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MULTILATERAL INVESTMENT FUND

ARGENTINA

**MAKING SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN
THE METALLURGICAL SECTOR MORE PRODUCTIVE THROUGH
INFORMATION AND COMMUNICATION TECHNOLOGIES (ICTs)**

(AR-M1001)

DONORS MEMORANDUM

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Annex II	Detailed budget
Annex III	List of similar and/or related MIF, Bank, and ICT cluster projects

INFORMATION AVAILABLE IN THE RE1/FI1 TECHNICAL FILES

PREPARATION:

1. “Diagnóstico tecnológico: Sector metal-mecánico [Technological Assessment: Metalworking Sector],” published by the Business Development Center of Rafaela, Argentina, 2001.
2. “La economía digital en Chile: 2003 [The Digital Economy in Chile: 2003],” published by the Digital Economy Research Center (CEED) of the Chamber of Commerce of Santiago, Chile, 2003.
3. “Cambios organizacionales y tecnológicos en las pequeñas y medianas empresas: Repensando el estilo de desarrollo argentino [Organizational and technological changes in small and medium-sized enterprises: Rethinking Argentina’s development style],” prepared by: Kosacoff, Bernardo and Andrés López, Buenos Aires, Argentina, 2000.
4. Project reports prepared by Juan José Bertero, RE1/FI1 consultant.
5. Collective bargaining agreement 260/75 between the Metallurgical Workers’ Union and the Association of Metallurgical Industries of the Republic of Argentina.

EXECUTION:

1. Operating Regulations (IDBDOCS no. 312337).
2. Rules of procedure for the project steering committee (IDBDOCS no. 312339)
3. Terms of reference for the project coordinator and regional managers (IDBDOCS nos. 312348 and 312355).
4. Timetable of activities
5. Draft letters of agreement between ADIMRA and the regional manufacturers’ associations (IDBDOCS no. 312361).
6. Projected operational sustainability of the project (IDBDOCS no. 312370).

ABBREVIATIONS

ADIMRA	Asociación de Industriales Metalúrgicos de la República de Argentina [Association of Metallurgical Industries of the Republic of Argentina]
BSC	Business service centers
CAD	Computer-aided design
CAM	Computer-aided manufacturing
CEED	Centro de Estudios de la Economía Digital [Digital Economy Research Center]
CESI	Committee on Environment and Social Impact
FMS	Flexible manufacturing systems
ICTs	Information and communication technologies
ISO	International Standards Organization
PEU	Project executing unit
PCR	Project completion report
SMEs	Small and medium-sized enterprises
TMP	Technological modernization program
UOMRA	Unión Obrera Metalúrgica de la República de Argentina [Metallurgical Workers' Union of the Republic of Argentina]

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I. EXECUTIVE SUMMARY

Executing agency:	Association of Metallurgical Industries of the Republic of Argentina (ADIMRA).	
Beneficiaries:	The project beneficiaries will be: (i) SMEs in Argentina's metallurgical sector, which will have easy access to appropriate information and to ICT services needed to continually improve their efficiency and output; (ii) regional metallurgical manufacturers' associations, which will develop the ability to connect supply with demand for technology; and (iii) Argentina's metallurgical sector, which will have the collective experience of having established an ongoing process of technological intervention using ICTs for SMEs.	
Financing:	MIF (Facility III-A):	US\$ 885,000
	Cluster activities:	US\$ 25,000
	Local counterpart:	<u>US\$ 900,000</u>
	Total:	US\$1,810,000
Objectives:	The project's general objective is to help make SMEs in Argentina's metallurgical sector more productive through ICT tools. The specific objective is to establish an ongoing process of technological intervention for SMEs in the metallurgical sector to embrace ICTs.	
Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months
Special contractual clauses:	As conditions precedent to the first disbursement of funds, ADIMRA will submit, to the Bank's satisfaction: (i) the coordinator selected for the project executing unit; (ii) evidence that the project's steering committee has been established; and (iii) evidence that letters of agreement have been signed between ADIMRA and the participating regional manufacturers' associations.	
Environmental and social review:	At meeting 01/04 of 9 January 2004, the Committee on Environment and Social Impact (CESI) recommended that the project make available information on environmental issues relevant to the	

participating firms, such as environmental legislation, cleaner technologies, ISO or environmental certification, providers of industry environmental management services or inputs, and corporate social responsibility associated with ICT use. These issues will be addressed during the awareness-building, assessment and dissemination activities.

**Exceptions to
Bank policy:**

None.

**Coordination
with other
financial
institutions:**

No other financial institutions have operations in the project's targeted area.

II. BACKGROUND

A. SMEs in Argentina's metallurgical sector

- 2.1 Argentina's metallurgical sector consists of approximately 25,000 firms, mainly small and medium-sized enterprises (SMEs). They account for 23% of the manufacturing industry's value added, and employ 400,000 workers. Though the sector was severely impacted by the 2001 economic crisis, many metallurgical firms have recently begun to show signs of recovery. According to the Department of Economic Research of the Association of Metallurgical Industries of the Republic of Argentina (ADIMRA), the pace of metallurgical activity improved significantly in the first quarter of 2004. Eighty-eight percent of the firms surveyed reported sales growth on the order of 36.5%. Furthermore, 60% of the firms surveyed indicated some plans for modernizing and/or reequipping their manufacturing operations in response to increased demand.
- 2.2 Despite rapid revitalization, the sector remains highly vulnerable to international competition, since improvement has not been the result of productivity gains, but largely of transitory reduction in prices due to exchange rates that favor import substitution and exportation of domestic products.¹ Cognizant of the fact that growth based on temporary economic conditions is not sustainable, and that many firms are in a position to invest resources to build their production capacity, the sector's business leaders began to search for a sector strategy by which firms could implement systematic measures leading to ongoing improvement in productivity and efficiency.

B. ICTs and improvements in output and efficiency in Argentina's metallurgical firms

- 2.3 The relationship between productivity and the use of ICTs in a competitive sector is ever more apparent. For example, research conducted by the Digital Economy Research Center (CEED)² shows that, in Chile, there is "a positive correlation between the use of ICTs and sector performance." Authors Kosacoff and López³ go further, stating that the use of ICTs is vital for the growth of Argentina's SMEs. They cite two reasons. First, it allows firms to "reduce the costs of collecting, storing, organizing, processing and communicating information to clients and

¹ ADIMRA's Department of Economic Research and the Argentine Industrial Union's "SME Watch" (Observatorio Permanente de las PyMEs).

