

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

**CREDIT PROGRAM FOR THE REACTIVATION OF PRODUCTION IN THE
PROVINCE OF NEUQUÉN**

(AR-L1356)

LOAN PROPOSAL

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REQUIRED LINKS	
1	Multiyear execution plan / Annual work plan
2	Monitoring and evaluation plan
3	Summary of environmental and social review
4	Procurement plan

OPTIONAL LINKS	
1	Economic analysis of program
2	Credit Regulations for program
3	Demand analysis
4	Environmental and Social Review Filter

ABBREVIATIONS

ADENEU	Agencia de Desarrollo Económico del Neuquén [Neuquén Economic Development Agency]
BPN	Banco Provincia del Neuquén S.A.
FOGANEU	Fondo de Garantía del Neuquén [Neuquén Guarantee Fund]
GDP	Gross domestic product
IADEP	Instituto Autárquico de Desarrollo Productivo [Autonomous Institute for Productive Development]
IMF	International Monetary Fund
MSME	Micro, small, and medium-sized enterprise
SME	Small and medium-sized enterprise
UPEFE	Unidad Provincial de Enlace y Ejecución de Proyectos con Financiamiento Externo [Provincial Liaison Unit for the Execution of Externally Financed Projects]

PROJECT SUMMARY
ARGENTINA
CREDIT PROGRAM FOR THE REACTIVATION OF PRODUCTION IN THE PROVINCE OF NEUQUÉN
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Financial Terms and Conditions				
Borrower:			Flexible Financing Facility ^(a)	
Province of Neuquén			Amortization period:	25 years
Executing agency:			Disbursement period:	5 years
Ministry of Economy and Infrastructure of the Province of Neuquén			Grace period:	5.5 years ^(b)
Guarantor:			Interest rate:	SOFR-based
Argentine Republic			Credit fee:	^(c)
Source	Amount (US\$)	%	Inspection and supervision fee:	^(c)
IDB (Ordinary Capital): ^(f)	40,000,000	100	Weighted average life:	15.25 years
Total:	40,000,000	100	Approval currency:	U.S. dollars
Project at a Glance				
Project objective/description: The general development objective of the program is to contribute to the recovery of production and support the sustainability of employment in the province of Neuquén. The specific development objective of the program is to provide the beneficiary micro, small, and medium-sized enterprises (MSMEs) operating in the province of Neuquén with production-oriented financing.				
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) the designation of the UPEFE as the program execution unit and designation of the team described in paragraph 3.4; and (ii) approval and entry into force of the program Credit Regulations , in accordance with the terms previously agreed upon with the Bank (paragraph 3.13).				
Special contractual conditions precedent to the disbursement of resources for Component I of the program: (i) the first disbursement of loan proceeds for Component I of the program will be contingent on signature by the borrower of an agreement or equivalent legal instrument with the Neuquén Economic Development Agency (ADENEU) and the Autonomous Institute for Productive Development (IADEP), to establish the roles and responsibilities of these entities in program execution; (ii) the first disbursement of the loan proceeds to be executed through the trust administered by Banco Provincia del Neuquén S.A. (BPN) will be contingent on signature by the borrower, through the executing agency, of an agreement or equivalent legal instrument with BPN, to the Bank's satisfaction; and (iii) the first disbursement of loan proceeds to be executed through the Neuquén Guarantee Fund (FOGANEU) will be contingent on signature by the borrower of an agreement or equivalent legal instrument with FOGANEU, to the Bank's satisfaction (paragraph 3.15). For the special contractual conditions relating to environmental and social considerations, see Annex B to the Environmental and Social Review Summary (required link 3).				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges: ^(d)	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>	
Crosscutting themes: ^(e)	GE <input checked="" type="checkbox"/> and DI <input checked="" type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>	

^(a) 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 risk management and operational considerations into account when reviewing such requests.

^(b) 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.

^(c) 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.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

^(f) In accordance with document AB-2990, disbursement of the loan proceeds will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months, counting from the date of approval of the loan by the Bank's Board of Executive Directors (paragraph 2.2).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** Economic activity in Argentina fell sharply between 2018 and 2020 (at a cumulative rate of 14%), a decline that was exacerbated by COVID-19. Although activity recovered by 10.3% in 2021, the gross domestic product (GDP) is still 5.2% below its 2017 rate. Growth of 3.5% is expected for 2022. The annual rate of inflation came in at 50.9% in 2021 and is forecast at 65.1% for 2022. The primary fiscal deficit grew to 6.4% of GDP in 2020, shrank to 3% in 2021, and is forecast at 2.5% in 2022. A new agreement was signed with the International Monetary Fund (IMF) in March to refinance amounts due from the previous program and provide additional financing.
- 1.2 **Economic conditions in the province.** The province of Neuquén accounts for 2.4% of the national GDP.¹ Based on the latest data, the average rate of growth of the province's gross geographic product for 2015-2019 was 3.6%, surpassing the national rate of -0.2%.² According to information from Neuquén's statistical yearbook, the composition of the gross geographic product by sector of activity at current values was as follows in 2019: mining (46.5%); business services (8.7%); administration and public defense (8.0%); commerce (6.5%); education (5.7%); electricity, gas, and water (5.0%); transportation and communications (4.4%); health (3.6%); industry (3.3%); construction (2.8%); social, community, and business services (1.5%); financial intermediation (1.5%); hotels and restaurants (1.5%); agriculture (0.6%); and domestic services (0.4%). For 2020, the data available on business activity indicate a 7% decline in private sector wage jobs over 2019,³ in line with conditions associated with the COVID-19 pandemic. In the second quarter of 2021, there was a year-on-year reduction of 0.7% in private sector wage jobs. To mitigate the effects of the pandemic, the government of the province of Neuquén created an emergency committee and introduced a package of economic, social, and credit measures.
- 1.3 **Productive diversification.** In accordance with its [Five-year Plan for 2019-2023](#), the province of Neuquén is pursuing an economic diversification plan that will gradually usher in a more diverse and complementary economic matrix while instituting a dynamic, innovative, and robust business environment in the province, enabling local entrepreneurs to tap opportunities available in the regional, national, and global markets. The province has a favorable climate for a variety of crops and an adequate sanitary status. It has the right logistics and transportation and communications infrastructure in place to realize its export potential. Its policy supports the development of agriculture and industry through a strategy of strong productive diversification, job creation, and local and regional development that broadly leverages the province's sectors and geography to achieve a balanced approach. The focus is on providing financing and technical assistance to

¹ Neuquén: Provincial productive report. December 2020. Argentine Ministry of Economy.

² Government of the Province of Neuquén (2022 Budget).

³ Source: Boletín de Empleo Registrado y Privado por Provincia [Bulletin of Registered Jobs in the Private Sector by Province].

businesses and entrepreneurs in the agriculture, forestry, non-metal mining,⁴ industry, commerce, and services sectors, with an emphasis on tourism.

- 1.4 **Local productive fabric and the impact of the pandemic.** The province of Neuquén has 48,482 registered taxpayers, of which 38,710 are microenterprises, 5,828 are small businesses, 3,309 are medium-sized businesses, and 635 are large companies.⁵ There are also approximately 9.873 private businesses with salaried employees.⁶ In terms of jobs, in 2020 there were 117,893 workers in the province, distributed by economic activity as follows:⁷ commerce (18%); mining, petroleum, and gas (17%), business services (12%), construction (11%), transportation and communications (8%), industry (7%), hotels and restaurants (6%), etc.
- 1.5 There have been significant job losses in the province of Neuquén in the wake of the pandemic. Activity bottomed out in the third quarter of 2020, and from the first quarter of the year (pre-pandemic) to that quarter, 14,677 jobs were lost, a 12% contraction in employment.⁸ During the period, the activities that were hardest hit by the cuts, both in terms of their magnitude and their share of total employment in the province, were hydrocarbons (-2,638 jobs, -13%); construction (-3,059 jobs, -20%); wholesale and retail commerce (-1,546 jobs; -7%); and hotels and restaurants (-1,747 jobs; -22%). Against the backdrop of the pandemic, according to a survey carried out in Neuquén, one of every five businesses did not record any activity from 20 March to 31 May 2020, while another 55% did but operated at 40% or less of their normal capacity. A total of 98.4% of businesses in Neuquén invoiced less than in the same period of the previous year. In 88% of cases, they experienced a contraction in business of more than 50%. This made it hard for them to meet their regular obligations: 14.7% were unable to cover their utilities; 27% could not make rent; and nearly 30% were unable to pay taxes.
- 1.6 **Vulnerability among micro, small, and medium-sized enterprises (MSMEs).** In 2019 in Argentina, 60% of MSMEs could not obtain access to bank credit due to: (i) high interest rates; (ii) nonfulfillment of formal requirements for loan applications; and (iii) terms not adapted to their needs. Investment loans are even harder to obtain inasmuch as most deposits from the private sector are concentrated in the short term.⁹ Data show that one of the largest banks in the province, Banco de la Provincia del Neuquén S.A. (BPN), reports a maturity mismatch, with 98% of deposits maturing in less than 90 days, against only 60% of assets (including loans and liquid assets) concentrated in these terms.¹⁰ In

⁴ Specifically, pre-existing deposits of clay and sediment (e.g. rocks, sand, gravel, etc.), with production of the latter dominating.

