

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

ARGENTINA

**PROGRAM FOR SUPPLY CHAIN DEVELOPMENT IN THE
PROVINCE OF CORDOBA**

(TC-02-04-01-9-AR)

DONORS MEMORANDUM

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ABBREVIATIONS

ADEC	Agencia de Desarrollo Económico de la Ciudad de Córdoba [City of Córdoba Economic Development Agency]
AWP	Annual Work Plan
CACEC	Cámara de Comercio Exterior de Córdoba [Córdoba Chamber of Commerce for Foreign Trade]
CESI	Committee on Environment and Social Impact
CO	Country Office of the Bank in Argentina
CSA	Córdoba Science Agency
GDP	Gross domestic product
ICT	Information and communication technology
IDB	Inter-American Development Bank
MCC	Management Control Committee
MIF	Multilateral Investment Fund
MSMEs	Micro, small and medium-sized enterprises
OR	Operating regulations
PEU	Program execution unit
SC	Steering Committee
SME	Small and medium-sized enterprises

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EXECUTIVE SUMMARY

Requester and executing agency:	City of Cordoba Economic Development Agency (Agencia de Desarrollo Económico de la Ciudad de Córdoba) (ADEC), in cooperation with the Cordoba Science Agency (CSA) and the Cordoba Chamber of Commerce for Foreign Trade (Cámara de Comercio Exterior de Córdoba) (CACEC).	
Beneficiaries:	The program beneficiaries will be the micro, small and medium-sized enterprises (MSMEs) producing goods and services in selected production sectors and universities, service providers and local public and private research centers and institutions.	
Amount and source:	MIF (Facility III)	US\$1,082,640
	Local counterpart:	<u>US\$ 719,560</u>
	Total:	US\$1,802,200
Terms:	Execution period:	36 months
	Disbursement period:	42 months
Objectives:	<p>The overall objective of this program is to help increase competitiveness among the MSMEs in the province of Cordoba in Argentina.</p> <p>The program will support business clusters in the sectors of information and communication technology, furniture and other wood products, and regional products (agricultural and organic).</p>	
Description:	<p>The program is comprised of four components: (i) strengthening cooperation between businesses and institutions; (ii) improving access to technology for production and organization; (iii) improving access to markets; and (iv) disseminating the program. The outputs of the first component, which basically consists of strengthening cooperation between the enterprises and institutions in each cluster and planning common objectives and activities, will lay the foundation for implementation of the remaining program activities.</p>	

Environmental and social impact:

The Committee on Environment and Social Impact (CESI) discussed this program at its meeting on 19 June 2002. The recommendations of the CESI were incorporated into this document. In order to mitigate possible environmental risks under the program, three main measures will be taken: (i) the wood used must be from legally authorized sources, as required according to forestry legislation, for the furniture and wood product sector; (ii) training in the environmental management of regional products (agricultural and organic) will be provided; and (iii) training in occupational safety and health will be provided.

Special contractual clauses:

As conditions precedent to the first disbursement, the following documentation must be submitted to the satisfaction of the Bank: (i) the trust agreement signed with the executing agency; (ii) the program implementation agreements signed by the ADEC and CACEC, the CSA, the Secretariat of Industry, Commerce and Mining of the Ministry of Production and Finance of the Province of Cordoba, and the Office of the Deputy Secretary for Economic Development of the Municipality of Cordoba; and (iii) evidence that the General Coordinator of the program has been selected.

Exceptions to Bank policy:

None.

I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 On 30 November 1993, the Donors Committee declared the Republic of Argentina eligible for all types of financing from the Multilateral Investment Fund (MIF). The proposed program is consistent with MIF eligibility criteria under Facility IIIA and the cluster for networks and supply chains, since it will promote industrial integration of small and medium-sized enterprises as a mechanism to improve the competitiveness and sustainability of these economic units, thereby increasing their participation in the national and international economy.

II. BACKGROUND

A. Macroeconomic context

- 2.1 The Argentine economy began a recessionary slide near the start of the third quarter of 1998, which led to a cumulative drop in per capita gross domestic product (GDP) of 12% by 2001. In the last three years, total investment fell close to 32% and was compounded by a drop in domestic demand. Industrial activity in 2001 decreased 6.2% compared to 2000; the decline accelerated in the last quarter of 2001, when the figure for December alone showed a drop of 18.4% over December 2000 figures. In the first quarter of 2002, cumulative variation in manufacturing production was 18.1% less than that posted in the first quarter of 2001.
- 2.2 The crisis has had an immediate negative impact on the micro, small and medium-sized enterprises (MSMEs) sector, reflected by a decrease in sales and jobs. Faced with the slump in the domestic market and taking advantage of their relatively lower production costs, small and medium-sized enterprises (SMEs) began looking for foreign markets, which has forced them to: (i) improve their production and technology in order to be competitive on international markets; and (ii) seek alternatives for cooperation to meet the demand for higher volumes and value added.