² "La economía digital en Chile: 2003 [The Digital Economy in Chile: 2003]," published by the Digital Economy Research Center (CEED) of the Santiago, Chile, Chamber of Commerce. 2003.

³ Kosacoff, Bernardo and Andrés López. "Cambios organizacionales y tecnológicos en las pequeñas y medianas empresas: Repensando el estilo de desarrollo argentino [Organizational and technological changes in small and medium-sized enterprises: Rethinking Argentina's development style]." Buenos Aires, Argentina. 2000.

suppliers, as well as within the firm.” Second, ICTs “facilitate, shorten, and lower the cost of product design and development” by incorporating systems such as CAD (computer-aided design), CAM (computer-aided manufacturing), FMS (flexible manufacturing systems), and other programmable equipment. From the point of view of metallurgical industry representatives, it is clear that the use of ICTs is a critical factor in making the sector’s firms more productive and efficient.

- 2.4 Currently, there is little penetration of ICTs in the metallurgical sector, and it is advancing at a slow pace, largely due to the fact that metallurgical SMEs associate the notion of technology-oriented management almost exclusively with the incorporation of physical plant (machinery), and not with the acquisition and application of new knowledge. According to a technological assessment of the sector,⁴ only 6.5% of the 60 firms surveyed regularly use advanced calculation, design and simulation software. The assessment also indicates that only 29% of the firms had recently carried out joint projects with technological institutions. This generally low level of meshing between technology providers and the metallurgical productive sector makes it difficult for the sector’s business community to benefit from ICTs. The collective use of ICTs could be an important beginning for many metallurgical SMEs, leading to effective mechanisms for promoting strategic partnerships among firms, providers and technology centers.

C. Rationale for the proposed project

- 2.5 This project, which is to be executed by ADIMRA, is based on the following assumptions: (i) the economic conditions that have led to the revitalization of the sector are transitory, and systematic, collective action is therefore required to foster the long-term growth of the metallurgical sector, action based on the ongoing implementation of ICTs; (ii) SMEs tend to perceive and obtain greater benefits from ICTs when acting jointly with other firms in their sector or through partnerships with technological support agents; and (iii) the collective evidence of success stories where individual SMEs or groups of SMEs apply ICTs to improve productivity will have an important demonstration effect on the rest of the sector’s SMEs. Specifically, the project proposes to develop institutional capacity at five or more manufacturers’ associations (ADIMRA’s headquarters and four associations selected from among ADIMRA’s 52 affiliates), in order to connect supply with demand for technology services, leading metallurgical SMEs to embrace ICTs in a sustainable manner. The activities are to be conducted in the provinces of Santa Fé, Córdoba, and Buenos Aires, which have the most metallurgical firms.
- 2.6 In Argentina, the Bank is funding the technological modernization program II (TMP) (1201/OC-AR) to support SMEs in adapting new technologies to increase

⁴ “Diagnóstico tecnológico: Sector metal-mecánico [Technological Assessment: Metalworking Sector],” published by the Business Development Center (Centro de Desarrollo Empresarial) of Rafaela, Argentina, 2001.

their competitiveness. The MIF has also contributed to the dynamic development of the country's small businesses, principally through the business service centers (BSC) program (ATN/ME-4851-AR). The proposed project will be an important addition to MIF and Bank efforts. Lessons learned from the successful BSC experience were incorporated when designing the project's approach to intervention, e.g., in terms of how to identify demand, create a range of incentives for the firms, and carry out follow-up and monitoring, as well as be able to project operational sustainability. The components of the TMP loan were also carefully reviewed, in order to ensure that the services offered by the present project cannot be covered by funds from that loan. The two operations are complementary, since the proposed project could stimulate SMEs to make greater use of the resources available through the TMP.⁵

- 2.7 The project is consistent with one of the priority areas identified in the Bank's draft country strategy with Argentina (2004-2008): "Strengthening the environment for growth, increasing the country's competitiveness." Similarly, one of the priorities of the MIF strategy is to make it easier for SMEs to embrace new technologies. This project will be the seventh operation in the MIF cluster to make SMEs more competitive through ICTs, and the first ICT operation in Argentina. One of the design lessons learned from the evolution of the MIF's ICT cluster projects is the gradual narrowing of the targeted area, in this case down to a specific sector. The demonstration effect on other firms will be greater with such targeting.

III. OBJECTIVES AND DESCRIPTION

A. Objectives

- 3.1 The general objective is to help make SMEs in Argentina's metallurgical sector more productive through ICT tools. The specific objective is to establish an ongoing process of technological intervention for SMEs in the metallurgical sector to embrace ICTs.

⁵ Unlike the TMP program, which provides nonreimbursable funding for technological innovation projects submitted by firms in all types of activities for amounts of up to US\$100,000 or US\$300,000, the proposed project will provide modest financial incentives through local manufacturers' associations, solely for metallurgical firms interested in implementing ICTs. These will be in the amount of up to US\$7,000 per enterprise and/or between US\$30,000 and US\$40,000 for groups of firms. Given the considerable differences in the amounts of the funds, methods of delivery, and objectives of the interventions, no single firm will be able apply the financial support to both operations at the same time. Rather, it is likely that some beneficiaries firms under this project, having grasped the importance of investing in and applying technological knowledge through ICTs, will be able to make the greater investment in technology with TMP support.

B. Components

1. Component 1: Developing the capacity of regional manufacturers' associations to connect supply with demand for technology (MIF US\$143,720; Local counterpart US\$369,290)

3.2 The objective of this component is to develop the management capacity of ADIMRA and four regional metallurgical manufacturers' associations⁶ to connect supply with demand for technological services and the adoption of ICTs at SMEs. Three main actions are contemplated for this purpose: (i) setting up ICT inquiry points for SMEs at ADIMRA headquarters and the four participating regional manufacturers' associations; (ii) developing an ICT assessment methodology for metallurgical SMEs; and (iii) creating awareness of ICTs within firms and providers of technological services.

