

LEGAL AND REGULATORY FRAMEWORK FOR A CREDIT GUARANTEE SYSTEM
FOR SMALL AND MEDIUM-SIZED BUSINESSES (SMBs)

(TC-94-10-16)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Ministry of Economic Affairs and Public Works and Services, with participation by the Central Bank of the Argentine Republic

BENEFICIARY: The Argentine Nation

OBJECTIVES: The project objective entails supporting the institutional formation and legal structure of private reciprocal credit guarantee companies, which facilitate access by small and medium-sized businesses (SMBs) to formal credit, which is necessary to further their development and to improve their production and productivity. To this end, the project will support the Argentine government in: (i) preparing the regulations and legal framework for the Reciprocal Credit Guarantees System; (ii) appointing the Enforcement Authority and strengthening the capacity of the Central Bank to exercise supervision and control over the new Reciprocal Credit Guarantee Companies (hereinafter called SGRs); and (iii) encouraging the establishment of SGRs in Argentina by training future operators in order to ensure their efficiency and sustainability with minimal intervention by the public sector.

DESCRIPTION: In order to attain these objectives, and in view of the innovative nature of SGRs for the market and the Argentine legal system, the program entails the following subprograms: subprogram I - strengthening the Enforcement Authority; subprogram II - support for regulatory development of the reciprocal credit guarantees system; subprogram III - strengthening capacity for inspection and control of the SGRs by the Central Bank; and subprogram IV - publicity and information about the new system and training its potential operators.

State-owned and private (commercial and cooperative) banks have expressed interest in operating on the basis of this new system, this new method can therefore be expected to facilitate access to credit by the SMBs, both in terms of the number of beneficiary enterprises and the volume of credit to

be guaranteed under this system. Various business associations, which represent a substantial portion of production and services in the Argentine economy, together with Banco de la Nación Argentina, are promoting the formation of a national and multisectoral SGRs. Fundación para el Desarrollo Sostenible en América Latina (FUNDES) [Foundation for Sustainable Development in Latin America], Banco Ciudad de Buenos Aires, Banco Mayorista del Plata and groups of private enterprises are also interested in creating other SGRs.

DISBURSEMENTS: The period for commitment of funds is 18 months and the disbursement period is 24 months.

CONTRACTUAL TERMS: As preconditions for the initial disbursement of the financing, the following will be agreed upon: (a) appointment of the Enforcement Authority; (b) establishment of the Administration Unit with staff and appropriate functions for executing the program; (c) signature of an agreement with the Central Bank for participation by this entity in the Program; and (d) submission of the initial program execution plan.

FINANCING:	Terms and conditions:	Grant
	Local contribution:	US\$ 610,000
	MIF:	<u>US\$ 610,000</u>
	Total:	US\$1,220,000

ENVIRONMENTAL CLASSIFICATION: The Environmental Committee, at its meeting of October 30, 1995, classified this as a Category II operation.

I. COUNTRY ELIGIBILITY

- 1.1 On November 30, 1993, the Donors Committee declared Argentina eligible for all modalities of financing from the Multilateral Investment Fund (MIF).

II. THE PROJECT

A. Background

- 2.1 The economic reforms undertaken by the Argentine government beginning in 1989 succeeded in drastically reducing inflation and in establishing sound conditions for price stability. From the beginning of the convertibility program to the end of 1994, financing, liquidity, and credit availability were favorable, fundamentally for end consumers and large enterprises, although the small and medium-sized businesses (SMBs) were excluded to some extent from this process.
- 2.2 The financial crisis of December 1994 was felt in the Argentine economy in the form of a credit squeeze financing, with a concentration of funding in a few entities, higher interest rates, and a slowdown in economic activity. This was accompanied by a rise in unemployment and underemployment, which reached record levels.
- 2.3 The Argentine government understands that an effective job-creation policy, that does not upset the economic balance that has been achieved, requires actions that will promote investment, particularly by the SMBs, considering their great potential in net job creation. Lack of access to credit by the SMBs is an unsurmountable obstacle to their development. Inadequate guarantees means that the SMBs have difficulties in obtaining loans from the formal financial system, which pays more attention to large enterprises that offer guarantees and fewer risks.
- 2.4 The strategy for the development of the SMBs, currently in preparation, identifies the difficulty they have in offering appropriate guarantees in order to obtain funding as an obstacle to their normal expansion. The new option, represented by the reciprocal credit guarantee company [Sociedad de Garantía Recíproca] (SGR), offers the SMBs an alternative in guaranteeing their transactions through private entities that are legally established and supervised by the Central Bank.
- 2.5 In transactions with the SMBs, private banks encounter a high-cost procedure that in turn generates an increase in risk and entails an additional demand for surety, which works against expanding credit to the sector. On the basis of this framework, the Argentine

