

## PROGRAM FOR ASSISTANCE TO SMALL RURAL PRODUCERS

(TC-95-01-42-1-AR)

### EXECUTIVE SUMMARY

**EXECUTING AGENCY:** Federación Agraria Argentina [Argentine Agrarian Federation] (FAA)

**BENEFICIARIES:** Small rural producers in the regions of Córdoba, Cuyo, and the humid Pampas.

**OBJECTIVES:** The general objective of the program is to help improve the business management skills and competitiveness of 10,000 small rural producers. To achieve this objective, the program will promote the use of an institutional mechanism, self-sustaining over time, to channel nonfinancial business services toward small producers who currently have difficulties obtaining such services. The services to be offered through the program will help to improve business capacity by providing small rural producers with fresh options and the means to adapt their activities and ways of doing business to reflect the changing macroeconomic environment in Argentina.

**DESCRIPTION:** Accordingly, the program is comprised of two components described below:

#### 1. Nonfinancial services

The nonfinancial business services include information, training, and technical-assistance activities:

- a. Information services: through an electronic network of information services, at the national and international levels, covering technology, markets, legal, financial, and tax-related matters, products and processes, etc., to facilitate the management of production and marketing.
- b. Training services: in areas connected with producer activities such as the use of information, new technologies, business management, forms of association, management of agricultural cooperative enterprises, time and resource management, strategies for harnessing market opportunities, and environmental protection.

- c. Technical assistance services: to facilitate the adoption of new technologies and working methods to make optimal use of available final goods and increase the added value of producer goods, whether these be the producer's own goods or goods to be acquired; to analyze and evaluate the commercial opportunities for specific types of products; to adopt new production and processing methods, or ways to enhance factors of production; and to conduct specialized studies to support the design of investment projects.

## 2. Organizing the services mechanism

The activities for organizing services will involve working with the FAA to implement an institutional mechanism for providing the (nonfinancial) business services associated with the program in order to ensure their growth, continuity, and expansion into the future, i.e., beyond the time frame envisaged for execution of the program.

### **RISKS:**

The effective and rising demand for services and, in particular, payment by small producers for such services, which is not a very common practice, could be considered program risks. The program takes pains to minimize this risk, using the following techniques: (a) the selection of the regions to be covered by the program; (b) the specific tasks aimed at inducing demand; (c) the outreach and information campaign; and (d) in the early stages, a cost subsidy. At the same time, the disbursement of funds will be matched to effective demand and to the FAA's efficiency in channeling the supply of specialized services to meet that demand.

### **THE BANK'S COUNTRY STRATEGY:**

This operation is in keeping with the IDB's strategy for Argentina. By its very nature, and given its ultimate beneficiaries, the operation will help enhance the productivity and competitiveness of small rural producers, using a regional development approach based on providing business support services and supplementing private investment.

### **SPECIAL CONTRACTUAL CONDITIONS:**

The following special conditions, to be met to the Bank's satisfaction, shall be included:

1. As conditions precedent to the first disbursement of resources, will be provided that:
  - a. The program manager has been preselected (see paragraph 3.24);

- b. A special account has been opened into which the contribution resources are to be deposited (see paragraph 3.36); and,
  - c. A plan, chart, or code of accounts has been adopted (see paragraph 3.37).
2. In addition, the eventual agreement will contain requirements to ensure proper programming and follow-up (see paragraphs 3.31 and 3.42); adherence to the Bank's procurement policy for goods (see paragraph 3.32) and consulting services (see paragraphs 3.33 to 3.35); the presentation of audited financial statements (see paragraph 3.38), and evaluation of the program (see paragraph 4.3);

<b>FINANCING:</b>	Modality:	Grant
	Beneficiary:	US\$1,504,000
	MIF:	US\$3,000,000
	Total:	US\$4,504,000

<b>TIMETABLE FOR</b>	Execution period:	48 months
<b>EXECUTION:</b>	Disbursement period:	54 months

<b>ENVIRONMENTAL</b>	The Environment Committee, at its meeting 29/95 of September 7 and 8, 1995, classified this as a Category II operation.
<b>CLASSIFICATION:</b>	

## I. COUNTRY ELIGIBILITY

- 1.1 The Donors Committee declared the Argentine Republic eligible for all modalities of financing under the Multilateral Investment Fund (MIF) in December 1993.

## II. FRAME OF REFERENCE

### A. Background

- 2.1 Beginning in 1989, Argentina launched an economic reform program based primarily on the April 1991 Convertibility Law [Ley de Convertibilidad], which pegged the national currency to the U.S. dollar to stabilize inflation and halt the decline in real per capita income. As a result, the Argentine economy entered an economic growth cycle driven by expanding domestic consumption and foreign investment.
- 2.2 The second half of 1994 saw the onset of an economic slowdown that became more noticeable in 1995 (as a result of the fallout from the Mexican financial crisis). Certain variables which had been performing poorly will require government action to ensure the survival of the Convertibility Plan. These are: the deteriorating fiscal situation, the external accounts, rising unemployment, and the slowing rates of investment and growth of GDP.
- 2.3 Under the circumstances, exports are critical to ensuring the continuity of current economic policy, given that equilibrium in external accounts is conducive to convertibility and economic expansion. In view of the comparative advantages of the Argentine agriculture sector, there is considerable potential for sustained growth in exports, which justifies efforts to strengthen the agriculture sector so as to enhance its productivity.