3.3 In connection with setting up the inquiry points, the following costs will be funded: (i) organization and coordination with the regional manufacturers' associations through regular meetings; (ii) physically installing the inquiry points at ADIMRA and the four manufacturers' associations, and hiring and training managers and technical assistants for them. In connection with the ICT assessment methodology for SMEs, the following costs will be funded: (i) a consulting assignment to study existing methods and adapt them for identifying the technological needs of metallurgical SMEs; (ii) selecting local consultants to conduct the assessments of the firms; and (iii) providing training on the methodology for the inquiry point technicians and local consultants. Activities connected with creating awareness within the firms will begin with national and regional conferences (project launch), followed by firm-specific seminars. At the same time, local providers of technological services will be offered five refresher seminars on ICT implementation, in order to ensure that local offerings will meet the expectations of participating SMEs.

2. Component 2: Introducing technology assessments and strategic plans (MIF US\$415,250; Local counterpart US\$347,750)

3.4 This component seeks to make metallurgical SMEs more efficient and productive through the systematic management of ICT use. To achieve this, the first activity will be to conduct assessments to evaluate the firms' installed capacity and potential

⁶ The institutional capacity of five regional manufacturers' associations proposed by ADIMRA was analyzed during project preparation, and the following were selected: the Chamber de Metallurgical and Components Industries of Córdoba; the Las Parejas Industrial Center (Santa Fé); the Chamber of Metallurgical Industries of Rafaela (Santa Fé); and the Metallurgical Industry Association of Rosario (Santa Fé).

capacity⁷ and identify areas in which they can build their production capacity by incorporating ICTs. Within the areas of demand identified by the assessments, the project will address the following elements associated with the incorporation of ICTs: (i) design and production; (ii) company planning; (iii) input management; and (iv) marketing. Within these categories, specific actions to raise output and efficiency will be carried out, e.g. calculation and design, process simulation, rapid prototype building, process and/or quality control, automation of certain parts of processes, warehouse management, business management, process integration and e-commerce. The inquiry points at the manufacturers' associations will review the assessment findings and, in conjunction with the firms, define the principal areas of ICT intervention, both for groups of firms that have common needs and for firms requiring individual attention.

- 3.5 In order to create incentives that will lead to greater demand for these services, ADIMRA will offer funding⁸ for firms through the participating regional manufacturers' associations. The following costs will be partially covered: (i) 500 assessments; (ii) 50 strategic plans for groups of firms and 120 for individual firms; and (iii) implementation of the individual and group plans.⁹ It is estimated that 20 groups of firms and 100 individual firms will implement the plans developed.¹⁰
- 3.6 The average funding rate over the three years of project execution will be approximately 50% of total costs. In order to create the greatest possible demonstration effect for other sector firms, a preferential rate will be offered for developing and implementing group plans, making it possible for the startup subsidies to cover up to 70% of costs. A rate of up to 40% is to be applied for the development and implementation of individual plans. These percentages will be adjusted during execution, with funding decreasing as the project progresses, so that by the third year the firms will be paying as much as 80% of the value of the

⁷ To be eligible for the project, firms must: (i) be formally incorporated businesses operating in the metallurgical sector; (ii) have fewer than 100 employees; (iii) meet the country's environmental and labor requirements; and (iv) provide the necessary information and indicators concerning the firm's productivity and efficiency. The assessment process will determine which firms meet the conditions and are eligible request strategic plans.

⁸ The funding will be applied to those costs associated with consulting services (technical assistance and training) and acquisition of software. Firms will not use project funds to purchase equipment (hardware and machinery).

⁹ In formulating and implementing the group plans, a set of activities to promote collaboration among firms will be identified and funded as a way of encouraging SMEs in the metallurgical sector to embrace ICT tools and become more productive.

¹⁰ These figures are based on the number of firms currently belonging to the participating manufacturers' associations with decreasing percentage estimates for each phase, i.e. the number of companies prepared to conduct assessments and formulate and implement strategic plans.

service provided. The maximum subsidy will be US\$7,000 per firm. Funding for the implementation of group plans will range from US\$30,000 to US\$40,000.

3. Component 3: Monitoring and analysis of firms' performance, and dissemination of outcomes
(MIF US\$126,700; Local counterpart US\$61,850)

- 3.7 The objective of this component is to increase the demand for ITC use among metallurgical SMEs through dissemination of project outcomes. To achieve this, funding will be provided for two types of activity: (i) monitoring and analysis of the participating firms' internal performance indicators;¹¹ and (ii) dissemination of the outcomes of the project's technological interventions, in order to encourage metallurgical SMEs to embrace ICTs.
- 3.8 For effective monitoring, the costs of the following will be funded: (i) consulting to design methods for introducing indicators at firms receiving assessments;¹² (ii) on-site monitoring of indicators; and (iii) analysis of the behavior of the indicators. In order to facilitate analysis, a baseline will be established for the firms' indicators, using data gathered during the assessments. During execution, the project will monitor indicators both at firms that are implementing strategic plans and at firms that receive assessments but do not implement the plans. This will establish a basis for comparison between the two groups of firms, so as to demonstrate the effectiveness of the project's interventions.
- 3.9 The activities related to dissemination of project outcomes will begin in the third year of execution. The project includes funding for: (i) five regional seminars to present success stories; (ii) a national conference with international experts; and (iii) dissemination materials. The cost of creating, operating and maintaining an interactive website will also be covered. The site will publish demonstration cases, analyses of interventions and project outcomes.

IV. COST, FUNDING, AND SUSTAINABILITY

- 4.1 The project's estimated total cost is US\$1,810,000, with US\$885,000 coming from MIF and US\$900,000 from the local counterpart. At least 50% of the local counterpart will be in cash (see Annex II, Detailed Budget). Additionally, MIF will provide US\$25,000 in cluster activity funding, which the Bank will use for ICT cluster coordination activities. This amount will be deducted from the contribution

¹¹ These indicators are to measure internal performance directly related to areas in which the firms have introduced ICTs, such as reduction of production costs and/or product delivery time, greater precision in designing and building prototypes, better product quality control, etc.

