

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

MSME COMPETITIVENESS SUPPORT PROGRAM

(AR-L1145)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37250816
2.	Procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37245742
3.	Monitoring and evaluation plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37245902
4.	Environmental and social management report http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37308623
OPTIONAL	
1.	Operating Regulations (draft) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37245859
2.	Industrial Strategic Plan 2020 http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37246165
3.	Draft technical note on competitiveness and innovation http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37246093
4.	Cost-benefit analysis of the main program instruments http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37245885
5.	Itemized annualized program costs http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37245980
6.	Study of the supply of business development services in Argentina http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37246028
7.	Study of entrepreneurship in Argentina http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37246179
8.	Study of the SEPYME windows system http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37246221
9.	Institutional fiduciary analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37246518
10.	Impact assessment of the Business Restructuring Program (PRE) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37246530
11.	Innovation policy / Evidence from an impact evaluation in Argentina http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37246540

12. Previous Bank MSME support operations
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37433212>
13. Safeguard Policy Filter (SPF) and Safeguard Screening Form (SSF) for classification of projects
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37248082>

ABBREVIATIONS

BDP	Business development plan
BDS	Business development services
GDP	Gross domestic product
IRR	Internal rate of return
MSMEs	Micro, small, and medium-sized enterprises
MTEySS	Ministry of Labor, Employment, and Social Security
OR	Operating Regulations
PACC	Programa de Acceso al Crédito y a la Competitividad [MSME Credit Access and Competitiveness Program]
PEU	Program Execution Unit
PFI	Institutional strengthening plan
PIT	Programa de Innovación Tecnológica [Technological Innovation Program]
PRE	Programa de Reestructuración Empresarial [Business Restructuring Program]
SEPYME	Department of Small and Medium-sized Enterprise and Regional Development
SMEs	Small and medium-sized enterprises

PROJECT SUMMARY

ARGENTINA MSME COMPETITIVENESS SUPPORT PROGRAM (AR-L1145)

Financial Terms and Conditions					
Borrower: Argentine Republic Executing agency: Ministry of Industry, acting through the Department of Small and Medium-sized Enterprise and Regional Development			Flexible Financing Facility *		
			Amortization period:	25 years	
			Original weighted average life:	15.25 years	
			Disbursement period:	5 years	
			Grace period:	5.5 years	
Source	Amount	%	Inspection and supervision fee:	**	
IDB	US\$50 million	63%	Interest rate:	LIBOR-based	
Local	US\$30 million	37%	Credit fee:	**	
Total	US\$80 million	100%	Currency:	U.S. dollars from the Bank's Ordinary Capital	
Project at a Glance					
Project objective/description: The objective of the program is to contribute to productivity gains for Argentine MSMEs. Its specific objectives are: (i) to increase MSME investment in business development services (BDS), both individually and collectively, by supporting BDS purchases and improving BDS offerings; and (ii) to increase the number of dynamic new firms.					
Special contractual conditions precedent to the first disbursement: As special conditions precedent to the first disbursement of the loan: (i) evidence will be provided that the program Operating Regulations (OR) have entered into force with content consistent with the terms previously agreed upon with the Bank; and (ii) the Bank will approve the model agreements for the program to enter into with various agencies for subexecution of their activities. (see paragraph 2.2).					
Exceptions to Bank policies: None.					
Project qualifies as:					
	SEQ []	PTI []	Sector []	Geographic [X]	Headcount []

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

** The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, challenges, and rationale

- 1.1 Argentina's per capita income is below that of developed countries, primarily because of its low levels of productivity.¹ Over the last half century, while average productivity has accelerated at times, it has done so spurts, and the pace of the increase has been slower than in developed countries, widening the gap.² If the quality of life of Argentina's population is to be raised to the levels of the more advanced economies, the country needs to maintain a high and sustained rate of increase in productivity.
- 1.2 In a market economy, the behavior of aggregate productivity is related to the performance of productivity at the individual firm level, and this in turn depends on a range of factors from the availability of infrastructure to the quality of the education system and the investment climate. However, two factors are of particular importance for firms: the level of investment in innovations related to management, quality, processes, products and markets,³ and the emergence and dynamic nature of new firms.⁴ Smaller firms around the world tend to invest less than larger firms do in innovation activities, and Argentina faces a dual challenge in this regard: (i) its economy has a greater proportion of smaller firms than do other, similar economies;⁵ and (ii) these micro, small, and medium-sized enterprises (MSMEs)⁶ are further from the productivity frontier than those in the more advanced countries⁷ (see Table I). Regarding the second factor, the emergence of new firms to replace less productive ones and seize new opportunities is important for innovation, value

¹ "The Age of Productivity." IDB, 2010.

² The productivity gap between Argentina and the United States, taken as the international benchmark, far from declining, was nearly 40% greater in 2005 than in 1960. Idem.

³ In Argentina, 34.6% of MSMEs report having engaged innovation support services; the comparable figures for Colombia and Uruguay are 45.5% and 39.6%, respectively, and the Latin American average is 32.6%. For more data, see Crespi, G., P. Zuñiga, "Innovation strategies and employment in Latin American firms." IDB, 2012.

⁴ "Grandes interrogantes sobre pequeñas empresas" [Big questions about small businesses], in IDB, 2010, op. cit.

⁵ In Argentina, MSMEs account for 70% of employment and 54% of GDP, whereas in Chile the corresponding percentages are 63% and 20%, and in Brazil 60% and 34% (Arazi and Baralla, IERAL, April 2012)

⁶ The program will take as a reference current legislation in Argentina, which defines the status of MSME as a function of total annual sales, with the amounts that vary for industry, commerce, and mining (Article 1 of Law 25300).

⁷ While microenterprises and small businesses in Argentina demonstrate 24% and 23% of the productivity level of very large firms, respectively, the corresponding figures in France are 47% and 58%, in the United Kingdom 61% and 60%, and in Sweden 65% and 83%. Source: OECD, 2008, and World Bank Enterprise Survey, 2010.

creation, and productivity gains.⁸ Argentina has a low density of new firms per 1,000 inhabitants.⁹

Table I. Productivity Gaps (Sales/Worker) by Business Size

Size (number of workers)	Argentina	Mexico	United Kingdom	France	Sweden	United States
Micro (< 10)	24.22	15.46	61.07	46.90	64.88	41.68
Small (10-19)	23.42	33.45	60.98	58.17	83.10	36.06
Medium (20-49)	44.69	41.07	66.72	64.29	81.69	41.45
Large (50-250)	52.38	62.81	73.85	68.25	81.51	52.62
Very large (+250)	100.00	100.00	100.00	100.00	100.00	100.00

Source: Prepared by the authors based on OECD, 2008, and World Bank Enterprise Survey, 2010.

- 1.3 There is evidence that the use of business development services (BDS) in such areas as quality assurance, foreign trade, and research and development can help improve the productivity of firms.¹⁰ In the case of MSMEs, access to services of this kind is limited by market failures¹¹ that lead to suboptimal use of BDS and thus sap their potential for improving productivity. On the demand side, a significant market failure is represented by incomplete information on the benefits associated with these services, which leads to less utilization.¹² On the supply side, BDS providers restrict their offerings because, as is often the case, their costs do not decline with the size of firm, and they make no particular effort to adapt their offerings to the needs of MSMEs.¹³ This problem is more serious in Argentina than in other countries of the region.

⁸ New firms exhibit higher productivity than the average for existing firms. Meghana Ayyagari et al., “Small vs. young firms across the world, contribution to employment, job creation, and growth.” The World Bank Development Research Group Finance and Private Sector Development Team, April 2011.

⁹ This index is frequently used as a measure of the “entry density” of new firms, and represents the number of firms created each year as a percentage of the economically active population. The index for Argentina is 0.56, significantly below the 1.31 and 4.21 found in the region and in the high-income group of countries, respectively. Source: WB Entrepreneurship Snapshots 2010.

