

ARGENTINA

REALLOCATION OF RESOURCES FROM PORTFOLIO PROJECTS TO SUPPORT ECONOMIC REACTIVATION OF ARGENTINA

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE RE1/FI1 TECHNICAL FILES

Preparation:

La demanda potencial de financiamiento del segmento MiPyME [Potential demand for financing of the MSMB segment]. Government of Argentina. November 2002.

Marco estratégico de asignación de recursos para atender los efectos de las inundaciones en Argentina y Plan de Recuperación de áreas productivas en la Cuenca del Río Salado [Strategic framework for the allocation of resources to address the effects of floods in Argentina and Recovery Plan for productive areas in the Río Salado watershed]. Government of Argentina. November 2002.

Programa de Servicios Agrícolas Provinciales [provincial agricultural services program] (PROSAP). *Ideas de proyectos de ejecución nacional a financiarse en el marco del PROSAP* [Ideas on nationally implemented projects to be financed within the PROSAP framework]. Government of Argentina. November 2002.

Inclusión del Programa de Servicios Agrícolas Provinciales (PROSAP) en el Paquete Reactivante [Inclusion of the provincial agricultural services program (PROSAP) in the Revitalization Package]. Argentine Republic. Ministry of Production, Secretariat of Agriculture, Livestock, Fisheries, and Foodstuffs.

Evaluación de la Capacidad Institucional del Organismo Ejecutor del Programa de Servicios Agrícolas Provinciales [Assessment of the Institutional Capacity of the Executing Agency for the provincial agricultural services program] (899/OC-AR). Consultant Ulises Guardiola. January 2003.

Breve Análisis del Plan Maestro de la Cuenca del Río Salado y el Estudio de Factibilidad Región A 1 [Brief Analysis of the Master Plan for the Río Salado Watershed and Region A 1 Feasibility Study]. Consultant Marcos Frommel. February 2003.

Evaluación de los Aspectos Ambientales del Programa Servicios Agrícolas Provinciales, Programa de Servicios Agrícolas Provinciales [Appraisal of the Environmental Aspects of the provincial agricultural services program] (899/OC-AR). Consultant Marcos Frommel. January 2003.

Evaluación del Sistema de Seguimiento y Propuestas de Ajuste a las Necesidades de la Nueva Etapa. Programa de Servicios Agrícolas Provinciales [Appraisal of the Monitoring System and Proposed Adjustments in Requirements for the New Phase. Provincial agricultural services program] (PROSAP). Consultant Heber Freiría. April 2003.

Execution:

Plan de Fortalecimiento Institucional acordado entre el Banco y el Gobierno de Argentina, incluyendo anexo con lineamientos del sistema de seguimiento y evaluación y términos de referencia para la evaluación del PROSAP [institutional strengthening plan agreed between the Bank and the Government of Argentina, including annexed guidelines on the monitoring and appraisal system and terms of reference for the appraisal of PROSAP].

Manual de Procedimientos Operativos del Programa de Servicios Agrícolas Provinciales [Manual of Operating Procedures for the provincial agricultural services program (loan 899/OC-AR). Revised version, March 2003.

Manual Ambiental del Programa de Servicios Agrícolas Provinciales [Environmental Manual for the provincial agricultural services program] (PROSAP). Ministry of Economy and Public Works and Services, Secretariat of Agriculture, Livestock, Fisheries, and Foodstuffs. Revised version, March 2003.

Modificadorio del Contrato de Préstamo del Programa Global de Crédito a la Micro y Pequeña Empresa [Amendment to the loan contract for the microenterprise and small and medium-sized business global credit program] of 05/09/02.

ABBREVIATIONS

AWP	Annual Work Plan
BCRA	Banco Central de la República Argentina [Central Bank of the Argentine Republic]
CEU	Central executing unit
EAP	Economically active population
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
EE	Liaison unit
EPAF	Provincial Financial Administration Unit
EPDA	Provincial Agricultural Development Unit
GDP	Gross domestic product
IFIs	Intermediary financial institutions
IMF	International Monetary Fund
LU	Liaison unit
MIF	Multilateral Investment Fund
MSMBs	Microenterprise and small and medium-sized businesses
NRC	Nonreimbursable contributions
PEU	Project executing unit
PRDM	Programa de Reformas y Desarrollo de los Municipios Argentinos Programa de Servicios Agrícolas Provinciales [Argentine Municipal Reform and Development Program]
PROSAP	Programa de Servicios Agrícolas Provinciales [provincial agricultural services program]
SAGPyA	Secretaría de Agricultura, Ganadería, Pesca y Alimentos [Secretariat of Agriculture, Livestock, Fisheries, and Foodstuffs]
SBMs	Small business and microenterprise
SENASA	Servicio Nacional de Sanidad y Calidad Agroalimentaria [National Agroalimentary Health and Quality Service]
SEPyMEyDR	Secretaría de la Pequeña y Mediana Empresa y Desarrollo Regional [Secretariat for Small and Medium-sized Enterprises and Regional Development]
SMBs	Small and medium-sized businesses

REALLOCATION OF RESOURCES FROM PORTFOLIO PROJECTS TO SUPPORT ECONOMIC REACTIVATION OF ARGENTINA

EXECUTIVE SUMMARY

Borrower:	The Argentine Republic		
Executing agency:	The executing agencies will continue to be the relevant sector entities: the Secretariat for Small and Medium-sized Enterprises and Regional Development (SEPyMEyDR) for the global credit program for microenterprise and small and medium-sized businesses (1192/OC-AR); and the Secretariat of Agriculture, Livestock, Fisheries, and Foodstuffs (SAGPyA) for the Provincial Agricultural Services Program (899/OC-AR).		
Amount and source:	<i>Programs that will receive resources ("Recipient Programs"):</i>	IDB (Balance)	Local (Balance)
	1192/OC-AR	US\$118 million	US\$223 million
	899/OC-AR	US\$ 85 million	US\$ 89 million
		US\$ 33 million	US\$134 million
<i>Amount to be reallocated</i>			
	<i>Loans that will reallocate resources ("Reallocated Loans or Providers"):</i>	IDB	Local
		US\$296 million	US\$296 million
	795/OC-AR	US\$ 14 million	US\$ 14 million
	1060/OC-AR	US\$ 10 million	US\$ 10 million
	1068/OC-AR	US\$ 84 million	US\$ 84 million
	1164/OC-AR	US\$188 million	US\$188 million
	TOTAL		US\$933 million
	IDB (OC):		US\$414 million
	Local counterpart funding:		US\$519 million

Financial terms and conditions:

Execution period:
 1192/OC-AR-1, AR-2, and
 their providers 4 years
 899/OC-AR and its providers 4 years

Disbursement period:
 1192/OC-AR-1, AR-2, and
 their providers 54 months
 899/OC-AR and its providers 54 months

Objectives:

The principal objective of the proposal to reallocate resources from the Bank's portfolio in Argentina is to support the process of reactivating productive activity through an increase in the resources of two programs now in the execution phase which, in the short and medium term, could have a significant impact on increasing production, creating jobs, and enhancing the competitiveness of Argentine products. These two programs are: (a) the global credit program for microenterprise and small businesses (1192/OC-AR) and (b) the Provincial Agricultural Services Program—PROSAP—(899/OC-AR).

In particular, these two programs will help boost credit and will support agricultural infrastructure works at a time when, on the one hand, Argentine products are gaining enormous price advantages owing to the devaluation of the currency, but on the other hand, enterprises have not been sufficiently able to capitalize on these advantages because of the restricted liquidity and limited government spending capacity brought about by the current crisis.

Description:

Increasing the resources of the two recipient programs will be carried out by reallocating the available uncommitted balances from four problem loans which have surplus funds and no prospect for rapid recovery or forward movement. The total amount to be reallocated is US\$296 million, of which US\$96 million will finance the increase in the resources of the global credit program and the remaining US\$200 million will go to the Provincial Agricultural Services Program.

The basic objective of expanding the global credit program is to provide additional resources to an instrument for assisting the business sector for microenterprise and small and medium-sized businesses (MSMBs), making the financing of such enterprises viable in a context in which the liquidity available through financial institutions remains subject to profound restrictions owing to the effects of the monetary and exchange crisis in Argentina.

Additional funding for the Provincial Agricultural Services program will support the revitalization of the agricultural sector through investments, which improve agricultural health and quality services as well as infrastructure rehabilitation works in various provinces, in particular in areas where land with considerable productive potential was flooded.

**The Bank's
country and
sector strategy:**

The Bank's strategy in Argentina focuses on four major areas of action, namely: (i) attaining sustainable growth of the productive sectors and increased productivity; (ii) reducing poverty and raising the living standards of the population; (iii) instituting reform of the State and achieving balance; and (iv) promoting regional integration.

The reallocation of project portfolio resources proposed in this document is consistent with the first of these lines of action. Specifically, reallocating resources will make it possible to channel funding toward programs with the potential to reactivate the economy through job creation, increased enterprise productivity, and the generation of exportable surpluses. Within this line of action, an effort is being made to support the reactivation of production, which is part of the fundamental strategy adopted by the Government of Argentina (GAR) in response to the economic crisis.

**Environmental
and social
review:**

The programs receiving reallocated resources will retain the same regulations and environmental eligibility criteria originally approved by the Board in each case, as they have demonstrated their efficiency in the environmental dimension.

In the particular case of PROSAP, the basic structure defined in the Environmental Operating Manual will be preserved, although with some improvements that have been included with a view to: (i) strengthening the treatment of social, environmental, and gender issues; (ii) guaranteeing the identification of significant environmental and social impacts; and (iii) ensuring the implementation, execution, and monitoring of activities defined in the Environmental and Social Mitigation, Monitoring, and Follow-up Plans.

Benefits:

In Argentina, the current trend toward dampening the recession and the incipient sector reactivation are hampered by severe credit restrictions. In this context, it is anticipated that a credit program in the amount of US\$181 million (US\$85 million from 1192/OC-AR and US\$96 million from the reallocation) will help counteract the liquidity shortage and hence have a revitalizing effect, contributing to job creation and increased exports.

In particular, it is thought that expanding access to credit on the part of medium-sized enterprises will promote the conditions for a more

rapid reactivation of the economy, in that the activities of these firms have a multiplier effect on the employment and the production of their micro and small suppliers.

Moreover, reallocating resources from the Bank's project portfolio toward the Provincial Agricultural Services program will make it possible to finance infrastructure rehabilitation in lands that have high economic and productive potential, thereby promoting the reactivation of the agricultural and agroindustrial sector. In particular, an effort is made to finance the regularization of water operations in high potential productive areas, which is crucial for mitigating floods and increasing the areas available for the production of meat and grain for export, with their resulting effects as regards creating jobs and generating foreign exchange.

An additional benefit of reallocating resources is to strengthen the portfolio by reassigning resources from programs whose execution is unsatisfactory and where there is a low likelihood of prompt returns toward programs that have a high probability of meeting their development objectives.

Risks:

The main risks associated with the global credit program are that: (i) in view of the delicate situation facing the financial sector, there may not be enough eligible intermediary financial institutions (IFIs) with an interest in taking part in the program (at present, only three institutions have been identified, two of which are the IFIs identified for executing operations using the resources already available under the amended loan contract of 5 September 2002) (see paragraph 2.10); (ii) the deterioration in the solvency of the participating IFIs and its possible impact on program resources, an aspect that is deemed to have been adequately mitigated through the use of a Trust as an implementing mechanism and the requirements for specific guarantees that the IFIs would need to provide as additional security; and (iii) there is not a sufficient number of eligible MSMBs under the relevant rules of the Central Bank of the Argentine Republic (BCRA). The latter issue is regarded as significant in year one of the program but is expected to diminish to fairly insignificant levels, as economic recovery gets under way (paragraph 4.18).

In the case of PROSAP, the two principal risks are that: (i) program resources will be allocated to finance projects in provinces without borrowing capacity; and (ii) the institutional weaknesses identified during project preparation are not rectified. To reduce the first risk, important changes have been made in the PROSAP Procedures Manual to incorporate a timely analysis of provincial budgetary capacity into the project cycle using a standard fiscal projection model to determine the impact on provincial finances. In addition, approval

of each provincial project is subject to fiscal agreements being reached with the Nation within the framework of the budget cycle based on criteria of fiscal prudence such as current balance and sustainable management of public debt in the medium term.

The second risk has been minimized by means of an extensive evaluation of PROSAP institutional capacity and an institutional strengthening plan with the government. Implementation of the plan would be a condition precedent to disbursement of reallocated resources.

**Special
contractual
clauses:**

As conditions for eligibility for the first disbursement of resources reallocated to finance the global credit program (1192/OC-AR-3, 1192/OC-AR-4, 1192/OC-AR-5, 1192/OC-AR-6): (i) the Operating Regulations for the credit component must have been drafted to the Bank's satisfaction and effectively implemented (see paragraphs 3.12 and 3.13); and (ii) an Emergency Executive Decree or some other appropriate instrument must have been issued, authorizing the establishment of a public trust with private trustees to implement the credit component.

As conditions for eligibility for the first disbursement of resources reallocated to finance the Provincial Agricultural Services Program (899/OC-AR-1 and 899/OC-AR-2): (i) the Revised Operating Procedures Manual, which will also apply to the allocation of funding available from the original loan (899/OC-AR), must be effectively implemented under a written agreement between the executing agency and the IDB; (ii) a firm of independent auditors acceptable to the Bank must be hired; and (iii) the institutional strengthening plan agreed on between the Bank and the Argentine government must be implemented to the Bank's satisfaction. This plan includes requirements for the implementation of a new Monitoring and Evaluation System whose operation is a condition for disbursement of the reallocated resources. A copy of this plan is in PROSAP's technical files and will form part of the new loan contract (see paragraph 2.5(c)).

For the Agricultural Services Program, the executing agency must submit to the Bank, within 60 days following the end of each six-month period, a semiannual progress report on the aforesaid institutional strengthening plan. These reports will be reviewed by the program's external auditors as part of their auditing work to assess compliance with the contract clauses (see paragraph 3.42).

**Exceptions to
Bank policy:**

None.

Procurement: Contracting for goods, works, and consultant services will be carried out in accordance with Bank policy. The amounts above which international public bidding will be required are US\$350,000 for goods, US\$5,000,000 for works, and US\$200,000 for consultant services. In the case of PROSAP, the processes followed for engaging consultancy firms for amounts equal to or less than US\$100,000 and individual consultants for amounts equal to or less than US\$30,000 will be subject to ex post review by the Bank using sampling.

A revolving fund will be established for each program for purposes of financing advances of funds and to ensure their adequate liquidity. The revolving fund for the global credit program will be for up to the equivalent of 10% of the respective loan, while that for PROSAP will be for up to the equivalent of 5% of the respective loan. The 10% revolving fund for the Credit Program previously authorized under the original loan continues to be justified in that the Dollar Window that will be drawn on to finance the program permits only four disbursements a year. Each executing agency will report semiannually to the Bank on the status of the corresponding audited revolving fund, as part of its external auditing.

I. FRAME OF REFERENCE

A. Background

1. Possibilities for revitalization in Argentina

- 1.1 In late 2001, Argentina experienced a deep economic crisis, which prompted the country to take extreme measures that paralyzed the functioning of the payment system and lines of credit, which had severe consequences in the real sector of the economy. In effect, in December 2001 the vicious circle affecting the country, with weak economic activity, an overvalued currency, and mounting indebtedness, reached its limit. The dearth of inflows of foreign capital and massive bank withdrawals led the government to pass a law freezing demand deposits (the *corralito*¹) and, subsequently, to broaden the measure to include other renewable fixed-term instruments (the “*corralón*”). This measure was followed by the suspension of payments to private creditors, devaluation of the peso, and the asymmetrical conversion into pesos of dollar-denominated loans and deposits, which undermined the solvency and liquidity of the financial system.
- 1.2 This crisis had profound negative repercussions in the political and institutional spheres. However, on the positive side, the crisis caused a devaluation of the Argentine peso that was not accompanied by a significant hike in domestic prices. Indeed, following the decision to end the convertibility system and adopt free floating of the currency in early 2002, the Argentine peso depreciated by 71%, falling from parity to 3.5 pesos per dollar by May 2002. Subsequently the peso has been more stable, with its value hovering around 2.9 pesos per dollar since April 2003. Nevertheless, this sharp devaluation of the peso had a relatively moderate impact on price changes. For example, cumulative annual inflation up to December 2002 as measured by the consumer price index and the wholesale price index came to 35.1% and 118.2%, respectively. In the first nine months of 2003, consumer inflation rose at a cumulative rate of 4.9%, while wholesale prices posted a decline of 2.9%.
- 1.3 The favorable pricing resulting from this devaluation has helped reactivate the tradable goods and export sectors. In 2002, the external sector reported a record surplus estimated at US\$16,883 million as compared to the outturn of US\$7,461 million the year before. For 2003, the external sector is expected to report another surplus (US\$16,982 million). In 2002, exports came in at US\$25,352 million, a drop of 5% from 2001. This decline, however, was attributable almost exclusively to falling prices since the volume of exports remained virtually unchanged, except for cereals, which were offset by a 10% increase in agricultural output. In particular, activities in tradable goods sectors such as meat, honey, fruits, and vegetables in the agricultural sector, and vegetable oils, textiles, chemical products, steel products, and automobile parts in the industrial sector,

¹ The *corralito* (“little fence”), enacted on 1 December 2001, imposed a ceiling of US\$125 per week on bank withdrawals, but authorized the use of deposits to settle debts and effect transfers within the banking system. In early January 2002, the government established even more restrictive rules, eliminating the possibility of transfers between different banks.

rebounded strongly in 2002. On the import side, the most severe contraction occurred in consumer goods (-73%).

