

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

**GLOBAL CREDIT PROGRAM FOR
REACTIVATION OF THE PRODUCTIVE SECTOR**

(AR-L1328)

REFORMULATION PROPOSAL

(AR-L1136; AR-L1148; AR-L1154; AR-L1156; AR-L1243; AR-L1254;
AR-L1281; AR-L1282; AND RG-L1074)

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ABBREVIATIONS

AFIP	Administración Federal de Ingresos Públicos [Federal Public Revenue Administration]
BCRA	Central Bank of Argentina
BFSA	BICE Fideicomisos S.A.
BICE	Banco de Inversión y Comercio Exterior S.A.
CAME	Confederación Argentina de la Mediana Empresa [Argentine Confederation of Medium-sized Enterprises]
COVID-19	Novel coronavirus disease caused by the SARS-CoV-2 virus, which was first detected in late 2019
DGPPSE	Dirección General de Programas y Proyectos Sectoriales y Especiales [Office for Special and Sector Programs and Projects]
EBITDA	Earnings before interest, taxes, depreciation, and amortization
FOGAR	Fondo de Garantías de Argentina [Argentine Guarantee Fund]
FONDEP	Fondo de Desarrollo Productivo [Productive Development Fund]
FONPLATA	Fondo Financiero para el Desarrollo de los Países de la Cuenca del Plata [River Plate Basin Development Fund]
GDP	Gross domestic product
MDP	Ministry of Productive Development
MSMEs	Micro, small, and medium-sized enterprises
SAE	Secretaría de Asuntos Estratégicos [Strategic Affairs Department]
SEPYME	Secretaría para la Pequeña y Mediana Empresa y Emprendedores [Department for Small and Medium-sized Enterprises and Entrepreneurs]
WHO	World Health Organization

REFORMULATION SUMMARY

ARGENTINA

GLOBAL CREDIT PROGRAM FOR

REACTIVATION OF THE PRODUCTIVE SECTOR

(AR-L1328)

Financial Terms and Conditions ^(a)			
Borrower:			
Argentine Republic			
Executing agency:			
Ministry of Productive Development			
Source	Original amount (US\$ million)	Reformulated amount ^(b) (US\$ million)	%
AR-L1136 (2776/OC-AR)	500	136	27
AR-L1148 (2929/OC-AR)	250	70	14
AR-L1154 (3174/OC-AR)	200	55	11
AR-L1156 (3066/OC-AR)	24	4	1
AR-L1243 (3780/OC-AR)	80	40	8
AR-L1254 (4229/OC-AR-1 and 4229/OC-AR-2)	200	65	13
AR-L1281 (4502/OC-AR)	10	10	2
AR-L1282 (4500/OC-AR)	100	100	20
RG-L1074 (3867/OC-RG)	20	20	4
Total:		500	100
Project at a Glance			
Project objective/description:			
The general objective of this reformulation is to support the sustainability of micro, small, and medium-size enterprises (MSMEs) as employment providers in Argentina amid the crisis caused by the COVID-19 pandemic. The specific objectives are to: (i) support the short-term financial sustainability of MSMEs; and (ii) promote the economic recovery of MSMEs through access to production-oriented finance.			
Special contractual conditions precedent to the first disbursement of the redirected resources:			
The special contractual conditions precedent to the first disbursement of the redirected resources are: (i) the approval and entry into force of the Credit Regulations , under the terms previously agreed upon with the Bank; and (ii) the signing and entry into force of transfer and execution agreements between the executing agency and BICE Fideicomisos S.A. (BFSA), as administrator of the Productive Development Fund (FONDEP) and the Argentine Guarantee Fund (FOGAR), to manage redirected resources for the activities financed through FONDEP and FOGAR. These agreements will be satisfactory to the Bank in form and substance (paragraph 3.10).			
Exceptions to Bank policies: None.			
Strategic Alignment			
Challenges: ^(b)	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(c)	GD <input checked="" type="checkbox"/>	CC <input type="checkbox"/>	IC <input type="checkbox"/>

^(a) The loans being reformulated were made under the terms of the Flexible Financing Facility (document FN-655-1). As explained in paragraph 1.4, to simplify administration of the payments for the redirected resources from the approved loans, the maturity dates of semiannual payments to the Bank will be harmonized, in accordance with a [consolidated amortization schedule](#). That schedule does not entail amendment of the financial terms and conditions applicable to each loan operation, all of which will maintain their full validity and collectability, nor will it entail reprogramming the outstanding balances, while amortization payments are to be made within the maximum amortization periods provided for in each of the loans originally approved. It will also not entail a change in the individual weighted average life of each loan (paragraph 1.4).

^(b) The redirected amounts to finance implementation of the activities under this Reformulation Proposal will continue to be subject to the financial terms and conditions established in each of the corresponding loan contracts as previously approved by the Board of Executive Directors and described in paragraph 1.4.

^(c) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(d) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Loan reformulation request

- 1.1 **Request from the Government of Argentina.** In order to finance actions helping support micro, small, and medium-sized enterprises (MSMEs) in the context of the crisis caused by the COVID-19 pandemic, the Argentine Republic asked the Bank ([optional link 15](#)) to redirect a total of US\$500 million of uncommitted amounts pending disbursement from the following nine investment loan operations approved by the Board of Executive Directors and currently in execution: (i) redirecting of the total undisbursed and uncommitted balance of the following three operations: 4502/OC-AR (Program to Support Productive Infrastructure Financing in Argentina); 4500/OC-AR (Program to Enhance the Management Capacity of the Federal Administration of Public Revenue—AFIP); and 3867/OC-RG (Agua Negra Pass International Tunnel Structuring Program—PETAN); and (ii) partial redirecting of undisbursed and uncommitted balances of the following six operations: 2776/OC-AR (Norte Grande Provinces Development Program: Water and Sanitation Infrastructure); 2929/OC-AR (Municipal Investment Program); 3174/OC-AR (Competitiveness Program for Regional Economies—PROCER); 3066/OC-AR (Science and Technology Scholarship Program—BECAR); 3780/OC-AR (Development Program for Metropolitan Areas Outside the Capital II); and 4229/OC-AR (Program to Support the National Early Childhood Plan and the Policy for Universalization of Early Childhood Education). The request is based on the government to give priority to addressing the economic and social consequences of the emergency. To that end, the operations to be redirected were selected based on the following factors: (i) the operations being fully redirected were selected for not yet having begun execution and for involving activities that are of lesser priority in the current circumstances; in the specific case of the redirection of the Agua Negra Pass International Tunnel Structuring Program (3867/OC-RG), Argentina and Chile have decided to not move forward with operations related to Agua Negra, and Argentina has asked the Bank to redirect those resources to the COVID-19 response; and (ii) the operations being partially redirected were selected primarily for their flexibility, as they are multiple works programs or operations that are adaptable enough for activities to be scaled back without leaving incomplete investments; in those cases, the remaining amounts that are not redirected will continue to be used to finance execution of the originally planned activities in each of the operations, as described in the [Summary of Reformulated Operations](#).
- 1.2 **Description of the proposed modifications.** This proposed reformulation entails the following changes: (i) modification of the investment loan instrument modality so that the redirected resources can be used to finance activities under the Global Credit Program modality; (ii) change in executing agency, so the activities financed with redirected funds are carried out by the Ministry of Productive Development (MDP); and (iii) using the total amount of the Bank's undisbursed and uncommitted financing for the loan operations listed above (paragraph 1.1), as per the redirected amounts noted in the summary of the reformulation, to provide credit and guarantees to support MSMEs in Argentina. Consequently, if this reformulation is approved, the nine loan operations involved will be amended so that a total of US\$500 million in redirected resources may be used to finance the Global Credit Program, as described below. This action is set in the context of the Bank's operational support for economic productivity and employment envisaged in paragraphs 3.13 and 3.14

of document GN-2996 by providing support through short-term liquidity guarantees or financing, and through restructuring loans, financing, and guarantees for productive development.

- 1.3 **Other associated changes.** Likewise, as a corollary of the proposed changes outlined in the preceding paragraph, the results matrices, cost tables, plans, and other operational documents pertaining to the projects from which the undisbursed and uncommitted resources are being redirected will be amended.
- 1.4 **Consistent financial terms and conditions.** It has been verified that the original financial terms and conditions and maximum amortization periods of the loans concerned will not be exceeded. To enable simpler and more efficient administration of the consolidated amount of the balances redirected toward new activities, these resources will be managed under a single registration number. This will facilitate administration and management of the resources, including disbursement processing, and accountability for their use. The maturity dates of semiannual payments to the Bank resulting from the redirected loan proceeds will also be harmonized, in accordance with a [consolidated amortization schedule](#), which will not exceed the maximum tenors or weighted average lives initially envisaged in the approved loans. The current loan disbursement periods will also be extended where necessary to allow the redirected resources to be disbursed over a period of two years from the date on which the respective amendatory contract comes into effect.

B. Program background, progress, and proposed changes

- 1.5 **Norte Grande Provinces Development Program: Water and Sanitation Infrastructure (AR-L1136; 2776/OC-AR): background and progress.** The objective of the project is to improve water and sanitation sector service and efficiency in the provinces of the Norte Grande of Argentina by financing projects to: (i) increase coverage and improve potable water and sanitary and stormwater sewerage services in unserved or underserved areas; and (ii) strengthen sector entities in the provinces and improve service provider operational and financial efficiency and management. This global multiple-works investment loan was approved by the Board of Executive Directors on 13 September 2012 for US\$500 million and has two components: Component 1. Water and sanitation works: originally for US\$305 million, it has a current balance of US\$171 million to expand potable water and sewerage service coverage through the rehabilitation, optimization, and expansion of water intake, purification and distribution systems, as well as wastewater and stormwater collection, treatment, and disposal systems; Component 2. Improvement of operational management: originally for US\$70 million, it has a current balance of US\$59.7 million to promote the sustainability of the service providers and strengthen the oversight and control entities; and engineering, administration, and associated costs: originally for US\$125 million, with a current balance of US\$42.8 million for engineering and administration (program administration, management, supervision and inspection of works, and project studies including feasibility and design), and a line item for cost escalation. The date of the last disbursement is 19 March 2021. To date, the program has disbursed US\$226.5 million or 45.3% of the total amount.
- 1.6 **Proposed changes.** To support the Global Credit Program for Reactivation of the Productive Sector, US\$136 million from Component 2 will be redirected, representing 27.2% of the total original budget. The redirection of resources will not

result in a change in objectives. To better reflect the operation's contribution, the outcome indicators measured at the level of Argentina's Norte Grande region are being eliminated, as there were already other more appropriate, comparable indicators associated with the program's specific area of intervention. In addition, the definition of some outcome and output indicators originally associated with the projects in the sample (multiple works program) was adjusted, to reflect the gains made by all the program-financed projects. New indicators were also added to better measure program objectives. Lastly, the baselines and targets were revised, reflecting the decrease in available financial resources and the availability of information. For more information about this project, see [optional link 9](#).