⁵ Provincial Revenue Office. December 2020.

⁶ Source: Business Trends and Employment Observatory (OEDE), Ministry of Labor, Employment, and Social Security (MTEySS), based on Argentina's Integrated Pension System (SIPA).

⁷ Source: Business Trends and Employment Observatory (OEDE), Ministry of Labor, Employment, and Social Security (MTEySS), based on Argentina's Integrated Pension System (SIPA), 2021 Annual Series. Annual series by sector of activity, on average, 2020.

⁸ Source: Business Trends and Employment Observatory (OEDE), Ministry of Labor, Employment, and Social Security (MTEySS), based on Argentina's Integrated Pension System (SIPA). [Boletín trimestral de empleo registrado por provincia. Tercer trimestre de 2021.](#)

⁹ Informe especial: Financiamiento, desempeño PYME y desarrollo productivo. SME Observatory, June 2019.

¹⁰ Information provided by Banco de la Provincia del Neuquén (BPN).

addition, as of the third quarter of 2021, a year-on-year reduction of 34.4% was recorded in productive credit in local currency in Neuquén.¹¹

- 1.7 **Financing gap.** Present demand for financing among MSMEs in the province of Neuquén is estimated at more than US\$50 million, considering both investment and working capital needs.¹² Among potential borrowers, over 80% would be microenterprises in the agriculture, tourism, and industrial sectors, generally without a banking history. Around 12% would be small businesses, and the remaining 8% would be medium-sized businesses. However, there is an insufficient supply of credit for investment in machinery and equipment, owing in part to the shorter financing terms presently available. Moreover, a diagnostic assessment of Argentina's productive credit policy (IDB, 2019) found that the gap affecting businesses without access to financing could be significantly reduced by expanding supply, which would triple the number of MSMEs with productive credit ([optional link 3](#)). On the demand side, the lack of guarantees is a major limitation. Liquidity constraints are exacerbated for smaller businesses. This has a disproportionate impact on women, since 99% of female taxpayers are microenterprises.¹³ Another obstacle is the lack of information available on financing for businesses owned or led by women in the province of Neuquén, which also makes it hard to design lines of credit that are well suited for these businesses.
- 1.8 **Opportunity for a sustainable recovery.** Although the crisis sparked by COVID-19 has undoubtedly increased the vulnerability of MSMEs, conditions are evolving to favor a sustainable economic recovery through access to production-oriented financing¹⁴ to promote investments that help to close gender and diversity gaps at businesses while also reducing their exposure to climate change risks. Along these lines, the IMF is supporting government efforts to advance an economic recovery that is consistent with previous commitments for actions to mitigate climate change and promote sustainable development.¹⁵ The Organization for Economic Cooperation and Development (OECD) has pointed up the importance of support this type of investment, in order to reduce the probability of future shocks and improve the resilience of countries when shocks occur, whether due to environmental degradation or disease.¹⁶ Due to their strong participation in global economic activity, MSMEs are fundamental channels for achieving sustainable development goals,¹⁷ while also being the hardest hit by destruction of infrastructure due to natural disasters and water and energy scarcity. The literature and empirical evidence also points to the important role that the financial sector plays in supporting sustainable economic growth and reducing

¹¹ [Boletín de actividad productiva provincial. January 2022. Ministry of Productive Development.](#)

¹² This estimate is based on the consolidation of various sources of information: survey of medium-sized enterprises providing hydrocarbon-related services; financing needs of microenterprises involved in Autonomous Institute for Productive Development (IADEP) agriculture activity; loans issued by the provincial government in 2020 in response to the pandemic; and the 2021 fiscal credit program for investments.

¹³ Neuquén Center for Women's Economic Development, based on data from the Revenue Office of the Province of Neuquén.

¹⁴ Understood as credit for investments and associated working capital.

¹⁵ IMF, 2020. [Greening the Recovery. Fiscal Affairs.](#)

¹⁶ OECD, 2020. [Building back better: A sustainable, resilient recovery after COVID-19.](#)

¹⁷ [Unlocking the potential of SMEs for the Sustainable Development Goals \(SDG\). OECD, 2017.](#)

inequality, by increasing the productivity of the economy. Expanded financing for productive investments could strengthen the performance of businesses and create jobs through the adoption of new technologies and/or the procurement of equipment, capitalization, or integration into global value chains. Closing in on net zero emissions could create 15 million jobs and add 1% of additional growth to the economy by 2030 in Latin America.¹⁸

- 1.9 **Gender.** Although the lack of data and analysis disaggregated by sex at the level of individual businesses precludes a precise diagnostic assessment of the specific barriers facing women-led MSMEs at the provincial level, the available literature show that female entrepreneurs are up against barriers on both the demand and supply sides.¹⁹ For example, women tend to possess or accumulate fewer assets that can be used to secure financing, and their businesses are often in sectors in which collateral is less accessible, such as the services sector. There are also obstacles on the supply side, such as gender bias in lending (conscious or unconscious), and an absence of financial products and services with the right value proposition for female entrepreneurs.²⁰ In addition to the systemic challenges facing businesses in the country, women entrepreneurs have been more severely impacted by the COVID-19 crisis and have a harder time gaining access to credit. From a productive standpoint, women-led MSMEs are more present in commerce and services sectors, which have been the areas of the economy hardest hit by the crisis: nearly 80% of women-led businesses are concentrated in sectors that were strongly affected by the COVID-19 crisis, compared with 70% of businesses led by men.²¹
- 1.10 In Argentina, just 8% of businesses are led by a woman (Enterprise Survey, 2017), compared with 21.4% in Latin America and the Caribbean and 18% around the world. And just 20.5% of women-led businesses use bank credit to finance investments, compared with 42.9% of businesses led by men (the figures are 33.3% for female-led businesses and 39.3% for male-led businesses in Latin America and the Caribbean as a region). Meanwhile, the rejection rate for loan applications is 42% in the case of women and 2.5% in the case of men (7.4% for women and 3% for men in Latin America and the Caribbean). Statistics indicate that female-led businesses in Argentina face more financial constraints (60% compared with 17 of businesses led by men, according to *SME Finance Forum*). In the province of Neuquén, 44% of taxpaying businesses are women-owned, primarily in the services and commerce sectors, and, as previously mentioned, at the lower end in terms of volume of business invoiced, which translates into low investment capacity. In 2021, only 3.5% of businesses that reported investment in the province were led by women.²² The preliminary findings of the demand analysis ([optional link 3](#)) for women-led MSMEs in the province suggests potential demand of US\$13 million.

¹⁸ Jobs in a net-zero emissions future in Latin America and the Caribbean. IDB, 2020.

¹⁹ Gender and Access to Business Financing, IDB, 2020.

²⁰ Commission for the Financial Market in Chile, 2020.

²¹ The Mastercard Index of Women Entrepreneurs, 2020.

²² Data from the registry of businesses participating in the fiscal credit program as of October 2021 according to Neuquén Economic Development Agency (ADENEU) records.

- 1.11 **Diversity.** To achieve a sustainable social perspective within the program, it is important to consider the reality of two groups that fall along the spectrum of diversity: indigenous peoples and people with disabilities. At present, the areas of Argentina that are home to indigenous peoples have high rates of poverty and limited access to basic services.²³ These communities very limited access to credit, mainly because they do not own land.²⁴ In the province of Neuquén, indigenous communities are estimated to number 43,357 people,²⁵ or 7.9% of the total population. Within these communities, 91.4% of indigenous people self-identity as descending from or belonging to the Mapuche people.²⁶ Meanwhile, data provided by the National Disability Agency indicate that 3,939 individuals applied for a disability certificate in 2019, an 18% increase over the previous year. However, data for 2020 do not follow the trend observed in previous years, with just 1,590 applicants.²⁷ The preliminary findings of the demand analysis ([optional link 3](#)) for businesses led by indigenous peoples or people with disabilities in the province of Neuquén indicates potential demand of US\$3 million and US\$0.55 million, respectively.
- 1.12 **Climate change.** In Argentina, the sectors that generate the highest levels of greenhouse gas emissions are agriculture, transportation, and energy.²⁸ Given the participation of the province's economy in these sectors, there is a high level of vulnerability to climate change. The natural climate variability and extreme climate events, such as drought, water scarcity or excess, severe storms, and hail have been observed with greater frequency in recent years in Neuquén and have caused agricultural losses and reduced availability of water to run hydroelectric plants.²⁹ In addition, as a tourism destination that depends on snowfall, Neuquén will be affected by an expected reduction both in the amount of snow that falls in the province and the length of time when there is snow on the ground.³⁰
- 1.13 The province is working towards greater sustainability and lower carbon dioxide emissions by advancing a diversified energy matrix that incorporates a significant renewable energy component and promotes energy efficiency, with corresponding infrastructure to tap hydroelectric, geothermal, wind, and biomass resources. Along these lines, the province has been promoting: (i) the installation of wind farms; (ii) the development of dams to generate renewable energy; and (iii) the generation of projects to mitigate risk to the agriculture and livestock sector. Notably, since 2020, the province has been implementing a cattle ranching plan³¹ designed to advance

²³ [Center for Autonomy and Development of Indigenous Peoples \(CADPI\), 2017. Country technical note on matters concerning indigenous peoples. Argentine Republic.](#)

²⁴ Ibid.

