

## BUSINESS DEVELOPMENT SUPPORT PROGRAM

(AR-0144)

### EXECUTIVE SUMMARY

**BORROWER:** The Argentine Nation

**EXECUTING AGENCY:** The Ministry of Economic Affairs and Public Works and Services

**AMOUNT AND SOURCE:**

IDB:	US\$100 million (OC)
Local counterpart funding:	US\$100 million
Total:	US\$200 million

**FINANCIAL TERMS AND CONDITIONS:**

Amortization period:	20 years
Disbursement period:	3.5 years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%

**OBJECTIVES:** The objective of this business development support program is to make Argentina's small and medium-sized enterprises (SMEs) more competitive. The program's specific objectives are to make support services more readily available to SMEs and to stimulate the development of a support services market that is geared specifically to SMEs.

**DESCRIPTION:** The program will have the following components:

- a. Coordination component (US\$2 million)

Existing private and public support programs will be publicized, and information about applying for them will be made available. This component will thus help to establish active linkages between the programs, in addition to the business information database that will be set up.

- b. Component to foster new entrepreneurial attitudes and the supply of services (US\$8 million)

Activities carried out under this component will aim to: (i) promote changes in the way SME operators think and in their business practices, so they can compete in an open economy and keep pace in an environment of constant change, and (ii) strengthen the supply of specialized technical assistance and training services for SMEs, in order to keep up with the increase in demand expected to result from the

cofinancing grants that will be offered for investments in this service market.

c. Direct business support component (US\$155 million)

Cofinancing (in the form of matching grants) will be provided to prepare and carry out business development projects involving technical assistance and/or training activities and for collaborative projects that set up and administer competitive alliances.

**ENVIRONMENTAL  
CLASSIFICATION:**

The Environment Committee, at its meeting of May 11, 1995, classified this as a Category II operation.

**BENEFITS:**

Apart from its main objective of making Argentina's SMEs more competitive, the program will also:

1. Change the way Argentine SMEs tend to evaluate and interpret the economic context in which they operate and how they view their market and conduct business.
2. Develop training and technical advisory services markets for SMEs, since current markets are heavily slanted toward big business.
3. Provide experience in designing and administering nontraditional programs involving interagency coordination of SME support programs and the promotion of training services.
4. Involve women in each component, recognizing their contribution to business competitiveness in their roles as owner/operators, executives, supervisors and line workers. The program will also promote equal opportunity policies and practices based on socioeconomic advancement in the form of better education and a stronger presence in the work force.

**RISKS:**

Two risks have been identified, both associated with the cofinancing grants:

1. Program funds may go to businesses that would have retooled even without the program. To minimize this risk, businesses interested in participating in the program will be required to include in their business development plan: (i) an explanation of why they are not using their own capital, and (ii) a statement as to the amount they have spent on business services over

the preceding two to three years and an evaluation of those services.

2. Program resources may be used to prolong the life of businesses that are not viable. Accordingly, businesses interested in participating in the program will be required to present some proof of their viability, such as a bank reference. As this risk is difficult to gauge, it will be monitored throughout the life of the program. Evaluations will be done while the program is in progress in order to determine whether participating businesses are indeed introducing the development plans designed with the help of program-subsidized consulting services; a sampling procedure will be used to evaluate the success of these plans.

**SPECIAL FEATURES:**

1. Goods will be procured and services contracted according to Bank rules and procedures. International competitive bidding will be used to procure goods valued at over US\$350,000, and international calls for proposals will be issued for consulting contracts over US\$200,000. The program does not entail any construction work.
2. Since the management service contractors and the firms that will perform the program promotion, evaluation, and monitoring activities are not considered "consulting firms" for purposes of the program, nor will they act as such, it is recommended that a special Annex E be used, containing conditions that observe the principles of international competition, proper use of funds, economy, efficiency and nationality of firms and will allow for said contractors and firms to be selected and hired through a process in which: (i) the terms of reference are defined in keeping with the scope of the services required; (ii) an appropriate technical prequalification arrangement is used, open to all interested local and international firms; and (iii) once technical prequalification has been established on an equitable basis, the lowest bid will be selected from among those that receive the necessary number of points as indicated in the tender documents.
3. The Bank's procedures as set forth in Annex C to the loan contracts will be used to select and hire the consulting services that are to set up and lend support to the program administration unit.

4. Bank procedures used in similar operations (e.g., the Argentine production transformation program [loan 816/OC-AR, Annex D]) will be followed when selecting and contracting training services for the component to foster new entrepreneurial attitudes and the supply of services.

**SPECIAL TERMS  
AND CONDITIONS:**

The following are conditions precedent to the first disbursement: (i) establishment of the program administration unit (see paragraph 3.4); and (ii) conclusion of a contract with at least one management service contractor to participate in the program (see paragraph 3.6); this contract is to state that prior agreement was reached on the program's operating regulations (see paragraph 3.12).

The loan contract will also include appropriate clauses on: (i) program follow-up, evaluation and monitoring, as well as a review of the direct business support component once 20% to 30% of the funds earmarked for that component have been committed (see paragraph 3.69 *et seq.*); (ii) presentation of audited financial statements (see paragraph 3.52); (iii) advance of funds (see paragraph 3.55); (iv) recognition of expenses (see paragraph 3.54); (v) use of Bank procedures to procure goods and contract consulting services, and to contract program promotion, evaluation and monitoring activities; and (vi) recovery of the funds disbursed under the PPF for loan 762/OC-AR.

**LOW-INCOME  
TARGETING:**

Since this program is demand driven, it is difficult to estimate beforehand what impact it will have on the low-income population, although the latter could be indirect beneficiaries of the training activities.

**THE BANK'S  
COUNTRY AND  
SECTOR STRATEGY:**

To support the priorities set by the government for its investments in the years ahead, the focus recommended for the Bank's action in Argentina is on three basic areas:

1. Deepen and consolidate modernization of the State at the central level and extend it to provincial and municipal governments as well.
2. Reduce poverty and improve the quality of life by means of activities that create sources of productive employment and improve the quality and coverage of social programs.
3. Increase the productivity and competitiveness of the tradable goods sectors by adopting an

environmental-protection approach and providing support infrastructure and activities to modernize the productive apparatus and facilitate regional integration.

This operation is the first Bank program of its kind and size aimed at making SMEs more productive and competitive. As part of the basic area of action to raise the productivity and competitiveness of the tradable goods sectors and the specific objectives and action areas outlined in the country paper, the government – with support from the private sector and the Bank – has concluded that, in order to enhance the competitiveness of Argentina's SMEs and their participation in the world economy, immediate action could be taken by launching a business development program (comprising information activities, coordination, training, and technical assistance for SMEs) with the features and objectives that are presented here.

## I. FRAME OF REFERENCE

### A. Background

- 1.1 Until recently, Argentina's economy had traditionally focused on supplying the domestic market. The market in which producers of goods and services operated was one of distorted relative prices that did not reflect trends on world markets. During this time, the State pursued a policy of intervening directly in virtually all phases of production and marketing.
- 1.2 As a result of this structure, the production technologies and business management techniques that took hold were basically dictated by the capacity to negotiate with the State; production costs were higher; and tax benefits were granted both explicitly and implicitly.
- 1.3 Argentina has since made important headway with the introduction of the Convertibility Plan in 1991: inflation was brought to a halt, the economy has opened up, the productive structure has been modernized, and progress has been made in adjusting the public sector. Between 1991 and the first half of 1994, these developments were accompanied by strong economic growth and a heavy infusion of foreign capital. In the second half of 1994, however, conditions began to change, especially in late December when the Mexican crisis hit. In 1995, the inflow of foreign capital slowed down, there was a crunch in domestic credit, consumption and investment were down, and the GDP was off by an estimated 4.4%.
- 1.4 The year 1995, then, marked the start of a phase in Argentina's socioeconomic development during which government policies would have to be premised on the assumption that 1996-1998 economic growth will be below the 1991-1994 level. During this phase, the priority challenges for sustained growth and stability will be: (i) consolidation of state reform and deficit reduction, extending this process into the provinces; (ii) job creation; (iii) external balance; and (iv) further modernization of the productive system. (For details, see the country programming paper for Argentina.)
- 1.5 In order to ensure that resources are distributed in a way that is compatible with an open economy, private enterprise needs to become more competitive. The changes required to achieve this in Argentina are so extensive that significant adjustments will have to be made and resources redistributed within the economy. Also, the sequencing of this process tends to suffer from temporary lags, owing to inertia created by long-standing business practices.
- 1.6 Resistance to change in this area affects reform efforts, increases the related social costs and hinders productive units' ability to compete. Consequently, getting Argentina assimilated into world investment and trade flows will take longer, come at a higher

social cost, and be less complete unless the State adopts the policies, mechanisms and instruments that are needed to overcome this inertia.

B. Small and medium-sized enterprises in Argentina

- 1.7 According to a 1994 economic survey of industry, commerce and services, 1/ small and medium-sized enterprises (SMEs) – defined here as those companies that employ between 6 and 200 people – represent 9.4% of the country's firms and employ 63.8% of all wage earners (see Table 1). As for value added and gross production value, the only available data are for the manufacturing industry and show that SMEs account for 49.4% of industry's value added and 49.3% of its gross production value.

Table 1 Argentine businesses, by staff size and total number of wage earners (Data for industry, commerce and the services sectors *)				
Staff size	No. of businesses	%	No. of wage earners	%
1 to 5	923,017	90.2	314,958	13.4
6 to 200	95,788	9.4	1,496,008	63.8
Over 200	1,285	0.1	534,155	22.8
Not specified	3,742	0.4	0	0.0
Total	1,023,832	100	2,345,121	100
* Source: 1994 INDEC survey. The electric power, water and gas, communications, financial, social works, oil and gas, transportation and construction sectors are not included.				

- 1.8 SMEs play an important role in creating income stability, economic growth and jobs. Modern economies operate as complex business networks in which each business's competitive position depends in part on the efficiency of its suppliers. By extension, SME competitiveness affects the competitive position of the economy as a whole.
- 1.9 Since the early 1990s, Argentine businesses in general, and SMEs in particular, have been exposed to structural changes brought on by market liberalization and deregulation and by globalization and integration processes that demand competitiveness. To introduce the kinds of changes that are needed, enterprises will have to do more than just finetune the old ways of doing business.
- 1.10 In Argentina, a considerable number of businesses have lost their ability to compete; over half are feeling the impact of the new economic scenario. SMEs as a group are finding it difficult to map out a strategy in the midst of so much economic change. Recent advances in technology and production processes, too, are spreading

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1/ The survey did not include the electric power, gas and water, communications, financial, social works, oil and gas, transportation and construction sectors.

throughout the productive structure. And, at the same time as businesses are working to deal with these changes, markets are becoming more concentrated and more segmented, and this has made it necessary to revisit the issue of the minimum size of a productive unit and the need for greater differentiation in the production of goods and services.