- 1.7 **Municipal Investment Program (AR-L1148; 2929/OC-AR): background and progress.** The objective of the program is to expand coverage of basic services in relatively less developed municipios, emphasizing the country's Norte Grande provinces, by efficiently providing urban infrastructure and public services. This global multiple-works investment loan was approved by the Board of Executive Directors on 10 April 2013 for US\$250 million and has a single investment component: originally for US\$244 million, with a current balance of US\$122 million for municipal infrastructure works and equipment in sectors such as habitat improvement (neighborhoods), basic sanitation, paving, street lighting, urban and community facilities, and the formulation and inspection of works to carry out preinvestment studies, train municipal teams that participate in the designs developed, and support works inspection in weaker municipios; and program management: originally for US\$6 million, it has a current balance of US\$3 million to finance the operating expenses of the Central Executing Unit, audit expenses, program monitoring, and midterm and final program evaluations. The date of the last disbursement is 29 March 2021. To date, the program has disbursed US\$125 million or 50% of the total amount.
- 1.8 **Proposed changes.** To support the Global Credit Program for Reactivation of the Productive Sector, US\$70 million from the single component, equivalent to 28% of the total original budget, will be redirected. This does not entail changes to the objectives and has no impact on the scope of the outcomes and outputs originally envisaged. The proposed changes do not affect the attainment of the results or the type of outputs originally planned under the program. The indicators, baselines, and targets were updated to more closely reflect the reality of this multiple works program. The main changes at the outcome indicator level were: (i) opening the indicator on the average value per m² in the projects' area of influence, specifying it for both paving and non-paving projects; (ii) updating the targets for the investment targeting indicators in Norte Grande and in lesser developed municipios in Norte Grande, adding a new indicator on resources allocated to lesser developed municipios (relative to the rest of the country); and (iii) redefining the indicator on internal rate of return, re-estimating the target for the indicator on average time from eligibility of the works to their completion, and adding a subindicator on average specified time for the period between eligibility and signature of the works contract. There are no works in execution or in the bidding process that would be affected by the reformulation. For more information about this project, see [optional link 10](#).
- 1.9 **Competitiveness Program for Regional Economies (AR-L1154; 3174/OC-AR): background and progress.** The objective of the project is to improve the competitiveness of a group of key value chains located throughout the borrower's

country. This specific investment loan was approved by the Board of Executive Directors on 21 May 2014 for US\$200 million and has three components: (i) Component 1. Institutional coordination activities: originally for US\$5.6 million and currently with no remaining balance, to (a) improve the coordination and complementarity of national and subnational policies and programs to support productive development in regional economies; and (b) identify and plan priority competitiveness support activities to be carried out within the value chains prioritized by the program, with no available balance; (ii) Component 2. Logistics for competitiveness: originally for US\$95 million, it currently has a balance of US\$8.5 million to improve logistical efficiency (information management, handling of inventory, timing, etc.) of the value chains prioritized by the program; (iii) Component 3. Competitiveness of value chains: originally for US\$95 million, following a contractual amendment, as described below, it has a current balance of US\$121.5 million to improve the technological, innovation, and marketing capacities of the value chains prioritized under the program; and (iv) resources for administration and contingencies: originally for US\$3.4 million, currently with no remaining balance. The date of the last disbursement is 30 September 2020. To date, the program has disbursed US\$70 million or 35% of the total amount. It should be noted that there were two amendatory contracts, the first on 27 November 2017 and the second on 21 December 2018. At the request of the then Ministry of Production, the second amendatory contract modified: (i) the project objective in order to extend its scope to the whole country and all value chains; and (ii) the budgetary allocation between the two components, removing all financing from Component 1 and allocating US\$10 million to Component 2 and US\$190 million to Component 3.

1.10 **Proposed changes.** To support the Global Credit Program for Reactivation of the Productive Sector, US\$55 million from Subcomponent 3.1, Access to Credit, equivalent to 27.5% of the total original project budget, will be redirected. To adjust execution of the original project, US\$2 million will be reallocated from Component 2 to carry out activities under Component 1 for US\$1.5 million and strengthen program administration by US\$0.5 million. The local counterpart contribution will be reduced by US\$16.8 million. The redirection of resources does not entail a change in objectives. The impact in the Results Matrix will not be changed, but outcome indicators 1 and 2 and their targets will be adjusted, such that: (i) for outcome 1, the number of projects identified by the program that are also supported by subnational governments and/or private actors; and (ii) for outcome 2, a reduction in the cost of beneficiary companies based on the strengthening of technology centers with respect to a control group. For more information about this project, see [optional link 11](#).

1.11 **Science and Technology Scholarship Program (AR-L1156; 3066/OC-AR): background and progress.** The objective of the program is to help increase economic productivity by improving the supply of advanced human capital in the areas of science and technology. This specific investment loan was approved by the Board of Executive Directors on 13 November 2013 for US\$24 million and has two components: (i) Component 1. Scholarships for master's degrees in science and technology: originally for US\$16 million, it has a current balance of US\$7 million for an estimated 460 Argentine professionals to study in master's degree programs at prestigious universities in countries with which bilateral cooperation agreements

- have been signed; (ii) Component 2. Grants for short-stay science and technology training: originally for US\$7 million, this component currently has a balance of US\$0.7 million to provide financial and logistical support for an estimated 390 Argentine professionals and specialists employed in scientific and technological companies and institutions, to take short but highly specialized courses abroad; and (iii) administration and contingencies: originally for US\$1 million, the current balance is US\$0.3 million. The date of the last disbursement was 29 March 2021. To date, the program has disbursed US\$16.1 million or 67.1% of the total.
- 1.12 **Proposed changes.** To support the Global Credit Program for Reactivation of the Productive Sector, US\$4 million from Component 1, equivalent to 16.7% of the total original budget, will be redirected. The redirection of resources will not entail a change in the objectives, impact, or outcomes. It will affect achievement of the output on the number of scholarships granted in Component 1, although it is not expected to be less than originally planned, for the following reasons: (i) a larger-than-planned local counterpart contribution in previous years meant that 93% of the planned total scholarships had been granted with approximately two thirds of the Bank's funds for the program disbursed; and (ii) in the context of the pandemic emergency the scholarships intended for studies abroad became national scholarships, with a lower unit cost. For more information about this project, see [optional link 12](#).
- 1.13 **Development Program for Metropolitan Areas Outside the Capital II (AR-L1243; 3780/OC-AR): background and progress.** The objective of the project is to improve public services and infrastructure in metropolitan areas that require cooperation between two or more territorial jurisdictions by: (i) fostering an understanding of the problems facing big cities and promoting agreements to prioritize actions that require coordination between municipal and provincial authorities of a metropolitan area; (ii) contributing to build the institutions necessary to deliver services and infrastructure in metropolitan areas that encompass two or more territorial jurisdictions; and (iii) financing investments in urban infrastructure and facilities to support such improvements. This global multiple-works investment loan was approved by the Board of Executive Directors on 26 October 2016 for US\$80 million and has two components: (i) Component 1. Support for the governance of metropolitan areas: originally for US\$8 million, the current balance is US\$7.3 million supporting the creation of avenues to identify metropolitan problems and priorities, share knowledge with respect to metropolitan policies, and develop the technical capacity for coordinated urban investment; (ii) Component 2. Management of metropolitan areas: originally for US\$69 million, it has a current balance of US\$68.5 million to support the implementation of metropolitan investment projects, as well as development of the necessary metropolitan coordination entities for their design, implementation, and management; and (iii) administration, supervision, and audits. originally for US\$3 million, it currently has a balance of US\$1.2 million. The date of the last disbursement is 31 May 2021. To date, the program has disbursed US\$3 million or 3.7% of the total amount.
- 1.14 **Proposed changes.** To support the Global Credit Program for Reactivation of the Productive Sector, US\$40 million will be redirected from: Component 1 (US\$4.1 million); and Component 2 (US\$35.9 million), representing 50% of the total original budget. The redirection of resources does not entail changes to the program objectives or the attainment of program outcomes. The main changes at the outcome indicator level were: (i) redefining the indicators for specific objective 1 and

establishing the baseline and target; (ii) adding an indicator for specific objective 2 on the formal establishment of the metropolitan agreements; and (iii) for specific objective 3, establishing a general indicator on average use of the program-financed investments and a specific indicator for the woodland project in the Mendoza metropolitan area. There are no works in execution or bidding processes that would be affected by the reformulation. For more information about this project, see [optional link 13](#).

- 1.15 **Program to Support the National Early Childhood Plan and the Policy for Universalization of Early Childhood Education—Ministry of Social Development and Ministry of Education (AR-L1254; 4229/OC-AR-1 and 4229/OC-AR-2): background and progress.** The objective of the project is to increase the coverage of quality public services aimed at promoting the development of physical, language and communication, cognitive, and socioemotional skills among children ages 0 to 5. This specific investment loan was approved by the Board of Executive Directors on 12 July 2017 for US\$200 million and is divided into two subprograms, with two different executing agencies: (i) the Ministry of Social Development, with a sole component strengthening nonformal education interventions to promote early childhood development: originally for US\$100 million, it has a current balance of US\$80.2 million to increase this population's access to early childhood facilities that meet quality standards; and to develop analytical tools to increase the effectiveness of interventions aimed at improving child-rearing practices in the 200 communities with the greatest unmet basic needs; and (ii) the Ministry of Education, with a sole component to improve the education system's performance in early childhood education: originally for US\$100 million, currently undisbursed, to increase high-quality coverage for early childhood education. The date of the last disbursement is 31 October 2022. To date, the program has disbursed US\$19.8 million or 9.9% of the total amount.
- 1.16 **Proposed changes.** To support the Global Credit Program for Reactivation of the Productive Sector, US\$20 million from subprogram 4229/OC-AR-1 and US\$45 million from subprogram 4229/OC-AR-2, representing 20% and 45%, respectively, of the total original budget, will be redirected. The local counterpart contribution will be reduced by US\$6 million. The proposed changes do not entail modifications to the general objective, although they do have an impact on specific objectives, and on some of the outcome and output indicators. As regards the specific objectives, the program reformulation has been taken as an opportunity to clarify the objectives directly aligned with the program's expected outcomes: (i) improving access to quality public services for early childhood development and the universalization of early childhood education; (ii) improving the quality of public early childhood development and early childhood education services; and (iii) strengthening the skills of technical staff, teachers, principals, and supervisors of early childhood education. In terms of impact indicators, the indicator on "children ages 0 to 48 months who attend EPIs that have been strengthened by the program and achieve an age-appropriate development level" was eliminated. At the outcomes level: (i) the indicators "child beneficiaries of the Early Years program, ages 0 to 4, who took part in four or more activities that stimulate early childhood development in the last three days with an adult member of his or her household" and "child beneficiaries of the Early Years program, ages 0 to 4, who took part in four or more activities that stimulate early childhood development in the last three

days with a male adult member of his or her household” were eliminated; (ii) the target for the “children attending an early childhood facility that has completed a quality-strengthening project financed by the program” indicator has been reduced; (iii) the target for the “children benefited by the Early Years program’s six-month family assistance modality” indicator has been reduced; (iv) the target for the “students attending preschools built by the program” indicator has been reduced; (v) the target for the “technical and local professionals certified in innovation planning and management at the level of early childhood education” indicator has been reduced; (vi) the target for the “supervisors, principals, and teachers certified in innovation planning and management” indicator has been reduced; and (vii) the “teachers certified in innovative early childhood education teaching models” indicator has been eliminated. For more information about this project, see [optional link 14](#).