- 1.4 This incipient revitalization of some sectors resulted in a slowing of the decline in GDP, a downward trend in the unemployment rate, and official predictions of growth for 2003. Indeed, while GDP fell by 16.3% and 13.5% in the first and second quarters of 2002 from the same quarters of the previous year, this decline slowed to 10.1% and 4.3% in the third and fourth quarters of 2002, respectively.² There are now signs of improvement in employment demand and a decline has been observed in the unemployment rate during the year, which according to data from the Permanent Household Survey fell from 21.3% in May 2002 to 17.8% in October 2002. The unemployment continued to decline in May 2003, with a rate of 15.6%. In keeping with these trends, the national budget for 2003, approved by Congress in late December 2002, projected GDP growth of 3%.³
- 1.5 Despite the positive expectations for 2003, the financial sector's diminished capacity to meet the credit needs of the productive sector threatens to curb economic revitalization. In effect, the measures to limit withdrawals of deposits introduced in the fourth quarter of 2001 restricted bank intermediation and limited access to credit. According to a study conducted by FUNDES concerning successful exporting small and medium-sized businesses (SMBs),⁴ following the collapse of the Argentine financial system in late 2001, micro, small, and medium-sized enterprises suffered from limitations on their access to credit which went beyond the restrictions and disadvantages such enterprises commonly face. In the particular case of exporting SMBs, the crisis not only practically eliminated domestic credit, but also resulted in the total cessation of access to external financing for their foreign trade operations, an area in which these enterprises had achieved a significant presence in recent years.
- 1.6 Combined with the scarcity of credit, both the national government and provincial governments experienced severe limitations on financing the infrastructure works required for agricultural revitalization. To be sure, the nonfinancial public sector achieved a primary surplus in 2002 thanks to controlling the nominal level of primary expenditure on the one hand, and the growing increase in nominal government revenue on the other.⁵ However, in real terms both revenue and primary expenditure experienced downturns. In addition, despite the efforts to contain primary expenditure, for 2003 it is projected that the surplus will be reduced by the equivalent of 1.5% of GDP from the 2002 level because expenditure on the social safety net will rise from 0.6% of GDP in 2001 to 1.2% of GDP in 2003. On the other hand, under the Budget Law the provinces

² Estimates for 2002 indicate a decline in gross domestic product (GDP) of 10.9%.

³ Argentine GDP is now expected to grow by 6.8% in 2003 (EIU, September 2003).

⁴ The study focused predominantly on medium-sized enterprises, with average sales of US\$4.2 million and employing 45 persons.

⁵ The increase in revenue collection contrasts with the eleven months leading up to May 2002, in which there were year-on-year decreases. For example, up to April 2002 the cumulative reduction in total revenue was 17%, while the year-on-year comparison for the period from May to December 2002 shows an increase of 11.4% in nominal terms.

undertook to reduce their deficits in 2002 by 50% from the 2001 levels. By the end of the first quarter of the year, it is expected that provinces representing at least 80% of the consolidated provincial deficit for 2002 will have signed agreements to this end, so that the 2003 objective of achieving a primary surplus equivalent to 0.4% of GDP in the provinces will be achieved, as compared to a primary deficit of 0.5% of GDP in 2002.

- 1.7 With a view to helping overcome the bottlenecks affecting the incipient recovery in Argentina, it is proposed to restructure the IDB's project portfolio in the productive area in order to: (i) expand access to credit for microenterprise and small and medium-sized businesses; and (ii) finance improvements in physical infrastructure and agricultural and agroindustrial services. A number of topics of importance in the current economic climate are discussed in greater detail below.

2. Additional macroeconomic trends

- 1.8 The Central Bank's interventions to contain financial instability and economic uncertainty led to a significant reduction in the level of international reserves in the first half of 2002. Reserves fell from US\$19,700 million at the start of the year to less than US\$9,000 million in July, a decline of over 50%. Since that time, there has been less pressure on foreign exchange markets, allowing for a slight increase in reserves, which by mid-January 2003 had risen to US\$10,664 million and to US\$13,387 million by September 2003. This recovery in reserves occurred notwithstanding the sterilization efforts required in order to compensate the deposits released by the courts, which totaled PArg\$9,500 million in 2002. In this period it was also possible to observe the beginnings of recovery for private deposits in the banking system which, after declining from PArg\$72,598 million in January 2002 to PArg\$56,155 million in July of that year, rose to PArg\$75,698 million in August 2003, reducing the need for Central Bank assistance to the financial system and lowering the BCRA's intervention costs. This made it possible to fully release demand deposits (the *corralito*) and rescheduled fixed-term deposits (the *corralón*) without any major impact on the exchange market.

3. Current situation of the productive sectors

- 1.9 Among the productive sectors in Argentina, the agricultural sector is the largest generator of foreign exchange and prospectively the area that will rebound most rapidly. Indeed, despite the crisis having negatively affected some of the products of this sector, on balance its performance has exceeded that of the industrial and services sectors. In particular, in 2002 there were record harvests of wheat and soybeans and increased production of sunflower seeds, offsetting the production declines for corn, sorghum, and rice. In the first half of 2003, Argentine agricultural exports touched US\$10,053 million, an increase of 26% from the same period the year before, and are now projected to beat the US\$15,000 million record set in 2002. As regards cattle, exports of fresh meat are returning to the levels prior to 2001, the year when the export markets were closed owing to the outbreak of foot-and-mouth disease. Another subsector with favorable behavior is fruits and vegetables.
- 1.10 However, the growth in the agricultural sector over the past year has been basically attributable to exchange rate conditions, and its long-term development has been hindered by two significant structural weaknesses. The first weakness consists in the

scant infrastructure supporting activities in the sector. In particular, certain areas of the country suffer from recurrent flooding (Pampa Húmeda and the northeast), while in others there is a shortage of water for crops. In addition, it is necessary to carry out actions to prevent soil degradation and its resulting loss of productivity. A further weakness in the agricultural sector is the technological gap that exists between the national sector and its international competitors, and the limited capacity to manage serious health risks. A clear example of this was the outbreak of foot-and-mouth disease in 2001, which brought exports of Argentine meat to a halt for more than a year, with the resulting loss of important markets.

- 1.11 Devaluation of the Argentine peso also appears to have revitalized the production of tradable goods. Indeed, activity levels for tradables grew solidly in the last quarter of 2002 and in 2003 (in particular in the case of vegetable oils and their subproducts, textiles, basic chemical products, steel products, and auto parts). In contrast, the nontradables sectors which are oriented primarily toward the domestic market registered further declines in activity levels in the fourth quarter, as demand remains low. Nevertheless, despite the rebound in tradable goods, industrial activity as a whole registered a decline of 13.8% for 2002 in its entirety. According to ECLAC⁶ studies, the cumulative drop for Argentine industry since the onset of the recession, more specifically since the second quarter of 1998 to year end 2002, amounts to 29.5% in real terms, making it the most prolonged depression in Argentine industrial history.
- 1.12 ECLAC statistics show that the contraction in product affected in particular those sectors that are most sensitive to fluctuations in domestic demand and the conditions on the credit market. Specifically, construction registered a decline of 12%, making for a reduction of 27% since 1998. However, in recent months there has been a notable slowdown in the pace of decline in activity, which still contracted significantly by 29.6% for 2002. Accordingly, in the second quarter of 2003 the services sector (which accounts for more than 70% of all jobs recorded in the system) showed a slight improvement of 3%, maintaining the reversal in this trend, which began the quarter before.
- 1.13 Finally, the retail trade sector appears to have stabilized, though at an extremely low level. Sales by supermarkets and shopping centers rose in nominal terms, the consequence of the inflation recorded in 2002. In contrast, in terms of physical volumes there were sizable drops in both indicators for the year. This said, in the fourth quarter it would appear that the pace of the decline slowed considerably.
- 1.14 In all the productive subsectors, it has been the microenterprise and small and medium-sized businesses (MSMBs) that have been most pounded by the crisis. These firms lacked the capacity or potential to adapt to changing economic realities owing to obstacles in the economic and legal framework, weaknesses in the areas of computerization and technology, and inadequate access to financial resources. According to a World Bank study,⁷ because of the crisis this productive sector has

⁶ ECLAC. Argentina: Situation and Outlook 2001 and 2002. www.eclac.cl.

⁷ World Bank, Report No. 22803-AR, "SMEs in Argentina: A potential engine for economic growth and employment" (2002).

experienced: (a) the disappearance of firms and the loss of jobs; (b) limited capacities for creating new firms and for their survival; (c) a lack of access to financing; (d) difficulties developing and tying into productive chains; and (e) great problems with dynamically joining into the export process.

- 1.15 The SMBs' problems with dealing with the crisis are a source of concern, as these firms are responsible for the majority of jobs and most of Argentina's output. In fact, Argentine SMBs employ between 69% and 78% of the economically active population and account for about 61% of national output. Because of their combined economic weight, Argentina's SMBs have an extremely important role to play in the revitalization of productive activity. Consequently, it is necessary to support government policies that will help improve the SMBs' capacity to compete, thereby freeing up the economic potential of this sector.
- 1.16 It is noteworthy that the incipient revitalization of some sectors in Argentina's productive structure is being driven by the currency devaluation. In order to maintain this competitiveness in the medium and long term, the Argentine productive sector must face the challenge of incorporating technologies and building competitive advantages based on product quality and differentiation.

4. Arrangement with the International Monetary Fund

- 1.17 Following the December 2001 suspension of the program with the International Monetary Fund (IMF), the authorities maintained an intense dialogue with that organization to come to a new arrangement in support of an economic program that would help the country emerge from the crisis. In early 2003, the Government of Argentina reached agreement with the IMF on a Transitional Program that covered the medium program negotiated with the IMF and approved by its management board on 20 September 2003. The program includes a fiscal framework for fulfillment of the growth, employment, and social equity targets while serving as a basis for normalizing relations with creditors and assuring that its debt was at a sustainable level. The program contains a strategy for strengthening the banking system and facilitating increased bank lending, a prerequisite for recovery to get under way. The program also includes institutional reform to assist with the restructuring of corporate debt, to help resolve matters pending with public utility companies, and basically to improve the investment climate.
- 1.18 The Letter of Intent sets as its objective a primary surplus of 3% in 2004, with the figure being adjusted for 2005 and 2006 according to the trends of the principal macroeconomic indicators and establishes the terms of a monetary policy that targets an annual inflation rate of 4% to 7%. For 2003, GDP is expected to grow by 5% or 6%, with average growth of 4% forecast for 2004-2006. This program also furnish multilateral development organizations with a framework to support their actions in Argentina. The nominal exposure of multilateral institutions in the country is expected to remain constant through the financing flows they provide during the 36 months this program is in effect.

B. Request of the Government of Argentina

- 1.19 The Argentine government's economic program may be divided into three distinct phases: (i) crisis containment; (ii) rehabilitation of the basic functioning of the economy; and (iii) sustained revitalization of the economy. To this end, in early February 2002 the Government of Argentina announced a package of measures to unfetter the foreign trade and production process, restore control over monetary and fiscal policy, establish stable and predictable market rules, create jobs and improve conditions in existing jobs, revitalize investment, exports, and domestic consumption, and meet the needs of the most vulnerable population groups.
- 1.20 Between April and September 2002, the government focused its efforts on addressing the most pressing needs produced by the crisis. This was a normalization and stabilization phase, in which the major decisions were made to keep the financial system open and to begin recapitalizing it, to restore fiscal balance, to enter into fiscal agreements with the governments, to control the money supply, which had created serious problems in the first four months of 2002 as a result of the discount mechanism used, to stabilize the exchange market, and to launch a social constraint plan for heads of households. Between September 2002 and March 2003, a second stage was implemented to bring about "recovery and establish a stable growth path," which included liberalization of the financial system through voluntary options for savers, fiscal balance at the national and provincial level, debt consolidation, and the beginning of a process to boost revenues and targeted tax reductions. Since March 2003, a stage of structural change has been in effect that includes liberalization of the foreign exchange market, deregulation of the financial system, monetary reunification, a new debt restructuring, a second recapitalization of the financial system, and a timetable for the restructuring and a continuation of the payroll recovery process. In this context, the low level of transfers and stabilization of the inflation rate were helped by a yawning gap between potential and actual output as an immediate consequence of the severe crisis. Prudent management of monetary policy consisted of sterilizing the excess in base money through the sale of international reserves while activity in the real sector of the economy in the first quarter of 2002 was continuing to contract. Hence, although financial facilities for production and consumption had been all virtually closed since the second quarter of 2002, improvements were noted in the export tradable goods sectors, particular in agriculture and industry.
- 1.21 In addition, to meet the special challenges of economic revitalization, the Government of Argentina has formulated two strategies that are closely tied to the portfolio restructuring proposed in this document. On the one hand, the Argentine government regards it as important to strengthen public works (such as the road infrastructure, water works, and works supporting the agricultural sector) that can generate a strong demand for labor and make it possible to support the most dynamic economic sectors in this first phase of revitalization. On the other hand, the Government of Argentina deems it essential to offer financial and nonfinancial services to MSMBs.
- 1.22 However, prevailing budgetary constraints limit the Argentine government's capacity to put these two strategies into practice. Consequently, the Government of Argentina requested that the Bank reallocate the available uncommitted balances from four loans

now in the execution phase in order to strengthen two programs: (i) the Global Credit Program (1192/OC-AR); and (ii) the provincial agricultural services program (899/OC-AR). Both programs were selected by the Government of Argentina for additional funding because their objectives are consistent with production sector demand and needs and with the Government of Argentina strategy guidelines for economic reactivation.

C. Bank strategy in the country

- 1.23 The Bank's strategy in Argentina is focused on four major areas of action, namely: (i) sustainable growth of the productive sectors and increased productivity; (ii) reducing poverty and raising the living standards of the population; (iii) reform of the State and fiscal balance; and (iv) the deepening of regional integration.
- 1.24 The reallocation of project portfolio resources proposed in this document is consistent with the first of these lines of action. Specifically, reallocating resources will make it possible to channel funding toward programs which can, through job creation, increased enterprise productivity, and the generation of exportable surpluses, contribute to Argentina's economic revitalization. Within this line of action, an effort is being made to support the reactivation of production, which is one of the underlying strategies adopted by the Government of Argentina in response to the crisis.
- 1.25 It bears noting that the Bank is also supporting the revitalization of Argentine production with nonfinancial products. Of particular interest are the studies contracted with ECLAC in Argentina for the formulation of a national development strategy. In effect, a large network of Argentine professionals and specialized institutions is drawing up a policy analysis and recommendations package that will contain "guidelines for strengthening the sources of growth" of the Argentine economy. It is anticipated that the results will constitute a significant contribution which, together with other ones, will make it possible to establishing a launching pad for the design and instrumentation of a National Development Strategy.

