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MULTILATERAL INVESTMENT FUND

ARGENTINA

FINANCIAL INCLUSION FOR CLIMATE-SMART AGRICULTURE IN ARGENTINA

(AR-T1170)

DONORS MEMORANDUM

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PROJECT SUMMARY
FINANCIAL INCLUSION FOR CLIMATE-SMART AGRICULTURE IN ARGENTINA
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This project, “Financial Inclusion for Climate-smart Agriculture in Argentina,” is an example of IDB Group joint action, inasmuch as its public sector (IDB) and private sector (IIC) are working together with the MIF on this pilot project, with specific financing plans for scaling it within the framework of two loans currently in the pipeline that are in the approval phase. This example of collaboration has, today, facilitated a unique opportunity for a true innovation in the credit market: financial products for small producers based on climate-smart agriculture (CSA) technologies. Promoted by the MIF, and with the support of the entire IDB Group to help it attain scale, this project can have a significant impact on Argentina’s agricultural credit market going forward.

The project has been designed to address a pressing problem: the limited adoption of available CSA technology and business solutions, especially among vulnerable small-scale producers in areas outside Argentina’s Pampas region. Solutions of this kind are necessary to increase these producers’ resilience to climate change, thereby boosting their productivity and revenue. In the face of the economic and social consequences of climate change, Argentina, a regional trailblazer in agricultural research and development under the leadership of the National Institute of Agricultural Technology (INTA) and other institutions, has developed and adapted a series of CSA technologies with a proven impact on productivity and considerable potential to achieve scale. These technology solutions include drought-resistant seeds, irrigation technologies, precision application techniques for biofertilizers, sophisticated planting methods, and precision agriculture, which mitigate the impacts of climate change, increase productivity and, ultimately, provide attractive returns on investments in their adoption.

The project proposes an intervention model that is technologically, technically, and financially integrated, based on: (a) the adoption of a CSA technology package comprised of a combination of climate resilience solutions validated either by INTA or an accredited agency, with market diversification and business development solutions (this package, to be adapted through studies on the different baseline conditions of the small-scale beneficiary producers, will be tested on a pilot scale in the Cuyo region and in a second region as yet to be determined in northeastern Argentina); (b) a pilot marketing test and development of a financial products line based on CSA technologies by Banco Credicoop, tailored to the technology and business development needs of small-scale producers and of cooperatives in other parts of the country; and (c) the systematization and transfer of the model, to include evaluation and knowledge-management activities targeted directly to its scaling up by Fundación Banco Credicoop and Banco Credicoop (with the possibility of financing from the Inter-American Investment Corporation), as well as other financial institutions interested in growing their borrower base. The model will also be tested and scaled up under the Bank-financed “Provincial Agricultural Services Program” (PROSAP IV), and through public policies for the technological modernization of agriculture with a CSA focus.

The innovative aspect of this project lies in its integrated intervention model, which incorporates technology, business transformation, value chain development, and made-to-measure financial products. In a country such as Argentina where sophisticated technology is readily available, this project will establish a climate risk “de-risking” model based on CSA technology and an integrated intervention approach to demonstrate that CSA for small-

scale producers in arid and semiarid areas is profitable and that banks are willing to finance it. The main outcomes expected from this project are: a 50% increase in yield per hectare; an increase in gross income of at least 30%; and a total of 400 new clients accessing CSA credit products in the pilot regions—as well as another 2,000 producers across the country over the life of the project, and an additional 5,000 producers three years after the project has ended.

This project will enable the MIF to fulfill its role as an innovation laboratory for the IDB Group. In fact, it was originally proposed as a pilot for the Group's private- and public-sector windows. The project will also test a public policy model to support the technological modernization of the agriculture sector under the Bank-financed PROSAP IV program. Specifically, it will make it possible to evaluate the effectiveness of linking the nonreimbursable contributions (NRCs) provided for under PROSAP IV to commercial bank financing and the adoption of technology by small-scale producers. The project has been included in the IIC's 2017 project pipeline, with a view to potentially financing its scaling up phase.