²⁵ National Population, Household, and Housing Census, 2010. National Institute for Statistics and Censuses (INDEC), 2010.

²⁶ Idem.

²⁷ The variation in 2020 level compared with previous years can be attributed to the fact that the National Disability Agency decided to extend the validity of the certificates for a period of one year, counting from the original date of expiration.

²⁸ Ministry of Environment and Sustainable Development. December 2020. [Second Nationally Determined Contribution by the Argentine Republic.](#)

²⁹ Food and Agriculture Organization, 2015.

³⁰ [Third National Communication. Department of the Environment and Sustainable Development, 2015.](#)

³¹ Source: [Five-year Plan 2019-2023.](#)

good practices in livestock ranching and ensure that production is sustainable and resilient to climate change, and it has incorporated this issue into rural development projects. In 2018, an energy efficiency office was set up to promote practices for the rational use of energy in public and private spheres. Subsequent efforts were initiated to enact legislation on energy efficiency. Extensionists received training to conduct energy audits at businesses and subsequently provided support, in the form of audits, to approximately one hundred MSMEs.

- 1.14 MSMEs have a key role to play in decarbonization and can generate meaningful benefits for economies.³² According to the International Energy Agency, initiatives to reduce demand for energy among MSMEs will, in addition to benefiting the MSMEs, help countries achieve the goals set in their public energy policies. There is evidence that helping MSMEs achieve energy efficiency generally yields a higher return than in other sectors because relatively few of these businesses have made this type of investment.³³ In addition, consumers are increasingly interested in having access to environmentally sustainable goods and services, which has led to a set of regulations in the form of standards and certifications that businesses must meet if they wish to remain competitive. Still, just 14% of MSMEs report having environmental certifications for their products and processes (Fundación Observatorio PYME, 2022). Despite the potential, the high costs associated with investments that support climate change mitigation and adaptation remain a significant limiting factor, especially for small businesses. Accordingly, financing with the right terms and conditions must be offered to make these types of investments feasible for MSMEs.
- 1.15 **Institutional framework.** The province of Neuquén is guided by the [Neuquén Vision 2030](#), a long-term planning instrument for the provincial authorities and a monitoring instrument for the public. In this framework, there is also the [Five-year Plan 2019-2023](#), which seeks, as one of its strategic lines of activity, to diversify the economy, particularly industry and business, by promoting a dynamic and innovative entrepreneurial fabric that maximizes market opportunities.
- 1.16 **Bank experience in the country and region and lessons learned.** The Bank has extensive experience financing global credit operations to support MSMEs in Argentina and other countries in the region. In the case of Argentina, the IDB has been supporting the province of San Juan for over a decade with its strategy to make its productive structure more competitive. The Bank has provided financing for: (i) the Lending Program for Productive and Job Development in the Province of San Juan ([1798/OC-AR](#)), “San Juan I,” execution of which was completed in 2013; and (ii) the Lending Program for Productive Development in the Province of San Juan ([2763/OC-AR](#)), “San Juan II,” execution of which was completed in 2019. In 2021, the Credit Program for the Reactivation of Production in the Province of San Juan ([5343/OC-AR](#)), “San Juan III,” was approved and is currently pending eligibility. In the framework of Bank support, the Productive Investment Financing Fund was created in 2015 as a sector credit fund within the San Juan Investment Development Agency, which provides financing under concessional conditions to selected productive sectors. Its capital comes from provincial, national, and

³² [Eslava et al., \(2012\). Impacto del crédito del Banco de Desarrollo Empresarial de Colombia \(Bancóldex\) en los empresarios.](#)

³³ De Negri, J. et al., 2011. The Impact of Public Credit Programs on Brazilian Firms. IDB working document.

international contributions, and loans and recovered from the IDB's two credit programs with San Juan. The impact evaluation of San Juan I found that the program increased the probability of investment by 6.9%, sales by 9.7%, jobs by 4.3% and labor productivity by 6.4% at the beneficiary companies. Likewise, the impact evaluation of San Juan II noted a positive effect on job creation and business survival.

- 1.17 In addition, there are a range of experiences in the region that demonstrate the importance of financial support for contributing to economic activity and employment, as in the notable case of programs implemented in Colombia and Brazil. In Colombia, Eslava et al. (2012) examined the effects of a Colombian SME financing program structured through Bancóldex, a second-tier State-owned bank, and found that the loans had significant positive effects reflected in increases in production (24%), employment (11%), and investment (70%) in the four years following the first disbursement of the IDB loan.³⁴ Eslava et al. (2012) show that the lines of credit with longer terms had stronger positive effects on investment, productivity, and production. In Brazil, De Negri et al. (2011)³⁵ analyzed the effectiveness of public lines of credit issued by Banco Nacional do Desenvolvimento and the Brazilian Agency for Innovation and found a positive impact on job and export growth but no significant effect on labor productivity.
- 1.18 In general, a review of lessons learned by the IDB Group in the financial sector indicates that innovative solutions are needed to overcome limitations to development of the sector and facilitate the mobilization of financing from banks and investors to advance sustainable development. Lessons learned also underscore the importance of creating long-term financing mechanisms that help develop and consolidate the private market, especially for new markets such as green finance, and expand existing markets that serve segments of the population or businesses with scarce access to financing. Specific lessons learned that were incorporated and reflected in the design of the proposed program refer to: (i) the need to develop lines of credit that meet the specific financing needs (paragraph 1.26); (ii) the opportunity to promote the use of funds for guarantees to back loans issued by financial institutions (paragraph 1.26 and 1.30); and (iii) the importance of conducting diagnostic assessments and developing action plans to help close gaps among disadvantaged groups (paragraphs 1.24 and 1.27).
- 1.19 **IDB Group coordination.** Synergies are planned with other divisions of the Bank in order to develop human capital at MSMEs, though assistance to reduce gaps based on gender and/or diverse groups, and to support MSME financing in the non-metal mining, tourism, agriculture, and forestry sectors, through the identification of specific needs and opportunities for each sector. In addition, IDB Lab will collaborate on the design of innovative financial solutions for individual entrepreneurs and disadvantaged groups, and IDB Invest will help strengthen capacity at BPN and the Neuquén Guarantee Fund (FOGANEU) to evaluate environmental and social risks and identify, promote, monitor, and measure investments aligned with gender and climate change.

³⁴ Eslava et al., (2012). [Impacto del crédito de Bancóldex en los empresarios](#).

³⁵ De Negri, J. et al., 2011. The Impact of Public Credit Programs on Brazilian Firms. IDB working document.

- 1.20 **Complementarity with other Bank portfolio operations and interprovincial cooperation.** The program is complemented by: (i) the Credit Program for the Reactivation of Production in the Province of San Juan ([5343/OC-AR](#)),³⁶ which served as the model for preparation of this operation (the San Juan Investment Development Agency) has been advising the Neuquén government on preparation on this operation, which has led to a collaboration agreement that will extend to providing support for program execution); (ii) Competitiveness Program for Regional Economies ([3174/OC-AR](#)),³⁷ which seeks to improve competitiveness of value chains nationally through access to credit and technical assistance; (iii) Promoting Risk Mitigation Instruments and Finance for Renewable Energy and Energy Efficiency Investments ([4565/GN-AR](#)),³⁸ 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](#)),³⁹ which aims to support the sustainability of MSMEs as employment providers in Argentina amid the crisis caused by COVID-19.
- 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 following challenges: (i) social inclusion and equality, inasmuch as it will provide access to financing and opportunities for vulnerable groups in the province, reducing gender gaps and gaps affecting indigenous peoples and people with disabilities (paragraphs 1.26 and 1.27); (ii) productivity and innovation, through support for production-oriented financing for MSMEs and strategic value chains, inasmuch as it will promote the reactivation of the productive sector (paragraph 1.26); and (iii) economic integration, due to the eventual impact of the production-oriented financing for MSMEs on exports, internationalization of the businesses, and integration into regional value chains (paragraph 1.3). The program is also aligned with the following crosscutting issues: (i) gender equity, though greater access to credit for women-led MSMEs and improved availability of information on the gender gap (paragraphs 1.24, 1.26, and 1.27); (ii) diversity, by providing financing to MSMEs run by indigenous peoples and people with disabilities, and helping counterparts improve their capacity to measure and reduce gaps affecting these groups (paragraphs 1.24, 1.26, and 1.27); (iii) institutional capacity and rule of law, given that the nonfinancial support component will support capacity-building in the province of Neuquén intended to promote production-oriented financing (paragraph 1.27); and (iv) climate change, since in accordance with the [joint methodology of the multilateral development banks for tracking climate finance](#), 30% of program resources are being invested in climate change adaptation and mitigation activities through the design of new instruments to facilitate access to credit that promote sustainable investments (paragraphs 1.24, 1.26, and 1.27).
- 1.22 The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the “MSMEs financed” indicator. By providing production-oriented financing to MSMEs, with an emphasis on businesses owned

³⁶ Approved in 2021 for US\$58 million, currently pending eligibility.