D. Justification for the reallocation

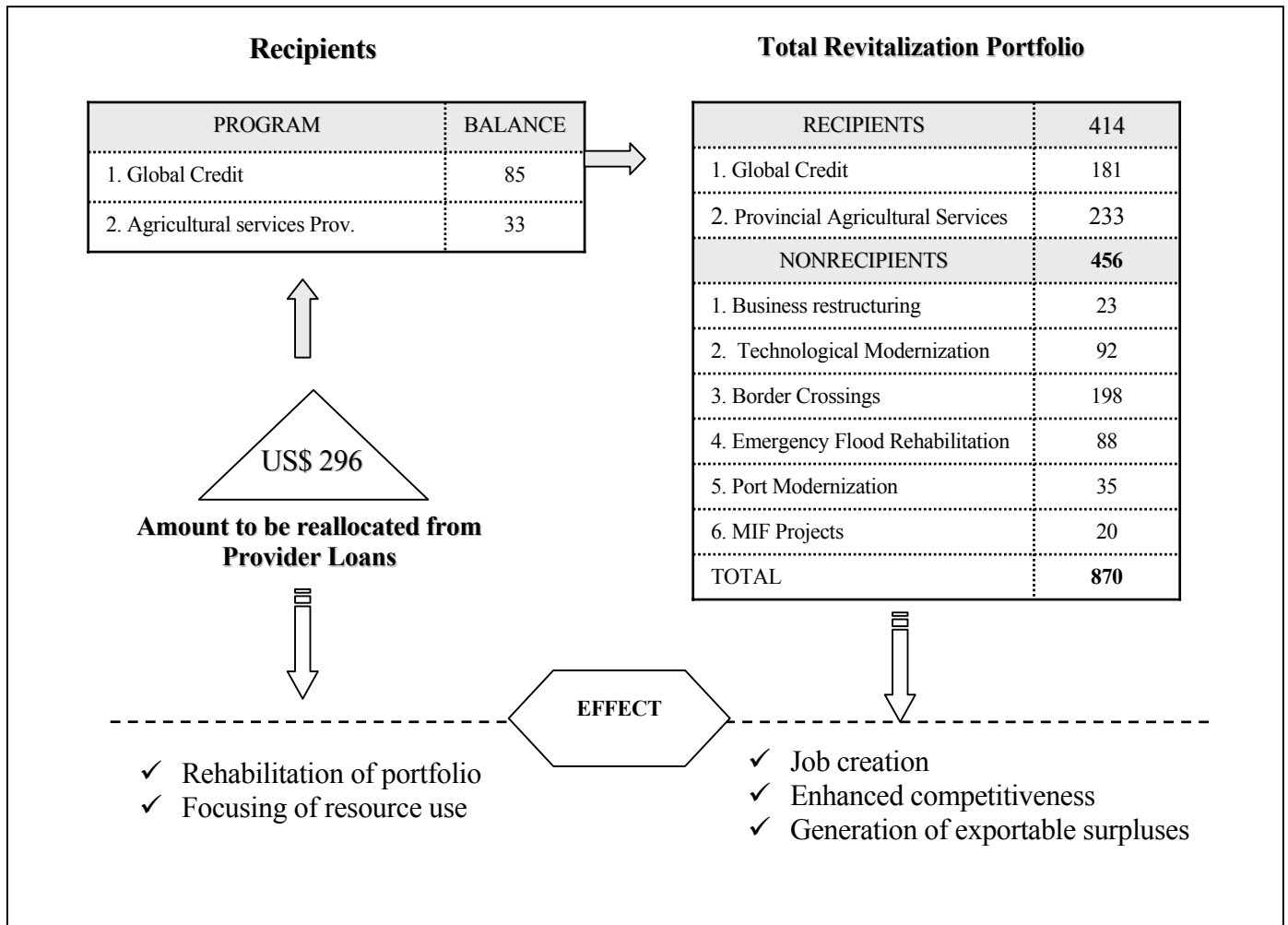
- 1.26 The reasons set forth below justify the reallocation of resources from the active portfolio to strengthen programs that can contribute to economic revitalization.
- 1.27 First, the scarcity of domestic credit threatens to slow the incipient revitalization of the export sectors. Driven fundamentally by the competitive improvements achieved with the new exchange rate, the export sectors and import substitution sectors represent one of the greatest opportunities for boosting the growth of the Argentine economy. However, owing to the great scarcity of credit resulting from restrictions on the liquidity of the financial system and the resulting decline in its intermediation capacity, a wide range of Argentine enterprises, especially the MSMBs, cannot access the resources they need to operate, which is limiting the potential for growth of productive activity. The reallocation of resources from portfolio loans that is proposed here is oriented toward increasing the financing resources for MSMBs through the Global Credit Program (1192/OC-AR). This will expand the supply of credit, giving the enterprises more

flexibility in responding positively to the export opportunities arising from the new economic reality.

- 1.28 Second, the reactivation of the agricultural and agroindustrial sector is restricted by the deficient support infrastructure for production. Although agroindustries have the greatest potential for generating foreign exchange, their physical investment requirements remain unmet. In particular, it is necessary to rehabilitate and modernize irrigation and drainage works, as well as services in support of production, including animal and plant health, technology transfer, and commercial promotion. To address these shortcomings, a high proportion of the resources for reallocation will be channeled into the provincial agricultural services program (899/OC-AR). This program is currently financing works to regularize water operations in lands with high economic and productive potential. It is thought that supporting flood mitigation and the irrigation of fertile lands in times of drought will contribute significantly to the production of meat and grain for export.
- 1.29 Third, reallocating resources from the loans being executed will make it possible to rehabilitate the portfolio. In this regard, it is proposed to reassign resources from programs whose execution is unsatisfactory and there is a low likelihood of prompt returns toward programs that have a high probability of meeting their development objectives. In addition to its effect on portfolio rehabilitation, this reallocation will make it possible to focus scarce resources on priority areas for the revitalization process.
- 1.30 Fourth, the two programs that will receive reallocated resources complement the remaining programs in the portfolio supporting productive activity and competitiveness in Argentina. Prominent among these are the Business Development Support Program (989/OC-AR) and the Technological Modernization Program (1201/OC-AR). Both programs support nonfinancial services for enhancing the competitiveness of MSMBs, such as associative initiatives, the financing of research and development, the incorporation of technologies, business restructuring, and support for exports. In addition, the portfolio includes the Emergency Flood Rehabilitation Program (1118/OC-AR), which finances reconstruction and rehabilitation works for the economic and social infrastructure as well as flood prevention activities that generate a high demand for labor and the Port Modernization Program (962/OC-AR) to upgrade port facilities in the country. Finally, there is the Border Crossings and Integration Corridors Program (1294/OC-AR) which, as its name implies, will finance infrastructure to facilitate land transport on the road corridors connecting Argentina with the countries of the expanded Mercosur.
- 1.31 Fifth, the Government of Argentina authorities have made the necessary budget appropriations to ensure a minimum budgetary framework for this “package of revitalizing programs” so as to permit their effective execution. Moreover, the Government of Argentina has undertaken to give priority to financing resources for all these programs.
- 1.32 As the following chart shows, following the reallocation, the Bank’s portfolio in support of Argentina’s economic revitalization will total US\$850 million. Bearing in mind that there are also 24 MIF projects in the portfolio, most of them programs to support the

micro, small, and medium-sized enterprise sector, total IDB resources supporting the productive sector amount to approximately US\$870 million.

FIGURE I-1
PORTFOLIO SUPPORTING THE ECONOMIC REVITALIZATION OF ARGENTINA
(figures in US\$ millions)



II. BANK ACTION

A. Objectives

- 2.1 The principal objective of the proposal to reallocate resources from the Bank's portfolio in Argentina is to support the reactivation of productive activity. This will be achieved through an increase in the resources of two programs now in the execution phase which, in the short and medium term, could have a significant impact on increasing production, creating jobs, and enhancing the competitiveness of Argentine products. These programs, hereafter referred to as "reactivation programs" or "recipient programs," are:
- The global credit program for microenterprise and small and medium-sized businesses (1192/OC-AR); and
 - The provincial agricultural services program (899/OC-AR).
- 2.2 Increasing the resources of these programs will be carried out by reallocating the available uncommitted balances from four loans. These loans, hereafter referred to as "reallocated loans" or "provider loans," are financing problem loans with available uncommitted balances that have no prospect for rapid recovery. Table II-1 identifies the loans in question and the amounts to be reallocated.

Table II-1 Reallocation of the portfolio of projects in the productive sectors (in US\$ millions)				
Reallocated or provider loans		Reactivation/recipient loans		Total
		Global credit SBMs	Agricultural services	
		1192/OC	899/OC	
1. National Road Corridors	795/OC	14		14
2. Technical Higher Education	1060/OC	10		10
3. Integrated Development Program in the Interior	1068/OC	34	50	84
4. Municipal Reform and Development	1164/OC	38	150	188
<i>Amount reallocated to recipient loans</i>		96	200	296
<i>Balance available following reallocation</i>		85	33	118
Total		181	233	414

- 2.3 To support the revitalization of production, the portfolio reallocation activity follows the strategy of helping to minimize the bottlenecks currently affecting production. To this end, the reallocation pursues two specific ends: (i) improving access to financing SMBs, chiefly exporters; and (ii) supporting the reactivation of the agricultural sector through investments which improve its competitiveness, such as agricultural health and quality services as well as infrastructure rehabilitation works in various provinces, in particular in areas where land with considerable productive potential was flooded in Buenos Aires Province. An additional benefit of this reallocation of resources is rehabilitation of the portfolio.

- 2.4 Table II-2 shows the amounts approved, disbursed, and committed, as well as the balances of the reallocated loans and the recipient programs that will receive the resources to be reallocated. Additional information on these loans, including the dates of final disbursements and the first amortization payment, are presented in Annex IV.
- 2.5 In order to facilitate execution of the recipient programs and prevent any distortion in the original terms and conditions of the loans approved at the appropriate time by the Bank's Board, the following terms and conditions have been adopted for the reallocation of the financing resources:
- a. Specific subloans will be created to identify the amounts reallocated from the provider loans, using the recipient program they would finance as a reference.
 - b. The same matrix will be used for the participation of Bank financing in relation to local counterpart funds originally approved for the provider loans for the resources.
 - c. As conditions for eligibility for the first disbursement of resources reallocated to finance the provincial agricultural services program (899/OC-AR-1 and 899/OC-AR-2): (i) the revised Operating Procedures Manual, which will also apply to the allocation of funding available from the original loan (899/OC-AR), must be effectively implemented under a written agreement between the executing agency and the IDB; and (ii) the institutional strengthening plan agreed on between the Bank and the Argentine government must be implemented to the Bank's satisfaction. This plan includes requirements for the implementation of a new monitoring and evaluation system whose operation is a condition for disbursement of the reallocated resources. A copy of this plan is in PROSAP's technical archives and will form part of the new loan contract.
 - d. As conditions for eligibility for the first disbursement of resources reallocated to finance the Global Credit Program (1192/OC-AR-3, 1192/OC-AR-4, 1192/OC-AR-5, 1192/OC-AR-6): (i) the Operating Regulations for the credit component must have been drafted to the Bank's satisfaction and effectively implemented (see paragraphs 3.12 and 3.13); and (ii) an Emergency Executive Decree or some other appropriate instrument must have been issued, authorizing the establishment of a public trust with private trustees to implement the credit component.
 - e. With a view to permitting proper execution of the recipient programs, it is proposed to extend the date of the final disbursement and repayment of the first installment of loans currently financing these programs, as well as the amounts reallocated from the provider loans; Both for the global credit program (1192/OC-AR-1, 1192/OC-AR-2) and its provider loans (1192/OC-AR-3, 1192/OC-AR-4, 1192/OC-AR-5, 1192/OC-AR-6), and for the provincial agricultural services program (899/OC-AR) and its provider loans (899/OC-AR-1 y 899/OC-AR-2), a final disbursement date falling 54 months

after the effective date of the amended contracts (or on or about 30 June 2008) is proposed.

- f. The financial terms and conditions of the provider loans intended to finance the provincial agricultural services program (899/OC-AR-1 y 899/OC-AR-2) will be maintained unchanged as approved by the Board and agreed under the original loan.
 - g. For the financing of the global credit program, from the balances of loans (1192/OC-AR-1 y 1192/OC-AR-2), as well as the provider loans (1192/OC-AR-3, 1192/OC-AR-4, 1192/OC-AR-5, 1192/OC-AR-6), the sole change in the financial terms and conditions is that, instead of the Single Currency Facility or a currency pool, funds will be drawn on the Dollar Window at a variable interest rate. Accordingly, a contract to amend the financial conditions will be required. The reason for this change is that the Dollar Window has significant advantages for the country in terms of cost (the window's lower interest rate will mean a more favorable rate for funds transferred to banks and on the final lending rate to businesses).
- 2.6 It bears noting that the peso devaluation makes it possible to complete the activities planned under the reallocated loans with a smaller amount of external resources, for which reason there will be no impact whatsoever on the development objectives of those programs. The sole exception is the Argentine Municipal Reform and Development Program (PRDM) financed by loan 1164/OC-AR, whose uncommitted balances will be reallocated in their entirety. As a result, the planned objectives of the PRDM will not be achieved.
- 2.7 Following the reallocation operation, the two recipient programs will have total financing of US\$414 million, consisting of US\$118 million from their respective balances, and US\$296 million from the available uncommitted balances of the reallocated loans.

TABLE II-2
PORTFOLIO OF PROVIDER AND RECIPIENT PROGRAMS AFTER REALLOCATION OF RESOURCES
BALANCES ACCORDING TO LMS AS OF OCTOBER 2003 (FIGURES IN THOUSANDS OF US\$)

LOAN NUMBER	TITLE	EXECUTING AGENCY	CURRENT APPROVED AMOUNT	AMOUNT DISBURSED AND COMMITTED	%	AVAILABLE BALANCE	AMOUNT TO BE REALLOCATED	NEW BALANCE
<u>PROVIDERS</u>								
795/OC-AR	National Road Corridors	DNV	278,000.00	243,147.89	87.46	34,852.11	(14,000.00)	20,852.11
1060/OC-AR	Technical Higher Education Reform	MCEN	82,500.00	23,017.20	27.90	59,482.80	(10,000.00)	49,482.80
1068/OC-AR	Integrated Dev. Program outside of capital	MIGN	235,000.00	27,117.82	11.30	207,882.18	(84,000.00)	123,882.18
1164/OC-AR	Municipal Reform and Development	MIGN	250,000.00	24,788.48	9.92	225,211.52	(188,000.00)	37,211.52
TOTALS			845,500.00	318,071.39		527,428.61	(296,000.00)	231,428.61
<u>REACTIVATION/RECIPIENT</u>								
899/OC-AR	Provincial Agricultural Services I	SAGYP	125,000.00	91,758.53	73.41	33,241.47	0.00	33,241.47
899/OC-AR-1 (1164/OC-1)	Provincial Agricultural Services I	SAGYP	0.00	0.00	0.00	0.00	150,000.00	150,000.00
899/OC-AR-2 (1068/OC-1)	Provincial Agricultural Services I	SAGYP	0.00	0.00	0.00	0.00	50,000.00	50,000.00
TOTALS FOR PROVINCIAL AGRICULTURAL SERVICES I			125,000.00	91,758.53	73.41	33,241.47	200,000.00	233,241.47
1192/OC-AR-1	Global SBM Credit Program II	SEPYME	98,000.00	14,501.83	14.80	83,498.17	0.00	83,498.17
1192/OC-AR-2	Global SBM Credit Program II	SEPYME	2,000.00	12.50	0.63	1,987.50	0.00	1,987.50
1192/OC-AR-3 (795/OC)	Global SBM Credit Program II	SEPYME	0.00	0.00	0.00	0.00	14,000.00	14,000.00
1192/OC-AR-4 (1060/OC)	Global SBM Credit Program II	SEPYME	0.00	0.00	0.00	0.00	10,000.00	10,000.00
1192/OC-AR-5 (1068/OC)	Global SBM Credit Program II	SEPYME	0.00	0.00	0.00	0.00	34,000.00	34,000.00
1192/OC-AR-6 (1164/OC)	Global SBM Credit Program II	SEPYME	0.00	0.00	0.00	0.00	38,000.00	38,000.00
TOTALS FOR SBM GLOBAL CREDIT PROGRAM II			100,000.00	14,514.33	14.51	85,485.67	96,000.00	181,485.67
TOTALS			225,000.00	106,272.86		118,727.14	296,000.00	414,727.14

B. Description of the recipient programs for the resources to be reallocated

- 2.8 This section sets forth the background, objectives, and scope of the proposed reformulation for the two recipient programs. Annex I presents the logical framework for each program.

