

EXPORT-MARKET DIVERSIFICATION PROGRAM FOR SMALL ENTERPRISES

(TC-99-10-07-5-AR)

EXECUTIVE SUMMARY

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| Executing agency: | Fundación Banco Credicoop | |
| Beneficiaries: | The main beneficiaries of the program will be small-scale exporting firms, which, due to a lack of market diversification, are currently in a vulnerable position because of their total dependency on regional markets. Training, consultancy and information activities are expected to benefit a broader spectrum of small and medium-sized enterprises (SMEs) that are exporters or have export potential. | |
| General objective: | The general objective of the program is to enhance the international competitive positioning of small-scale exporters, by assisting them with techniques for diversifying and consolidating their access to international markets. | |
| Specific objectives: | The specific objectives of the program are to: (i) develop a replicable export-market diversification methodology for small firms, and organize a professional team to apply it; (ii) improve export-market diversification among the small enterprises participating in the program; (iii) provide specific processed information, together with advisory services to assist SME decision-making in this field; and (iv) conduct business training activities to facilitate greater export-market diversification, to supplement the technical assistance. | |
| Amount and source of financing: | MIF | US\$1,700,000 |
| | Local counterpart: | <u>US\$1,700,000</u> |
| | Total: | US\$3,400,000 |
| Terms: | Execution period: | 36 months |
| | Disbursement period: | 42 months |

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| Special contractual conditions: | As conditions precedent to the first disbursement: (a) the implementation manual must have entered into force; (b) the terms of reference and bidding documents for the international competitive bidding process for selecting and hiring the consulting firm must be submitted; and (c) the program director must have been hired. |
| Exceptions to Bank policy: | None |
| Environmental and social impact: | The Committee on Environment and Social Impact (CESI) reviewed and approved the project on 12 May 2000. |

I. ELIGIBILITY OF COUNTRY AND PROJECT

- 1.1 The Donors Committee declared the Republic of Argentina eligible for all Multilateral Investment Fund (MIF) financing modalities, on November 30, 1993. This project satisfies MIF requirements for supporting micro- and small-scale enterprise, since its aim is to improve the international position of SMEs.

II. BACKGROUND

- 2.1 Since 1989, Argentina has undertaken a series of far-reaching structural reforms that have afforded it a period of stability and economic growth. This, in turn, has facilitated the participation of Argentine firms in international trade, particularly in Mercosur. The country's exports grew continuously from 1991 to 1998, and the number of exporting firms has grown from about 6,500 in 1988 to nearly 11,000 today. Nonetheless, exports still account for under 10% of GDP, and they remain concentrated in a handful of markets and dominated by a few large firms. In addition, given the intensive regional economic integration process that took place in the 1990s, it is not surprising that Argentine exports are sensitive to the economic situation of neighboring countries, particularly Brazil.
- 2.2 Argentina's small and medium-sized enterprises (SMEs) have managed to increase their participation in foreign trade, as measured by the total number of exporting firms. Nearly 9,900 (90%) of the approximately 11,000 exporting firms in Argentina are in the small-scale exporter category, defined as those with annual foreign sales of less than US\$2 million. Yet SMEs still account for only a marginal share of export volume and were responsible for just 6.7% of total export value in 1998. Moreover, this share has actually been shrinking over the last five years, thus underscoring SME's poor foreign-trade performance.
- 2.3 Increasing and diversifying export activity among Argentine SMEs is not only a challenge for the country, but also a great opportunity to improve economic performance and create new jobs. Despite the key role played by SMEs in the domestic economy in terms of employment, income, and economic growth, there are still very few that sell to foreign markets (relative to their potential number¹); moreover, most of those that do so are in a highly vulnerable position, because they depend on exporting a small number of products to a handful of countries. About 60% of firms export to a single country, and 86.5% sell to no more than three different markets, generally within Mercosur. According to exporting firms' own data, 43.5% were selling in that market in 1998 – most of their products being sent to Brazil, which absorbed more than 30% of Argentine exports that year, compared to 6% in 1985.