- 1.17 **Environmental and social safeguard risks resulting from the reformulation.** At the time of the reformulation, the three operations that had not begun execution and will be fully redirected (loans 4502/OC-AR, 4500/OC-AR, and 3867/OC-RG) do not have pending environmental and/or social commitments related to the originally planned activities. Of the six partially redirected operations that will continue in execution, programs AR-L1156 (3066/OC-AR) and AR-L1254 (4229/OC-AR-1 and 4229/OC-AR-2) are classified as Category “C” operations, and no social or environmental liabilities will arise out of the reformulation. Programs AR-L1136 (2776/OC-AR) and AR-L1148 (2929/OC-AR) are Category “B” operations, and programs AR-L1154 (3174/OC-AR) and AR-L1243 (3780/OC-AR) are Category “B.13” operations. For these four, the following commitments are envisaged: (i) the reformulation maintains: the objectives and type of activities to be executed; the socioenvironmental classification; the types of impacts and risks identified during preparation; (ii) works in execution will be completed so as to avoid environmental and social liabilities and/or possible conflicts with end beneficiaries; (iii) the environmental and social safeguards management mechanisms established in the original operations remain applicable in the restructured operations: (a) impact categorization and assessment mechanisms (environmental and social impact assessment) and mitigating measures; (b) supervision processes and information reporting; and (iv) the executing agency for each operation maintains the teams and the budget necessary to carry out the foregoing tasks and ensure there are no unaddressed environmental and/or social liabilities. After the restructuring has come into effect and the projects are operational the Bank will conduct a supervision mission to ensure the functionality of the procedures and make any adjustments necessary (see optional links [11](#), [12](#), and [14](#)).
- 1.18 There are no changes to the implementation mechanism of the six programs described above. The structure of their respective execution units will therefore remain unchanged.

C. Background, problems addressed, and rationale

- 1.19 **Background.** On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic. COVID-19 is a respiratory disease caused by the 2019 novel coronavirus, or nCoV2019. As of 27 May 2020, the WHO has reported more than 5.5 million confirmed cases in 217 countries, resulting in more

than 349,000 deaths.¹ Almost 811,000 cases of COVID-19 and 29,000 deaths have been reported in Latin America and the Caribbean, affecting every country in the region, while in Argentina over 13,000 cases and 648 deaths have been reported.² Numbers of cases, deaths, and affected countries are expected to continue to grow.

- 1.20 **Macroeconomic and social context.** The economic costs of COVID-19 will be felt through different channels at different times. First, associated with the priority of saving lives in the very short term, are the direct costs related to the health sector response. The second are the costs associated with the necessary changes in people's behavior to "flatten the curve" of the spread of COVID-19, which will help save lives. These behaviors may be the result of government mandates (quarantine measures, closing schools, canceling public events, etc.), decisions made by companies and other institutions (teleworking, cutting back production, etc.), and decisions made by consumers (reducing social contact). In Argentina, the most recent projections published by international organizations and market analysts suggest that gross domestic product (GDP) will fall between 10% and 12% in 2020, with additional downside risks, after dropping 2.2% in 2019. The authorities are aiming to attenuate the regressive and recessionary impact of the shock with a series of measures to support the hardest-hit segments and most vulnerable groups, but the fiscal leeway is limited. COVID-19 will cause a significant fiscal deterioration as the recession affects tax revenues and the measures adopted expand public expenditure. The primary deficit could pass 6% in 2020 if the fiscal package implemented to contain the impact of the virus is not offset by cuts in other spending, in a context in which the country lost access to external financing last year. In 2019, the country risk rose from 790 basis points at the start of the year to 1,744 basis points in December.³ In the second half of the year, the Argentine peso strongly depreciated, and international reserves and deposits in dollars fell over 30% and 40%, respectively. The primary fiscal deficit closed in 0.4% of GDP in 2019. Against this backdrop, the government decided to reprofile short-term debt maturities under local legislation and introduced capital controls. The incoming government began the debt restructuring process in 2020, amid the global uncertainty surrounding COVID-19.
- 1.21 These changes in behavior will lead to a very significant economic downturn with immediate manifestations and lingering effects, even once the health emergency is over. From a macroeconomic perspective, in addition to shrinking domestic demand, the Economic Commission for Latin America and the Caribbean sees at least five channels for transmission of the crisis impacts to the region's economy:⁴ (i) slowing economic activity of key trading partners, which will impact the demand for exports; (ii) less demand for tourism services; (iii) interruption of global value chains; (iv) falling commodity prices; and (v) worsening financial terms.

¹ See WHO COVID-19 Situation Dashboard at covid19.who.int (accessed 27 May 2020).

² See: [PAHO report](#) (27 May 2020).

³ JP Morgan EMBI+ Argentina.

⁴ Press release by the [Economic Commission for Latin America and the Caribbean](#) (19 March 2020).

- 1.22 The [diagnostic assessment of the problems facing MSMEs](#) establishes that: (i) Argentina's 591,000 MSMEs⁵ account for 98% of all the country's companies and 52% of its formal employment; (ii) they are short of financing even in normal times; and (iii) their risk profile has been heightened by the COVID-19 pandemic crisis. Taking the context of Argentina's general and specific diagnostic assessment, including the sector and gender analysis, together with the Bank's experience and lessons learned, the challenge is to defend MSMEs that were commercially viable before the crisis, and the value chains that many of these MSMEs belong to, so they can continue operating normally. To this end, MSMEs need financing to survive, return to normality, or adapt to the "new normal," possibly requiring new ways of operating and greater digital transformation. Moreover, MSMEs led or owned by women face significant gender gaps in accessing business financing in Argentina. As the aforementioned [diagnostic](#) assessment notes, the conditions of inequality in access to finance highlight the need to take a gender approach in potential interventions. Bearing in mind the importance of this issue for the country and the efforts made by the MDP through the BICE's "[Women Who Lead](#)"⁶ program, launched in 2018, the program has a target of 20% of all financing going to women-run MSMEs affected by the crisis (paragraph 1.35).
- 1.23 Based on this analysis, a US\$500 million intervention is proposed to stimulate the supply of credit to MSMEs through a Global Credit Program. The program seeks to alleviate the constraints on access to credit faced by MSMEs affected by the COVID-19 crisis, thus supporting their survival and preserving employment. Taking an approximate outstanding MSME financing inventory of US\$13 billion and assuming that the crisis impacts approximately 45% of all MSMEs, based on surveys, an indicative estimate would suggest that US\$5.8 billion of the portfolio is at risk. It is therefore estimated that the proposed intervention of US\$500 million would help meet 8.5% of MSMEs' total requirements.

⁵ The most recent resolution on the topic, Resolution 220/2019, issued by the Ministry of Productive Development's Department for Small and Medium-sized Enterprises and Entrepreneurs, classifies MSMEs as having annual sales of up to the equivalent of US\$26 million (the threshold for small businesses is US\$2.2 million and that for microenterprises US\$362,000, depending on economic sector).

⁶ Credit line for businesses in which 51% of shares are held by women, or in which at least 25% of shares are held by women and there is at least one woman on the board or in senior management, contributing both financing and nonfinancial services, such as training and networking.

- 1.24 Complementing the public policy support measures in place,⁷ given the scale of MSMEs' total financing needs and the IDB's limited resources, the government will aim to prioritize industrial MSMEs through the program, particularly those linked to the automotive supply chain,⁸ machinery and equipment, and apparel and footwear.⁹ These sectors match those identified in the Bank's [vulnerability analysis](#),¹⁰ which concluded that the impact of COVID-19 would be felt hardest in the sectors of tourism, the automotive supply chain, passenger transport, agrifoods, machinery and equipment, and textiles and the maquila industry.
- 1.25 The program proposed here has defined sectors linked to industry as vulnerable because: (i) almost 70% of the Banco de Inversión y Comercio Exterior S.A. (BICE) loan portfolio is concentrated in industry;¹¹ (ii) the government has taken other actions to support the agrifoods and tourism sectors; and (iii) there is already substantial support for passenger transport, which is a highly regulated business. Nevertheless, given the changing nature of the future conditions of sector activity in the wake of the crisis, the program may ultimately support demand from MSMEs in other sectors apart from those prioritized under the program.
- 1.26 **Coordination with other Bank projects.** The program is consistent with the government's coordination efforts to provide an immediate response to the crisis caused by the COVID-19 pandemic. To that end, in the area of public health, the "Immediate Public Health Response Project in the Context of the COVID-19 Pandemic to Contain, Control and Mitigate its Effect on Health Service Delivery in Argentina" ([5032/OC-AR](#)) has also been programmed. It also coordinates efforts with other projects in execution, such as loan [2923/OC-AR](#) providing nonreimbursable assistance for business development that complements the financing, and also with other initiatives that will be prepared to address needs arising out of the pandemic. This coordination seeks to leverage synergies to increase the impact of the Bank's actions, consistent with fiscal sustainability, through: (i) temporary application of the measures so that their short-term impact on the public finances is controlled; and (ii) support in financial terms for MSMEs, to ease the cost of financing and preserve jobs, thus contributing to a recovery in tax revenue.
- 1.27 **Coordination with other multilaterals and/or donor agencies.** This program complements the International Bank for Reconstruction and Development programs to provide MSMEs with access to longer-term finance (US\$50 million); and support FONPLATA's program for more and better jobs for young people, within the scope of its program of access to production-oriented finance in the Norte region of Argentina, and the program of access to finance for the River Plate basin / Norte Grande region of US\$40 million; and the United Nations Development Programme in the area of international trade promotion, the program to strengthen the social and

⁷ For more details see the following [link](#).

⁸ Understood as MSMEs that supply inputs.

⁹ Apparel and footwear correspond to textiles in the vulnerability analysis.

¹⁰ The Bank's diagnostic assessment identified those sectors with a higher probability of being affected in terms of loss of employment, based on the possible materialization of risks regarding a contraction in supply and/or demand, financial and asset factors, and other systemic and regulatory-environment risks.