³⁷ Approved in 2014 for US\$200 million and reformulated in 2020 for US\$145 million, of which 73.79% has been disbursed.

³⁸ Approved in 2018 for US\$100 million, of which 36.66% has been disbursed.

³⁹ Approved in 2020 for US\$500 million, of which 80% has been disbursed.

or led by women and/or diverse groups and green investments, the program aligns with the IDB Group's [Vision 2025](#), which identifies working toward sustainable and inclusive economic growth as its top priority. The program is consistent with the following sector framework documents: (i) Support to SMEs and Financial Access/Supervision (document GN-2768-7), which underscores the importance of promoting access to financing by the productive sector; (ii) Climate Change (document GN-2835-8), inasmuch as support will be provided under the program for the design and implementation of new instruments to facilitate access to credit that promote sustainable investments; and (iii) Gender and Diversity (document GN-2800-8), inasmuch as the program will help gauge and reduce the gender gap in production-oriented financing.

- 1.23 **Country strategy and 2022 operational program.** The program is aligned with the IDB Group Country Strategy with Argentina 2021-2023 (document GN-3051), in particular with the economic recovery and productive development 4.0 priority area and the strategic objective of expanding coverage and access to financing in the sustainable productive sector. Lastly, the operation is included in the 2022 Operational Program Report (document GN-3087).
- 1.24 **Gender and diversity considerations.** In order to strengthen institutional capacity to collect data disaggregated by gender, indigenous peoples, and people with disabilities at the business level, studies will be carried out as part of activities planned under Component II of this program to identify, collect, monitor, and analyze data disaggregated by gender, ethnicity, and disability status, considering the leadership and ownership of businesses and following international best practices (paragraph 1.27). In addition, based on the planned diagnostic assessments (paragraphs 1.9, 1.10, 1.11), action plans will be developed that consider gender and diversity issues and will be recommended, for implementation, to the businesses receiving loans (paragraph 1.27).

B. Objectives, components, and cost

- 1.25 **Objective.** The general development objective of the program is to contribute to the recovery of production and support the sustainability of employment in the province of Neuquén. The specific development objective of the program is to provide the beneficiary micro, small, and medium-sized enterprises (MSMEs) operating in the province of Neuquén with production-oriented financing.
- 1.26 **Component I. Financial support for the reactivation of production (US\$39 million).** This component will facilitate access to production-oriented financing for the beneficiary companies (paragraph 1.29), through: (i) new lines of direct financing for loans to MSMEs under favorable conditions (terms and conditions) issued through a trust,⁴⁰ created by the province of Neuquén, as trustor, and BPN,⁴¹ as trustee (paragraph 3.8); and (ii) funds to issue guarantees through FOGANEU,⁴² to improve access for MSMEs and target groups to loans issued by

⁴⁰ Under the trust, new lines of credit will be created that offer the right conditions for productive investments, including longer terms, for example, for the development of new agricultural activities.

⁴¹ Corporation in which the Province of Neuquén holds a majority share, pursuant to [Law 2,351](#).

⁴² Corporation in which the State holds a majority share, within the sphere of the Ministry of Production and Industry, pursuant to [Law 3,286](#).

financial entities operating in the province (paragraphs 1.30, 3.9, 3.11). At least 25% of the portfolio supported by this component will go to businesses led or owned by women,⁴³ and at least 30% will be placed in investments that contribute to climate change mitigation and/or adaptation.⁴⁴ Program resources will also be used to ensure that the lines of credit and/or guarantee go to at least 20 MSMEs led or owned by indigenous peoples⁴⁵ and 10 MSMEs led or owned by people with disabilities.⁴⁶ To achieve these goals, the province of Neuquén will rely on ADENEU⁴⁷ and the Autonomous Institute for Productive Development (IADEP)⁴⁸ to disseminate the lines, identify MSMEs, and support the preparation, technical evaluation, and monitoring of projects.

- 1.27 **Component II. Nonfinancial support for the reactivation of production (US\$0.5 million).** Technical assistance will be provided to the borrower to improve its ability to support MSME access to production-oriented financing and fulfillment of the goals set under Component I. This component will include: (i) implementation of studies in priority sectors to provide the borrower with access to data disaggregated by age, gender, ethnicity, and disability, as well as to identify specific support actions to help those sectors close gender gaps and/or gaps between diverse groups, as well as to identify needs and opportunities for green investments, supporting the demand for financing among the identified groups; (ii) development of actions plans to reduce gaps and support the opportunities identified in the diagnostic assessments implemented under the preceding item; and (iii) design of new instruments to facilitate access to credit that promote investments aligned with the first item. Through this support, the Bank offers additionality to the province of Neuquén, supporting innovation and capacity-building to achieve the goals proposed in terms of gender, diversity, and climate change.
- 1.28 **Administration, audits, monitoring, and evaluations (US\$0.5 million).** This is intended to cover the program administration costs incurred by the Provincial

⁴³ Consideration was given to the low proportion of businesses led or owned by women, the demand constraints mentioned in paragraph 1.7, and the gender-related activities that will be carried out as part of this program. Consistent with international best practices, a business is understood to be owned or led by a woman if a woman or women own over 50% of it or a woman or women own at least 25% of it and at least one decision-making position is held by a woman.

⁴⁴ The program's [Credit Regulations](#) will include a positive list of investments considered to be climate-related, in accordance with the [joint methodology of the multilateral development banks for tracking climate change adaptation finance](#).

⁴⁵ A business is understood to be owned or led by indigenous people if indigenous people make up over 50% of its ownership structure or labor force, or if an indigenous person or people own at least 25% of it and at least one decision-making position is held by an indigenous person.

⁴⁶ A business is understood to be owned or led by people with disabilities if a person or people with disabilities own over 50% of it, or a person or people with disabilities own at least 25% of it and at least one decision-making position is held by a person with a disability.

⁴⁷ Autonomous entity of the province of Neuquén, under the sphere of the Ministry of Production and Industry of the Province, created by [Law 2,246](#), for the purpose of providing services and carrying out actions leading to the creation and strengthening of MSMEs whose economic activities are carried out within the jurisdiction of the province and have their legal domicile and/or run their business primarily in the province.

⁴⁸ Autonomous entity of the province of Neuquén, under the sphere of the Ministry of Production and Industry of the Province of Neuquén that promotes and contributes to comprehensive development in the various productive sectors, the deployment of private investment, and the growth of the real economy, generating sources of decent work and helping improve the quality of life.

Liaison Unit for the Execution of Externally Financed Projects (UPEFE), including supervision, accounting, audits, and evaluation. These costs also include the contracting of support consultants, computer equipment, and expenses related to the administration of the loans and guarantees issued through the trust fund and FOGANEU (paragraph 1.26).

- 1.29 **Beneficiaries.** The program is expected to benefit a total of 200⁴⁹ MSMEs in the agriculture, forestry, non-metal mining, industrial, commercial, and services sectors. This estimate is based on program resources and the average loan reported by the Neuquén provincial government. The final figure will be subject to demand and the actual average loan amount. A portion of the beneficiary MSMEs are expected to be led or owned by women and/or diverse groups, including indigenous peoples and people with disabilities.
- 1.30 **Mobilization of resources.** FOGANEU is expected to leverage the funds received through the IDB loan, estimated at US\$1 million, by a factor of 3.5, mobilizing at least US\$3.5 million from financial entities operating in the province that will issue loans to the MSMEs based on the guarantees. In accordance with regulations governing guarantee funds in Argentina, these entities are permitted to offer guarantees for a value of up to eight times their capital. However, given that FOGANEU is a newly created instrument, it is expected to leverage its capital by a factor of 3.5.

C. Key results indicators

- 1.31 **Expected impact and outcomes.** The program is expected to have an impact on the economic recovery and employment sustainability of the province of Neuquén, through sales and jobs growth at the MSMEs supported by the program. For the short and medium term, the results indicators will be: (i) the total amount of the relevant portfolio for production-oriented financing achieved with program support; (ii) the nonperforming rate of the relevant portfolio supported with program resources; (iii) the average origination time of the total portfolio of production-oriented financing for program beneficiary businesses; (iv) resources leveraged through the guarantees issued by FOGANEU; (v) percentage of program resources allocated to investments for climate change mitigation and/or adaptation; and (vi) percentage of program resources allocated to financing MSMEs led and/or owned by women.
- 1.32 **Economic viability.** The economic evaluation identifies the cost and benefit flows generated by the program. The main benefit is the economic value of the increase in revenue from sales generated as a result of the program. Assuming a discount rate of 12%, these flows yield benefits totaling US\$11 million and an internal rate of return of 21.9%. The sensitivity analysis shows that the net present value remains positive against potential variations across a wide range of determinant parameters ([optional link 1](#)).

⁴⁹ Considering that financing is typically issued for up to 80% of the total investment and that private resources are mobilized, a figure of up to 250 MSMEs is estimated.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 As a financial intermediation operation, the program will be financed with an investment loan for up to US\$40 million under the global credit loan modality with resources drawn from the Bank's Ordinary Capital within the framework of the Flexible Financing Facility. The program will have a five-year disbursement period, consistent with the volume and type of demand identified.

