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MULTILATERAL INVESTMENT FUND

ARGENTINA

**SYSTEM FOR FACILITATING INTERNATIONAL MARKET ACCESS
BY SMALL AND MEDIUM RURAL PRODUCERS**

(TC-02-05-02-0-AR)

DONORS MEMORANDUM

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ABBREVIATIONS

CAFER	Federated Agricultural Cooperatives of Entre Ríos
DOC	Controlled Origin Designation
FAA	Argentine Agrarian Federation
HACCP	Hazard Analysis and Critical Control Points
INAES	National Institute of Social Economics and Associative Activity
MFN	Most Favored Nation
NEA	Northeastern Region of Argentina
NOA	Northwestern Region of Argentina
PCR	Project completion report
SMEs	Small and medium enterprises
UEC	Central executing unit

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EXECUTIVE SUMMARY

Executing agency:	Fundación Fortalecer		
Beneficiaries:	The direct beneficiaries of the program will be 500 small and medium rural producers and agroindustrial SMEs. In the case of the former, they may have one to three productive units and may participate on an individual, cooperative, or associative basis. The agroindustrial enterprises must have fewer than 100 employees.		
Financing:	IDB/MIF	US\$1,500,000	(60%)
	Local counterpart:	<u>US\$1,000,000</u>	(40%)
	Total:	US\$2,500,000	(100%)
Objectives:	The general objective of the program is to facilitate the insertion of small and medium enterprises (SMEs) into international trade flows, through product and market diversification. The specific objective is to implement a sustainable system for facilitating international market access by agricultural and agroindustrial SMEs located in the regions of Cuyo, Noreste, Noroeste and Pampa Húmeda in Argentina, enabling them to adapt to the technical requirements of those markets, and to eliminate trade barriers and develop an associative network to these ends.		
Description:	<p>The Program would consist of four components: (i) program promotion and enterprise awareness campaign; (ii) access plan for new exporters, new markets, and/or new products; (iii) assisted marketing services and support for the public-private dialogue; and (iv) an institutionalized information network, trade assistance, and the provision of basic electronic services.</p> <p>In order to ensure adequate technical and administrative execution of the program, a central executing unit (UEC) will be established to support the Fundación Fortalecer in these tasks. To address the needs of beneficiaries in the field, the executing agency will establish regional assisted marketing windows with headquarters in Villa María (Córdoba Province), Paraná (Entre Ríos Province), Rosario (Santa Fe Province), and Chilecito (La Rioja Province).</p>		

Execution timetable:	Execution period: 36 months Disbursement period: 42 months
Environmental and social review:	The program was reviewed by the Committee on Environment and Social Impact (CESI) on 14 March 2003, and its suggestions and recommendations have been incorporated into the design of the operation (see paragraph 7.2).
Exceptions to Bank policy:	None.
Special contractual clauses:	The first disbursement of the contribution will be subject to presentation by Fundación Fortalecer of evidence to the Bank's satisfaction that: (i) it has selected the personnel making up the UEC (see paragraph 8.1); and (ii) the Operating Regulations have entered into force in accordance with the draft agreed with the Bank (see paragraph 8.1).

I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 The Donors' Committee declared the Argentine Republic eligible for all the financing modalities provided within the framework of the Multilateral Investment Fund (MIF) on 30 November 1993. This program is eligible for financing under the Small Enterprise Development Facility (Facility III) as it will contribute to improving trade by reducing or eliminating technical barriers that constitute obstacles to the efficient development of markets.

II. FRAME OF REFERENCE

A. Background

- 2.1 The economic globalization process and structural changes in world trade have contributed to a substantial increase in the importance of foreign trade to the economies of countries in the region. In the case of Argentina, in the 1990s there was a substantial increase in the degree of openness of its economy, rising to represent 19% of GDP, a percentage which has been increasing to date owing to the exchange rate devaluation. The average most favored nation (MFN) customs duty applied by Argentina to all products is 15%, while the average preferential duty for its trading partners is 7%.
- 2.2 However, and despite progress made in terms of the volume and value of Argentina's international trade, principally in the agricultural sector,¹ trade barriers have been assuming new forms and numerous obstacles—technical, health-related, information-related, and regulatory—remain to be resolved, which would facilitate greater competitiveness and international trade expansion, especially in respect of the small and medium enterprise sector. A general estimate of the coverage of nontariff measures restricting Argentine trade indicates that they impact some 72% of tariff lines.²
- 2.3 Exports of primary agricultural products and related manufactures doubled in value in less than a decade, from US\$6.058 billion in 1989 to US\$13.451 billion at the start of 1999. It is thought that this process could have led to even greater expansion if it had more dynamically involved many of the small and medium agricultural enterprises, given that, despite advances in the increase in the volume and value of international trade, there was a reduction of roughly one fourth in the number of productive establishments and a concentration of production in a small number of products. The protectionist trade policies of many developed countries in the agrofoods area—domestic subsidies for producers and exports, quasi-tariff

¹ The contribution of the agricultural and agroindustrial sector represented about 30% of GDP during the 1990s as a whole.

² IDB, Economic and Social Progress in Latin America (2002 Report), p. 79.

measures, market quotas, preferential duty systems, etc.—have contributed to seriously limiting a development path for agricultural SMEs based on the diversification of their production and the provision of added value targeting external markets.