¹ To give an example, according to data from the SME Observatory of the Argentine Industrial Union (UIA), over half of all industrial SMEs have never exported, and only 15% of those that have sold to foreign markets, do so systematically.

- 2.4 Small firms' reliance on one or a few markets makes their position as exporters extremely vulnerable. The devaluation of the Brazilian currency in early 1999, for example, raised the prices of Argentine products in Brazil by up to 40%, and was partly responsible for reversing Argentina's continuous export growth and for deepening the climate of recession in the country.
- 2.5 This demonstrates the importance of working to develop SME support programs not only to promote export activity itself but also to diversify markets. For most SMEs, selling abroad has arisen more by chance than as the outcome of any strategy. Small firms in Argentina face major constraints on their ability to develop export strategies, including: operational problems (scarcity of human and financial resources, lack of experienced staff, and difficulties in designing and implementing successful marketing strategies abroad); difficulties in obtaining valid and reliable information on external markets and developing contacts abroad; psychological barriers at the time of exporting; problems in identifying and selecting markets, and in correctly matching products with markets; poor knowledge of exportable products and little understanding of the factors underlying international competitiveness (e.g. packaging, quality norms and standards); factors peculiar to export activity such as languages, paperwork, invoicing and sales management, which become obstacles for SMEs. Another major obstacle to the competitive development of small firms is the lack of technical support services appropriate to their needs, particularly in the area of foreign-trade-specific non-financial services.
- 2.6 The Argentine Government has made it a top priority to increase exports and help SMEs to become more involved in foreign trade. Working through the Undersecretariat for SMEs, the current administration is drafting new measures to support small-scale export activity. The government aims to complete the revival of the sector, a process initiated by submitting the "SME Bill" to the National Congress in early March. This legislation contains measures that include: automatic VAT refunds on small-scale exports; a streamlining of export procedures; the search for new markets; and encouragement of enterprise export associations. It also envisages opening SME service bureaus and support for setting up a national network for dealing with small business issues.
- 2.7 The "Pymexporta" program (PREX1), funded by the World Bank, was a major resource for fostering small and medium-sized exporters in a subsidy-policy framework. This recently-ended program achieved significant results in terms of the number of firms covered (953), of which 60% had no previous track record in export activity. But a recent report shows that since the ending of PREX1, the hoped-for continuity in export activity has not been forthcoming, as external markets have been approached in a random and opportunistic fashion, without any strategy for establishing a long-term market presence.
- 2.8 The program being proposed here is consistent and compatible with the general aims of MIF, and with the Bank's strategies and priorities in Argentina. It

complements a number of ongoing Bank and MIF programs,² whose objectives and scale are unsuited to the activities of the program currently being proposed. The technical file includes a table summarizing the differences between existing programs and that being proposed.

- 2.9 The program will run a pilot scheme to support the development and application of a methodology for export-market diversification, along with assistance and training activities appropriate to small-scale exporters, to enable them to get established in export markets in a strategic, systematic and long-term fashion. This is seen as an initial step towards improving SMEs' capacity and competitive positioning.

III. THE PROGRAM

- 3.1 **Objective.** The program's general objective is to help improve the international competitive positioning of small-scale exporters, assisting them with techniques for diversifying and consolidating their access to international markets.
- 3.2 For this purpose, the program aims to: (i) develop a replicable methodology of export-market diversification for small firms, and a train a professional team to implement it; (ii) achieve greater export-market diversification among the small firms participating in the program; (iii) provide specific processed information, together with consulting services to facilitate SME decision-taking in this area; and (iv) conduct business training activities to facilitate greater export-market diversification, as a complement to technical assistance.
- 3.3 **Description.** The program will include a pilot project aimed at market diversification for small businesses. This will be complemented by essential training, consultancy and information activities relating to specific issues arising in the market-diversification process.