ANNEXES

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Annex II	Summary Budget

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Proposed resolution

INFORMATION AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF THE MIF PROJECT INFORMATION SYSTEM

Annex III	Itemized Budget
Annex IV	Diagnostic Needs Assessment of the Executing Agency (includes due diligence and integrity screening)
Annex V	Project Status Reports and Fulfillment of Milestones and Fiduciary Agreements
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ABBREVIATIONS

CSA	Climate-smart agriculture
FECOAGRO	Federación de Cooperativas Agropecuarias de San Juan Ltda. [Federation of San Juan Agricultural Cooperatives, Ltd.]
INTA	Instituto Nacional de Tecnología Agropecuaria [National Institute of Agricultural Technology]
NRC	Nonreimbursable contribution
REDD+	Reducing emissions from deforestation and forest degradation
SMEs	Small and medium-sized enterprises

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EXECUTIVE SUMMARY

Country and geographic locations:	Argentina, with activities in the Cuyo region, San Juan province, and in another region in northeastern Argentina to be determined by the project.		
Executing agency:	Fundación Banco Credicoop		
Focus area:	Climate-smart agriculture (CSA)		
Coordination with other donors/Bank operations:	An IDB Group joint project, this pilot project is coordinated with the PROSAP IV program (loan AR-L1198). The project, through Banco Credicoop, could receive IIC funding for its scaling phase, and is included in its 2017 project pipeline.		
Project beneficiaries:	<p>800 small-scale rural producers in two pilot regions</p> <p>Producers cooperatives and federations</p> <p>2,000 producers to receive CSA loans by 2020, increasing to 5,000 across the country by 2023</p>		
Financing:	MIF technical cooperation:	US\$1,000,000	27%
	Total MIF Contribution:	US\$1,000,000	27%
	Counterpart (executing agency):	US\$1,000,000	27%
	Counterpart (other):	US\$949,000	26%
	Cofinancing (Credicoop):	US\$750,000	20%
	Project Total:	US\$3,699,000	100%
Execution and disbursement period:	36 months for execution and 42 months for disbursement		
Special contractual conditions:	Conditions precedent to the first disbursement: (i) selection of the project director; (ii) formation of the project steering committee; and (iii) cooperation agreement signed between Fundación Banco Credicoop and Federación de Cooperativas Agropecuarias de San Juan, Ltda. (FECOAGRO) [Federation of San Juan Agricultural Cooperatives, Ltd.]		

Environmental and social impact review:

This operation was preevaluated on 16 September 2016 and classified in accordance with the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). In view of its limited impacts and risks, and opportunities for gender inclusion and climate change adaptation, the project is proposed as a category "C" operation.

Unit with disbursement responsibility:

The Country Office in Argentina (COF/CAR) will be responsible for project supervision and disbursements.

I. THE PROBLEM

A. Problem description

- 1.1 Argentina is located in a part of the world that has experienced some of the most dramatic climatic variations in recent decades.¹ The resulting consequences, coupled with unsustainable land use and management, have accelerated soil degradation, hastening the advance of desertification and adversely impacting agricultural productivity.² At present, 75% of Argentina is considered arid and semiarid. The magnitude of economic and social losses is significant, considering that the dry land of Argentina, home to 9 million or 30% of the total population, supports approximately half of the country's crop and livestock production.
- 1.2 In the face of such losses, Argentina has positioned itself as a regional trailblazer in the agricultural research and development field, in collaboration with the INTA and other public and private institutions. Specifically, it has developed or adapted a series of CSA technologies that have a proven impact on productivity and considerable scalability potential. These technological solutions include drought-resistant seeds, irrigation technologies, precision application techniques for biofertilizers, sophisticated planting methods, and precision agriculture.³ However, these solutions are primarily available in the Pampas (the grain-growing region in the central and central-north parts of the country), where medium-sized and large producers make the most use of them.
- 1.3 According to the most recent analysis, Argentina's banking and finance market is clearly unable to cover the agriculture sector's growing needs for financing. In the first quarter of 2016, the sector accounted for 8.6% of all bank loans, and just a tiny fraction of that percentage went to small-scale producers.⁴ Specifically, the financing requirements for climate-change adaptation—both through the acquisition of technology and improvement of agronomic or business practices—are only being covered in a very limited way, the main beneficiaries of which are larger producers, especially in the Pampas. Public policies have supported the agriculture sector with a series of actions aimed at providing public infrastructure to boost the sector's competitiveness, and facilitating nonreimbursable contributions NRCs—with varying degrees of effectiveness in boosting productivity and driving the sector's modernization.⁵
- 1.4 The problem that this project proposes to address is the limited access of small-scale producers outside the Pampas to the CSA technology and business solutions needed to increase their resilience to climate change, which would boost productivity and improve their revenue. Owing to their lack of access to such technology, these small-scale producers are caught in a vicious circle of production losses and environmental and socioeconomic deterioration. The problem of limited adoption of technology solutions is attributable to: (a) limited CSA capabilities, particularly as regards the adoption of climate-change-resilient technologies and practices, new markets, and