¹⁰ Castillo et al., 2010, “Evaluación del impacto del Programa de Reestructuración Empresarial (PRE) sobre el empleo, los salarios, y las exportaciones de las empresas argentinas” [Evaluation of the impact of the Business Restructuring Program (PRE) on employment, wages, and exports of Argentine businesses]; and Castillo et al., 2011, “Innovation policy and employment: Evidence from an impact evaluation in Argentina.”

¹¹ For further discussion of these market failures, see Castillo et al., 2010, and “European Commission: A study of business support services and market failures.” Foundation for MSME Development, University of Durham, 2002.

¹² A recent survey of Argentine MSMEs shows that the reasons why such firms do not make greater use of BDS have to do mainly with their inability to identify their usefulness before the fact (Baruj and Aggio, “Análisis del Mercado de SDE en la Argentina” [Market analysis of BDS in Argentina], draft, 2012).

¹³ Argentina ranks 60th against the variable “availability of local specialized research and training services,” compared to Brazil (34th) and Chile (36th); the advanced countries top the list. Source: World Economic Forum (WEF).

- 1.4 Some of these services are subject to economies of scale, so firms can benefit if they join together to use them, or if public or private providers join together to offer them. In advanced countries with a strong presence of MSMEs, such as Spain, Italy or Germany, these needs are met through collective action, and the levels of public-private and private-private coordination are higher than in Argentina. The first indicator in Table II, showing the level of cluster development,¹⁴ reveals that Argentina ranks very low in comparison with advanced countries as well as other countries of the region.

Table II. Level of Business Sophistication

Indicator	Country	Score/7	Ranking/144
<i>1. Cluster development</i>	UK	5.1	10
	United States	5.0	12
	Chile	4.5	27
	Brazil	4.5	28
	Argentina	3.3	93
<i>2. Quality of local suppliers</i>	United States	5.5	14
	UK	5.4	18
	Brazil	5.0	36
	Chile	4.9	45
	Argentina	4.1	100

Source: Prepared by the authors using the WEF Global Competitiveness Index 2012-2013 based on company surveys.

- 1.5 Dynamic new firms¹⁵ face challenges of various kinds. An index was recently developed in Argentina that combines the 10 main systemic conditions that favor dynamic entrepreneurship.¹⁶ Here, it can be seen clearly that Argentina occupies a negative relative position in this index with respect to the leading countries; this is even more the case with the “access to financing” indicator, where Argentina ranks behind many countries in the region, and far behind the OECD countries. When it comes to cultural conditions that favor entrepreneurship, the country also falls short

¹⁴ The terms “cluster,” “grouping” and “territorial supply chain” are used interchangeably in this document to mean groups of firms belonging to the same sector or similar sectors and sharing the same geographic area.

¹⁵ In Argentina’s case, existing studies identify as “dynamic new firms” those that, five years after their creation, account for 50% of employment created by their cohort (Kantis et al., “Nuevas empresas gacela en Argentina: ¿Qué nos dicen las estadísticas?” [New gazelle companies in Argentina: What do the statistics tell us?]. MTEySS, 2009).

¹⁶ PRODEM index of systemic conditions for entrepreneurship, 2012.

of the international benchmark and can improve. There is room, then, for policies to improve the chances of success for dynamic entrepreneurs.¹⁷

- 1.6 In this context, the Department of Small and Medium-sized Enterprise and Regional Development (SEPYME) of Argentina's Ministry of Industry has requested Bank support through a new program to facilitate productivity gains for MSMEs and foster the emergence and growth of dynamic new enterprises, as a way of deepening and improving actions now under way. The support provided by SEPYME through this program will be complemented by its programs for access to financing and training. These plans, in turn, are part of the [2020 Industrial Strategic Plan](#) being developed by the Ministry of Industry.

B. Previous experience and challenges

- 1.7 The country has implemented a number of strategies for improving MSME access to BDS over the last 15 years. In the late 1990s, with Bank support, SEPYME launched the first program of grants ("nonreimbursable contributions") to MSMEs for the purchase of BDS, through the "Business Restructuring Program" (loan 989/OC-AR). This program ran into problems with its implementation mechanisms: first experimenting with a wholly private system, then a wholly public one, such that its activity was stop-and-go until the current, mixed scheme was adopted, which is functioning very well. However, a quasi-experimental study of its impact showed significant positive outcomes with respect to employment, real wages, and the likelihood of exporting among beneficiary MSMEs.¹⁸ The Bank supported a second operation, now in execution, the "MSME Credit Access and Competitiveness Program (PACC)" (loan 1884/OC-AR), under which more than 4,000 enterprises have benefited since 2010. This operation incorporated the lessons learned in the previous one with respect to the mechanisms for delivering the program's benefits, and it developed a subnational platform that facilitates access to program instruments for MSMEs in the interior of the country.¹⁹ Another lesson from these previous operations was that the current horizontal mechanisms (competitions open to all sectors and regions on a first-come, first-served basis) tended to limit access to the program's benefits for firms located in the relatively disadvantaged provinces. The fact that firms in those regions are weaker, as are the institutions supporting them in this process, tends to limit their ability to seek program services. Thus, the nine provinces of the Norte Grande, which are home to 20% of the population and represent 10% of national GDP, account for only 5% of firms benefiting from the operation now under way. To better enable the program to

¹⁷ See Hellman, Thomas, 2007. "Entrepreneurs and the process of obtaining resources," *Journal of EMS*; and Kantis, Hugo, 2008, "Aportes para el diseño de programas nacionales de desarrollo emprendedor en América Latina" [Contributions for the design of national entrepreneurial development programs in Latin America], IDB.

¹⁸ Castillo et al., op. cit.

¹⁹ SEPYME is a national government agency that generally operates in a centralized manner, but in the case of the project supported by the Bank it developed a system of more than 100 public-private institutions throughout the country to channel the offerings under the PACC program (loan 1884/OC-AR).

- reach these provinces, this operation will target its calls for proposals to firms in that region.
- 1.8 Moreover, given the increasing importance of the phenomenon of the creation and growth of new enterprises for improved productivity, the PACC program (loan 1884/OC-AR) added support for new firms and the consolidation of recently established ones. Analysis of the execution of this component, once all funds were committed, showed that the current execution mechanisms attracted fewer business proposals arising from opportunity than was desirable, since they have greater impact in generating employment and productivity. For that reason, in the present operation, the entrepreneurship support component will have a greater diversity of instruments for working with specialized institutions supporting entrepreneurship, so as to ensure that the beneficiaries will be those firms with the best prospects for rapid growth.
- 1.9 A number of studies have shown that policies to promote coordination among MSMEs in value chains or clusters are effective, both in advanced countries²⁰ and within our region.²¹ In Argentina, various programs launched in recent years have included this collective approach to business development, and SEPYME has decided to include it in this operation. In doing so, it has taken into account the most important lessons drawn from the execution of Bank-supported programs of this kind in various countries of the region, with respect to: (i) the slowness of execution, resulting from the complexity of conducting collective actions with a great many players, which represents a challenge for similar new operations²²; and (ii) the limited geographic/sector scope of the interventions.
- 1.10 The capacity of MSMEs to organize themselves to demand services or promote their joint delivery is being expanded through experience accumulated from increasingly ambitious joint endeavors. Consequently, the new operation will work primarily with clusters that are already mature, with collective track records, and to a lesser extent with those still lacking this experience, where activities will focus on raising awareness of the benefits of working together.
- 1.11 In Argentina, the Bank is supporting a number of programs with this same collective approach. The program will operate in areas and on issues currently not addressed by the other programs, and will also be able to supplement the activities begun by similar programs. Some of the existing programs are active only in specific provinces, and have no national scope: Mendoza (1640/OC-AR), San Juan I and II

²⁰ *Competitive Regional Clusters*, OECD, 2007.

²¹ The most recent evaluation, which is among most rigorous, of programs of this kind was conducted in Brazil in the states of São Paulo and Minas Gerais. It showed that beneficiary firms in the supported clusters increased their employment by 23% and their exports by 50% to 80%, compared to a control group. See Lucas Garone et al., "Assessing the impact of cluster policies: The case of the *arranjos produtivos locais* in Brazil," 2012, draft working document. The size and structure of these state economies suggest that the results could also be applicable to similar programs in Argentina.