- 2.4 In particular, many of the small and medium enterprises with export potential experience difficulties (and this is the principal constraint being addressed by the Project) in efficiently meeting international demand, owing inter alia to the following factors: (i) small scale of production in volume terms; (ii) lack of information and failure to observe the multiple technical and commercial requirements for accessing these markets—quality, health-related—complex customs procedures, and compliance with trade regulations in the multilateral and national spheres; (iii) low management capacity for sustaining trade negotiations; and (iv) reduced economic and financial capacity to incorporate professional services.
- 2.5 To address this situation and contribute to overcoming these limitations, the Fundación Fortalecer, the operational arm of the Argentine Agrarian Federation (FAA) for providing technical support to small rural producers, has designed a project, the subject of this document, that will make it possible, in cooperation with the existing providers of nonfinancial services and with the public sector, to provide support services to small rural enterprises to develop and implement business strategies aimed at the international market.
- 2.6 According to data from the National Institute of Social Economy and Associative Activity (INAES), in 1988 there were 890 agricultural cooperatives of small rural producers in Argentina, of which only 50% (455) were active.³ Of this universe, some 26% (120) are members of the Argentine Agrarian Federation (FAA) and will represent the immediate demand to be addressed by the program. In addition, this first experiment in the sector will cover 20% of potential demand. The geographic distribution of active cooperatives shows the highest concentration (85%) in the NEA, NOA, Pampeana, and Cuyo regions, areas where the program's activities will be focused. The table below identifies the principal products by region, with specifics on actual and potential demand.

³ A cooperative is regarded as active when it submits its financial balance sheet annually to the supervisory body (INAES).

LIST OF PRODUCTS BY REGION AND ACTUAL AND POTENTIAL DEMAND			
Region	Province	PRODUCTION	
		Actual	Potential
WET PAMPA (54 cooperatives)	Buenos Aires Santa Fe La Pampa	Cereals/Commodities Maize Wheat Soya Cattle and hogs Milk	Alfalfa pellets Differentiated maize (high-oleic, Pizingallo) Cereal flours Cereals differentiated and classified by quality Meat cuts Aromatic herbs and berries
CUYO (13 cooperatives)	Mendoza San Juan La Rioja	Olives/dried fruit Wine-producing grapes Fruit and vegetables Aromatic herbs Stone and small seeded fruit Vegetable seed	Forage seed: alfalfa Organic wines, fine D.O.C. etc. Desiccated and frozen fruit etc. Aromatic herbs: new products Fruit crops: new processes, packing, etc. Fruit and vegetable seed for export
N.E.A. NORTH-EAST ARGENTINA (23 cooperatives)	Corrientes Chaco Entre Ríos Misiones	Rice Cattle Citrus fruit Cotton Milk	Differentiated rice Meat cuts Citrus fruit: new processes, packing, etc. Juice/concentrates Differentiated cotton Milk: new products
N.O.A. NORTH-WEST ARGENTINA (30 cooperatives)	Catamarca Córdoba Salta Santiago Tucumán Jujuy	Bell pepper Sugar cane Citrus fruit Tropical fruit Beans Dried fruit Goats	Smoked bell pepper Integrated sugar Juice/concentrates Fruit crops: new processes, packing, etc. Artisanal cheese Capybara (leather and meat)

- 2.7 Approximately 40 percent of all active cooperatives pursue agricultural activities and 60 percent marketing. The cooperatives engage in agriculture and livestock (45%), dairy farming (25%), wine production and fruit growing (6%), herbs and tobacco (5%), market gardening (6%), cotton growing (4%), farming (1%), and other activities (8%). The members of these cooperatives generally (i) own small or medium-sized areas of farmland (54% are 100 hectares or less, and 90% 500 hectares or less); and (ii) are assisted by family or domestic help. A total of 238,000 people work on the land on a full-time basis, and 70% of this number are producers and their families.

B. Bank participation and experience

- 2.8 **Bank participation.** The proposed project is consistent with the Bank strategy for Argentina in support of sustained growth and increased productivity. Specifically,

the operation would contribute to: removing technical barriers which constitute obstacles to greater SME competitiveness; promoting local productive development, principally in the relatively less developed areas of the country (NEA and NOA); and facilitating access to international markets by new exporters and products.

2.9 **Bank experience.** Prior to this operation and using MIF resources, the Bank has supported the competitiveness and business management of small rural producers. Specifically, through the program for assistance to small rural producers (ATN/ME-5441-AR), it has contributed to improving the business management and competitiveness of 10,000 small producers in the areas of Córdoba, Cuyo, and La Pampa Húmeda.

2.10 According to the project completion report (PCR), during its four years of execution the project achieved its objectives satisfactorily, exceeding the originally anticipated number of beneficiaries, who improved their management capacities and income generation. The MIF project impact assessment carried out by the executing agency, the Argentine Agrarian Federation (FAA), indicates that: 80% of the beneficiary users of the services covered indicated that they had experienced positive attitude changes in their operations; 61% acknowledged that they had improved their technical or productive skills; and 32% identified their major achievements in improving management capacities. The final program evaluation recommended continuing to support the SMEs in the sector through what has been defined as having priority in the area of technical assistance, support in the elimination of technical barriers to trade which enable the sector's cooperatives to access export markets.