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

Components	IDB (Total)	%
Component I. Financial support for the reactivation of production	39.0	97.4
Production-oriented financing for MSMEs in strategic sectors	27.3	68.2
MSME financing for investments in climate change adaptation and mitigation	11.7	29.2
Component II. Nonfinancial support for the reactivation of production	0.5	1.3
Technical assistance for the program execution unit and BPN	0.5	1.3
Administration, audits, monitoring, and evaluations	0.5	1.3
Total	40.0	100.0

Note: The values by activity are indicative.

Table 2. Projected disbursements (US\$ millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Amount	6	6	8	12	8	40
%	15.0	15.0	20.0	30.0	20.0	100.0

- 2.2 **Restrictions on the rate of disbursement.** In accordance with Enhancing Macroeconomic Safeguards (document AB-2990), disbursement of the loan proceeds will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months, counting from the date of approval of the loan by the Bank's Board of Executive Directors. These restrictions need not apply insofar as the requirements set in the Bank's policy have been met, provided that the borrower has been notified in writing.

B. Environmental and social risks

- 2.3 In accordance with the Environmental and Social Policy Framework (document GN-2965-23), the program is classified as a financial intermediation operation. The option will not finance activities on the IDB's exclusion list or activities that contribute directly to them, in accordance with the Sustainable Energy Sector Guidelines (document GN-2613). Financing will not be provided for projects classified as category "A" operations owing to high environmental and social risk and high risk of natural disasters and climate change. The environmental and social risk score is substantial. It is important to note that financing for projects involving mining investments is concentrated in the non-metal segment, specifically small-scale investments to develop pre-existing deposits of clay and

sediment (e.g. rocks, sand, gravel, etc.), with production of the latter dominating. The [Credit Regulations](#) will include an Environmental and Social Management System for the classification, approval, implementation, and monitoring of loans and guarantees financed by the IDB. Within this system, financing for solar panel projects will be limited to small-scale operations involving a maximum installed capacity of 0.5 megawatts. The risks of forced labor in the supply chain for polysilicon-based solar panels were properly assessed and mitigated in accordance with Argentina's laws and regulations. The environmental and social strategy and steps planned to address this risk in this operation are fully aligned with: (i) the IDB Group Measures to Address Risk of Forced Labor in the Supply Chain of Silicon-based Solar Modules (document GN-3062-1); (ii) the new requirements set out in the IDB's Environmental and Social Policy Framework (document GN-2965-3); and (iii) the IDB's procurement and contracting policies (documents GN-2349-15 and GN-2350-15).⁵⁰

C. Fiduciary risks

- 2.4 A medium-high human resources risk was identified, given the poor planning and nonfulfillment of fiduciary requirements that could result if the right team is not assembled to handle coordination, financial management, and procurements activities, a situation that would lead to delays in transfers and procurements, and ineligible expenditures. To mitigate this risk, the program execution unit will be strengthened by assigning qualified personnel who have sufficient time to carry out coordination, financial management, and procurement duties. Meanwhile, the Bank will conduct ad hoc trainings on procurements, financial management, and administration of the system for execution units for external loans.

D. Other key issues and risks

- 2.5 A medium-high risk in the economic-financial environment was identified, given the increase in inflation that could result from a poorly executed adjustment to correct the monetary and exchange rate imbalances now facing the country, a situation that would reduce the annual budget authorized for this program and delay execution. This risk is mitigated by the countercyclical fund known as the Neuquén Development and Stabilization Fund that the provincial government established pursuant to Law 3,269 to address situations like the one described.⁵¹ In addition, a medium-high organizational structure risk was identified, given the miscoordination between the parties that could result if proper mechanisms and procedures are not in place to regulate the interaction between the institutions participating in the execution mechanism, a situation that would cause loan processing delays. To mitigate this risk, the [Credit Regulations](#) will include a section on the governance system specifying the mechanisms and procedures corresponding to the execution mechanism, the roles and responsibilities of each participating entity, a flowchart, information and communication mechanisms, response times, and other aspects that reinforce commitment and streamline interactions. A document will also be included that will establish the formal commitments to be assumed by the institutions participating in the execution mechanism, and agreements will be

⁵⁰ For more information, see [Environmental and Social Review Summary](#).

⁵¹ [Law 3,269. Neuquén, November 2020](#).

signed between the executing agency and FOGANEU, BPN, ADENEU, and IADEP, based on the special contractual conditions of execution established for the program (paragraphs 3.5 and 3.14).

- 2.6 **Sustainability.** The province of Neuquén has had sufficient fiscal revenue flows in recent decades to sustain a successful track record of execution of its programs and policies. In addition, ADENEU, which will provide technical support to the program execution unit, has become well established as a local development agency, adopting new instruments to support the business sector, such as sector programs that provide technical assistance to businesses in each productive sector (agriculture, livestock, dry fruits, viniculture, apiculture, horticulture, mushrooms, hog and poultry farming, small fruits, aquaculture, energy, and mining), as well as specific trainings and support through programs in related areas such as business development, commercialization, foreign trade, and technology linkage unit. All of these actions are supplemented with financing according to the needs of each productive sector and with ongoing technical monitoring.

III. IMPLEMENTATION AND MANAGEMENT PLAN

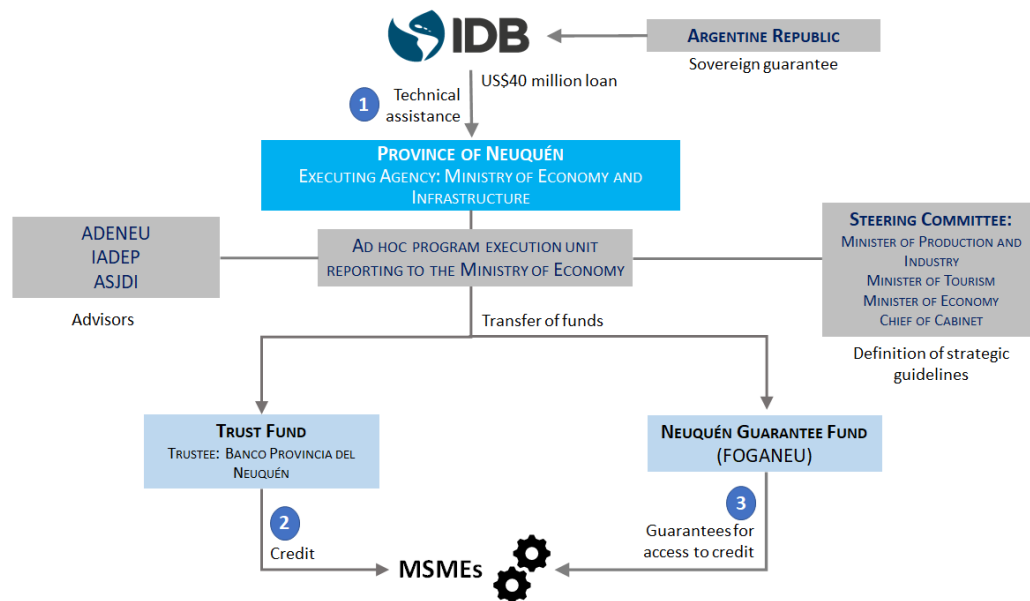
A. Summary of implementation arrangements

- 3.1 **Executing agency.** The borrower of the program will be the Province of Neuquén, and the guarantor of the borrower's financial obligations will be the Argentine Republic. The borrower will execute the program through the Ministry of Economy and Infrastructure of the Province of Neuquén, which will act through the Provincial Liaison Unit for the Execution of Externally Financed Projects (UPEFE). The UPEFE will be responsible for program management and for the program's technical, financial, accounting, legal, and coordination aspects, as well as for monitoring and supervision of program activities.
- 3.2 The borrower will also receive technical support from the Neuquén Economic Development Agency (ADENEU), which reports to the Ministry of Production and Industry of the Province of Neuquén, and from the Autonomous Institute for Productive Development (IADEP), which reports to the Ministry of Economy and Infrastructure of the Province of Neuquén, for project dissemination, identification, and formulation support, technical evaluation of projects, and subsequent evaluation of projects financed.
- 3.3 **Evaluation of institutional capacity.** During the design phase of the operation, an institutional capacity assessment was conducted of the executing agency, the UPEFE in its coordination, financial management, procurements, and environmental, social, health, and occupational safety management functions. Based on the specific execution mechanism for the operation, an analysis was conducted of the institutional capacity of all entities directly involved in execution, in accordance with their specific functions: BPN, as trust fund; FOGANEU, as guarantee fund; ADENEU and IADEP, as responsible for management of technical quality. An analysis of the structure, background, procedures, and resources of each institution, as well as of the interinstitutional execution mechanism as a whole, confirmed that they have an adequate level of development for satisfactory execution of the loan. However, with respect to the UPEFE, areas for improvement

were detected, and specific measures will be taken to remedy the gaps that were identified: (i) at the level of program coordination, a gap was identified in terms of human resource capacity. There are plans to hire a general coordinator for the program, on a full-time basis. The recommendation is as follows: (i) contract a professional with proven management experience in the public sector and a track record with execution of externally financed projects; (ii) ensure that the professional is formally appointed from the start and has signing authority to carry out his or her duties; and (ii) at the level of environmental, social, occupational health and safety management, areas for improvement were identified concerning the regulatory framework and resources for the social and environmental management of the institution. The recommendation is as follows: (i) prepare an environmental and social management framework specifically for the UPEFE, setting performance standards in accordance with the functions of the entity and compatible with the policies and safeguards of international organizations; and (ii) ensure resources are in place to guarantee the right conditions for monitoring environmental and social risks and impacts, as well as to support implementation of corrective action plans as needed. With respect to FOGANEU, although it is in the process of incorporating, it draws on the satisfactory track record and experience of other provincial institutions with guarantee funds, including ADENEU and the Ministry of Production and Industry. The recommendation is help it get up and running, providing support for it to develop procedures and prepare regulations and manuals to ensure the efficiency and quality of its operations.

