execution

The "Policies for the procurement of goods and works financed by the Inter-American Development Bank" (document GN-2349-9) and the "Policies for the selection and contracting of consultants financed by the Inter-American Development Bank" (document GN-2350-9), both of March 2011, will be applied. It has been further agreed that the Procurement Plan Execution System (SEPA) will be used for the administration and management of program procurement planning. In the event of temporary connectivity problems and/or the uploading of information in SEPA, work may be done provisionally in physical Excel format, to ensure that an updated and approved procurement plan is available.

- a. **Procurement of works, goods, and nonconsulting services:** Contracts for works, goods, and nonconsulting services¹ generated under the program and

¹ "Policies for the procurement of goods and works financed by the Inter-American Development Bank" (document GN-2349-9), paragraph 1.1: Nonconsulting services are treated as goods.

subject to international competitive bidding (ICB) will be procured using the Bank's standard bidding documents (SBDs). Bidding processes subject to national competitive bidding (NCB) will be executed using national bidding documents agreed upon with the Bank. The program's sector specialist is responsible for reviewing the technical specifications for procurements during preparation of the selection processes. The procurement plan to be submitted by the executing agency will identify those selection processes to be contracted directly and those requiring qualification of bidders.

Moreover, in ICB processes, the bid submission deadline for noncomplex procurements, specified in the policies for works, goods, and nonconsulting services, may be shortened to four weeks, and the deadline established by local law for NCB processes is accepted. This applies particularly in the case of ICBs for amounts just above the country's lower threshold for ICB, where it is assumed there will be no international participation. An extension of this bid submission deadline must be agreed upon, if any potential bidder so requests.

For procurement processes conducted via NCB, by interpretation of paragraph 2.47 of the respective procurement policy, the executing agency may disclose the proposed award at the end of the evaluation process in those cases provided by national law and stated in the relevant bidding document. It may even allow bidders to review the proposals and offer their comments or observations (not protest or challenge) after the date of opening the bids, for consideration in the evaluation report.

The Bank's procurement policies must also be followed in procurements processes for goods and services for small amounts conducted by the executing agency or subexecuting agencies. When the amount is such that ICB and NCB methods are not applicable, the procurement method established by the Bank is shopping.

- b. **Selection and contracting of consultants:** Contracts for consulting services generated under the program will be procured using the standard request for proposals (SRP) issued by the Bank. The procurement plan will describe the selection processes, including the services to be contracted using the single-source selection method.

For consulting services with an estimated budget of up to US\$200,000, the executing agency will promote the use of selection based on the consultants' qualifications (CQS), as envisaged in paragraph 3.7 of the policies.

- **Selection of individual consultants:** In the cases identified in the approved procurement plans, individual consultants may be engaged through local or international publicity, to prepare a short list of qualified individuals, as established in document GN-2350-9, Section V, paragraphs 5.1 to 5.4. In cases of service contracts, consultants will deliver midterm or final reports as required by the executing agency. Approval of a performance evaluation of satisfactory or better by the relevant authority will be sufficient for contract

renewal. Evaluations will be conducted once a year, so as to facilitate approval by the relevant authorities.

- **Training:** The procurement plan describes the procurements applicable to the program components that include training contracted in the form of consulting and nonconsulting services.
- c. **Recurring expenditures:** The recurring expenditures or operation and maintenance expenditures required during the program will be: airfare (national law under Decree 1191/2012 stipulates that fares for all domestic and international travel are to be purchased from Aerolíneas Argentinas and Austral), per diem, ground transportation, rental and services, maintenance, expenses, office supplies, courier and postal services, cleaning services, computer supplies, insurance, telephone, and petty expenses for operation of the executing agency, which will be financed by the program and paid in accordance with procedures reviewed and accepted by the Bank. The costs of operation do not include the salaries of public sector employees.
- d. **Advance procurement/Retroactive financing:** No advance procurement or retroactive financing is envisaged.

2. Table of threshold amounts (US\$)

Works			Goods			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International publicity Consultants	Short list 100% national
≥ 5,000,000	< 5,000,000 ≥ 350,000	< 350,000	≥ 500,000	< 500,000 ≥ 100,000	< 100,000	> 200,000	< 500,000

3. Main procurement processes

See the full [Procurement Plan](#)

Activity	Procurement method	Estimated date	Estimated amount (US\$)
Works			
Construction/startup of 6 nurseries for seedling production under cover (500,000 seedlings/year) with training classrooms, office, storage, and seed laboratory.	NCB	July-13	3,960,000
Construction of 2 willow nurseries in irrigated areas (500,000 new trees/year), with training classrooms, office, stores, and seed laboratory.	NCB	July-13	620,000
Improvement of 2 existing nurseries in Patagonia with training classrooms, office, storage, and seed laboratory.	S	July-13	480,000
Construction of a design center for innovation and development in Misiones.	S	June-14	525,000
Construction/startup of nurseries for native species seedling production under cover in Misiones (500,000 seedlings/year) with training classrooms, office, storage, and seed laboratory.	NCB	June-14	660,000