¹² The experts hired to develop the indicator methodology will work in close coordination with the experts adapting the methodology to the assessment process.

as of the effective date of the letter of agreement for the technical-cooperation operation with no requirement that the executing agency submit a disbursement request.

- 4.2 In regard to the local contribution, ADIMRA signed a collective bargaining agreement with the Metallurgical Workers' Union of the Republic of Argentina (UOMRA) in September 2001, in order to generate the resources needed to implement projects benefiting metallurgical firms and their employees. The agreement, endorsed by the Ministry of Labor, established that employers would contribute 1% of their gross monthly payroll to ADIMRA. These funds, which are on the order of Arg\$300,000 per month (equivalent to approximately US\$120,000), are distributed as follows: 75% to the 52 regional and sector manufacturers' associations, and 25% to ADIMRA. ADIMRA will fund the majority of the counterpart expenditures for the project. The funds going to the participating manufacturers' associations will fund the costs of operating the inquiry points, as well as help to support the activities conducted over the course of the project.

BUDGET (in US\$)			
BUDGET ITEMS	MIF	LOCAL	TOTAL
Component 1: Developing the capacity of regional manufacturers' associations to connect supply with demand for technology	143,720	369,290	513,010
Component 2: Introducing technology assessments and strategic plans	415,250	347,750	763,000
Component 3: Monitoring and analysis of firms' performance, and dissemination of outcomes	126,700	61,850	188,550
Administrative costs	90,750	115,950	206,700
Evaluations and audits	47,000	0	47,000
Contingencies	61,580	5,160	66,740
Subtotal	885,000	900,000	1,785,000
Cluster activities	25,000	0	25,000
Total	910,000	900,000	1,810,000

- 4.3 **Sustainability.** In regard to operational sustainability, all inquiry points at participating regional manufacturers' associations are expected to be able to continue operation once the MIF funds have been exhausted, based on income from the sale of services plus the contribution of the regional manufacturers' associations. It is estimated that income from services will cover 100% of variable costs plus an increasing percentage of operating costs (between 10% and 30%), while the remainder will be covered by the contributions received by the participating manufacturers' associations under the collective bargaining agreement

with UOMRA.¹³ In terms of institutional sustainability, once the MIF intervention has concluded, the regional manufacturers' associations will assume full responsibility for administering the inquiry points. ADIMRA will take on responsibility for institutional coordination and project promotion, in order to keep the participating regional manufacturers' associations in contact with each other and encourage the incorporation of new manufacturers' associations and firms.

V. EXECUTING AGENCY AND MECHANISM

A. Executing agency

- 5.1 The project executing agency will be the Association of Metallurgical Industries of the Republic of Argentina (ADIMRA), a private institution representing the metallurgical industry at the national level. It is a second-tier entity composed of 52 regional and sector metallurgical manufacturers' associations. ADIMRA was one of the active institutional participants in various activities organized by the MIF-funded BSC program, where it gained substantial experience in designing and implementing business services projects for SMEs in its sector. ADIMRA's services to member firms include legal and technical advice, certificates of origin for metallurgical exports, and business training courses.

B. Execution mechanism

- 5.2 For project execution, ADIMRA will work with four regional manufacturers' associations selected from among the 52 ADIMRA members. A project executing unit (PEU) will be set up at ADIMRA headquarters with a project coordinator, a project assistant and an administrative assistant for accounting. This unit will assume responsibility for managing the proposed project, and will be in ongoing contact with the Bank. This will include channeling nonobjection requests for contracts with technical personnel, experts and service providers, and for project procurement. ADIMRA and the four regional manufacturers' associations will implement the activities directly relating to firms, and each will have a regional manager and technical assistant. A steering committee will also be set up for institutional oversight of the project. Making up the steering committee will be two ADIMRA representatives and one representative of each regional manufacturers' association. Its main functions will include supervising inquiry point performance, assessing project progress and budget execution based on PEU reports, and providing institutional support to ADIMRA and the PEU for project execution.

¹³ The spreadsheet with the sustainability simulation, taking into account the successful sustainment experience of the Rafaela Business Service Center, shows values for the fourth year, based on the following assumptions: (i) income from services provided are 12% in excess of the costs of the services; (ii) this service surplus contributes 9.5% to operational costs; (iii) the regional manufacturers' associations maintain their contribution to operating costs, equivalent to 70% thereof; and (iv) the reserve fund covers financing gaps in operating costs. For details, see the Operating Regulations, available under IDBDOCs no. 312337.

C. Execution period and procurement procedures

- 5.3 The project execution period will be 36 months, and the disbursement period, 42 months. A revolving fund will be set up in an amount of up to 10% of the grant. Procurements of goods and consulting services will be conducted in accordance with Bank and MIF procurement policies and procedures. The project does not call for procurement of goods and consulting services in excess of the thresholds for international competitive bidding. Contracting with consulting firms for amounts under US\$30,000 equivalent will be governed by the requirements for hiring individual consultants. Any purchase order of more than US\$5,000 or equivalent will be submitted to the Bank with at least three other bids.

D. Readiness

- 5.4 The project is ready to commence execution. With support from the Bank project team, ADIMRA has prepared the following documents as guidelines for execution: the Operating Regulations, draft terms of reference for key consultants, the rules of procedure for the steering committee, and the timetable of activities. The letters of agreement for cooperation between ADIMRA and the four regional manufacturers' associations have been prepared and are ready for signing.

VI. MONITORING AND EVALUATION

- 6.1 ADIMRA will prepare a final report and semiannual progress reports documenting activities during the preceding six months, as well as a work plan and disbursement schedule for the upcoming period, in accordance with the indicators in the project's logical framework. These reports will be submitted for approval to the Bank's Country Office in Argentina within 60 days after the end of each six-month period. The project will monitor the outcomes and assumptions potentially affecting the degree to which the project's specific objective is met, and adjust activities as necessary. Within three months after the last disbursement, the Bank's Country Office in Argentina will prepare the project completion report (PCR), following the established guidelines and placing special emphasis on lessons learned.
- 6.2 The Bank will hire outside consultants to conduct two evaluations: one midterm review to be conducted once 50% of the MIF funds have been disbursed (or at such other time as agreed by the Bank and the executing agency), and one final evaluation three months after project execution concludes. The midterm review will assess project progress and overall performance, with special emphasis on: (i) the performance of the inquiry points run by the participating regional manufacturers' associations; (ii) the process of development and implementation of strategic plans; and (iii) the functioning of the system for tracking and analysis of firms' internal performance indicators. For the final evaluation, the outside consultants will evaluate the degree to which the project activities have become permanent features

of the regional manufacturers' associations, as well as the overall outcomes of all components and achievement of the project's objectives. The consultants will use the logical framework (Annex I), as amended by agreement between the Bank and the executing agency.