2.11 The Bank's loan portfolio for Argentina includes two operations now under way to make the sector more competitive. These operations are (i) phase one of an agricultural services program for the provinces (PROSAP) (loan 899/OC-AR); and (ii) a program to provide institutional strengthening for foreign trade policy (loan 1206/OC-AR). The PROSAP operation will finance a public investment multiple works program for the provinces that involves construction of irrigation and drainage works and rehabilitation of existing ones; generation and transfer of technology for irrigation projects; control, eradication, and prevention of disease and blights; and strengthening of the entities in charge of agricultural development. At present, 72% of the total approved financing of US\$125 million has been disbursed. The second operation is designed to promote more effective coordination between the national public sector and private sectors and provincial government institutions to help broaden the export prospects of national sectors of production. So far, 4% of the financing of the approved financing of US\$5 million has been disbursed. Given the type of investment to be financed under the PROSAP and trade sector programs, it is felt that the MIF operation should assist ongoing actions, supplementing efforts that would fall to the private sector (such as coordinating services supply and demand).

- 2.12 The Bank's operations program for 2004 includes another loan to support agricultural competitiveness (PROCOM). The purpose of this operation (loan AR-0241) is to enhance sector competitiveness by means of investment in agrifood technology generation and transfer, to ensure product quality and hygiene, and to strengthen the forestry and fishing industries. The projected amount of the loan is US\$75 million. Since the program will develop activities primarily in production processes and systems, it is felt that it would supplement the MIF program in support of marketing.

C. Lessons learned

- 2.13 The design of the proposed program has taken into account the major lessons learned from other MIF programs to support improvements in the competitiveness of small producers,⁴ such as: (i) focusing support on producers with an adequate economic and technological base, who can respond to opportunities in export markets (see paragraphs 5.7 and 5.8); (ii) orienting services toward meeting the requirements of demand in the target markets (see paragraph 3.9(i)); (iii) ensuring that executing agencies are entities with ties to producers (Federations, Trade Unions, Boards, Associations, Cooperatives, etc), which understand their requirements and the problems affecting them (see paragraphs 5.1 and 5.2); (iv) establishing financial sustainability strategies beginning with the selection of beneficiaries so as to ensure that they have activities of sufficient size to generate the resources needed to pay for the services, and establishing adequate customs tariffs (see paragraph 4.4); and (v) incorporating activities to support compliance with environmental standards and technical norms (see paragraph 3.9 (ii)).

III. OBJECTIVES AND DESCRIPTION OF THE PROGRAM

A. Objectives

- 3.1 The general objective of the program is to facilitate the insertion of small and medium enterprises (SMEs) into international trade flows, through product and market diversification. The specific objective is to implement a sustainable system for facilitating international market access by agricultural and agroindustrial SMEs located in the regions of Cuyo, Noreste, Noroeste and Pampa Húmeda in Argentina, enabling them to adapt to the technical requirements of those markets, and to eliminate trade barriers and develop an associative network to these ends.

⁴ Further details about the lessons learned are found in an evaluation report of ten projects approved by the MIF in nine countries in the region: Argentina, Belize, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Uruguay (see <http://mif/website/static/en/lessons.asp>).

B. Components

1. Program promotion and enterprise awareness campaign (MIF: US\$53,300; Local: US\$86,930)

- 3.2 **Purpose.** Provide information on the scope of and proposed actions under the program, and motivate participation in it by small producers. Progress would be made toward introducing an *associative work culture* as a strategy for small scale enterprises to access international trade.
- 3.3 **Specific tasks.** The following activities will be included: (i) 36 meetings with intermediate institutions (cooperatives, affiliates, and various associated centers) and the identification of expressions of interest from specific associative groups; (ii) 72 workshops for cooperatives or associative groups specifically formed or to be established for the submission of projects and the development of work agendas; (iii) general program promotion: graphic material (pamphlet design), web page (design, production, and maintenance), press (design: graphics, radio, TV); (iv) seminars for the dissemination of results and lessons learned, including the contracting of specialists; and (v) preparation of materials for disseminating program activities and achievements with a view to replicating experiences in the rest of the beneficiary universe.
- 3.4 **Anticipated results.** It is expected that at least 50% of the demands for services under the program will come from this component (signing of participation requests). The universe of potential beneficiaries attending promotion and awareness activities would number 1,700.

2. Access plan for new exporters, new markets, and/or new products (MIF: US\$366,825; Local: US\$257,625)

- 3.5 **Purpose.** Contribute to the identification of business opportunities for SMEs, *through the organization of exportable supply and the development of business plans* to facilitate their access to international markets by type of product and target market.
- 3.6 **Specific tasks.** The following activities will be included:
- (i) **Organization of associative groups by similar market/product**, which would cover: (1) 40 technical assistance sessions for field work, per head office and per year, for the purpose of developing an updated map of regional production capacity; (2) identification of producers and entrepreneurs who have the potential to initiate associative processes and innovation in respect of their products, processes, and marketing systems; and (3) consultant work for the design of registers, procedures, and the legal organization of associative groups. It is

estimated that some 40% of the universe of participating producers and entrepreneurs would advance to the associative process.