### B. The agriculture sector

- 2.4 In 1994, agricultural production accounted for 6.9% of GDP. Despite the fact that agricultural production accounts for a limited share of GDP, the sector is exceptionally well represented in the figures for exports (60.3% of the total), of which 23.6% are primary agricultural products and 36.7% manufactures of agricultural origin.
- 2.5 Some recent studies indicate low levels of productivity in the rural sector. Given the impact of structural adjustment programs, there is now a school of thought which holds that special efforts need to be made to give rural communities a helping hand. Such efforts should seek to enhance the role of small rural producers in particular.

C. Small rural producers

- 2.6 A small rural producer may be defined as a production unit in which the farmer works in a system of production on a for-profit basis. Under current law, a production unit is defined as any agricultural holding which, by virtue of its surface area, quality of land, location, improvements, and other aspects of its operation (e.g., a family farm), makes it possible to meet the needs and ensure the favorable performance of the enterprise. According to the 1988 National Agricultural Census and studies by the National Agricultural Technology Institute [Instituto Nacional de Tecnología Agropecuaria] (INTA), of a total of approximately 380,000 farms throughout Argentina, it is estimated that 159,600 (42%) belong to producers from the small- and medium-scale categories. It is estimated that of those 159,600, some 60% to 70% are small producers.
- 2.7 In January 1995, the Argentine Agrarian Federation [Federación Agraria Argentina] (FAA) produced a document entitled "Report of the Argentine Agrarian Federation on Small- and Medium-sized Enterprises (SMEs) in Agriculture. Causes and Consequences of the Crisis", which stated that small- and medium-scale agricultural enterprises are adversely affected by: (a) a lack of education and training in agricultural activities, which have become so complex that one needs to be very well-informed in order to interpret the events unfolding in Argentina and around the world, and thus make appropriate decisions; (b) technological backwardness and inadequate or obsolete infrastructure; (c) a lack of planning and policies to help SMEs cope with microeconomic change; (d) centralization of policy decisions, which ultimately fail to take account of the diverse conditions encountered in the various regions of Argentina, and in rural areas in particular; and (e) the market economy, which is compelling farmers (and the smallest-scale farmers in particular) to make a major effort of adjustment, given that their usual ways of doing business leave them ill-equipped to cope with the new environment in which they must operate.
- 2.8 According to INTA estimates, in the humid Pampas (the most bountiful region of Argentina) 60% of small rural producers 1/ earn extremely low rates of return. The corresponding percentages are even larger in the other agricultural regions of Argentina.
- 2.9 This inevitably has implications for those organizations representing the interests of farmers, such as the FAA, in the sense that they too must make massive efforts to reform and overhaul their structures if they are to provide services to help improve the competitiveness of the agriculture sector, quite apart

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1/ FAA estimates indicate that in that zone, there are some 200 organizations (subsidiaries, members, affiliates) numbering approximately 20,000 small-scale producers.

from carrying out their traditional activities as representative organizations.

D. The Argentine Agrarian Federation (FAA)

- 2.10 Founded in 1912, the FAA is a service-oriented representative organization with over 100,000 small- and medium-scale producers in its ranks. The FAA makes its presence felt at the national level, through 803 grassroots production units (subsidiaries, cooperatives, affiliated entities, youth and women's centers, and delegation offices). Since 1935, the FAA has had legal capacity to administer credit programs and to accept grants and loans from domestic and international sources. The FAA is headquartered in the city of Rosario.
- 2.11 According to its charter, the FAA's aim is to serve as an umbrella organization for associations, unions, cooperatives, and technical, cultural, or other socially-oriented organizations, provided that these are independent entities comprised of individuals engaged in agricultural production. The FAA may provide any type of services, including mutual aid services, to its constituent organizations and their members, either directly or through third parties; and it may engage in industrial, regional, and/or cooperative exchange activities aimed at serving the economic and social interests of farmers.
- 2.12 In 1990, the FAA instituted a program of institutional strengthening based on short-, medium-, and long-term activities. This process includes modernizing the FAA's internal organization, its federated information center, and its technical assistance and training services.
- 2.13 The activities involved in providing services for producers are the responsibility of the Planning and Development Department and the General Administration Department. The former is responsible for the operational aspects of programs, while the latter is responsible for financial and accounting matters.
- 2.14 The Planning and Development Department, headed by a general coordinator, is currently engaged in a range of activities connected with: (a) administering agreements, such as the FAA/INTA Agreement, the purpose of which is to develop and promote soybean crops in the Pampas region, and the FAA/Templar S.A. Agreement, aimed at promoting and testing the use of new cultivation and direct drilling equipment involving a variety of fertilization methods; (b) carrying out agroeconomic surveys of current conditions, production costs, price series, MERCOSUR integration, and the publication of "Síntesis Agroeconómica" ["Agroeconomic Summary"]; (c) representing the FAA within INTA; (d) conducting

training and technical assistance activities for associate members; and (e) administering agreement SP/SF-91-34-AR with the IDB. 2/

- 2.15 The FAA has a long tradition of offering services to small- and medium-scale rural producers. Originally, such services were focused on technical/agricultural issues, regarding which the FAA developed its own initiatives and mechanisms or otherwise joined forces with organizations such as INTA. In addition, the FAA is currently engaged in joint projects, for example, "Cambio Rural" ["Rural Change"]. 3/ The current needs of small farmers (e.g., for nonfinancial business services) pose a challenge for the FAA, which is not equipped to deliver such services given its lack of experience and a framework unsuited to such purposes.