1. Market diversification pilot project (US\$1,142,000—MIF and US\$417,000—counterpart)

- 3.4 The pilot project is intended to provide technical assistance to 60 small firms that already have some export experience in the regional market, with a view to enhancing their international competitive position by diversifying destination markets and consolidating external sales. To participate in the project, a firm will have to satisfy the following requirements: (i) have no more than 100 employees; (ii) be using environmentally friendly productive processes; (iii) be exporting to no more than three markets, or have done so in the past; (iv) present a preliminary plan

² Namely, the Business Restructuring Program (Loan 989/OC-AR); the Network of Business Services Centers (ATN/ME-4851-AR); the Small-Scale Rural Producer Assistance Program (ATN/ME-5441-AR); the Microenterprise Support Services Program (ATN/ME-5489-AR); and the New Firm Advisory Center (ATN/ME-5765-AR).

for export market and/or product diversification; and (v) be prepared to make a formal commitment to participate in the program and assume the costs involved in contracting technical assistance for the firm.

- 3.5 The resources of this component will be used to carry out technical assistance activities to help small beneficiary firms achieve greater diversification, by implementing a methodology adapted to the local context, designed and developed by a specialist international firm with a successful track record in this field. This methodology would take account of the different phases of the market diversification process, and would support firms in: (a) an initial diagnostic study of their current international positioning, including an analysis of export competencies, current policies and strategies, main strengths and weaknesses, opportunities and potential threats; (b) development of a strategy for market-diversification as part of a plan for cultivating competitive advantages; (c) implementation of a market-diversification plan; and (d) monitoring of diversification actions with a view to their continuous improvement. This methodology may be used by the Bank for future operations.
- 3.6 The specific activities to be carried out in the pilot project will consist of: (a) international bidding to select and hire a consulting firm with wide experience in the fields of international competitiveness, market diversification and export promotion. This firm will be expected to develop the market-diversification methodology to be applied and would help firms integrate into a network of business promotion centers and/or associations; (b) selection and training of consultants to be co-opted on to the project execution team; (c) selection of firms to participate in the pilot project; (d) preparation of export diversification plans among the selected firms; (e) assistance for individual firms in implementing their export diversification plans; (f) program promotion and dissemination, including a variety of actions (exhibitions, and publicity through leaflets and magazines, plus internet, radio and television) to encourage small-scale exporters to participate in the pilot project, especially firms operating in the provinces and/or those set up by women, and to publicize the experiences and results of the pilot project among firms and business support organizations.
- 3.7 Execution of this component of the program is expected to yield the following results: (a) 85% of participating small and medium-sized exporters to have implemented their market diversification plans; (b) market diversification achieved in at least 50% of participating firms; (c) small enterprise export-diversification methodology and program developed and tested, to be replicated in new groups of firms; and (d) a specialized team set up, capable of reproducing the methodology applied in the pilot project.

2. Training, consultancy and information (US\$333,000—MIF and US\$663,000—counterpart)

- 3.8 These activities will be carried out simultaneously and as an essential complement to the pilot project. The aim is to provide training on specific topics arising in the process of developing and executing strategic diversification plans, for participating firms that require it. In addition, a processed foreign trade information service will be introduced to complement the development of firms participating in the pilot project. The service will include user support, and will enable small enterprises to take better decisions on participation in external markets. These complementary services will also be available to other interested firms, which could be future users of the services envisaged in the pilot project. By the end of the program, approximately 500 firms are expected to have availed themselves of these services.
- 3.9 Subject to demand, training activities will focus on the specific topics that may arise during the market penetration process, such as transport and insurance; quality; environmental standards; design and packaging; forms of payment; marketing channels; tax legislation; role of agents in the foreign trade process at source and destination; market prospects; export capacity; organization of and participation in promotional events and activities; cost control; and outsourcing. A consultant will be engaged to design and implement a program of courses and seminars in support of these activities, for which local and international consultants will also be contracted. The cost of hiring local consultants will be assumed entirely by the participating firms. International consultants will be mainly sectoral experts, who will lead workshops and seminars on sectors in which Argentina has competitive advantages.
- 3.10 The processed foreign trade information service is intended to complement training activities with statistical and market data, with the added-value that data will be processed and interpreted according to the needs of each interested firm. The service will be accompanied by individualized user support. Information will be sent to each firm by electronic mail or fax, with costs charged on a pre-established scale. To provide this information service, the program will contract a consultant to design and implement a system using the databases of Fundación Banco Credicoop. Another consultant will be engaged to design and implement a technical consultancy mechanism for small firms requiring this service.
- 3.11 In order to meet general information needs, a periodical publication will be produced with information on the main developments of interest to small businesses. The publication will be distributed free of charge to interested parties as an e-mail attachment, and will also be available on the Internet. A technician/journalist will be hired to prepare and update content periodically.
- 3.12 These activities are expected to improve SMEs' access to information, consulting services and training in the fields of external diversification and competitiveness,