²² "Lecciones aprendidas por los programas del BID de apoyo a *clusters* en el Cono Sur" [Lessons learned by IDB programs to support clusters in the Southern Cone], IDB, paper in final review.

(1798/OC-AR and 2763/OC-AR), Entre Ríos (1914/OC-AR), Río Negro (1463/OC-AR and 1464/OC-AR), and Norte Grande (2005/OC-AR); another project relates only to the agricultural sector (PROSAP II and III (1956/OC-AR and 2573/OC-AR)); and still others are focused on meeting a specific need of the clusters, such as technological innovation (PIT I, II, and III (2180/OC-AR, 2437/OC-AR, and 2777/OC-AR)).²³ Optional electronic link 12 provides more detail on the work of these programs and the outcomes of their execution. SEPYME seeks to consolidate this way of promoting collective action by firms at the national level, and complement the activities begun by these programs in some clusters. This also applies for the smaller, more targeted programs of the Multilateral Investment Fund (MIF), which have strengthened capacities for territorially-based collective actions.

- 1.12 **Program strategy.** Starting with the challenge of increasing the aggregate productivity of the Argentine economy, this program focuses on MSMEs, which not only represent more than 90% of Argentine firms but also account for much of the country's productivity lag vis-à-vis more advanced countries. The first component will facilitate firms' access to private providers of business services, while the second will seek to organize collective demand and strengthen the supply of services for improving the productivity of groups of firms with similar needs. Lastly, to improve opportunities for dynamic entrepreneurs to create and build high-growth businesses, the third component will work with a set of tools for improving the entrepreneurial environment, providing support both to entrepreneurs themselves and to the institutions devoted to their promotion. To achieve the expected outcomes, this program covers important areas not addressed by other policy instruments, and builds on the activities of programs now under way.
- 1.13 **Strategic alignment.** In the framework of the Ninth General Capital Increase (GCI-9), this operation will contribute to the goals of regional development through financing for small and medium-sized enterprises. The operation is aligned with the country strategy 2012-2015 (document GN-2687), which includes the promotion of private sector development among its priority areas, working in particular to strengthen firms' capacity for innovation and management through business development services. The project is also included in the Bank's 2013 Operational Program Report (document GN-2696) and is complementary with other programs.²⁴
- 1.14 **Coordination with multilateral agencies.** The project team has been coordinating both with the Directorate of Public Policies and Competitiveness of the Andean Development Corporation (CAF) and with the World Bank, to establish areas of collaboration with those agencies. With the CAF, it has been coordinating areas of knowledge relating to MSMEs, and with the World Bank, which has operations

²³ Operations San Juan II (loan 2763/OC-AR) and PIT III (loan 2777/OC-AR) were recently approved by the Bank's Board of Executive Directors, and, while not yet under way, are expected to be executing in parallel with AR-L1145.

²⁴ Loans 2573/OC-AR, 2412/OC-AR, 2005/OC-AR.

relating to technological innovation, it is continuing cooperation essentially through activities under loans 2180/OC-AR, 2437/OC-AR and 2777/OC-AR.

C. Objectives and components

- 1.15 **Objectives.** The objective of the program is to contribute to productivity gains for MSMEs. Its specific objectives are: (i) to increase MSME investment in business development services (BDS), both individually and collectively, by supporting BDS purchases and improving BDS offerings; and (ii) to increase the number of dynamic new firms. The proposed structure of the program is as follows:
- 1.16 **Component 1. Technical assistance to MSMEs (US\$37.75 million: IDB US\$22.2 million; Local US\$15.55 million).** Under this component, grants will be made to cover the cost of BDS that will enhance the productivity of MSMEs. The recipients will be any MSMEs meeting the definition of Argentine legislation and requesting program support through business development plans (BDP) via public calls for proposals. In their BDP, firms must present a diagnostic assessment and detail the problems they seek to solve through the project. The projects will be evaluated by a Committee on the basis of criteria set in each call for proposals, as specified in the project Operating Regulations (OR). The following technical assistance and training services will be eligible: (i) development and implementation of quality management systems and certification of quality standards; (ii) development of new products and processes; (iii) actions related to the opening and development of new markets; (iv) human resource training; and (v) the adoption of information and communication technologies (ICTs) to generate innovative changes for applicant MSMEs. This component is expected to benefit some 1,500 firms.
- 1.17 Firms may submit BDPs through two types of calls for proposals: (i) horizontal open calls, for which calls will be issued three times a year with pre-established opening times, on a first-in, first-evaluated basis; and (ii) targeted calls, involving ad hoc calls for meeting strategic objectives of the program. For this second type of tender, two additional selection criteria will be employed: (a) sector: applicants must belong to one of the 11 chains prioritized by the Industrial Strategic Plan 2020; and (b) geographic: they must be located in disadvantaged areas of the country. The maximum amount of the grant under this component will be US\$30,000 per project, and it will finance up to 70% of the technical assistance services and up to 80% in the case of activities relating to the environment.
- 1.18 **Component 2. Territorial productive linkages and competitiveness (US\$15.95 million: IDB US\$11.5 million; Local US\$4.45 million).** This component will provide grants for activities designed to identify the main problems that affect a business grouping at the regional level, and to implement solutions based on public-private, public-public, or private-private collaboration. The component will be divided into two subcomponents: (i) Subcomponent 2.1: support for territorial competitiveness and productive linkages; and (ii) Subcomponent 2.2: territorial platform of support for businesses.

- 1.19 **Subcomponent 2.1. Support for territorial productive linkages and competitiveness.** Two types of projects will be financed: (i) support for strengthening existing cluster endeavors (that had a previous collective project/exercise), to improve access to common services for the cluster; and (ii) initial support for awareness-raising, training, or linkage of new clusters. The beneficiaries of the projects to support existing cluster endeavors will be the firms belonging to clusters with previous track records in inter-firm collaboration to enhance the local competitive environment, which submit an updated or valid strategic plan, or develop one with support from the program. The program will provide grants of up to US\$1.5 million per cluster, to cover up to 80% of the cost of solutions to the cluster's collective needs, such as supporting infrastructure (laboratories or technology centers for common use), improved business service offerings in existing technology parks, development of technical/vocational training centers, generation and development of new products, incorporation of new technologies into productive processes for collective use, and development of commercial strategies for accessing new markets. The subcomponent will cofinance the purchase of capital goods or small infrastructure works only if they are to be used collectively.
- 1.20 The initial projects in support of awareness raising, training, or new cluster linkages will finance firms based in clusters with no previous history of partnering, with grants of up to US\$350,000 per cluster to cover up to 90% of the cost of activities such as preparing joint strategic plans, awareness raising, training and technical advisory support, commercial strategies, and participation in business missions, development of common trademarks, designations of origin and collective certification processes, etc. This subcomponent is expected to provide support to around seven advanced clusters and eight fledgling clusters.
- 1.21 Clusters will be able to access program benefits through annual calls for proposals, where beneficiaries will be selected on a competitive basis using criteria such as the expected impact of the actions, the number of MSMEs in the cluster, and its geographic location and sector. The SEPYME technical team will evaluate the proposals, and a selection committee will make the final selection, as specified in the program OR. Up to 80% of the local counterpart contribution for each project may be provided in kind. In the case of beneficiaries that currently receive financing from another IDB program, or other territorial/cluster development programs, the complementarity of interventions will be analyzed to avoid duplication, and the Bank's no objection will be sought before the activity proceeds. The criteria for each call for proposals, the membership of the selection committee, and each final design for cluster support will be subject to the Bank's no objection. The OR explains the implementation mechanisms for this component in detail.
- 1.22 **Subcomponent 2.2. Territorial platform of support for businesses.** This subcomponent is intended to consolidate and expand the current structure of assistance for MSMEs in all regions of the country, so as ensure that the supply of public and private resources for productive development is better coordinated around