¹¹ BICE, [Annual Report and Balance Sheet, 2019](#).

cultural systemic conditions for entrepreneurship, to strengthen associations in productive ecosystems, and strengthening the Ministry of Productive Development. Although no cofinancing is envisaged, all the programs are at an advanced stage of execution, aiming to foster productive development and to promote MSMEs' financial and business capacities and associated value chains, through financing and technical cooperation.

- 1.28 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the challenges of: (i) social inclusion and equality, as the program will provide access to finance to the country's most vulnerable companies; and (ii) productivity and innovation, through its support for productive financing for MSMEs and strategic value chains, as it will promote the reactivation of the productive sector through its financing. The program is also aligned with the crosscutting area of gender equality and diversity, through women beneficiaries of economic empowerment initiatives. In addition, the operation is consistent with the strategic focus area of resource mobilization, through the proposed mechanisms to stimulate the mobilization of private financial sector resources for MSME finance, as well as the company shareholders' own funds. The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicators of the number of MSMEs financed, and women beneficiaries of economic empowerment initiatives. The program is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), as part of the support for safeguarding the productive fabric and employment and is consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), which emphasizes the importance of promoting access to finance by the productive sector.

D. Objectives, components, and cost

- 1.29 **Objectives.** The general objective of this reformulation is to support the sustainability of MSMEs as employment providers in Argentina amid the crisis caused by the COVID-19 pandemic. The specific objectives are to: (i) support the short-term financial sustainability of MSMEs; and (ii) promote the economic recovery of MSMEs through access to production-oriented finance.
- 1.30 **Single component. Support for MSME financing (US\$497 million).** The redirected resources will be used to finance the actions described in the following subcomponents:
- 1.31 **Subcomponent 1. Support for improvement of short-term financial capacity (US\$407 million).** The redirected resources will be used to help MSMEs affected by the crisis caused by the COVID-19 pandemic overcome temporary liquidity problems, meet their business and financial obligations, and continue operating, through financing that enables them to normalize their business cycle. It will enable the financing of: (i) working capital; and (ii) refinancing of existing loans. This will be implemented by improving lending and loan approval conditions through FONDEP, and the provision of resources for guarantees to facilitate access to lending from financial intermediaries through FOGAR, both administered by BICE Fideicomisos S.A. (BFSA). It is envisaged that FONDEP will provide: (i) direct loan financing; (ii) indirect loan financing through financial intermediaries; and (iii) financing of anchor companies to benefit MSME suppliers in their value chains. FONDEP may

also finance interest rate subsidies on loans from financial intermediaries that have a guarantee from FOGAR.¹² In the case of FOGAR, the resources will be used to strengthen FOGAR by providing it with funds that it will promptly allocate to granting guarantees to improve access to credit for eligible MSMEs. At least 20% of transactions will be targeted to MSMEs led or owned by women.¹³ Expenses incurred administering the resources allocated to loans and guarantees through FONDEP and FOGAR, as well as the cost of the subcomponent's monitoring and coordination system, may also be financed.

- 1.32 **Subcomponent 2. Access to production-oriented finance for economic recovery (US\$90 million).** The redirected resources will be used to support the economic recovery through production-oriented lending to MSMEs affected by the COVID-19 crisis. To do so, medium-term financing will be made available to MSMEs to: (i) support the restoration of productive capacity; (ii) support productive conversion and adaptation needs in the digital transformation process driven by the crisis; and (iii) address a one-time increase in demand resulting from the crisis. The foregoing will be implemented with improved financing conditions through FONDEP, and the provision of resources for guarantees through FOGAR to facilitate access to lending by financial intermediaries. In the case of FONDEP, the following are envisaged: (i) direct financing of loans; (ii) indirect loan finance, through financial intermediaries; and (iii) financing of anchor companies to benefit MSME suppliers in their value chains. FONDEP can also finance interest rate subsidies on loans from financial intermediaries that have a guarantee from FOGAR. In the case of FOGAR, the resources will be used to strengthen FOGAR by providing it with funds that it will promptly allocate to granting guarantees to improve access to credit for eligible MSMEs. At least 20% of transactions will be targeted to MSMEs led or owned by women. Expenses incurred administering the resources allocated to loans and guarantees through FONDEP and FOGAR, as well as the cost of the subcomponent's monitoring and coordination system, may also be financed.
- 1.33 **Administration (US\$3 million).** Of the total redirected resources, up to US\$3 million will be used to cover the cost of administration of the new activities envisaged in this reformulation, including supervision, evaluation, and audits. The cost of administration, supervision, and audits will be of up to US\$2 million. The cost of evaluation of the activities to be financed with the redirected resources will be up to US\$1 million.
- 1.34 **Beneficiaries.** The intervention will direct its resources toward MSMEs and anchor companies formally established in the country and affected by the COVID-19 crisis, prioritizing industries related to the automotive chain, machinery and equipment, apparel and footwear on account of their degree of vulnerability to the pandemic.

¹² The interest rate subsidy, eligible under both subcomponents, will allow FONDEP to cover a portion of the interest MSMEs pay financial intermediaries on their borrowing. See the [program Credit Regulations](#) for details.

¹³ BICE has extensive experience with best practices in serving women entrepreneurs through the "Mujeres que Lideran" [Women Who Lead] program, a line of finance established in 2018. Additionally, BICE has made progress on producing gender-focused data, currently identifying 18% of all MSMEs in its portfolio as women-run. It is therefore in a position to collect data and monitor progress on subloans issued to women-led MSMEs.

The number of MSMEs potentially benefiting from this program is at least 30,000 companies, of which 6,000 MSMEs are identified as women-run.

E. Key results indicators

- 1.35 **Expected outcomes.** The program's expected impact is to support the sustainability of MSMEs amid the crisis caused by the COVID-19 pandemic, as measured by: (i) annual sales revenues of MSMEs supported by the program; and (ii) percentage of employment in MSMEs as a share of total employment in the country. The outcome indicators for the program will be as follows:
- Under specific objective 1: (i) rate of arrears, 12 months after program start, on the MSME working capital finance or guarantee portfolio, compared to the rate of arrears of official banks, in the case of FONDEP, and compared to the rate of arrears of mutual guarantee associations in the case of FOGAR; (ii) rate of arrears, 12 months after program start, of the restructured MSME debt portfolio, compared to the rate of arrears of official banks, in the case of FONDEP, and compared to the rate of arrears of mutual guarantee companies, in the case of FOGAR; and (iii) survival rate of companies supported by FONDEP and FOGAR with short-term financing instruments up to 24 months after COVID-19 was declared a pandemic.
 - Under specific objective 2: (i) rate of arrears of the medium-term MSME financing portfolio supported with program resources, compared to the rate of arrears of official banks, in the case of FONDEP, and compared to the rate of arrears of mutual guarantee companies, in the case of guarantees through FOGAR; (ii) proportion of medium-term lending (over 24 months) in the MSME financing or guarantee portfolio; (iii) total leveraging of medium-term financing resources achieved as a result of program support; (iv) total amount of the medium-term MSME financing portfolio supported by the program; and (v) proportion of lending to women in the MSME financing portfolio.
- 1.36 **Economic viability.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits consist of the economic value of the reduction in sales revenue losses, the benefits derived from a higher rate of business survival, and the benefits of jobs preserved as a result of the program. Calculations of the aforementioned flows (discounted at a rate of 12%) yield benefits of US\$74.5 million and an internal rate of return of 16%. Additionally, the sensitivity analysis shows that the net present value remains positive amid potential variations in a wide range of critical parameters ([optional link 1](#)).

II. FINANCING OF THE REFORMULATION AND MAIN RISKS

A. Financing instruments

- 2.1 The total amount of the proposed reformulation will be US\$500 million, comprised entirely of resources to be redirected from the loans described in Section I. The operation will be structured as a global credit program, since it involves financial intermediation to the beneficiary and anchor MSMEs. The program will also provide financing to FOGAR, which will in turn issue guarantees. The disbursement periods for the loans under this reformulation will be extended, as

applicable, to disburse the redirected resources in two years, as from the signature date of the respective amendatory contract. This period is considered appropriate based on disbursement projections in light of the need for a swift response and to respond to possible changes in market conditions resulting from the current situation caused by COVID-19.

Table 1. Estimated program costs (US\$ millions)

Activities	IDB	Total	%
Support for MSME financing	497	497	99
Program administration	3	3	1
Total	500	500	100

Table 2. Disbursement schedule (US\$ millions)

Source	Year 1	Year 2	Total
IDB	300	200	500
Total	300	200	500
%	60	40	100

B. Environmental and social safeguard risks

- 2.2 In accordance with Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation cannot be classified ex ante, since it involves financial intermediation. The environmental and social due diligence was performed in compliance with Directive B.13, analyzing the program's potential socioenvironmental risks and the executing agency's capability to manage them. Based on the due diligence findings, and given the low risk profile of the eligible loans with program resources, this operation is regarded as having low financial intermediation risk (FI-3). Given their size and nature, the loans will be classified as category "C." Loans in categories "A" and "B" will be ineligible for financing.
- 2.3 Loan proceeds will not be used to finance any of the following: activities on the exclusion list featured in the [Credit Regulations](#), including sectors that involve high social or environmental risk or activities that entail: (i) involuntary physical or economic resettlement; (ii) negative impact on indigenous groups; (iii) damage to cultural sites or critical cultural sites; (iv) negative impact on protected areas or RAMSAR sites; or (v) the use of invasive species.
- 2.4 The requirements for managing and mitigating potential environmental and social impacts will constitute an Environmental and Social Risk Administration System that will be included in the Credit Regulations, which will be approved as a condition precedent to the first disbursement (see [environmental and social management report](#)).

C. Fiduciary risks

- 2.5 The institutional capacity assessment of the executing agency evaluated the Department for Small and Medium-sized Enterprises and Entrepreneurs (SEPYME) and its FONDEP and FOGAR (which are under the fiduciary management of the BFSA), as well as the DGPPSE (which is responsible for administrative and financial

management of resources). This assessment showed that the executing agency satisfies the necessary conditions to conduct fiduciary management activities for the loan operation, considering the MDP's satisfactory performance in executing programs with multilateral organizations, acting through SEPYME and BICE. However, the operation presents a medium risk level, given that having several stakeholders involved in program execution may cause delays with the rendering of accounts to the Bank. To mitigate this risk, the Bank will coordinate the executing agency having the necessary team to handle the workload and appropriately define the roles and functions, flow of information, and list of requirements with the documents to be delivered.