- 3.4 **Program execution unit.** The UPEFE (paragraph 3.1) will act as the program execution unit in charge of program execution, serving as the counterpart to the Bank's project team. The program execution unit will have a core team consisting of: (i) a general program coordinator (paragraph 3.2), responsible for planning and coordinating program activities and conducting supervision and control of the related technical, economic, financial, and administrative aspects; (ii) a procurement specialist; (iii) an administration and control specialist; (iv) a social and environmental management specialist; and (v) a legal control specialist.
- 3.5 **Governance and strategic coordination mechanisms.** As indicated in Figure 1, the program execution unit will draw support from various entities for execution of the program: (i) a steering committee will be created to define the strategic guidelines for the program. It will consist of representatives from the provincial Ministries of Production and Industry, Tourism, and Economy, as well as the Office of the Chief of Cabinet of the Province. The steering committee will be responsible for: (i) defining the credit lines; (ii) setting criteria for project evaluation and prioritization; and (iii) supervising monitoring of execution of the projects. (i) For identification of the projects, it will have a single window run by ADENEU; (ii) for dissemination of the lines, identification of the MSMEs, and support for preparation, technical evaluation, and monitoring of the projects (paragraph 1.26), the program execution unit will have the technical support of the IADEP in the case of projects for under US\$50,000 and ADENEU in the case of projects for US\$50,000 or more. These two agencies have technical personnel who are specialized in sector issues, as well as support personnel for project advisory and preparation activities; (iv) the loans will be channeled through a trust created by the Province of Neuquén and managed by BPN (paragraph 3.7); and (v) the guarantees will be issued through FOGANEU (paragraph 3.8).

Figure 1. Project execution chart



Source: Prepared by the authors.

- 3.6 It should be noted that the agreements between the executing agency and FOGANEU, BPN, ADENEU, and IADEP (paragraph 3.14), as well as the model legal instruments to be used for the issuance of loans by the trust (paragraph 3.7) and guarantees by FOGANEU (paragraph 3.8) will have the prior no objection of the Bank. Essentially, this is required to ensure that these documents are consistent with the loan contract and the [Credit Regulations](#), including the Bank's rules on safeguards and prohibited practices.
- 3.7 **Use of program resources.** Loan proceeds may be used for: (i) funds for production-oriented credit, channeled through a trust (paragraph 3.7); (ii) funds for issuing guarantees through FOGANEU (paragraph 3.8); and (iii) technical assistance to the province of Neuquén through financing for diagnostic assessments, studies, and action plans.
- 3.8 **Trust for production-oriented credit.** The funds for issuing direct loans to MSMEs will be channeled through a trust fund created by the Province of Neuquén, as trustor, and BPN, as trustee (paragraph 1.26). The trust will be responsible for implementing the lines of credit defined by the Steering Committee (paragraph 3.3), using as inputs the results of the activities carried out in Component II (paragraph 1.27). These lines will be established in accordance with: (i) the specific requirements by sector and economic activity; and (ii) the commitments regarding the participation of businesses owned or led by women, businesses owned or led by members of diverse groups, and green investments (paragraph 1.26).

- 3.9 **FOGANEU.** FOGANEU issues guarantees to improve access to loans from financial entities for MSMEs in the province of Neuquén. The guarantees can be used to back up to 100% of the amount that a beneficiary MSME requests of a financial institutions. FOGANEU will help reduce the lending restrictions facing MSMEs, especially in the most vulnerable sectors, such as diverse groups.
- 3.10 **MSME eligibility.** To be eligible, both for direct financing and guarantees, MSMEs must meet the following requirements, in accordance with Argentine law: (i) be formally constituted; (ii) meet the requirements to qualify as an MSME;⁵² (iii) possess the required licenses and permit to operate; (iv) operate within the province of Neuquén; (v) operate in one of the priority sectors (agriculture, forestry, non-metal mining, industrial, commercial, and services sectors) (paragraph 1.29); and (vi) comply with all the provisions that will be described in the [Credit Regulations](#).
- 3.11 **Eligibility of financial institutions.** To be eligible to use the guarantees, financial institutions must meet the following requirements: (i) be authorized and supervised by the Central Bank of the Argentine Republic, or otherwise by the corresponding entity responsible for control and oversight of the financial sector in Argentina, and be approved by FOGANEU; and (ii) meet the requirements established in the [Credit Regulations](#).
- 3.12 **Financing amount and limit.** Subloans to MSMEs, whether made directly or through guarantees (paragraph 1.26), may not exceed US\$800,000 or its equivalent in local currency. The maximum amount of financing is intended to cover potential investment needs of all types of businesses to be supported. The maximum is for reference purposes and would only come into play in exceptional circumstances, with the average loan for the program expected to be US\$190,000 as reported by the province of Neuquén. Moreover, a higher average loan than the program average is expected for both the projects involving medium-sized enterprises (US\$240,000) and the projects considered to be strategic^{53,54} (US\$600,000). More information will be included in the [Credit Regulations](#).
- 3.13 **Program Credit Regulations.** The [Credit Regulations](#) describe the program execution mechanism. They also include eligibility criteria for beneficiaries and projects. 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 fiduciary policies applicable to each case. 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](#).

⁵² For this purpose, the SME Registry, or any instrument that replaces it, will be used, except in the case of new businesses, which will be classified based on staffing and annual sales levels.

⁵³ The Steering Committee will determine which projects are considered to be strategic based on their alignment with the following criteria: (i) impact on productive diversification; (ii) job creation; and (iii) development of marginalized areas outside the provincial capital.

⁵⁴ Up to 10 strategic projects can be financed under the program.

- 3.14 **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) the designation of the UPEFE as the program execution unit and designation of the team described in paragraph 3.3; and (ii) approval and entry into force of the program [Credit Regulations](#), in accordance with the terms previously 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. Lastly, 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. 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.⁵⁵
- 3.15 **Special contractual conditions precedent to the disbursement of resources for Component I of the program:** (i) the first disbursement of loan proceeds for Component I of the program will be contingent on signature by the borrower of an agreement or equivalent legal instrument with ADENEU and the IADEP, to establish the roles and responsibilities of these entities in program execution; (ii) the first disbursement of the loan proceeds to be executed through the trust administered by BPN will be contingent on signature by the borrower, through the executing agency, of an agreement or equivalent legal instrument with BPN, to the Bank's satisfaction; and (iii) the first disbursement of loan proceeds to be executed through FOGANEU will be contingent on signature by the borrower of an agreement or equivalent legal instrument with FOGANEU, to the Bank's satisfaction. These conditions are justified by virtue of the relevance that BPN, FOGANEU, ADENEU, and IADEP will have in the execution of Component I, which means that these entities must formally assume the responsibilities that will be assigned to them in the loan contract and the [Credit Regulations](#).
- 3.16 **Procurement.** Procurements financed in whole or part with Bank funds and carried out by the executing agency 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](#)). Procurements carried out by the MSMEs will be handled in accordance with their private-sector commercial practices, as provided in Appendix 4 to the Bank's Procurement Policies.
- 3.17 **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

⁵⁵ The authorities are in the process of preparing the project document, which is currently in an advanced stage.

IDB policies in force; (iii) the disbursement period (paragraph 2.1) and the restrictions on the rate of disbursement (paragraph 2.2); and (iv) the conditions for eligibility included in the [Credit Regulations](#).

- 3.18 **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 or by the Province of Neuquén's Audit Office, once the Bank has validated the latter to conduct project audits.
- 3.19 **Commitment on encumbrances.** For the purposes of this operation, based on a request by the borrower, the borrower may establish trusts with its royalties and/or special fees from oil and/or gas production, to guarantee the payment of external public debt, without having to establish an equivalent encumbrance in favor of the Bank, provided that the amount of the principal that the borrower owes to the Bank does not exceed 10% of the borrower's total revenue (including current and capital revenue) in the fiscal year preceding establishment of the trust in question.⁵⁶ The potential risks associated with this request are mitigated, so the Bank's position as lender will not be materially impaired.

B. Summary of arrangements for monitoring results

- 3.20 **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](#).
- 3.21 **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.