B. Economic sectors in the province of Cordoba

- 2.3 The province of Cordoba, made up of 26 departments and 400 municipalities, with a population of 3 million inhabitants, is the third largest economic center in Argentina after Buenos Aires and Santa Fe, as a hub for the flow of goods and individuals. With 5.9% of the total area of the country, in 1999 Cordoba contributed 7.5% of GDP.
- 2.4 Cordoba's predominant economic sectors are services (67% of GDP) and manufacturing (17% of GDP). Small enterprises, which represent over 96% of businesses and 64% of employment, play a central role in the economic sectors.

- 2.5 In March 2002 a study was completed, funded by the Italian agency for international development at the request of the City of Cordoba Economic Development Agency (ADEC), a semipublic institution with a majority private ownership that has been working on SME sector policy and strategy formulation and the promotion of private enterprise in the various areas of business services since 1997.

C. Description of the clusters

- 2.6 The study demonstrated the potential of the province of Cordoba to promote an initiative for developing business cooperation, particularly in three economic subsectors with great potential for integration and improved competitiveness: (i) information and communication technology (ICT); (ii) furniture and other wood products; and (iii) regional products (agricultural and organic). More than eight subsectors were analyzed, based on the following, among other factors for assessment: geographical location, target markets, joint activities and their advantages, linkage with institutions, local environment advantages, potential for cluster development, prospects for growth and impact on the local economy.

Table 2.1
Main features, problems
and common objectives by cluster

Sector	Cluster features	Problems	Areas of joint activity
ICT	160 enterprises, the majority small and medium-sized. Export to Europe, USA and Latin America. Have already formed a cluster. Have reached average level of technological development.	Small size of domestic market, lack of export experience, scarcity of capital, management and marketing problems, human resources training.	Access to international markets, human resources training, strengthening of cooperation.
Furniture and other wood products	230 small and medium-sized enterprises. Strongly oriented to local market. Only 16 members have university support.	Difficulty in sustaining business cooperation mechanisms. Inefficient production. Problems in product design and quality.	Strengthen sales capacity and joint design. Create permanent cooperation mechanisms. Introduce software.
Regional products	74 organic farmers and over 3000 families breeding goats. Organic farmers have started to organize for identified or potential foreign markets. Only a few goat breeders are organized.	Lack of knowledge of organic production techniques. Weaknesses in marketing due to lack of production volume and market knowledge. Failure to utilize by-products. Inadequate infrastructure.	Improvement of common infrastructure. Marketing strategy. Improvement of product quality, development of new products and use of by-products.

- 2.7 In the Province of Cordoba, there is a serious lack of coordination, not only among the MSMEs themselves, but also between MSMEs and supporting institutions. Currently, cooperation is hindered by high levels of industrial integration within

each business resulting in low product specialization, lack of experience in business cooperation and the resulting high transaction costs, and very little development of shared business support services. Moreover, as in other Argentine provinces and other countries in the region, technological institutions and service providers encounter difficulties in working with MSMEs, both individually and in clusters.

D. MIF and Bank strategy

- 2.8 The program is consistent with the overall goals of the MIF, particularly with the cluster for networks and supply chains as a mechanism to: (a) improve MSMEs access to new markets; (b) achieve economies of scale to enhance business cluster activities, (c) promote the transfer of technology and access to information and know-how to improve performance standards; (d) help enterprises increase quality, productivity and competitiveness levels while lowering costs; and (e) consolidate regional development.
- 2.9 The MIF has supported a large number of operations in Argentina with the objective of promoting business development. The proposed operation applies the lessons learned from these programs as well as the guidelines for developing supply chains. In this type of initiative, factors for success include: (i) building on the existing business and institutional base; (ii) precisely defining business clusters to be supported by the program; (iii) identifying needs and how to meet them; (iv) involving the institutions participating in the program and obtaining a commitment from them at the onset; and (v) adapting the program execution period to match the period required for cooperation between the enterprises and institutions to mature.
- 2.10 An innovative aspect of the program is that because it will work with three economic sectors at different levels of coordination, it will be able to draw better conclusions on potential replication and the demonstration effect in other areas of the province of Cordoba or Argentina. Sustainability is feasible since sectors with higher potential and identified foreign or domestic markets have been selected, and because industrial integration is planned as a long-term solution to improve MSME competitiveness by strengthening supporting institutions and improving access to business services.