D. Other key issues and risks

- 2.6 **Development risk.** There is a high risk that the resources will be insufficient to meet the demand for MSME finance. To mitigate this risk, the Bank has designed the intervention to yield the maximum possible impact and has sought to coordinate with all relevant stakeholders, to ensure that the response is commensurate with MSME financing needs in Argentina and prioritizes the sectors with the highest need.
- 2.7 **Public management and governance risks.** There is a medium risk that the liquidity measures for MSMEs will not reach the sectors hardest hit by the health emergency on a priority basis, and the impact will be less than expected. The Bank has designed a program that seeks to prioritize industrial sectors, with an emphasis on the automotive supply chain, machinery and equipment, and apparel and footwear, coordinating closely with the country on a diagnostic assessment of vulnerabilities for the prioritization of sectors. It will monitor the program on an ongoing basis to ensure effective targeting.
- 2.8 **Macroeconomic and fiscal sustainability risk.** There is a high risk that the combined health and economic crisis, coupled with the tight economic conditions that the country has been facing in recent months, will significantly affect Argentina's fiscal and debt position, jeopardizing fiscal sustainability. To mitigate this risk, the Bank, together with other international organizations, is providing technical support to the country to prepare and monitor the implementation of post-pandemic economic and fiscal recovery plans that will help put the public finances back on a sustainable trajectory.
- 2.9 **Sustainability.** The program is expected to help ease the temporary difficulties faced by MSMEs because of the COVID-19 pandemic, strengthening the country's mechanisms for support and economic recovery. This intervention is expected to help the productive sector in Argentina regain its production capabilities, as well as to preserve jobs in the beneficiary MSMEs. Beyond the scope of this intervention, support will be provided to the government for its initiatives to have preventive countercyclical mechanisms available and to continue offering productive development financing to MSMEs.

III. IMPLEMENTATION AND MANAGEMENT PLAN

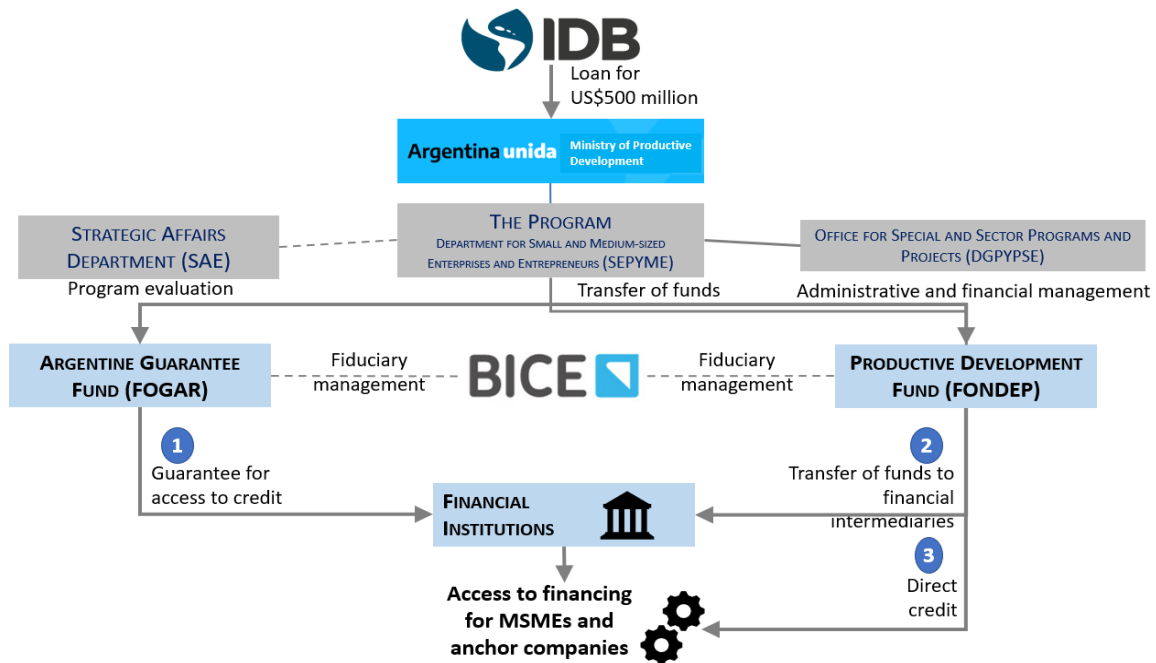
A. Summary of implementation arrangements

- 3.1 **Executing agency.** The executing agency for the activities financed under the redirected resources will be the MDP, acting through SEPYME. SEPYME will have

support from the Ministry of Productive Development’s DGPPSE for the administrative and financial management of loan proceeds. The executing agency will submit disbursement requests to the Bank and render accounts on the use of redirected resources independently from other executing agencies for the loans in the reformulation. The executing agency will also prepare and submit separately to the Bank multiyear execution plans (and/or annual work plans), procurement plans, semiannual progress reports, financial plans, evaluation reports, audits, and other instruments required by the Bank to supervise program execution. The executing agency will be responsible for compliance with environmental and social safeguards and for monitoring and supervision of activities. The Strategic Affairs Department (SAE) will act as the subexecuting agency, responsible for contracting and coordination for the program’s evaluation.

- 3.2 To finance the activities planned for the components, the executing agency will transfer resources to: (i) FONDEP, to offer credit that helps improve short-term financial capacity and economic recovery; and (ii) FOGAR, to offer guarantees that support access to finance. The executing agency will sign a resource transfer and execution agreement with the BFSA—as the fiduciary manager for these trusts—that will be satisfactory to the Bank in form and substance. For additional details, see Figure 1 below.

Figure 1. Diagram of program execution



Source: Prepared by the authors.

- 3.3 To be eligible, financial intermediaries must: (i) be financial institutions authorized and supervised by the Central Bank of Argentina (BCRA) or the country’s compliance and oversight body for the financial sector; (ii) comply with the country’s regulatory requirements for capital, portfolio quality and provisioning, liquidity, and

- governance; and (iii) pledge to comply with the specific requirements of FONDEP or FOGAR, as applicable, including the requirements of the IDB program pursuant to the Credit Regulations. The executing agency will determine periodically whether all financial intermediaries satisfy the above requirements, to remain eligible for the program.
- 3.4 To be eligible, MSMEs will meet the following requirements, pursuant to Argentine law: (i) be incorporated; (ii) possess the licenses and permits required to operate; (iii) qualify as an MSME; and (iv) be a qualified borrower and satisfy the credit requirements of FONDEP or FOGAR. No subloan to an MSME may exceed US\$200,000 or its equivalent in local currency. Moreover, anchor companies may obtain financing up to the maximum amount applicable for MSMEs, pursuant to the terms of the Credit Regulations.
 - 3.5 The executing agency has extensive experience in the execution of Bank operations for MSME financing through first- and second-tier programs offered by the BICE Group and its trusts. The authority of SEPYME covers all of Argentina's regional economies, which will be a strategic factor in ensuring efficient interventions under this operation. The executing agency has satisfactorily executed loans 2923/OC-AR (PAC) and 3174/OC-AR (PROCER). BICE is the subexecuting agency for PROCER.
 - 3.6 FONDEP is an administrative and financial trust established by the State, which acts as trustee through the MDP. It was created under Decree 606/2014 and amended under Decrees 174/2018 and 439/2018. The trust's objective is to facilitate access to finance for projects that promote investment in strategic sectors, regional economies, and innovative production, as well as instruments such as direct loans, grant funding, interest-rate subsidies, and more. In 2019, FONDEP mobilized more than US\$2.3 billion in credit in the financial system through agreements signed with more than 30 banking institutions. It also benefited 55,000 micro, small, and medium-sized enterprises with rate subsidies totaling more than US\$38 million.
 - 3.7 FOGAR is a public guarantee trust established under Law 25300/2000 (as amended by Law 27444) that also reports to the MDP and is administered by the BFSA pursuant to Law 27444 and Decree 628/18. The trust's objective is to issue guarantees to improve conditions for access to credit for individuals and businesses engaged in economic or productive activities, through partial or full credit guarantees offered by banks and mutual guarantee associations. The investment policy follows the guidelines of the BCRA rules applicable to public guarantee trusts. In 2019, 19,001 sureties were provided, and US\$95 million was mobilized. During that period, US\$50 million in guarantees were issued. The venture capital fund portfolio, with 32 active institutions, was US\$17 million.
 - 3.8 Through its trust unit (BFSA), the BICE Group is the trustee for trust contracts, in addition to administrator for the trusts for which its banking unit is the trustee (BICE). The most representative trusts in the BFSA's portfolio are FONDEP and FOGAR. The Bank conducted an institutional capacity assessment of BICE in December 2017 for loan 4565/GN-AR, for which BICE administers resources contributed by the Green Climate Fund. This assessment showed that the institution has sufficient capacity for the financial administration and management activities of the resources for the proposed operation. The assessment included areas such as activity and

component programming, administrative organization, personnel management, asset and service management, and financial management.

- 3.9 **Credit Regulations.** The [Credit Regulations](#) describe the program execution mechanism, including agreements for coordination between the executing agency and SAE (as the subexecuting agency) and the BFSA (as administrator of FONDEP and FOGAR). They also detail the eligibility criteria for beneficiaries, subprojects, and financial intermediaries. The planned interventions will give priority to industrial MSMEs, particularly those related to the automotive chain, machinery and equipment, and apparel and footwear. The document also includes management and monitoring agreements and other arrangements.
- 3.10 **Special contractual conditions precedent to the first disbursement of the redirected resources.** The special contractual conditions precedent to the first disbursement of the redirected resources are: (i) the approval and entry into force of the [Credit Regulations](#), under the terms previously agreed upon with the Bank; and (ii) the signing and entry into force of transfer and execution agreements between the executing agency and the BFSA, as administrator of FONDEP and FOGAR, to manage redirected resources for the activities financed through FONDEP and FOGAR. These agreements will be satisfactory to the Bank in form and substance. These conditions will ensure efficient execution and establish suitable institutional coordination agreements to duly bind the parties to the program from its start.¹⁴
- 3.11 **Procurement.** As a demand-driven financial intermediation program, no procurement of goods, works, nonconsulting services, or consulting services is likely to be required as part of execution. No program execution plan or procurement plan is therefore included in this proposal. Any procurement of nonconsulting or consulting services required as part of program administration and/or evaluation will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-15), or as subsequently updated. For additional details, see the Fiduciary Agreements and Requirements (Annex III).
- 3.12 **Disbursement of redirected resources.** Redirected resources from the Bank's financing will be disbursed based on: (i) the modalities for disbursement included in the amendatory contract of the proposed reformulation; (ii) the provisions of the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) or current IDB policies; and (iii) the eligibility criteria established in the program Credit Regulations. For the first disbursement request,¹⁵ the modality used will be reimbursement of expenditures, i.e. those to support subloans to eligible MSMEs, incurred as of 11 March 2020 (the date on which WHO declared COVID-19 a pandemic), once the amendatory contract enters into force and disbursement of the redirected resources has been deemed eligible.

¹⁴ The authorities' preparation of the agreements is at an advanced stage, and a draft is expected to be agreed on by late June 2020.