government, taking into account the experience of the countries of the European Union and Southeast Asia and Japan, is promoting and enacting Law 24,467 which, among other mechanisms conducive to the development of SMBs, creates the concept of the SGR.

- 2.6 Law 24,467 establishes in its Article 81 that the National Executive Branch shall appoint the Enforcement Authority, responsible for regulatory development and SGR authorization, inspection, and supervision. The Argentine authorities, pursuant to the Act's enabling legislation, determined that this appointment should be incumbent upon the Secretary of Industry (Deputy Secretary of the SMBs) and of the Ministry of Economic Affairs and Public Works and Services.
- 2.7 The main objective of the SGRs entails granting guarantees to their SMBs participating members under contracts regulated by law and by furnishing technical, economic, and financial advisory services to them, either directly or through third parties, in order to circumvent the excessive credit requirements of the financial system. This new mechanism differs substantially from the traditional Guarantee Funds that were used previously in most countries of the region, in that the SMBs must accept the discipline and supervision of the formal financial institution, and they will be capitalized by the private sector.
- 2.8 The SGRs will be made up of participating members and protector members, whose share must not exceed 49% of the capital of the company. The share of each individual participating members must not exceed 5% of this amount, although the beneficiaries of the guarantees will be the participating members alone. Only the SMBs that underwrite and pay for shares and meet the conditions established in the regulations to be issued by the Enforcement Authority would be the participating members. The protector members will be those natural or legal persons, whether public or private, national or foreign, who make capital contributions in order to share in the profits and share the objective of facilitating access to credit for the SMBs. In order to encourage SGR capitalization, the Argentine government will grant a tax incentive for the amount of the investment to those firms that are SGR shareholders. The regulations governing this participation would be included in subprogram II of the project.
- 2.9 With the contribution of the members, SGRs will set up a risk fund that, with the respective leverage, will be used to guarantee the member's loans. Unlike the previous guarantee funds that were supported by the State, SGRs will be totally private and will act within a competitive market, while introducing ideas of reciprocity and cooperative effort in order to support the guarantee needs of the participating members. The SGRs will meet the profitability criteria and committees will be established depending on the risk, interest rate, and term that the loan transactions may entail.

- 2.10 State-owned and private (commercial and cooperative) banks have expressed interest in operating in this new system. Accordingly, access to credit by the SMBs should be facilitated, both in terms of the number of beneficiary enterprises and the volume of credit to be guaranteed by the aforementioned system. The Unión Industrial Argentina [Argentine Manufacturing Association], the Confederación General de la Industria [Federation of Argentine Industry], the Consejo Argentino de la Industria [Argentine Council for Industry], the Coordinadora de Actividades Mercantiles Empresarias [Coordinating Agency for Commercial Activities], the Confederación General de Economía de la República Argentina [General Economic Confederation of the Argentine Republic], the Confederación de la Producción [Manufacturing Federation], Confederación de Comercio y Servicios [Association of Business and Services], and the Asociación de Industriales Metalúrgicos de la República Argentina [Association of Metallurgical Manufacturers of the Argentine Republic], which represent a substantial share of the production and services of Argentine employers, together with Banco de la Nación Argentina, are promoting the formation of national, multisectoral SGRs. FUNDES, Banco Ciudad de Buenos Aires, Banco Mayorista del Plata, and private business groups are also designing other projects for creating SGRs.

B. Objectives

- 2.11 The project objective entails supporting the institutional formation and legal structures of reciprocal credit guarantee companies, which provide SMBs with access to formal credit, which is necessary to further their development and improve their production and productivity. To this end, the project will support the Argentine government in: (i) preparing the regulations and legal framework for the reciprocal credit guarantees system; (ii) strengthening the capacity of the Enforcement Authority; (iii) strengthening the capacity of the Central Bank to exercise supervision and control over the new SGRs); and (iv) publicizing and encouraging the establishment of SGRs in Argentine territory by training future operators in order to ensure their efficiency and sustainability with minimal intervention by the government.