- (ii) **Identification of demand**, which would entail consulting services for the: (1) identification of specific unsatisfied demands, 40 per year; (2) identification of export market niches and opportunities, 10 per year; (3) evaluation of the conditions, backgrounds, and references of possible external commercial partners, for 50% of the cases indicated sub 1 and 2 above; (4) determination of the conditions, requirements, and technical and health standards of the target markets for the products in question, for 100% of the cases indicated sub 1 and 2 above; and (5) detection and systematization of the conditions required for various productive chains for the participation of the SMEs, at the rate of 5 a year on average.
- (iii) **Management of export business plans**, which would entail consulting services to define the feasibility of export business—linking supply and demand—on the basis of which the business plan would be drawn up, including: (1) description of the market/product to be assisted and its characteristics; (2) current conditions of the enterprises for serving this market; (3) problems or barriers to be overcome for the business to be realized; (4) economic feasibility study; (5) work plan to be pursued until the business is obtained; and (6) breakdown of the services that beneficiaries will seek from the program in executing the work plan.

- 3.7 **Anticipated results.** Have 15 associative groups formed specifically for the program, with another 120 participants made up of cooperatives and associative groups and sole proprietorships having expressed interest, for all of which 90 export business plans would be administered.

3. Assisted marketing services and support for public-private dialogue (MIF: US\$412,062; Local: US\$308,600)

- 3.8 **Purpose.** Support the execution of export plans to facilitate overcoming the barriers impeding normal foreign trade operation on the part of SMEs, and the drafting of proposals for the public sector that would serve to strengthen the country's bargaining position in international forums.

- 3.9 **Specific tasks.** This will include the following activities:

- (i) **Support for the execution of business plans**, which would entail consulting services for the development of products and markets and for enterprise management, including: (1) research work on the selected target market; (2) assisted negotiation services in the target market; (3) video or teleconferencing hookup services between Argentine

enterprises and clients in the target market; (4) organization and support of trade missions; (5) advice on packaging requirements; (6) advising on transportation and logistics; (7) advising on modern cost and business management; and (8) training of producers and personnel involved in productive processes for external markets.

(ii) **Support for voluntary certifications and compliance with standards**, including consulting services for: (1) field inspection of the productive process to avoid physical and sanitary defects; (2) field inspections to guarantee the required application conditions and periods of nonapplication imposed by clients; (3) application of quality assurance systems for the processes of harvesting and field storage, transportation to storage sheds, conditioning, selection, cold storage, packaging, sea transport, and quarantine and breakability of products; and (4) introduction of Manufacturing Best Practices and HACCP systems.

(iii) **Support for private participation in national political dialogue aimed at incorporating technical contents in international negotiations on trade barriers**, including consulting services for the: (1) conduct of technical studies on the basis of prior identification of concrete cases of obstacles to the internationalization of SMEs, to be used as the basis for the formulation of proposals to overcome them; and (2) support for private participation in international forums or events at which trade-related technical contents are defined.

3.10 **Anticipated results.** As a result of these activities, it is expected that it will be possible to achieve and implement more than 85% of the 90 business plans prepared. In turn, it is expected that of these executed business plans, 25% of the participating beneficiaries will manage to introduce voluntary standards and certifications (quality, sanitation at origin, breakability, etc.) and that 60% will become new exporters and/or reach new markets and/or develop new products.

4. Institutionalized network for information, trade assistance, and the provision of e-services (MIF: US\$282,600; Local: US\$120,600)

3.11 **Purpose.** Form and consolidate a territorial platform for communication and virtual connection with all clients and services associated with the program.

3.12 **Specific tasks.** This will include the following activities:

(i) Design and implement a network for information, trade assistance and services at the head offices where the Fundación Fortalecer renders services (Buenos Aires, Rosario, Chilecito, Paraná, and Villamaría), including: (1) design of the web page and (Intranet) system for

communications between nodes on the network; and (2) acquisition and installation of the hardware necessary for its operation.

- (ii) Design and organization of a territorial platform for SMEs through regional windows covering Pampa Húmeda, Cuyo, Noreste, and Noroeste Argentino, including: (1) organization of the territorial platform on which the basic electronic network will operate and from which the services to be offered by the program will be organized; and (2) operational support for the functioning of the windows serving the beneficiaries of the operation.
- (iii) Establishment of a directory of technical assistance service providers classified by specialty and experience, updated and available online, including: (1) design and implementation of the suppliers' directory; and (2) periodic updating of the registry and information directed to consultants, professionals, and specialists listed in the directory, so as to explain how the program functions, the roles, functions, and typology of the services provided, and the classification of specialists by topics.

- 3.13 **Anticipated results.** As a result of these activities, it is hoped that the institutionalized network will be totally operational in four regional assisted marketing windows, communicated via Intranet and Internet and with a directory listing at least 200 qualified service providers, with all the information resulting from program activities.

IV. COST AND FINANCING

- 4.1 The program cost has been estimated at US\$2,500,000. The MIF contribution would be the equivalent of US\$1,500,000 (60%) in nonreimbursable funding. The Fundación Fortalecer and institutions contributing to the program (Argentine Agrarian Federation, Cooperativa Vitivinícola la Riojana LTDA, and the CAFER Cooperative) will contribute the balance, equivalent to US\$1,000,000 (40%). However, the Fundación Fortalecer will be responsible to the Bank for ensuring the availability of the local contribution resources. The consolidated budget is set forth below, and the itemized budget is available in the program's technical archives.