⁵⁶ This is the case for: (i) Banco de la República Oriental del Uruguay (BROU), in the context of loan 3396/OC-UR (Financial Program for Productive Development); and (ii) Banco do Brasil, in the context of loan 4691/OC-BR (Public Infrastructure Management Investment Program for Municipal Efficiency). In both instances, a limited commitment on encumbrances was agreed upon, allowing the borrowers the option of establishing certain encumbrances without having to establish equivalent encumbrances in favor of the Bank. The rationale, in both instances, was the interest in not restricting the normal operations of these institutions.

- 3.22 **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 90 days after the expiration date of the program's closing period. The evaluation strategy is described in detail in the [monitoring and evaluation plan](#).
- 3.23 **Strategic evaluation.** Strategic evaluation of the program will be handled by the executing agency in coordination with the Ministry of Economy, in accordance with the terms of reference to be agreed on by the Ministry of Economy and the executing agency.

Development Effectiveness Matrix		
Summary		AR-L1356
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> <div>-Institutional Capacity and the Rule of Law</div>	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Micro / small / medium enterprises financed (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3051	Expand coverage and access to financing for the sustainable productive sector.
Country Program Results Matrix	GN-3087	The intervention is included in the 2022 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	8.1	
3.1 Program Diagnosis	2.5	
3.2 Proposed Interventions or Solutions	1.6	
3.3 Results Matrix Quality	4.0	
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	FI	
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	Yes	The program has non-financial additionality through technical assistance to develop an Environmental and Social Management System (SARAS) for the program.

Evaluability Assessment Note: The Neuquen Province in Argentina accounts for 2.4% of national GDP and suffered during the pandemic an interannual reduction in productive credit of 34.4% in the third trimester of 2021. The Government is seeking to diversify production in this context of limited credit access. Even before the pandemic, 60% of MSMEs in 2019 did not access bank credit given high rates, collateral requirements, or temporality terms not adapted to the investment profile to obtain machinery, equipment, and other capital. In Neuquen 98% of deposits are at lower terms than 90 days limiting long-term credit. In this context, the general objective of the program is to contribute to production recovery and to support job sustainability of the Neuquen Province. The specific objective is to provide MSME beneficiary firms that operate in the Neuquen Province with more access to long-term productive financing. Amongst other actions, to facilitate access to financing new credit lines will be opened for the financing to MSMEs with longer terms that will be placed in a first-floor scheme by the Agency of Economic Development of Neuquen (ADENEU for its initials in Spanish) for productive financing including with a focus on firms led by women or green financing. In parallel, a trust to provide guarantees to firms that lack collateral will be created to enable them in this way to access credit.

Among others, some of the main outcomes associated with the specific objective include the outstanding stock of the relevant portfolio supported, the average loan temporality at origination of the supported portfolio, the leverage of resources thanks to the extended guarantees, and the percentages of (i) resources targeting MSMEs led by women and (ii) the percent targeting investment geared toward climate change adaptation. The cost benefit analysis shows the program is of net benefit to society. At closure, results will be evaluated in a reflexive before-and-after comparison.

RESULTS MATRIX

Project objective:	The specific development objective of the program is to provide the beneficiary micro, small, and medium-sized enterprises (MSMEs) operating in the province of Neuquén with production-oriented financing. The general development objective of the program is to contribute to the recovery of production and support the sustainability of employment in the province of Neuquén.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: To contribute to the recovery of production and support the sustainability of employment in the province of Neuquén.							
Indicator 1: Average annual rate of sales revenue growth at the beneficiary MSMEs, compared with a control group.	%	0	2022	2028	9.7	Program monitoring and supervision information collected by the program execution unit.	See monitoring and evaluation plan .
Indicator 2: Before-and-after average annual rate of job growth at the beneficiary MSMEs.	%	0	2022	2028	4.3		See monitoring and evaluation plan .

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline value	Baseline year	Project completion	Means of verification	Comments
Specific development objective: To provide the beneficiary micro, small, and medium-sized enterprises (MSMEs) operating in the province of Neuquén with production-oriented financing.						
Indicators	Unit of measure	Baseline value	Baseline year	Project completion (2027)	Means of verification	Comments
Indicator 1: Total amount of the relevant portfolio for production-oriented financing achieved with program support.	US\$ millions	0	2022	39	Program monitoring and supervision information collected by the program execution unit.	See monitoring and evaluation plan .
Indicator 2: Nonperforming rate of the relevant portfolio supported with program resources.	%	7.83	2022	6.75		See monitoring and evaluation plan .
Indicator 3: Average origination time of the total portfolio of production-oriented financing for program beneficiary businesses.	Months	45	2022	60		See monitoring and evaluation plan .
Indicator 4: Resources leveraged through the guarantees issued by FOGANEU.	US\$ millions	0	2022	3.5		See monitoring and evaluation plan .
Indicator 5: Percentage of program resources allocated to investments for climate change mitigation and/or adaptation.	%	0	2022	30		See monitoring and evaluation plan .
Indicator 6: Percentage of program resources allocated to financing MSMEs led and/or owned by women.	%	0	2022	25		Pro-gender indicator. See monitoring and evaluation plan .

OUTPUTS

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Component I: Financial support for economic reactivation of production (IDB, US\$39.0 million).											
Output 1: * Amount issued for production-oriented financing to MSMEs in strategic sectors.	US\$ millions	0	2022	2.26	2.26	3.01	4.51	3.01	15.05	Monitoring and supervision information processed by the program execution unit.	See monitoring and evaluation plan .
Cost of Output 1.	US\$ millions	0	2022	2.26	2.26	3.01	4.51	3.01	15.05		See monitoring and evaluation plan .
Milestone 1: Number of MSMEs benefited with financing issued under the operation.	Number	0	2022	To be determined**							See monitoring and evaluation plan .
Output 2: * Amount of program resources allocated to financing for MSMEs owned or led by women.	US\$ millions	0	2022	1.46	1.46	1.95	2.93	1.95	9.75	Monitoring and supervision information on the program collected by the program execution unit.	Pro-gender indicator. See monitoring and evaluation plan .
Cost of Output 2.	US\$ millions	0	2022	1.46	1.46	1.95	2.93	1.95	9.75		See monitoring and evaluation plan .
Milestone 2: Number of MSMEs owned or led by women with financing issued under the program.	Number	0	2022	To be determined**						Monitoring and supervision information processed by the program execution unit.	Pro-gender indicator. See monitoring and evaluation plan .

* The value of the final target corresponds to cumulative amount for all years of execution.

** To be measured as information is gathered from execution.

* The value of the final target corresponds to cumulative amount for all years of execution.

** To be measured as information is gathered from execution.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Output 3* : Number of MSMEs owned or led by indigenous peoples to be financed.	Number	0	2022	3	3	4	6	4	20	Monitoring and supervision information collected by the program execution unit.	Pro-diversity indicator. See monitoring and evaluation plan .
Cost of Output 3.	US\$ millions	0	2022	0,15	0,15	0,2	0,3	0,2	1		See monitoring and evaluation plan .
Output 4* : Number of MSMEs owned or led by people with disabilities.	Number	0	2022	1	2	2	3	2	10	Monitoring and supervision information processed by the program execution unit.	Pro-diversity indicator. See monitoring and evaluation plan .
Cost of Output 4.	US\$	0	2022	75,000	75,000	100,000	150,000	100,000	500,000		See monitoring and evaluation plan .
Output 5* : Amount of program resources allocated to finance climate change adaptation and mitigation investments by MSMEs.	US\$	0	2022	1,755,000	1,755,000	2,340,000	3,510,000	2,340,000	11,700,000	Monitoring and supervision information collected by the program execution unit.	See monitoring and evaluation plan .

* The value of the final target corresponds to cumulative amount for all years of execution.

** To be measured as information is gathered from execution.

* The value of the final target corresponds to cumulative amount for all years of execution.

** To be measured as information is gathered from execution.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Cost of Output 5.	US\$	0	2022	1,755,000	1,755,000	2,340,000	3,510,000	2,340,000	11,700,000		See monitoring and evaluation plan .
Milestone 5: Number of beneficiary MSMEs that make climate change adaptation and mitigation investments.	Number	0	2022	To be determined**						Monitoring and supervision information processed by the program execution unit.	See monitoring and evaluation plan .
Output 6: Amount of financing allocated to capitalize the Neuquén Guarantee Fund.	US\$ millions	0	2022	0.15	0.15	0.2	0.3	0.2	1	Monitoring and supervision information processed by the program execution unit.	See monitoring and evaluation plan .
Cost of Output 6.	US\$ millions	0	2022	0.15	0.15	0.2	0.3	0.2	1		See monitoring and evaluation plan .