enabling them to consolidate their strategies and participation in a variety of international markets.

IV. PROGRAM EXECUTION

- 4.1 **Executing agency.** The program will be executed by Fundación Banco Credicoop. This nonprofit institution was established in early 1999, with the aim, among other things, of helping to enhance the competitiveness of small and medium-size enterprises through training and technical-assistance activities. The Foundation is directed and managed by a three-member board. It was set up to continue the activities previously carried out by the SME consultancy department of Banco Credicoop Cooperativo Limitado, which had been providing information and training services to its clients. The Foundation has expanded and diversified these services, and made them available to all interested small businesses. Banco Credicoop is one of the funding sources for the Foundation's operations and provides technical and logistical support for diffusion activities. It also has a long track record of providing services to SMEs, and is Argentina's first wholly locally owned bank, with 217 branches throughout the country.
- 4.2 For the purposes of executing the program, the board has appointed a "task force" consisting of its executive director and two other board members, who will form an executive committee responsible for program decision-making. Its members will provide their services free of charge. The management committee will appoint an executive unit to carry out the individual components and activities, the appointment of which will be a condition precedent to the disbursement of loan proceeds.
- 4.3 The management committee will be responsible for: (i) selecting and hiring the program director; (ii) approving the program's implementation manual and any subsequent modifications;³ (iii) monitoring fulfillment of the program's objectives and targets; (iv) approving annual program execution plans and monitoring compliance; and (v) approving annual program budgets and controlling compliance.
- 4.4 The executive unit will be responsible for program execution, including the following specific activities: (i) dissemination, marketing and monitoring of the program's services; (ii) preparation of training, technical assistance and information plan; (iii) subcontracting of institutions and consultants supplying training and technical assistance services; (iv) implementation of the market diversification methodology; (v) identification and promotion of possible business partnerships or alliances; (vi) dissemination of results obtained; and (vii) monitoring of compliance with the program's performance indicators and objectives, as established in the logical framework (Annex I).

³ Such modifications will be subject to a statement of nonobjection by the Bank.

- 4.5 The executive unit will consist of a program director, a coordinator for the market diversification pilot project, a coordinator of training, consultancy and information activities, a management/accounting consultant and a secretary (the executive unit's terms of reference are set out in the technical annexes). The unit will be supported by a consulting firm, selected and hired by international bidding, to conduct the market diversification pilot project; and it will also be supported by local and international consultants in carrying out the program's other activities. The consulting firm will be responsible for developing the export-market diversification methodology for participating small enterprises, and for training the technical consultants who will support firms in implementing it. The procedure for selecting and hiring the firm, together with its general terms of reference and responsibilities, are set out in the ground rules of the respective international bidding process, and included in the program's technical files. Bank procedures will be followed for selecting and contracting consulting services. Only consultants and consulting firms from eligible countries may be hired for MIF-financed projects.
- 4.6 The program director's main responsibilities will be to: (i) prepare and execute the procedure for selecting and hiring the executive unit's other staff; (ii) ensure all the mechanisms for program administration and execution are in place; (iii) ensure correct preparation of manuals and application of the corresponding methodology; (iv) ensure rational use of the loan proceeds in meeting program targets; and (v) coordinate the program and enter into strategic partnerships with other government agencies and private institutions involved in foreign trade. The director will act as secretary to the management committee and liaise between it and the executive unit.
- 4.7 **Beneficiaries.** The program's main beneficiaries will be small-scale exporters, which due to a lack of diversification, are currently in a vulnerable position because of their total dependence on regional markets. It is particularly hoped that the program's promotion and diffusion activities will attract and benefit enterprises run by women, and SMEs located in the interior of the country, as the consulting firm's implementation manual and terms of reference will require it to take steps to encourage participation by these target groups. In addition, training, consultancy and information activities will benefit a wider spectrum of SMEs that are exporters or have export potential, which could become candidates to participate in future market-diversification projects.
- 4.8 All qualifying firms will be able to participate in the program, regardless of their links to the Foundation or to Banco Credicoop. The pilot project includes promotion and diffusion activities aimed at firms in the interior of the country and those run by women, to encourage participation from those groups.
- 4.9 **Status of program preparation.** The program is at an advanced stage of preparation, with the draft of the implementation manual, including the basic management rules and criteria for selection and eligibility of the firms, having been