III. PROGRAM OBJECTIVES AND DESCRIPTION

A. Objectives

- 3.1 The primary objective of this program is to help improve MSME competitiveness in the province of Cordoba by supporting the establishment and/or strengthening the business clusters in three sectors: information and communication technology, furniture and other wood products, and regional products (agricultural and organic).

B. Components and activities

- 3.2 The program consists of four components: (i) strengthening cooperation between enterprises and institutions; (ii) improving access to production and organization technology; (iii) improving market access, and (iv) disseminating the program.

1. Component I: strengthening cooperation between enterprises and institutions (MIF: US\$275,250; counterpart: US\$178,550)

- 3.3 The objective of this component is to teach enterprises how to cooperate with competitors, suppliers and institutions in order to develop joint procedures to improve production, marketing and general management, planning awareness-raising activities for each business cluster.
- 3.4 The component includes training and technical assistance to: (i) train human resources in business cooperation, including cluster coordinators; (ii) identify obstacles to competitiveness at the sector and enterprise level; (iii) convey to the enterprises the benefits of developing joint activities; (iv) identify and coordinate human resources and mechanisms for exchanging technical and business information between enterprises and institutions; (v) identify programs and services requiring cooperation with universities and other specialized institutions; (vi) establish mechanisms to research financial resources jointly for new joint activities; and (vii) exchange experiences and take advantage of synergies between various local business clusters. To carry out these activities, an international consultant with expertise in industrial integration will be hired to provide periodic support for the program execution unit (PEU).
- 3.5 This component will result in the identification and training of coordinators responsible for ensuring cooperation in each cluster; increasing interest in and awareness of business cooperation among the various stakeholders in the selected sectors; and defining and strengthening the business clusters in each sector. It also includes preparing a three-year strategic plan and annual operating plans for each business cluster supported by the program.

2. Component II: improving access to production and organization technology (MIF: US\$386,180; counterpart: US\$280,420)

- 3.6 Through this component, support will be provided to business clusters to change their production and management processes to integrated production and product quality assurance.
- 3.7 This component will include training activities and technical assistance partially financed by the enterprises to: (i) conduct diagnostic studies to identify common problems in industrial technology and organization; (ii) identify and hire local experts and consultants qualified to respond to the needs for technology and know-how identified in the studies; (iii) implement common programs to increase usage

of existing equipment; (iv) introduce new technology and management practices; and (v) disseminate knowledge and practices in environmental protection and occupational safety and health to enterprises and workers.

- 3.8 As a result of this component, the enterprises are expected to begin to introduce joint programs for improving production and management starting with the support of the PEU and the cluster coordinators who seek support from consulting services and training.

3. Component III: improving access to local and international markets (MIF: US\$144,210; counterpart: US\$188,990)

- 3.9 Through this component, participating business clusters will improve their ability to market their products and services on domestic and international markets.
- 3.10 This component will include partially financed technical-assistance activities for enterprises designed to: (i) identify new markets and niches to expand sales opportunities nationally and internationally; (ii) adapt the quality and design of products and services to client needs; (iii) train the sales and marketing managers of the enterprises; (iv) promote products and services in new markets; and (v) disseminate the knowledge and practices of the businesses and workers in meeting quality standards and ensuring ongoing improvement.
- 3.11 As a result of this component, the business clusters will have access to information and events that will help them adapt their products to new local and international markets demand and thus increase their sales management capability.

4. Component IV: model evaluation, dissemination and results (MIF: US\$50,000; counterpart: US\$10,000)

- 3.12 Through this component, an information system for management, monitoring and ongoing evaluation of the program will be established. Additionally, the business development model used and its results will be disseminated to other institutions operating in Cordoba and other Argentine provinces. The MIF will contribute resources for dissemination and transfer of the methodology to institutions interested in adapting the methodology developed under the program. Interested institutions will be required to contribute no less than 50% of the cost of the activity, with a maximum amount of US\$7,500 per request.