C. Activities

- 2.12 In order to attain these objectives, the program plans for the execution of four subprograms, as follows: subprogram I - strengthening the Enforcement Authority; subprogram II - support for regulatory development of the reciprocal credit guarantees system; subprogram III - strengthening capacity for inspection and control of the SGRs by the Central Bank, and subprogram IV - publicity and information about the new reciprocal credit guarantees system and training potential operators.

Subprogram I - Institutional strengthening of the Enforcement Authority

- 2.13 The Law Enforcement Authority requires an organization and special structure at the ministerial level with capacity to undertake the tasks assigned to it as the law enforcement authority. Given the innovative nature of the SGRs in the Argentine institutional framework, it is essential to furnish technical assistance for the establishment, organization, and development of this enforcement authority, as well as staff training, equipment, and hardware and software systems that are appropriate and available for the efficient performance of the functions incumbent upon it in this capacity.
- 2.14 **Specific objectives.** The objective of this subprogram is to support the Enforcement of Law 24,467, through the regulatory development and application of legislation, together with furthering and promoting the SGRs, thereby contributing to the acquisition of appropriate and adequate information systems and specialized staff for the performance of their activities.
- 2.15 **Specific activities.** In order to achieve the specific objectives, the following will be necessary: (1) hiring a consultant to coordinate the program (Project Manager) and short-term consultants. The coordinator consultant must be an expert with extensive experience in the financial sector and in particular in financing SMBs. Hiring short-term consulting services will include: (i) an expert in organization, systems, and financial institutions; (ii) an expert in market analysis and financial institutions, with experience in economic forecasting; (iii) an expert in administration; and (iv) an expert in information systems (software and hardware).
- 2.16 These experts will be required to implement the program and, in particular, to perform the following activities:
 - a. Design the Administrative Unit of the Enforcement Authority, preparing manuals of standards and procedures, information systems, including follow-up systems, and the forms required for its operations.
 - b. Design and provide training for the Administrative Unit of the Enforcement Authority for purposes of developing SGR accounting standards, create and maintain special administrative records, analyze and carry out financial follow-up of the system, and make necessary regulatory adjustments for the establishment and operation of new SGRs.
 - c. Develop a program in the Administrative Unit of the Enforcement Authority to form and train a team of experts in SGR control, develop financial, accounting, and disciplinary standards and

circulars, inspection and punitive procedures, and manage the special records created for this purpose.

- d. Supply necessary software and hardware information systems for the tasks of authorization, registration, evaluation, and control and supervision of the SGR system.
- e. Estimate the volume of credit that will be handled by the new system, the potential market for the reciprocal credit guarantees system and other SGR services, and the anticipated impact of the SGR system in the short, medium, and long term.

Subprogram II - Support for the regulatory development of the reciprocal credit guarantees system

- 2.17 **Frame of reference.** Title II of Law 24,467 contains the legal regulations governing the SGRs, which is an important innovation for the Argentine legal system. This Law contains multiple references to subsequent regulatory developments, and important aspects concerning the establishment and operation of this type of company are pending regulation.
- 2.18 In the analysis of the legislation that regulates the SGRs, the need to clarify various imprecisions in the legal regime for these companies, including the nature and legal framework of the Risk Fund was noted. In like manner, a certain rigidity was observed in the regulation of some aspects of SGRs, such as the regime for entry and withdrawal of participating members, which could be made more flexible through the regulatory development of the Law. At the same time, a functional imbalance has been noted in the governing bodies of the company, which could be remedied by legislative regulations. Moreover, specific accounting rules and procedures for the SGRs are absent from the Law. This calls for analysis and the necessary rules and procedures will have to be defined.
- 2.19 **Specific objective.** The objective of the subprogram is to support the Enforcement Authority in the preparation of the regulatory development of Law 24,467, so as to provide, on the basis of similar international experience and Argentine legislation itself, the legal framework that SGRs and their operation require to function properly.
- 2.20 **SGR regulation.** This entails support for the drafting of legislation and regulations to incorporate SGR regulation, by creating a legal framework for the SGRs that is complete, clearly defined, and compatible with the legal framework of other international systems that are comparable with the Argentine system, which reduces the legal uncertainty caused by any new institution and makes it possible to establish the credit guarantee system efficiently.