- 1.11 The future of SMEs will depend, then, on the competitive position they are able to achieve in their market segment and on the type of competitive strategy they adopt. These strategies will be strongly influenced by both the nature of the product (specialized, standardized, made-to-order, etc.) and its place in the production chain (semifinished goods, finished products, capital goods).
- 1.12 In Argentina, most SMEs are owner-operated and managed; they do not tend to be export-oriented; their strategies tend to be defensive; they have a broad product mix with little specialization; there is little cooperation among firms; innovation-oriented activities are few and investment levels low. Recent studies have identified a series of endogenous factors that keep SMEs from becoming the more competitive businesses that the new economy demands. These include:
  - a. Management practices. SMEs' self-sufficient outlook makes it difficult to introduce new production and management techniques. Between one and two thirds of these businesses have no strategy at all or persist in focusing on the domestic market.
  - b. Integration structure. Small and medium-sized industries tend to be too vertically integrated. In the industrial sector, 50% of the businesses do not subcontract. Such practices are inimical to their ability to compete.
  - c. Family-based structure. Most SMEs are either family-owned or family-operated and are inclined to conduct business in a way that is not generally conducive to efficient operation.
- 1.13 The experience of other countries shows that one effective way of dealing with these problems is to encourage SMEs to: (i) adopt new management practices; (ii) prepare short-, medium- and long-term development strategies; and (iii) when there is no in-house capacity, use outside specialized services to cover their training and/or technical assistance requirements, in order to set the stage for the needed change.
- 1.14 Finally, SMEs often have difficulty accessing the few support services available to them; this, coupled with market-related



problems, 2/ has an impact on their ability to respond to structural reforms.

C. The need for a course of action

- 1.15 When analyzing SME support measures, it is important to bear in mind that the unique features of these businesses are what have dictated the traditional forms of intervention, especially the policies that are designed by and implemented through central agencies. The best course of action, then, would be a strategy of working with the businesses themselves, using an organizational and communicative approach whose business style promotes active participation by the network of support services that are functionally linked to the business (accountant, local bank, etc.). In the OECD countries, this method is generally regarded as more effective in cases where support services are not supplied directly by the government.
- 1.16 In Argentina, the number of policy instruments geared toward SMEs has grown significantly in recent years, but without the benefit of institutional coordination. The main problem with the existing policy is that it lacks an outreach service, which could help to identify specific SME needs, publicize programs and tools that are currently available and encourage their use, and coordinate the various service agencies and decentralize their operations.
- 1.17 Government surveys show that most businesses are unacquainted with the bulk of the instruments available, an indication of the agencies' failure to develop a positive rapport with SMEs and to circulate information about the support services they offer. This is also an indication that the businesses themselves are ill-prepared to take advantage of agency services and have difficulty articulating the support services they require.
- 1.18 This mismatching of supply and demand arises because the SMEs and the support agencies each operate in separate, unrelated spheres. "Brokers" are needed to bring them together and thus improve the linkage between business and the institutional support system.

D. Study on business development strategies

- 1.19 Pursuant to the general strategy for the SME subsector as outlined in document GN-1885 (approved by the Board of Executive Directors), a decision was made to conduct an initial study on business strategies in Argentina. This study was conducted according to the tentative method prepared by the Social Programs and Sustainable

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2/ Uneven access to information, economies of scale and externalities were some of the items singled out in different studies conducted in the country, and are also mentioned in the Bank's business development strategy.

Development Department and is now in its final stage. The study's findings confirm the need for the present program.

- 1.20 In previous studies done in Argentina on this topic and in interviews with businesses and organizations <sup>3/</sup> drawn from a variety of related sources, the following views were expressed about the support services system: (i) external support services are used very little; (ii) on the whole, businesses are unaware of existing support agencies and government programs; <sup>4/</sup> (iii) there is no active strategy for reaching these businesses nor is the management style tailored to the client (i.e., SMEs); (iv) existing services are not being coordinated as they should be to synergize for maximum effect; (v) there are no instruments to promote the preparation of projects that are geared to developing a global business strategy and articulating it with the existing support services; and (vi) recently created government support services suffer from problems that limit their chances of success.
- 1.21 The business development strategy would propose - for purposes of programming Bank activities in Argentina - a set of top-priority measures aimed at boosting competitiveness, such as strengthening individual businesses and their environment, encouraging cooperation with other businesses, strengthening the network of agencies that work with businesses, and promoting access to private consulting services. The strategy focuses on the fact that this proposal complements other Bank support actions to Argentina in the areas of lending, training, technological development, as well as other smaller-scale actions.

E. Conceptual framework of the program

- 1.22 The government's position is that this restructuring process is not solely the responsibility of individual businesses nor does it depend on their microeconomic behavior. The transformation of business, especially SMEs, is a critical point where macro and micro policy converge; in other words, it is where general policies to regulate price behavior in the economy intersect with specific policies to re-engineer subsectors and businesses. The challenge in the years ahead will be to provide the coordination needed between these two policy areas by designing public policies that make restructuring less traumatic, rather than allowing it to be dictated solely by market forces.
- 1.23 The Argentine government is promoting measures that will hasten the restructuring of SMEs and minimize the constraints on them. These

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<sup>3/</sup> Unión Industrial Argentina, Confederación General de la Industria, Asociación de Industriales Metalúrgicos, among others.

<sup>4/</sup> This impression is corroborated by the Ministry's own figures, which show that of 205 businesses surveyed, only 2% knew of the support programs available.

measures seek, *inter alia*, to: (i) design mechanisms that will make these businesses' needs the main factor shaping policy measures; (ii) support the State's role in promoting new markets; (iii) articulate and coordinate support services; and (iv) develop initiatives that do not distort the market's distribution of resources.

- 1.24 The underlying principles of the business development support program are listed in Table 2.

F. The Bank's country strategy

- 1.25 The Bank's strategy to support the Argentine government's investment priorities in the years ahead recommends focusing on three basic areas:

- a. deepening and consolidating modernization of the State at the central level and expanding it to include the provincial and municipal governments;
- b. reducing poverty and improving the quality of life by providing sources of gainful employment and improving

Table 2

- Subsidiarity of the State. The State will only take direct charge of those measures that cannot be entrusted to the private sector, so as to keep the State apparatus from expanding.
- Interagency coordination. The program will help coordinate agencies and programs that provide support services to business; it will also help match existing programs to demand.
- Private sector participation. The program will supply critical design inputs; it will manage the client service platform and the directory of consultants; and it will provide technical assistance, training and other services.
- Demand driven. Market signals will be the chief factors determining how and where the instruments are used and how the budget is executed.
- Shared risk. The program will back businesses' decisions, sharing the risk with investors. It will cofinance up to 50% of most services contracted by businesses under the program.
- Open access to services. Once the viability of a business project has been established, it will have open access to all program services. The subsidized services will be performed by private firms selected by the participating businesses.
- Promotion of business collaborations. Collaboration will be promoted through a variety of strategies and operating arrangements. Businesses will be encouraged to conduct joint training activities and collectively hire technical assistance services, thereby minimizing size-imposed limitations.
- Development of an SME-oriented services market. Efforts will focus on boosting demand with an eye to developing a quality training and technical assistance services market responsive to businesses' needs.
- Additionality. Public resources will be invested in promising business development ventures that would not otherwise be possible.
- Sustainability. Several of the program's activities will be able to continue once the resources from the Bank financing have been exhausted.
- Preservation of the environment. Information will be circulated about programs, suppliers and consultants that are knowledgeable in and work with "clean" production processes that make more efficient use of energy and raw materials.
- Gender issues. Activities will be carried out to make businessmen and consulting firms aware of women's role and their contribution to the competitiveness of equal opportunity employers.
- Evaluation. A system will be instituted to evaluate the program's instruments, to measure its impact and to adopt the necessary corrective measures. The efficiency and effectiveness of the instruments, their application in practice and the results they produce will be the criteria used when those instruments are tested to determine whether they should continue to be applied.

ment and improving the quality and coverage of social services, and

- c. **increasing the productivity and competitiveness** of the tradable goods sectors, while emphasizing environmental protection and providing the support infrastructure and activities that will modernize the productive apparatus and facilitate regional integration.

- 1.26 This operation is the first Bank program of its kind and size aimed at making SMEs more productive and more competitive. 5/ As part of the basic area of action to raise the productivity and competitiveness of the tradable goods sectors, and the specific objectives and action areas outlined in the country paper, the Bank - with support from the private sector and the government - has outlined the following strategic lines of action to provide coordinated support coverage for SMEs, with an eye to enhancing their competitiveness and participation in the global economy: (i) strengthen value-added chains; (ii) develop the capacity for entrepreneurial innovation and technological development with a view toward globalization; (iii) strengthen the SME framework within a new competitive climate; and (iv) promote greater balance in geographical terms. An area of immediate action to be taken under the strategy is the launching of a business development program (comprising information activities, coordination, training, and technical assistance for SMEs) with the features and objectives that are presented here.

#### G. Past IDB and IBRD experience

- 1.27 The support that the Bank and other institutions have provided to Argentina's productive sector has focused mainly on individual activities such as job training, credit, and technical assistance. Although most of these activities are still in progress, they were tapped as sources of information in the survey studies for this program and for the business development strategy. The program being presented here will establish effective coordination among programs so that clients of one program can benefit from others.
- 1.28 Several Bank-financed programs are currently in progress in which SMEs participate either directly or indirectly in such areas as: **technological modernization** (US\$95 million under operation 802/OC) to promote technological innovation and closer association between research centers and businesses; and **support for transformation of**

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5/ The "productivity movement" in Japan has been active for 41 years, with the Japanese Productivity Center. The Asian Productivity Organization has been providing services to member countries for 35 years, while the European Association of National Productivity Centers has now been in operation for 30 years.

the productive sector (US\$154 million under operations 816/OC and 925/SF), involving training for unemployed individuals who have no preparation and only limited work experience, job counseling, and strengthening of employment offices. With the sectoral investment loan (operation 733/OC, 005/XJ), measures have been taken to clear away the institutional obstacles to credit for all creditworthy borrowers, regardless of their size, and make the job market less rigid and more responsive. Lines of credit are available as well: one for US\$300 million under a multisectoral credit program (operation 798/OC) through the Investment and Foreign Trade Bank (BICE), and another for US\$45 million under a small business and microenterprise global credit program (operations 643/OC and 867/SF) (Bank consideration of a second phase of this last program is planned for 1996).