1. Global Credit Program for microenterprise and small and medium-sized businesses

a. Background

- 2.9 The global credit program (1192/OC-AR), regarding which details on approval and disbursements are summarized in Table II-3, began effective program execution in 2000 within the framework of a process of economic contraction and tendency toward imbalances in the labor market, saving-investment, fiscal sector, and external market. These trends became more pronounced during 2001 and reached extreme proportions toward the end of the year in response to the worsening of the political and institutional crisis.

- 2.10 In 2002, the profound change in monetary and exchange policies and the resulting disconnect affecting financial intermediation made it necessary to reformulate

Table II-3				
Global Credit Program for Microenterprise and Small Business II (SBM II)				
<i>Approval</i>	<i>Effective</i>	<i>Eligibility</i>	<i>Original final disbursement</i>	<i>Current final disbursement</i>
4-Aug-99	15-Sep-99	18-Aug-00	15-Sep-03	15-Sep-04

some of the operational mechanisms of the program. This reformulation, authorized by the Management of the Bank by means of an amended contract dated 5 September 2002, was aimed at finding a temporary solution to the problems of expiry of the eligibility mechanisms for intermediary financial institutions (IFIs) established for the credit component in the original contract for loan 1192/OC-AR. To this end, changes were made in the original operating arrangements for the program, based on periodic bidding for resources among the eligible banks of the system, by establishing a second tier mechanism operated through the Financial Trust called for under Law 24,441.

- 2.11 Execution of the new program began in early 2003. An Emergency Executive Decree was therefore necessary, authorizing the creation of a public trust fund with private trustees. The Emergency Executive Decree (1118/2003) was approved by the President on 12 May 2003, opening the way to program execution.

b. Objectives and description of the program

- 2.12 The original contract for loan 1192/OC-AR establishes the principal objective of the global credit program as continuing to provide credit support to enhance the productive capacity of small businesses and microenterprises. The credit component, the central activity of the program, makes it possible to finance working capital, purchase fixed assets, and engage services.

- 2.13 The reformulation proposed in this program is focused on three key aspects: (i) increasing the resources of the credit component by approximately US\$96 million; (ii) broadening the scope of the program to include medium-sized enterprises⁸ in the early months of the program until 18 December 2004, based on the Bank's new export financing policy (document GN-2239-2); and (iii) modifying the institutional arrangements and the operational processes for channeling resources. (This mechanism is described in the execution section of chapter III.)
- 2.14 The objective of expanding the financing of the global credit program is to provide additional resources to an instrument for assisting the business sector for microenterprise and small and medium-sized businesses (MSMBs), making credit viable in a context in which the liquidity available through financial institutions remains subject to profound restrictions owing to the effects of the monetary and exchange crisis of 2002. It is thought that in the current climate of incipient sector revitalization subject to limitation by strict restrictions on credit, the possibility of developing an additional program providing US\$96 million in financing to stimulate production.
- 2.15 The proposed reallocation of resources is an acknowledgment of the importance of medium-sized businesses in export reactivation and of indirect exporters whose economic activity turns brisk when the value of the currency is low with respect to other currencies, as has been the case of Argentina since January 2002. The idea is for medium-sized businesses to be included as beneficiaries of the program for a fixed period of time in a manner consistent with the new program to reactivate international trade financing (document GN-2239-2), authorizing the reformulation of existing multisector credits or the approval of new guarantees and credits to finance working capital related to international trade until December 2004. It is felt that reaching a broader segment of business credit demand, specifically that with the greatest export activity and potential, will make it possible to accelerate economic revitalization through its multiplier effect on employment and production in provider SBMs, a segment that is particularly sensitive to demand from medium-sized enterprises. In conjunction with the incorporation of medium-sized enterprises into the program, it is proposed that its name be changed to reflect the new beneficiaries: **global credit program for microenterprise and small and medium-sized businesses**.
- 2.16 The amounts reallocated will be allotted through a second-tier mechanism operating as a trust. This institutional operating mechanism is described in chapter III. Also, its benefits are discussed in the section on "Sustainability" in chapter IV (paragraphs 4.1 to 4.6). The proposed institutional plan will be amended to make access to the credit facility by financial institutions more flexible, thus facilitating participation and competition while maintaining the legal certainty of the previous trust arrangement.

⁸ In accordance with the MERCOSUR classification, micro, small, and medium-sized enterprises are defined by the following maximum amounts of annual sales: US\$400,000, US\$3.5 million, and US\$20 million, respectively.

Expanding participation in this way will be assured through the relative improvement in the situation of financial institutions in the system, a factor that points to an increasing number of institutions being eligible under the program.

c. Cost and financing

- 2.17 One important advantage of the global credit program is that the resources necessary for its execution are not regarded as an expenditure (above the line in the national budget), but rather as a financial application (below the line in the national budget). Consequently, the budget cuts being made by the Argentine government for various reasons will have no impact on the program, as they have no effect on financial applications. The program has an allocation of US\$69.7 million⁹ in financing under the 2003 Budget Law approved by the National Congress. Table II-4 provides a breakdown of program costs by line of activity and source of financing. An itemized table of costs, with a breakdown by loan is given in Annex III.

Table II-4
Cost and financing
Global credit program for microenterprise and small and medium-sized businesses
(in U.S. dollars)

Cat.	Description	IDB	LOCAL	TOTAL
1	Credit Component	191,820,000	194,000,000	385,820,000
1.1	Credit operations	191,820,000	194,000,000	385,820,000
2	Tech. Assistance Component	2,220,000	2,000,000	4,220,000
2.1	Strengthening credit system	600,000	600,000	1,200,000
2.2	Strengthening executing unit	390,000	400,000	790,000
2.3	Supervision	100,000	100,000	200,000
2.4	Environmental advisory svcs.	290,000	300,000	590,000
2.5	Promotion and dissemination	300,000	300,000	600,000
2.6	Evaluation	100,000	100,000	200,000
2.7	Monitoring and audit	440,000	200,000	640,000
87.00	FIV	1,960,000		1,960,000
87.1.1	FIV	1,960,000		1,960,000
	Total IDB/LOCAL	196,000,000	196,000,000	392,000,000
	Pari Passu	50%	50%	100%

2. Provincial agricultural services program

a. Background

- 2.18 The provincial agricultural services program (899/OC-AR) is a program covering multiple

Table II-5 Provincial Agricultural Services Program (PROSAP)				
<i>Approval</i>	<i>Effective</i>	<i>Eligibility</i>	<i>Original final disbursement</i>	<i>Current final disbursement</i>
8-Nov-95	26-Mar-96	13-Nov-97	26-Mar-01	26-Sep-03

⁹ All figures relating to the national budget for 2003 have been converted to dollars using the exchange rate of 2.9 pesos per dollar in effect on 2 April 2003.

works that can be executed in all provinces of Argentina. As indicated in Table II-5, this program has been under way since 1998, with satisfactory progress and disbursements given conditions in the country. Although this program is subject to few of the budgetary restrictions imposed by the National Treasury, it has been affected by the difficulties that the provinces have experienced in lining up the counterpart funds necessary to execute projects in the anticipated time and manner. For a time, the program also suffered from a temporary freeze on World Bank financing, which financed 37.5% of the counterpart funds for the original program.

- 2.19 In the course of the appraisal of PROSAP with a view to its inclusion in this proposal, there were also several weaknesses identified in the operating procedures, which impeded the flexible and efficient implementation of new project initiatives. Specifically, there were weaknesses in the procedures used by the program executing unit to identify, analyze, and approve investment projects, which resulted in an unduly lengthy, costly, and ineffective project cycle. Weaknesses were also observed in the project monitoring system and scant private sector participation was identified throughout program management, resulting in a supply of services that was not always synchronized with the priorities of the productive sector.
- 2.20 With a view to improving these areas, and as part of the preparation of this proposal, the Bank has reached agreement with the Argentine government on an institutional strengthening plan as well as a series of changes in the Operating Procedures Manual aimed at correcting the weaknesses noted and enhancing the effectiveness of activities under the program (see chapter III). This manual establishes the terms, conditions, and procedures that will govern program execution following the reallocation of resources from other loans.

b. Objectives and description of the program

- 2.21 PROSAP was approved by the Bank on 8 November 1995, with the objective of raising the value of agricultural exports by improving the quality of such products and increasing production volume. To this end, PROSAP endeavors to finance investment projects aimed at resolving the problems that limit provincial agricultural development in the following intervention areas: (i) water resource management; (ii) basic infrastructure; (iii) technological development; (iv) animal health; (v) plant health; (vi) commercial development; (vii) integrated agricultural information systems; (viii) strengthened provincial programming capacity; and (ix) the promotion of innovations in production chains that have export potential. In addition, with the Bank's prior authorization, PROSAP may include subprojects in other areas.
- 2.22 PROSAP execution uses the modality of Annual Work Plans (AWPs) and includes investment and provincial execution subprojects, subprojects to be executed by delegation to national and regional entities, and regional and national institutional strengthening and technical assistance programs aimed at subprojects. The subprojects are selected in accordance with a range of criteria relating to technical, economic, social

and environmental, and institutional viability set forth in the program's Operating Procedures Manual and Environmental Manual.

- 2.23 The proposal to reformulate this program consists in increasing its financing resources by US\$200 million in order to incorporate new projects in support of the productive reactivation of the agricultural and agroindustrial sectors. In addition, it is proposed that changes be made in the execution arrangements and operating procedures in order to eliminate the bottlenecks identified in the preceding section. These changes, which are described in detail in Chapters III and IV, are focused on: (i) making the preparation, processing, and execution of projects more flexible by introducing competitive funding methods in the project preinvestment phase, as well as requirements relating to the financial capacity of applicant provinces; (ii) facilitating much more active participation by the business sector in project identification, selection, and execution;¹⁰ and (iii) introducing changes in operating procedures and in the structure of the Central Executing Unit (CEU) that will make it possible to considerably reduce administrative processing times associated with the project cycle as well as strengthen monitoring and control mechanisms.
- 2.24 The objective of increasing PROSAP resources is to provide significant and immediate support to the agricultural sector so as to promote continuation of the recovery process that is now beginning, but will be possible to maintain only to the extent that the boost imparted by the currency devaluation is turned into competitive advantages based on a genuine transformation of productive structures and processes. Owing to the variety of its areas of intervention, PROSAP can contribute significantly to the reconversion of the agricultural and agroindustrial sector, and consequently to the revitalization of the Argentine economy.
- 2.25 The increase in PROSAP resources is justified in light of the ample portfolio of projects applied for by the provinces in the program's various areas of intervention. During the preparation of this proposal, the Argentine government presented a portfolio of projects in various stages of preparation which totaled more than US\$194 million. Analysis of this portfolio revealed that there is a sizable group of investment projects that could be executed within a period of four years, with execution, and consequently disbursements, concentrated in the last two years of the execution period. The analysis examined the maturity of the proposals, their relevance to the needs of the productive sector, and the dynamic approach taken by the provincial public sector to their preparation and processing.
- 2.26 One of the subprojects in the portfolio seeking PROSAP financing—subject to the results of the technical, financial, and environmental appraisals required by the procedures governing the program—consists in small-scale works for flood mitigation

¹⁰ This ranges from seeking greater private sector involvement in the execution of various components to its participation as co-investor under the concession system for public works in irrigation (similar to toll road systems), its participation in investment project cost recovery, and its access as direct beneficiary through the financing of nonreimbursable contributions (NRCs).

in the Río Salado watershed in Buenos Aires Province. This watershed accounts for 25% to 30% of national production of grain and meat, but massive losses are also sustained in agricultural production and the road and urban infrastructure as a result of floods and prolonged droughts. Simply by executing Phase I of Stage I of the Comprehensive Master Plan for the Río Salado Watershed, it is estimated that the area's output would be increased by 25%, and would reach 250,000 tons of crops in the agricultural sector and 40,000 tons of meat in the livestock sector.

- 2.27 There are other high-impact provincial projects as well. For example, the objective of the Cañada de las Horquetas watershed water management project (Buenos Aires Province) is to increase the productivity of agricultural lands by means of water regulation and drainage works. The Project to Improve the Irrigation System of the Río Colorado Valley (Buenos Aires Province) would benefit some 15,000 hectares devoted to export vegetables (onions) and 15,000 hectares of sunflower seeds and wheat, as well as the production of seed, fodder, and pastureland. The project on Modernization of the Irrigation and Runoff Drainage System of Los Andes (Mendoza Province) would make it possible to guarantee the sustained cultivation of permanent crops such as grapes and olives, as well as vegetable crops. The Aguilares Irrigation Area project (Tucumán Province) would serve the largest area devoted to producing potatoes (3,000 hectares) and one of the major vegetable producing areas in Tucumán Province. There are also three irrigation projects in Chubut, Jujuy, and San Juan Provinces. In keeping with the regulations already in place for the program, the producers benefiting from the drainage and irrigation projects mentioned above will cover part of the work by paying an improvement levy in the case of drainage or a water fee in the case of irrigation, and will be responsible for the operation and maintenance of the projects concerned.
- 2.28 In addition to the water management infrastructure projects, there are three important national projects to combat fruit flies, codling moth, and *sirex noctilio* (woodwasp). These would be executed by the National Agroalimentary Health and Quality Service (SENASA). The Fruit Fly Control and Eradication project is national in scope and will improve Argentina's plant health status in respect to this pest, which not only causes sizable crop losses but also impedes access to highly important international markets. It is expected to result in sizable benefits in terms of the quality and volume of fresh fruit exports, which currently total US\$650 million annually. The Codling Moth Prevention project is aimed at controlling this pest which affects seed fruits (pears and apples) in Patagonia, Mendoza, and San Juan. These fruits account for 95% of Argentina's exports of fresh fruit. It is hoped to improve fruit production in terms of volume and quality, as well as to improve access to markets that apply quarantine regulations for countries where this pest is found. The project to control the *sirex noctilio* (woodwasp) (Forestry Health), which is also national in scope, is aimed at controlling this pest which is harmful to conifers, which cover 49% of Argentina's forest lands. The pest affects yields of forestry products and especially their quality, and simultaneously makes it impossible to access markets that are highly restrictive in terms of health and quality standards. Producers will contribute by fee payments to the sustainability of the actions taken under these projects.

c. Cost and financing

2.29 In the 2003 national budget approved by the National Congress, the program has allocations equivalent to US\$14.6 million in financing (under the budget line, considered as a financial application) and US\$6.3 million in financing (above the budget line, considered as expenditure). Table II-6 provides a breakdown of program costs by line of activity and source of financing. An itemized table of costs, with a breakdown by loan is given in Annex III.

Table II-6
Cost and financing
Provincial agricultural services program (PROSAP)
(in U.S. dollars)

Cat.	Description	IDB	COUNTERPART*		TOTAL
			LOCAL	IBRD	
1	Executing Unit	3,272,000	36,000	11,159,596	14,467,596
1.1	CEU	1,340,000	19,000	8,762,100	10,121,100
1.2	Provincial governments	723,000	17,000	2,397,496	3,137,496
1.3	Institutional strengthening	800,000			800,000
1.4	Evaluation	409,000			
2	Groups	312,289,000	238,294,000	112,000,000	662,583,000
2.1	Group "A"	39,124,000	40,525,000	69,572,000	149,221,000
2.2	Group "B"	38,800,000	8,274,000	42,428,000	89,502,000
2.3	PROEMER	39,165,000	10,000,000		49,165,000
0.09	Projects in portfolio	113,684,000	109,000,000		222,684,000
0.09	Projects in preparation	81,516,000	70,495,000		152,011,000
3	Project Preparation	4,589,000	505,000	1,840,404	6,934,404
85.00	PPF PAYOFF	1,632,695			1,632,695
85.1	Repayment PPF 762/OC-AR	83,799			83,799
85.2	Repayment PPF 821/OC-AR	1,548,896			1,548,896
87.00	Capitalization charges	3,217,305	47,670,000		50,887,305
87.1	FIV (net of waivers)	3,217,305			3,217,305
87.2	Interest		41,622,000		41,622,000
87.3	Credit fee		6,048,000		6,048,000
Total IDB/Local		325,000,000	286,505,000	125,000,000	736,505,000
Pari Passu		44%	39%	17%	100%

* The matrix of the original loan (899/OC-AR) was IDB 37%, World Bank 37%, and local counterpart funding 26%. Because the World Bank is not taking part in the reallocation of resources, its pari passu participation declined to 17% and the IDB's increased.