IV. PROGRAM COST AND FINANCING

A. Cost and financing

- 4.1 The cost of the program is estimated at US\$1,802,200, of which US\$1,082,640 will be contributed by the MIF, and US\$719,560 will be provided as the local counterpart contribution¹ (minimum of 50% in cash), as shown below:

Table 4.1
General Budget

Category	MIF	Counterpart	Total	%
<i>A. Component</i>				
I. Strengthening cooperation	275,250	178,550	453,800	26.5
II. Improving access to production and organization technology	386,180	280,420	666,600	38.9
III. Improving access to local and international markets	144,210	188,990	333,200	19.5
IV. Evaluation and dissemination of results	50,000	10,000	60,000	3.5
<i>B. Auditing and Administrative Expenses</i>	177,000	21,600	198,600	11.6
<i>C. Contingencies</i>	50,000	40,000	90,000	5.0
TOTAL	1,082,640	719,560	1,802,200	100
%	60	40	100	

- 4.2 Most of the MIF resources will be used to cover the cost of the specialized consulting services to be provided under components 1 and 2 and the program dissemination activities. The local counterpart contribution will be used in the various program components to cover such items as supporting infrastructure costs (rent, services, transportation, etc.), and will come from the executing agency (ADEC) and the other institutions who make up the Steering Committee of the program: the Cordoba Science Agency (CSA) and the City of Cordoba Economic Development Agency (CaCEC). The institutions have agreed to cover the contribution of any committee member in the event that it is unable to meet the budgetary obligations.
- 4.3 On average, the program will finance 50% of the training and technical assistance services for the enterprises in each of the selected clusters. Upon program startup, 70% will be financed and by the end of year three, 30% will be financed. These percentages will be reviewed as part of the program evaluations, and any necessary adjustments will be made. Services will only be financed if they both are part of

¹ The counterpart contributions are reflected in the agreements the institutions (CSA, CaCEC, Secretariat of Industry, Commerce and Mining of the Province of Cordoba and the Office of the Undersecretary for Economic Development of the City of Cordoba) signed with the ADEC. These agreements will be reviewed by the Bank and must be submitted as a condition precedent to the first disbursement.

cluster activity plans and the annual work plans approved by the Steering Committee.

- 4.4 In the “Dissemination and Evaluation” category, US\$30,000 was budgeted for identification and dissemination of lessons learned and best practices, information surveys on the MIF cluster and participation of executing agencies in workshops for cooperation between programs.

B. Program sustainability

- 4.5 Program sustainability is based on three factors:

- a. Institutional learning: upon program completion, the institutions will be better able to identify demand from enterprises and meet it in a suitable manner, as well to work with other institutions;
- b. Service market development: as a result of the program, demand for business development services will increase, enterprises will demonstrate more willingness to pay for such services, and service providers will be more sensitive to enterprise needs and will experience greater demand for joint services.
- c. In their agreements with the ADEC, the institutions contributing resources to the program stated their intent to continue conducting activities similar to those of the program once the MIF resources are exhausted.

C. Procurement of goods and services

- 4.6 Procurement of goods and related services will be carried out according to the Bank procedures stipulated in the Letter of Agreement. Contracts for consulting services will be awarded in accordance with the procedures set forth in document GN-1679-3. In quality- and price-based procurement, the relative weight of pricing as an evaluation criterion will be no more than 30% and consequently the technical component or bid quality will be no less than 70%. Contracts for consulting services for amounts below US\$30,000 equivalent will be let in a manner similar to the procedure for hiring individual consultants, as set forth in Annex B to the Letter of Agreement.
- 4.7 The program will comply strictly with Argentine intellectual property law, particularly with regard to the use of software.

D. Accounting and auditing

- 4.8 The executing agency will be responsible for: **(a)** establishing and maintaining a appropriate system for internal oversight of finances and accounting, set up to provide the documentation necessary to verify transactions and help ensure timely preparation of program financial statements and reports. The program records

should be organized in such a way that they: (i) identify the amounts received from various sources; (ii) record, in accordance with the chart of accounts approved by the Bank, program expenditures covered by the MIF contribution and by the other funds necessary for full implementation of the program; (iii) include the details necessary to identify the goods procured and services hired, as well as the use of such goods and services; and (iv) indicate the cost of each component's activities; **(b)** opening of separate bank accounts to administer MIF contribution and local counterpart funds; **(c)** processing requests for disbursement and the supporting documentation, in accordance with normal Bank procedures; and **(d)** preparation and submittal to the Bank of the program's annual financial statements, audited by an independent consultant or an auditing firm acceptable to the Bank pursuant to the previously referenced terms agreed to by the Bank. The cost of the auditing will be financed with MIF resources.

E. Execution and disbursement periods

- 4.9 The program will be carried out over a period of 36 months and the MIF contribution will be disbursed over a period of 42 months. In accordance with the estimated requirements for program execution, a revolving fund equal to 10% of the MIF contribution will be established and separately managed in an independent account, so that funds can be available on a timely basis to carry out the program activities. At the request of ADEC, up to US\$50,000 in costs incurred to promote cooperation among enterprises in the regional products sector during program preparation and up to six months prior to approval of the operation by the Donors Committee will be recognized as part of the local counterpart contribution.