- 1.29 The MIF will consider five nonreimbursable operations in 1995-1996 (totaling nearly US\$18 million) that target small business and microenterprise and aim to: create four business service centers for small-scale industries in the provinces (approved in February 1995); establish the legal and regulatory framework for a loan guarantee system (approved in December 1995); lend assistance to urban and rural microenterprises; and provide financial technology through intermediaries. These business service centers, however, have a different clientele (their emphasis is on microenterprise and small business) and their activities are more limited than those planned under the proposed program.
- 1.30 In February 1996, the World Bank approved a US\$38.5 million program to restructure businesses with a focus on exports (the PREX program). The program includes technical assistance designed to help ensure market access for SMEs that submit plans to reorganize for the export market; it also includes an institutional-strengthening component for the foreign trade area. The PREX program will promote the development of these SMEs by cofinancing consulting services that are needed for projects that will increase their presence on international markets or introduce them into the export business. The consulting services may cover any functional aspect of the business as well as advice on how to develop products and markets. The program will also provide cofinancing for businesses that provide export support services, e.g., market research, advice on quality, technology, productivity and international quality certification. It will cofinance as well the development costs of these consulting and advisory services to enable them to provide better service to exporters. It does not include financing for investments or working capital. The program will also help enhance government activities that affect export performance and provide technical assistance and consulting support to that end. SMEs may participate in both the IDB and the World Bank programs, provided that cofinancing grants are not duplicated.

## II. THE PROGRAM

### A. Objectives

- 2.1 The general objective of the business development support program is to make Argentina's small and medium-sized enterprises (SMEs) 6/ more competitive. The program's specific objectives are to make it easier for SMEs to avail themselves of support services and to help develop an SME-oriented support services market.

### B. Description

- 2.2 To accomplish these objectives, the program is divided into three components and the associated administrative activities. The three components are: (i) coordination of public and private business support programs; (ii) support for new entrepreneurial attitudes and the supply of services; (iii) direct business support through cofinancing in the form of matching grants to support the preparation of business projects that will identify and implement technical assistance and/or training plans and create competitive alliances.

#### 1. Coordination component (US\$2 million)

- 2.3 The objective of this component will be to coordinate public and private business support programs and make information available about how to access them. The idea is to network these programs and set up a business information system by: (i) organizing bilateral and multilateral networking activities to find ways to coordinate programs and eligibility requirements; 7/ and (ii) developing a system for circulating information about business

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6/ Since the term "small and medium-sized enterprises" is not interpreted uniformly across Argentina, and given the self-targeting aspect of the program, information was taken from the financing request to provide a tentative definition for SMEs as being all businesses that employ between 6 and 200 people. However, since this definition does not cover all the possibilities, it will be revised once the program is under way.

7/ Financial institutions contacted by the project team said that the existence of a business development program that could advise SMEs on how to present projects, similar to programs in other countries, could significantly reduce the problems SMEs have in qualifying for credit by reducing the risk implicit in the projects and lowering their evaluation costs. This would reduce informational asymmetries while making it easier to get the necessary credit information from SMEs on their investment projects, their owners and their businesses.

support programs to small and medium-sized enterprises. Program networking and coordination activities will be the responsibility of the program administration unit.

- 2.4 The main purpose of these activities is to set up and administer the business information system (BIS), which will supply information on public and private business support programs nationwide. The BIS database will contain the following information as a minimum: (i) program name; (ii) executing agency; (iii) name of the program operator; (iv) program objectives; (v) target public; (vi) services offered (information, financing, training, technical assistance, export promotion, etc.); and (vii) project and beneficiary eligibility criteria. The BIS will coordinate its work with other existing business information services. The system and the information management and distribution activities will promote interaction among the various business support services operating in the country, with an eye to identifying ways of making their operations complementary and finding solutions to possible overlaps. The BIS will be run by the program administration unit; publicizing the system will be the responsibility of the firm in charge of the directory of consultants (DIRCON), operating through information offices (see paragraph 3.16).

2. Component to foster new entrepreneurial attitudes and the supply of services (US\$8 million)

- 2.5 Under this component, SME operators will receive guidance on how to update their strategies and business practices so as to enable them to compete on today's markets. At the same time, the supply of support services will be reshaped in order to respond to the increased market created under the program. These activities will be carried out through two subcomponents:

a. Support for new entrepreneurial attitudes (US\$6 million)

- 2.6 This subcomponent will include various kinds of activities <sup>8/</sup> aimed at changing the way SME operators view their businesses and predisposing them to adapt their business practices to the competitive demands characteristic of open economies and ever-changing scenarios. The program administration unit (PAU) will hire agencies and area experts to prepare detailed designs and carry out the activities.

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<sup>8/</sup> These activities will be organized as lectures, meetings, workshops, self-appraisal groups, seminars, change-promoting activities, and business meetings. The program's design identified over 30 such activities proposed by specialized consultants. In the program's technical file are summaries of 10 proposals, including their objectives, content, strategies, duration and number of participants.

- 2.7 The PAU will decide what activities are to be offered. From these, suppliers will select those that they believe will best help participating SMEs to: (i) understand the impact that open, global economies have on business strategies, especially among small and medium-sized enterprises; (ii) appreciate the importance of cultivating, both personally and institutionally, the attitude that constant change is necessary in order to remain competitive; (iii) begin a critical analysis of their competitive position, both in terms of the products and services they offer and in terms of the domestic and foreign markets that they target; (iv) recognize business practices that make it possible to anticipate or respond swiftly to events, so as to grow harmoniously in a complex and changing environment; (v) visualize how specialized advisory services and training can increase their competitiveness; (vi) appreciate the possibilities that open up when a business pools its resources and efforts with or forms alliances with other businesses, thereby achieving the economies of scale that enhance its ability to compete, and (vii) develop general guidelines and specific criteria to guide them when selecting, hiring, and later evaluating their training and technical assistance services.
- 2.8 Activities that address such issues as a business's strategic outlook should provide an opportunity for participants to reflect upon the impact that reducing losses in production processes and using clean production processes that are more efficient in terms of the energy and raw materials they consume, etc., can have on a business's ability to compete.
- 2.9 Activities involving human resource management issues (e.g., personnel selection, performance evaluation) will seek to include and promote women's participation and provide them with training, with the emphasis on persuading SME operators to observe equal opportunity policies and practices in their pursuit of greater competitiveness.

b. Support for the supply of services (US\$2 million)

- 2.10 The activities carried out under this subcomponent will help make SME-targeted technical assistance and training services more responsive to the demand that the cofinancing for SME business development projects will create.



- 2.11 The following activities are planned: (i) workshops 9/ to promote and instill new attitudes among potential suppliers of technical assistance and training services, encouraging them to adapt the services they offer to SME needs; and (ii) professional refresher training 10/ if, once the program is under way, it is determined that relatively less developed areas have quantitative and qualitative problems that necessitate specific activities in order to enable suppliers to tailor their skills and procedures to the features of SMEs in those areas. The PAU will establish the purpose and objectives of these activities and will hire specialized agencies and area professionals to plan the activities in detail and execute them.

3. Direct business support component (US\$155 million)

- 2.12 Under this component, cofinancing (in the form of matching grants) will be provided for preparing projects to draft and implement technical assistance and/or training plans and to form and administer competitive alliances. Activities under this component will be carried out by management service contractors. The government's role will be to allocate the matching grants and to supervise and oversee the operator's performance. The following results are expected: (i) participating businesses will be investing more in technical assistance and training services; (ii) they will be better able to select, contract, and oversee those services; (iii) there will be greater collaboration among participating businesses in the form of joint hiring of services and development of business projects.
- 2.13 By way of these management service contractors, the program will provide information and matching grants for the preparation of both individual and joint projects and for the technical assistance and training activities that those projects require. The DIRCON

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9/ These workshops will be directed toward individuals and agencies that provide technical assistance or training services. The detailed plans that the suppliers will prepare are to show the specific objectives, content and strategies in thematic areas such as: (i) SMEs as training and technical assistance clients; (ii) the professional, business and collaborative opportunities that the program will open up; and (iii) a proactive attitude toward serving SMEs and updating human resources as a means of ensuring a proper response to the demand for professional services. The PAU will give preference to plans that make provision for full use of women's employment potential.

10/ The professional refresher training activities will be geared to several different audiences in the training and technical assistance area, such as directors of training institutions and consulting firms, or professionals who plan and provide services of this type. Participants must be listed in the DIRCON directory. These activities will be open to executives, trainers and planners.

directory will ensure the availability of high quality support services and reliable consulting firms, and will be administered by a third-party agency with a view to keeping the listing and selection of consulting services independent and transparent.

a. Business development plans

- 2.14 For a business to participate in the program, a diagnostic study will be conducted on the business's competitive position, including its strengths and weaknesses. Drawing on that diagnostic study, a business development plan (BDP) will be prepared and will include objectives and strategies for accomplishing the expected results that involve technical assistance and/or training. The business's program of action - formulated on the basis of the BDP - may be carried out in more than one stage, provided the stages follow each other in logical order. The diagnostic study will include a description of the recommended technical assistance services and the order of priorities suggested for hiring those services, and will identify specific training needs and the necessary service requirements in accordance with the particular characteristics of the employees who are to receive the training and the business as a whole.
- 2.15 To contract for services included in their BDPs, businesses may request cofinancing either individually or as a group. They will be able to choose from a wide range of eligible services (the eligibility requirements for cofinancing are presented in chapter III). Table 3 lists some possible technical assistance and training activities that were identified in the surveys conducted during the program design stage.

b. Collaborative projects

- 2.16 The program will help businesses conclude agreements and form alliances to either start up or give new impetus to business projects, or to take advantage of opportunities to complement each other's areas of activity, such as the joint sale of products or services, group purchasing, shared distribution channels, or the sharing of capital goods or other technical, economic and human resources to use them to maximum effect. To qualify for cofinancing in this area, participating businesses must submit a group project which is to include the relevant aspects of the diagnostic study done of each of the businesses in the alliance and a description of the project that the group plans to carry out. That description is to specify the project's objectives and the strategies that are recommended in order to accomplish the results the group hopes to obtain.

c. DIRCON directory of consultants (US\$1 million)

- 2.17 This list of consultants will be a resource that businesses can consult for information about what services are available

nationally and abroad. The directory will be a transparent means of combining that information in a single source and will include those public and private firms and professionals, both nationally and abroad, who wish to offer technical assistance and training services. The DIRCON directory will be administered by a management service contractor.

- 2.18 The DIRCON directory will aim to offer as much information as possible about technical assistance and training service suppliers, in a wide variety of areas of interest to these businesses, including specialists in environmental matters and issues of gender in the workplace. The following is the minimum information the directory will supply to client businesses: (i) basic data; (ii) basic legal and tax information; (iii) areas of expertise in which the supplier offers technical assistance or training services; (iv) geographic area in which the consultant or training institution provides its professional services; and (v) information obtained in connection with the program (including satisfaction ratings by client businesses).