¹ Ministry of the Environment and National Development. Information as of 19 May 2016.

² The desertification process is advancing at the rate of 650,000 hectares per year (Convention to Combat Desertification, 2014).

³ *Innovación Tecnológica y Competitividad*, INTA, 2015.

⁴ Monetary Statistics Office, Central Bank of Argentina, 2016.

⁵ These contributions form part of the IDB-financed PROSAP IV program (loan AR-L1198).

business development; (b) insufficient financing, specifically for investments in CSA under adequate terms and conditions; and (c) knowledge gaps and information asymmetries regarding the expected increase in returns and financial risks involved in adopting these technology packages.

- 1.5 One example of this situation can be seen in San Juan province, where small-scale producers of different seed varieties (e.g. fruit, fodder, grain, and industrial) must contend with the specific problems of soil degradation and persistent drought owing to less frequent rainfall, as well as an increase in the average minimum and maximum temperatures. In view of its agroclimatic characteristics, uncontaminated stock of farmland, and favorable conditions for producing good-quality, high-yield seeds, this ecoregion is the country's main seed-producing province. The clear skies and predominately dry air of summer help facilitate natural drying following the harvest, as well as the subsequent processing stages necessary to produce seeds that are completely clean and healthy, with an elevated germination capacity and very low moisture content. In addition, water from the Andes snow melt is good for irrigation and helps produce healthy, high-quality seeds. Nonetheless, these comparative geographical advantages have mostly been tapped by large producers. Small-scale producers have been unable to increase their production because they lack varieties that are better adapted genetically, do not practice integrated and rational water management, and lack access to technologies that would modernize their fields. This relative disadvantage among small-scale producers to adapt to climate change is perpetuated, taking into account the specific features of each case, in other arid parts of the country, especially those outside the Pampas, which would justify the scaling up of the lessons learned from the proposed project.

II. THE INNOVATION PROPOSAL

A. Project description

- 2.1 The proposed solution is an integrated assistance model based on the adoption of a series of CSA technology solutions—the technical validation of which will be performed by INTA or other accredited agencies—that have a high impact on productivity and potential for being scaled up: (i) crops with genetically improved, drought-resistant seeds; (ii) transfer of water-efficient direct planting techniques that compensate for soil erosion; (iii) optimization, via crop rotation, of the water-crop yield; (iv) precise application of biofertilizers and pesticides; (v) new irrigation technologies; (vi) integrated pest management; and (vii) improved agronomic practices, including precision agriculture.
- 2.2 Banco Credicoop has identified the possibility of increasing its agricultural borrower base in arid and semiarid areas by offering financing for climate-change-adaptation technology and technical assistance. This would provide an attractive and sustainable business opportunity in the agricultural cooperative sector, and establish Banco Credicoop as first mover in the finance market for small-scale producers, with green credit lines specifically targeted to CSA technology solutions. For Fundación Credicoop and Banco Credicoop, the adoption of technology, good climate resilience practices, and value chain integration partially mitigate business and credit risks, enabling them to offer borrowers more favorable conditions.
- 2.3 From Banco Credicoop's perspective, the project would enable it to pursue the objective of expanding its borrower base, considering the expected high returns associated with technology adoption, whereas risks could be managed through

climate-change adaptation, technical, and business support measures. From the standpoint of the producer cooperatives, the project would have a high impact on boosting productivity, based on the adoption of CSA technology packages with all the relevant technological, agronomic, and business considerations. Moreover, from the perspective of public institutions and agencies such as INTA, the project would facilitate the transfer and large-scale testing of technologies and climate-change resilience practices, thereby helping them attain their productivity impact objectives, through climate change adaptation in the agriculture sector.