prepared in conjunction with the Foundation's technical staff. Putting this into operation will be a condition precedent to disbursement. The terms of reference for the international bidding process for contracting a consulting firm have also been drawn up. The Foundation already has experience in the information services, technical assistance and training areas, which it expects to strengthen and expand under the proposed program. Its intensive collaboration in formulating the project will facilitate the subsequent signing of the contract with the Bank.

- 4.10 **Links between the program and environmental issues.** In response to CESI suggestions, the program contains design elements that ensure the operation's activities promote socially and environmentally sustainable projects: (i) firms (and projects) that fail to satisfy the country's current environmental standards, or those that do not have the necessary permits or jeopardize workers health and/or safety would not be eligible to participate; (ii) training and information services provided on topics directly related to clean technologies and environmental regulations; and (iii) parameters included to assess compliance with environmental standards in the different phases of program evaluation.

V. PROGRAM COSTS AND FINANCING

- 5.1 The cost of the program is estimated at US\$3,400,000, with US\$1,700,000 being provided by MIF and US\$1,700,000 coming from the local counterpart contribution.

| ACTIVITIES | LOCAL CONTRIBUTION | MIF | TOTAL | % |
|--|--------------------|-----------|-----------|--------|
| 1. Export-market diversification-pilot project | 417,000 | 1,142,000 | 1,559,000 | 45.86 |
| 1.1 Development and application of export-market diversification methodology | 177,000 | 1,112,000 | 1,289,000 | |
| 1.2 Promotion and diffusion | 240,000 | 30,000 | 270,000 | |
| 2. Training, consultancy and information | 663,000 | 333,000 | 996,600 | 29.32 |
| 3. Program management | 535,800 | 108,000 | 643,000 | 18.93 |
| 4. Evaluation and auditing | 20,000 | 30,000 | 50,000 | 1.47 |
| 5. Contingencies | 63,600 | 87,000 | 150,600 | 4.42 |
| TOTAL | 1,700,000 | 1,700,000 | 3,400,000 | 100.00 |
| % | 50 | 50 | 100 | |

- 5.2 The local counterpart funding will be used to finance: (a) the program director; (b) the coordinator of training, consultancy and information activities; (c) local conference presenters and training consultants; (d) part of the cost of technical

assistance consultants; (e) venues, equipment and general operating expenses; (f) administrative services; and (g) auditing.