E. Demand for nonfinancial services

- 2.16 By consulting with the various centers, subsidiaries and cooperatives at the grassroots level, the FAA found that farmers needed access to business services related to agricultural management; specifically, in areas related to agricultural technology, as well as management of agricultural and agroindustrial operations, in order to improve performance and compete more effectively on domestic and foreign markets. These findings led the FAA to design and prepare a course of action to meet the most urgent needs of farmers and their families - a course of action that could develop into a novel form of partnership and cooperation for the federated groups concerned.
- 2.17 The initial findings highlighted the need to find new ways to provide small-scale producers with suitable and timely access to technical, economic, market-oriented, legal, financial, and tax-related information, etc.; technical and business training; opportunities to increase familiarity with processes and products (technical assistance); new project development; and meaningful access to markets (preferably involving added value).
- 2.18 Given that the program under consideration here must achieve optimal results if it is to have the desired outcome, the areas

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2/ Program of credit and technical cooperation for low-income farmers and craftmakers living in the region of Puna Salteña. The operation was approved in October 1991 and was subsequently redesigned, with greater emphasis on technical cooperation. The FAA has asked for cancellation of unutilized resources from the operation.

3/ Program designed to educate rural producers regarding the need to change with the times, in light of new demands arising from liberalization and competitiveness. Currently, there are over 1,500 groups actively working under this program. Today, the program is seriously impaired as a result of budget cuts (the program is financed with government resources through the Secretariat of Agriculture and Fisheries).

selected for program implementation are the ones offering the greatest potential for success, based on the interest that the farmers have shown in introducing innovations and improving their competitiveness, and given the fact that some of the facilities needed to carry out the program are already in place.

- 2.19 The proposed areas are: (a) the Cuyo region, focusing on the cities of Mendoza and on Chilecito (La Rioja). This region is noteworthy for its vineyard, wine, fruit and vegetable production; (b) the Córdoba region, focusing on the city of Córdoba and Villa María. This region is noteworthy for its dairy and cattle production, with traditional agriculture and a major peanut-growing area; and (c) the Pampas region, focusing on the cities of Rosario (Santa Fe) and on Veinticinco de Mayo (Buenos Aires), a mostly cereal-producing area with some stock raising.
- 2.20 In selecting the areas for program implementation, the following criteria were used: (a) identifiable potential demand for services, combined with the potential to use such services to overcome problems of profitability and market access; 4/ (b) the existence of thriving federated groups; (c) the presence of certain kinds of institutional structures; (d) production infrastructure capable of being retooled; (e) the existence of areas of production facing difficulties in the processing of products, marketing, management of natural resources and/or development of demand; (f) the existence of areas of production which, although integrated into cooperative agroindustries, are still facing technological constraints; and (g) a diversity of ecological and geographic characteristics, the better to ensure a diversity of experiences replicable elsewhere in Argentina.

F. Supply of nonfinancial services

- 2.21 To assess the size of the supply of business advisory services, the following sources were used: (a) individual inquiries; (b) information on supply (training) obtained by the support program for the production-transformation process; 5/ (c) review of discussions with high-level personnel at consulting firms that are working or have worked with the FAA; and (d) information contained in the records of consulting organizations working with INTA (technical assistance and training).
- 2.22 These inquiries indicate that the potential supply of business advisory services, including training and technical assistance, is exceptionally extensive in terms of quantity and variety.

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4/ Estimates of potential demand identified by the FAA, in the selected regions, amount to approximately 39,000 small-scale producers.

5/ Contracts for IDB loans 925/SF-AR and 816/OC-AR.



Nonetheless, it is clear that the supply of such services is not really geared toward the special needs of small business.

- 2.23 The government's own programs of services for farmers are generally more focused on agricultural extension activities. The government's services place little emphasis on issues of known concern to small rural producers, such as: technical assistance for production transformation, business training, agroindustrial technology, prices and market information, and administration and management to enhance their bargaining and marketing power; and access to necessary and timely information and facilities to conduct studies in respect of productive preinvestment.
- 2.24 The business services provided by private technical-assistance and training institutions generally focus more on urban areas and on the industrial and service sectors. In the agriculture sector, the technical assistance and training offered by private firms tends to focus on large- and medium-scale enterprises. The existing private supply of technological and business services for small rural producers is selective, unsystematic, poorly coordinated, insufficient to cover unmet demand, and fundamentally cautious in its approach.
- 2.25 Accordingly, given its leadership role among small producers, the FAA fills an important need in providing business services in rural areas. In this connection, the FAA has directed pilot projects and services to generate experience by providing training and technical assistance to organized groups of rural producers in a variety of agricultural areas.

G. The MIF program and the IDB strategy

- 2.26 The preceding paragraphs provide background for the program discussed in this document, the purpose of which is to help restructure the activities of small rural producers and thereby help them to develop into competitive businesspeople, by implementing a methodology based on integrated services encompassing training, technical assistance, and preinvestment, firmly grounded in a suitable information system.
- 2.27 The IDB's activities in Argentina focus on three basic areas: (a) expanding and consolidating efforts to **modernize the State** at the central government level and replicating these efforts at the provincial and municipal government levels; (b) **alleviating poverty and improving the population's quality of life** through measures designed to generate gainful employment opportunities, while enhancing the quality and coverage of social programs; and (c) **boosting the productivity and competitiveness** of the tradable goods sectors, using an approach geared toward environmental protection, through the provision of the required infrastructure

and activities to modernize the production framework and the regional integration process.