- 2.4 The solution is based on stakeholder coordination in the “ecosystem,” including: (a) companies in the value chain (buyers), such as Cooperativa Obrera Limitada de Consumo y Vivienda (COOP), a supermarket that has 113 stores and considerable influence on the chain, and other leading agrifood companies, as part of their supplier evaluation and development programs; (b) academia and research centers, which are expected to work closely with universities, other knowledge generation and dissemination institutions of the private sector and, primarily, with INTA, which is a key player in the development, dissemination, and adaption of production technologies for areas outside the Pampas; (c) providers of technical-assistance services for the adoption of technology and agronomic and business development practices; and (d) the public sector, particularly national and provincial producer-assistance programs, to provide solutions in such areas as in-field irrigation infrastructure, climate risk coverage, and generic technical assistance, as well as to disseminate, via public stakeholders, the results of innovations that can be scaled up and transferred to other regions.
- 2.5 The project will conduct pilots in two areas selected on the basis of opportunities identified for implementing CSA technologies with poor and vulnerable populations which lacked these solutions. The project will provide CSA financial products to approximately 800 small-scale producers, their production and marketing cooperatives (technical assistance), as well as another 2,000 producers over the project execution period, and an additional 5,000 producers three years after the project has ended. As a starting point, a pilot will be carried out in the country’s center-west Cuyo region—particularly in San Juan province—with seed producers (aromatic, vegetable, legume, and fruit seeds). Subsequently, it will be replicated in a different region with similar problems to be determined during the first year of the project. Accordingly, northeastern Argentina has been pre-identified, particularly the provinces of Chaco, Formosa, and the northern part of Santa Fe. The project anticipates that Banco Credicoop will launch a line of credit in other parts of the country for a total of 2,000 producers, which will draw on the lessons learned and the needs to adapt CSA financial products to conditions in these regions that were identified in the pilot phase.

B. Innovation

- 2.6 This project’s innovation lies in its integrated intervention model, which incorporates aspects of technology, business transformation, value chain development, and made-to-measure financial products. In a country such as Argentina where sophisticated technology is readily available, this project will develop a climate risk management model (de-risking) using CSA technology and an integrated intervention approach to demonstrate that CSA for small-scale farmers in arid and semiarid areas is profitable and that banks are willing to finance it.

- 2.7 This will be the first project in Argentina in which a foundation associated with a large financial institution, such as Banco Credicoop,⁶ develops financing tools coupled with training and technical assistance designed to mitigate the impact of climate change on small-scale farmers. Accordingly, the project is expected to help channel financial resources to resilient and profitable businesses that commercial banks are willing to finance. It will also include, for the first time, clients who have traditionally been neglected: banks will come to view small climate-smart producers outside the Pampas as potential borrowers.

C. Components

- 2.8 The project proposes an intervention model that is technologically, technically, and financially integrated, based on three components:

Component I: CSA technology package for small producers

- 2.9 The objective of this component is to mitigate the effects of climate change on small-scale producers, boosting their productivity and revenue.
- 2.10 This CSA technology package consists of a combination of elements that are central to the CSA concept: (a) climate resilience solutions that have been technically validated by INTA or another accredited agency, which include crops grown from genetically improved, drought-resistant seeds; optimization of water-crop yield and modern irrigation techniques; precise application of biofertilizers and pesticides; integrated pest management; and better agronomic practices, including precision agriculture; (b) diversification of the variety of agricultural products produced (e.g. sweets, jams, preserves, dried fruit, honey, and cheese); and (c) value chain development in strategic partnerships with large companies, market diversification and intelligence, and better management and governance of cooperatives in business development terms.
- 2.11 These interventions will be adapted and tailored to clients, after studying the baseline conditions of the beneficiary small-scale producers. They will be tested on a pilot scale in the Cuyo region through a strategic partnership with FECOAGRO Ltda. The area has been selected on account of its vulnerability to climate change and potential for resilience and increased productivity. A second pilot will be carried out in northeastern Argentina (selected on the basis of how it differs from the Cuyo region), to develop financial products that can be scaled up. To develop and deliver this technology package, the project will focus on facilitating the efficient operation and development of the local technical-assistance and training market for the transfer of technology. To develop the sector, public-private partnerships will be formed at the provincial and local levels to coordinate and complement government policies with the more efficient technical advisory markets of the private sector.