¹⁵ For June 2020, preliminary estimates are US\$100 million, equivalent to 20% of the approved amount.

3.13 **Financial statements and audit.** The executing agency will deliver annual audited financial statements on the use of redirected resources, under the terms of reference agreed upon with the Bank, within 120 days after the close of each fiscal year. The final financial statements for the operation will be delivered within 120 days after the date of the last disbursement. In addition, an audit of the activities financed with the redirected resources will be performed by the supreme audit authority or a Bank-eligible independent audit firm, using the procedures established in the current audit guidelines.

B. Summary of arrangements for monitoring results

3.14 **Monitoring.** Execution of activities in this reformulated operation will be monitored via semiannual progress reports prepared by the executing agency and delivered within 60 days after the close of each six-month period. The reports will be based on the reporting commitments of the results matrix, as well as compliance with the eligibility criteria set out in the Credit Regulations (see [monitoring and evaluation plan](#)).

3.15 **Evaluation.** Various approaches will be used as part of the strategy for evaluating the activities planned in this reformulation: (i) a reflexive evaluation, before and after the program, to determine the extent of outcomes and impacts; (ii) an ex post cost-benefit analysis of the flows of benefits and costs from the program, using a strategy similar to the one used for the ex ante cost-benefit analysis. An impact evaluation is also being designed. These studies will assess impacts on the reduction of lost sales revenue and the benefits of jobs preserved as a result of the program. The evaluation strategy is described in the monitoring and evaluation plan. SAE will be the subexecuting agency for the program evaluation agenda, coordinating aspects related to the Bank's evaluation requirements for the program and implementing the social investigation procedures to assess the conceptualization and design, management, execution, usefulness, and effects of programs with development finance institutions, in order to evaluate their effects on the relevance and coherence of the intervention with respect to the established objectives, and the impact on the population's wellbeing.

3.16 **Information for program monitoring and evaluation.** The executing agency will be responsible for maintaining data gathering and monitoring systems as follows (see [monitoring and evaluation plan](#)): (i) commit to maintaining a system for monitoring and evaluation of all subcomponents, which it will use to prepare the reports and data delivered to the Bank; and (ii) compile, store, and safeguard all information, indicators, and parameters necessary to prepare the program completion report, including annual plans and the final evaluation, in coordination with SAE and the BFSA, as applicable. The additional information required for the evaluation process will be drawn from national and international secondary sources of statistical data and, potentially, reports from relevant organizations. The executing agency will bear the costs of monitoring in all cases. The executing agency and SAE will sign a transfer and subexecution agreement to implement program evaluation activities.

3.17 Given that the program monitoring report for this proposal is independent from those from the reformulated operations, there will be unified monitoring of program progress. This operation will also have its own program completion report separate from those for the reformulated loans, which will report on achievement of the

specific objectives described in this proposal. Therefore, it will not be necessary for all the loans to have closed operations to start preparing the closing report for this program. For the six loans subject to partial reformulation of amounts, program completion reports will be prepared independently, using the closing of each operation as a starting point for the preparation of its reports, separate from the closing of this proposal.

IV. RECOMMENDATION

- 4.1 Based on the analysis and information provided in this document and pursuant to the provisions of paragraph 6 of document CS-3953-4 (List of matters to be considered by the Board via Short Procedure), Management recommends that the Board of Executive Directors approve via short procedure the proposed resolution attached to this document as Appendix 1. Approval of the attached proposed resolution represents the adoption of the following recommendations:
- **Recommendation 1:** Approve the modifications described in this document and authorize the use of the uncommitted and undisbursed amounts for loans 4502/OC-AR, 4500/OC-AR, 3867/OC-RG, 3174/OC-AR, 3066/OC-AR, 3780/OC-AR, 2929/OC-AR, 2776/OC-AR, and 4229/OC-AR to finance the Global Credit Program for Reactivation of the Productive Sector, as described here and in accordance with the above terms and conditions.
 - **Recommendation 2:** Authorize the President of the Bank or his appointed representative, on behalf and in representation of the Bank, to sign the amendatory contract(s) or other necessary documents for the implementation of Recommendation 1.

Development Effectiveness Matrix		
Summary		AR-L1328
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Micro / small / medium enterprises financed (#) -Women beneficiaries of economic empowerment initiatives (#)	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		The intervention is not included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		See paragraphs 1.22 and 1.23 of the main document
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.6
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		3.6
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		1.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		8.5
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		6.0
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Accounting and Reporting, External Control.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note:

The Government of Argentina requested the Bank to reorient a total amount of US\$500 million of balances pending disbursement and uncommitted from 9 investment loan operations currently in execution (full balance for 3 operations and partial balance for 6 operations). This reorientation allows financing operation AR-L1328, which is part of the Bank's operational response to the COVID-19 pandemic "Global Credit Program for the Defense of the Productive Fabric and Employment." The general objective of the reformulation is to support the sustainability of Micro, Small and Medium Enterprises (MSMEs) as a support for employment in Argentina in the context of the crisis generated by the COVID-19 pandemic. The specific objectives are: (i) to support the short-term financial sustainability of MSMEs; and (ii) promote the economic recovery of MSMEs through access to productive financing.

The reformulation proposal presents a solid diagnosis of the problem, as well as a review of international evidence. The proposed solutions are appropriate to respond to the identified problems and their contributing factors. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of results and impacts. The result indicators are appropriately defined to measure the achievements of the program and the fulfillment of its specific objectives. The impact indicators reflect the contribution to the economic objectives "annual sales revenue in MSMEs supported by the program" and "percentage of employment registered in MSMEs over total employment registered in the country", at the end of the operation. The proposal clearly explains the changes to the operations with partial reformulation of resources and presents adjusted result matrices that are appropriate.

The economic evaluation shows that the operation is efficient with an internal rate of return of 16% and an NPV of US\$74.5 million. In a context of high uncertainty, the analysis considers the benefits associated with the reduction of sales revenue losses, the increase in the survival rate of firms, and jobs preserved thanks to the program.

The monitoring and evaluation plan proposes to carry out a reflective analysis of the outcome and impact indicators included in the result matrix, complemented by an ex-post cost-benefit analysis. Additionally, it presents the possible design of an impact evaluation to empirically estimate the impacts on the reduction of the loss of sales revenue and the benefits of the jobs preserved thanks to the program.

RESULTS MATRIX

Project objective:	The general objective of this reformulation is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Argentina amid the COVID-19 crisis. The specific objectives are to: (i) support the short-term financial sustainability of MSMEs; and (ii) promote the economic recovery of MSMEs through access to production-oriented finance.
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EXPECTED IMPACT

Indicators	Unit of measure	Baseline (2019)	Final target	Means of verification	Comments
GENERAL OBJECTIVE: TO SUPPORT THE SUSTAINABILITY OF MSMEs AS EMPLOYMENT PROVIDERS IN ARGENTINA AMID THE CRISIS CAUSED BY THE COVID-19 PANDEMIC					
Indicator 1: Annual sales revenues of MSMEs supported by the program.	US\$000	352	559	Program monitoring and supervision information collected by the executing agency; Department for Small and Medium-sized Enterprises and Entrepreneurs (SEPYME); and the Strategic Affairs Department (SAE). Midterm and final evaluations.	Measures the change in the expected sales revenue of the MSMEs identified by the program as vulnerable. The baseline was calculated using estimates of the cumulative drop in sales in 2020 compared to 2019. The Argentine Confederation of Medium-sized Businesses (CAME) reported a cumulative drop of 46.6% in MSMEs' annual sales in April 2020 compared to 2019 data, when average sales revenue came to US\$658,717 (converting to US\$ at a rate of Arg\$68.25 per dollar). Source: SEPYME records. The breakdown of annual sales by size of MSME in 2019 was as follows (in Arg\$): Microenterprise: 7.1; small business: 60.2; medium-sized enterprise—type 1 (M1): 317.7; medium-sized enterprise—type 2 (M2): 1,320. ¹ The program's support should enable sales to partially recover, but to remain 15% below 2019 figures at program end.
Indicator 2: Percentage of employment in MSMEs as a share of total employment in the country.	%	76.78	76.78	Program monitoring and supervision information collected by the executing agency; SEPYME; and SAE. Midterm and final evaluations.	The program is expected to help MSMEs maintain their share of the country's total registered workers. Source: SEPYME records

¹ See the definition of company size in the [monitoring and evaluation plan](#).

Indicators	Unit of measure	Baseline (2019)	Final target	Means of verification	Comments
Specific objective 1: Support the short-term financial sustainability of MSMEs					
Support the short-term financial sustainability of MSMEs through FONDEP					
<p>Indicator 1. Rate of arrears in the portfolio of MSME working capital financing or guarantees 12 months after program start compared with the rate of arrears for the official banks.</p>	%	1.06	1.06	<p>Program monitoring and supervision information collected by the executing agency; FONDEP portfolio information; and Central Bank of Argentina (BCRA)</p>	<p>The ratio between the arrears of the aforementioned FONDEP portfolio and the arrears of the total official bank portfolio is 1.06%. The numerator is the rate of arrears of the FONDEP working capital financing portfolio, and the denominator is the rate of arrears of the total official bank portfolio.</p> <p>The precrisis ratio is expected to remain unchanged.</p>
<p>Indicator 2. Rate of arrears of the restructured MSME debt portfolio 12 months after program start compared with the rate of arrears of the official banks.</p>	%	1.90	1.90	<p>Program monitoring and supervision information collected by the executing agency; FONDEP portfolio information; and BCRA.</p>	<p>The ratio between the arrears on the aforementioned FONDEP portfolio and the total arrears of official banks is 1.90%. The numerator is the rate of arrears of the FONDEP restructured debt financing portfolio, and the denominator is the rate of arrears of the total official bank portfolio.</p> <p>The precrisis ratio is expected to remain unchanged.</p>