<p><b>Table 3</b>  <b>Possible technical assistance</b>  <b>and training activities to be offered under the program</b></p>	
ACTIVITY	
Technical assistance	Training
<ul style="list-style-type: none"> <li>• Project development: Diagnostic studies, project preparation, feasibility studies, detailed technical designs, project presentation, legal advice.</li> <li>• Market development: Market research, promotion, advertising and product testing.</li> <li>• Development of products and services: Research and development, packaging, presentation, product launching, names and trademarks.</li> <li>• Business development: Procedures and standards relating to quality, employee counseling, financial planning, marketing and sales support functions, organizational analysis and design, retooling.</li> </ul>	<ul style="list-style-type: none"> <li>• Production: <u>At the operations level</u>: hygiene and safety, maintenance, quality control. <u>At the intermediate level</u>: handling of high precision elements, "just-in-time" implementation for supervisors, applied re-engineering, process enhancement, ISO-9000, statistical monitoring of processes. <u>At the management level</u>: strategic management, international law, plastic waste management, environment, development of new products.</li> <li>• Marketing and finance: <u>At the operations level</u>: telemarketing, credit assistance, finance for sales personnel, client services. <u>At the intermediate level</u>: supervision, packaging strategies, cost reduction, management of imports and exports. <u>At the management level</u>: evaluation and development of suppliers, total quality, restructuring of transportation systems, quality auditing, ISO-9000, competitiveness, applied finance, productivity, costs as a management tool.</li> <li>• Administration and support processes: <u>At the operations level</u>: basic accounting, payroll, PC operation, data security and organization. <u>At the intermediate level</u>: project design and administration, human resource management, conflict resolution, leadership. <u>At the management level</u>: effective institutional and commercial presentations, total quality, business strategies, effective management, sustainable competitiveness, empowerment.</li> </ul>

C. Program size

- 2.19 **Target population.** To determine how many SMEs would benefit from the program, the following factors were considered: (i) the existence of a firm resolve to strengthen and develop the market in technical assistance and training services for businesses; (ii) the innovative nature of the program; (iii) the organizational structure needed to handle a sizeable number of businesses; and (iv) resource availability. Given these considerations, the following targets were set for each component: (i) coordination component - a minimum of 30,000 BIS inquiries; (ii) component to foster new entrepreneurial attitudes and the supply of services - 5,000 SMEs participating in activities to instill new entrepreneurial attitudes, 4,200 consulting firms, training institutions and/or individual consultants taking advantage of supply reorientation activities, and 3,000 professionals receiving refresher training; and (iii) direct business support component - 2,500 businesses using the program's matching grants.
- 2.20 **Supply of services.** Initially, an estimated 3,100 consulting firms would be in a position to provide technical assistance services to businesses, and some 4,000 firms have been located that are currently listed in various directories as training suppliers. During the program, a determination will be made as to whether these suppliers should avail themselves of the activities planned under the services supply support component. These figures could go up as a result of the program's activities or if technical assistance and training firms from neighboring countries that serve the same segment of the business community enter the local services market.

D. Environmental considerations

- 2.21 The Environment Committee, at its meeting of May 11, 1995, classified this as a Category II operation and recommended that the program promote the use and development of clean technologies, that it compile information about clean technologies for local businesses, and that it coordinate with other Bank programs and related activities of other agencies (UNIDO, for example). The environmental brief was sent to the Public Information Center on April 12, 1996.

E. Participation by women

- 2.22 Each program component will include gender considerations designed to get businesses and consulting firms to recognize the contribution that women make and their importance in competitiveness. The PAU will have a gender and business development specialist who will provide technical assistance to each component coordinator and to the management service contractor in how to design, carry out and monitor the program's activities.

- 2.23 Argentina has institutions (businesswomen's associations, associations of women workers, consulting firms, research centers, NGOs, government agencies) and individuals (consultants and researchers) that are knowledgeable in gender-related issues and how those issues relate to various aspects of business (selection of personnel, for example). Consequently, Argentina possesses local expertise that can be used for the program's components.

F. Program cost

- 2.24 The program has an estimated total cost of US\$200 million, as shown in the table below. A detailed description of the cost categories is available in the program's technical files.

G. Financing

- 2.25 The breakdown of the program's financing will be as follows: 50% will be contributed by the IDB, 39.1% by participating businesses, and 10.9% by the Argentine Treasury. The Bank's financing will be provided in foreign currency drawn on the ordinary capital. The local counterpart funding will come from Argentina's national budget and from the firms participating in the program. The costs include recovery of the project preparation facility (PPF) for loan 762/OC-AR, in the amount of US\$33,980.

<b>COST TABLE</b> <b>(in millions of US\$ equivalent)</b>					
	OC	Local		Total	% of total
		Government	SMEs		
1. Administration	12,400	8,600	--	21,000	10.5
1.1 PAU	2,000	6,000	--	8,000	4.0
1.2 Business management service contractors	10,000	2,000	--	12,000	6.0
1.3 DIRCON management service contractor	400	600	--	1,000	0.5
2. Direct costs	84,250	1,550	78,200	164,000	82.0
2.1 Coordination component	1,500	500	--	2,000	1.0
2.2 Component to foster new entrepreneurial attitudes and the supply of services	5,750	1,050	1,200	8,000	4.0
2.3 Direct business support component	77,000	--	77,000	154,000	77.0
3. Associated costs	1,134	2,900	--	4,034	2.0
3.1 Promotion and advertising	500	2,200	--	2,700	1.4
3.2 Evaluation and monitoring	600	700	--	1,300	0.6
3.3 Recovery of PPF for loan 762/OC	34	--	--	34	--
4. Unallocated	1,216	--	--	1,216	0.6
4.1 Contingencies	1,216	--	--	1,216	0.6
5. Financing charges	1,000	8,750	--	9,750	4.9
5.1 Interest	--	8,000	--	8,000	4.0
5.2 Credit fee	--	750	--	750	0.4
5.3 Inspection and supervision	1,000	--	--	1,000	0.5
Total	100,000	21,800	78,200	200,000	100.0
Percentage of total	50.0	10.9	39.1	100.9	

### III. PROGRAM EXECUTION

#### A. Institutional structure

##### 1. Basic organization

- 3.1 The borrower will be the Argentine Nation. The Ministry of Economic Affairs and Public Works and Services will act as executing agency by way of its Secretariat for Industry, Commerce and Mining (SICM).

##### 2. Specific features

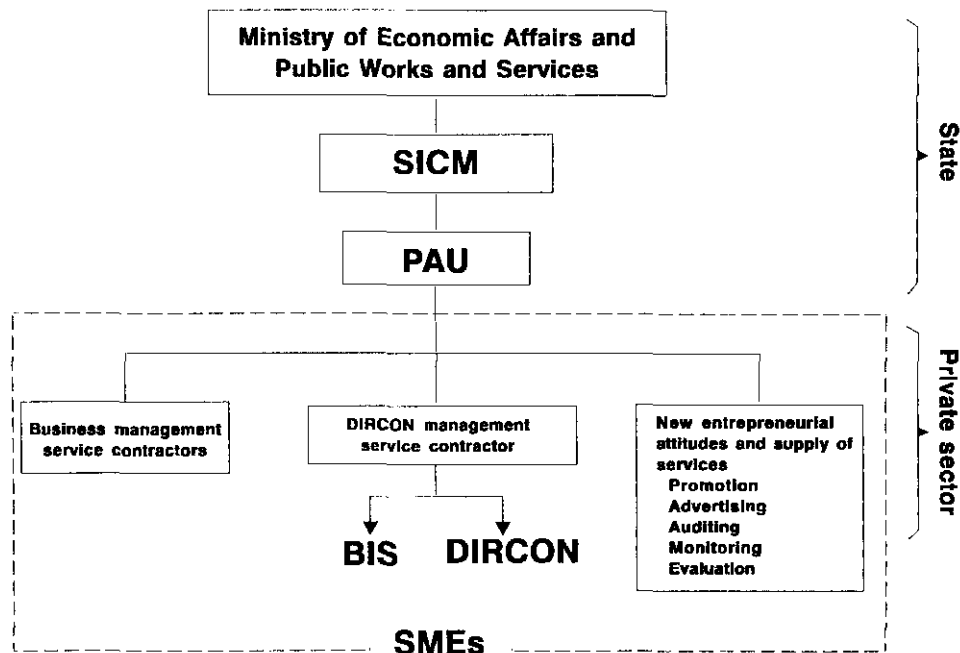
- 3.2 Given this operation's objective, its nature, and the variety of final beneficiaries, the program will be structured along the lines of a virtual enterprise. The government will confine itself to planning and coordinating the program and will directly perform only those activities that cannot be delegated to the private sector. This means that the Ministry/SICM will delegate and decentralize all functions that are not essential to its principal role. As a result, the Ministry's traditional monolithic structure will give way to a system designed to carry out only strategic activities; all other activities will be performed by specialized private firms under contract, thus making the program as flexible as possible, building confidence, and lowering fixed costs.
- 3.3 The program is designed along lines similar to SME support programs in a number of member countries of the Organization for Economic Cooperation and Development (OECD). These programs offer a variety of services and accent "minimum" government participation, a proactive private-sector role in service delivery, cost-sharing as a means to boost demand, and improved project efficiency so that businesses will continue to receive services that respond to their needs after program grants are discontinued. These programs strongly recommend that businesses be allowed to choose the services and consulting support they need, as this increases competition for clients and makes for better quality of services. The programs provide consulting services, training, support for cooperation and networking among small businesses.

##### 3. Responsibility for program execution

- 3.4 Within the Ministry's Secretariat for Industry, Commerce and Mining, a program administration unit (PAU) will be formed and will report to the IDB for matters related to program management, supervision, coordination and evaluation. The unit's functions will include: (i) supervision of program activities; (ii) monitoring and auditing of services provided by private operators; (iii) administration and allocation of loan proceeds and the local contribution; (iv) monitoring of business development

plans approved under this program and under the PREX program, using a common database to avoid duplication of nonreimbursable contributions and overlapping of the plans; and (v) program monitoring and evaluation. A core unit is already in operation. However, as a condition precedent to the first disbursement of the loan, evidence will have to be submitted to the Bank showing that the unit has been formally established, that it is up and running, and that principal staff members have been hired.

## PROGRAM STRUCTURE



- 3.5 The PAU will hire private firms to perform activities related to: (i) management of the directory of consulting and training firms and the business information system; (ii) support for instilling new entrepreneurial attitudes and the supply of services; and (iii) services and cofinancing for businesses participating in the program. Private firms will also be hired to promote, audit and evaluate the program.
- 3.6 The business management service contractors will be accountable to the PAU for organizing and operating the client service platform for participating businesses, for administering the funds assigned for matching grants, and for ensuring that the coverage of the direct business support services is sufficient. The contracts for



these services will stipulate a performance-based remuneration system. Fulfillment of the commitments assumed under those contracts will be verified by means of technical indicators that will be part of a periodic evaluation process that checks for contract compliance; contracts will not be renewed automatically. A condition precedent to the first disbursement is that a Bank-cleared contract be concluded with at least one business management service contractor.