- 5.3 MIF resources will be used mainly for hiring: (a) the consulting firm and the individual consultants needed to run the pilot project; (b) international consultants for training courses and seminars; (c) a management accounting consultant to support program management; (d) a consultant to produce the electronic journal; and (e) the program evaluations.
- 5.4 **Execution and disbursement periods.** The program will be executed over a 36 month period, with disbursement of the loan proceeds taking place over 42 months. According to the estimated needs of program execution, a revolving fund equivalent to 10% of the MIF contribution will be set up, to be managed in an independent account, so as to make funds available in a timely fashion for carrying out the different activities.
- 5.5 **Accounting and audit.** The Foundation will keep specific accounting records for the program, separately from its own institutional accounts. As a condition precedent to disbursement, the Foundation will present, for the Bank's approval, a plan, schedule or code of accounts recording all transactions financed by the program loan and the local counterpart funding. Throughout the envisaged disbursement period the Foundation will also send the Bank the program's annual financial statements, certified by an auditor or a firm of auditors acceptable to the Bank.
- 5.6 **Sustainability.** From the outset of the program the cost of training, consultancy and information services provided by the Foundation, will be met by the beneficiaries themselves, except for those relating to conferences that involve international experts. These services will be covered by the program but local alternative sources of funding (sponsors) will be sought for them. Costs arising from activities in the market diversification pilot project will be calculated at market prices and shared between the program and the beneficiaries. The percentage of such cofinancing will be decided jointly with the consulting firm. Upon program completion, the participating firms will cover 100% of the costs.
- 5.7 The Foundation has proven experience in charging and recovering the cost of non-financial services provided to clients, which would lead one to anticipate a smooth implementation of the mechanism discussed above. In the event of failure to fully cover the program's infrastructure and general operational overheads, the Foundation itself will absorb any shortfall. Banco Credicoop has also made a written commitment to provide the Foundation with the funding needed to ensure continuity of the program's activities once the MIF contribution comes to an end, in the event that the funds recovered are insufficient to keep services running.

VI. JUSTIFICATION, BENEFITS AND RISKS

- 6.1 **Justification.** Given the urgent need to revive the country's export sector, the Argentine Government has ordered a series of actions to be taken to strengthen export activity and diversify destination markets. Accordingly, this is a very good time for implementing a complementary scheme based on a private-sector initiative. Hoping to achieve more than isolated exports based on one-off opportunities, the program aims to provide the firm with a proven working methodology to enable it to gain a thorough understanding of the process, to anticipate and identify obstacles and to implement medium and long-term strategies for consolidating existing markets and identifying new ones in the future.
- 6.2 The program being proposed is consistent and compatible with general MIF goals and with the Bank's strategies and priorities in the country. It also complements a number of Bank and MIF programs currently under execution, the objectives and scale of which are unsuited to the activities of the program being proposed here. The technical files contain a table summarizing the differences between existing programs and the one being proposed.
- 6.3 **Benefits.** The main benefit of the program stems from the development and testing of an innovative methodology to help SMEs with export potential to diversify their markets and enhance their international positioning. The intention is to provide such firms with tools to develop dynamic strategies for establishing themselves in international markets. This type of service is not currently available for small firms in Argentina.
- 6.4 **Risks.** There are typically four categories of risk in this type of program: (i) changes in the political-economic climate which undermine firms' interest in selling to foreign markets; (ii) lack of demand; (iii) the executing agency's capacity to implement the program; and (iv) program sustainability. However, having analyzed each of these factors in the specific case of the proposed program, the project team reached the following conclusions: (a) while the risk of changes in the political-economic climate is ever present, the current Argentine Government has made a top priority of expanding exports and enhancing SME competitiveness; (b) apart from including promotion and diffusion activities in the pilot project to minimize demand risk, the Fundación Banco Credicoop has access to the wide-ranging client network of Banco Credicoop, which has a long track record of providing services to SMEs and a network of branches throughout the country; (c) the Foundation already has wide experience in providing nonfinancial services to SMEs, since this program is a continuation of the activities previously carried out by Banco Credicoop from its SME consultancy department; and (d) a cash-flow analysis has been made, involving reasonable demand assumptions and rates charged for services steadily converging towards market prices, to ensure the mechanism is financially self-supporting.