III. PROGRAM EXECUTION

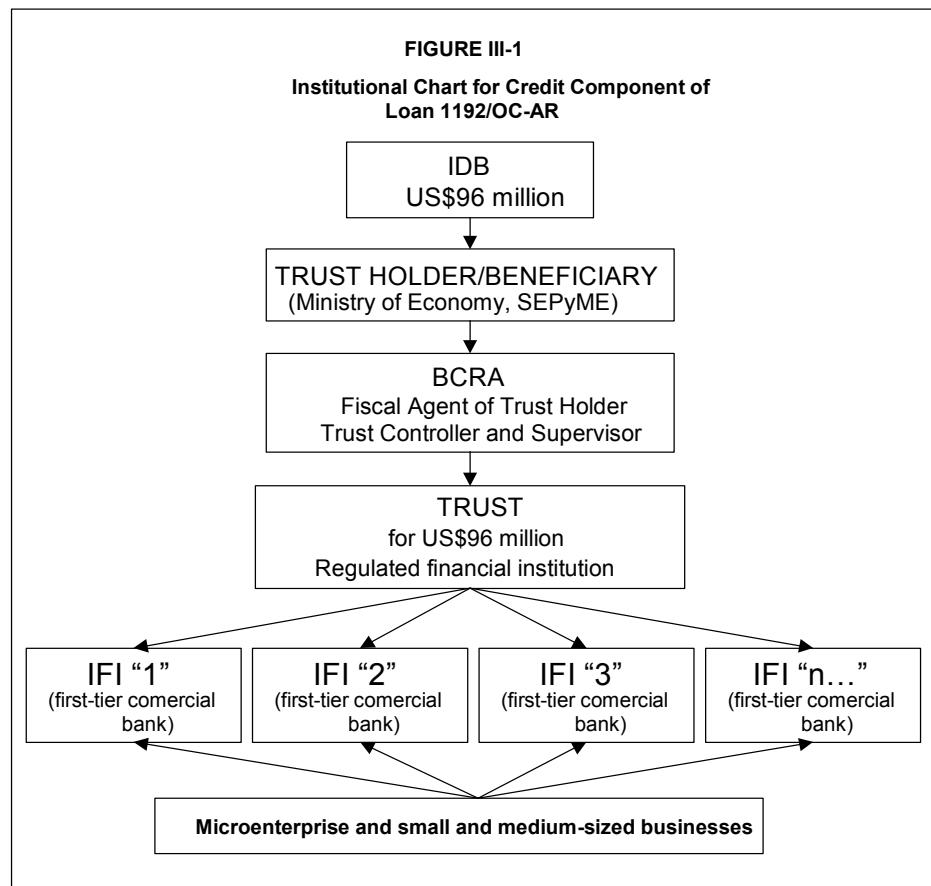
A. Borrower and executing agency

- 3.1 The Borrower will continue to be the Argentine Republic, and the executing agencies will continue to be: the Secretariat for Small and Medium-Sized Enterprises and Regional Development (SEPyMEyDR) for the global credit program for microenterprise and small and medium-sized businesses; and the Secretariat of Agriculture, Livestock, and Fisheries (SAGPyA) for the provincial agricultural services program.
- 3.2 The institutional arrangements for each of the reformulated operations are set forth in the following paragraphs.

1. Global credit program for microenterprise and small and medium-sized businesses

a. Organizational structure

- 3.3 As indicated in the following chart, the reallocated resources assigned to the program will be placed in a second tier mechanism operated through a trust. A similar operational-institutional mechanism (based on the trust approach) was first introduced in the program in 2002, when implementing the operational changes introduced by the 5 September 2002 amendment to loan contract 1192/OC-AR.



- 3.4 The borrower will continue to be the Argentine Republic, acting through the Ministry of Economy. In that capacity, it will also be the **Trust Holder/Beneficiary** of the Trust to be created with the reallocated resources and through which the credit component will be executed. The Central Bank of the Argentine Republic (BCRA) will be the fiscal agent of the borrower and perform the tasks of Trust Controller and Supervisor on behalf of the Trust Holder/Beneficiary. It will also provide the trustee with the necessary information for determining the eligibility of intermediary financial institutions (IFIs) on the basis of rules of eligibility established by the Bank and which will be part of the program operating rules.
- 3.5 The executing agency for the program will continue to be the Secretariat for Small and Medium-sized Enterprise and Regional Development (SEPyMEyDR). This agency will organize the Trust through which it is planned to execute the Credit Component, acting for such purposes in the same capacity as indicated in the documents attached to the 5 September 2002 amendment to loan contract 1192/OC-AR. The executing agency will perform the operational monitoring of the program portfolio, prepare and maintain the relevant manuals and procedures to that end, maintaining the program's accounts and database, and ensure compliance with the Credit Regulations and other operating rules of the program.
- 3.6 The **trustee** will be a financial institution regulated by the BCRA, selected by the executor with the Bank's nonobjection, by means of a competitive bidding process (see paragraph 3.15). The trustee's obligations will be explained in the Trust Contract, and it will collect for its services a%age of the spread as remuneration for all work, to be agreed prior to the signature of said contract. The entity acting as trustee will not qualify as an eligible IFI under the program.
- 3.7 The participating IFIs will be **commercial banks** whose eligibility to participate in the program will be determined by the trustee on the basis of information to be provided by the BCRA and in application of the Eligibility Regulations to be agreed with that organization by the executor and by the Bank, **as a condition precedent to the disbursement of reallocated resources.**
- 3.8 Participating IFIs must agree to establish themselves as joint and several guarantor, unconditional co-debtor (Article 699 et seq. of the Civil Code), and principal payer, with respect to the portfolio of subloans they discount with the trust (Bank Guarantee and Indemnity Contract), waiving exclusionary benefits, division, and prior interpellation or notification to the trustee of the obligations assumed in this regard by the Trust Holder/Beneficiary in the corresponding Trust Contract and/or the obligations assumed by the IFI in the Credit Administration Contract and/or for each of the credits discounted by the trustee.
- 3.9 The only change of substance in the design covered by the amended loan contract (1192/OC-AR) signed 5 September 2002 is that, instead of two trusts each working with a single discounting IFI, this tranche of the program will be carried out through a **single Trust** in which all participating IFIs may discount subloans, with the trustee

being a financial institution regulated by the BCRA that will not qualify as an eligible IFI.

- 3.10 In accordance with the laws of Argentina, a new Emergency Executive Decree will need to be issued, authorizing the establishment of the Trust with a private trustee, in order to permit participation by private entities in the trust selection competition. This Emergency Executive Decree or some other suitable instrument that satisfies this same purpose, must be approved as a **condition precedent to the disbursement of reallocated resources**.
- 3.11 Audits of the Trust program will be carried out by the General Audit Office of the Nation (AGN). The audited financial statements of the program and the Trust will be submitted annually to the Bank within 120 days following the conclusion of each fiscal year. Audit work will be carried in accordance with requirements and terms of reference approved by the Bank.

b. Operating regulations for the component

- 3.12 In order for the institutional arrangement described above to be implemented, the executing agency will, as a **condition precedent to IDB disbursement of reallocated resources**, prepare to the Bank's satisfaction, and demonstrate the effective implementation of, the Operating Regulations for the Component.
- 3.13 The Operating Regulations will consist of all instruments governing program execution, and will comprise: the Model Trust Agreement and its annexes (Appendix 1: Credit Regulations of the Trust; Appendix 2: Regulations governing disbursements from the Trust; Appendix 3: Eligibility rules for the trustee; Appendix 4: Model guarantee contract; Appendix 5: Audit standards; Appendix 6: Models of Instrument A and Participation B certificate; Appendix 7: IFI eligibility rules; Appendix 8: Model management contract for portfolio monitoring and collection; Appendix 9: IFI performance monitoring standards; Appendix 10: Portfolio monitoring rules; Appendix 11: IFI participation agreement; Appendix 12: Invitation to submit bids; Appendix 13: Projected financial statements.

c. Coordination, supervision, and monitoring

- 3.14 The Ministry of Economy, in its capacity as Trust Holder/Beneficiary, will contribute the resources from the IDB loan to the program in accordance with the terms established by the relevant operating regulations.
- 3.15 The trustee will be a financial institution regulated by the BCRA, will be chosen by means of a selection process whereby public and private entities are invited to submit bids, and the loan resources will be transferred to those IFIs identified as eligible successful bidders. The selected Trust institution must meet legal conditions, conditions relating to organizational structure, and economic and financial conditions deemed satisfactory to the executing agency and the Bank for serving as trust administrator.

- 3.16 The executing agency will invite all financial institutions in the system to participate in the program by submitting an acceptance letter. Upon determination of the institutions' eligibility, the IFIs may discount the credit portfolio (eligible subloans) in accordance with the provisions established by the Credit Regulations.
- 3.17 Upon the submission of credit operations by IFIs for their discounting by the Trust, the Trust will request that the Trust Holder/Beneficiary disburse program resources in accordance with the conditions and timing determined by the Trust Contract and the Disbursement Regulations.
- 3.18 General program coordination will be the responsibility of SEPymeDR through the program coordination unit (PCU). The BCRA will be responsible for supervision of the Trust and the trustee.
- 3.19 In turn, the executing agency will coordinate with the BCRA those aspects that make it possible to monitor management of the Trust with a view to ensuring that the loans granted satisfy the program Credit Regulations, and comply with the aims thereof as regards the use of funds, the profile of their target sector, and portfolio quality.
- 3.20 The program will be evaluated periodically by the PCU and the Bank. The evaluations will cover the results and impact of the reallocation of resources, with a view to determining the extent to which the objectives are consistent with the results.

d. Use of resources

- 3.21 The program resources will be used to finance investments and working capital (including export prefinancing and financing) of MSMBs which, in accordance with the rules set forth in the Credit Regulations and in the opinion of the IFIs and the trustee, are deemed to be technically, economically, and financially viable and which, in accordance with BCRA rules in this regard, are eligible for credits. It is expected that during the first two years of execution, the bulk of the demand for resources will stem from the export prefinancing and financing requirements of SMBs.
- 3.22 The inclusion of medium-sized enterprises within the spectrum of eligible enterprises is in pursuit of the objective of including among the beneficiaries of this line the greatest possible number of enterprises that establish or are part of value chains for exportable products, the main axis of the productive revitalization it is intended to support through this operation.
- 3.23 Accordingly, enterprises whose annual sales volume does not exceed the maximum level established for each enterprise size group in accordance with the MERCOSUR classification (see footnote in paragraph 2.13) are potentially eligible. In order to ensure the broad distribution of resources, it is expected that after 25% of the loan has been executed, a portfolio evaluation will be conducted in order to verify the distribution of credits by enterprise size.

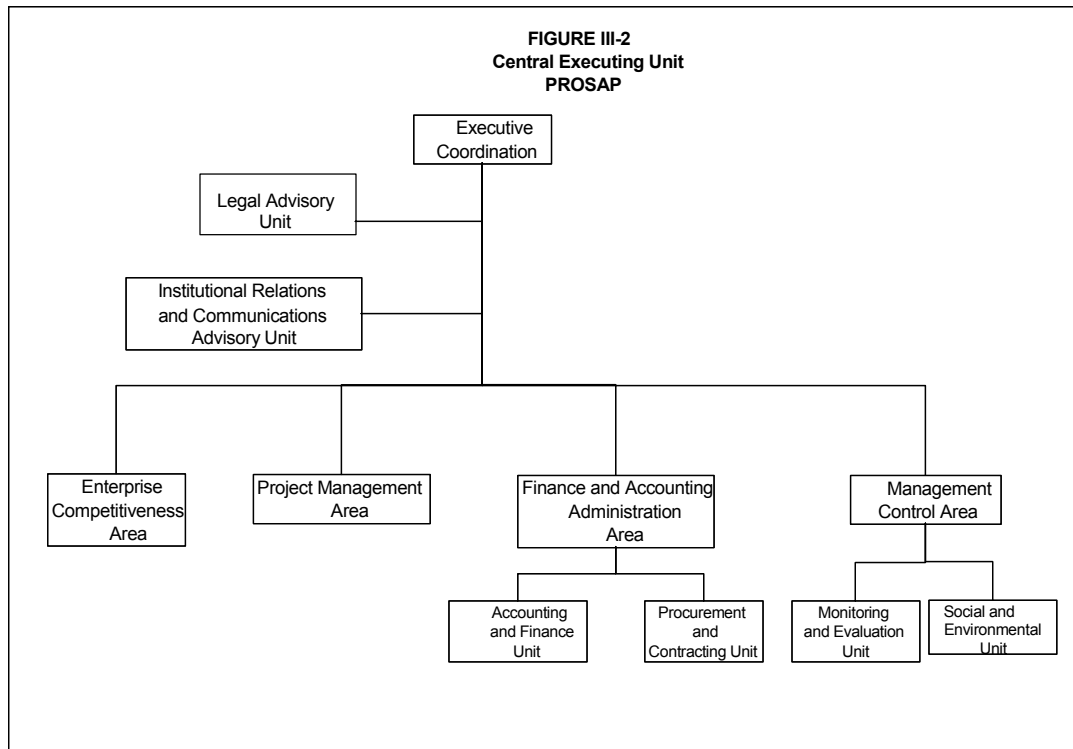
- 3.24 To ensure the adequate financing of participating medium-sized enterprises, the maximum amount of financial assistance by enterprise or economic group (as defined in Communication BCRA “A” 2140 as supplemented and amended) will be increased from the current US\$1,000,000 to US\$3,000,000.
- 3.25 The reallocated resources will be transferred to the Trust at the IDB loan rate, plus a margin sufficient to cover program operating costs. The trustee will disburse resources to the IFIs at a rate not lower than the rate on the commercial bank 90-day dollar-denominated certificates of deposit in the local market, adjusted to reflect minimum reserve requirements. The IFIs will freely agree with beneficiaries on the interest rates that the latter will pay on subloans.
- 3.26 As noted earlier, the Operating Regulations of the program will contain a detailed description of the terms and conditions applicable to the discounts of the Trust and the subloans from IFIs.

2. Provincial agricultural services program

a. Organizational structure

- 3.27 The PROSAP executing agency will continue to be the Secretariat of Agriculture, Livestock, Fisheries, and Foodstuffs (SAGPyA), through the Central Executing Unit (CEU). The same execution arrangements as set forth graphically in Figure III-2 will be maintained, with the changes indicated below.
- 3.28 A new organizational unit known as the “Business Competitiveness Area” will be created, with the principal mission of promoting private sector participation in project identification, preparation, and execution, as well as coordinating efficient administration of the resources devoted to productive undertakings in the form of nonreimbursable contributions (NRCs).
- 3.29 The current project management area will be restructured by modifying the functions of the current “Project Heads,” who will be responsible for all the steps required for project execution. These Project Heads may be specialists in a specific intervention area. In addition, the control, monitoring, and evaluation systems will be strengthened by the creation of a Management Control Area, which will incorporate the existing Monitoring Units and the Social and Environmental Evaluation Unit. This will make it possible to strengthen program monitoring so that it will provide information of relevance for its management and, in particular, for an efficient process of periodic monitoring by the Bank with a view to verifying the implementation of the recommendations set forth in the report, as well as for the evaluation of program impacts.
- 3.30 The existing Technical Advisory Unit will be restructured and assume *Interinstitutional Relations* and *Communications* functions. This means that it will be responsible for institutional relations with the provinces and national agencies executing projects, and must conduct a campaign that makes it possible to generate and ensure for PROSAP

and its projects a space for providing information about the results of this program and other possible programs as regards agricultural activities in Argentina.



b. Project cycle

3.31 The regulatory aspects of the project cycle will be amended to shorten the formulation stage, particularly as regards preinvestment periods and mechanisms. During the preinvestment phase financing will be provided only for the production of feasibility studies, which furthermore will be undertaken at the applicant's risk. In order to be eligible for the technical appraisal that the CEU must carry out, provincial projects must be submitted with all the documentation required by the Operating Manual so as to guarantee the provincial borrowing decision, the relevant budgetary allocation, the demonstration of genuine capacity for budget execution, and the subscription of the federal co-participation of taxes with the national government. It is considered that these changes will significantly shorten administrative processing times and will lead to improved allocation of program resources. Other proposed changes to the project cycle include:

- (i) Reducing to three months the maximum period between the Bank's nonobjection and the signature of the subsidiary loan agreement between the provinces and the SAGPyA.
- (ii) Establishing a maximum period of six months for initiating works and/or services following the Bank's nonobjection.