- 2.28 The nature and ultimate beneficiaries of this operation are such that it can be expected to help enhance the productivity and competitiveness of small rural producers, through its use of a regional development approach based on institutionalizing a business support services mechanism and supplementing private investment.

### III. THE PROGRAM AND ITS EXECUTION

#### A. Objective

- 3.1 The overall objective of the program is to help improve the business management skills and competitiveness of small rural producers in the areas of Córdoba, Cuyo, and the humid Pampas. Accordingly, the program will foster the use of an institutional mechanism, self-sustaining over time, to channel nonfinancial business services toward the large numbers of small producers currently experiencing difficulties in obtaining such services.
- 3.2 The nonfinancial services offered by the program will help improve business capacity by providing small rural producers with fresh options and the means to adapt their activities and ways of doing business to reflect the changing macroeconomic environment in Argentina.
- 3.3 The execution of the program is designed to: (a) enhance the business capacity of existing production units run by small rural producers; (b) ensure the equitable and uniform dissemination of the available information and technology; (c) optimize the use of available resources with more effective preservation of the environment; (d) enable small producers to play a more significant role in the agrifood chains; (e) raise existing quality standards and generate product diversification; (f) penetrate new markets; (g) have demonstration impact in other regions; (h) strengthen installed institutional capacity; (i) work to achieve self-sustainability over time; and (j) set up an interconnected network of services.

B. Beneficiaries

- 3.4 The program's beneficiaries will be small rural producers who, to qualify for the program, hold one to three units of production, 6/ and they may participate either individually or on a cooperative basis. If they are participating on a cooperative basis, it will be necessary for the associate members of the organizations in question to be small-scale producers on the average.
- 3.5 In general terms, this program is expected to help provide information services for approximately 10,000 small rural producers, of whom about 35% are expected to receive training; and as the latter service is expected to function as a "filter" for the users of more personalized services such as comprehensive services (information and technical assistance), it is estimated that about 1,000 producers will be served in this fashion. The latter number calls for some clarification, as it was estimated on the basis of potential demand from individuals, and did not take into account the fact that there could be a very high proportion of demand represented by associations or groups (a tendency that is going to be targeted and encouraged). If that is the case, the number of beneficiaries could treble.

C. Components

- 3.6 To achieve its objective, the program involves the execution of the two components described below:
1. Nonfinancial services
- 3.7 Nonfinancial business services will include information, training, and technical-assistance activities, as follows:
- a. Information services: through an electronic network of information services, at the national and international levels, covering technology, markets and legal, financial, and tax-related matters, products and processes, etc., to facilitate the management of production and marketing.
  - b. Training services: in areas connected with the activities of producers such as the use of information, new technologies, business management, forms of association, management of agricultural cooperatives, time and resource management,

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6/ Currently, the characteristics, size, and distinctive problems of small rural producers are such that the original definition of "production unit" (one that makes it possible to live and raise a family) is placed in relative perspective and may be reviewed during the program.

strategies for harnessing market opportunities, and environmental conservation.

- c. Technical assistance services: to facilitate the adoption of new technologies and working methods in order to make optimal use of available final goods and increase the added value of producer goods, whether these be the producer's own goods or goods to be acquired; to analyze and evaluate commercial opportunities for specific types of products; to introduce new production and processing techniques and new methods for enhancing factors of production; and to conduct specialized studies to support the design of investment projects.
- 3.8 The fields and activities identified in the preceding paragraphs are not intended as an exhaustive list, for in planning these services, provision has been made for carrying out rural business development studies which may open up other avenues for exploration. However, before these new fields and activities can be included, a statement of nonobjection from the IDB will be required, it having been demonstrated that: (a) such activities relate to the objectives of the program; (b) there is demand for the services; (c) there is a supply of qualified services to meet demand; and (d) there are no resources available from other sources to accommodate the new activities.

## 2. Organizing the services mechanism

- 3.9 The activities required to organize the mechanism will involve working with the FAA to implement the institutional framework for delivering the program's nonfinancial business services, as well as ensuring the development, continuity, and expansion of the services well into the future, i.e., beyond the time frame envisaged for execution of the program.

### D. Activities included in the services component

- 3.10 Given that the rationale for the program is the demand for services, its operating mechanism will need to be both dynamic and flexible; accordingly, provision has been made for the following basic activities needed to achieve the objective and execute the component in question.
- 3.11 **Outreach:** The program will finance outreach efforts to promote the program and, in particular, alert small-scale producers to the availability of services to encourage them to adopt a change-oriented attitude and thereby gain access to markets while putting them in touch with other producers. The FAA will design appropriate campaigns and mechanisms, including at the regional level, and will ensure that local features are included to adapt them to specific needs.

