

a

IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Third Session

Rome, 1-2 December 2004

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

ARGENTINE REPUBLIC

FOR THE

PATAGONIA RURAL DEVELOPMENT PROJECT

TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
MAP OF THE PROJECT AREA	iv
LOAN SUMMARY	vi
PROJECT BRIEF	vii
PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY	1
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	2
C. IFAD’s Strategy for Collaboration with Argentina	2
PART II – THE PROJECT	4
A. Project Area and Target Group	4
B. Objectives and Scope	4
C. Components	4
D. Costs and Financing	6
E. Procurement, Disbursement, Accounts and Audit	9
F. Organization and Management	9
G. Economic Justification	10
H. Risks	10
I. Environmental Impact	11
J. Innovative Features	11
PART III – LEGAL INSTRUMENTS AND AUTHORITY	11
PART IV – RECOMMENDATION	11
ANNEX	
SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT	13

APPENDIXES

I. COUNTRY DATA	1
II. PREVIOUS IFAD FINANCING IN ARGENTINA	2
III. LOGICAL FRAMEWORK	3
IV. POVERTY AND RURAL POVERTY	6
V. DESIGN MATRIX AND TARGET POPULATION FOCUSED STRATEGIC APPROACH	8
VI. PROJECT ORGANIZATION AND MANAGEMENT	9
VII. ECONOMIC RESULTS OF SOME AGRICULTURAL AND NON-AGRICULTURAL BUSINESSES	11

CURRENCY EQUIVALENTS

Currency Unit	=	Argentine peso (ARS)
USD 1.00	=	ARS 3.00
ARS 1.00	=	USD 0.333

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

INTA	<i>Instituto Nacional de Tecnología Agropecuaria</i> (National Institute for Agricultural Technology)
M&E	Monitoring and Evaluation
PRODERNEA	Rural Development Project for the North-Eastern Provinces
PRODERNOA	North Western Rural Development Project
SAGPyA	<i>Secretaría de Agricultura, Ganadería, Pesca y Alimentos</i> (Secretariat for Agriculture, Livestock, Fisheries and Nutrition)