- 2.21 With regard to regulation of SGR control, the specific objective entails defining the regulations, bodies, and procedures best suited to the functions of SGR authorization, registration, and control, as a means of ensuring discipline in the system, while contributing to strengthening SGR credit standing in the eyes of the various economic agents that extend credit and financing.
- 2.22 With regard to the general legal framework, the specific objective is to examine those aspects of the various areas of the Argentine legal system that could impact unfavorably on the efficient functioning of the guarantees system, and to make timely proposals to eliminate or minimize these obstacles.
- 2.23 **Specific activities.** In order to attain the specific objectives proposed, the funds for financing this subprogram will be allocated to hiring the following short-term consultants: (i) international legal expert(s) having extensive experience with regulation of the financial sector, reciprocal credit guarantees and surety systems, and the design of regulations and organization for supervision of financial and similar institutions; (ii) local legal expert(s), with a knowledge of the Argentine legal system, especially in the areas of commercial, civil, procedural, and registry law; and with accredited specialization in the financial sector and in with guarantees and counterguaranties; (iii) consultant(s) in economic and financial accounting training, having experience with financial institutions, and broad knowledge of financial and credit markets; and (iv) consultant(s) specializing in accounting systems, procedures, and techniques, with experience in the financial and credit sector.
- 2.24 In order to attain its objective, the subprogram entails the following activities:
- a. analyze Law 24,467, develop a proposal, and advise on basic aspects of its regulatory development in order to facilitate the establishment and operation of SGRs;
 - b. prepare a proposal for the definition and drafting of a model statute for SGRs;
 - c. develop a proposal to define the legal nature and impact of the guarantee contract of the SGRs with third-party beneficiaries and the counterguaranty contract between the participating members and the SGRs;
 - d. develop a proposal for the development of standards and control mechanisms for the system by the Enforcement Authority of Law 24,467 and the Superintendent of Banks, in the areas of responsibility attributed to it by Law;

- e. develop a proposal for the development of the basic rules of solvency for the SGRs;
- f. develop a proposal to define the powers of the competent bodies and the procedures for institutional supervision of the reciprocal credit guarantees system;
- g. analyze the need, appropriateness, and timeliness of establishing a system of refinancing or second-tier reciprocal credit guarantee companies;
- h. define the components of the legal framework in Argentina that should be made complementary for the most efficient operation of the guarantee system, particularly with regard to commercial, corporation, tax, procedural, and collateral-security regulations.

Subprogram III: Strengthening the SGR inspection and supervision capacity of the Central Bank

- 2.25 **Frame of reference.** No loan guarantees system can achieve significant results without succeeding in winning credibility from the financial system, and, in particular, from the commercial banking system. Although an innovative experiment in the field of credit to small and medium-sized businesses may bend the rules by which it is regulated, care must also be taken to ensure strict compliance with these regulations and their oversight and control mechanisms. A good part of the failures of guarantee funds operating in the region have been caused by inadequate supervision of their management, without taking into account that at the international level guarantee companies are defined as formal financial institutions. Pursuant to Article 80 of Law 24,467, the Central Bank of the Argentine Republic (BCRA) must give guarantees granted by the SGRs the status of preferred self-liquidating guarantees 1/ for the formal financial system, to which end rules must be established that regulate the solvency and liquidity requirements that the SGRs must meet in order to merit preferential and self-liquidating status for their guaranties.
- 2.26 Moreover, the Law establishes that the BCRA will have the means to promote acceptance of the guarantees offered by the SGRs by the institutions in the formal financial system. With regard to both tasks, the BCRA will perform the functions of SGR supervision and especially connections between the SGRs and the banks and financial institutions. It must also develop rules related to the quality

1/ Preferred self-liquidating guarantees are ones whose payment is made immediately by the guarantor whenever the secured debtor fails to make the corresponding payment. This lessens the risks assumed by the commercial bank.

and formalization of the guarantees and - in relation to these components - it must control and supervise the task of the SGRs.