- 3.12 **Identifying service demand and supply:** The FAA will identify requirements, at the regional level, with assistance from specialized consultants as needed, and in conjunction with the small producers. The effective supply of services will be matched to demand. To that end, information required to evaluate the professionals and the firms offering their services will be prepared and organized. The coordinating units will induce demand for business services by eliciting interest in them.
- 3.13 **Project eligibility:** Based on demand and resource availability studies, the FAA will meet the demand and prioritize projects and activities on the basis *inter alia* of such considerations as: (a) is the project truly business-oriented; (b) is it well-suited to the services offered by the program; (c) are the producers small-scale producers; (d) is the project clearly not a project with a high risk of sizable adverse environmental impact; and (e) have the small-scale producers agreed to pay for the services they receive.
- 3.14 **Work plans and annual operating budgets:** On the basis of the outreach exercises and the efforts to identify demand and select a pool of suitably qualified service providers, an annual work plan will be organized along with a budget. The plan will include the projects and activities to be carried out in a given fiscal year, their costs (contribution by the program and by the beneficiaries) and the manner in which they are to be executed. Once the work plan and the annual budget have been agreed upon, the plan will be executed by hiring specialized consultants to meet the needs identified, prioritized, and incorporated in the plan. The initial tasks to be performed in the areas of training, technical assistance, and information have already been identified by the FAA in the demand studies performed for this program. The content of the work plan and the frequency with which it is to be submitted are explained in paragraph 3.31.
- 3.15 **Evaluation of plans:** The results of the annual plans will be evaluated at the same time as the plan for the following year is prepared. The evaluation must set out the results of the execution of the work plan, indicate the degree to which its costs were recovered and identify any problems that may have arisen in the design and implementation of the plan, as well as any corrective measures carried out or planned.

E. Activities included in the component for organizing the services mechanism

- 3.16 The basic activities envisaged for this component are the following: (a) selecting and hiring consultants to manage the program from the operational standpoint; (b) selecting and hiring specialized experts to provide services in response to demand; (c) coordinating, developing, monitoring, and evaluating activities

in the three regions covered by the program; (d) transferring know-how and expertise to the service units of the FAA; (e) designing and planning joint activities in the execution of the plans and in the training and further development of the human resources required for the purpose; (f) acquiring computer equipment and developing and/or customizing programs for the information service; (g) executing the financial administration of program resources; and (h) providing assistance to facilitate the execution of the program as a whole.

F. Cost and financing

- 3.17 The total cost of the program amounts to US\$4,504,000, of which the MIF will contribute US\$3,000,000 on a nonreimbursable basis, with the FAA contributing US\$1,504,000 as counterpart. The following table summarizes the cost and financing of the program (in thousands of U.S. dollars):

ACTIVITIES	MIF	FAA	TOTAL
1. Nonfinancial services	1,622 (54%)	1,045 (69%)	2,667 (59%)
1.1 Information	350	375	725
1.2 Training	700	252	952
1.3 Technical assistance	572	418	990
2. Organization of services	1,069 (36%)	343 (23%)	1,412 (31%)
3. Auditing, evaluation, and contingencies	309 (10%)	116 (8%)	425 (10%)
TOTAL	3,000 (100%)	1,504 (100%)	4,504 (100%)
%	67%	33%	100%

- 3.18 The MIF contribution will be used to pay the fees of the consulting firms or individual consultants hired to carry out the institutional strengthening activities, to provide specialized business services, and to evaluate the program. It will also be used to finance the procurement of computer hardware and software, publications, and support services. At least 60% of the resources of the MIF contribution will be earmarked for direct services demanded by small producers (this percentage includes part of the resources budgeted for the contingencies category).
- 3.19 The local counterpart will be used to cover (in whole or in part) backstopping costs such as office space, furniture, equipment, supplies, support staff and auxiliary personnel, communications and publications, as required for the execution of the program components, and supplemental expenses connected with the training, technical assistance, and training services and the external

auditing of the program. As explained in the following section, in addition to the local counterpart, a mechanism for recovering 15%, 30%, 60%, and 80% of the service costs over the respective years of execution is provided for (of FAA and Bank contributions to nonfinancial services). These resources will be used as they are received to finance the proposed services.

G. Sustainability

- 3.20 The project will be executed in four years, after which recoveries are expected to support a significant proportion of the costs of the services, and the FAA will cover operating costs.
- 3.21 The sustainability of the program takes into account: (a) mechanisms that involve decreasing contributions from the MIF and increasing income from the sale of services; (b) a system of incentives after the end of which the services would be paid for by users at market conditions, to ensure the continuity of the actions over time and the possible expansion of their geographical coverage; and (c) maintenance of the FAA's annual contribution to cover operating and administrative costs.
- 3.22 The funds from recoveries may only be used to continue providing services, to finance operating costs, and to expand business services, provided they conform substantially to the procedures set forth in this program. Any other use of the resources that the FAA may propose will require prior approval from the Bank. The information regarding cost recovery will be included in the annual work plans and will be a central element of the independent evaluations of the program.
- 3.23 The following table, expressed in thousands of U.S. dollars, is a projection of the program's income and expenditures for the four years of execution. A fifth year without MIF funds is included.