VII. BENEFITS AND RISKS

- 7.1 **Benefits:** Successful execution of the project is expected to produce the following benefits: (i) local metallurgical SMEs will have easy access to appropriate information and to ICT services needed to continually improve their efficiency and productivity; (ii) regional metallurgical manufacturers' associations will develop the ability to connect supply with demand for ICTs; and (iii) Argentina's metallurgical sector will have the collective experience of having established an ongoing process of technological intervention using ICTs for SMEs.
- 7.2 **Risks:** The project's implementation and sustainability will depend on the willingness of firms to invest their financial and human resources in acquiring and applying ICT knowhow (assessments and the development and implementation of strategic plans). External factors related with the country's economic volatility, such as exchange-rate adjustments, tax hikes, tighter credit, or higher public service costs, may negatively impact the ability of some of sector firms to free up resources for new investment. However, experience in countries with greater ICT use¹⁴ shows that, once the great cost-benefit ratio associated with implementing ICTs is understood, many firms tend to increase their investment in ICTs in order to improve efficiency and reduce production costs, so as to be able to operate even during a recession. The project's strategy is based on this experience.

VIII. SOCIAL AND ENVIRONMENTAL VIABILITY

- 8.1 At meeting 01/04 of 9 January 2004, the Committee on Environment and Social Impact (CESI) recommended that the project make available information on environmental issues relevant to the participating firms, such as environmental legislation, cleaner technologies, ISO or environmental certification, providers of industry environmental management services or inputs, and corporate social responsibility associated with ICT use. These issues will be addressed with the firms during the awareness-building, assessment and dissemination activities.

¹⁴ See, for example, the CEED study on Chilean firms and the use of ICTs.

IX. SPECIAL CONTRACTUAL CLAUSES

- 9.1 As conditions precedent to the first disbursement of funds, ADIMRA will submit, to the Bank's satisfaction: (i) the coordinator selected for the project executing unit; (ii) evidence that the project steering committee has been established; and (iii) evidence that letters of agreement have been signed between ADIMRA and the participating regional manufacturers' associations.

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MORE PRODUCTIVE THROUGH INFORMATION AND COMMUNICATION TECHNOLOGIES (ICTs)**

(AR-M1001)

LOGICAL FRAMEWORK MATRIX

Narrative Summary	Indicators	Means of Verification	Assumptions
Goal			
<p>Contribute to making SMEs in Argentina’s metallurgical sector more productive through information and communication technologies (ICT).</p>	<ul style="list-style-type: none"> • The volume of exports of Argentine metallurgical products increases. • Investment in ICTs in the metallurgical sector increases. • The number of Argentine metallurgical SMEs that receive orders from large and international firms demanding quality standards and timely delivery increases. 	<ul style="list-style-type: none"> • National industrial census. • National export statistics. • ADIMRA annual reports. • ADIMRA economic studies. 	<ul style="list-style-type: none"> • The metallurgical firms continue to increase investment in ICTs, to improve efficiency and productivity.
Purpose			
<p>Establish an ongoing process of technological intervention for SMEs in the metallurgical sector to embrace ICTs.</p>	<ul style="list-style-type: none"> • At project completion, the manufacturers’ association inquiry points, in the absence of MIF financing, continue to apply the project methodology with resources from the manufacturers’ associations and from the earnings they generate. • Near the end of the project, at least 2 additional manufacturers’ associations have begun applying the methodology developed by the project. • At project completion, there is stable demand for ICT services capable of being met by local technology providers. 	<ul style="list-style-type: none"> • Final evaluation. • Report of coordinator. • Reports of regional managers. • Surveys of technology providers and firms. • Project performance monitoring report (PPMR) prepared by the Bank’s Country Office. • Project completion report (PCR) prepared by Bank’s Country Office. • ADIMRA progress and final reports. • Accounting reports on inquiry point reserve fund. 	<ul style="list-style-type: none"> • ADIMRA-affiliated manufacturers’ associations continue using the resources from the mandatory monthly payroll contributions to finance activities aimed at making firms more productive by embracing technology. • Macroeconomic conditions remain stable.

Narrative Summary	Indicators	Means of Verification	Assumptions
Components			
<p>Component 1. Developing the capacity of regional manufacturers' associations to connect supply with demand for technology</p> <p>Develop the management capacity of ADIMRA and at least 4 regional manufacturers' associations to connect supply with demand for technology services.</p>	<ul style="list-style-type: none"> • By 24 months into the project, each regional manufacturers' association has carried out a minimum of 80 assessments, at least 3 technology strategy plans for groups of firms (15 group plans altogether) and 12 strategic plans for individual firms (60 individual plans altogether). • During year 3, each manufacturers' association prepares at least 7 strategic plans (35 group plans altogether) for groups of firms and 12 individual strategic plans (60 individual plans altogether). • At project completion, each manufacturers' association has financed the implementation of 4 technology strategy plans for groups of firms (20 group plans altogether) and 20 strategic plans for individual firms (100 individual plans altogether). 	<ul style="list-style-type: none"> • Reports of coordinator. • Reports of regional managers. • Progress and final reports on project. • Midterm review and final evaluation. • PPMR • PCR 	<ul style="list-style-type: none"> • Firms that have implemented technology plans with project financing are willing to continue participating in the project without MIF support.
<p>Component 2. Introducing technology assessments and strategic plans</p> <p>Make metallurgical SMEs participating in the project more efficient and productive through systematic management of ICT use.</p>	<ul style="list-style-type: none"> • Once the strategic plans have been implemented, 60% of firms improve their internal performance indicators (reduction in time and/or costs, quality of products, etc.) from the time the assessment was conducted. • Once the strategic plans have been implemented, the group of firms that have implemented strategic plans, taken as a whole, 	<ul style="list-style-type: none"> • Progress and final reports. • Reports of coordinator. • Baseline and surveys of technology providers and firms. • Monitoring reports for monitored groups (firms that implemented plans, and those that did not). • Midterm review and final evaluation. • PPMR • PCR 	<ul style="list-style-type: none"> • The outcomes of Component 2 provide an incentive for other metallurgical SMEs to invest their resources in ICTs.