- 2.27 **Specific objectives.** The objective of this subprogram is to support the BCRA (Superintendent of Banks) in the effective performance of its functions of SGR authorization, listing, registration, supervision, and inspection.
- 2.28 **Specific activities.** In order to achieve the specific objectives proposed, the MIF contribution to this technical-cooperation project will be used to hire two consultants: (i) an expert in accounting, (ii) an expert in law or economics and finance in international systems for supervision of financial institutions with particular international experience in SGRs. These experts will develop the rules that regulate solvency and liquidity requirements that SGRs must meet in order to merit preferential self-liquidating status for their guarantees for the institutions in the formal financial system. The Central Bank will be supported in: (i) the development of a training program for experts in SGR supervision and control, inspection standards and criteria, the penalties and disciplinary procedures, and administration of special records; to prepare them for the program, the experts will attend a training program in Argentina given by international experts with experience in guarantee and surety companies; and (ii) supply of information programs (software) necessary for the performance of the tasks of authorization, registration, evaluation, control, and supervision of the SGR system, and the establishment of a communication system and direct access to the BCRA's Risk Management Center and in the training and refresher courses for the team of the BCRA experts that evaluate and rate the risks of SGRs guarantees and the counterguaranties received.

Subprogram IV. Publicity of the new reciprocal credit guarantee companies and training their potential operators

- 2.29 **Frame of reference.** The SGR is an innovative mechanism that is totally new to the Argentine legal system. The recent passage of Law 24,467, the absence of a regulatory framework and the lack of any previous experience in this area may delay the establishment of SGRs since the economic agents and potential promoters are not familiar with business units of this kind.
- 2.30 Various business associations and other agents in the financial system are interested in this new mechanism, and initiatives have been launched to create SGRs. Although certain parties in different areas of the private sector have taken an interest in SGR promotion and organization, systematized and documented information needs to be available on the characteristics, international experiences, establishment process and requirements, and the operation and advantages of the reciprocal credit guarantees system. At the regional level, the local authorities and business

associations concerned with publicity and promotion will require special support and assistance for discussion of plans to establish future SGRs.

- 2.31 Once the rules of operation are established, and the institution of the SGRs is publicized and promoted, it will be necessary to establish and train its operators, managers, and administrators. At this stage it is essential for manuals for business organization, administration, and management to be prepared and for instructions and publicity, promotion, and training mechanisms to be designed, prepared, and published.
- 2.32 **Specific objectives.** The objective of this subprogram is: (i) to publicize, among the economic agents and especially among the units involved in the financial market, the SGR legal framework and the technical nature and requirements for their operation, and (ii) to provide potential promoters with the necessary human resources training for implementation of the SGRs.
- 2.33 **Specific activities.** In order to attain the specific objectives proposed, the MIF contribution to this technical-cooperation project will be used to assist the Enforcement Authority with the implementation and execution of an SGR information and institutional promotion plan and to train the initial SGR staff teams.
- 2.34 The plan for institutional publicity and promotion for the reciprocal credit guarantee companies will be aimed at all those potentially interested in the reciprocal credit guarantees system, and particularly at the small and medium-sized businesses (as potential participating members); banking and financial institutions and large enterprises (in their dual role as potential protector members and potential suppliers of credit) and business associations and public institutions (in their dual role as promoters and potential protector members). The funds for the project will be used to hire the following short-term consultants: (i) senior consultants and/or SGR directors in countries with experience in this area; and (ii) expert(s) in preparing economic and financial publicity material in the business area, to support:
 - a. preparation of institutional and promotional audiovisual materials, suitable for permanent distribution, which describe the legal framework and characteristics and basis of the SGRs.
 - b. organization of intensive seminars and workshops, to provide practical information on international experiences with guarantee companies.
- 2.35 Given the innovative nature of SGRs in Argentina, the project also includes a staff training plan for the initial SGRs that are promoted in Argentina. The training plan will be implemented and

the funding will be allocated as agreed between the executing agency and the IDB. This will include the following activities:

- a. preparation of a basic manual, describing the procedures for the establishment and operation of the SGRs;
- b. assistance to SGR promoters in training their staff and designing models and documents for the evaluation of business projects, analysis of enterprises, analysis of credit risks, and appraisal of guarantees; and
- c. assistance to current or potential SGR managers and officers with training and with the design of models, documents, and security and credit risk-control mechanisms, guarantees and counter-guaranties, and enforcement and collection of debts and guarantees.