- regional needs. Currently, SEPYME has around 100 “SME Windows” throughout the country, serving as the gateway to the program for MSMEs, helping them throughout the process of formulating, monitoring, and implementing a business development plan (see paragraph 3.3). Under this subcomponent, all institutions wishing to join the existing territorial platform will be selected and accredited, financing up to 80% of the Institutional Strengthening Plans (PFI) for a maximum amount of US\$30,000 per window, to foster greater coordination of business, government, and society in regional productive development. Up to 60% of the remaining 20% counterpart may be contributed in kind. Eligibility will be limited to public-private institutions that meet the current requirements set in the project OR. These efforts are expected to add around 30 more SME Windows, as well as strengthening some 50 more through financing of PFIs.
- 1.23 The SME Windows may access PFI projects through regular calls for proposals by SEPYME, and will use grants to finance activities such as regional productivity studies, creation of business directories, field surveys and surveys of existing regional products, development of information systems for common use, training for SME Window professional staff, and training and awareness workshops and seminars targeted to MSMEs and other key players in regional development.
- 1.24 **Component 3. Support for new firms (US\$18.3 million: IDB US\$13.3 million; Local US\$5 million).** This component will finance the generation and consolidation of dynamic new firms through activities under three subcomponents: (i) Subcomponent 3.1: promotion and dissemination of entrepreneurial culture; (ii) Subcomponent 3.2: support for specialized institutions for creation and/or consolidation of business incubators; and (iii) Subcomponent 3.3: direct support to entrepreneurs and individual young firms.
- 1.25 **Subcomponent 3.1** will finance actions for promotion and dissemination of the program, and for the promotion of entrepreneurship. The beneficiaries will be entities working to promote dynamic entrepreneurship, which may access the program through at least one open public call for proposals per year. The entities will have to present proposals for activities to foster entrepreneurial culture in the country, and those scoring highest on the criteria set in the project OR will be selected. Activities to be financed may include training, seminars, workshops, communication activities and website development. The best proposals will be selected on a competitive basis, and grants provided to cover up to 70% of these activities. It is expected that around 50 such activities can be financed, for up to US\$50,000 per entity. Up to 60% of the remaining 30% counterpart may be contributed in kind.
- 1.26 **Subcomponent 3.2** will create and/or strengthen institutions and organizations working to promote entrepreneurship, including incubators. This subcomponent will finance activities such as technical assistance and training for the institution’s team, feasibility studies and business plans for incubators, and their infrastructure and equipment expenditures, among others. At least one competition will be held each year to evaluate plans submitted by these institutions, and funds will be allocated on

a competitive basis in accordance with criteria established in the project OR. The maximum amount per project will be US\$150,000; up to 60% of costs will be covered; and the expectation is that some 15 specialized institutions can be strengthened. Up to 60% of the 40% to be contributed by the institutions may be in kind.

1.27 **Subcomponent 3.3.** Grants will be made to finance the projects of new firms or recently created firms with a view to improving their growth prospects. The beneficiaries will be persons with projects to create new firms, or with firms that have been operating for no more than three years. The grant will finance up to 85%, for a maximum of US\$30,000 per project. There will be two types of calls for proposals for grant support to entrepreneurs and young firms presenting “promising projects”: (i) call for submissions of an individual promising project; and (ii) closed call for submissions of promising projects with the endorsement of a sponsoring intermediary. The criteria for evaluating the individual projects will be stricter than for projects backed by a specialized institution, and the details on those criteria are found in the project Operating Regulations. Financing may be provided for such activities as consulting services for producing business plans, market studies, registration of the firm, and protection of intellectual property, as well as technology services and quality certifications. This subcomponent is expected to benefit 400 new firms.

1.28 For all components, the membership of the proposal evaluation committee will be subject to the Bank’s no objection. The winners and the amounts awarded to each will be posted on the SEPYME website. The Bank will monitor execution with regular visits to beneficiaries selected by sampling.

D. Cost and financing

1.29 The estimated total cost of the program is US\$80 million. The Bank will finance US\$50 million of that amount, with a local counterpart contribution of US\$30 million (see cost details in optional electronic link 6).

Table 1. Budget

Investment category		Source		Total	%
		IDB	Local		
1	Component 1: Technical assistance to MSMEs	22,200,000	15,550,000	37,750,000	47%
2	Component 2: Territorial productive linkages and competitiveness	11,500,000	4,450,000	15,950,000	20%
3	Component 3: Support for new firms	13,300,000	5,000,000	18,300,000	23%
	Coordination unit	800,000	5,000,000	5,800,000	7%
	Monitoring and evaluation	200,000	0	200,000	1%
	Contingencies	2,000,000	0	2,000,000	2%
	TOTAL	50,000,000	30,000,000	80,000,000	100%
	%	63%	37%	100%	

E. Key results indicators

- 1.30 **Expected outcomes.** The program is expected contribute to productivity gains for MSMEs in Argentina. Its activities are expected: (i) to increase MSME investment in BDS, both individually and collectively, by supporting BDS purchases and improving BDS offerings in specific locales; and (ii) to increase the creation and development of dynamic new firms.
- 1.31 **Key indicators.** The Results Matrix (Annex II) contains the results indicators in terms of “Impact,” “Outcome,” and “Purpose.” The “Impact” indicator is aligned with the GCI-9 targets. The “Outcome” and “Purpose” indicators have been chosen carefully to measure, respectively, the complexity of expected outcomes and program outputs. All have a baseline, a target with quantity and time parameters, and an indication of source. The key “Impact” measurement indicators will be: (i) difference in percentage change in total factor productivity between MSMEs financed by the program vs. not financed; (ii) difference in percentage change in employment and billings between MSMEs financed by the program vs. not financed. The key “Output” indicators will be: (i) technical assistance granted to firms; (ii) projects financed for productive linkages and cluster competitiveness; (iii) technical assistance granted to new entrepreneurs; and (iv) technical assistance granted to dynamic young firms (see Annex II).
- 1.32 **Economic viability and robustness of project benefits.** An economic analysis of the principal program interventions was done, using the cost-benefit methodology. The program outcomes were estimated by comparing two scenarios, with and without the program. Additionally, the scenario with the program estimates the future behavior of potential beneficiaries in response to the stimulus measures under the intervention. Costs and benefits were valued on the basis of direct impacts on the productivity of beneficiary firms, including: (i) increase in net income of MSMEs as a result of program support; (ii) contribution to the productivity of MSME members of productive clusters supported by the program; and (iii) increase in net income of entrepreneurs and young firms through program support. On the basis of those assumptions, the indicators yield a net present value (NPV) of US\$15 million with an internal rate of return (IRR) of 19% (see optional electronic link 5).
- 1.33 The robustness of the economic analysis was also examined. Under the assumption that the productivity improvements obtained were less than those estimated by between 20% and 30%, the IRR for the technical assistance component would be between 12.5% and 17.2%. Similarly, if work with productive clusters were delayed by an additional year, the benefits would appear later, and the return would diminish under that assumption to 13.9%.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The project is structured as an investment loan and will be executed over five years.
- 2.2 **Special contractual conditions precedent to the first disbursement. As special conditions precedent to the first disbursement of the loan: (i) evidence will be provided that the program Operating Regulations (OR) have entered into force with content consistent with the terms previously agreed upon with the Bank; and (ii) the Bank will approve the model agreements for the program to enter into with various agencies for subexecution of their activities.**

B. Environmental and social safeguard risks

- 2.3 The operation was classified as category “C” under the Bank’s Environment and Safeguards Compliance Policy (Operational Policy OP-703). The program will take the following steps to ensure compliance with environmental requirements: (i) the beneficiary firm will sign a sworn statement as part of the project sheet, representing that the project will be implemented in compliance with all program rules and national legislation, including environmental sustainability requirements; and (ii) the firm or entrepreneur will specify on the same sheet how the project will impact the environment, which will be part of the project evaluation matrix and affect the score given to the project. Additionally, participating firms will be required to comply with applicable environmental legislation, and those firms requesting support for activities that involve environmental enhancement²⁵ will receive a grant percentage of 80%, higher than the regular percentage for other projects. For projects to support experiences of established clusters under Subcomponent 2.1, where new works or machinery/equipment exceed US\$100,000, the program will require compliance with the guidelines established in the environmental and social management report (ESMR) (see required electronic link 6).
- 2.4 With respect to gender issues, the portion of new firms supported by program 1884/OC-AR targeted to female entrepreneurs is 27% in the PACC Entrepreneurs, and 18% in the PACC Enterprises. This new operation will seek to enhance women’s participation through new activities such as workshops and courses for women entrepreneurs.