Program Budget (in U.S. dollars)

Components	MIF	Local	Total
1. Promotion and awareness	53,300	86,930	140,230
2. Access to new exporters, markets, and products	366,825	257,625	624,450
3. Assisted marketing services	412,062	308,600	720,662
4. Trade assistance network	282,600	120,600	403,200
- Executing unit	299,220	125,612	354,834
- Evaluation and audits	72,500	0	72,500
- Contingencies	83,493	100,633	184,126
Total	1,500,000	1,000,000	2,500,000
%	60	40	100

- 4.2 **Financing matrix.** The proposed 60/40 financing matrix takes into account: (i) the significant effort being made by the participating entities, which are in the process of gradual recovery based on the macroeconomic incentives for their activity; (ii) the significant monetary contributions, exceeding 50% of their contribution to the program, in the country's post-devaluation context; and (iii) the beneficiaries' payment for services was not included in the calculation of local counterpart financing.
- 4.3 **MIF contribution.** The MIF contribution will be used to partially finance: (i) technical assistance services; (ii) training; (iii) the dissemination and hardware required for the program; and (iv) the costs of administering the program.
- 4.4 **Sustainability of services.** The issue of sustainability will be approached from two sides: (i) financial and (ii) operational. From the perspective of financial sustainability, the program will focus its attention on the annual rate of growth of income from the sale of services, which at the end of the fourth year need to be equivalent to the sum of 100% of services costs plus 50% of structural costs. The remaining 50% of structural expenses will be borne by the Fundación Fortalecer. As regards operational sustainability, toward the end of the third year and before the Bank makes the final disbursement, the Fundación Fortalecer must submit its Operating Plan for the fourth year. The financial sustainability strategy is set forth in detail in the table attached as Annex II.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Executing agency

- 5.1 The executing agency for the program will be the Fundación Fortalecer. Fortalecer is a civil association with independent legal standing, funded by the Argentine

Agrarian Federation (FAA)⁵ and other agricultural cooperatives on 17 May 2000. It was created owing to the successful experience of the MIF program with the FAA and the recognition of the importance of continuing to provide its affiliates not only with a defense of their interests, but with technical assistance services for the various links in the agricultural and agroindustrial chain.

- 5.2 Fundación Fortalecer has a small and stable structure, and is made up of a board of directors,⁶ an executive management, and five areas responsible for information, communication, projects, training, and administration. Total personnel on the Fortalecer payroll is 12 professionals, nine working full time and three part time. The organic and functional structure of Fortalecer is regarded as satisfactory. In addition, given the high leadership capacity and prestige of the Fundación, reflected in the ample representation and participation of regional associates, labor unions and institutional associates from all over the country on its board of directors, and its technical capacity to design, plan, and implement technical assistance projects, it is regarded as the ideal entity for executing the program.

B. Execution mechanism

- 5.3 **Executing agency.** The Fundación Fortalecer, in its capacity as executing agency, will have technical, administrative, and financial responsibility for the program. To this end, it shall establish within its structure a central executing unit (UEC) and, owing to the regional coverage of the program, a network of regional assisted marketing windows will be established.
- 5.4 **Central executing unit.** The UEC will be responsible for relations with the Bank, including the channeling of requests for nonobjection to the hiring of services and the procurement of goods provided for under the program. To this end, the unit will be made up of: (i) an executive director; (ii) two technical support coordinators for components 2 and 3; (iii) a financial accounting assistant; and (iv) an administrative assistant. The functions of the UEC and the terms of reference for its members are available in the program's technical archives.
- 5.5 **Regional assisted marketing windows.** Four (4) regional assisted marketing windows will be established with head offices in the localities of: Rosario (Santa Fe

⁵ The FAA is a labor union body that is national in scope and has since 1912 represented and defended the interests of small rural producers.

⁶ The board of directors has 7 members: a chairman, who is also president of the FAA, a vice chairman, a secretary, a treasurer, and three members. Two board members are elected by the FAA, and one member is elected by each of the following funding cooperatives: La Riojana LTDA; Dr. Francisco Netri LTDA; Agrícola Ganadera de Chivilcoy LTDA; and Agropecuarias Federadas de Entre Ríos LTDA.

Province), Paraná (Entre Ríos Province),⁷ Chilecito (La Rioja Province), and Villa María (Córdoba Province). Each of the program's regional windows will have a manager whose functions include organizing the regional window and putting it into operation, and acting as representative and responsible party for the tasks carried out by it. The functions and terms of reference for the managers of the regional windows are available in the program's technical archives.