2.36 Companies and/or individuals who may be potential beneficiaries of the training plan will contribute local counterpart funds in an amount similar to the amount received from MIF.

D. Project budget

2.37 The projected cost of each subprogram to be financed by MIF and the outlays to be made from the national counterpart funds will be as follows:

PROJECT BUDGET 1/			
	MIF	LOCAL	TOTAL
Support for the executing agency	200,000	160,000	360,000
Support for the regulatory framework of the reciprocal credit guarantees system	140,000	120,000	260,000
Strengthening inspection and control capacity	70,000	70,000	140,000
SGR publicity program	170,000	130,000	300,000
Publicity plan	90,000	50,000	140,000
Training plan	80,000	80,000	160,000
Ex post evaluation	20,000	-	20,000
Contingencies	10,000	130,000	140,000
TOTAL	610,000	610,000	1,220,000
1/ See breakdown in Annex I			

E. Organization and implementation

- 2.38 The project will be implemented by the Ministry of Economic Affairs and Public Works through the Secretariat of Industry (Deputy Secretariat of Small and Medium-sized Business), or whatever entity is appointed as Enforcement Authority. The different project subprograms will be coordinated and centralized by an Administration Unit within the Enforcement Authority. The present MIF technical-cooperation funding will be used to set up this unit on the terms indicated. This unit will be responsible for day-to-day coordination of the activities of the various consultants and experts. To this end, the Administration Unit will receive support from a consultant specializing in the recruitment of local and international consulting services and will receive support in coordinating of each of the subprograms.
- 2.39 Goods and services will be purchased and consultants hired according to the Bank and MIF procedures in this matter.

F. Local counterpart funds

- 2.40 The local counterpart funding for the four subprograms will cover the following expenses: (i) local staff salaries; (ii) travel and per diems; (iii) rent, stationery, and other minor expenses; (iv) partial contributions for promotional activities, conferences, and workshops. A breakdown of these expenses is given in Annex I.

G. Disbursement

- 2.41 The prerequisites for the first disbursement of the funding are as follows: (a) appointment of the Enforcement Authority; (b) establishment of the Administration Unit with the staff and authority to carry out the program; (c) signature of an agreement with the Central Bank for participation in the program; and (d) submission of an initial plan for implementation of the project by component, to include at least: (i) the semiannual schedule of activities; (ii) the definitive terms of reference for the consultants and the studies to be commissioned with project funds and the officials that to be hired with local counterpart funds; and (iii) a schedule for the incorporation of these officials.
- 2.42 The project schedule establishes 18 months for the commitment of funds and 24 months for the disbursement of funds, from the effective date of the agreement.

H. Follow-up and supervision

- 2.43 Each subprogram will be monitored and supervised by the chief of the Administration Unit. Semiannual progress reports will be prepared for each subprogram. Each report must contain, at least: (i) a description of the extent to which the semiannual goals have been attained; (ii) problems identified and suggestions for

overcoming them; (iii) the plan of activities for the next six months; and (iv) analysis of the way in which the project is being implemented. The Bank must indicate its nonobjection to any modifications to the semiannual plans. The final report must also include the information and data for the ex post evaluation of the program.