Narrative Summary	Indicators	Means of Verification	Assumptions
	<p>demonstrate better internal performance indicators than the group of firms that received assessments but did not implement strategic plans.</p>		
<p>Component 3: Monitoring and analysis of firms' performance, and dissemination of outcomes</p> <p>Increase the demand for ICT use among metallurgical SMEs through dissemination of project outcomes.</p>	<ul style="list-style-type: none"> Firms and manufacturers' associations that did not participate in the project request detailed information on the project from ADIMRA and participating firms, and show interest in implementing the intervention methodology developed by the project. 	<ul style="list-style-type: none"> Progress and final reports. Reports of coordinator. Records of contacts with other institutions. Midterm review and final evaluation. PPMR 	<ul style="list-style-type: none"> Manufacturers' associations and firms that are made aware of project outcomes want to implement the methodology without project financing.
Activities	Principal activity benchmarks		
<p>CO1: Developing the capacity of regional manufacturers' associations to connect supply with demand for technology</p> <p>A. Set up inquiry points within ADIMRA and the 5 regional manufacturers' associations.</p> <p>1.1 Organization and coordination with the regional manufacturers' associations.</p> <p>1.2 Set up inquiry points for SMEs within the regional manufacturers' associations.</p> <p>1.3 Train technical and management personnel at manufacturers' associations.</p>	<p>MIF: US\$143,720 Local: US\$369,290 Total: US\$513,010</p> <ul style="list-style-type: none"> Hire regional managers and technical assistants (2 months) Train technical and other staff at manufacturers' associations (4 months). 6 inquiry points are up and running (6 months). 	<p>A. Set up inquiry points</p> <ul style="list-style-type: none"> Minutes of coordination meetings. Reports of regional managers. Reports of coordinator. Progress and final reports. Accounting records for the project. Reports of training consultants. 	<ul style="list-style-type: none"> Working conditions are sufficiently attractive to retain qualified professionals under the direction of the inquiry point manager.

Narrative Summary	Indicators	Means of Verification	Assumptions
<p>B. Adjust the assessment methodology.</p> <p>1.4 Develop assessment methodology.</p> <p>1.5 Conduct assessments.</p> <p>1.6 Train technical staff for inquiry points, and local consultants on the methodology.</p> <p>C. Build awareness among firms and technology service providers.</p> <p>1.7 National and regional conferences, project launch.</p> <p>1.8 Build awareness among firms.</p> <p>1.9 Technology refresher seminars for providers.</p>	<ul style="list-style-type: none"> • Develop and validate methodology (5 months). • Complete training of technical staff and consultants (7 months). • Consultants are available to conduct assessments (8 months). • Hold conferences (6 months). • Complete awareness-building sessions (6 to 9 months). • Hold refresher seminars (6 to 9 months). 	<p>B. Adjust the assessment methodology.</p> <ul style="list-style-type: none"> • Reports of consultants in charge of adjusting the methodology. • Records of consultants hired. • List of participants in training activities. • Progress and final reports. <p>C. Build awareness among firms and providers.</p> <ul style="list-style-type: none"> • Conference reports. • List of participants in awareness-building activities. • Records of provider firms that participated in refresher seminars. • Progress and final reports. 	<ul style="list-style-type: none"> • Local professionals who received training acted as technology assessment specialists for metallurgical SMEs.
<p>CO2: Introducing technology assessments and strategic plans</p> <p>A. Conduct individual assessments.</p> <p>2.1 Perform individual assessments.</p> <p>B. Develop individual or group strategic plans.</p> <p>2.2 Identify areas of investment for participating firms (individual and group).</p> <p>2.3 Develop group projects.</p>	<p>MIF: US\$415,250</p> <p><u>Local:</u> US\$347,750</p> <p>Total US\$763,000</p> <ul style="list-style-type: none"> • Start assessments (10 to 12 months). • Identify areas of investment (12 to 14 months). • Contract providers for plan development (as of 14 months). 	<p>A. Conduct individual assessments.</p> <ul style="list-style-type: none"> • Reports of coordinator. • Progress and final reports. • Records of consultants hired. • Reports of consultants hired. <p>B. Formulating individual or group plans.</p> <ul style="list-style-type: none"> • Reports of regional managers. • Records of providers contracted. • Progress and final reports. 	<ul style="list-style-type: none"> • Services of local providers (private firms and technology centers, universities) meet the expectations of participating firms.

Narrative Summary	Indicators	Means of Verification	Assumptions
<p>C. Implement plans 2.4 Execute individual projects. 2.5 Execute group projects.</p>	<ul style="list-style-type: none"> Contract providers for plan implementation (as of 18 months). 	<p>C. Implement pilot projects.</p> <ul style="list-style-type: none"> Reports of regional managers. Records of providers hired. Reports of monitoring consultants (Component 3) Progress and final reports. 	
<p>CO3: Monitoring and analysis of firms' performance, and dissemination of outcomes</p> <p>A. Monitoring 3.1 Set baseline (information obtained from assessments). 3.2 Design the monitoring system. 3.3 Monitor firms on-site. 3.4 Maintain a database of firms monitored (at inquiry points and executing unit). 3.5 Analyze monitoring information.</p> <p>B. Dissemination of outcomes 3.6 Regional seminars with presentation of cases. 3.7 National seminar with an international focus. 3.8 Produce video, CD, graphics, announcements. 3.9 Create, operate and keep interactive website up to date.</p>	<p>MIF: US\$126,700 <u>Local: US\$ 61,850</u> Total US\$188,550</p> <ul style="list-style-type: none"> Develop and incorporate performance indicator methodology into consultant training course (4 months). Complete design of monitoring system (6 months). Set baseline (12 months). Complete analysis of monitoring information (as of 12 months). Seminars (as of 24 months). Publish dissemination materials (as of 30 months). Website operational (6 months). 	<p>A. Monitoring</p> <ul style="list-style-type: none"> Reports of coordinator. Reports of monitoring consultants. Progress reports <p>B. Dissemination</p> <ul style="list-style-type: none"> Seminar reports. Project website. Reports of coordinator. Progress reports. Accounting records for the project. 	<p>A. Monitoring</p> <ul style="list-style-type: none"> Information and data provided to the project by the firms are reliable. <p>B. Dissemination</p> <ul style="list-style-type: none"> Businesspeople in the rest of the metallurgical sector are interested in implementing ICTs to make their firms more efficient and productive.