C. Technical and fiduciary risks

- 2.5 A risk management workshop involving the executing agencies and the Bank was held during the special mission of August 2012. It concluded that the overall level of risk is medium. Of the seven risks identified, two were rated as “high,” and three as “medium.” The first category includes the risk that the tools intended to improve the program’s geographic scope will not overcome the obstacles that firms in the

²⁵ Of the total projects approved under the business support component of loan 1884/OC-AR, 18% included in their business plan direct steps to improve the environmental impacts generated by the enterprise.

more disadvantaged regions face in accessing program benefits. This risk will be mitigated through an analysis workshop with sector experts to be held after the first call for proposals, to assess experience and propose the steps needed to correct the problems identified. A high risk was also identified that the entrepreneurship component will not sufficiently target dynamic new firms, which will be mitigated with the component's new forms of networking, and a midterm workshop will be held to assess the effectiveness of the new approach. The other risks identified were rated as low or medium; mitigation measures have been identified for this second group with allocated responsibilities and compliance indicators.

- 2.6 An institutional assessment of the Program Execution Unit (PEU) was conducted during program preparation using the Bank's Institutional Capacity Assessment System (ICAS). The risk was found to be low with no significant shortcomings.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Argentine Republic. The program executing agency will be the Ministry of Industry, acting through the Department of Small and Medium-sized Enterprise and Regional Development (SEPYME).²⁶ A program execution unit (PEU) will be responsible for operational administration and execution. The PEU is the same as for loan 1844/OC-AR, which will be responsible for general supervision, oriented toward meeting the program objectives and targets in a timely manner. Execution of the program activities will be governed by the program Operating Regulations (OR).
- 3.2 For Component 1 and Subcomponent 3.3, the program will use the SEPYME network of "windows" as an interface between the PEU and the applicant firms. These windows are private or public-private agencies located in the regions of Argentina, and their functions encompass the entire project cycle. Management agreements will be signed with the accredited windows; the model management agreements will be sent to the Bank for its prior no objection.
- 3.3 The business service providers will provide services to the applicant firms with approved projects, which, following the rules established in the program OR, will pay for the services and later be refunded the agreed percentage of cofinancing by the program. The documents reiterating beneficiary adherence to the rules established in the program OR and other rules will be signed by each beneficiary before the start of execution of each individual business development plan. The final document and the model documents to be used for such purpose will be sent to the Bank for its prior no objection.

²⁶ SEPYME was created by Decree 357 of 21 February 2002, with the mandate to propose policy and program priorities for micro, small, and medium-sized enterprises (MSMEs), entrepreneurship development, and business creation within the policy definitions established by the national government. SEPYME is responsible for overseeing the agreement and the flow of funds required for its performance.

- 3.4 Under Subcomponent 2.1, for each beneficiary cluster a public, private, or semipublic organization will be identified to subexecute the activities, with which a specific subexecution agreement will be signed, setting out the activities to be performed and the terms for contracting, procurement, and resource transfers.
- 3.5 For the execution of subcomponents 2.2, 3.1, and 3.2, the PEU will enter into subexecution agreements with the beneficiary entities.
- 3.6 During program preparation, the fiduciary agreements and requirements were established for this operation, as detailed in Annex III. They relate primarily to: (i) methods and threshold amounts for procurement processes; (ii) audits; and (iii) financial management. The audits will be performed annually by the Office of the Auditor General of the Nation.
- 3.7 **Retroactive financing and recognition of expenditures.** The Bank will recognize, as part of the loan proceeds and the local contribution, eligible expenditures incurred during the 18 months prior to the date of loan approval but subsequent to 25 September 2012 (the approval date of the project profile). Up to US\$5 million, or 10% of the loan value, will be chargeable to the loan proceeds. Up to US\$2 million, or approximately 7% of the value of the counterpart, will be chargeable to the local contribution. To be eligible, the expenditures must be incurred in compliance with the Bank's contracting and procurement policies, or substantially similar policies.

B. Summary of arrangements for monitoring results

- 3.8 The monitoring and evaluation area of the executing unit will deliver monthly reports on operations to the SEPYME authorities, reflecting the number of projects, status, region, grants committed and executed, etc. Program execution will be supervised through via reports prepared by the PEU and submitted to the Bank pursuant to the General Conditions of the loan contract. These reports will include: (i) six-monthly reports on the status of activities, identifying any problems and risks, and the actions proposed to address them; (ii) midterm report; (iii) final report upon completion of the program; and (iv) the findings of the impact evaluations envisaged in the monitoring and evaluation plan. These reports will provide evidence of compliance with the agreed commitments and will contain data and information on the progress of project execution. Required electronic link 4 contains the details of the program monitoring and evaluation plan.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program			
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	i) Number of jobs added to formal sector and ii) Number of micro, small, and medium-sized firms financed.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2687	Increase in business innovation capacities, knowledge transfer and increased productivity for SMEs.	
Country Program Results Matrix	GN-2696	The intervention is included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.6		10
3. Evidence-based Assessment & Solution	9.8	33.33%	10
4. Ex ante Economic Analysis	10.0	33.33%	10
5. Monitoring and Evaluation	9.1	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	C		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Information System (SECOPI) and simplified procedure for price comparison up to US\$ 2.500.	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	A set of actions was designed to improve the possibilities for entrepreneur women to access program benefits.	
Labor	Yes	The program seeks to increase the quantity and quality of employment in beneficiary companies. Studies based on earlier versions of this same program in the same country showed significantly that the instruments implemented achieve positive employment impacts and wages.	
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Technical assistance was provided to discuss the monitoring and evaluation. The team shared documents about the best practices in similar programs and contracted studies to improve the project design.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan	Yes	The impact evaluation proposed in this intervention will provide evidence on new instruments and improve the previous studies in terms of measuring the impact on business productivity.	

The objective of the program is to contribute to increase the productivity of micro, small, and medium-sized firms. The program is aligned to the Country Strategy and it will contribute to the Bank's result framework outputs of number of jobs added to formal sector and number of micro, small, and medium-sized firms financed. The diagnosis presents adequate information about the factors affecting the productivity of micro, small and medium-sized firms in Argentina and it properly identifies the market failures that justify the intervention. There is strong evidence, coming from quantitative studies in Argentina and other countries in the region, about the effectiveness of this type of programs. The results are correctly defined and there are suitable indicators.

The cost-benefit analysis is appropriate and clearly presents the assumptions used in the analysis.

The monitoring and evaluation plan is consistent with Bank standards. It is planned to make a rigorous impact evaluation that will allow the Bank to provide additional evidence on new instruments and overcoming some limitations of previous studies regarding the impact on firms productivity.

RESULTS MATRIX

Project objective: The objective of the program is to contribute to productivity gains for Argentine MSMEs. Its specific objectives are: (i) to increase MSME investment in business development services (BDS), both individually and collectively, by supporting BDS purchases and improving BDS offerings; and (ii) to support the development of dynamic new firms.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Intermediate measures		End-of-project targets		Source / Means of verification	Remarks
		Value	Year	Value	Year	Value	Year		
EXPECTED IMPACT: Productivity gains for MSMEs									
Difference in percentage change in total factor productivity between MSMEs financed by the program vs. not financed	Percentage change in productivity	TBD ¹	2013			+3%	2018	<ul style="list-style-type: none">• Observatory of Employment and Business Dynamics [Observatory of Employment and Business Dynamics]• Ministry of Labor, Employment, and Social Security (MTEySS)• Database of the program monitoring and evaluation system• Survey of firms participating in the program and the control group	<p>The expectation is for growth in the productivity of beneficiary firms. The Observatory will evaluate “employment and turnover dynamics” using administrative records from Argentina’s Integrated Social Security System (SIPA).</p> <p>The set of nonparticipating firms that will serve as the control group will be selected and evaluated by the Observatory in light of the profile of firms participating in the program. The computation of data requiring figures on sales and investments will depend on the information obtained from the firms surveyed.</p>

¹ To determine this figure, a preliminary pilot test will be conducted using samples of projects financed under the operation now in execution. Based on the study data, and subject to finalization of a working agreement with the Observatory of Employment and Business Dynamics, the baseline will be set, and the impact targets projected.