I. Viability and risks

- 2.44 The viability of the proposed technical-cooperation program is based on the performance of the activities specified in each of the subprograms, insofar as they pertain to the attainment of the specific objectives, which comprise the three key aspects for the efficient establishment in Argentina of a reciprocal credit guarantees system: (a) the development of a complete regulatory framework that is favorable to the creation and operation of reciprocal credit guarantee companies, on the principles of legal certainty, sound economic practices, and professionalism; (b) strengthening and training the Enforcement Authority and the Central Bank of the Argentine Republic in its dual role of encouraging and promoting the establishment of the system, and its supervision and control; (c) disseminating information on this new mechanism of support to finance SMBs among the parties concerned (enterprises, business associations, and financial institutions), together with professional training for promoters and managers of the initial SGRs.
- 2.45 The establishment of the system could be delayed by the absence of any previous experience with the SGR and the singular nature of this legal concept. Initial ignorance as to its operation could also entail some risk to the prompt establishment of the system. Nonetheless, this risk appears much diminished by the willingness and support of the Ministry of Economic Affairs and Public Works and Services to disseminate information on this new category of company, its creation and implementation, as well as by the interest demonstrated by business associations and certain financial institutions in promoting this concept.
- 2.46 A factor that could impede the effective SGR development is the risk of these financial institutions not fulfilling expectations in granting lines of credit for small and medium-sized businesses with an SGR guarantee. This risk could be exacerbated by a possible reduction in the loan. Nonetheless, these risks could be minimized through appropriate information efforts and support SGRs by the Enforcement Authority and the BCRA which are guaranteeing their creditworthiness and standing. The technical-cooperation funding will contribute to the activities as noted earlier. Moreover, no economic circumstances are foreseen that could impede the viability of this program.
- 2.47 Another risk could be the lack of technical staff specialized in SGR management, as a result of inappropriate management that could

affect their creditworthiness in the eyes of credit institutions. The training activities for managers and promoters, which are included in this project, and their continuation by SGRs under the supervision of the Enforcement Authority, will enable the SGRs to acquire qualified profession supervisory staff.

III. MEETING THE ELIGIBILITY CRITERIA OF THE PROGRAM

A. General eligibility criteria of the program

- 3.1 MIF financing for the project in support of the legal and regulatory framework of a credit guarantee system for small and medium-sized businesses, is consistent with the general MIF objective (i.e. to increase investment and participation by the private sector in order to accelerate growth and socioeconomic development). The project is innovative and as a catalyst should stimulate access by small and medium-sized Argentine businesses to formal credit, which is necessary to stimulate their development and improve their production and productivity.

B. Criteria of the project eligibility facility

- 3.2 The proposed project is also consistent with the project eligibility criteria of the Technical Cooperation Facility, pursuant to Article 3, Section 2(e), of the Agreement Establishing the MIF, which establishes that it may grant technical-cooperation funding to governments in order to support the development and strengthening of financial systems to enable them to operate smoothly, to promote healthy competition, and to expand the capacity of the banking sector.

IV. COMPATIBILITY WITH THE BANK PROGRAM FOR THE COUNTRY

- 4.1 The project is compatible with the Bank's strategy for Argentina. The strategy emphasizes promoting greater participation by the private sector as an agent of growth and job creation by facilitating greater access to credit by SMBs. The project is consistent with the priority of continuing with the modernization of the State, by supporting it in improving the laws and regulations of new institutions and mechanisms aimed at supporting productive activity through support for the availability of a broad array of guarantees by financial intermediaries.

V. AVAILABILITY OF MIF FUNDS

- 5.1 The project will be financed with nonreimbursable funds, based on the following considerations: (a) the Donors Committee declared the country eligible for all MIF financing modalities, on November 30, 1993; (b) Section 3 of the Country Eligibility Memorandum describes how Argentina has met the eligibility criteria for grants at the national level; and (c) the proposed project will have a catalytic impact on private investment in infrastructure, as specified in Article 3, section (a), of the MIF Agreement, since its objective is to increase access by the small businesses to credit from the financial system. The validity of these criteria was confirmed by the Donors Committee at its March 30, 1994, meeting (MIF/GN-23).
- 5.2 The allocation of MIF nonreimbursable funds for this program is justified given the innovative nature of the SGRs in the region and the impact that the successful implementation of the program in Argentina will have on other countries of the region.

VI. EX POST EVALUATION

- 6.1 In order to guarantee appropriate follow-up and evaluation of the project, provision has been made for the supervision as described in section G of this document, which establishes that progress reports must be submitted for all activities. These reports will furnish the necessary data for the ex post evaluation of the operation.
- 6.2 Given the nature of the program and the need to ensure its continuity over time, the project team and executing agency consider an ex post evaluation of the program necessary. This ex post evaluation will be conducted six months after the date on which the other program activities are completed, by an independent outside consultant, hired by the executing agency according to Bank and MIF procedures out of program funds. Both the methodology for this independent evaluation and the consultants' terms of reference will require the nonobjection of the Bank.