F. Degree of program preparation

- 4.10 The program is at an advanced stage of preparation because: (i) detailed analyses of each cluster were conducted during the prefeasibility stage; (ii) detailed specific program activities (agreed to with numerous local stakeholders) have been designed (see the logical framework); (iii) during the program preparation phase, the executing agency helped identify activities and components and develop joint working methods and procedures, which is expected to result in prompt, effective program execution; and (iv) there is good coordination among the various participating agencies.

V. PROGRAM EXECUTION

A. Executing agency

- 5.1 The program will be executed by ADEC, which is a private not-for-profit institution, the result of an initiative to link the public and private sectors (14 Chambers of Commerce, the Professional Council of Economic Sciences and

the Municipality of Cordoba. The ADEC, which has approximately 15 employees, primarily focuses on the socioeconomic development of the city of Cordoba and its area of influence with activities designed to support and strengthen MSMEs.

- 5.2 The principal areas of ADEC activity are: **(i) training**, through the system for business training vouchers financed by the MIF and local resources; **(ii) information**, through databases with information of interest to MSMEs in Cordoba, including sources of training, financing and technical support in both the private sector and under government programs; **(iii) regional development**, by means of a network made up of over 15 local institutions whose objective is to link local development initiatives run by the private and public sectors jointly or in coordination; and **(iv) prospecting for investments and promoting exports** through development of a joint strategy by the provincial government, the Municipality of Cordoba and the private sector.
- 5.3 To execute the proposed program, the ADEC has entered into cooperation agreements with two institutions from the province whose objectives are as follows: (i) the CSA, whose primary objective is the formulation, coordination, implementation and evaluation of the science and technology policy of the Province of Cordoba; and (ii) the CaCEC, whose the primary objective is to cooperate and participate in export initiatives, promoting foreign trade activities undertaken by small and medium-sized business in all sectors and regions of the province to facilitate their growth and consolidation in international markets.

B. Program administration

- 5.4 Administration and oversight of the program will be the responsibility of a **Steering Committee** composed of one representative each from the CSA, the CaCEC and the ADEC, with the latter acting as chair. Program activities and funds will be administered by the ADEC, in which the program execution unit (PEU) and a **Management Control Committee (MCC)** will function. The PEU will consist of an Executive Director, an assistant and a part-time accountant. To facilitate program execution, it was decided that the best alternative would be to create a trust fund in which mainly the financial resources contributed by the MIF would be deposited. The MIF will sign a letter of agreement with the CaCEC and the ACC as trustees, which will establish the trust fund, and another one with the ADEC, the program executing agency of the program, which will administer the trust fund under the supervision of the Steering Committee.
- 5.5 The responsibilities of the Steering Committee will be to: (i) decide on the overall objectives of the annual strategic plan and to establish guidelines for working out its details; (ii) review and approve the annual work plan; (iii) determine the economic sectors' activities once the program is set up; (iv) coordinate the program's institutional promotion activities; (v) monitor program progress through reviews and feedback on the technical and administrative reports produced by the executing

- agency; (vi) propose improvements in program design and implementation; (vii) analyze cases in which service providers or beneficiaries sanctioned by the program submit an appeal for reconsideration and ruling on submitted pleas and appeals; (viii) advise the Executive Director on all aspects of the program's operations; and (ix) approve reports periodically submitted to the MIF.
- 5.6 The MCC, whose functions and duties are described in the operating regulations, is the body designated by the ADEC to supervise the daily management, administration and finances of the program for which it is responsible to the Bank.
- 5.7 The PEU will be responsible for: (i) preparing and carrying out annual work plans (AWPs); (ii) coordinating program activities; (iii) procurement of goods and services and their supervision; (iv) processing requests for disbursement from the contribution; (v) submitting financial statements and reports to the Bank; and (vi) monitoring the performance indicators established in the logical framework. The PEU representative will be the Executive Director, whose specific functions are detailed in the operating regulations.
- 5.8 For each the business clusters selected, the program will fund a consultant "coordinator." The duties of these coordinators, who will report to the Executive Director, will be to: (i) assist enterprises in identifying their needs and defining and implementing cooperation mechanisms; (ii) establish the working group for each cluster; (iii) draw up the action plan for each cluster; (iv) help hire technical support and training services; (v) help ensure coordination with institutions; and (vi) administer all the joint activities of each cluster carried out under the program.
- 5.9 In each business cluster a technical committee for monitoring and support and composed of sector representatives will be established and will have the following functions: (i) cooperate in the selection of the consultant "coordinator"; (ii) cooperate with the cluster coordinator in planning and carrying out activities to achieve the goals established in the annual strategic plan; (iii) cooperate with the consultant "coordinator" to generate cluster spirit and activity and to resolve any disputes between cluster members; and (iv) provide advice to the Steering Committee and MCC when requested.