Indicators	Unit of measure	Baseline		Intermediate measures		End-of-project targets		Source / Means of verification	Remarks
		Value	Year	Value	Year	Value	Year		
Difference in percentage change in employment between MSMEs financed by the program vs. not financed	Percentage change in employment	TBD ²	2013			+2%	2018	<ul style="list-style-type: none"> • Observatory of Employment and Business Dynamics • MTEySS • Database of the program monitoring and evaluation system 	<p>The expectation is for growth in employment among beneficiary firms. The Observatory will evaluate “employment and turnover dynamics” using administrative records from Argentina’s Integrated Social Security System (SIPA).</p> <p>The set of nonparticipating firms that will serve as the control group will be selected and evaluated by the Observatory in light of the profile of firms participating in the program. This is a key indicator for measuring productivity.</p>
Difference in percentage change in billings between MSMEs financed by the program vs. not financed	Percentage change in billings	TBD ³	2013			+5%	2018	<ul style="list-style-type: none"> • Observatory of Employment and Business Dynamics • MTEySS • Database of the program monitoring and evaluation system. • Survey of firms participating in the program and the control group 	<p>The expectation is for growth in billings by the beneficiary firms. The Observatory will evaluate “employment and turnover dynamics” using administrative records from Argentina’s Integrated Social Security System (SIPA).</p> <p>The set of nonparticipating firms that will serve as the control group will be selected and evaluated by the Observatory in light of the profile of firms participating in the program. This is a key indicator for measuring productivity.</p>

² To determine this figure, a preliminary pilot test will be conducted using samples of projects financed during the first 6 months of the first operation. Based on the study data, and subject to finalization of a working agreement with the Observatory of Employment and Business Dynamics, the baseline will be set, and the impact targets projected.

³ To determine this figure, a preliminary pilot test will be conducted using samples of projects financed under the first activity. Based on the study data, and subject to finalization of a working agreement with the Observatory of Employment and Business Dynamics, the baseline will be set, and the impact targets projected.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline		Intermediate measures		End-of-project targets		Source / Means of verification	Remarks
		Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 1: Increased MSME investment in business development services (BDS)									
Percentage of MSMEs investing in BDS (difference vis-à-vis control group)	Percentage point difference between percentage of beneficiary MSMEs purchasing BDS and percentage of nonbeneficiary MSMEs that also do so	70	2012			55	2018	<ul style="list-style-type: none">• Business survey and databases of SEPYME and the PACC program, at program start and end• Program final evaluation	The survey of BDS demand among MSMEs in Argentina shows that 22% of the sample purchased BDS without any support, whereas 92% of program beneficiaries did so. This indicator assumes that there will be an increase in the percentage of nonbeneficiary MSMEs purchasing BDS because of indirect effects of the program, but there will still be a gap of 55 percentage points between the two groups.
EXPECTED OUTCOME 2: Greater access to BDS for cluster member firms									
Number of collective actions to purchase BDS or to improve local BDS offerings.	Number of collective actions	0	2013	4	2015	10	2018	<ul style="list-style-type: none">• Program progress reports• Program midterm evaluation• Program final evaluation	This indicator will measure the outcome achieved by incentivizing firms belonging to clusters to partner for the purchase of certain BDS, or the program’s outcomes in improving local BDS offerings, whether public or private.
EXPECTED OUTCOME 3:Increase in the number of firms created and consolidated									
Difference in the survival rate of MSMEs created with program support and firms in a control group	Percentage difference in survival rate between program firms and the control group	0	2012			15%	2018	<ul style="list-style-type: none">• Reports from the monitoring and evaluation system• Observatory of Employment and Business Dynamics• MTEySS• Six-monthly status reports• Program midterm evaluation• Program final evaluation	This indicator will track firms created with program support and will measure the survival rate of the supported group, comparing it with a control group selected from among entrepreneurs who applied for program support but did not receive it. The survival rate for the group that receives support is expected to be 20% higher.

Indicators	Unit of measure	Baseline		Intermediate measures		End-of-project targets		Source / Means of verification	Remarks
		Value	Year	Value	Year	Value	Year		
Difference in survival rate of young MSMEs ⁴ with program support and firms in a control group	Percentage difference in survival rate between program firms and the control group	0	2012			+15%	2018	<ul style="list-style-type: none"> • Reports from the monitoring and evaluation system • Observatory of Employment and Business Dynamics • MTEySS • Six-monthly status reports • Program midterm evaluation • Program final evaluation 	The indicator will track firms in existence for less than two years that receive a program grant for their consolidation, and will measure the survival rate of the supported group, comparing it with a control group selected from among entrepreneurs who applied for program support but did not receive it. The survival rate for the group that receives support is expected to be 20% higher.
EXPECTED OUTCOME 4: Increase in the percentage of women beneficiaries of the program									
Increase in the percentage of women owners of program beneficiary firms	Percentage of women	18% 27% ⁵	Avg. PACC (2019-2012)	+2%	2015	+5%	2018	<ul style="list-style-type: none"> • Reports from the monitoring and evaluation system 	
EXPECTED OUTCOME 5: Increase in the share of program beneficiary firms from Norte Grande provinces									
Increase in the proportion of beneficiary firms from Norte Grande provinces	Percentage of beneficiary firms from the Norte Grande provinces	5%	Avg. PACC (2019-2012)			6.5%	2018	<ul style="list-style-type: none"> • Reports from the monitoring and evaluation system 	

⁴ “Young firms” are those in existence for less than three years.

⁵ Existing firms 18%; Entrepreneurs 27%.

OUTPUTS

Outputs	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Source / Means of Verification
Component 1: Technical assistance to MSMEs (OUTCOMES 1 and 5)									
Technical assistance granted ⁶ to firms	Grants ⁷	0	100	200	400	500	300	1,500	Business development plan (BDP) approval report. Disbursement certificates.
Component 2: Territorial productive linkages and competitiveness									
Support for territorial productive linkages and competitiveness (OUTCOME 2)									
Benefits granted ⁸ to finance support plans for mature clusters ⁹	Number of plans	0	0	0	2	2	3	7	Executing unit report.
Outreach to new clusters	Number of clusters	0	0	2	2	2	2	8	Executing unit report.
Institutional strengthening plans (PFI) granted ¹⁰	Plans granted	0	2	5	6	6	1	20	Plans approved. Disbursement certificates.

⁶ Granted means that the first disbursement has been made against the implementation schedule of the business development plan (BDP).

⁷ BDP.

⁸ Granted means that the first disbursement has been made against the project implementation schedule.

⁹ A cluster is considered “mature” if its member firms have conducted at least two collective actions in the past, with or without the support of public programs.

¹⁰ Granted means that the first disbursement has been made against the implementation schedule of the institutional strengthening plan (PFI).

Outputs	Unit of measure	Baseline 2012	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Source / Means of Verification
Component 3: Support for new firms (OUTCOMES 3 and 4)									
Technical assistance granted ¹¹ to young entrepreneurs and young firms	Grants	0	40	80	90	90	100	400	BDP approval report. Disbursement certificates.
Entrepreneurial development promotion actions and support services financed	Actions financed	0	5	10	15	15	5	50	Executing unit report.
Number of specialized institutions supported	Number of institutions	0	0	2	5	5	3	15	Executing unit report.
Workshops held on the role of women entrepreneurs	Number of workshops	0	1	1	1	1	1	5	Executing unit report.