- 3.7 Because the program's success depends to a large extent on these service contractors, the PAU is to consider the following factors when selecting them: (i) their ability to read economic developments and market competition; (ii) their knowledge of SMEs and how they operate, their growth trends, and the obstacles they typically encounter; (iii) their ability to help select consultants with skills suited to SME needs; (iv) their ability to offer program services across a broad geographical area; (v) their ability to select business projects that can produce the quality improvements needed in order to obtain a competitive standing; and (vi) their capacity to interact and encourage local institutions to take an active part in the program.
- 3.8 A private management service contractor will be hired to assist with the delivery of direct services to participating businesses, process information on existing SME-g geared programs, and compile and track data on service firms. This contractor will be in charge of the DIRCON directory and will be accountable to the PAU for compiling, managing and circulating computerized information to help businesses take advantage of training and technical assistance services and other available business support programs.
- 3.9 The PAU will hire private firms to perform specific functions under its supervision in the areas of program promotion, advertising, follow-up, evaluation and monitoring.
- 3.10 The PAU may enter into technical or coordination agreements with the Ministry of Labor and Social Security for certain training activities, so as to take advantage of both parties' experience and to strengthen programs in progress.
- 3.11 If necessary, the Argentine government may enter into an agreement with the United Nations Development Programme to set up the PAU in order to ensure a proper regulatory framework for the unit. If this option is chosen, the Ministry of Economic Affairs and Public Works and Services will so inform the Bank, even though the program under consideration here will not cover the costs of such services.

B. Execution of the components

- 3.12 The operation in general, and the use of program resources in particular, will be governed by a set of operating regulations that set out detailed rules, criteria and procedures that must be

observed when carrying out the planned activities. The text of these regulations has been agreed on with the executing agency, and will be included in the prospective loan contract as a condition that has already been fulfilled.

- 3.13 The principal activities involved in carrying out the components are summarized below:

1. Coordination component

- 3.14 The principal instrument of these activities will be the business information system (BIS). The BIS, which will be operated by the program administration unit, will offer information on private and public programs in Argentina that assist businesses. Rather than providing a single mechanism by which potential users can access information, there will be several different ways to make direct inquiries, either through information offices or through the management service contractors. The BIS will let businesses know what kind of information is available. Once an SME operator has identified the kind of information he or she needs, specifics will be provided on: (i) offices and persons in charge of the selected programs; (ii) important information about how the programs operate and how to file applications; (iii) beneficiary and project eligibility requirements; (iv) key documents to be submitted; and (v) timetables for application submittal and approval.
- 3.15 To participate in the BIS, business assistance programs and services must be registered and agree to provide the PAU with the following: (i) regular information on clients they acquire through the BIS, and (ii) information and periodic updates of their documentation. They are also to participate in national and regional BIS meetings and set up a BIS information office on their premises according to specific parameters which will be determined on a case-by-case basis.
- 3.16 The information office at each business support service listed with the BIS will serve as a source of information about the BIS. To ensure that as much information as possible gets to a maximum number of users over as broad an area as possible, institutions having dealings with the business sector (chambers of commerce, foundations, universities, etc.) will be encouraged to participate in the BIS and open up additional information offices at their facilities.
- 3.17 The PAU will directly oversee activities to network and coordinate programs. The unit's principal tools will be the BIS and the mechanisms and means made available under the program.

2. Component to foster new entrepreneurial attitudes and the supply of services

- 3.18 The activities to support new entrepreneurial attitudes and the supply of training and technical assistance services will be handled by private consulting firms which the PAU will hire for that purpose, in accordance with the provisions of Annex C to the Bank's loan contract. The following general criteria will apply to activities under this component.
- 3.19 Responsibility for enlisting participants and managing and conducting the activities will lie with the executing units.
- 3.20 Registration and payment arrangements will be swift and simple. For activities to support new entrepreneurial attitudes, the executing units will charge SMEs approximately 15% of the total cost of the activity and will receive the remaining 85% from the PAU. Consulting and training firms will not be charged for the assistance they receive. For professional refresher training, 50% of the cost will be paid by the PAU and 50% by participants, in the form of fees.
- 3.21 While the monetary cost of attending these workshops will be small, business operators will have to invest a considerable amount of time to attend them, tentatively estimated at between 30 and 40 hours. During the program, the willingness of these operators to participate in such events will be monitored. <sup>11/</sup> Low participation levels might indicate that the component needs to be redesigned, whereas higher attendance than anticipated - estimates are that the activities conducted under this component could reach as many as 5,000 companies - might signal the need to charge participants a fee.
- 3.22 Payment for services will be subject to whether the supplier has honored the quality parameters agreed upon in the tender, such as participants' satisfaction upon completion of the activity, accomplishment of the goals planned for each activity, and the number of participants who complete the activities.

3. Direct business support component

- 3.23 This component will be carried out as follows:

a. Client service platform

- 3.24 The business management service contractors are to propose business service units that include the necessary support infrastructure,

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<sup>11/</sup> Monitoring will track the number of participants, their situation (i.e., whether they are true business operators) and their attendance (i.e., whether they drop out, etc.).

information systems, systems for interfacing with the DIRCON management service contractor, and a group of account executives. <sup>12/</sup> These elements will constitute the client service platform, which will be used to direct SME operators to training and technical assistance services that are available for purchase on the market in order to formulate their business development plans.

- 3.25 SME operators interested in learning about this program will approach a service office to request basic information (method of applying, services available, cofinancing possibilities, etc.) and will be served by the staff of the business management service contractor. Whatever the SME operator decides - i.e., to join the program (by presenting or drafting a business development plan) or not to join - program participation will be based on self-selection. Consequently, with the way the program has been conceived, it will not be the staff of the business management service contractor (specifically, the account executives) that "accept" or "reject" anyone interested in the program.

b. Sequencing of assistance for SME operators

- 3.26 **Initial contact with the program.** Access to the client service platforms will be on a first-come, first-served basis. Once an SME operator decides to prepare a business development plan, either because he or she wants to develop an idea or plan or because one has already been formulated, the account executive will point them in the right direction and help them develop the idea or project and encourage them to see it through to completion.
- 3.27 **Identifying a plan.** Account executives will provide the support needed for the diagnostic study and for identifying a plan, using the management service contractor's data processing and documentation support to look for inputs as necessary. The criteria used in identifying a plan will include the business's financial standing, the relationship between the plan and existing production, and management and marketing capacities. Account executives might recommend a brief consultancy to tighten up the plan, especially where there are technically complex aspects that make consulting services advisable. If such cases, the program will finance up to 80% of the cost of the consulting services, up to a maximum of US\$2,000. Subsequent monitoring of the plan will be the responsibility of the account executive.

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<sup>12/</sup> Account executives should be regarded as consulting service "brokers" for client businesses; their purpose is to help those businesses determine where they stand and what the best course of action would be to make themselves more competitive.

- 3.28 **The job of the account executives.** Account executives will operate on the basis of relationships built on cooperation, trust and commitment. With the knowledge that they command and the support and information they get from the management service contractors, account executives will assist SME operators by pointing out courses of action, alternatives and innovative ideas to help sharpen up their businesses. This activity should result in the production of a business development plan, which is to include the objectives, goals, activities, time frames and resources needed to carry the plan out. The job of the account executive is to ensure that the proposed objectives, resources, activities and time frames are consistent with each other. It is for the business operator to decide whether the plan has merit, since they are the ones who are most knowledgeable in what their business does.
- 3.29 **Contracting of services.** Once a plan that is to receive cofinancing has been designed and its critical factors identified, the business operator will contract the necessary technical assistance and/or training services directly with the consultant. The program, in the person of the account executive, does not intervene in or guarantee that relationship; instead, it confines itself to helping the business find a consulting firm with the appropriate profile, advising on standard practices and the range of reasonable costs, and providing model contracts. Account executives are to give clients at least three DIRCON-listed consultants (if they are available) from which to choose their service suppliers. To be eligible, consultants must be registered with the DIRCON directory.

c. Approval process

- 3.30 Business operators will receive assistance from the account executives in drafting their proposals for cofinancing, and the manager of the business management service contractor will be in charge of approving the plans.
- 3.31 Before approving a plan, the business management service contractor will make sure that the stated objectives are suited to the business's strengths, weaknesses, opportunities, risks, the services requested, the necessary activities, the timetable, and the costs of the services.
- 3.32 The manager's recommendations will be reported to the program administration unit (PAU), which is to issue a decision on the cofinancing request within 10 working days. If that deadline passes without a PAU decision, it will be interpreted as confirmation of the manager's recommendation. The PAU will advise the Bank of any cases in which it does not agree with a manager's recommendation on cofinancing.
- 3.33 The PAU will promptly advise the Bank when cofinancing is approved and provide all information requested.

- 3.34 When the contractor has reason to believe that an offer tendered by a service supplier is flawed either technically or financially, it must make certain that there are at least three bids tendered for the services to be subsidized. This does not mean that a business cannot request quotations from more than one supplier if it so wishes; indeed, the account executive should encourage the business to do so if it is in the business's best interests.
- 3.35 Businesses that have management service contracts may not provide program-subsidized consulting services. This restriction also applies to any business that has connections with program contractors.

d. Cofinancing (matching grants)

- 3.36 The program will provide cofinancing - intended to help defray costs and to be granted uniformly to all businesses - of up to 50% of the cost for consulting and specialized services in technical assistance and training areas that are part of specific plans presented by client businesses. After one year, the effectiveness and impact of this concessional cofinancing arrangement will be examined.
- 3.37 When the preparation of a business development plan so requires, cofinancing of up to 80% can be awarded for the first US\$2,500 of expenses incurred for diagnostic studies, identification and preparation.
- 3.38 Based on the diagnostic study and the business development plan, specific technical assistance and/or training projects will be drawn up. Under the program, cofinancing may be provided up to the amount of US\$75,000 per project and up to a total of US\$125,000 per company.
- 3.39 Annual evaluations will be done to determine whether - based on actual demand - the cofinancing offered under the program should be lowered in order to cover a smaller percentage of the costs. Any change in this percentage will apply equally to all businesses that join the program from that time on.
- 3.40 The matching grants will be paid out as reimbursements, after verification that the consultant or consulting firm has produced the expected result as specified clearly at the time the plan is approved. Alternatively, the grants may be paid out as disbursements programmed against achievement of the result, with supporting documentation showing that the business has paid 100% of the cost of the service.

e. Collaborative projects

- 3.41 For collaborative projects, businesses may request cofinancing to cover the fees of a manager to oversee the activities for which the

DISBURSEMENTS TIMETABLE (in millions of US\$ equivalent)									
Source	Semester								
	I	II	III	IV	V	VI	VII	Total	%
IDB	13	13	18	18	18	18	2	100	50.0
Businesses	8	11.2	15	15	15	14	0	78.2	39.1
Government	5	2	2	1	1	2	8.8	21.8	10.9
Total	26	26.2	35	34	34	34	10.8	200	100
% per semester (cumulative)	13	26	44	61	78	95	100	100	

E. Recognition of expenses

- 3.54 The borrower has requested that the Bank recognize expenses it has already incurred and that it plans to incur between now and the loan approval date. The project team has reviewed the amounts committed and the contracting procedures used, and feels that the Bank could recognize up to US\$2.6 million against the local contribution for expenses incurred during the 18-month period prior to the loan approval date, in keeping with Bank policy in this area.