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project completion	Means of verification	Comments
Component II: Nonfinancial support for the reactivation of production (IDB, US\$0.5 million).											
Output 7: Amount of nonfinancial support for the preparation of diagnostic assessments and projects in priority sectors.	US\$	0	2022	15,000	15,000	20,000	30,000	20,000	100,000	Monitoring and supervision information processed by the program execution unit.	See monitoring and evaluation plan .
Cost of Output 7.	US\$	0	2022	15,000	15,000	20,000	30,000	20,000	100,000		See monitoring and evaluation plan .
Milestone 7: Number of diagnostic assessments and projects in priority sectors.	Number	0	2022	To be determined**							See monitoring and evaluation plan .
Output 8: Action plan designed and executed to reduce gaps in access to financing for businesses owned and/or led by women and businesses of diverse groups.	Action plan in implementation	0	2022	0	1	0	0	0	1	Monitoring and supervision information processed by the program execution unit.	Pro-gender and pro-diversity indicator. See monitoring and evaluation plan .
Cost of Output 8.	US\$	0	2022	45,000	45,000	60,000	90,000	60,000	300,000		See monitoring and evaluation plan .
Output 9: Amount of nonfinancial support for the design of new instruments to facilitate access to production-oriented financing.	US\$	0	2022	15,000	15,000	20,000	30,000	20,000	100,000	Monitoring and supervision information processed by the program execution unit.	See monitoring and evaluation plan .
Cost of Output 9.	US\$	0	2022	15,000	15,000	20,000	30,000	20,000	100,000		See monitoring and evaluation plan .

Country: Argentina

Division: IFD/CMF

Project number: AR-L1356

Year: 2022

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Ministry of Economy and Infrastructure of the Province of Neuquén

Name of operation: Credit Program for the Reactivation of Production in the Province of Neuquén

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation

<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	<p>The borrower of the program will be the Province of Neuquén, and the guarantor of the borrower's financial obligations will be the Argentine Republic. The borrower will execute the program through the Ministry of Economy and Infrastructure of the Province of Neuquén, which will act through the Provincial Liaison Unit for the Execution of Externally Financed Projects (UPEFE). The UPEFE will be responsible for program management and for the program's technical, financial, accounting, legal, and coordination aspects, as well as for monitoring and supervision of program activities. The borrower will also receive technical support from the Neuquén Economic Development Agency (ADENEU), which reports to the Ministry of Production and Industry of the Province of Neuquén, and from IADEP, which reports to the Ministry of Economy and Infrastructure of the Province of Neuquén, for project dissemination, identification, and formulation support, technical evaluation of projects, and subsequent evaluation of projects financed. Component 1, for access for beneficiary companies to production-oriented financing, will be executed through: (i) direct lending through a trust created by the Province of Neuquén, as trustor, and Banco Provincia del Neuquén S.A. (BPN), as trustee; and (iii) issuance of guarantees through the Neuquén Guarantee Fund (FOGANEU).</p> <p>The Credit Regulations will include provisions governing the implementation of environmental and social mitigation measures, such as contractual assurances from the fiduciary agencies issuing the loans and from the borrowers with the primary suppliers of solar facilities, considering market conditions and industry standards.</p>
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3. Fiduciary capacity

Fiduciary capacity of the executing agency	The results of the institutional capacity analysis indicate that the institution has recent experience managing lines of credit for development financed with international cooperation funds.
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4. Fiduciary risks and risk response

Area (Financial management/ Procurement)	Risk	Risk level	Risk response
Human resources	If the right team is not assembled to handle coordination, financial management, and procurement activities, it could result in poor planning and nonfulfillment of fiduciary requirements, generating delays in transfers and procurements, and ineligible expenditures.	Medium-high	the program execution unit will be strengthened by assigning qualified personnel who have sufficient time to carry out coordination, financial management, and procurement duties. Meanwhile, the Bank will conduct ad hoc trainings on procurements, financial management, and administration of the system for execution units for external loans (UEPEX).

5. Policies and guidelines applicable to the operation: Documents GN-2349-15 and GN-2350-15. Procurement. Procurements financed in whole or part with Bank funds and carried out by the executing agency 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](#)). Procurements carried out by the MSMEs will be handled in accordance with their private-sector commercial practices, as provided in Appendix 4 to the Bank's Procurement Policies.

6. Exceptions to policies and guidelines: None.

II. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Bidding documents	The procurement of works, goods, and nonconsulting services executed in accordance with the Procurement Policies (document GN-2349-15) and subject to international competitive bidding will be carried out using the Bank's standard bidding documents or those agreed upon between the executing agency and the Bank for the particular procurement. The selection and contracting of consulting services will be carried out in accordance with the Policies for the Selection of Consultants (document GN-2350-15) using the standard request for proposals issued by the Bank or agreed upon between the executing agency and the Bank for the particular selection. The sector specialist for the program will be responsible for reviewing the technical specifications, as well as the terms of reference for procurements during the preparation of selection processes. This technical review may be ex ante and is independent of the procurement review method.
<input checked="" type="checkbox"/>	Projects with financial intermediaries	As a loan for global credit programs and other operations in which resources are provided to financial intermediaries for the issuance of subloans or other types of onlending, it will be indicated in the agreements between the executing agency, its financial intermediaries, and its final beneficiaries that the due clauses on practices prohibited by the Bank are to be included. Alternatively, if including such clauses in the cited contracts is not possible or practical given the circumstances of the project, the project team may analyze other mechanisms for adopting acceptable controls and duly binding the corresponding third parties to the sanction procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity (OII), with the support of the Legal Department (LEG), and will be provided in the Credit Regulations .

<input checked="" type="checkbox"/>	Procurement supervision	<p>The supervision method will be ex post, except in those cases in which ex ante supervision is justified. For procurements executed through the country system, supervision will be conducted using the country's national system. The (i) ex ante, (ii) ex post, and (iii) country supervision system will be determined for each selection process. Ex post reviews will be conducted every year in accordance with the project supervision plan, subject to changes during execution. The ex post review reports will include at least one visit. The inspection will verify the existence of procurements, leaving verification of the quality of fulfillment of specifications to the sector specialist for physical inspection, selected from the procurement processes subject to ex post review.</p> <table><tr><th>Executing agency</th><th>Works</th><th>Goods/ Services</th><th>Consulting services</th></tr><tr><td>Ministry of Economy and Infrastructure of the Province of Neuquén</td><td>US\$1,000,000</td><td>US\$150,000</td><td>US\$150,000</td></tr></table>	Executing agency	Works	Goods/ Services	Consulting services	Ministry of Economy and Infrastructure of the Province of Neuquén	US\$1,000,000	US\$150,000	US\$150,000
Executing agency	Works	Goods/ Services	Consulting services							
Ministry of Economy and Infrastructure of the Province of Neuquén	US\$1,000,000	US\$150,000	US\$150,000							
<input checked="" type="checkbox"/>	Records and files	<p>The executing agency will keep physical and digital files of procurements current for purposes of Bank visits and supervision.</p>								

Main procurement items

Procurement description	Selection method	Estimated date	Estimated amount US\$
Consulting services for the action plan to reduce gaps in access to financing	Selection based on consultants' qualifications (CQ)	Month 6 year 1	45,000
Consulting services for the design of new instruments	Selection based on consultants' qualifications (CQ)	Month 10 year 1	15,000
Consulting services for the preparation of diagnostic assessments of priority value chains	Selection based on consultants' qualifications (CQ)	Month 6 year 1	15,000

See [procurement plan](#).

IV. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

<input checked="" type="checkbox"/>	Programming and budget	The executing agency is responsible for the process of formulating and programming the annual budget and carrying out all procedures needed to consolidate the annual budget for approval. As needs arise to expand or reassign budget lines, the program execution unit requests modifications and takes the steps needed for their approval.
<input checked="" type="checkbox"/>	Treasury and disbursements	<ul style="list-style-type: none"> • Bank accounts: The UPEFE will keep a special account in U.S. dollars and an account in Argentine pesos at Banco Nación as separate accounts that are identified for accounting and operational purposes as reserved exclusively for program resources. The trust and FOGANEU, respectively, will open an account for the exclusive management of program funds. • Financial plan: Disbursements will be made in accordance with a detailed financial plan based on the real liquidity needs of the program. • Disbursement method: The Bank will disburse resources under the advance-of-funds modality or any other modality established in the guidelines set out in document OP-273-12. Subsequent disbursements after the first advance of funds may be processed once 80% of previous advances have been substantiated. • The electronic "Online Disbursement" platform will be used to process disbursements.
<input checked="" type="checkbox"/>	Accounting, information systems, and reporting	The UPEFE and the trust will use the UEPEX system as the financial administration system, which will make it possible to identify both program funds and financing sources. The UEPEX system records program investments by component in accordance with the table of costs. Accounts will be kept on a cash basis and will follow International Financial Reporting Standards as applicable, in accordance with the established national criteria.
<input checked="" type="checkbox"/>	External control and financial reports	The annual financial statements for the program, based on terms of reference previously agreed on with the Bank, will be audited by an independent auditing firm considered eligible by the Bank or by the Province of Neuquén's Audit Office once the Bank has validated the latter to conduct project audits.
<input checked="" type="checkbox"/>	Financial supervision of the operation	The financial supervision plan will be based on the risk and fiduciary capacity assessments of the executing agency and will consider field supervision visits and desk reviews, as well as analysis and the monitoring of the findings and recommendations resulting from audits of the program's annual financial statements.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/___

Argentina. Loan ___/OC-AR to the Province of Neuquén
Credit Program for the Reactivation of Production in
the Province of Neuquén

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 Neuquén, 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 Neuquén. Such financing will be in the amount of up to US\$40,000,000, 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 ___ ____ 2022)

LEG/SGO/CSC/EZSHARE-1044359933-19979
AR-L1356