¹¹ Granted means that the first disbursement has been made against the implementation schedule for the creation or consolidation of new firms.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Argentina

Project number: AR-L1145

Name: MSME Competitiveness Support Program

Executing agency: Ministry of Industry, Department of Small and Medium-sized Enterprise and Regional Development (SEPYME)

Fiduciary team: Ignacio Vinocur (FMP/CAR) and Gumersindo Velázquez (FMP/CAR)

I. Executive summary

1. The risk evaluation used the Procedures Guide for Risk Management in Projects with Sovereign Guarantee (PRM), and the institutional analysis used the Institutional Capacity Assessment System (ICAS). The executing agency will be the Department of Small and Medium-sized Enterprise and Regional Development (SEPYME), which will establish the Program Execution Unit (PEU) to administer the program.
2. Certain weaknesses and fiduciary risks were identified, as shown in the Risk Mitigation Matrix (RMM). The executing agency's fiduciary management systems were assessed using the procedures mentioned in section I.1, concluding that they are adequate but should be strengthened.
3. The program includes no financing from another multilateral agency.

II. Fiduciary context of the executing agency

The fiduciary systems of the executing agency are considered satisfactory, although they require certain strengthening measures which are included in the Risk Mitigation Matrix (RMM). It should be noted that the PEU is currently responsible for implementing the MSME Credit Access and Competitiveness Program, loan 1884/OC-AR.

III. Fiduciary risk assessment and mitigation measures

The analysis of fiduciary capacity was conducted as part of the ICAS analysis; the identification of risks (including fiduciary risks) was done using the project risk management methodology described above, through a joint workshop with members of the executing agency and other national government agencies. The risks identified and included in the risk matrix are: (i) weak regional capacity for management of works

procurement; and (ii) insufficient capacity for effective monitoring and evaluation of activities. The following mitigation measures were proposed for these risks: (a) strengthening of the PEU procurement unit; and (b) strengthening of the program monitoring and evaluation unit. The mitigation measures are built into the design of the operation through comprehensive strengthening and technical assistance mechanisms, so the risk at the executing agency level is considered low.

The supervision method applicable for financial management and procurement management was determined on the basis of these identified risks. The supervision method initially established may be altered during program execution based on subsequent evaluations.

I. Considerations for the Special Provisions of the contracts

Conditions precedent to the first disbursement. As a condition precedent to the first disbursement of the loan proceeds, the borrower, acting through the executing agency, will meet the following requirements to the Bank's satisfaction:

- (i) Program Operating Regulations (OR) in force, on the terms previously agreed upon with the Bank; and
- (ii) Bank approval of the model subexecution agreements for the various activities described in the program OR.

II. Agreements and requirements for procurement execution

1. Procurement execution

Procurements will be conducted in accordance with the "Policies for the procurement of goods and works financed by the Inter-American Development Bank" (document GN-2349-9) of March 2011, and the "Policies for the selection and contracting of consultants financed by the Inter-American Development Bank" (document GN-2350-9) of March 2011. The executing agency has also agreed to use the Procurement Plan Execution System (SEPA) for the program. In the event of temporary problems with connectivity and/or entering information in the SEPA system, it will be possible to work provisionally in an Excel physical format, in order to ensure that there is an approved procurement plan in effect.

- a. **Procurement of goods and nonconsulting services.** Contracts for goods and nonconsulting services¹ generated under the program and subject to international competitive bidding (ICB) will be procured using the Bank's standard bidding documents (SBDs). Procurements subject to national competitive bidding (NCB) will use national bidding documents agreed upon with the Bank. The project's sector specialist will be responsible for reviewing the technical specifications for procurements during the preparation of selection processes. The procurement plan to

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

be presented by the executing agency will record the processes to be conducted, including those for direct contracting.

- b. **Selection and contracting of consultants.** Contracts for consulting services generated under the program will be executed using the request for proposals issued by the Bank. The procurement plan will detail the expected processes, including those for single-source selection.

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

- Selection of individual consultants. In cases identified in the approved procurement plans, the contracting of individual consultants may be announced through local and/or international notices, in order to assemble a shortlist of qualified individuals, as established in document GN-2350-9, Section V, paragraphs 5.1 to 5.4. The contracting of consultants to assist the executing agency during the program execution period may follow the single-source selection procedure, in accordance with paragraph 5.4(a) of the cited policies. For such purposes, the executing agency will submit a list of consultants to the Bank (terms of reference for each position, when activities are recurrent and have a scope similar to that of the execution period) who are providing services under loan 1884/OC-AR. For the renewal of service contracts, approval of the performance evaluation by the program executive coordinator showing at least satisfactory results will be sufficient. If there should be any change of consultant for a position, the executing agency will follow the competitive procedure for selection of the new consultant, as indicated in this paragraph.
 - Training. The procurement plan details the procurement processes applicable to the project components that include training elements, to be contracted as consulting and nonconsulting services.
- c. **Recurrent expenditures.** Recurrent expenditures or operating and maintenance expenses required during the program will include: airfare (the national rule established by Decree 1191/2012 requires the use of Aerolíneas Argentinas and Austral for all travel within the country and abroad), per diems, ground transportation, rental of equipment and services, office maintenance, expenses, books and training, graphics, printing, publications and reproductions, messenger and postal, cleaning services, computer supplies, insurance, telephone service, and petty expenses for operation of the PEU, which will be financed by the program and handled in accordance with the executing agency's administrative procedures. Operating costs do not include the salaries of public sector employees.
- d. **Other.** Grants ("nonreimbursable contributions") will be financed for MSME technical assistance projects, local productive linkage and competitiveness projects, and projects to support new firms. When there are procurements for these projects, they will be conducted in accordance with document GN-2349-9, Appendix 4, "Policies for Procurement in Loans to the Private Sector."

- e. **Advance procurement/retroactive financing.** The approval date of the project profile, 25 September 2012, is the base date for retroactive recognition of expenditures as part of the loan. The estimated amounts to be reimbursed against the loan proceeds will be US\$5 million.

2. Table of threshold amounts (US\$000)

Works			Goods ²			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity Consulting	Shortlist 100% national
≥ 5,000,000	< 5,000,000 ≥ 350,000	< 350,000	≥ 500,000	< 500,000 ≥ 100,000	< 100,000	> 200,000	< 500,000

3. Main procurements

Activity	Type of process	Estimated start date	Estimated amount (US\$)
Goods			
Purchase of computer equipment	Shopping	March 2013	90,000
Purchase of office furniture for the program	Shopping	April 2013	90,000
Printing and graphics	Shopping	May 2013	30,000
Nonconsulting services			
Contracting of a record tracking system using barcodes	Shopping	April 2013	25,000
Room rental, equipment, and catering for the workshop to foster an entrepreneurial culture (two contracts, US\$50,000 each)	Shopping	May and October 2013	100,000
Contracting for 10 events including: meeting room, equipment, and catering for workshops (Province of Buenos Aires, Patagonia, NOA, NEA, Córdoba, Santa Fe, Greater Buenos Aires, CABA; US\$5,600 per event)	Shopping	February to November 2013	56,000
Firms			
Individuals			

4. Procurement supervision

The procurement contracts subject to ex post review by the Bank will be those listed in the following table, and will be conducted in accordance with Appendix 1 of the respective policies. Contracts for amounts equal to, or greater than, those cited in the table will be subject to ex ante supervision. ICBs may be subject to ex post review when the executing agency so requests, and demonstrates the required technical and administrative capacity.

Similarly, direct contracting of works, goods, services, and consulting services listed in the procurement plan may be subject to ex post review, in accordance with Appendix 1, Section 4, of the procurement and consulting policies, provided that the circumstances meet the requirements for direct contracting. The Bank will conduct ex post review visits at least once every 12 months. The ex post review reports will include at least one physical inspection visit, as appropriate. It is important to clarify that at least 10% of the reviewed contracts will be subject to physical inspection during the program.

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

Note: The threshold amounts set for ex post review are based the executing agency's fiduciary capacity for execution, and may be modified by the Bank in the relevant procurement plan insofar as such capacity changes.