ITEM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
<b>Income</b>					
Sale of nonfinancial services	116	341	820	1,210	1,210
FAA contribution	450	400	400	250	300
<b>TOTAL INCOME</b>	566	741	1,260	1,460	1,510
<b>Expenditures</b>					
Nonfinancial services	866	1,071	1,620	1,695	1,210

ITEM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Organization of services	520	320	210	260	271
Audit, evaluation, and contingencies	98	115	98	114	29
<b>TOTAL EXPENDITURES</b>	1,484	1,506	1,928	2,069	1,510
<b>MIF contribution</b>	(918)	(765)	(708)	(609)	0

H. Execution mechanism

- 3.24 The program will be executed by the FAA through its Agricultural Development and Planning Department [Departamento de Planificación y Desarrollo Agrícola] (DPDA). Reporting to the DPDA will be the program manager, who will be working with an evaluation and monitoring committee, which will be the ultimate decision-making body and will be chaired by the FAA President. The preselection of the program manager will be a condition precedent to the first disbursement.
- 3.25 The program manager will also have two advisory bodies for operational implementation: the committee of experts (CE) and the internal discussion forum [Foro de Reflexión Interno] (FRI). The CE will be comprised of consultants specializing in management issues connected with the provision of support services for the rural sector, and the FRI will regularly gather together the regional coordinators envisaged in the program, to review the status of and outlook for the services.
- 3.26 For the small producers (locally organized into cooperative organizations), three regional coordination units will be established, physically located at the FAA's branch offices. These coordination units will consist of a regional technical coordinator for the project reporting to project management, the FAA zonal director and the regional delegate, to facilitate coordination and ensure that the proposal filters through to the organization and the ultimate beneficiaries.
- 3.27 Within individual regions, measures will be taken to set up local advisory councils comprised of users of services. The regional technical coordinators will coordinate their activities directly with the small producers, or through the technical experts working with their local organizations. This strategy should make it possible to generate a larger pool of local managerial capability, which will be conducive to the continuity of services.
- 3.28 The locations of the regional coordination units where the principal project activities are to be executed have been



preselected by the FAA with emphasis on those regions offering the greatest prospects for making an impact and generating demonstration effects.

- 3.29 In order to facilitate the transfer of know-how and expertise to the FAA, the program as a whole will be executed by means of the temporary hiring of individual consultants and/or consulting firms specializing in management issues, as well as by ensuring that the coordination units have technical personnel with a track record in imparting and promoting business and agribusiness services. In addition, the program services will be selectively publicized through specialized media channels.

I. Execution and disbursement period

- 3.30 The proposed program will be executed over a period of 48 months, and the contribution resources will be disbursed over a period of 54 months.

J. Annual work plans

- 3.31 As explained in section D of this chapter (paragraph 3.14), on the basis of the outreach efforts and measures to identify demand and select the supply of specialized services, the FAA must prepare and submit the following within six months after the effective date of the agreement as well as before September 30 each year during the program's execution: (a) an annual work plan specifying the projects and activities to be implemented during the fiscal year in question, indicating the costs (contribution by the program and by the beneficiaries), and the manner in which the plan is to be executed; and (b) a report discussing the results of the previous work plan, indicating the degree to which costs have been recovered, and identifying any problems that may have arisen in the design and implementation of the plan as well as any corrective measures carried out or planned.

K. Procurement of goods and consulting services

1. Procurement of goods

- 3.32 Under IDB policy, the FAA, when procuring the specified equipment, must adhere to the rules regarding the appropriate use of the contribution, the eligibility of goods, and principles of economy and efficiency. The FAA must use competitive bidding to ensure that goods are procured at market prices so that the costs are in line with the needs of the program.

2. Selecting and hiring of consultants

- 3.33 IDB procedures will be adhered to when selecting and hiring consultants; only consultants who are nationals of MIF-eligible countries may be used. In the selection procedures that it

negotiates with the IDB, the FAA may not introduce provisions or conditions that restrict or impede participation by consultants who are nationals of MIF-eligible countries.

- 3.34 In selecting and hiring the program manager (at the international level), the technical coordinators, and the consultants who are to perform a special evaluation of the program, the FAA will be required to submit for IDB approval: (a) the selection procedure; (b) the terms of reference; (c) the names of the tentatively selected experts, indicating their nationality, home address, background, professional experience, and other qualifications; and (d) the contract form to be used when hiring experts. Once the IDB has approved these requirements, the FAA may hire the experts.
- 3.35 When selecting and hiring specific consultants to provide the information, training, and technical assistance services for small producers, the IDB will be kept informed of the procedures used. However, given the quantity, volume, short duration, and speed with which it will be necessary to select and hire the consultants, the FAA will arrange with the IDB either for the latter to participate in the consultant selection process in the manner described in the preceding paragraph or for the IDB to carry out an ex post review of the procedures used. For this purpose, the FAA must keep available for review the documented background information on the procedures.

L. Disbursement mechanism

- 3.36 In accordance with the estimated needs related to execution of the program, a revolving fund will be established equivalent to 10% of the MIF contribution, which will ensure timely access to the funds needed to carry out the various planned activities. As a condition precedent to the first disbursement, the FAA must submit for IDB approval evidence that a separate account has been opened into which the resources disbursed from the contribution are to be deposited.

M. Accounting and auditing

- 3.37 The FAA must maintain specific accounts on the program and do so separately from the FAA's own accounts. Accordingly, as a condition precedent to the first disbursement, the FAA must submit for IDB approval a plan, chart, or code of accounts separately listing all transactions funded by the contribution, the local counterpart of the program, and recoveries.
- 3.38 Over a period of five years, beginning with the year in which disbursements begin, and within 120 days after the close of each fiscal year, the FAA will be required to submit the financial statements for the program, approved by an independent auditor or firm of auditors acceptable to the IDB.