Indicators	Unit of measure	Baseline (2019)	Final target	Means of verification	Comments
<p>Indicator 3. Survival rate of companies supported with short-term financing instruments up to 24 months after COVID-19 was declared a pandemic.</p>	%	92	97	<p>Program monitoring and supervision information collected by the executing agency; FOGAR portfolio information; and public data from the Federal Public Revenue Administration (AFIP).</p>	<p>Measured as the number of companies receiving program assistance, as a share of the total number of companies supported, that remain on the AFIP register 24 months after COVID-19 was declared a pandemic. Monitoring will exclude small taxpayers under the simplified regime (“monotributistas”) due to the potential noncomparability of their activity criteria with those of other MSMEs. If the information is available, this indicator will be monitored separately for these small taxpayers.</p> <p>The baseline corresponds to the data gathered in May 2020, during the COVID-19 crisis, published in the latest Fundación Observatorio PYME report on companies at risk of permanent closure. The program’s support should enable a return to precrisis bankruptcy risk levels, i.e. to the 97% survival rates observed over 2015 to 2019, according to AFIP data.</p>
<p>Support the short-term financial sustainability of MSMEs through FOGAR</p>					
<p>Indicator 4. Rate of arrears in the portfolio of MSME working capital financing or guarantees 12 months after program start compared with the rate of arrears of mutual guarantee companies.</p>	%	1.18	1.18	<p>Program monitoring and supervision information collected by the executing agency; FOGAR portfolio information; and BCRA.</p>	<p>The numerator is the rate of arrears of the working capital financing portfolio guaranteed by FOGAR, and the denominator is the rate of arrears of the total official bank portfolio.</p> <p>The precrisis ratio between the rate of arrears of the relevant FOGAR portfolio and that of the mutual guarantee companies is expected to remain unchanged.</p>
<p>Indicator 5. Rate of arrears of the MSME restructured debt portfolio 12 months after program start compared with the rate of arrears of mutual guarantee companies.</p>	%	1.70	1.70	<p>Program monitoring and supervision information collected by the executing agency; FOGAR portfolio information; and BCRA.</p>	<p>The numerator is the rate of arrears of the restructured debt financing portfolio guaranteed by FOGAR, and the denominator is the rate of arrears of the total official bank portfolio.</p> <p>The precrisis ratio between the arrears rate on the relevant FOGAR portfolio and that of the mutual guarantee companies is expected to remain unchanged.</p>

Indicators	Unit of measure	Baseline (2019)	Final target	Means of verification	Comments
<p>Indicator 6. Survival rate of companies supported with short-term financing instruments up to 24 months after COVID-19 was declared a pandemic.</p>	%	92	97	<p>Program monitoring and supervision information collected by the executing agency; FOGAR portfolio information; and data published by AFIP.</p>	<p>Measured as the number of companies receiving program assistance, as a share of the total number of companies supported, that remain on the AFIP register 24 months after COVID-19 was declared a pandemic. Monitoring will exclude small taxpayers under the simplified regime (“monotributistas”) due to the potential noncomparability of their activity criteria with those of other MSMEs. If the information is available, this indicator will be monitored separately for these small taxpayers.</p> <p>The baseline corresponds to the data gathered in May 2020, during the COVID-19 crisis, published in the latest Fundación Observatorio PYME report on companies at risk of permanent closure. The program’s support should enable a return to precrisis bankruptcy risk levels, i.e. to the 97% survival rates observed over 2015 to 2019, according to AFIP data.</p>
<p>Specific objective 2: Promote the economic recovery of MSMEs through access to production-oriented finance through FONDEP and FOGAR</p>					
<p>Indicator 7: Rate of arrears of the medium-term MSME financing portfolio supported with program resources, compared to the rate of arrears of official banks.</p>	%	1.23	1.30	<p>Program monitoring and supervision information collected by the executing agency; FONDEP portfolio information; and BCRA.</p>	<p>The baseline has been calculated using the latest available measurements, dated December 2019, assuming a 12-month period. The target will also be calculated with arrears measurements that cover the 12 months prior to program end.</p> <p>The numerator is the rate of arrears of the medium-term working capital financed by FONDEP and guaranteed by FOGAR, and the denominator is the rate of arrears of the total official bank portfolio.</p> <p>Given the difficulty allocating medium-term credit through financial intermediaries in the Argentine financial system due to the high associated perception of risk, FONDEP is providing this credit directly through its first-tier structure. Therefore, as it is taking on greater risk, the quality of FONDEP’s first-tier portfolio</p>

Indicators	Unit of measure	Baseline (2019)	Final target	Means of verification	Comments
					is expected to deteriorate in terms of arrears to a greater extent than the official banks' rate of arrears. ² As of December 2019, the rate of arrears on FOGAR's guaranteed portfolio was 4%.
Indicator 8: Proportion of medium-term lending (over 24 months) in the MSME financing or guarantee portfolio.	%	15	15	Program monitoring and supervision information collected by the executing agency and FONDEP portfolio information.	"Medium term" is considered to be over 24 months. The program's support should enable the proportion of medium-term lending in the MSME financing portfolio to remain unchanged. ² As of December 2019, FOGAR's percentage of medium-term guarantees was 26%.
Indicator 9: Total leveraging of medium-term financing resources achieved as a result of program support.	US\$ million	0	10	Program monitoring and supervision information collected by the executing agency and FONDEP portfolio information.	In each investment, an estimated 90% of financing of each loan will be from program resources, with the remaining 10% being a counterpart contribution from the company. ² Under the BCRA regulations for public guarantee funds, permitted leveraging is up to 8 times.
Indicator 10: Total amount of the medium-term MSME financing portfolio supported by the program.	US\$ million	32.23	122.23	Program monitoring and supervision information collected by the executing agency and FONDEP portfolio information.	As of December 2019, FONDEP's outstanding portfolio stood at Arg\$2.2 billion. An exchange rate of Arg\$68.25 per dollar was used for the currency conversion. The target adds the program resources for medium-term MSME financing to the existing FONDEP portfolio. ² The amount of the FOGAR portfolio for medium-term guarantees stands at US\$4.75 million, applying an exchange rate of Arg\$68.25 per dollar.

² The use of guarantees is not currently envisaged, but this instrument may be utilized if necessary. The baseline values and targets presented are for FONDEP. If guarantee funds are used, the baselines will be adjusted to reflect averages of the relevant indicators weighted for the level of resources used for each. In relative terms, the targets will be kept as specified in the Results Matrix, but will be adjusted for this weighted baseline.

Indicators	Unit of measure	Baseline (2019)	Final target	Means of verification	Comments
<p>Indicator 11: Proportion of lending to women-run MSMEs in the MSME financing portfolio.</p>	%	18	20	<p>Program monitoring and supervision information collected by the executing agency and FONDEP portfolio information.</p>	<p>Gender monitoring.</p> <p>MSMEs are considered to be women-run when they are led or owned by women (i.e., either at least 50% of shares held by women or at least 25% of shares held by women and at least one woman in a decision-making position).</p> <p>The baseline is the value observed for the portfolio of Banco de Inversión y Comercio Exterior, S.A. (BICE), the program trustee, as a proxy for the structure of the FONDEP portfolio. To date, FONDEP has not collected this information, which will start to be measured with the program. It is noted that the definition of women-run MSMEs for monitoring is consistent with that adopted by the BICE for measurement of the baseline.</p> <p>The program indicates that at least 20% of the resources will be allocated to financing women-run MSMEs.</p>

OUTPUTS

Outputs	Unit of measure	Baseline 2020	2021	2022	2023	Final target	Means of verification	Comments ²
Single component: Support for MSME financing (TOTAL COST: US\$497 million)								
Subcomponent 1: Support for improvement of short-term financial capacity (TOTAL COST: US\$407 MILLION)								
1.A. Support for improvement of short-term financial capacities through working capital and debt refinancing through FONDEP (total cost: US\$289 million)								
Output 1: Amount issued under the program to finance working capital for MSMEs.	US\$ million	0	186	0	0	186	Monitoring and supervision information processed by the executing agency.	May include anchor companies of strategic value chains, as set out in the Credit Regulations. In this case, the distribution of credit among MSMEs in the chain to which each anchor company belongs will be monitored.
Annual cost:	US\$ million		186	0	0	186		
Output 2: Amount provided to finance the restructuring of MSME debt with program resources.	US\$ million	0	82	21	0	103	Monitoring and supervision information processed by the executing agency.	May include anchor companies of strategic value chains, as set out in the Credit Regulations. In this case, the distribution of credit among MSMEs in the chain to which each anchor company belongs will be monitored.
Annual cost:	US\$ million		82	21	0	103		
1.B. Support for improvement of short-term financial capacities through working capital and debt refinancing through FOGAR (total cost: US\$118 million)								
Output 3: Amount guaranteed for MSME working capital financing with program resources.	US\$ million	0	76	0	0	76	Monitoring and supervision information processed by the executing agency.	May include anchor companies of strategic value chains, as set out in the Credit Regulations. In this case, the distribution of credit among MSMEs in the chain to which each anchor company belongs will be monitored.
Annual cost:	US\$ million		76	0	0	76		

Outputs	Unit of measure	Baseline 2020	2021	2022	2023	Final target	Means of verification	Comments ²
Product 4: Amount guaranteed for the financing of MSME debt restructuring in sectors and chains identified as vulnerable by the program.	US\$ million	0	34	8	0	42	Monitoring and supervision information processed by the executing agency.	May include anchor companies of strategic value chains, as set out in the Credit Regulations. In this case, the distribution of credit among MSMEs in the chain to which each anchor company belongs will be monitored.
Annual cost:	US\$ million		34	8	0	42		
Subcomponent 2: Access to production-oriented finance for economic recovery (total cost: US\$90 million)								
Output 5: Amount provided for production-oriented loans to MSMEs with program resources.	US\$ million	0	25	65	0	90	Monitoring and supervision information processed by the executing agency.	May include anchor companies of strategic value chains, as set out in the Credit Regulations. In this case, the distribution of credit among MSMEs in the chain to which each anchor company belongs will be monitored.

Outputs	Unit of measure	Baseline 2020	2021	2022	2023	Final target	Means of verification	Comments ²
Milestone 1: Amount provided as production-oriented loans to MSMEs with program resources through FONDEP.	US\$ million	0					Monitoring and supervision information processed by the executing agency.	Lending through FONDEP may take the following forms: (i) direct financing; (ii) indirect financing through financial intermediaries; and (iii) financing of anchor companies to benefit MSMEs in their value chains.
Milestone 2: Amount provided for production-oriented loans to MSMEs with program resources through FOGAR.	US\$ million	0					Monitoring and supervision information processed by the executing agency.	Although the use of guarantees is not currently envisaged, this instrument may be utilized under the FOGAR structure if necessary.
Milestone 3: Amount provided for production-oriented loans to women-run MSMEs with program resources through FONDEP.	US\$ million	0					Monitoring and supervision information processed by the executing agency.	20% of total amount MSMEs are considered to be women-run when they are led or owned by women (i.e., either at least 50% of shares held by women or at least 25% of shares held by women and at least one woman in a decision-making position).
Milestone 4: Amount provided for production-oriented loans to women-run MSMEs with program resources through FOGAR.	US\$ million	0					Monitoring and supervision information processed by the executing agency.	20% of total amount MSMEs are considered to be women-run when they are led or owned by women (i.e., either at least 50% of shares held by women or at least 25% of shares held by women and at least one woman in a decision-making position).
Annual cost:	US\$ million		25	65	0	90		

Country: Argentina **Sector:** CMF **Project number:** AR-L1328 **Year:** 2020

Cofinancing: Not applicable **Co-execution:** Not applicable

Executing agency: The Ministry of Productive Development (MDP), through the Department for Small and Medium-sized Enterprises and Entrepreneurs (SEPYME)