C. Program beneficiaries

- 5.10 The beneficiaries will be MSMEs producing goods and service in the selected business clusters (information technology and electronics; furniture and other wood products; organic farming and agribusiness and goat breeders). The direct beneficiaries of the activities will be approximately 400 enterprises, 80% of which are small or micro and the remainder, medium-sized.² The beneficiaries also include

² Local organizations will handle requests for services of enterprises that, among others, meet the following requirements: (i) they are micro, small or medium-sized companies (up to 100 employees with less than three million dollars in annual income); and (ii) they are of economic importance to the region and the country.

universities, service providers and local public and private research and support centers and institutions that will increase their ability to interact with the local production system.

- 5.11 Specifically, (i) the ICT subsector enterprises will be the 30 that have already expressed interest in participating in the program plus those that decide to join from the 132 remaining in the subsector (the goal is 60); (ii) in the furniture subsector, the 16 enterprises that have already signed up during this preparatory phase, out of a total of 240 enterprises in Cordoba (in all, a group of 30 enterprises is expected to participate); and (iii) in regional products, the group initially signed up is composed of 181 goat breeders and 110 fruit and vegetable farmers (the goal is 260 goat breeders and 180 fruit and vegetable farmers).

VI. MONITORING AND EVALUATION

- 6.1 **Progress reports.** The ADEC will prepare and submit progress reports on the program to the Country Office of the Bank in Argentina (CO) within 30 days after the end of each semiannual period and a final report within 30 days after the last disbursement. For the first annual progress report, the PEU will also draw up the work plan for the second year. These reports will follow a format previously agreed upon with the CO and will detail the program activities, financial performance and results. The CO will use these reports to supervise progress in project implementation and to prepare a Project Completion Report within three months after the last disbursement.
- 6.2 **Evaluation.** The logical framework, attached as Annex I to this document, provides detailed indicators for the execution, monitoring and evaluation of the program. The PEU will be responsible for the design and implementation of an information system for managing, monitoring and evaluating the program.
- 6.3 Two evaluations of the program will be conducted by a consultant who is a specialist in industrial integration, selected and hired directly by the Bank. The first evaluation will be conducted either after more than 50% of the total financing has been disbursed or 18 months after the first disbursement. This evaluation will cover at least the following: (i) evolution of the logical framework indicators (see Annex I and the table below); (ii) the degree of progress achieved in each beneficiary cluster supported by the program; (iii) the institutional capacity of the executing agency and the other institutions involved in the program; (iv) the fulfillment of the *pari passu* of the counterpart in accordance with the operating regulations; and (v) the need and potential for new programs. The evaluation will indicate any necessary corrective actions to guarantee proper program execution.
- 6.4 The second evaluation will be conducted three months after the last disbursement and will review: (i) the degree to which the goals and specific objectives of the

program were met, basically, the improvement in local competitiveness; (ii) user satisfaction by surveying the participating enterprises; and (iii) the level of sustainability of the activities carried out under the program once the MIF contribution is exhausted. This second evaluation will include an analysis comparing the results achieved by the beneficiary clusters with those of business clusters not supported by the program that were analyzed in the study financed by the Italian development agency (for example, the footwear sector, capital goods, etc.).

- 6.5 An ongoing monitoring system will also be funded to track the indicators. The evaluation methodology will incorporate the standard methodology being developed by the Office of the MIF for the cluster under which this program is financed.

Table 6.1
Principal indicators for program monitoring and evaluating

Indicator	Sector	Year			
		baseline year	2003	2004	2005
Number of cooperating enterprises in the subsector	ICT	30	50	70	60
	F	16	24	28	30
	RP	291	370	410	440
Total income of cooperating enterprises (average in US\$ millions)	ICT	3.0	3.1	3.5	3.6
	F	1.4	1.5	1.6	1.7
	RP	2.5	2.6	2.9	3.0
Per employee income of cooperating enterprises (US\$ thousands)	ICT	100.0	103.0	108.0	110.0
	F	45.0	46.4	48.6	49.5
	RP	1.5	1.5	1.6	1.7
Total export billings in the sector (US\$ millions)	ICT	2.5	2.6	2.8	3.0
	F	0.8	0.8	0.9	1.0
	RP	1.7	1.8	1.85	1.9

Sectors: ICT: information and communication technology; F: furniture and other wood products; RP: regional products.