**Making Small and Medium-Sized Enterprises (SMEs) in the Metallurgical Sector
More Productive through Information and Communication Technologies (ICTs)**

(AR-M1001)

Description	Unit Cost	Quantity	Subtotal	% Budget	TOTAL 3 YEARS (36 MONTHS)		
					MIF %	Local contribution	
						Cash	In kind
COMPONENT 1: Developing the capacity of regional manufacturers' associations to connect supply with demand for technology			513,010	29%	143,720	216,000	153,290
a) Set up inquiry points							
1.1.- Coordination of regional manufacturers' associations, and setting up inquiry points			406,960				
1.1.1.- Coordination of manufacturers' associations							
1.1.1.1.- Periodic meetings of manufacturers' associations	200	6	1,200				1,200
1.1.1.2.- Expenditures for travel and per diem	540	6	3,240				3,240
1.1.2.- Setting up inquiry points							
1.1.2.1.- Consulting for the selection of technical staff to manage inquiry points			0			0	
1.1.2.2.- Contracting of regional managers	43,200	5	216,000			216,000	
1.1.2.3.- Contracting of technical assistants for inquiry points	28,800	1	28,800		28,800	0	
1.1.2.4.- Equipping inquiry points	6,000	5	30,000		15,000		15,000
1.1.2.5.- Operating expenditures for inquiry points (rent, related services, etc.)	18,000	5	90,000				90,000
1.1.2.6.- Expenditures for travel and per diem of presenters	800	5	4,000		2,000		2,000
1.1.3.- Training of staff at manufacturers' associations / inquiry points							
1.1.3.1.- Contracting of experts for training of technical staff and managers	1,500	3	4,500		4,500	0	
1.1.3.2.- Expenditures for travel and per diem	740	3	2,220		2,220	0	
1.1.3.3.- Attendance at local and international events	3,000	3	9,000		9,000	0	
1.1.3.4.- Expenditures for travel and per diem for technical staff and managers	3,600	5	18,000		9,000		9,000
1.2.- Develop assessment methodology			31,900				
1.2.1.- Consulting for development of methodology	25,000	1	25,000		25,000	0	
1.2.2.- Expenditures for travel and per diem for consulting services	2,400	1	2,400		2,400	0	
1.2.3.- Training of inquiry point managers and assessment consultants	500	5	2,500		2,500	0	
1.2.4.- Expenditures for organizing activities (rooms, refreshments, equipment, etc.)	400	5	2,000				2,000
b) Build awareness among firms and technology providers			74,150				
1.3.- Promotional material (pamphlets, announcements, etc.)	4	2,500	10,000		10,000	0	
1.4.- Regional and national conference – project launch							
1.4.1.- Organization expenses	2,000	6	12,000				12,000
1.4.2.- Contracting of experts	2,000	3	6,000		6,000	0	
1.4.3.- Expenditures for travel and per diem of experts	2,300	3	6,900		5,100		1,800
1.5.- Building awareness among firms – seminars							
1.5.1.- Organization expenses	1,000	5	5,000				5,000
1.5.2.- Contracting of experts	2,000	3	6,000		6,000	0	
1.5.3.- Expenditures for travel and per diem of experts	2,100	3	6,300		5,100		1,200
1.6.- Building awareness among providers – Technology refresher seminars							
1.6.1.- Organization expenses	1,000	5	5,000				5,000
1.6.2.- Contracting of experts	2,000	3	6,000		6,000	0	
1.6.3.- Expenditures for travel and per diem of experts	2,900	3	8,700		5,100		3,600
1.6.- Travel expenditures for executing unit and inquiry points	250	9	2,250				2,250
COMPONENT 2: Introducing technology assessments and strategic plans			763,000	43%	415,250	346,500	1,250
2.1- Implement individual assessments			57,500				
2.1.1.- Contracting of external technical staff to carry out assessments	500	100	50,000		50,000	0	
2.1.2.- Expenditures for travel and per diem to carry out assessments	500	5	2,500		2,500	0	
2.1.3.- Consulting assignments to identify inquiry point areas of work	500	10	5,000		2,500	2,500	
2.2- Develop strategic plans			105,500				
2.2.1.- Technical assistance for inquiry points – Identification of areas of investment	500	30	15,000		15,000	0	
2.2.2.- Consulting for the formulation of individual/provider plans	120	400	48,000		24,000	24,000	
2.2.3.- Consulting for the formulation of group plans: PARTNERSHIPS	50	800	40,000		20,000	20,000	
2.2.4.- Expenditures for travel and per diem for inquiry points	500	5	2,500		1,250		1,250
2.3- Implement strategic plans – PILOTS			600,000				
2.3.1.- Individual pilot plans (training, information, technical assistance)	100	3,000	300,000		150,000	150,000	
2.3.2.- Group pilot plans (training, information, technical assistance)	20	15,000	300,000		150,000	150,000	
COMPONENT 3: Monitoring and analysis of firms' performance, and dissemination of			188,550	10%	126,700	42,950	18,900
3.1.- Monitoring			35,000				
3.1.1.- Consulting for development of monitoring methodology	15,000	1	15,000		15,000	0	
3.1.2.- Consulting for carrying out monitoring	6,000	2	12,000		12,000	0	
3.1.3.- Consulting for analysis of monitoring at executing unit	4,000	2	8,000		8,000	0	