- 5.6 **Operational mechanism.** In order to ensure adequate program execution, Operating Regulations have been designed and include the administrative and operational criteria that will govern relations between the executing agency and the program beneficiaries, as well as the eligibility criteria that should be met by beneficiaries in order to gain access to activities eligible for financing. The Operating Regulations are available in the technical archives of the program.
- 5.7 Among the eligibility criteria for beneficiaries are: (i) they must be small or medium rural producers (one to three productive units) or SME agroindustrial enterprises with fewer than 100 employees; and (ii) they may present themselves individually, in cooperative form, or in some other associative form within the context of an entrepreneurial project, whether or not they are members of the Argentine Agrarian Federation (FAA).
- 5.8 Among the eligibility criteria for beneficiaries to access assisted marketing services—components 2 and 3—are: (i) demonstrating their commitment to move forward with the execution of business plans; (ii) contributing to the financing of the costs of services through a system for gradually increasing contributions by beneficiaries until they reach the point of paying market prices in the fourth year (see paragraph 4.4); (iii) contributing to the environmental sustainability of agricultural, livestock, and agroindustrial activities, particularly as regards soil and water management, the number of animals per unit area, the management of agrochemicals and agricultural and agroindustrial machinery; and (iv) representing an export business relating to new products, new markets, new processes, and/or a combination thereof. In addition, to access activities in component 3, beneficiaries must have formulated business plans which ensure the financial viability of the undertaking.
- 5.9 For the selection and hiring of consulting services and the procurement of the materials and equipment called for in the program, Bank and MIF procedures will

⁷ The selection of windows for rendering services was made taking into account: (i) geographical coverage, and (ii) existing entrepreneurial capacity to head up an export process. Depending upon progress made and the success of program activities, the Fundación may elect to open new windows paid for by local counterpart resources.

be followed.⁸ Contracting for consulting services and the procurement of goods will be carried out by the UEC (see paragraph 5.4 (v)).

C. Execution and disbursement periods

- 5.10 The program execution period will be 36 months and the disbursement period 42 months, both from the effective date of the technical cooperation agreement.
- 5.11 **Revolving fund.** In order to ensure the adequate provision of resources for program execution, it is planned to establish a revolving fund of up to the equivalent of US\$150,000 (10%).

D. Financial statements

- 5.12 **Accounting.** The executing agency will establish and be responsible for maintaining proper accounting of finances, internal control, and file systems, which will make it possible to identify sources and uses of program funds. The accounting system shall be organized in such a way that it provides the necessary documentation, facilitates the verification of transactions, and makes it possible to prepare financial statements and reports in a timely manner. The program records must be maintained in such a way that they: (i) allow for the identification of the amounts received from various sources; (ii) record program expenditure in conformity with the chart of accounts approved in advance by the Bank, differentiating between MIF contributions and the funds from other sources; and (iii) include the detail necessary to identify the goods procured and services contracted, as well as the use of said goods and services. The executing agency shall also open separate and specific bank accounts for administering the MIF contribution and for the local counterpart funds. Finally, the executing agency will process requests for disbursements and the corresponding expenditure justifications in accordance with the Bank's disbursement regulations.
- 5.13 **Financial audits.** Within ninety (90) days following the final disbursement under the program, the executing agency will prepare and submit to the Bank the final financial statements relating to the Bank contribution and the local counterpart funds. An independent audit firm or independent consultants acceptable to the bank shall audit said financial statements. The costs of the audits will be financed by funds from the MIF contribution in accordance with Bank procedures.

⁸ For purposes of selecting and contracting consulting service firms for amounts less than the equivalent of US\$30,000, the selection and contracting procedures will be analogous to those for contracting individual consultants.

VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** The executing agency will prepare and submit program progress reports to the Bank's Country Office within thirty (30) days following the end of each semiannual period, and a final report within 30 days following the final disbursement. These reports will follow a format previously agreed upon with the Country Office and will cover the program's activities and finances, as well as results measured in terms of the execution indicators identified in the logical framework of the program. The Country Office will use these reports to supervise progress with program implementation and prepare a program completion report within three months following the final disbursement.
- 6.2 **Evaluation.** The Bank will hire individual consultants to carry out two program evaluations. An intermediate evaluation will be conducted once 50% of resources have been disbursed. A final evaluation will be performed within three months following program completion. Based on the midterm evaluation, the Country Office, together with the program team if necessary, will conduct annual performance evaluations to determine whether the program should continue, be suspended, or be canceled. Detailed information on the scope of the evaluations is available in the technical files of the program.
- 6.3 In the course of project execution, the executing agency will compile project supervision and evaluation indicators. These indicators are set forth in the logical framework (see Annex I) and will be used by the Bank's Country Office and the executing agency to calibrate the general impact and evaluate results. In addition, a preliminary version of the Project Performance Monitoring Report (PPMR) has been prepared.

VII. PROJECT JUSTIFICATION AND RISKS

A. Program benefits and impact

- 7.1 The results anticipated at the end of the program execution period are, on the micro level, the inclusion of agricultural and agroindustrial SMEs in the international market, and on the macro level, improved access to markets will be reflected in greater economic development, jobs, and foreign exchange. Specifically, it is expected that the following will be achieved:
- a. In a period of three years, a consolidated and expanding network for facilitating foreign trade will be obtained, which integrates and provides services to 500 small and medium rural enterprises, which will be trained in compliance with technical, sanitary, and customs requirements, thereby obtaining greater access for their production to demanding international

markets, and increase in export volumes, and greater efficiency in the marketing process by reducing operating times and costs.