F. Advance of funds

- 3.55 Given the anticipated pace of execution and the reimbursement system that has been set up, an advance in the amount of up to 20% of the loan is recommended. This percentage takes into account the start-up expenses of the first business management service contractor (which is to be hired as a condition precedent), the PAU's installation expenses, reimbursement of the PPF, promotional costs and the expenses incurred for entrepreneurial promotion activities.

G. Procurement procedures

1. Procurement

- 3.56 Procurement of goods financed in whole or in part with loan proceeds must conform to normal Bank procedures, which appear as Annex B to the loan contract. This program does not involve any construction work.

2. Selection and hiring of consulting services

- 3.57 Consulting services will be selected and hired in accordance with Bank procedures, which appear as Annex C to the loan contract.

these activities, in accordance with procedures agreed upon with the Bank.

C. Financial management and feasibility of the local counterpart funding

- 3.48 The funding for this program will be a line item in the Ministry's annual budget. The borrower will deposit these funds in a special account set up in a bank to be designated by the Ministry.
- 3.49 In 1993, the Ministry received budgetary appropriations, to be administered centrally, in the amount of US\$2,794 million; for 1994, it received US\$2,690 million; for 1995, US\$2,294 million, and for 1996, US\$2,114 million.
- 3.50 This program is a unique initiative with a limited life and will not affect other existing programs. Since the institutional framework in which it will be carried out is a ministry that administers relatively large annual budgetary appropriations, the financial analysis focused on two aspects: first, the reasonableness of the items and amounts planned, which was confirmed during the analysis; and second, the capacity to execute those amounts. The program plans to invest roughly US\$30 million every six months; the capacity to execute those sums has been structured accordingly. An analysis of the institutional capacity has indicated that the program can be carried out without any major difficulty.
- 3.51 The Ministry is to keep the program's accounts separate from its own. For accounting purposes, a condition precedent to the first disbursement will be presentation, for Bank clearance, of an accounting plan or chart of accounts to record all transactions financed with proceeds from the loan and the local counterpart funding.
- 3.52 Within 120 days of the close of each fiscal year for a five-year period starting as of the year in which disbursements begin, the Ministry is to submit the program's financial statements, audited by the Office of the National Auditor General.

D. Disbursements timetable

- 3.53 The program will be carried out over a period of 3½ years and disbursements will be made on a semiannual basis, as shown below:



DISBURSEMENTS TIMETABLE (in millions of US\$ equivalent)									
Source	Semester								
	I	II	III	IV	V	VI	VII	Total	%
IDB	13	13	18	18	18	18	2	100	50.0
Businesses	8	11.2	15	15	15	14	0	78.2	39.1
Government	5	2	2	1	1	2	8.8	21.8	10.9
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E. Recognition of expenses

- 3.54 The borrower has requested that the Bank recognize expenses it has already incurred and that it plans to incur between now and the loan approval date. The project team has reviewed the amounts committed and the contracting procedures used, and feels that the Bank could recognize up to US\$2.6 million against the local contribution for expenses incurred during the 18-month period prior to the loan approval date, in keeping with Bank policy in this area.

F. Advance of funds

- 3.55 Given the anticipated pace of execution and the reimbursement system that has been set up, an advance in the amount of up to 20% of the loan is recommended. This percentage takes into account the start-up expenses of the first business management service contractor (which is to be hired as a condition precedent), the PAU's installation expenses, reimbursement of the PPF, promotional costs and the expenses incurred for entrepreneurial promotion activities.

G. Procurement procedures

1. Procurement

- 3.56 Procurement of goods financed in whole or in part with loan proceeds must conform to normal Bank procedures, which appear as Annex B to the loan contract. This program does not involve any construction work.

2. Selection and hiring of consulting services

- 3.57 Consulting services will be selected and hired in accordance with Bank procedures, which appear as Annex C to the loan contract.

International calls for proposals will be issued for consulting contracts valued at US\$200,000 or more.

- 3.58 Because they are from the private sector, the SMEs and the private operators contracted by the PAU will select and hire consulting services according to procedures that respect Bank policy on the appropriate use of loan proceeds, nationality, the services' eligibility, and the principles of economy and efficiency. Given the way the program is structured, participating SMEs will initially have to cover 100% of their business development plans with their own funds. The consulting services to be hired must be selected from the DIRCON directory (see paragraph 3.63), taking care to ensure that market prices are paid for these services and that the costs and quality reflect the requirements of the business development plans.

### 3. Contracting of other services

- 3.59 A minimum of two and a maximum of four private operators will be hired to carry out the program's main component: direct business support (business management service contractors). Since the contract is for activities that are clearly identified by the program and the PAU, and since the management service contractors and the firms that will perform the program promotion, evaluation, and monitoring activities are not considered "consulting firms" for purposes of the program, nor will they act as such, it is recommended that a special Annex E be used, containing conditions that observe the principles of international competition, proper use of funds, economy, efficiency and nationality of firms and will allow for said contractors and firms to be selected and hired through a process in which: (i) the terms of reference are defined in keeping with the scope of the services required; (ii) an appropriate technical prequalification arrangement is used, open to all interested local and international firms; and (iii) once technical prequalification has been established on an equitable basis, the lowest bid will be selected from among those that receive the necessary number of points as indicated in the tender documents.
- 3.60 For the DIRCON management service contractor and the activities related to the BIS, two concomitant tenderings are planned since the best course of action is to combine the information services of the PREX program and of this program. The tendering for the present program will conform to the procedures listed in the aforementioned Annex E to the loan contract, while the tendering for the PREX program will conform to World Bank procedures. Bidding for the Bank program will be conducted at the international level.
- 3.61 The procedures in Annex E to the loan contract will also be used to hire firms for program promotion, evaluation, and monitoring.

- 3.62 For the component to foster new entrepreneurial attitudes and the supply of services, the procedures set forth in Annex D to the loan contract (similar to those used in other operations in which courses are contracted) will be followed.

4. General review procedures

- 3.63 The Bank will supervise the critical phases of the procurement and contracting processes in order to make certain that program funds are used economically and efficiently, that the program is carried out effectively, and that the Bank's procurement policies and principles are observed. The PAU will cooperate with the Bank in this supervision activity; accordingly, as part of an orderly procurement and contracting process, the PAU/management service contractor will keep all procurement and contract-related documents and information on file and will make them available to the Bank.
- 3.64 All procurements of goods involving sums in excess of US\$350,000 and service contracts valued at over US\$200,000 that are handled directly by the PAU will require advance Bank clearance at every stage in the process. All other PAU procurements and hirings are to conform to agreed upon procedures and will be duly reported to the Bank for review.
- 3.65 Given the nature and size of this program and the existence of the DIRCON directory, SMEs will be permitted to use information from the DIRCON to select and hire consulting services, although whenever possible the selection should be made from at least three firms. Every year, the DIRCON management service contractor will update the DIRCON by publishing notices in the United Nations journal *Development Business*.
- 3.66 The PAU will inform the Bank promptly of these contracts for disbursement purposes. The Bank will use an ex post sampling procedure to review the documents and procedures employed to select and hire consulting services.

## 5. Procurement plan

Principal consulting services and goods	Financing (in thousands of US\$)		Method	Responsible party	Semester
	IDB	Local			
PAU administration	12,000	8,000	(*)	PAU	I to VII
Business management service contractors	10,000	2,000	ICB	PAU	I and II
Technical assistance and training services	77,000	77,000	(*)	SMEs	I to VII
DIRCON management service contractor	400	600	ICB	PAU	I
Support for new entrepreneurial attitudes and supply of services	5,750	2,250	(*)	PAU	I to VII
Coordination activities	1,500	500	(*)	PAU	I to VII
Promotion activities	500	2,200	(*)	PAU	I to VII
Evaluation and monitoring activities	600	700	(*)	PAU	I to VII

\* Will depend on the amount of the activity or good to be financed in accordance with Bank rules

ICB: international competitive bidding.

### H. Follow-up and monitoring

- 3.67 As this is a complex program for the setting in which it will be carried out, particular importance will be attached to follow-up and evaluation, especially during the initial phases, to ensure that any adjustments the program may need are introduced quickly.
- 3.68 With a view to maximizing the program's impact, monitoring measures have been agreed upon to generate information on the program as it progresses, to help pinpoint any changes that might need to be introduced in the program's administrative and operating procedures and to enable the national authorities and the Bank to determine whether or not the agreed upon terms and conditions are being honored.
- 3.69 Since the program contains an innovative cost-sharing arrangement (matching grants), it was agreed that an initial review of the direct business support component's execution would be carried out by consultants hired specifically for this purpose (in accordance with terms of reference agreed upon with the Bank) once between 20% and 30% of the program funds earmarked for this component had been committed. The PAU is to submit a report analyzing the results and recommending any necessary adjustments. Based on this report, the

Bank and the PAU will agree on the changes that are needed in order to ensure proper execution of this component.

- 3.70 As part of the monitoring and follow-up activities, the PAU will produce special follow-up reports that it will submit to the Bank within two months following the closing date of each year of the program. Those reports will also serve as regular progress reports. Using these reports, joint evaluation meetings of the Bank, the Ministry, the PAU and the management service contractors will be held within 60 days following the date on which the annual report is submitted.
- 3.71 Resources have been earmarked to design and implement a system for constant follow-up and ongoing evaluation of the program, in the form of follow-up and progress reports. The program will be evaluated two years after a significant number of business projects have been completed, since the program will introduce soft technology that will take some time before its effects can be felt. It is particularly important that the program be monitored to assess the relevancy of the measures taken and their immediate impact as well as to give an idea of what impact the changes in business behaviors might eventually have.
- 3.72 As the preceding paragraphs indicate, the planned monitoring and follow-up systems will be useful for the ex post evaluation that the Ministry will conduct. The evaluation of the program's impact will cover the areas mentioned in paragraph 3.68. The borrower has told the Bank that it would like to plan a second stage for this operation based on the lessons learned in the first stage and its impact; the annual evaluations would be examined when planning that second stage.
- 3.73 Every aspect of the program (technical, economic and institutional) is innovative, as are the premises implicit in its design, which can be adjusted as the program progresses. Given that fact, in order for it to function smoothly, monitoring by the Bank's Country Office and the latter's responsiveness and flexibility will be crucial. Consequently, the Bank's Country Office must have the means to perform this follow-up function and be given the support it needs.