VII. PROGRAM MONITORING AND EVALUATION

- 7.1 Monitoring. Annex I sets out the elements of program execution, monitoring and evaluation, in a logical framework.
- 7.2 The Foundation will send the Bank semiannual progress reports on the program. The reports will describe the overall status of program execution and will include information on program quality and fulfillment of program objectives (see logical framework), financial performance, and the procurement of goods and hiring of consulting services.
- 7.3 Program execution will be monitored by the Bank's Country Office through its supervision activities. The key instruments used will include progress reports, consultants' reports, disbursements and audited financial accounts which the Foundation will submit to the Bank, together with the results of scheduled program evaluations, as explained below.
- 7.4 **Evaluation.** The program envisages two evaluations to be carried out by an international consultant, specialized in the field of nonfinancial foreign-trade services for small firms, and selected and hired directly by the Bank. The first of these will be made 18 months after the initial disbursement and will consider at least the following: (a) the Foundation's institutional capacity; (b) implementation of the services envisaged in the project; (c) the need for new services; (d) the size and type of the beneficiary firms; (e) the quality of services provided through training, technical assistance and information activities; (f) the capacity, degree of fulfillment and quality of services provided by the consulting firm selected to develop the methodology and implement the market-diversification pilot project; (g) user satisfaction measured through interviews with at least 20 randomly selected beneficiaries; (h) the level of cost recovery achieved as at the date of the evaluation.
- 7.5 The second evaluation will be made three months prior to final disbursement, to analyze: (a) fulfillment of the program's specific objectives; (b) the number, size and types of beneficiary firms; (c) the quality of services provided; (d) user satisfaction measured through a survey of participating firms; (e) program sustainability once the MIF contribution has ended.

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 Disbursement of the loan proceeds will be subject to fulfillment of the following requirements to the Bank's satisfaction: (a) introduction of the implementation manual agreed with the Bank; (b) terms of reference and ground rules established for the international bidding process to contract the consulting firm; and (c) hiring of the program director.

**EXPORT-MARKET DIVERSIFICATION PROGRAM FOR SMALL ENTERPRISES
LOGICAL FRAMEWORK**

| Objectives | Indicators | Means of Verification | Assumptions |
|---|--|--|--|
| AIM: To help improve the international competitive positioning of small-scale Argentine exporters. | <u>At present:</u> Small firms account for just 6.7% of total Argentine exports, and their share is declining. <u>Within five years:</u> Halt this downward trend and if possible increase the percentage. | Statistics from the Ministry of Economic Affairs. | The following assumptions are valid for all levels of the program's objectives, and also for the sustainability of its stated aim: 1. Maintenance of government priorities towards SMEs and foreign trade. 2. No worsening of the effective exchange rate. 3. Small and medium-sized exporters maintain interest in improving their international competitive positioning, and in consolidating and diversifying market access. |
| Purpose: To help participating small-scale exporters with techniques to enable them to consolidate and diversify their access to international markets. | By program completion: 60 SMEs to have benefited from the pilot project. | Final program report. Final program evaluation. | |
| Components: A. Market diversification pilot project. | By program completion: 85% of the 60 participating small and medium-sized exporters to have finalized and started to implement their action plan to develop competitive advantages and diversify markets. 50% of the 60 participating small and medium-sized exporters to have managed to diversify their markets. | Final program report. Final program evaluation. | |

| Objectives | Indicators | Means of Verification | Assumptions |
|--|--|--|-------------|
| B. Training, consultancy and information activities. | 500 small and medium-sized exporters to have benefited from information, consultancy and/or training services. | Final program evaluation. | |
| Activities: | | | |
| <p>A.1 Selection and awareness-raising among firms eligible to participate in the pilot project</p> <p>A.2 Selected firms prepare their export diversification plans.</p> <p>A.3 Assistance for firms in executing their diversification plans.</p> <p>A.4 Design and implementation of tools for promoting the pilot project among small-scale exporters.</p> <p>A.5 Design and implementation of a plan to disseminate project experiences and outcomes among interested parties.</p> | <p>A.1, A.2 and A.3: In the first year: Diversification methodology designed, and specialized professional team set up; \$471,000 invested.</p> <p>In the second year: First group of 30 firms with diversification plans developed; \$434,000 invested.</p> <p>In the third year: Second group of 30 firms with diversification plans developed; \$384,000 invested. \$1,289,000 invested by project completion.</p> <p>A.4 Instruments designed and put into use during project execution period. \$80,000 invested each year. \$240,000 invested by program completion.</p> <p>A.5.1 Plan designed during the first year. A.5.2 Two workshops held (in second and third years).</p> | <p>A.1, A.2 and A.3: Six-monthly program progress reports.</p> <p>A.4 Six-monthly project progress reports (with details of material designed and distribution list).</p> <p>A.5 Respective six-monthly project progress reports (with details of agenda and participants).</p> | |