Name: Global Credit Program for Reactivation of the Productive Sector

FIDUCIARY AGREEMENTS AND REQUIREMENTS

I. The Executing Agency's Fiduciary Context

1. Use of country systems in the program¹

<u>Budget</u> <input checked="" type="checkbox"/>	<u>Reporting</u> <input checked="" type="checkbox"/>	<u>Information system</u> <input checked="" type="checkbox"/>	<u>NCB</u> <input type="checkbox"/>
<u>Treasury</u> <input type="checkbox"/>	<u>Internal audit</u> <input type="checkbox"/>	<u>Shopping</u> <input type="checkbox"/>	<u>Advanced NCB</u> <input type="checkbox"/>
<u>Accounting</u> <input checked="" type="checkbox"/>	<u>External control</u> <input checked="" type="checkbox"/>	<u>Individual consultants</u> <input type="checkbox"/>	<u>Consulting firm</u> <input type="checkbox"/>

Applicable laws/regulations:

- Argentine Constitution
- Law 24.156 on Financial Administration and Control Systems in the National Public Sector
- Rules of the Central Bank of Argentina (BCRA)

2. The executing agency's fiduciary capacity

An institutional capacity assessment was performed of the executing agency and of BICE Fideicomiso S.A. (BFSA), as the fiduciary administrator of the FONDEP and FOGAR trusts. The assessment was based on the extensive experience that the MDP has executing Bank loans. Currently, the MDP is the executing agency for loans 2923/OC-AR and 3174/OC-AR. Moreover, the BFSA is the trust business unit of BICE, as shown in its consolidated accounting statements for 2018 and 2019. BICE is a State-owned bank that offers credit for productive investment and development. It is governed by the rules of the Central Bank of Argentina (BCRA), the lead agency of the country's financial system. The Bank conducted an institutional capacity assessment of BICE in 2017. In addition, BICE is the subexecuting agency for loan 3174/OC-AR and the executing agency for loan 4565/GN-AR, which administers resources from the Green Climate Fund. The conclusion was that the institutional capacity is sufficient for program execution. However, the operation presents a medium risk level, given that having several stakeholders involved in program execution may cause delays with the rendering of accounts to the Bank.

¹ Any system or subsystem approved subsequently could be applicable to the operation, under the terms of the Bank's validation.

3. Fiduciary risks and mitigation measures

Fiduciary risk: High ; Medium ; Low

Risk	Level of risk (medium/high)	Mitigation plan
Delays in rendering of accounts	Medium	Establish the team necessary to manage the workload. Determine roles, functions, and the flow of information, and prepare a checklist of documents to be delivered.

II. Considerations for the Special Provisions of the Contract

Conditions precedent to the first disbursement: No fiduciary conditions.
Exchange rate: To render accounts for program resources, the effective exchange rate on the date the approval currency or disbursement currency is converted to the borrower's local currency will be used, as provided for in Article 4.10(b)(i) of the General Conditions. To determine the equivalency of expenses incurred in local currency chargeable to the local contribution or the reimbursement of expenditures from the program, the agreed exchange rate will be the rate in effect on the first working day of the payment or transfer month.
Audited financial reports on the program: Throughout the original loan disbursement period and any extension thereof, the executing agency, within 120 days after the end of its fiscal year and within 120 days of the last disbursement of the loan, will deliver to the Bank the program's annual financial statements, duly audited by an independent audit firm acceptable to the Bank or by the Office of the Auditor General (AGN).
For the first disbursement request, the modality used will be reimbursement of expenditures for up to US\$100 million (20% of the loan amount) once the amendatory contract enters into force and disbursement of the redirected resources has been deemed eligible. The Bank may finance eligible expenditures incurred by the borrower as of 11 March 2020 (the date WHO declared COVID-19 a pandemic), for resources transferred to FOGAR and transfer of resources to financial intermediaries and/or to the beneficiaries of subloans issued directly by BICE, provided that requirements substantially similar to those established in the loan contract and the Credit Regulations were met.

III. Agreements and Requirements for Procurement Execution

Exceptions to policies and guidelines:

<ul style="list-style-type: none"> No exceptions anticipated. 	
Retroactive financing and/or advance procurement	<ul style="list-style-type: none"> Not applicable.
Additional procurement support	<ul style="list-style-type: none"> Not applicable.

Alternative procurement arrangements	<ul style="list-style-type: none"> • Not applicable.
Projects with financial intermediaries	<ul style="list-style-type: none"> • The Bank's prohibited practices clauses must be included in the agreements between the BFSA and the financial intermediaries, and those between the intermediaries and the subborrowers.
Procurement agents	<ul style="list-style-type: none"> • Not applicable.
Direct contracting	<ul style="list-style-type: none"> • Not applicable.

Operating expenses will be financed: <input type="checkbox"/> Not applicable.	Domestic preference: <input type="checkbox"/> Not applicable.
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General project procurement supervision method: Not applicable.	
Supervision method: Not applicable.	For: Not applicable.

Country thresholds: www.iadb.org/procurement

IV. Financial Management Agreements and Requirements

Programming and budget	<ul style="list-style-type: none"> • The executing agency is responsible for formulating and programming the annual budget and will perform all the procedures for consolidating the annual budget for approval. As needs arise to increase or reallocate line items, the execution unit will request the modifications and be in charge of managing their approval. Budget appropriations are executed through quarterly and monthly accrued commitment installments, which are allocated by the National Budget Office (Ministry of the Economy).
Treasury and disbursement management	<ul style="list-style-type: none"> • Disbursements will be made in the form of: <ul style="list-style-type: none"> - Advances of funds - Reimbursement of expenditures • The disbursement mechanism will include submission of physical disbursement requests. During the health emergency caused by COVID-19, disbursement requests signed through the electronic document management system and scanned may be delivered via email, if they are sent from an institutional email address and each signatory authorizes the request via email. • Bank account: The executing agency will have a special account in U.S. dollars and Argentine pesos at Banco de la Nación Argentina, separate and identifiable for accounting and operational purposes, dedicated to managing loan proceeds. Disbursements to the accounts of FONDEP and FOGAR will be made from this account. These trusts will also maintain special accounts in U.S. dollars and Argentine pesos to receive and identify program funds. • Financial plan: Advances will be made for a period of up to 6 months, depending on the demand for transfers. The funding for FOGAR will be provided in a single payment and eligible expenses will be registered in its equity by a separate accounting line item. This is intended to build the

	<p>capacity of FOGAR to provide guarantees to eligible beneficiaries, so that if these beneficiaries lack sufficient guarantees, they have access to finance through financial intermediaries.</p> <ul style="list-style-type: none"> • Percentage for accountability: 80% of advances pending justification. • With respect to advances of funds, the borrower and/or the executing agency will deliver to the Bank justifications for the expenditures made, when resources are transferred: (i) to FOGAR for its strengthening, pursuant to the provisions of the Credit Regulations; (ii) from FONDEP to the financial intermediaries; and/or (iii) from FONDEP to the beneficiaries of subloans, as described in the program Credit Regulations. • With respect to reimbursements, reimbursement requests will be accompanied by: (i) the transfer to FOGAR for its strengthening, pursuant to the conditions in the Credit Regulations; (ii) the list of transfers made to the financial intermediaries, for the second-tier banking operations of BICE; and/or (iii) the list of transfers made to the beneficiaries of subloans provided directly by FONDEP, pursuant to the eligibility criteria of the program Credit Regulations. • Transfers to financial intermediaries for them to provide interest-rate subsidies to loans for micro, small, and medium-sized enterprises will be considered eligible expenses. • Program resource flow: Program funds will be deposited into an account at the Central Bank of Argentina dedicated to receiving Bank disbursements, and subsequently transferred into a special account at Banco de la Nación Argentina to manage loan proceeds. These funds will be transferred into the special accounts of FONDEP and FOGAR. The BFSA, acting as the fiduciary agent, will make transfers to the financial intermediaries or disburse subloans directly to the beneficiaries.
<p>Accounting, information systems, and reporting</p>	<ul style="list-style-type: none"> • The executing agency will use UEPEX as the financial administration system, which makes it possible to identify program funds and sources of financing. The UEPEX system classifies program investments by component, based on the cost table. Cash-basis accounting will be used and the International Financial Reporting Standards followed, where applicable, in accordance with national criteria. • The BFSA will use its own accounting and recording systems to identify transfers to the financial intermediaries and/or the subloans financed under the program. • The BFSA will use the FOGARNet system to record credit guarantees and the BONITA system to identify rate subsidies.
<p>External control</p>	<ul style="list-style-type: none"> • The external audit of the program can be performed by an independent audit firm eligible to audit Bank-financed operations, selected and contracted in accordance with the terms of reference and the model contract previously agreed upon with the Bank. Given that the country external control subsystem has been validated, the audit can also be performed by the Office of the Auditor General, as its workload permits, upon prior agreement with the Bank.
<p>Program financial supervision</p>	<ul style="list-style-type: none"> • The financial supervision plan will be based on the risk and fiduciary capacity assessments of the executing agency and will include field supervision visits and desk reviews, as well as analysis and monitoring of outcomes and recommendations from audits of the program's annual financial statements.

V. Relevant Information for the Operation

Policies and guidelines applicable to the operation

Financial management	Procurement
<ul style="list-style-type: none">Document GN-2811 (OP-273-12)	<ul style="list-style-type: none">Document GN-2349-15Document GN-2350-15

Records and files

The Ministry of Productive Development's DGPPSE and the SAE will be responsible for maintaining the original records for their outlays and financial management as part of program execution. The BFSa will be responsible for safeguarding its original records for credits provided and payments made, both digital and physical files, as well as for preparing procedures and instructions for appropriate recordkeeping and filing.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Argentina. AR-L1328 Reformulation Proposal. Global Credit Program for Reactivation of the Productive Sector (Amendment to Loan Contracts 2776/OC-AR; 2929/OC-AR; 3174/OC-AR; 3066/OC-AR; 3780/OC-AR; 4229/OC-AR; 4502/OC-AR; 4500/OC-AR; y 3867/OC-RG)

The Board of Executive Directors

RESOLVES:

1. To approve the amendments contained in the Reformulation Proposal: "Global Credit Program for Reactivation of the Productive Sector" (the "Program"), as described in document ____, and to authorize that the undisbursed and uncommitted amounts of Loans 4502/OC-AR, 4500/OC-AR, 3867/OC-RG, 3174/OC-AR, 3066/OC-AR, 3780/OC-AR, 2929/OC-AR, 2776/OC-AR y 4229/OC-AR, be used to finance the activities of the Program, in accordance with the terms and conditions established in the aforementioned document.

2. To authorize the President of the Bank, or such representative as he shall designate, in the name and on behalf of the Bank, to enter into such amendatory contract or contracts, or other documents, as may be necessary to implement the provisions established in paragraph 1 above.

(Adopted on ___ _____ 2020)