⁶ Within Banco Credicoop Group, Fundación Banco Credicoop has historically played a role in developing new businesses and growing the Group's portfolio of borrowers. One example of an experience that highlights this role is the MIF's collaboration with Fundación Banco Credicoop in a technical-assistance program to diversify the exports of small and medium-sized enterprises (SMEs) in Argentina (TC9910075), which has had a significant impact on increasing the invoicing of SME exporters and facilitating Banco Credicoop's launch of trade-finance financial products. These trade-finance credit lines had a demonstration effect for other banking institutions in the country, including Banco Galicia.

Component II: Market testing and development of a CSA financial products line

- 2.12 This component's objective is to conduct market testing that will enable Banco Credicoop to develop a line of CSA financial products tailored to the technology and business development needs of small-scale producers in different parts of the country.
- 2.13 The component's implementation will be based on testing of the financial products developed for the pilot regions, and provides for the design and marketing of new CSA credit products to supplement Banco Credicoop's cooperative financing product offerings. This line of financial products will include financing for technology investments with longer tenors based on production cycles, financing for the procurement of equipment in association with suppliers, financial leasing, factoring with buyers, climate insurance, and the possible adoption of a credit scoring model.
- 2.14 The component will be executed jointly by Fundación Banco Credicoop and Banco Credicoop to develop products that are sustainable over the long term. In other words, they will have to be economically attractive for the lender and borrower alike, with a view to facilitating their subsequent scaling up. The testing and development of Banco Credicoop's new line of CSA financing will include: (i) analysis of market intelligence; (ii) assessment of the risk to the agricultural portfolio posed by climate change; and (iii) adaptation of existing financial products and the development of new CSA financial products. Moreover, training will be provided to enable business, risk, and branch employees to market the new financial products targeted to small-scale producers.

Component III: Systematization and transfer of the model

- 2.15 This component's objective is to systematize the intervention model and transfer it through Fundación Banco Credicoop or even through Banco Credicoop itself, in view of the leadership role they play as compared to other financial institutions, and their influence on public policy.
- 2.16 The systematization of the model will include the implementation of a data collection system and evaluation and knowledge management activities targeted directly to its scaling up by Fundación Banco Credicoop and Banco Credicoop (with possible financing from the Inter-American Investment Corporation), and other financial institutions interested in growing their agricultural loan portfolios. After it has been evaluated and systemized, the model will be considered for scaling up under PROSAP IV (which was financed by the Bank), or other national or subnational programs and policies for technological modernization of agriculture, based on a CSA approach.
- 2.17 The model will be systematized and transferred through strategic partnerships with institutions that have considerable potential to scale it up. Accordingly, the project provides for an agreement with INTA that would supplement efforts to adapt and validate CSA technologies with bank financing instruments for the entire country. With a view to maximizing the public policy impact and developing the commercial-bank green credit financing market, the project, in collaboration with the IDB and the IIC, would include an evaluation that compares the impact to that of instruments used by the public sector to support agriculture. It will look at productivity gains and the return on investments of the instrument that offers NRCs and a reduction in payments in exchange for adopting technology.

D. Project results, impact, and monitoring and supervision

- 2.18 The project's objective is to improve the economic situation and climate-change resilience of Argentine small-scale producers in areas outside the Pampas. This will be accomplished with an integrated CSA intervention, based on the adoption of technology, skills development, and access to specialized credit.
- 2.19 The following indicators will be used to measure these aspects:
- An estimated total of 2,000 new borrowers in different regions during the life of the project, and 5,000 additional borrowers three years after it ends;
 - A total of 400 new borrowers using the line of CSA credit products in the pilot regions;
 - 800 producers obtain technical assistance and training to implement climate-change adaptation and mitigation measures;
 - 50% of the producers who receive training and technical assistance implement climate-smart practices, in accordance with their improvement plans;
 - 30% of the producers trained make investments in efficient water and/or energy use, and more sophisticated planting and harvesting techniques, through the financing system introduced by the project;
 - Productivity gain of at least 50%, measured as the total yield per hectare of beneficiaries who implement the CSA technology package; and
 - Increase of at least 30% in the gross income of beneficiary producers who adopt the CSA technology package.
- 2.20 The project will have a monitoring and evaluation system that is underpinned by a system for compiling technical and administrative-financial information, designed to track project outcomes. This system will include the baseline, i.e. beneficiaries' technical and productivity information. The project provides for an impact evaluation to obtain market information and recommendations on relevant operational policies for bringing it to scale. The customary reports required by the MIF for the project will be submitted: (i) semiannual project status reports; and (ii) midterm and final evaluations.

III. ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND RISKS

A. Alignment with the IDB Group

- 3.1 This proposal is aligned with the three main focuses of the new IDB Group strategy with Argentina (2016-2020): (a) improving the business climate and supporting the financial inclusion of SMEs that promote environmentally sustainable practices; (b) strengthening of private sector integration into value chains by supporting the agribusiness sector in adopting sustainable CSA management practices; and (c) reducing poverty and inequality by working with small low-income farmers.
- 3.2 This project will enable the MIF to fulfill its role as an innovation laboratory for the IDB Group. In fact, it was proposed as a pilot for the Group's private and public sector windows. The project will also test a potential public policy model that would support the technological modernization of the agriculture sector under the Bank-financed

PROSAP IV program (loan AR-L1198).⁷ Specifically, it will evaluate the effectiveness of linking the NRCs provided under PROSAP IV to commercial bank financing and technology adoption, using a contingent lending approach that offers the possibility of a 40% discount in payments tied to the adoption of technology with a high impact on yields per hectare. The funds and technical assistance provided under the MIF project will be leveraged by PROSAP, thereby facilitating more and better results in terms of small-scale producers' access to "traditional" loans (formal banking sector), building their capacity to negotiate the terms and amounts of their financing. The project has been included in the IIC's 2017 project pipeline with a view to financing its scaling phase.

- 3.3 The project forms part of the MIF's CSA pillar and will constitute a key contribution by demonstrating the levels of improvement in farmers' productivity and revenue, and the possibility of financing climate-change resilience solutions.
- 3.4 The project will also support the Climate Change Sector Framework Document by diversifying sources of financing and promoting innovative financing instruments as important factors for facilitating investments in adaptation and mitigation. In turn, this also contributes to establishing a model of private sector support for REDD+ financing. The IDB's Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy proposes lending activities in strategic areas of the climate-change agenda, including: sustainable management of natural resources, a reduction in land-use change and in climate-change in vulnerability, all of which are strategically aligned with this project. Accordingly, the MIF project provides a platform for the adoption of a skills development model for the sector and a structured financing methodology for the IDB Group.

B. Scalability

- 3.5 The scalability potential stems from the reach of Banco Credicoop's portfolio, which means that the model can be extended to the entire country. The IIC has expressed interest in providing financing support for this scaling up process, with a view to establishing a green credit line of between US\$5 million and US\$7 million. As on other occasions, the development of a CSA line by a leading player like Banco Credicoop is expected to have a market signaling impact for other financial players looking to expand their borrower base with solutions of this kind. Moreover, if it is successful, the financial and nonfinancial model may be scaled up by the Ministry of Agroindustry as part of the IDB's PROSAP program for areas outside the Pampas (US\$100 million).
- 3.6 As supervisor, the MIF team in the Country Office in Argentina (MIF/CAR) will maintain communication with and provide feedback to the Environment, Rural Development, and Risk Management Division (RND/CAR), which participated in the project's design; the Capital Markets and Financial Institutions Division (CMF/CAR); and the IIC to

⁷ According to the PROSAP IV loan proposal (loan AR-L1198), this MIF project could test the effectiveness (in terms of technology adoption and increased crop yield) of a financing instrument that links support from that loan's technology modernization fund to the comprehensive assistance model for small-scale producers proposed by the MIF pilot project, and to financial support from the IIC for Banco Credicoop's development of a green credit line. The model to be tested and potentially scaled up in other regions under the PROSAP program would provide supplemental financing for the adoption of CSA technologies in the form of a discount (NRCs) of up to 40% in payments. With respect to the evaluation of projects, this project would make it possible to link NRCs to the adoption of technologies with a high impact on productivity and to banking discipline. Accordingly, the MIF project would provide the Bank's PROSAP program with the opportunity to instill a contingent loans approach in the NRC instrument, whereby up to 40% could be converted to grants, based on specific investments and the outcomes achieved.

identify the timeframe and processes for creating a platform to scale up the models identified in this project. As part of its supervisory functions, the MIF team will track the qualitative progress made by Banco Credicoop on CSA financing products, as well as that of other commercial banks that may launch similar products in the future. The MIF team will also actively monitor progress on the IIC financing and on the supplemental support model for the Bank's PROSAP program.