- b. The improvement in their competitiveness will be strengthened and consolidated by enhanced environmental management with differentiated products that comply with sanitary and food quality conditions, and by more training in business management through knowledge of international technical requirements and standards, as well as electronically based commercial information and operations.
- c. The availability of a new support services structure for the internationalization of SME business that will be sustainable over time.

7.2 **Environmental and social impact of the program.** The CESI reviewed the program at its meeting of 14 March 2003, and recommended: (i) inclusion in the Operating Regulations, under eligibility criteria, the environmental sustainability of the agricultural, livestock, and agroindustrial activities (see paragraph 5.8); and (ii) ensuring that the operation does not discriminate by type of beneficiary between members or nonmembers of the Argentine Agrarian Federation (FAA) (see paragraph 5.7).

B. Beneficiaries

7.3 The direct beneficiaries of the program will be 500 small and medium rural producers and agroindustrial SMEs. In the case of the former, they may have one to three productive units and may participate on an individual, cooperative, or other associative basis. The agroindustrial enterprises must have fewer than 100 employees.

C. Risks

7.4 **Financial sustainability.** The main risk is that the funds available to pay for these services will not be sufficient to generate income levels that ensure the financial sustainability of the new services. The program endeavors to resolve this issue by formulating a market penetration and dissemination strategy, as well as by educating the entrepreneurial community on the value of support services for the international economic insertion of SMEs. Moreover, a cost recovery strategy will be developed and introduced gradually during the program execution stage (see paragraph 4.4).

7.5 **Availability of consulting service providers.** Given that most of the program entails the financing of specialized consulting services, one of the risks of the operation is the local availability and participation of a sufficient number of providers to ensure competition. In this regard, to mitigate this risk the operation entails a broad dissemination of business opportunities and the establishment of a technical assistance service provider directory classified by specialty and

experience, updated and available online, which will make it possible to broaden competition and the universe of possibilities for beneficiaries (see paragraph 3.12 (iii)).

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 The first disbursement of the contribution will be subject to presentation by Fundación Fortalecer of evidence to the Bank's satisfaction that: (i) it has selected the personnel making up the UEC (see paragraph 5.4); and (ii) the Operating Regulations have entered into force in accordance with the draft agreed with the Bank (see paragraph 5.6).

LOGICAL FRAMEWORK
SYSTEM FOR FACILITATING INTERNATIONAL MARKET ACCESS BY SMALL AND MEDIUM RURAL PRODUCERS
TC-02-05-02-0-AR

Narrative summary of objectives	Indicators	Means of verification	Main assumptions
Goal			
Facilitate the insertion of agricultural and agroindustrial SMEs into international trade flows, through product and market diversification.	<ul style="list-style-type: none"> Degree of diversification in new exports, markets, and products. 	<ul style="list-style-type: none"> Foreign trade statistics reports and records. 	<ul style="list-style-type: none"> The following distribution of responsibilities is in place: the public sector establishes trade policies for eliminating barriers to trade; Fundación Fortalecer interrelates the supply of and demand for services; and the SMEs contract services to make market access feasible.
Purpose			
A sustainable system for facilitating access to international markets by agricultural and agroindustrial SMEs is in operation, making it possible to adapt it to the technical requirements of said markets, eliminate trade barriers, and develop a network for these purposes.	<ul style="list-style-type: none"> Consolidated and expanding network for facilitating foreign trade, which incorporates and provides services to 500 small and medium rural enterprises in at least four regional windows by the end of the program. In the third year at least 54 associative groups gain access to export business and/or product diversification through the system. 	<ul style="list-style-type: none"> Internal reports and records of the executing unit. 	<ul style="list-style-type: none"> Conditions in the macroeconomic environment favor exports; and there is a trend toward eliminating trade barriers.

Narrative summary of objectives	Indicators	Means of verification	Main assumptions
Components			
<p>Component 1: Program promotion and enterprise awareness campaign</p> <p>SMEs and services suppliers have greater awareness of market information, the need to contract for services, and the availability of services; specific demand from SMEs, and program results disseminated.</p>	<ul style="list-style-type: none"> • 50% of demands for services for other components stem from this component in the third year. • 1,700 potential beneficiaries participate in the activities of this component, through: (i) 36 meetings with intermediate institutions (cooperatives, affiliates, and various related centers) and identification of expressions of interest based on specific associative groups; and (ii) 72 workshops for cooperative or associative groups specifically formed or to be established for purposes of presenting projects; development of work agendas. • General promotion: graphic material (design of 2 pamphlets), web page (design, production, and maintenance), 15 press articles (design: graphics, radio, TV), publication of (1) printed matter and CD with successful cases. 	<ul style="list-style-type: none"> • Record of Fundación Fortalecer activities. • Minutes with agenda and lists of participants. • Promotional material completed. 	
<p>Component 2: access plan for new exporters, new markets, and/or new products</p> <p>Export business opportunities identified for SMEs, associative groups established, and business plans developed.</p>	<p>At the end of the third year:</p> <ul style="list-style-type: none"> • 15 associative groups established specifically for the program identifying the representative (3 in first year, 7 in second, and 5 in third). • cooperatives, associative groups and sole proprietorships with expressions of interest (120). 	<ul style="list-style-type: none"> • Charters of associative bodies. • Support request form. • Business plans formulated. 	<ul style="list-style-type: none"> • SMEs desire to associate in export business plans.