ARGENTINA LEGAL AND REGULATORY FRAMEWORK FOR AN SMB CREDIT SYSTEM				
	TIME REQUIRED (months)	MIF (In US\$)	LOCAL CONTRIBUTION (In US\$)	TOTAL
SUBPROGRAM I (strengthening)				
a. Fees				
(i) Coordinator consultant	18	90,000	-	90,000
(ii) Expert in organizational systems, etc.	2	20,000	-	20,000
(iii) Expert in market analysis	2	20,000	-	20,000
(iv) Expert in administration	2	20,000	-	20,000
(v) Expert in computer systems	1.5	15,000	-	15,000
b. Travel and per diems	-	20,000	10,000	30,000
c. Computer system team	-	15,000	-	15,000
d. Salaries, local staff	72	-	130,000	130,000
e. Rent, stationary, and others	-	-	20,000	20,000
SUBPROGRAM II (rules and regulation)				
a. Fees				
(i) Foreign legal expert	2	30,000	-	30,000
(ii) Local legal expert	3	30,000	-	30,000
(iii) 2 financial consultants	4	30,000	-	30,000
(iv) 2 accounting consultants	4	30,000	-	30,000
b. Travel and per diems	-	20,000	-	20,000
c. Salaries, local staff	66	-	120,000	120,000
SUBPROGRAM III (inspection and supervision)				
a. Fees				
(i) Accounting expert	1.5	15,000	-	15,000
(ii) Supervision expert	2.5	25,000	-	25,000
(iii) 2 inspection trainers	2	20,000	-	20,000
b. Software	-	10,000	-	10,000
c. Salaries, local staff	40	-	70,000	70,000
SUBPROGRAM IV (publicity and training)				
a. Fees				
High-level experts	4	40,000	-	40,000
b. Seminars and workshops (four)		50,000	50,000	100,000
c. Training plan		80,000	80,000	160,000
EX POST EVALUATION		20,000	-	20,000
CONTINGENCIES		10,000	130,000	140,000
GRAND TOTAL		610,000	610,000	1,220,000

ARGENTINA: Legal and Regulatory Framework for a Credit Guarantee System for Small and Medium-sized Businesses

ve: To Facilitate access to formal credit by small and medium-sized businesses

ve: To prepare the regulations and legal framework for a Reciprocal Credit Guarantee System, to strengthen the capacity of the Enforcement Authority, to strengthen the capacity of the Central Bank to supervise and control new SGRs and publicize and promote the establishment of SGRs in Argentina

Components	Activities (Consulting services required)	Expected Results
g the Enforcement Authority	a. Design and organize the Administrative Unit of the Enforcement Authority, prepare manuals of standards and procedures and information services b. Establish the Administrative Unit of the Enforcement Authority and provide training c. Put together and train the team of experts in SGR control, development of financial, accounting, and disciplinary rules and circulars, and inspection procedures and penalties d. Establish information systems for authorization, registration, evaluation, control, and supervision of the SGR system	Strengthening the Enforcement Authority, basic rules and strengthening supervision: May 1996
the regulatory development of the Reciprocal antee System	a. Complete the regulatory framework of the SGRs; make the regulatory framework compatible with Argentine legislation and the accounting system, and define the technical and economic bases of the system	Final draft document of the harmonized decree, mode proposed rules of operation, and accounting standards criteria: June 1996
g capacity for SGR inspection and control by Bank	a. Provide support for the Central Bank (Superintendent of Banks) in the effective exercise of its functions of authorization, listing, registration, supervision, and inspection of the SGR	September 1996
on of information on the Reciprocal Credit system and training for operators	a. Provide support for SGR publicity and SGR promotion and establishment, together with training for managers and operators	December 1996

PROPOSED RESOLUTION

ARGENTINA. TECHNICAL COOPERATION FOR A LEGAL
AND REGULATORY FRAMEWORK FOR A CREDIT GUARANTY
SYSTEM FOR A SMALL AND MEDIUM-SIZED BUSINESSES PROGRAM

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Republic of Argentina and to take such additional measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT- with respect to a technical cooperation for a "Legal and Regulatory Framework for a Credit Guaranty System for Small and Medium-sized Businesses Program".

2. That up to the amount of US\$610,000 is authorized for the purpose of this resolution, chargeable to resources of the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.