- (iii) Setting at 12 months following the signature of the amended contracts the deadline for receipt of feasible provincial infrastructure projects, for purposes of their evaluation, including the documentation mentioned in paragraph 3.31.
- (iv) Altering the approval sequence so that the financing for each project is approved first by the SAGPyA, and subsequently submitted for the finding of nonobjection by the Bank with the background documentation required per the updated Operating Procedures Manual.

c. Project execution at the province level

- 3.32 The program originally approved required that each province participating in the program create a Provincial Agricultural Development Unit (EPDA), a Provincial Financial Administration Unit (EPAF), and special Project Executing Unit (PEU). It is proposed that this arrangement be made more flexible, enabling the provinces to design an institution as a Liaison Unit (EE) for the project discussion and preparation phases rather than an EPDA, and that the PEU be made responsible for all aspects of project execution, including the financial administration of its specific project. Except for this enhanced flexibility, executing units will retain the same basic responsibilities and functions defined in the program originally approved by the Bank Board and set forth in the corresponding Operating Procedures Manual.
- 3.33 The principal changes introduced in the Procedures Manual at the level of organizational and functional structures for project execution at the provincial level are summarized in the following table:

Table III-1	
Summary of organizational and functional changes	
PARTIES INVOLVED	BASIC MISSION
Central Executing Unit (CEU)	Responsible for program coordination and general technical and financial administration.
Liaison Units (EEs)	Existing units of the provincial government, designated by the provincial government itself as responsible for coordinating the programming and formulation of provincial projects in tandem with the PROSAP Central Executing Unit. These units route requirements identified, supervise project preparation, and coordinate project evaluation.
Project executing units (PEUs)	Entity responsible for the execution and monitoring of each project, including its financial and accounting aspects.
Provincial Agricultural Development Units (EPDAs)	It will now not be necessary to create such entities for a province to be able to access PROSAP financing. In provinces where there is already an EPDA, it may function as the Liaison Unit and fulfill the same functions.
Provincial Financial Administration Units (EPAFs)	For projects already being executed, these units will continue to have responsibility for the financial and accounting administration of the projects, while for new projects to be approved following the reallocation, these functions may be carried out by the PEUs for each project.

d. Intervention areas for increased private sector participation

- 3.34 To facilitate much more active participation by the business sector in project identification, selection, and execution, the following changes, which are reflected in PROSAP's Operating Procedures Manual, are proposed: (i) creation of an area for project management and monitoring with the private sector (Business Competitiveness Area); and (ii) incorporation of a new intervention area for the program devoted to the promotion of innovations in productive chains with export potential. This new area, which will be limited to not more than 5% of the reallocated resources, is intended to support, at the pilot level in some provinces, and for agroindustrial productive chains with significant economic potential, investment projects in "soft innovations" that make it possible to improve the quality of products and processes, make Argentine products stand out, reduce costs, and improve productivity.
- 3.35 Some examples of the types of projects that would be supported are: (a) making Argentine honey stand out for purposes of external marketing (exporters, gathering and fractioning cooperatives, and apicultural producer groups) and the development of subproducts from beekeeping (beeswaxes and bee glue, bee venom for pharmacological purposes); (b) the traceability and certification of Argentine meats in accordance with different international standards for business with high value added (producer and cold storage groups); (c) the improvement of the industrial quality of fine rootstock for use in the production of export grade wines (export vineyards and their area of supply of wine-producing grapes); (d) the organic production of grain and meats in accordance with European and Asian market standards (cooperatives and associations of agricultural producers and grain and meat exporters); and (e) the certification of fresh organic vegetable exports; as well as others.
- 3.36 Appendix 18 of the revised Operating Procedures Manual specifies the use of the nonreimbursable financing mechanisms, the beneficiaries, the eligibility conditions and criteria, as well as the procedures for expenditure selection and processing and the monitoring of activities.

e. Accounting and financial records, internal control, and external auditing

- 3.37 The control mechanisms applicable to the use of PROSAP resources include: (i) internal control of the executing agency's management, consisting basically of maintaining adequate contract administration systems, accounting and financial records, and internal control systems, including specific bank accounts for each program in accordance with Bank requirements; (ii) maintenance of adequate archives of supporting documentation on purchases, duly referenced with the support documentation for disbursement requests, which must be available for inspection visits from the external auditors and/or Bank staff; (iii) external control by means of semiannual operational and financial audits which include, in addition to other aspects, the ex post review based on statistical sampling of the procurement processes and disbursement requests submitted to the Bank, so as to enable the independent auditors

to issue an opinion as to the eligibility of the expenditure for financing against program resources (Bank financing and/or local counterpart funds); and (iv) supervision and operations execution monitoring activities carried out by staff of the Bank's Country Office in Argentina, including periodic inspection visits focusing on institutional, accounting, financial, and technical issues.

- 3.38 The audits for the PROSAP program will be carried out by a firm of independent auditors deemed acceptable to the Bank and on the basis of the terms of reference and Bank requirements. The firm of auditors must be hired **as a condition to disbursement of reallocated resources**. The firm of auditors must be engaged in accordance with the Bank's bidding procedures for auditing firm services (document AF-200). In order to facilitate the implementation of the control mechanisms mentioned, resources from Bank financing will be used to cover external auditing costs as well as for expenses relating to the implementation of actions in favor of institutional strengthening and modernization of the control and management systems of the executing agencies.

B. Procurement

- 3.39 Contracting for goods, works, and consultant services will be carried out in accordance with Bank policy. The amounts above which international public bidding will be required are US\$350,000 for goods, US\$5,000,000 for works, and US\$200,000 for consultant services. In the case of PROSAP, the processes followed for engaging consultancy firms for amounts equal to or less than US\$100,000 and individual consultants for amounts equal to or less than US\$30,000 will be subject to ex post review by the Bank, using sampling.

C. Revolving Fund

- 3.40 A revolving fund will be established for each program for purposes of financing advances of funds and to ensure their adequate liquidity. The revolving fund for the global credit program will be for up to the equivalent of 10% of the respective loan, while that for PROSAP will be for up to the equivalent of 5% of the respective loan. As the global credit program has already been operating with a Revolving Fund of 10%, its extension to the reallocated resources is justified by the fact that the Dollar Window permits making only four disbursements per year. Each executing agency will report semiannually to the Bank on the status of the corresponding audited Revolving Fund, as part of its external auditing.

D. Disbursements

- 3.41 It is planned for both programs to be executed over a four-year period, in accordance with the disbursement schedules shown in table III-2:

Table III-2 Disbursement schedule (in millions of U.S. dollar equivalents)						
Global credit program						
Year	I	II	III	IV	Total	%
IDB	72	54	27	27	181	49
Local ¹	74	56	28	28	185	51
Total	146	110	55	55	366	100
% per year	40%	30%	15%	15%	100%	
Provincial agricultural services program (in millions of U.S. dollar equivalents)						
Year	I	II	III	IV	Total	%
IDB	14	63	63	94	235	41
Local ²	20	90	90	134	334	59
Total	34	154	154	228	569	100
% per year	6%	27%	27%	40%	100%	

¹ The local contribution amounts to the equivalent of the counterpart funding under the original loan (US\$89 million) and the reallocated amount of US\$96 million. Pari passu discrepancies in the balance of the original loan have resulted in a difference between the amount of the IDB financing and the local counterpart funding. However, the 50-50 matrix has been applied across the entire program as noted in Table II-4.

² The local contribution amounts to the equivalent of the balance of the original loan (US\$134 million) and the reallocated amount of US\$200 million. Pari passu discrepancies are due to IBRD participation in the original loan. See Table II-6.

E. Monitoring and semiannual reports

- 3.42 The Bank will monitor the execution of both programs and will provide the technical assistance necessary to ensure that the resources contemplated are put to use. To this end, for PROSAP, the executing agency must submit to the Bank, within 60 days after the end of each half-year period, semiannual reports on the operational and financial audits, as well as an annual report on the audited financial statements. The reports in question will be audited by the same auditing firm that is responsible for the external audit of the program. For the global credit program, the relevant conditions of the original contract remain unchanged.

F. Ex post evaluation of recipient programs

3.43 Loan contract 899/OC-AR stipulates that, in addition to annual evaluations, PROSAP must have an ex post evaluation carried out two years after the last disbursement of financing, and that the borrower, through the executing agency, must compile the evaluation indicators and initial and annual basic data needed to conduct the ex post evaluation of the program. During the preparation of this proposal, a specialized consultant engaged to review PROSAP's monitoring and evaluation system identified a number of major weaknesses. To correct these weaknesses, it was agreed to implement an action plan for improving the monitoring and evaluation aspects which ensure that it will be possible to fulfill the requirements of the annual and ex post evaluations stipulated in the original contract. The principal components of this plan are summarized below:

- (i) **Eligibility for the first disbursement of the reallocated resources intended to finance PROSAP (899/OC-AR-1 and 899/OC-AR-2) will be subject to satisfactory implementation of the new Monitoring and Evaluation System that is part of the institutional strengthening plan agreed between the Bank and the Government of Argentina.** This plan includes an annex setting out the requirements for the implementation of the new Monitoring and Evaluation System, which must constantly and systematically provide duly ordered and ranked information on progress with program execution. This information will allow for periodic evaluation of preliminary program results and impacts. In addition, the system must provide mechanisms for gathering data, the methodological bases, and the institutional arrangements that will make it possible to conduct the ex post evaluation. The new system must produce information of relevance for CEU management, as well as for the periodic monitoring to be carried out by the Bank, allowing for the timely detection of benefits, difficulties, or risks relating to program execution that will enhance decision-making with a view to achieving the established objectives.
- (ii) An ex post impact evaluation of investment projects financed with resources from the original loan (899/OC-AR) must be conducted within 24 months following Bank approval of the reallocation. This evaluation will take into account the conceptual and methodological elements agreed upon by the executing agency and the Bank for purposes of measuring the performance of the projects making up the sample that were deemed feasible at the time the original loan contract was signed (called Group A Projects). The terms of reference for this evaluation, which are included as an annex to the institutional strengthening plan located in PROSAP's technical archives, describe the methods and processes to be followed to conduct the impact evaluation. These terms of reference include a concrete proposal for gathering and processing the so-called baseline information from

beneficiaries and the control group, as well as other reference measurements as appropriate, so that the evaluation can identify the incremental effects of program activities. In addition to evaluating the impact of the various subprojects, the procedure should make it possible to derive indicators regarding the overall performance of the operation. This evaluation will be financed by the program, using resources from loan 899/OC-AR-1, as indicated in Table III-3.

- (iii) In addition, an ex post evaluation of the projects financed and executed with the proceeds of the loans 899/OC-AR and 899/OC-AR-1 must be carried out at least six months before the deadline for the final disbursement for operation 899/OC-AR-2. To this end, the aforementioned terms of reference include the indicators to be used, the calculation and interpretation methodology, as well as specific procedures for information gathering and processing. This evaluation will be financed by the program, using resources from loan 899/OC-AR-2 (see Table III-3).

TABLE III-3 COSTS AND FINANCING OF PROSAP MONITORING AND EVALUATION ACTIVITIES					
ACTIVITY	COST	YEAR OF EXECUTION	899/OC-AR IDB	899/OC-AR-1 (1164/OC-AR)	899/OC-AR-2 (1068/OC-AR)
1. Strengthening of capacity to monitor and evaluate program impact	35,000		35,000		
1.1. Implementation of monitoring plan	20,000	2003	20,000		
1.2. Strengthening of Evaluation Subunit capacity	15,000	2003	15,000		
2. Evaluation of impact of loan activities	129,000			129,000	
2.1. Overall cost/benefit analysis of actions undertaken	36,000	2005		36,000	
2.2. Projects to strengthen provincial institutions (EPDAs and information systems)	12,000	2005		12,000	
2.3. Irrigation projects and infrastructure works, technological and marketing promotions	48,000	2005		48,000	
2.4. Animal and plant health projects	18,000	2005		18,000	
2.5. Environmental impact of major program initiatives	15,000	2005		15,000	
3. Ex post program evaluation	125,000			45,000	80,000
3.1. Adjustment of methodological aspects and procedures to be followed	45,000	2004		45,000	
3.2. Ex post evaluation of program	80,000	2007			80,000
4. Ad hoc studies	120,000	2004-2006		120,000	
TOTAL	409,000		35,000	294,000	80,000

- 3.44 Loan contract 1192-OC-AR calls for two special evaluations to be carried out during the global credit program, the first upon commitment of 25% of the financing, and another upon commitment of 75%. The project team discussed the possibility of conducting an ex post evaluation with the Argentine authorities and assessed the cost-benefit of such an evaluation. While the Argentine government indicated that it was willing to assist with a possible ex post evaluation, it stipulated in writing that it would

not be willing to assume the costs of such an undertaking. The team concluded that an ex post evaluation of a program of this kind would be not justified because of its cost.

- 3.45 Given the specific nature of the global credit program, which is intended to make more credit available on competitive terms and conditions, the impact on investment (proposed outcome indicator) of credit granted out of program resources will be immediately evident from the program progress reports. Although not a specific objective of programs of this kind, it is felt that it would still be costly and difficult to gauge the impact of the credits on MSMBs beneficiary competitiveness, and the results would probably not be very reliable. Accordingly, in addition to the two midterm evaluations proposed, the executing agency should also submit to the Bank a final report on the results of the program in terms of the original loan and resources reallocated 180 days before the deadline for the final disbursement. In addition, during preparation of the current proposal, it was confirmed that the executing agency has an adequate monitoring system that will make it possible to compile appropriate indicators for evaluating programs of this kind (e.g, credit by sector, region, province, and financial institution; purpose and amount of the credits; portfolio quality; and gender, billing, and staff of beneficiary companies).

G. Environmental and social aspects, and measures proposed

- 3.46 The recipient programs will maintain the same environmental regulations and eligibility criteria as those originally approved by the Board.
- 3.47 In the particular case of PROSAP, the basic structure defined in the Environmental Operating Manual will be preserved, although with some improvements that will be included with a view to: (i) strengthening the treatment of social, environmental, and gender issues; (ii) guaranteeing the identification of significant environmental and social impacts; and (iii) ensuring the implementation, execution, and monitoring of activities defined in the Environmental and Social Mitigation, Monitoring, and Follow-up Plans.
- 3.48 To ensure the adequate treatment of those projects for which the environmental and social problems involved are complex (as determined by the occurrence of synergistic effects among environmental and social factors which might mask situations posing a high environmental risk), the Environmental Operating Manual will include instruments that ensure satisfactory ex ante control. In accordance with this modality, the Bank, through the Country Office in Argentina and the corresponding Technical Division (RE1/EN1) at Headquarters, will be responsible for the final approval of such projects, to which end it will reserve the right to instruct that such additional controls and studies as it deems necessary are carried out.

IV. SUSTAINABILITY, BENEFITS, AND RISKS

A. Sustainability

1. Global credit program for Micro, Small, and Medium-sized Enterprises

a. Institutional aspects

- 4.1 As indicated in the chapter on execution, the additional resources assigned to the program will be placed in a second tier mechanism operated through a Trust, thereby imparting additional legal security for its resources. The Trust separates the assets of the program's intermediary agents from the portfolio granted using its funds, providing greater protection for the Argentine State with respect to the guaranteed recovery of loans. In particular, the financial collapse of a given intermediary will not affect the assets backing amounts owed by the State funding for the program, thereby almost completely mitigating the additional bank risk which existed under the original contract for loan 1192/OC-AR as a result of the crisis of the Argentine financial system beginning in late 2001.
- 4.2 Moreover, the design of the amendment of 5 September 2002 establishes the automatic debiting of credits financed by program resources when they fall due, from any of the accounts that participating banks maintain with the BCRA. It further establishes that the instruments backing the original credits granted as local counterparts are first and foremost guarantees of the Argentine State. These instruments function *de facto* as a measurement which improves the security of payment by the State, as collection of the counterpart credit is effectively subordinated to that of the State. In turn, the instruments backing the counterpart claims will be transferred to the Trust, and the transfer contract will be the instrument whereby the IFI granting the subloan will record the Trusts debt with it for the transfer concerned.

b. Technical aspects

- 4.3 The basic objective of expanding the program is to provide additional resources to an instrument for assisting MSMBs, making financing viable in a context in which the liquidity available through financial institutions remains subject to profound restrictions owing to the effects of the monetary and foreign exchange crisis that erupted in early 2002. In keeping with the forecasts of 3% growth for the Argentine economy in 2003, and the current lack of development of alternatives for financing productive and export activity through the financial system, increasing resources for financing the program is consistent with foreseeable demand scenarios for real activity.
- 4.4 In other words, in the current Argentine context there is demand for, but little supply of, financing for MSMBs, including exporters. For example, in 1999 the exporting SMBs that had access to this program obtained bank financing totaling about US\$1,200 million. In 2002, in contrast, a year in which their export volumes and amounts were similar, almost no financing was obtained. While no specific figures are

available in this regard, in December 2002 the total portfolio of bank credit to the nonfinancial private sector was no greater than US\$2,500 million. Almost this entire amount corresponded to credit to large enterprises and consumer credit. Given the prospects for significant strengthening of exports in 2003 and subsequent years on the one hand, and for continuing severe restrictions on the growth of banking system liquidity on the other, it is projected that the demand for program resources will exceed the amounts that it would make available.