5. Records and files

The executing agency will maintain a central standardized record-keeping system with documented procedures. The agreed formats or procedures must be used for the preparation and filing of project reports. The original documents will be retained by the PEU.

III. Financial management

1. Programming and budget

The executing agency's budget has program-based categories and other classifications based on expenditure items, namely personnel costs, consumer goods, nonpersonnel services, fixed assets, transfers, financial assets, debt service, payments on other liabilities, and other expenses. Depending on their economic nature, items are classified as current expenditures, capital expenditures, and short-term financial instruments. The internal sources of financing may be the national treasury, own resources, earmarked funds, and internal transfers. External financing includes external transfers and external loans.

No difficulties are anticipated for the management and timeliness of the local counterpart or delays affecting execution.

2. Accounting and reporting systems

The executing agency will use the UEPEX system as a financial administration system, implemented at both the central and provincial levels. Accounting records will be kept on a cash basis, and International Financial Reporting Standards (IFRS) will be followed, as applicable according to the established country criteria. The required financial reports will be: (i) financial execution plan for up to 180 days following the request for advances; (ii) audited annual financial statements; (iii) annual disbursement projections; (iv) itemized payments and status of execution for expense vouchers; and (v) other reports as required by the fiduciary specialists.

3. Disbursements and cash flow

The applicable policy will be the “Financial management policy for IDB-financed projects” (document OP-273-1) and the “Financial management operational guidelines for IDB-financed projects” (document OP-274-1).

The loan proceeds disbursed by the Bank under the advance of funds modality will be deposited in a dollar-denominated account and converted into local as operating needs require in a special peso-denominated account exclusive to the project, from which expenses and investments will be paid as planned. The executing agency must exercise strict and effective control over use of the funds advanced with mechanisms for verifying and reconciling the available balances shown in its records with those shown for the same items in the Bank’s records (LMS1 report).

The e-Disbursements modality will be used, which is the IDB Web-based system that allows the executing agency to prepare and send disbursement requests to the Bank electronically, lowering transaction costs and allowing the Bank to review and process applications received remotely.

Exchange rate agreed upon with the executing agency: The exchange rate to be used is established in the following manner:

1. Reimbursement of expenditures. The exchange rate indicated in Article 4.09(b)(i) of the General Conditions will be used.
2. Accounting for advances of funds. The exchange rate indicated in Article 4.09(a)(i) of the General Conditions will be used.
3. Counterpart. The exchange rate indicated in Article 4.09(b)(i) will be used.
4. Disbursements in currencies other than United States dollars and Argentine pesos. In cases of direct payment and letter of credit guarantee reimbursement, the loan currency equivalent will be based on the amount actually disbursed by the Bank.

Other specific requirements of project financial management necessary to establish in the contract or agreement to be signed with the Bank. Disbursements will be made in accordance with Articles 4.03, 4.05, 4.06 and 4.07 of the General Conditions.

4. Internal control and internal audit

Internal control is exercised by the Sindicatura General de la Nación [Office of the Receiver General] (SIGEN) (the supreme institution of the internal control system), which performs regular internal audits of the various agencies of the administration.

A manual of administrative procedures will be prepared and implemented, covering the processes and circuits to be followed in the context of the program.

5. External control and reports

External control is exercised by the Auditoría General de la Nación [Office of the Auditor General] (AGN) (the supreme institution of the external control system), which may conduct external audits of all agencies of the national public administration. The

AGN will perform the function of external auditor of the program. It will deliver audited annual financial statements to the Bank within 120 days after the close of each fiscal year.

6. Financial supervision plan

The initial financial supervision plan is based on the risk and fiduciary capacity assessments performed as part of the “onsite” and “desk” reviews envisaged for the project, and includes the scope of operational, financial, and accounting actions, as well as compliance and legality actions, frequency, and responsibility. Annual financial inspection visits are planned. The ex post review modality will be adopted for disbursements.

7. Execution mechanism

The program executing agency will be the Ministry of Industry, acting through the Department of Small and Medium-sized Enterprise and Regional Development (SEPYME), representing the national government. SEPYME was created by Decree 357 of 21 February 2002, with the mandate to provide strategic guidance and propose policy and program priorities for micro, small, and medium-sized enterprises (MSMEs), entrepreneurship development, and business creation within the policy definitions established by the national government.

Its objectives also include: (i) to coordinate and participate in negotiating and securing international technical and financial cooperation offered by other countries and international agencies for achieving sector objectives and policies; (ii) to pursue policies designed to promote and strengthen MSMEs in the country’s interior, in order to foster regional development.

SEPYME is responsible for overseeing the contract and the flow of financial resources required for contract implementation. Its organizational structure includes an office for SME and regional development policy and management, as well as an office for the promotion of SME financing. Within the first of these offices, which houses the executing unit of the MSME Credit Access and Competitiveness Program (PACC), there is also a national directorate for regional and sector development and foreign trade, as well as executing units for other programs.

The executing unit of the program now in execution (loan 1884/OC-AR, AR-L1033) will be used for administration and execution of the MSME Competitiveness Support Program, with the necessary additions, providing administrative, financial, procurement, contracting, and legal advisory services, as well as support for planning and monitoring. It will draw on the centralized information technology support provided by SEPYME.

The unit will be headed by a general coordinator, supported by an executive coordinator as a direct report. Under them will be an administrative area, a monitoring and evaluation area, an operations control area, and, lastly, the technical areas for each component and Subcomponents 2.1 and 2.2. Each of these will be headed by an area coordinator.

Operating Regulations. The program Operating Regulations (OR) will define and govern the relationships among program participants. The OR will be consistent with Bank policies and procedures, as well as with the country's laws and financial practices, and will establish: (i) eligibility criteria for program participants and beneficiaries; (ii) allocation mechanisms for technical assistance; (iii) eligibility of expenditures; (iv) operational and contractual relationships among the program participants. Bank approval of the final version, and implementation by SEPYME, will be a condition precedent to the first disbursement of the loan.

Disbursements. The advance of funds modality will be used for disbursements, in accordance with the financial plan covering a maximum of 180 days. Funds advanced must be accounted for when at least 80% has been expended. The disbursement request will include the disbursement request form, execution status, and the financial plan for the next 180 days. The financial management specialist may request additional information, namely: (i) itemized commitments; and (ii) reports on estimated physical and financial progress for the project. The frequency and the time covered by the advance will not exceed 180 days. When accounting for funds advanced, the following information must be submitted to the Bank: (i) disbursement request form; (ii) project execution status; (iii) reconciliation of Bank resources; (iv) itemized payments; (v) other reports to help demonstrate progress with the project. Supporting documentation for expenditures or payments will not be required when accounting for funds advanced, which does not signify approval of such outlays by the Bank. The original supporting documentation for the expenditures must be available for review by the Bank upon request.

Program monitoring. The monitoring and evaluation area of the executing unit will deliver monthly reports on operations to the SEPYME authorities with information taken from the program databases, reflecting the number of projects, status, region, grants committed and executed, etc. Program execution will be supervised via monitoring reports prepared by the PEU and submitted to the Bank within the time limits established in the General Conditions of the loan contract. Those reports will include: (i) six-monthly reports on the status of activities, identifying any problems and risks, and actions proposed to address them; (ii) midterm report; and (iii) final report upon completion of the program. These reports will provide evidence of compliance with the agreed commitments and will contain data and information on the progress of project execution. They are the main instrument for monitoring program results. The monitoring and evaluation plan in Annex IDBDOCS #37245902 contains details on how the necessary information will be gathered to monitor the agreed indicators in the program Results Matrix.

Ex post evaluation. The borrower will compile the data necessary to evaluate achievement of program targets, with a view to a potential evaluation of the program's efficiency and effectiveness for achieving the proposed objectives and drawing lessons learned.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/13

Argentina. Loan ___/OC-AR to the Argentine Republic
MSME Competitiveness Support Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Argentine Republic, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a MSME Competitiveness Support Program. Such financing will be for an amount of up to US\$50,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2013)

LEG/SGO/CSC/IDBDOCS: 37435391
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