C. Project and institutional risks

- 3.7 The project's main risks entail: (1) lower returns or higher climate risks than projected for the adoption of CSA technology, especially during the phase of adding producers in other regions with different baseline conditions; (2) a possible slowdown in the agriculture sector's demand for CSA financing or unexpected regulatory restrictions; (3) extreme climate-change events in a given crop season; (4) unexpected changes in market demand associated with new varieties to be introduced and new products stemming from the diversification process; (5) specific difficulties in coordinating the activities of the various institutions that interact with producers; (6) limited availability of public funds for agricultural development, owing to fiscal restrictions on financing for investments that cooperatives and producers need to make.
- 3.8 The following actions are called for to alleviate these risks: (1) partial mitigation measures for smaller returns in the expansion phase, based on the development of robust evaluation systems, investments, production capabilities, and borrowers in the project framework; (2) Banco Credicoop backing of its institutional commitment to expand its borrower base in the agriculture sector; (3) climate risk management support for producers in the form of training and technical assistance to adopt a new technology package, in addition to financial products to promote climate-change adaptation and build climate resilience, specifically through crop insurance; (4) a market and cost-benefit analysis of new crop varieties and potential new products to determine the extent and characteristics of demand and to strengthen the cooperatives' marketing areas; (5) promotion of opportunities for public-private coordination and consensus-building in each area where the project will be executed; and (6) establishment of agreements with Banco Credicoop that would double the amount of funding in the line of credit to address project beneficiaries' financing needs.

IV. BUDGET INSTRUMENT AND PROPOSAL

- 4.1 The total cost of the project is US\$3,699,000, with US\$1,000,000 (27%) from the MIF, a US\$1,000,000 (27%) counterpart contribution from the executing agency, US\$949,000 (46%) from third party contributors, including INTA and FECOAGRO, and US\$750,000 from Banco Credicoop.
- 4.2 The beneficiary producers and cooperatives will make an additional contribution equal to 50% of the total cost of training and technical assistance from their own funds or funds from other sources.
- 4.3 **Retroactive recognition of counterpart expenditures:** Counterpart expenditures related to project development incurred after 21 September 2016, the date of the analysis mission, will be recognized.

Project components	MIF	Executing agency counterpart	Cofinancing and others	Total
Component I: CSA technology package for small producers	506,000	288,600	479,000	1,273,600
Component II: Market testing and development of a CSA financial products line	40,000	211,000	790,000	1,041,000
Component III: Systematization and transfer of the model	382,000	156,000	430,000	968,000
Administration	20,000	312,000		332,000
Midterm and final evaluations	20,000	5,000	0	25,000
Ex post reviews	20,000	0	0	20,000
Contingencies	12,000	27,400	0	39,400
Total	1,000,000	1,000,000	1,699,000	3,699,000
% financing	27%	27%	46%	100%

V. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

A. Executing agency description

- 5.1 Fundación Banco Credicoop, the project's executing agency, was established by Banco Credicoop⁸ in 1999 as a nonprofit organization. Its main objective is to promote the development of SMEs and boost their competitiveness through actions aimed at developing different nonfinancial services. It has extensive experience in providing advisory services, technical assistance, training, and stakeholder coordination activities aimed at offering services to better integrate companies into the credit market. The diagnostic needs assessment of the executing agency indicates that it has capacity to procure goods and services, and to carry out the project's administrative and financial management. The executing agency is eligible for annual ex post reviews of goods and services procurement. It is also eligible for annual ex post reviews of disbursements. The executing agency requires strengthening in monitoring and evaluation, which is provided under this project.
- 5.2 Fundación Banco Credicoop and Banco Credicoop operate across the country and both institutions are in a position to address the needs of small-scale producers in different regions. Banco Credicoop has 17 branches in the Cuyo region and 260 elsewhere in the country. It has more than 900,000 clients (members). Just as Banco Credicoop was a pioneer in the SME credit market, it is hoped that, on this occasion, provincial and national institutions will also be able to replicate and scale up the experience, thus heightening the impact of the work that Credicoop will do to expand the project into other parts of the country.
- 5.3 As relevant background for this project, the MIF has supported Fundación Banco Credicoop in: (i) implementing an export diversification program for SMEs under a technical-cooperation project (TC9910075); and (ii) an investment fund with Banco Credicoop (TC981210). An impact evaluation was conducted for technical-cooperation project TC9910075, attesting to its effectiveness in boosting the incomes