N. Linkage to environmental issues

- 3.39 At its 29/95 meeting, the IDB's Environment Committee classified this as a Category II operation. On that occasion, it was recommended that it should be made clear that no direct adverse environmental effects of any kind were expected for the duration of the program.
- 3.40 The FAA will pay particularly close attention to the sustainability of development as well as to environmental considerations. First, when preparing the diagnostic studies, particular importance will be attached to environmental matters, which will be one of the factors evaluated. Second, technological enhancement activities and investment plans will be classified utilizing the following categories with respect to the environment: (a) environment-friendly; (b) involving no risk of adverse environmental impact; (c) involving moderate risk of adverse environmental impact; and (d) involving a high risk of significant adverse environmental impact. With projects or activities ranked under category (c), it will be necessary to adopt prior measures to neutralize adverse environmental impact as a prerequisite for gaining access to services provided by the FAA. No category (d) projects will be financed.

O. The role of women

- 3.41 The role of women is important in the activities of small rural producers. Over 60% of women work on the farm alongside their husbands and it is estimated that 15% of women are heads of household on such farms. The program will focus on enhancing and facilitating the involvement of women by making sure that the various program activities take account of the special needs of women within the small rural producers sector.

P. Progress reports

- 3.42 The FAA will provide the IDB with semiannual progress reports on the status of the program, within 60 days after the end of each calendar six-month period or at such other times as the parties shall mutually decide. The reports should give an account of the status of the program's execution as a whole. As a minimum, the reports should contain the following information: (a) program goal attainment and quality (*indicate goals attained and qualitative features thereof, in accordance with prescribed indicators*); (b) cost of the program (*by sources of financing, give an account of the status of the program's execution and explain whether any changes are envisaged*); (c) gradual recovery of variable costs (*degree of progress achieved*); (d) general status of execution (*identify problems and actual causes, including instances where there is a perceived need to reformulate the program; prospects for progress and future risks*); (e) progress (*for each activity*):

*indicate number of events, number of participants, percentage of participants satisfied, geographic distribution, number of women participating): outreach, information service, training service, and technical assistance service; (f) procurement of goods (purchases made, method, goods acquired, their source, itemized cost); and (g) hiring of consultants (individual consultants, consulting firms, selection procedure, nationality, field of specialization, purpose for which they were hired, cost of each use of their services).*

#### IV. MONITORING AND EVALUATION

##### A. Monitoring

- 4.1 Annex I of this Donors' Project Memorandum sets out the basic actions required to implement the planning process and to report essential information on its execution, monitoring, and evaluation.
- 4.2 The nature of the program, and the need to tailor its implementation to reflect the changes unfolding in the productive sector and to meet the demand from small rural producers, argue in favor of intensive monitoring. The main instruments for monitoring the project will be the annual work plans (see paragraph 3.31) and progress reports (see paragraph 3.42) that the FAA will prepare and submit to the Bank as well as three special evaluations.

##### B. Evaluation

- 4.3 The program makes provision for three special evaluations to be conducted throughout the program's execution, i.e., at 12 months, 24 months, and 48 months after the effective date of the agreement.
- 4.4 The first evaluation should focus on reviewing the initial activities performed by the FAA to execute the program, including adjustments to the FAA's internal organization, allocation of responsibilities, actions deriving from the conditions precedent to the first disbursement, the selection and hiring of personnel to manage the program as well as the basic support personnel. The second evaluation should focus on reviewing the effectiveness of the program's implementation, the performance of the program manager and the coordinators, the mechanisms to identify demand for services, the methods to select service providers and their effectiveness, and the functioning of the cost recovery mechanism. The findings of this independent evaluation may argue in favor of continuing with the program, reviewing and/or reformulating certain aspects of the program, or cancelling the program.
- 4.5 Should a decision be made to continue with the program or review certain aspects of the program, the third evaluation will focus on

the effectiveness of the execution of the program as a whole (services and strengthening), the viability of the strengthened institutional mechanisms, the level of demand for services, the efficiency and effectiveness of the services provided, and the effectiveness of the cost recovery system.

- 4.6 For the latter evaluation, arrangements will be made with the IDB to identify and select a representative sample of beneficiaries of all the services provided, with the aim of evaluating the results achieved among the small producers who received the services, and the expected impact. The evaluation of the impact, where applicable, may include: (a) an evaluation of the benefits and actual costs resulting from the project; (b) the identification of restrictions or constraints favorably or unfavorably affecting the project, with a view to making allowances for them in future projects; (c) comparisons between the objectives of the project and the results actually achieved; (d) an analysis of factors contributing to the success of the project, in addition to recommendations for enhancing the effectiveness of similar projects in future; and (e) where feasible, an evaluation of the economic and social impact and other indirect effects of the project.
- 4.7 The external consultants who are to carry out the independent evaluation will be selected and hired directly by the FAA in accordance with the procedure outlined in paragraph 3.36.

## **V. BENEFITS, VIABILITY, AND RISKS**

### **A. Benefits**

- 5.1 In addition to achieving the program's expected objectives, its execution will offer the following benefits: (a) the fact that this is a program administered by an organization that represents small producers and is in direct contact with the IDB, will mean that the organization and its members have a deeper understanding of the IDB's activities in Argentina and the operations that the IDB is financing; and (b) the program will make it possible to channel business consulting services (traditionally focused on urban areas and the industrial and services sectors) to rural areas and small rural producers in particular.

### **B. Viability**

- 5.2 The viability of the program is based on the following: (a) the MIF contribution will be used to finance and facilitate the procurement of services by small producers, as a result of which their competitiveness will be enhanced, generating profit margins in the process; (b) the program will use its own results as a means of impressing upon small producers that the services they receive

are an investment and not merely an extra expense, so they will be motivated to pay for these services; and (c) the program will be conducted through an organization that in essence represents the community of small producers in each locale where services are to be provided. It is this latter factor, in particular, that will help to ensure the viability of the proposed program, given that the FAA enjoys sufficient prestige and credibility to set in motion the process of modernization that will enable the required innovations to take hold among the small producers concerned.