#### IV. PROGRAM VIABILITY

##### A. Socioeconomic viability

- 4.1 Recent studies examining the structure of Argentine business all point out that a large percentage of the country's SMEs lack buoyancy, identifying this as one of the major obstacles to retooling Argentine business.
- 4.2 Most analysts agree that measures of the kind contained in this program are urgently needed to overcome this situation. The business development strategy prepared by the Bank for Argentina supports this stance. The measures it suggests to provide technical support and improve business management are fully consistent with the areas of action proposed in the program.
- 4.3 In a document entitled "Consultancy, Advisory and Extension Services for Small and Medium Manufacturing Enterprises" (November 1991), the OECD describes the types of measures being proposed by this program as those that international experience has found to be the best to help retool small and medium-sized industries.
- 4.4 Given the foregoing, the proposed program is not only necessary and urgent, but also appears to have well thought-out objectives and appropriately selected components.
- 4.5 Furthermore, this program has been designed so that its impact will extend far beyond the immediate repercussions, i.e., it will do more than help retool a necessarily limited number of SMEs. The program will also help to:
  - a. modernize the somewhat outdated perspective from which Argentine SME operators tend to assess and interpret the economic setting in which they must operate, view the market, and run their businesses;
  - b. develop markets - which today are very heavily slanted toward big business - to provide training and technical advisory services for SMEs;
  - c. provide experience in how to design and manage nontraditional programs in: (i) interagency coordination of programs to assist small and medium-sized businesses, and (ii) promotion of on-the-job training for technical and mid-level personnel.
- 4.6 In practice, however, the program's success in accomplishing its objectives will depend on how well its delivery mechanisms operate. These are innovative mechanisms and, as such, have not yet been fully tested. Specifically, two characteristics of the program's delivery mechanisms should be mentioned:

- a. They are based on a redefinition of the "tiers" through which the Argentine State has been implementing its policies. Under this program, the State would pull back to a third tier of operation, limiting itself to the financing, monitoring and general regulation of the operation, while the private sector would perform the second-tier (brokering of supply and demand) and first-tier (delivery of services) functions.
  - b. They are demand-driven. The businesses that participate in the program must meet certain eligibility criteria, e.g., they must be SMEs, have proper legal and tax status, be financially sound, and must not have been retooled previously. The program would not assign preferential status to any single type of business based on the sector to which it belongs, geographic location, and so on. In other words, all SMEs that submit viable retooling projects would be eligible to participate in the program.
- 4.7 In view of the foregoing, the analysis of the program's economic viability focused on evaluating: (i) its incentives (i.e., system of rewards or penalties under which the agents participating in the program would operate); (ii) its follow-up and monitoring mechanisms, and (iii) the procedures planned for in-progress adjustments. The success of the program will depend upon how well these mechanisms and procedures are designed and how well they operate.
- 4.8 In addition to the economic viability analysis, a traditional anticipated-return analysis was done and found that even very slight increases in "factor productivity" among the participating businesses would be sufficient to ensure at least a 12% return on their investments. For example, a 0.6% productivity increase would suffice to make up for an investment of US\$15,000 in a business with sales of US\$500,000; for a firm with sales of US\$2 million, the minimum productivity increase required would be only 0.16%. <sup>13/</sup> In this connection, it is worth noting that the estimated annual increase in factor productivity in the Argentine economy during the 1990-1994 period was in fact 5.5%. <sup>14/</sup>
- 4.9 The analysis found that the proposed program is: (i) innovative in concept and design, (ii) very important to the success of Argentina's business development plan, and (iii) urgent, because of the precarious situation in which many of Argentina's small and

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<sup>13/</sup> Figures premised on an opportunity cost of capital of 12%, a two-year period for the investment to mature, and an eight-year repayment period with two grace years.

<sup>14/</sup> Cavallo, D. and Mondino, G., Argentina's Miracle? From Hyperinflation to Sustained Growth, Annual Bank Conference on Development Economics, May 1-2, 1995, Washington, D.C.

medium-sized businesses now find themselves. However, there are also some risks associated with the program, which the viability analysis was careful to identify and examine. The analysis looked at the program's operating arrangements - i.e., the incentives that would be offered to the agents responsible for its execution and the instruments it would have available to monitor and make corrections in the program while it is in progress - to gauge their adequacy and to ensure they offered sufficient guarantees for the program's success.

- 4.10 The analysis found the design to be appropriate, the risks to which the program would be exposed manageable, and the program a logical and suitable alternative given Argentina's present circumstances. The experience of similar programs conducted elsewhere in the world has been factored into the program's design as well.

B. Technical viability

- 4.11 The analysis of the program's technical viability was done on the basis of an evaluation of two aspects crucial to the success of the operation. The analysis sought to determine, first, the interest of potential clients (SMEs) and service suppliers (consulting firms and training institutions) in participating in the program. Second, the training and technical assistance services available to satisfy anticipated program demand were examined. (The method used is described in greater detail in the program's technical files.)
- 4.12 The interviews exploring the SMEs' willingness to participate in the program included questions about cofinancing for services contracted, collaborative efforts, administration by private operators, freedom to choose services and suppliers, instruments to be used (e.g., directory of suppliers and a business information system) and the willingness of suppliers to adapt and expand their services.
- 4.13 The views expressed about participating in the program and about the impact it could have on participating businesses, particularly on their competitiveness, were encouraging: 91% felt that the results would be either "very good" or "good". Nearly all the businesses consulted (94%) were very interested in the program's proposal to reimburse 50% of their investment in training and technical assistance services. The idea of hiring services as a group (i.e., in association with other businesses) was also viewed as a viable option by some participants, especially those who had experience with collaborative efforts. Others, however, expressed misgivings about linking up and working with other businesses, and seemed somehow "suspicious" or "distrustful" about activities of this kind. Outside the Buenos Aires metropolitan area, 87% of SME operators were willing to participate in groups to share ideas, while 91% were willing to form joint business ventures; in the Buenos Aires area, on the other hand, those figures were much lower, standing at 54% and 59% respectively.



- 4.14 Businesses were very receptive to the idea of working with a private operator, but stressed the importance of having some higher level of control over the activities of these operators and of the businesses, to make certain that resources are handled transparently and efficiently and to guarantee the program's credibility. The freedom that the program offers in contracting services was very well received by almost all participants: businesses, consultants and trainers alike.
- 4.15 The possibility of having a directory or listing of training and technical assistance suppliers was very well received, especially by those who have little experience contracting services and are unfamiliar with what the market has to offer. For them, a directory would be both "useful" and "necessary". An easily accessible, centralized, and complete system to make information available on business support projects and programs was a particularly welcome idea, since 60% of those interviewed said they knew nothing about what projects and programs were available.
- 4.16 Overall, the consultants seemed quite willing to adjust the services they offer. Some of the participants recognized that their services would have to be tailored to a new demand, although the willingness to do so was more evident among service suppliers from outside the Buenos Aires area. The training institutions also acknowledged that the services they offered to SMEs were inadequate and that they should conduct studies to find out what the real needs are, with an eye to modifying their operations and adjusting the services they offer to actual demand.
- 4.17 The SMEs, the technical assistance firms, and the training institutions were generally agreed that the prevailing economic conditions demand a high degree of competitiveness. In their view, technical assistance and training play a vital role as a tool for organizational change. The firms interviewed thought the idea of making businesses more competitive by cofinancing training and technical assistance was a good strategy. Some 91% of those interviewed felt that this would boost competitiveness. Over 80% felt that their business - and, indeed, that all businesses - could benefit from the program. As for suppliers, 71% of the training institutions and consultants said that they and other suppliers could use the planned measures to advantage.
- 4.18 Business operators recommended that the program be kept simple and that logical parameters be set for projects. They also suggested that project presentation be simplified, and that the reimbursement procedure be swift and eligibility requirements appropriate. They pointed out, in addition, the difficulty of measuring the program's results in order to assess the return on training. They noted as well that services needed to be continuous, rather than the kind of consulting services and training that address specific, immediate problems without planning for the future.

- 4.19 The local team has begun "early execution" of the World Bank's PREX program, using funds from FONPLATA. Some 150 businesses have been targeted to ascertain their willingness to participate in the program. Over a period of two months, roughly 80 businesses were selected; 35 of these have already won SICM approval for their projects. Most of the businesses (74%) have sales of under US\$10 million; 32% of them were seeking promotion services, 21.5% sought planning support and 20.4% were looking to modify their structure. The services focus specifically on courses in foreign trade (37.1%), enhancement of production methods (22.9%), and more efficient handling of equipment (14.3%). The businesses are located mainly in the provinces of Buenos Aires (47.1%) and Santa Fe (12.6%).
- 4.20 As for the supply-demand ratio for services, data from the Youth Project indicate that there is an excess supply of training services for production personnel. Information obtained from ICAL records at the Ministry of Labor and Social Security indicates that training services for mid-level employees would more than cover the demand anticipated under this program. The training available for managers and executives could also easily cover the annual demand.
- 4.21 Generally speaking, supply far outstrips the potential demand. However, this estimate was made without examining individual areas of specialization, something that is difficult to do as this is a demand-driven program. As a consequence, if there are some very specific areas of technical assistance or training where the demand is particularly heavy at times, bottlenecks could develop; however, there are no ex ante evaluation mechanisms available that would justify the cost of a study in this area. Should a situation like this arise, one solution would be to use training institutions or consulting firms from other countries; this possibility was not factored into the analysis described above.

C. Institutional and financial viability

- 4.22 The program's institutional and financial viability was evaluated on the basis of: (i) international support; (ii) administration capacity; (iii) the supply of consulting and training service providers, and (iv) financial feasibility.
- 4.23 The program enjoys strong institutional backing, both from the national authorities - particularly the Ministry of Economic Affairs and Public Works and Services - and from various organizations and institutions that represent business operators and consulting firms. This support was confirmed during the design phase and as the pilot test was being conducted.
- 4.24 Because the ability to manage program execution is so critical, the analysis was especially careful to evaluate this area. The specifics of program execution are described in paragraphs 3.1 to 3.12, above. As of the date of the analysis mission, an efficient

working team had been set up at the Ministry and was making plans for the PAU, giving consideration to the variety of activities planned, the design of the unit's structure, organization, and functions, and the activities needed to carry out the execution plan properly. As indicated earlier, a condition precedent to the first disbursement will be establishment of the PAU and the respective timetable for implementing activities.