| Objectives | Indicators | Means of Verification | Assumptions |
|---|---|--|-------------|
| | \$15,000 invested in second and third years. \$30,000 invested by program completion. | | |
| <p>B.1 Design and implementation of a foreign trade and business opportunities information system for small firms.</p> <p>B.2 Design and implementation of a foreign trade and business opportunities technical assistance mechanism for small firms.</p> <p>B.3 Design and implementation of a program of general and sectoral courses and seminars dealing with competitiveness and foreign trade issues.</p> <p>B.4 Design and production of a computerized foreign trade publication.</p> | <p>B.1.1 System designed.</p> <p>B.1.2 80 firms to have subscribed to information services each year.</p> <p>\$33,600 invested each year.</p> <p>\$100,800 invested by program completion.</p> <p>B.2.1 Mechanism designed.</p> <p>B.2.2 75 firms assisted per year.</p> <p>\$54,000 invested each year.</p> <p>\$162,000 invested by program completion.</p> <p>B.3.1 Five events per year with international speakers.</p> <p>B.3.2 50 events per year with local speakers.</p> <p>\$208,600 invested each year.</p> <p>\$625,800 invested by program completion.</p> <p>B.4.1 Publication designed.</p> <p>B.4.2 Publication sent to subscribers each month.</p> <p>B.4.3 Publication put on the internet.</p> <p>\$36,000 invested each year.</p> <p>\$108,000 invested by program completion.</p> | <p>B.1 and B.2:</p> <p>Six-monthly program progress reports (with details of systems and mechanisms designed and put into operation, and list of beneficiary firms).</p> <p>B.3 Six-monthly program progress reports (with details of events scheduled and held, their agendas, participating speakers and beneficiaries).</p> <p>B.4.1 and B.4.2 Six-monthly progress reports (with details of publications prepared and copies attached to the report, together with a summary list of recipients).</p> <p>B.4.3 Publications available on internet.</p> | |

| Objectives | Indicators | Means of Verification | Assumptions |
|--|---|---|-------------|
| G. General management activities | | | |
| G.1 Selection, hiring and monitoring of the activities of the specialist consultants on international competitiveness and export promotion. | G.1, G.2 and G.3: \$428,400 invested by program completion. | General management activities verified during the course of the program via six-monthly progress reports, and by submitting certain matters for Bank approval, as required, prior to carrying out the respective activities (selection of consultants and consulting firms, goods procurement). | |
| G.2 Selection, hiring and monitoring of the activity of consultants on the program execution team. | | | |
| G.3 General activities (program direction, financial administration, secretarial work). | | | |
| G.4 General expenses in support of program execution (venues, communications, subscriptions, paperwork, photocopies, printing, security and cleaning services, etc.). | G.4 \$162,000 invested by program completion. | | |
| G.5 Equipment procurement. | G.5 \$53,400 invested during program execution. | | |
| G.6 Selection of the firm of independent auditors for the financial accounts, and of the consulting firm to conduct intermediate and final program evaluations. | G.6.1 Two evaluation reports presented. | | |
| | G.6.2 Three audited sets of financial accounts presented. | | |
| | \$50,000 invested by program completion. | | |

NOTE: The sum of the amounts indicated as activity costs is \$3,249,400. This, plus the \$150,600 included in the program budget for contingencies, comes to \$3,400,000. This is the total cost.

PROPOSED RESOLUTION

**ARGENTINA. NONREIMBURSABLE TECHNICAL COOPERATION FOR
A PROGRAM FOR EXPORT MARKET DIVERSIFICATION FOR SMALL ENTERPRISES**

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Fundación Banco Credicoop and to adopt such other measures as may be pertinent for the execution of the donors memorandum referred to in Document MIF/AT-____ with respect to a technical cooperation for a Program for Export Market Diversification for Small Enterprises.

2. That up to the amount of US\$1,700,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Small Enterprise Facility of the Multilateral Investment Fund.

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