⁸ Banco Credicoop Cooperativo Limitado was established in 1979 through the merger of 44 credit unions, some of which had been in business for more than 60 years. With 259 branches and 22 service centers across the country, and book assets worth more than US\$2.5 billion, Banco Credicoop is the country's largest private bank with 100% nationally-owned capital, and Latin American's largest cooperative bank.

of SME export firms and in terms of the line of trade finance launched by Credicoop, which led other commercial banks in the country to offer similar credit lines.

5.4 Other project partners:

- **FECOAGRO Ltda.**, a second-tier organization composed of 30 primary cooperatives located in the five valleys of San Juan province. The main activity of its members is the production of aromatic, vegetable, legume, and fruit seeds. Currently, 650 families belong to this organization of small rural producers, who have banded together in 30 cooperatives.
- **Federación de Cooperativas Federadas Ltda. (FECOFE)** [Federation of Federated Cooperatives], a federation that currently has more than 30 affiliate members around the country and others in the process of joining, most of whom are located in the Cuyo region and the northeastern and northwestern parts of the country.

B. Implementation structure and arrangement

5.5 Fundación Banco Credicoop will establish a technical unit to execute this project. It will be headed by a project director and a technical coordinator. It will also include a technical assistant and an accounting assistant. The unit will closely coordinate execution with the project partners and the MIF to attain the objective and high-level results expected, in compliance with MIF operating policies and procedures. Fundación Banco Credicoop will also be responsible for submitting reports on project performance and implementation.

5.6 The project steering committee will be coordinated by the project director who will serve as its secretary. The committee will consist of: (i) the director of Fundación Banco Credicoop; (ii) two more of its executives; (iii) the project director; and (iv) the project technical coordinator. The committee will discuss and agree upon: (a) the project's annual or semiannual work plans (including the procurement and financial plans); (b) the counterpart contributions of the project partners; (c) the structured financing methodology for the project beneficiaries; (d) mechanisms for public-private coordination at the provincial, regional, and local levels; (e) milestones; (f) plans or strategies for replication, scalability, and sustainability proposed for future expansion, based on the systematization of the project's results; and (g) other matters that are strategically or operationally relevant for success and for attaining the objective and expected high-level results.

VI. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

6.1 **Results-based disbursements and fiduciary arrangements.** The executing agency agrees to follow the MIF's standard arrangements concerning results-based disbursements, the Bank's procurement policies,⁹ the financial management policies¹⁰ specified in Annexes V and VI, and the following specific agreements and requirements for this project:

- Type of supervision: ex post, annual reviews of disbursements and procurement.

⁹ Link to the [Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank](#).

¹⁰ Link to the [Financial Management Guidelines for IDB-financed Projects](#).

- Audited financial statements: only at the end of the project.
- The project provides for a special cooperation agreement with INTA, through its cooperation department, for the genetic development of seeds in San Juan, to which INTA will contribute with US\$100,000; FECOAGRO with US\$110,000; and the MIF with up to US\$150,000. A similar agreement is being arranged for northeastern Argentina, for a MIF contribution of up to US\$100,000. The MIF's contributions to both agreements will be triggered against compliance with the milestones stipulated therein.

VII. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

A. Confidential information

- 7.1 The structured financing methodology designed by the project will be kept confidential by all project stakeholders during the pilot phase, which is expected to last for 12 months following its approval by the project steering committee. Subsequently, the project will systematize and improve the methodology drawing on the lessons learned, and will present it publicly at knowledge-sharing events with the finance industry.