VII. RATIONALE AND RISKS

A. Rationale

- 7.1 A program of this kind is of the highest priority for Argentina, particularly in the current economic and social environment. In areas with a high number of small businesses and microenterprises, promoting cooperation among enterprises, based on the identification of problems and a search for common solutions, has been shown to be a very powerful instrument for improving competitiveness and developing business in a variety of international environments.

- 7.2 The focus of this program, based on a strategy of joint activities, can, in non-specialized production environments, lead to gradual specialization of enterprises and to greater diversification and higher-quality products. The resulting increase in demand will help build enterprise capacities to work jointly in clusters and supply chains and to identify and assess common needs for production, technology and marketing.. The latter will thus be able to make effective use of the technological service market and specialized organizations in the province of Cordoba, developing and strengthening the local market for such services. As a result of the program, the enterprises are expected to increase their willingness and capacity to bear the financial costs of collective services and activities, a benefit that will help ensure program sustainability.

B. Risks

- 7.3 This operation has two basic risks. The first is due to the significant uncertainty associated with all aspects of the country's economic and social life resulting from the present situation. This situation could affect demand from enterprises for program services. A major mitigating factor will be the demand-oriented program design, and in particular, the high level of involvement on the part of enterprises and business associations. In addition, to stimulate and channel potential demand, awareness-raising and public information activities will be carried out to inform the enterprises of the benefits offered by the proposed program.
- 7.4 Due to the country's economic situation, a second risk is the availability of cash financial resources from the counterpart institutions participating in the program. The existence of counterpart resources, both cash and in kind, has been verified by reviewing the financial and accounting reports of the institutions contributing to the program, mainly for its first year of execution. The institutions have also submitted documentation supporting the existence of the resources to be used and it has been verified that should any institution for any reason be unable to contribute its resources in whole or in part, the others have sufficient resources to maintain the program budget. The institutions have formally agreed to provide the necessary resources for the program in agreements they have entered into and signed with the ADEC.

VIII. ENVIRONMENTAL AND SOCIAL CONSIDERATIONS

- 8.1 The Committee on Environmental and Social Impact (CESI) considered this operation at its meeting on 19 June 2002. The recommendations of the CESI were incorporated into this document. To mitigate the potential environmental risks of the program, three measures will be taken: (i) the wood used will be obtained from legally authorized sources in accordance with forestry legislation for the furniture and wood products sector; (ii) training will be provided in environmental

management of organic and other agricultural products; and (iii) training will be provided in occupational health and safety.

IX. CONDITIONS PRECEDENT TO THE FIRST DISBURSEMENT

- 9.1 As conditions precedent to the first disbursement, the following documentation must be submitted to the satisfaction of the Bank: (i) the trust fund contract signed with the executing agency; (ii) the signed program execution agreements between the ADEC and the CACEC; the CSA; the Secretariat of Industry, Commerce and Mining of the Ministry of Production and Finance of the Province of Cordoba; and the Office of the Undersecretary for Economic Development of the Municipality of Cordoba; and (iii) evidence that the General Coordinator of the program has been selected.

ARGENTINA

Program for Supply Chain Development in the Province of Cordoba TC-02-04-01-9

LOGICAL FRAMEWORK

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
Improve the competitiveness of small businesses in the province of Cordoba.		<ul style="list-style-type: none"> – Semiannual mid-term and final progress reports – Program information system 	<ul style="list-style-type: none"> – Macroeconomic scenario of the province does not suffer major damage.
PURPOSE			
Carry out joint activities for awareness-raising, training and technical support for enterprises in the information and communication technology (ICT), furniture and other wood products (F) and regional products (RP) sectors.	<ul style="list-style-type: none"> – Upon program completion, the number of enterprises actively participating in business clusters and joint activities increases from 30 to 60 in ICT sector, 16 to 30 in the F sector and 291 to 440 in the RP sector. – Upon program completion, some beneficiary enterprises in each cluster experience an increase in income of at least 10% over that of the baseline year. – Upon program completion average invoicing per employee of beneficiary enterprises in each cluster increases by at least 10% over the baseline year. – Upon program completion, average exports over invoices of the enterprises in the clusters increases by at least 10%. – In the final year of the program, two new business clusters in sectors different from those included in the program initiate joint activities. 	<ul style="list-style-type: none"> – Semiannual mid-term and final progress reports – Program information system 	<ul style="list-style-type: none"> – Enterprises are willing to cooperate with and become involved in the program. – Institutions participating in the program act in coordination.