C. Risks

- 5.3 The effective and rising demand for services and, in particular, having small producers pay for such services - which is not as yet an especially common practice - could be considered a risk for the program. The program takes pains to minimize this risk, using the following techniques: (a) the selection of the regions to be covered by the program; (b) the specific tasks aimed at inducing demand; (c) the outreach and information campaign; and (d) in the early stages, a cost subsidy. At the same time, the disbursement of funds will be matched to effective demand and to the FAA's efficiency in channeling the supply of specialized services to meet that demand. If demand falls below expectations, the program may be redesigned to reflect lessons learned during the trial period.

# PROGRAM PLANNING BASED ON OBJECTIVES: Assistance to small rural producers

ARRATIVE SUMMARY OF OBJECTIVES	INDICATORS (see following table)	MEANS OF VERIFICATION	ASSUMPTIONS
To improve the management of farms to small rural producers in the regions of ba, Cuyo, and the humid Pampas	Approximately 10,000 small producers served over the course of four years, who will gain improved business capacity, will be incorporated into agrofood export "chains", and will diversify, participate in new markets, and increase their income	By means of: (a) a final execution report; and (b) surveys through sampling	(a) The FAA undertakes to maintain the program a permanent basis; and (b) the FAA attaches priority to attending to the changing needs of sm producers through the provision of nonfinancial services
USE: Use of specialized information, mentation of new technologies, business ment capacity, management of cooperative nises, tapping of national and international t opportunities, environmental preservation, t development, agroindustrial development, tment of women on family farms	Over the course of four years: (1) Information provided to 10,000 small producers; 3,500 small producers provided with training; and comprehensive services (technical assistance) provided to 1,000 small producers (2) Institutional mechanism for nonfinancial services and information system at the FAA, organized and functioning	(1) and (2) by means of: (a) progress reports; (b) project inspection; (c) second special evaluation; and (d) surveys through sampling	(a) That there is demand for nonfinancial services; (b) that producers are prepared to pay for the services; (c) that once cost recovery is achieved, the FAA becomes self-sufficient to continue providing the services; and (d) that the FAA has a institutional infrastructure capable of administering a program of this nature
ONENTS: (1) nonfinancial services: training, local assistance, information; and stitutional strengthening of the FAA; financial services unit at the FAA and nation system	(a) Four annual plans and budgets; and (b) project management, evaluation and monitoring committee in place and operational; internal discussion forum in place and operational; three regional coordination units in place and operational; information system (designed, equipment procured, system functioning)	By means of: (a) progress reports on the operation; (b) mid-term special evaluation; and (c) reviews of annual plans	(1), (2), and (3) by means of: (a) progress reports on the operation; (b) disbursement requests; (c) the beneficiary's accounting records; and (d) financial statements on the operation evaluated by external auditors
IPAL ACTIVITIES: nonfinancial services; blichizing services; nitying demand for services; viewing demand and on the basis of eligibility a; establishment of priorities in respect of demand; organization and annual plans; ecution; and evaluation of results and lessons learned stitutional strengthening of the FAA lecting and hiring consultants; rganizing a unit at the FAA; and stem design, selection and procurement of ment, installation and operation	(1) Nonfinancial services: US\$1,622,000 (MIF contribution) and US\$1,045,000 (local contribution) (2) Institutional strengthening of the FAA: US\$1,069,000 (MIF contribution) and US\$343,000 (local contribution) (3) Auditing, evaluation, and contingencies: US\$309,000 (MIF contribution) and US\$116,000 (local contribution)		

## MONITORING AND EVALUATION MECHANISMS DURING PROGRAM EXECUTION

INDICATOR\YEAR	YEAR 1 EXECUTION	YEAR 2 EXECUTION	YEAR 3 EXECUTION	YEAR 4 EXECUTION	TOTAL
<u>(Nonfinancial) business services</u>					
• Information (users served)	600	1,400	2,900	5,100	10,000
• Training (participants)	200	450	950	1,900	3,500
• Technical assistance (project/user)	50	150	250	550	1,000
<u>Institutional activities</u>					
• Hiring consultants to manage the program (number of consultants)	4	0	0	0	4
• Budget execution (MIF/FAA funds in US\$)	1,278	1,083	1,064	1,087	4,504
• Revenues from sale of services (in US\$)	116	341	820	1,210	Cumulative
• Annual work plan	1	1	1	1	4
• Semiannual progress reports	2	2	2	2	8
• Audited financial statements	1	1	1	1	4
• Evaluations of the program	1	1	0	1	3



**PROPOSED RESOLUTION**

**ARGENTINA. TECHNICAL COOPERATION PROGRAM FOR  
ASSISTANCE TO SMALL RURAL PRODUCERS**

The Donors Committee of the Multilateral Investment Fund

**RESOLVES:**

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Federación Agraria Argentina (FAA) and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT-\_\_\_\_ with respect to a technical cooperation, the purpose of which is Assistance to Small Rural Producers.

2. That up to the amount of US\$3,000,000 is authorized for the purpose of this resolution, chargeable to the Small Enterprise Development Facility of the Multilateral Investment Fund.

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