- 4.25 The pilot experiment mentioned earlier and the experience gained from the program to transform Argentina's production structure have established that the country possesses a sufficient number of training institutions capable of and interested in offering courses, and that there are consulting firms and individual consultants interested in working with the SME sector.
- 4.26 The program's financial viability was analyzed by examining the country's ability to make the local counterpart contributions and the possible impact that recurrent expenditures for program activities could have on the national budget. The activities planned under the program's components are temporary and will not be part of the Ministry's on-going programs, so they will not give rise to any recurrent expenditures. The counterpart funding, which is to be provided by the government, will come from Argentina's national budget. The program will require average annual contributions of around US\$3 million every six months. Since the national budget is capable of handling this amount, no problems are anticipated in obtaining the budgetary appropriations for the duration of the program. The contribution from participating businesses has been verified through the surveys conducted on participation in a program of this kind and the pilot test done with the PREX program.
- 4.27 When all these factors are taken together, it can be concluded that the program is institutionally and financially viable.

D. Participation by women

- 4.28 Throughout Latin America, women are increasing their presence in the work force, as owner/operators, executives, supervisors, and line workers. This program represents an opportunity to enlist women into efforts to improve competitiveness. The majority of small businesses are family-owned and operated, and women frequently hold executive positions within them. In the early 1990s, more than 40.2% of the economically active population in urban areas were women. In the SME sector, women account for 32% of the work force, with a higher percentage of women in small businesses than in medium-sized businesses (women represent approximately 38% of the labor force in businesses with staffs of 16 to 50 people).
- 4.29 This program represents an important step in the move toward a rethinking of business, finding new ways for SMEs to benefit by

having women take an active role in shaping new leadership and management styles, changing occupational profiles and structures, introducing technological and organizational innovations and implementing human resource management policies.

- 4.30 This new approach to business will help to empower women by building on their improved socioeconomic situation (e.g., more education, greater presence in the work force, greater sharing of family responsibilities). This, in turn, will reshape the contribution they make - be it as owner/operators or as line employees - to SMEs' ability to compete.

E. Environmental considerations

- 4.31 The program will conduct awareness and training activities for SME operators to make environmental considerations part of their work and to identify the competitive advantages of firms working together to recycle and to use recycled materials as inputs in other processes. Information will be provided about recycling centers and about consulting firms and individual consultants who specialize in the subject. The program will include at least one seminar by international and local experts to train consultants in the area of loss control and environmental auditing.

F. Risks

- 4.32 The major risks for the program are associated with the matching grants and with the response of agents outside the program.
- 4.33 *Since the program is open to all Argentine SMEs, program funds may go to businesses that would have retooled even without the program.* <sup>15/</sup> To minimize this risk, the business development plans (BDPs) of businesses interested in participating in the program are to include: (i) an explanation of why they are not using their own capital, and (ii) a statement as to the amount they have spent on business services over the preceding two to three years and what those services were. Program funds may not be used to contract for activities not included in program-approved BDPs or to continue activities that the businesses already have under way.
- 4.34 *Program resources may be used to prolong the life of businesses that are not viable and that in a competitive market would inevitably disappear. This risk is more difficult to gauge (e.g., what constitutes a business that is not viable?). Nevertheless, to*

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<sup>15/</sup> In talks with experts, this risk tends to be downplayed given the fact that in Argentina only a very small percentage of SMEs (approximately 5%) have become competitive and would therefore not need the program's support. Estimates are that 95% of the SMEs either need to be retooled (65%) or are in a very limited competitive position (30%). This program addresses the latter group.

keep this risk to a minimum, businesses interested in being program beneficiaries must show proof of financial viability, for instance by submitting a bank credit report. Because it is difficult to detect and control this risk, it will be monitored while the program is in progress. During program execution, an evaluation will be made to determine whether participating businesses in fact are introducing the development plans designed with the help of program-subsidized consulting firms; a sampling procedure will be used to evaluate whether these plans are successful.

- 4.35 These risks will be kept at a minimum by the program's strict monitoring and evaluation measures, which will show what adjustments and measures are needed in order to promote greater participation and ensure success in achieving the program's goals.

G. Sustainability

- 4.36 The program was conceived and has been designed as a response to what is basically a temporary problem: the need to speed up the retooling of Argentina's SMEs. Once this process is completed, most of the program measures will no longer be necessary and therefore will be discontinued.
- 4.37 Practically all the program's funding (close to 90%) comes from external financing sources (IDB loan proceeds) and from the private sector (the counterpart funds that participating firms must put up). Once these resources have been exhausted, continuation of the program will depend upon the government securing new sources of funding. There are three areas in which it would be particularly desirable for the program's activities to continue: (i) maintenance of the business information system (BIS); (ii) maintenance of the directory of suppliers of technical assistance and training services; and (iii) the incentives for SMEs to provide nonspecific skills training to their staff.
- 4.38 In an effort to ensure the sustainability of these activities, the bidding documents for contracting the management service contractor that will be in charge of the DIRCON will offer the successful bidder the option of continuing to operate these services once the program has ended. To make this option more attractive, the documents will stipulate, *inter alia*, the following: (i) the conditions for transferring the service; (ii) the possibility that the operator may charge a fee to users of these databases under certain conditions; and (iii) that the databases will also be available for use outside the program. Hopefully, the prospect of being able to operate these databases as a business will not only lead the management service contractor ultimately selected to continue operating them, but will also be an incentive for efficient internal and external management and operation during the life of the program.

## LOGICAL FRAMEWORK

Objectives	Indicators	Means of Verification	Assumptions
<b>The program</b>			
Argentina's SMEs more competitive g implementation of business will enable these businesses to readily to changes in the way tion, while at the same time development of an SME-targeted ices market.	<p>Businesses participating in the program will be better able to compete.</p> <p>Over the course of time, participating businesses will be performing better than similar businesses.</p> <p>(The benchmarks for the program appear under the individual components below.)</p>	<p>Quantitative studies on competitiveness indicators.</p> <p>Qualitative case studies to evaluate changes in business practices.</p> <p>Records and audit reports showing increased use of technical assistance and training services.</p> <p>Records and audit reports on accomplishment of the business project's goals.</p> <p>A study of the market for technical assistance and training services geared to SMEs.</p>	<p>The premises of the new model w constant.</p> <p>Argentina's SMEs are under enor pressure with the switch to the ne Some appreciate the need to alte general business practices in ord themselves more competitive and to do so, while others are becomi that need through appropriate pro strategies.</p> <p>Hiring of technical assistance and services is a proxy for improve competitiveness.</p>
<b>1. Coordination component</b>			
ateral and multilateral networking ed at identifying ways that n coordinate their operations.	<p>Participating programs identify coordination mechanisms.</p> <p>Participating businesses have access to a nationwide database on available support programs.</p> <p>The BIS will be consulted approximately 9,800 times by the end of the first year; 21,800 times by the end of the second year, and 33,800 times by the end of the third year.</p>	<p>Agreements between executing units.</p> <p>Statistics from the BIS.</p> <p>A listing of businesses and institutions that have used the BIS.</p>	<p>Programs will be interested in tak networking activities, organizing a providing information to be enter system and circulated.</p> <p>Programs will offer useful alternat businesses and will be in greater among SMEs because they are m publicized.</p>

Objectives	Indicators	Means of Verification	Assumptions
<b>2. Component to foster new entrepreneurial attitudes and supply of services</b>			
<b>2.1. Support for new entrepreneurial attitudes</b>			
Various activities to change SME attitudes, with a view to persuading them to change their business practices in order to be able to compete in an open market and adapt to very complex	<p>Participating SMEs will be willing to examine strategies for improving the competitiveness of their productive units.</p> <p>The number of SMEs that will have participated in activities to reshape business attitudes will be 2,000 by the end of the first year, 4,300 by the end of the second year, and 5,000 by the end of the third year.</p>	<p>Surveys of SME operators about their willingness to develop strategies to make their businesses more competitive.</p> <p>Records of management service contractors on participating SMEs' access to other program services.</p> <p>Audit report on activities organized.</p>	<p>SME operators will be willing to participate in activities aimed at modifying their business practices.</p> <p>SME operators will be sufficiently motivated so as to ensure the effectiveness of these activities.</p>
<b>2.2. Support for services supply</b>			
Orientation activities to promote new suppliers of technical assistance and training services so that they can adapt their services to SME needs.	<p>Participating consulting firms, individual consultants and training institutions will be willing to move quickly to adapt their services to SME needs.</p> <p>The first year, an estimated 1,960 consulting firms, individual consultants and training institutions will receive program support in the form of orientation activities; that number will increase to 3,360 by the end of the second year and 4,200 by the end of the third year.</p>	<p>DIRCON records on the number of participants registered and on services delivered.</p> <p>Audit report on activities organized.</p>	<p>The existence of training institutions and consulting firms capable of targeting their services at SMEs, so that <u>the latter can find their niche in a new market</u>.</p>
Workshops, seminars, organize professional training courses that enable service providers to adapt their know-how and services to SMEs.	<p>The participating consulting firms and training institutions will improve the quality of their services and tailor them to SME needs.</p> <p>The program will provide refresher training activities for directors of training institutions, consulting firms and individual consultants. Some 1,400 professionals will be served by the end of the first year, 2,400 by the end of the second year, and 3,000 by the end of the third year.</p>	<p>Statements by participating suppliers about the services they offer to SMEs.</p>	<p>In some areas of the country, the service providers may have a harder time adapting to SME needs.</p>
<b>3. Direct business support component</b>			
Contracting of technical assistance and/or training services that help businesses implement business projects.	<p>Working both individually and collectively, participating businesses will contract for more technical assistance and training services.</p>	<p>Statistics and reports on the matching grants approved.</p>	<p>Once businesses see the benefits from technical assistance services with the temporary matching grant, they will continue to invest in those services.</p>

Objectives	Indicators	Means of Verification	Assumptions
<p>the establishment and n of competitive alliances that es and resources to undertake s.</p> <p>ectory of consultants (DIRCON).</p>	<p>Participating businesses will form competitive alliances.</p> <p>Participating businesses will have complete and reliable information on local and international technical assistance and training services.</p> <p>By the end of the first year, 600 SMEs will have implemented a business development plan with the program's support, increasing to 1,800 by the end of the second year and 2,500 by the end of the third year.</p>	<p>Statistics and reports on the matching grants approved.</p> <p>DIRCON records.</p>	<p>By the time the matching-grant sy phased out, the country will have ongoing incentives to get busines invest in training.</p> <p>The economic climate will be con group initiatives. These efforts w businesses scale to save on servi</p> <p>The consulting firms and training will find the directory to be an eff permanent instrument for advertis services; the businesses will rega suitable means to choose service</p>



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PROPOSED RESOLUTION

ARGENTINA. PRESTAMO /OC-AR TO THE REPUBLIC OF ARGENTINA  
BUSINESS RESTRUCTURING SUPPORT PROGRAM

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Argentina, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Business Restructuring Support Program. Such financing will be for the amount of up to US\$100.000.000, or its equivalent in other currencies, except that of Argentina, which are part of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.