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
1. Strengthening cooperation between enterprises and institutions.	<p><i>1.1 Training in business cooperation</i></p> <ul style="list-style-type: none"> – At least 15 key individuals from the institutions and sectors selected for the project are trained in methodologies to enhance business cooperation. <p><i>1.2 Strengthening cooperation mechanisms</i></p> <ul style="list-style-type: none"> – At least 19 workshops held on strengthening mechanisms for cooperation between enterprises and institutions. <p><i>1.3 Identifying obstacles to competitiveness and cooperation</i></p> <ul style="list-style-type: none"> – Each of the clusters supported by the program relies on a diagnostic study on problems in terms of the environment and enterprises. <p><i>1.4 Formal establishment of enterprises</i></p> <ul style="list-style-type: none"> – At least 200 producers of the RP sector receive advice for the establishment of their businesses. <p><i>1.5 Joint search for financial resources for new joint activities</i></p> <ul style="list-style-type: none"> – Each of the clusters supported by the program relies on specialized advisory services for sources and procedures for accessing financing to carry out the joint activities. 	<ul style="list-style-type: none"> – Findings and records of events – Semiannual mid-term and final progress reports. – Cooperation agreements signed 	<ul style="list-style-type: none"> – Enterprises and other institutions are interested and participate. – Qualified experts are available for training and technical support. – There is effective institutional coordination.

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
2. Improving access to production and organization technology.	<p><i>2.1 Diagnostic studies to identify production problems.</i></p> <ul style="list-style-type: none"> – 50 enterprises in the ICT sector receive technical assistance for the development of business plans. – At least 30 enterprises of the F sector and 200 from the RP sector participate in assessment and planning . <p><i>2.2 Joint projects for training and technical assistance to improve and certify quality.</i></p> <ul style="list-style-type: none"> – 50 employees in the ICT sector receive quality training. – 25 ICT enterprises and 25 enterprises of the F sector receive technical assistance to certify quality. – 10 enterprises of the RP sector certify organic quality. <p><i>2.3 Joint projects for technical training and production management.</i></p> <ul style="list-style-type: none"> – 100 employees in the ICT sector receive training in technology management. – 600 employees of the F sector and 400 from the RP sector receive technical training in production. 	<ul style="list-style-type: none"> – Individual and joint work plans – Production of list and evaluation of compatibility with needs – Agreements signed – Semiannual mid-term and final progress reports – Records of events 	<ul style="list-style-type: none"> – The enterprises are willing and able to pay. – The technical assistance services meet minimum quality standards. – The enterprises are willing to participate in events.

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>2.4 <i>Joint projects for research, development and improvement of processes and products</i></p> <ul style="list-style-type: none"> – The F sector enterprises receive technical assistance for the development of new products. – Three feasibility studies are conducted on regional product industrialization. – The RP sector enterprises receive technical assistance to improve product packaging and presentation. <p>2.5 <i>Joint pilot production projects.</i></p> <ul style="list-style-type: none"> – Three joint pilot production experiments are carried out in the RP sector. 		
3 Improving access to local and international markets	<p>3. <i>Identification of new markets to expand domestic and international sales opportunities</i></p> <ul style="list-style-type: none"> – At least 12 market (domestic and international) studies completed. – Participation by beneficiaries in at least 30 trade fairs, negotiating rounds and prospecting for international business. <p>3.2 <i>Training in business management of enterprises.</i></p> <ul style="list-style-type: none"> – At least 400 enterprises/producers received training and assistance in business management. 		

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
4. Program and its results evaluated and disseminated	<p><i>4.1 Design and implementation of a system for compiling information for program management and evaluation</i></p> <ul style="list-style-type: none"> – The information necessary for managing, monitoring and evaluating the project is generated. <p><i>4.2 Organization of a network of local economic development agencies through which the program results can be disseminated as they are achieved in each of the business clusters supported</i></p> <ul style="list-style-type: none"> – Six workshops held with an average participation of 10 agencies to discuss and disseminate the program results. <p><i>4.3 Implementation of a system to promote business cooperation in the province of Cordoba.</i></p> <ul style="list-style-type: none"> – At least five new business clusters with high potential for quality joint activities are identified. 	<ul style="list-style-type: none"> – Production of list and evaluation of compatibility with needs – Agreements signed – Semiannual mid-term and final progress reports 	<ul style="list-style-type: none"> – Project information and evaluations are available. – The enterprises and institutions are willing to create networks. – There is local capability for successful initiatives.