4. Procurement supervision

The contracts subject to ex post review by the Bank are listed in the table below. Reviews will be conducted as established in Appendix 1 of the respective policies. Supervision will be on an ex ante basis for amounts above the stated thresholds, according the table in section 2 of this document. ICBs may be subject to ex post review if the executing agency so requests and demonstrates sufficient technical and administrative capacity for their management. Similarly, direct contracting of works, goods, services, and consultants listed in the Procurement Plan may also be subject ex post review, in accordance with Appendix 1, Section 4, of the procurement and consulting policies, satisfying the conditions for direct contracting under the respective policies.

The Bank will make ex post review visits at least once every 12 months. Ex post review reports will include at least one physical inspection visit, as applicable. Importantly, no less than 10% of contracts reviewed will be physically inspected during the program.

Threshold for ex post review			
Works	Goods	Consulting services	Individual consultants
< 5,000,000	< 500,000	< 200,000	< 50,000

Note: The thresholds for ex post review are based on the executing agency's fiduciary capacity for execution and may be modified by the Bank in the relevant procurement plan as the executing agency gains more experience.

5. Records and files

The executing agency and subexecuting agencies will maintain a standardized record-keeping system relating to their respective procedures with original documentation. The agreed formats and procedures described in the program Operating Regulations will be used to prepare and file project reports. Originals will be kept on file by the Rural Change Unit (UCAR), the National Agricultural Technology Unit (INTA), and the Province of Misiones, whichever conducts the competitive bidding processes.

VI. Financial management

1. Accounting and information systems

The executing agency and subexecuting agencies will use the UEPEX system as the financial administration system. Accounting records will be kept on a cash basis and will follow International Financial Reporting Standards (IFRS), as applicable under the established country criteria. The required financial reports will be: (i) financial execution plan for up to 180 days following requests for advances of funds; (ii) audited annual financial statements, and (iii) other reports as requested by the fiduciary specialists.

2. Disbursements and cash flow

The Financial Management Policy for IDB-financed projects (document OP-273-1) and Financial Management Operational Guidelines for IDB-financed projects (document OP-274-1) will be applied.

The loan proceeds requested from the Bank under the advance of funds modality will be deposited in a dollar-denominated account, then converted to the national currency as necessary to meet operational requirements in a peso-denominated account exclusively for the project, from which project expenditures and investments will be made as planned. The executing agencies will exercise strict and effective control over the use of funds advanced with mechanisms to verify and reconcile available balances shown in their records against the corresponding items in the Bank's records (LMS1 Report).

The e-Disbursements modality will be adopted. This is the IDB Web-based system enabling the executing agency to prepare and send disbursement requests to the Bank electronically, lowering transaction costs and allowing the Bank to review and process the requests sent remotely. **This will be established in the special contractual clauses.**

3. Internal control and internal audit

The national internal control body is the Sindicatura General de la Nación [Office of the Comptroller General] (SIGEN), which works jointly with the MAGyP's Internal Audit Unit (UAI). The UCAR also has an internal control area reporting to the executive coordinator. Payments of both the local contribution and the loan proceeds will be subject to ex post control by sampling.

4. External control and reports

The Auditoría General de la Nación [Office of the Auditor General] (AGN) is the supreme technical body for external control of the national public sector. It has a department for the control of borrowing with international lenders, which conducts financial audits of government programs financed by the IDB, in response to annual requests by the borrower (Ministry of Economy and Public Finance, National Directorate for Projects with International Lending Agencies (DNPOIC)) and audit agreements with the executing agencies of programs with external financing.

5. Financial supervision plan

The initial financial supervision plan is based on the risk and fiduciary capacity assessments conducted according to the onsite and desk reviews envisaged for the project, the scope of which includes operational, financial, accounting, compliance/legality, frequency and the party responsible.

6. Execution arrangements

The program executing agency will be the MAGyP, acting through the UCAR, which will establish agreements with the participating provinces and other agencies, as well as with INTA and the Province of Misiones for the subexecution of program activities. The UCAR's institutional framework, mission, and general and specific

objectives are described in Chapters 2, 3, and 4 of the UCAR's Operating Regulations.

To perform its tasks and responsibilities under the program, the UCAR will have a coordination team comprising an executive coordinator, a program-specific national technical manager, and support from the UCAR's technical and administrative areas.

For program subexecution, the Province of Misiones will establish an execution unit, and the INTA will use the management unit established for program 2412/OC-AR.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/12

Argentina. Loan ____/OC-AR to the Argentine Republic
Forest Sustainability and Competitiveness Program

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 Argentine Republic, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a forest sustainability and competitiveness program. Such financing will be for an amount of up to US\$60,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ _____ 2012)

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