Description	Unit Cost	Quantity	Subtotal	% Budget	TOTAL 3 YEARS (36 MONTHS)		
					MIF %	Local contribution	
						Cash	In kind
3.2.- Dissemination of outcomes			148,100				
3.2.1.- Regional seminars for presentation of cases							
3.2.1.1.- Organizing of seminars (invitations, refreshments, rooms, equipment, etc.)	2,000	5	10,000		10,000	0	
3.2.1.2.- Contracting of experts	3,000	3	9,000		9,000	0	
3.2.1.3.- Expenditures for travel and per diem	1,700	3	5,100		5,100	0	
3.2.2.- National seminar with international scope							
3.2.2.1.- Organization expenses (invitations, rooms, equipment, printed material, etc.)	63,000	1	63,000		44,100		18,900
3.2.2.2.- Contracting of experts and specialists	3,000	2	6,000		6,000	0	
3.2.2.3.- Specific dissemination material	4	5,000	20,000			20,000	
3.2.3.- Material for dissemination							
3.2.3.1.- Videos, CDs and printed material	7	5,000	35,000		17,500	17,500	
3.3.- Creation of website			5,450				
3.3.1 Consulting for launching intranet and website	5,000	1	5,000			5,000	
3.3.2 Contracting of server and spaces for maintenance	150	3	450			450	
Executing unit			206,700	12%	90,750	78,600	37,350
4.1.- Contracting of project coordinator	75,600	1	75,600			75,600	
4.2.- Contracting of administrative assistant for accounting	42,000	1	42,000		42,000	0	
4.3.- Contracting of assistant	42,000	1	42,000		42,000	0	
4.4.- Equipment	6,000	1	6,000		3,000	3,000	
4.5.- Expenditures for operation of inquiry points (rent, related services, etc.)	33,600	1	33,600				33,600
4.6.- Expenditures for travel and per diem	2,500	3	7,500		3,750		3,750
						0	
Evaluations, audits and cluster activities			47,000	3%	47,000	0	210,790
Evaluations			37,000		37,000	0	
Audits			10,000		10,000	0	
Contingencies			66,740	4%	61,580	5,160	
Subtotal			1,785,000	99%	885,000	689,210	210,790
ICT cluster activities			25,000	1%	25,000	0	
TOTAL			1,810,000	100%	910,000	1,810,000	1,810,000
MIF and counterpart percentages:					50%	38%	12%

**MAKING SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN THE METALLURGICAL SECTOR
MORE PRODUCTIVE THROUGH INFORMATION AND COMMUNICATION TECHNOLOGIES (ICTs)**

(AR-M1001)

PROJECTS IN ARGENTINA

A. Similar or related MIF projects

Project number / date of approval	Title of project, sector, executing agency and amount	Date of signing and original period of disbursement in months	Percentage disbursed	Comments: Satisfactory execution or problems in execution, including delays, extensions, reformulation, executing- agency change, etc.
ATN/ME-4851-AR 2/15/95	Network of Business Service Centers Unión Industrial Argentina (UIA) \$8,475,000	6/15/95 54 months	100%	Completed in 2003 with very favorable outcomes.

B. Similar or related Bank projects

Project number / date of approval	Title of project, sector, executing agency and amount	Date of signing and original period of disbursement in months	Percentage disbursed	Comments: Satisfactory execution or problems in execution, including delays, extensions, reformulation, executing- agency change, etc.
1201/OC-AR 9/22/99	Technological Modernization Program (TMP II) Secretariat of Science and Technology (SECyT) \$140,000,000	11/1/99 48 months	53%	Classified S/P. The national budget for 2004 doubled the item allocated to science and technology, which will make it possible to execute the project at a faster pace than that observed to date.

C. Projects related or similar to the same sector or beneficiaries

Project number / date of approval	Title of project, sector, executing agency and amount	Date of signing and original period of disbursement in months	Percentage disbursed	Comments: Satisfactory execution or problems in execution, including delays, extensions, reformulation, executing-agency change, etc.
ATN/ME-7956-RG-3 7/24/02	New technology for the development of agriculture SMEs in export of quality meats Asociación Cultural para el Desarrollo Integral (ACDI) \$490,000	7/28/03 30 months	8%	Classified S/P. Favorable development prospects (output and outcome)

D. MIF ICT cluster projects

Project number / date of approval	Title of project, sector, executing agency and amount	Date of signing and original period of disbursement in months	Percentage disbursed	Comments: Satisfactory execution or problems in execution, including delays, extensions, reformulation, executing-agency change, etc.
ATN/ME-7978-CO 07/24/02	Support for business performance through the use of information and communications technologies Confederation of Colombian Chambers of Commerce (CONFECÁMARAS) \$1,000,000	07/28/03 42 months	18%	Classified S/P. Favorable development prospects (output and outcome)
ATN/ME-8081-PN 10/30/02	E-commerce development Panamá Chamber of Commerce, Industry, and Agriculture \$622,300	01/09/03 42 months	10%	Classified S/P. Favorable development prospects (output and outcome)

Project number / date of approval	Title of project, sector, executing agency and amount	Date of signing and original period of disbursement in months	Percentage disbursed	Comments: Satisfactory execution or problems in execution, including delays, extensions, reformulation, executing-agency change, etc.
ATN/MT-8127-CH 12/04/02	Program to strengthen Chilean e-commerce security and trust Santiago Chamber of Commerce \$1,000,000	04/21/03	18%	Classified S/P. Favorable development prospects (output and outcome)
ATN/ME-8431-BO 09/10/03	Developing e-commerce opportunities for SMEs in the Santa Cruz region Santa Cruz Chamber of Industry, Commerce, and Services (CAINCO) \$626,000	12/02/2003 42 months	0%	Classified S/P. Favorable development prospects (output and outcome)
ATN/ME-8586-HA 12/18/03	Online networks for culture, tourism, and commerce in Haiti Peoplink \$470,400	Signed 42 months	0%	
ATN/ME-7956-RG 07/24/02	ICT Innovation program for e-business and SME development ("ICT-4-Bus") IDB \$5,000,000	N/A 52 months	8%	Classified S/P. Favorable development prospects (output and outcome)