- 4.5 In this context, the reformulation and extension of the maximum allowable parameters for business invoicing and financing will make it possible to impart dynamism to the placement of IDB resources. In particular, the inclusion of medium-sized enterprises in the global credit program will ensure that there is demand for its resources and increase the likelihood of boosting the export sector. Indeed, a recent study conducted by the PCU for the SBM program¹¹ indicates that the majority of exporters are medium-sized enterprises. By analyzing exports by invoicing tranches, the study revealed that of a total of 21,500 exporters, 98% (20,993) invoiced for less than US\$6,000,000 and that their exports totaled US\$4,826 million (17.8% of the total). These enterprises noted that the close connection with financing levels makes it difficult for them to maintain and extend their external presence.
- 4.6 The context described makes it possible to draw various conclusions with respect to the validity of the proposal under review here. In the first instance, the changes in economic policy are deemed appropriate and suitable for carrying out a program that stimulates involvement in export operations on the part of small and medium-sized enterprises. Second, the conditions affecting the financial system and the substantial reduction in its credit assistance justify the expansion of a credit program for SBMs. Third, the gradual normalization of the banking system is evidence of the trend toward it reassuming its position as the central point for mobilizing financial resources, and toward its institutions again becoming the main actors in such activities. Fourth, the net worth position of the financial institutions confirms the suitability of the Trust instrument as an operational and institutional instrument of the program.

2. Provincial agricultural services program

a. Institutional aspects

- 4.7 As part of the decision-making process relating to the reallocation of resources, the Bank, with support from outside consultants, conducted an evaluation of PROSAP's current institutional capacity. The scope of the institutional survey included evaluating existing capacities with regard to the areas of programming and planning, execution (procurement, personnel administration, accounting, finance, and technical management), and internal and external audit.

¹¹ “*Sobre la Demanda Potencial de Financiamiento de las Empresas Exportadoras del segmento MIPyME*” [On the potential demand for financing by export enterprises in the MSMB segment], Global credit program for microenterprise and small and medium-sized businesses, May 2002.

- 4.8 In the course of the evaluation, some institutional weaknesses were identified. These were subjected to risk analysis with a view to determining their degree of importance and setting priorities as to the corrective actions to be implemented. These actions are aimed at adjusting and improving the preparation and monitoring systems of the AWP; revising and updating organizational rules and procedures; adapting accounting and financial records; implementing updated internal audit procedures; and training staff in the Bank's procurement, disbursement, and control requirements.
- 4.9 As a consequence of this evaluation, the Bank and the Argentine authorities agreed on an institutional strengthening plan, which constitutes a part of the loan contract and contains a summary of the actions, responsibilities, terms, and estimated costs for resolving the institutional weaknesses identified. Among other actions, this plan includes: (i) designing and implementing a Project Management System (PMS) and a project evaluation and monitoring system; (ii) updating the Logical Framework, the AWP, the Organization Manual, the Operating Regulations, and the Operating Procedures Manual; (iii) restructuring the Project Management Area using the Project Heads approach; (iv) creating an area for the management of projects with the private sector; (v) creating an institutional relations area for program dissemination and promotion; (vi) adjusting and introducing the Financial and Accounting Administration System; (vii) adjusting and introducing the Internal Control System in accordance with IDB requirements, including the professional internal audit function; and (viii) providing training on the IDB's requirements in respect to procurement, disbursements, and external audits.
- 4.10 It is projected that the actions called for in the institutional strengthening plan can be carried out within an estimated period of eight months by the executing agency, using existing resources and with support from the Bank (training in the processing of procurement, disbursement requests, and the requirements for internal and external control). However, additional resources will be required for introducing the new Monitoring and Evaluation System (see paragraph 3.43(i)), conducting the ex post evaluations, improving facilities, purchasing hardware, and developing information systems and specialized consultancy services. The references in question have been included in the table on program costs as specific investment categories.
- 4.11 Considering the importance of the institutional strengthening plan for ensuring, with a reasonable degree of confidence, the proper execution of PROSAP with expanded resources, it is proposed to introduce a monitoring system. To this end, the executing agency must submit to the Bank, within 60 days following the end of each six-month period, a semiannual progress report on the aforesaid institutional strengthening plan. These reports will be reviewed by the program's external auditors as part of their auditing work to assess compliance with the contract clauses.

b. Technical aspects

- 4.12 The actions contemplated in PROSAP may feasibly be executed in a period of four years, given that they have been carefully reviewed and that consensus has been

reached with the corresponding sector authorities. Moreover, an analysis of the productive sector's priorities in the current economic climate has been carried out and mechanisms developed in order to ensure that the program will be more demand driven and incorporates instruments to involve the private sector. In addition, this program is a suitable complement to other existing ones, such as the Business Restructuring program and the Technological Modernization program, which have considerable resources for supporting longer-term actions such as the promotion of associated initiatives and, specifically, technological modernization of business.

- 4.13 Despite the prevailing risks which are summarized further below in this document, it is expected that it will be possible to carry out a substantial number of investment projects in support of productive revitalization in the period indicated.

B. Benefits

- 4.14 The principal benefit of reallocating the productive portfolio is to focus efforts on programs that help eliminate the bottlenecks which, in the current climate, are affecting the sectors with the greatest export potential, with resulting effects on job creation, the generation of foreign exchange, and incomes.
- 4.15 Specifically, the global credit program will enable exporting MSMBs to access credit in a timely manner, which is one of the principal shortcomings of the current crisis of the financial system. In addition, because the program will also cover medium-sized enterprises, it will make it possible to expand their export activities and make more rapid economic recovery possible owing to the multiplier effect on employment and production in their provider SBMs.
- 4.16 Moreover, reallocating resources from the Bank's portfolio toward the Provincial Agricultural Services program will make it possible to reduce the obstacles to the reactivation of the agricultural and agroindustrial sector. This program will finance priority investment projects, in particular infrastructure rehabilitation in lands with high economic and productive potential, where the regularization of water resource operations would contribute significantly to the production of meat and grain for export, thereby generating foreign exchange, incomes, and new jobs.

C. Risks

- 4.17 The main risks associated with the global credit program are that: (i) in view of the delicate situation facing the financial sector, there may not be a reasonable number of eligible intermediary financial institutions (IFIs) that are interested in taking part in the program (at present, only three institutions have been identified, two of which are the IFIs identified for executing operations using the resources already available under the amended loan contract of 5 September 2002); (ii) the deterioration in the solvency of the participating IFIs and its possible impact on program resources, an aspect that is deemed to have been adequately mitigated through the use of the Trust approach as an implementing mechanism, and the requirements for specific guarantees that IFIs would

need to furnish as additional security for program resources; and (iii) there is not a sufficient number of eligible MSMBs under the relevant rules of the Central Bank of the Argentine Republic (BCRA).

- 4.18 The latter issue is regarded as significant in year one of the program but is expected to diminish to fairly insignificant levels, as economic recovery gets under way. In this regard, the growing burden of corporate debt owed to banks and the sharp depreciation of the peso in 2002 together has meant that many debtors in the system could regularize their situation. In addition, a temporary relaxation of portfolio prudential standards (forbearance) and the economic reactivation itself are factors that are moving toward gradually regularizing the situation of many debtors in the banking system who because of their arrears are now rated as so risky, under program Operating Regulations, that they are unable to participate in the program. Lastly, it is important to note that these risks have been taken into account in the programming of program disbursements and in determining the execution period.
- 4.19 In the case of PROSAP, there exists the risk that program resources may be allocated to finance projects in provinces without borrowing capacity. At present, the *Program for the Ordered Financing of Provincial Public Finances* agreed in May 2002 between the provinces and the national government is the general indicator of which provinces can access the new resources. To reduce the risk that resources might be allocated to provinces that lack the fiscal qualifications to receive a loan, changes have been made in the PROSAP Operating Procedures Manual to incorporate a timely analysis of the budgetary capacity of the provinces into the project cycle. In addition, a clause is being incorporated into the loan contract to improve the availability of resources, giving the project beneficiary up to six months from the nonobjection by the Bank to initiate physical execution of the project. Failing this, the resources would be regarded as available for assignment to other provinces or projects.
- 4.20 In order to ensure the uniform analysis of the fiscal capacity of each province submitting financing requests, a fiscal projection model will be applied. This model will make it possible, during the preparation phase, to determine the project's impact on provincial finances, and during execution can be used by the province for monitoring its fiscal accounts. The model was developed through a consultancy financed by the Bank during preparation of the program to develop Río Negro province (AR-0279). Furthermore, the approval of each project will be subject to the fiscal agreements being reached with the Argentine Nation within a framework of budgetary and fiscally prudent criteria, such as current balance and management of public debt that is sustainable in the medium term.
- 4.21 There also exists the risk that the institutional weaknesses identified while the PROSAP was being implemented when the present proposal was in preparation are not corrected. This risk has been minimized by means of an extensive evaluation of PROSAP's current institutional capacity and an institutional strengthening plan agreed on with the government, which must be instituted as a condition precedent to disbursement of reallocated resources.

ARGENTINA

REALLOCATION OF RESOURCES FROM PORTFOLIO PROJECTS TO SUPPORT REACTIVATION OF ARGENTINE ECONOMY

GLOBAL CREDIT PROGRAM FOR MICROENTERPRISE AND SMALL AND MEDIUM-SIZED BUSINESSES LOGICAL FRAMEWORK

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
AIM			
Contribute to the reactivation and development of Argentina's productive apparatus.	The onlending granted through the program will finance new investments equivalent to at least US\$360 million (including the balance before reallocation).	Annual progress reports prepared by the BCRA and/or SEPyMEyDR.	Production continues to grow.
PURPOSE			
Increase the supply of financing to MSMBs on an internationally competitive basis as regards terms and costs.	During the four years of execution, the Program will have extended loans in an amount averaging the equivalent of US\$76.5 million per year (including the balance prior to the reallocation).	Annual progress reports prepared by the BCRA and/or SEPyMEyDR.	Stable macroeconomic conditions are maintained and the normalization process of the financial system continues.
COMPONENTS			
1. Credit Component			
Credits granted by IFIs to the target group.	Upon completion of program execution, the IFIs will have granted no fewer than 700 credits to MSMBs in accordance with the established criteria.	Annual progress reports prepared by the BCRA and/or SEPyMEyDR.	There is an adequate number of eligible IFIs and MSMBs suitable for credit in accordance with program standards.

ARGENTINA

REALLOCATION OF RESOURCES FROM PORTFOLIO PROJECTS TO SUPPORT ECONOMIC REACTIVATION OF ARGENTINA

LOGICAL FRAMEWORK OF THE PROVINCIAL AGRICULTURAL SERVICES PROGRAM (PROSAP) SECOND STAGE: "SHORT-TERM PRODUCTIVE REVITALIZATION"

NARRATIVE SUMMARY OF OBJECTIVES	PROVINCIAL PROJECTS	NATIONAL OR REGIONAL PROJECTS	PROJECTS LED BY PRIVATE SECTOR	ADMINISTRATION, MONITORING, AND EVALUATION
AIM OF PROGRAM				
Raising the value of agricultural exports by improving the quality of such products and increasing production volume.				
PURPOSE OF PROGRAM	AIM OF PROJECTS			
Support the process of reactivating the agricultural sector by strengthening investment in activities with an impact on exports and direct and indirect employment. To do so, more than 60% of the expanded resources will be invested in projects relating to agroindustrial activities or chains situated in the top 10 positions of the ranking prepared by BICE.	Reduce obstacles to reactivation of the agricultural sector, providing goods and services directly to producers.	Eliminate national and/or regional restrictions through improvements in the efficiency and quality of provision of public services, such as animal and plant health, and the generation of technology.	Promote much more active participation in the project by the private sector than at present, including its access as direct beneficiary.	Ensure the efficient administration of resources, maintaining updated information on program execution and program impacts.
	PURPOSES OF PROJECTS			
	Cofinance provincial investments in infrastructure works that allow for increasing land areas farmed, and improving production quality and/or efficiency.	Improving the health status and availability of technology in activities of relevance to Argentine agricultural external trade.	Facilitate the development of business which promotes value added in agrofoodstuff production chains, led by private sector.	Step up the pace of program commitments and disbursements, ensuring the adequate monitoring and evaluation of actions under the program.
	AREAS OF INTERVENTION			
	(i) water resource administration (ii) basic infrastructure (iii) commercial development	(i) animal health (ii) plant health (iii) technological development (iv) institutional development	(i) promotion of innovations in productive chains with export potential	(i) management and control of execution (ii) monitoring, apprenticeship, and evaluation

**LOGICAL FRAMEWORK OF THE PROVINCIAL AGRICULTURAL SERVICES PROGRAM (PROSAP)
SECOND STAGE: "SHORT-TERM PRODUCTIVE REVITALIZATION"**

1. LOGICAL FRAMEWORK OF PROVINCIAL PROJECTS

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
AIM			
Reduce obstacles to reactivation of the agricultural sector, providing goods and services directly to producers.			
PURPOSE			
Increase the area of high potential lands being exploited, and improve the quality and/or efficiency of production.	By the end of the fourth year, a 20% increase over the baseline level in rehabilitated lands or lands under irrigation.	Program Monitoring System. Baseline established by means of surveys and secondary information.	Continued adequate macroeconomic context, exchange policy and controlled inflation that make investment in the agricultural sector attractive and are conducive to competitiveness and insertion in external markets.
RESULTS			
Cofinance provincial investments in infrastructure works that allow for increasing exportable supply.	By the end of the second year, at least 10 provinces are carrying out projects which involve activities with a revitalizing potential.	Program monitoring system (based on BICE).	Policies without national or provincial public sector distortions in the market activities of private agents. Borrowing capacity and budget execution capacity of provinces do not restrict investments.
PRODUCTS			
Increases in area irrigated and in the efficiency of water distribution and use.	At least eight irrigation works construction projects which begin project execution before end of year two are financed.	Program Monitoring System.	Borrowing capacity and budget execution capacity of provinces do not restrict investments.
Agricultural land rehabilitated.	At least two land drainage and rehabilitation projects which begin project execution before end of year two are financed.	Program Monitoring System.	Borrowing capacity and budget execution capacity of provinces do not restrict investments.
Reactivation facilitated by other infrastructure works.	At least two land drainage and rehabilitation projects which begin project execution before end of year two are financed.	Program Monitoring System.	Borrowing capacity and budget execution capacity of provinces do not restrict investments.