Narrative summary of objectives	Indicators	Means of verification	Main assumptions
	<ul style="list-style-type: none"> 90 business plans (product-market) prepared, at the rate of 30 per year, including the following: experience in the area, supply capacity, definition of commercial objectives (market, distribution channel, buyers), identification of trade barriers, needs for contracting services, potential suppliers and cofinancing requirements (financial, technical, institutional, environmental, and commercial viability). 		
<p>Component 3: assisted marketing services and support for public-private dialogue</p> <p>Export business plans for SMEs carried out and proposals identified for the elimination of the barriers to their trade (internal and external).</p>	<ul style="list-style-type: none"> 90 agreements signed (Fundación—associative groups) and execution of Business Plans, including: terms of reference, services suppliers, prices, agreement of parties, and performance of services. 85% of business plans completely executed. 60% of the 90 business plans result in new exporters, new markets, and/or new products. 25% of agreements include introduction of voluntary standards and certifications (quality, health, origin, organic, environmental, breakability, etc.). 4 studies identifying problems constituting obstacles to international trade by small rural producers and SME enterprises. 	<ul style="list-style-type: none"> Internal records with agreements on participation. Internal records of certificates obtained or in process. Internal records and customs declarations. Internal records of proposals. 	<ul style="list-style-type: none"> Completion of SME contributions for cofinancing all activities in business plans. Adequate consulting services in terms of quality and price exist, in accordance with international best practices. Public sector has the political will to incorporate private sector proposals in the technical committees on international trade.

Narrative summary of objectives	Indicators	Means of verification	Main assumptions
<p>Component 4: Institutionalized network for information, trade assistance, and the provision of basic electronic services</p> <p>Territorial platform is consolidated for communication and virtual connection with all clients and services.</p>	<ul style="list-style-type: none"> • Computer system operational and service platform operational in at least four windows: Rosario, La Rioja, Entre Ríos, and Córdoba. • Directory of service providers containing 200 suppliers classified by specialty and experience, updated and available online. 	<ul style="list-style-type: none"> • On site verification. • On site verification and management system records. • On site and online verification. 	<ul style="list-style-type: none"> • There is demand to justify the service platform.

STRATEGY FOR FINANCIAL SUSTAINABILITY OF SERVICES

PROJECTED INCOME IN US\$ PER YEAR				YEAR 1		YEAR 2		YEAR 3		YEAR 4	
COMPONENTS 2 AND 3	Annual quantity of services	Unit cost	Average annual cost	Program finance (A)	Services income (B)	Program finance (A)	Services income (B)	Program finance (A)	Services income (B)	Local	Services income (B)
2. New exporters/markets/products											
2.1 Organization of associative groups					25%		50%		75%		100%
2.1.2 Identification of supply (TA)	240	120	28,800	21,600	7,200	14,400	14,400	7,200	21,600		31,104
2.1.1 Legal organization of groups (C)	96	500	48,000	36,000	12,000	24,000	24,000	12,000	36,000		51,840
2.2 Identification of demand											
2.2.1 Identification of demands (C)	40	1,200	48,000	36,000	12,000	24,000	24,000	12,000	36,000		51,840
2.2.2 Export oportunities (C)	10	1,600	16,000	12,000	4,000	8,000	8,000	4,000	12,000		17,280
2.2.3 Evaluation of trading partners (C)	75	300	22,500	16,875	5,625	11,250	11,250	5,625	16,875		24,300
2.2.4 Determination of technical standards (C)	50	700	35,000	26,250	8,750	17,500	17,500	8,750	26,250		37,800
2.2.5 Identification of productive chains (C)	5	3,000	15,000	11,250	3,750	7,500	7,500	3,750	11,250		16,200
2.3 Development of business plans											
2.3.1 Organization of business (TA)	30	1,200	36,000	27,000	9,000	18,000	18,000	9,000	27,000		38,880
2.3.2 Formulation of business plans (TA)	30	3,000	90,000	67,500	22,500	45,000	45,000	22,500	67,500		97,200
3. Assisted marketing services											
3.1 Market/product/enterprise development											
3.1.1 Training	30	600	18,000	13,500	4,500	9,000	9,000	4,500	13,500		19,440
3.1.2 Technical assistance	30	6,400	192,000	144,000	48,000	96,000	96,000	48,000	144,000		207,360
3.2 Standards and voluntary certifications											
3.2.1 Training	30	1,000	30,000	22,500	7,500	15,000	15,000	7,500	22,500		32,400
3.2.2 Technical assistance	18	11,000	198,000	148,500	49,500	99,000	99,000	49,500	148,500		213,840
Total services			777,300	582,975	194,325	388,650	388,650	194,325	582,975	0	839,484
Operating costs											
Central executing unit			118,277	118,277		118,277		118,277		34,372	34,372
Territorial platform/network of windows			116,000	116,000		116,000		116,000		23,200	23,200
Total annual operations			234,277	234,277		234,277		234,277		57,572	57,572
Total operating expense 4th year			115,144								
Sustainability				-700,114		-505,789		-311,464		4,612	

Sustainability = (Services income – Direct services costs – 50% operating expenses ≥ 0)

TA = Technical assistance - C = Consultants