LOGICAL FRAMEWORK OF THE PROVINCIAL AGRICULTURAL SERVICES PROGRAM (PROSAP)

2. LOGICAL FRAMEWORK OF NATIONAL OR REGIONAL PROJECTS

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
AIM			
Eliminate national and/or regional restrictions through improvements in the efficiency and quality of public services, such as animal and plant health, and technology generation.			
PURPOSE			
Improve the health status and availability of technology in activities of relevance to Argentine agricultural external trade.	<ul style="list-style-type: none"> At the end of the third year, Argentine seed fruits gain access to the Brazilian market without quarantine barriers. Exportable supply of seed and pit fruits increases by 20% by end of fourth year. Country status as "foot-and-mouth free" by end of fourth year (with or without vaccination depending upon regional situation). 	<p>Baseline and annual reports prepared by SENASA.</p> <p>Baseline and biennial progress reports based on survey of packing enterprises in Patagonia Region, contracted by CEU.</p> <p>OIE reports.</p>	Regional animal and plant health situation evolves in a manner similar to that of Argentina.
RESULTS			
Financing of public-goods projects.	By the end of the third year, at least three projects are cofinanced that are national or regional in scope and impact activities with a revitalizing potential (taking place in the 10 highest locations in the attached ranking).	Program monitoring system.	Borrowing capacity and budget execution capacity of the national and provincial governments do not restrict investments.
PRODUCTS			
Cofinancing of investments in improving the health status of fruits and forest plant species.	At the end of the second year, there are at least three projects to improve the health of fruits and forest plant species.	SENASA resolutions on health status.	Regional animal and plant health situation evolves in a manner similar to that of Argentina.
Reduced incidence of codling fly in fruit.	By end of third year, new health status achieved which improves exportable supply and eliminates restrictions on Brazilian market.	Official documentation of Brazilian health services.	

LOGICAL FRAMEWORK OF THE PROVINCIAL AGRICULTURAL SERVICES PROGRAM (PROSAP)
3. LOGICAL FRAMEWORK FOR PROJECTS LED BY PRIVATE SECTOR

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
AIM			
Promote much more active participation in the project by the private sector than heretofore, including its access as direct beneficiary.			
PURPOSE			
Facilitate the development of business that promotes value added in agrofoodstuff chains, led by the private sector.	At least five chains in the top ten of the attached ranking are carrying out business plans qualified as successful by the end of the fourth year.	Program Monitoring System, attached priority actions table (based on BICE).	Continued adequate macroeconomic context, exchange policy and controlled inflation that make investment in the agricultural sector attractive and are conducive to competitiveness and insertion in external markets.
RESULTS			
Measures are adopted that allow for much more active participation by the private sector than heretofore, including its access as direct beneficiary.	By the end of the third year, public calls for bids under the NRC support modality involve the competition of at least 30 proposals that achieve the minimum point score.	Program Monitoring System. Project selection and qualification files.	Policies without national or provincial public sector distortions in the market activities of private agents.
PRODUCTS			
Financial support to at least 15 projects for integration into value chains led by the private sector.	At end of third year, cofinancing has been extended to at least 15 projects being executed in accordance with the NRC financing modality.	Program Monitoring System.	National budget execution capacity does not restrict investments.

LOGICAL FRAMEWORK OF THE PROVINCIAL AGRICULTURAL SERVICES PROGRAM (PROSAP)

4. LOGICAL FRAMEWORK FOR ADMINISTRATION, MONITORING, AND EVALUATION

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
AIM			
Ensure the efficient administration of resources, maintaining updated information on program execution and program impacts.			
PURPOSE			
Improve the pace of program commitments and disbursements, ensuring adequate monitoring and evaluation of Program activities.	Fifty% of program funds committed by the end of the first half of 2004. Ninety% of program funds committed by 12/31/2005.	Program Monitoring System. External audit reports.	Borrowing capacity and budget execution capacity of the provinces do not restrict investments.
RESULTS			
Improved program management and monitoring capacity.	Monitoring system reports sufficient information for the Bank to reach decisions on management and monitoring, within six months of signature of the new contract.	Monitoring System reports. Report of the Bank's administration mission.	
Sustainable strengthening of public and private provincial institutional capacity to enhance sectoral competitiveness.	EPDAs or EEs of at least 13 provinces identify a new project before 12/ 31/2004.	Program Monitoring System.	Budget execution capacity of the provinces does not restrict the functioning of local entities.
PRODUCTS			
Program increases its commitment and disbursement pace and improves process efficiency.	By the first half of 2004, 50% of all program resources are committed (projects approved with no conditions remaining to be fulfilled) and in execution.	Program Monitoring System.	
Improved provincial coverage of the program.	Programs under the various modalities being executed in at least 15 provinces.	Program Monitoring System.	National budget execution capacity does not restrict investments.
Mechanisms are introduced which enhance the exposure and competitiveness of projects and procedures.	Deadlines are applied for the presentation and evaluation of projects openly competing for resources, and qualification criteria adjusted.	Minutes of the PROSAP Project Evaluation Committee, indicating the number of proposals received, the results of qualification processes, and amounts awarded.	
Modifications are made in the operating procedures and structure of the CEU in keeping with the strategy and changes required.	Fifty% reduction in the time passing from preinvestment to first disbursement. CEU reorganized on a project head basis for projects being executed, and strict monitoring system.	Program Monitoring System.	

Provincial Agricultural Services Program II - PROSAP
IDB Loan 899/OC - AR
Procurement Plan

Purchase/Activity	Estimated value (US\$ '000)	Financing		Type of Purchase	Procedure No. of stages	Expected date (year and 1st/2nd half)
		IDB (%)	Local (%)			
1. Infrastructure Works						
Canal and road works in Cañada de Las Horquetas	6,138	50%	50%	Resurfacing of canals, drainage systems, and service roads	NCB / 18	2004/A-B 2005/A-B 2006/A-B
Canal and road works in the Salado watershed	186,000	50%	50%		ICB / 43	2004/B 2005/A-B 2006/A-B
Road rehabilitation in Buenos Aires Province	5,100	50%	50%	Improvement of secondary and tertiary roads	NCB / 30	2004/A-B 2005/A-B 2006/A-B
Improvement of canals and drainage systems in Rio Colorado	2,016	50%	50%	Systematization of irrigation network	NCB / 02	2004/B
Works to improve irrigation and drainage of lower valley of Rio Chubut	876	50%	50%	Minor works	NCB / 10	2004/B 2005/ A - B
Works to improve irrigation and drainage of Jujuy	2,065	50%	50%	Waterproofing of canals and minor works	NCB / 03	2004/B 2005/ A - B
Irrigation and alluvial deposit reduction works, Los Andes	11,160	50%	50%	Alluvial deposit protection and enhanced distribution efficiency	ICB / 02	2004/B 2005/ A
Irrigation and drainage improvement works, San Juan	1,750	50%	50%	Waterproofing of canals and improvement of existing drainage grid	NCB / 03	2004/B 2005/ A
Irrigation and drainage improvement works, La Rioja	1,960	50%	50%		NCB / 03	2004/B 2005/ A
Irrigation and drainage improvement works, Choromoro Aquilares	1,820	50%	50%		NCB / 02	2004/B 2005/ A
Construction of laboratory for fruit fly control	893	50%	50%	Laboratory	NCB / 03	2005/B

Purchase/Activity	Estimated value (US\$ '000)	Financing		Type of Purchase	Procedure No. of stages	Expected date (year and 1st/2nd half)
		IDB (%)	Local (%)			
2. Technical Assistance						
Coordination and supervision	4,136	58%	42%	Engineering / Consultancy services	Private bidding	From 2003/B through 2006/A
Training and dissemination	2,475	50%	50%		Private bidding	
Validation and technology transfer	3,178	50%	50%		NCB / Competitions	
Studies and projects	2,358	50%	50%			
Commercial promotion	1,588	50%	50%			
3. Equipment						
Watershed committees	2,621	50%	50%	Furniture / Computer hardware / Laboratory equipment	NCB / Private bidding	From 2004/A through 2006/B
Institutional strengthening	2,214	50%	50%			
Modernization of water resource management	245	50%	50%			
Vehicles	1,513	60%	40%	Vehicles	ICB / 02	2004/B
Agrometeorological information	10,234	50%	50%	Agrometeorological stations	NCB	2005/A-B
4. Other Investment Costs						
Chemical control	17,375	58%	42%	Land and air fumigations	ICB / 02	2004/A
Sexual confusion	4,654	50%	50%	Purchase and release of sterile insects	ICB / 02	2004/A
Brush clearing	387	50%	50%	Clearing work	NCB	2004/B
Recurrent costs	4,759	0%	100%	-	-	-

ARGENTINA
REALLOCATION OF RESOURCES FROM PORTFOLIO PROJECTS TO SUPPORT ECONOMIC REACTIVATION OF ARGENTINA
Table of Costs

Global Credit Program for Microenterprise and Small and Medium-sized Businesses II (1192/OC-AR) - Reformulated

Cat.	Item	1192/OC-AR-1	1192/OC-AR-2	1192/OC-AR-3 (795/OC-AR)	1192/OC-AR-4 (1060/OC-AR)	1192/OC-AR-5 (1068/OC-AR)	1192/OC-AR-6 (1164/OC-AR)	IDB	LOCAL	TOTAL
1	Credit component	96,780,000.00	0.00	13,860,000.00	9,900,000.00	33,660,000.00	37,620,000.00	191,820,000.00	194,000,000.00	385,820,000.00
1.1	Credit operations	96,780,000.00	0.00	13,860,000.00	9,900,000.00	33,660,000.00	37,620,000.00	191,820,000.00	194,000,000.00	385,820,000.00
2	Tech. assistance comp.	240,000.00	1,980,000.00	0.00	0.00	0.00	0.00	2,220,000.00	2,000,000.00	4,220,000.00
2.1	Strengthening of system	0.00	600,000.00					600,000.00	600,000.00	1,200,000.00
2.2	Strengthening CEU		390,000.00					390,000.00	400,000.00	790,000.00
2.3	Supervision	0.00	100,000.00					100,000.00	100,000.00	200,000.00
2.4	Environmental advisory svcs.		290,000.00					290,000.00	300,000.00	590,000.00
2.5	Promotion and dissemination	0.00	300,000.00					300,000.00	300,000.00	600,000.00
2.6	Evaluation	0.00	100,000.00					100,000.00	100,000.00	200,000.00
2.7	Monitoring and audit	240,000.00	200,000.00					440,000.00	200,000.00	640,000.00
87.00	Inspection & superv.	980,000.00	20,000.00	140,000.00	100,000.00	340,000.00	380,000.00	1,960,000.00	0.00	1,960,000.00
87.1.1	Inspection & superv.	980,000.00	20,000.00	140,000.00	100,000.00	340,000.00	380,000.00	1,960,000.00	0.00	1,960,000.00
87.2	Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Credit fee									
	Subtotal IDB	98,000,000.00	2,000,000.00	14,000,000.00	10,000,000.00	34,000,000.00	38,000,000.00			0.00
	Total IDB/LOCAL							196,000,000.00	196,000,000.00	392,000,000.00
	Pari passu							50%	50%	100%

ARGENTINA
REALLOCATION OF RESOURCES FROM PORTFOLIO PROJECTS TO SUPPORT ECONOMIC REACTIVATION OF ARGENTINA
Table of Costs
Provincial Agricultural Services Program -PROSAP- (899/OC-AR) - Reformulated

Cat.	Item	Current										
		899/OC-AR			899/OC-AR-1		899/OC-AR-2		IDB	LOCAL		TOTAL
		IDB	Local	IBRD	(1164/OC-AR)	Local	(1068/OC-AR)	Local		Local	IBRD	
1	Executing Unit	2,898,000.00	36,000.00	11,159,596.00	294,000.00	0.00	80,000.00	0.00	3,272,000.00	36,000.00	11,159,596.00	14,467,596.00
1.1	PEU	1,340,000.00	19,000.00	8,762,100.00	0.00	0.00	0.00	0.00	1,340,000.00	19,000.00	8,762,100.00	10,121,100.00
1.2	Provincial governments	723,000.00	17,000.00	2,397,496.00	0.00	0.00	0.00	0.00	723,000.00	17,000.00	2,397,496.00	3,137,496.00
1.3	Institutional strengthening	800,000.00				0.00	0.00	0.00	800,000.00	0.00	0.00	800,000.00
1.4	Evaluation	35,000.00			294,000.00		80,000.00		409,000.00	0.00		
2	Groups	117,089,000.00	58,799,000.00	112,000,000.00	146,200,000.00	134,495,000.00	49,000,000.00	45,000,000.00	312,289,000.00	238,294,000.00	112,000,000.00	662,583,000.00
2.1	Group "A"	39,124,000.00	40,525,000.00	69,572,000.00	0.00	0.00	0.00	0.00	39,124,000.00	40,525,000.00	69,572,000.00	149,221,000.00
2.2	Group "B"	38,800,000.00	8,274,000.00	42,428,000.00	0.00	0.00	0.00	0.00	38,800,000.00	8,274,000.00	42,428,000.00	89,502,000.00
2.3	PROEMER	39,165,000.00	10,000,000.00		0.00	0.00	0.00	0.00	39,165,000.00	10,000,000.00	0.00	49,165,000.00
2.04	Projects in portfolio	0.00		64,684,000.00	64,000,000.00	49,000,000.00	45,000,000.00	113,684,000.00	109,000,000.00	0.00	0.00	222,684,000.00
2.05	Projects in preparation	0.00		81,516,000.00	70,495,000.00	0.00	0.00	81,516,000.00	70,495,000.00	0.00	0.00	152,011,000.00
3	Project preparation	2,163,000.00	0.00	1,840,404.00	2,006,000.00	505,000.00	420,000.00	0.00	4,589,000.00	505,000.00	1,840,404.00	6,934,404.00
85.00	PPF PAYOFF	1,632,694.95	0.00	0.00	0.00	0.00	0.00	0.00	1,632,694.95	0.00	0.00	1,632,694.95
85.1	Repayment PPF 762/OC-AR	83,798.99			0.00	0.00	0.00	0.00	83,798.99	0.00	0.00	83,798.99
85.2	Repayment PPF 821/OC-AR	1,548,895.96			0.00	0.00	0.00	0.00	1,548,895.96	0.00	0.00	1,548,895.96
87.00	Capitalization charges	1,217,305.05	27,670,000.00	0.00	1,500,000.00	15,000,000.00	500,000.00	5,000,000.00	3,217,305.05	47,670,000.00	0.00	50,887,305.05
87.1	Inspection & superv. (net of exemptions)	1,217,305.05			1,500,000.00	0.00	500,000.00	0.00	3,217,305.05	0.00	0.00	3,217,305.05
87.2	Interest	0.00	26,622,000.00		0.00	11,250,000.00	0.00	3,750,000.00	0.00	41,622,000.00	0.00	41,622,000.00
87.3	Credit fee	0.00	1,048,000.00		0.00	3,750,000.00	0.00	1,250,000.00	0.00	6,048,000.00	0.00	6,048,000.00
		125,000,000.00	86,505,000.00	125,000,000.00	150,000,000.00	150,000,000.00	50,000,000.00	50,000,000.00	325,000,000.00	286,505,000.00	125,000,000.00	736,505,000.00
									44%	39%	17%	100%

ARGENTINA
REALLOCATION OF RESOURCES FROM PORTFOLIO PROJECTS TO SUPPORT ECONOMIC REACTIVATION OF ARGENTINA

Milestones in provider and recipient programs
LMS data as of 21 October 2003

LOAN	PROJECT	TITLE	EFFECTIVE DATE	ELIGIBLE DATE	ORIGINAL DATE OF LAST DISBURSEMENT	PRESENT DATE OF LAST DISBURSEM.	EXTENSION (MONTHS)	FIRST REPAYM. INSTALLMENT	MATURITY DATE
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PROVIDERS

795/OC-AR	AR0128	National road corridors	21-Mar-94	21-Sep-94	21-Mar-98	31-Dec-03	69	21-Sep-04	21-Mar-14
1060/OC-AR	AR0181	Non-university higher education reform	22-Jul-98	19-Oct-98	22-Jul-03	21-Jul-05	23	22-Jan-05	22-Jul-18
1068/OC-AR	AR0151	Investment in large cities	16-Mar-98	10-Mar-99	16-Mar-03	15-Mar-05	23	16-Sep-05	16-Mar-18
1164/OC-AR	AR0250	Municipal reform and development	21-Dec-98	30-Jun-99	21-Dec-03	21-Dec-04	11	15-Dec-05	15-Dec-18

RECIPIENTS

899/OC-AR	AR0061	Provincial agricultural services I.	26-Mar-96	13-Nov-97	26-Mar-01	26-Sep-03	30	26-Mar-03	26-Mar-16
1192/OC-AR-1	AR0127	Microenterprise credit program I	15-Sep-99	18-Aug-00	15-Sep-03	15-Sep-04	12	15-Mar-04	15-Sep-19
1192/OC-AR-2	AR0127	Microenterprise credit program I	15-Sep-99	18-Aug-00	15-Sep-03	15-Sep-04	12	15-Mar-04	15-Sep-19