GOVERNMENT OF ARGENTINE REPUBLIC**Fiscal Year**

1 January – 31 December

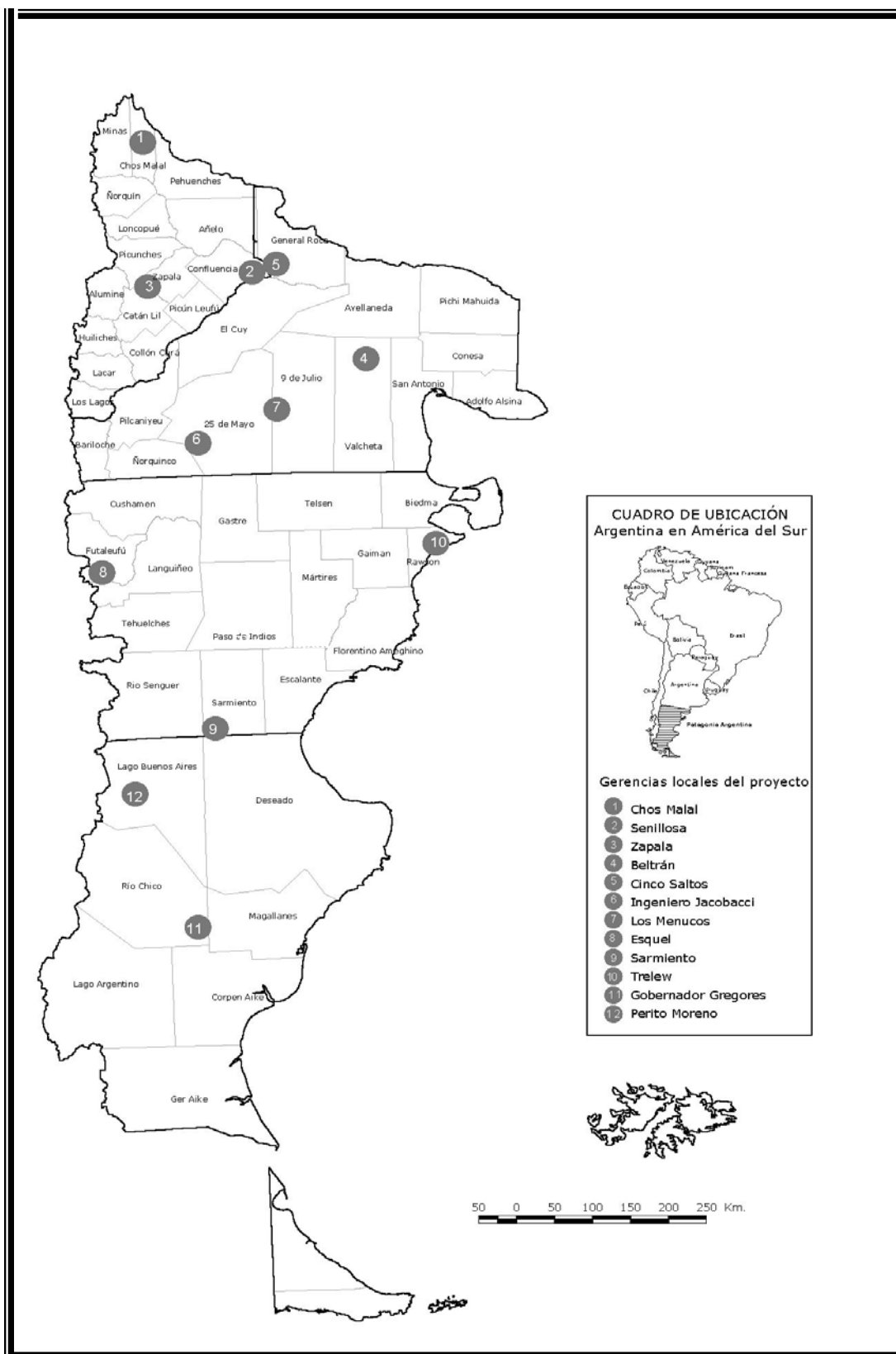
MAP OF THE PROJECT AREA



Source: IFAD.

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

MAP OF THE PROJECT AREA



Source: IFAD.

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof

ARGENTINE REPUBLIC
PATAGONIA RURAL DEVELOPMENT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Argentine Republic
EXECUTING AGENCY:	Secretariat for Agriculture, Livestock, Fisheries and Nutrition
TOTAL PROJECT COST:	USD 29.0 million
AMOUNT OF IFAD LOAN:	SDR 13.35 million (equivalent to approximately USD 20.0 million)
TERMS OF IFAD LOAN:	18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum, as determined by the Fund annually
COFINANCIER:	None
CONTRIBUTION OF BORROWER:	USD 8.0 million
CONTRIBUTION OF BENEFICIARIES:	USD 1.0 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	Andean Development Corporation

PROJECT BRIEF

Who are the beneficiaries? The project is expected to benefit a total of about 36 000 people, 15 000 directly and 21 000 indirectly. The target group will be small poor farmers (45%), microentrepreneurs and artisans (20%), rural youth (20%) and members of indigenous communities (at least 15%). The region's indigenous population (Mapuches and Tehuelches) is settled either on reserves, with a special ownership status, or on privately owned small farms.

Why are they poor? Rural poverty is concentrated in key vulnerable groups in Patagonia – rural women and children, and indigenous groups. It has historical roots in: (i) income inequality and low salaries; (ii) unemployment and lack of access to productive assets and technical services; (iii) severe geographical isolation due to large interprovincial distances, insufficient communication infrastructure and very low population density; (iv) harsh and adverse climatic and environmental conditions; (v) inadequate economic infrastructure and marketing channels; and (vi) limited access to basic social services. The recent economic crisis in the country has severely aggravated some of these conditions. Moreover, the overexploitation of the region's declining resource base has led to precarious livestock production systems, while annual and permanent crop production is limited to valleys with potential for irrigation-based intensification.

What they expect from the project? The project's rural business and marketing support service will be the axis of its productive activities. In an interactive learning-by-doing process, farmer and microentrepreneurs' organizations will work with project market analysts to improve the marketing potential of their selected products prior to receiving financial or technical support. Project support to create and/or strengthen existing economic organizations will also help improve the income-generating capabilities of the rural poor, particularly indigenous peoples, rural women and youth. The project will assist the targeted population in improving its income-generating capacities by helping them transform subsistence economic activities into small and profitable agricultural and non-agricultural businesses. It will also provide beneficiaries' economic organizations with systematic access to rural markets and technical support services focused on innovative and profitable agricultural, livestock, forestry, microenterprise and artisanal activities in a demand-led, participatory and market-oriented operative strategy. The social and economic development stimulated by the project will also indirectly benefit 21 000 people in rural poor and indigenous communities, whose living conditions will improve as a result of the productive and environmental investments funded by the project in coordination with the provincial and central governments. The human resource capacities of about 3 000 young rural women and men will be enhanced through a skills training programme.

How will the beneficiaries participate in the project? Beneficiaries will participate in the planning, management and supervision of community and local development activities, through project decision-making mechanisms established in local and provincial committees. The project will therefore contribute to the empowerment of rural civil society, and particularly of indigenous communities and economic organizations. It will provide training to representative beneficiary groups in order to improve their capacities to express their own views and negotiate their demands with provincial and national development programmes. The project will also establish feedback mechanisms with small farmers, contracted support organizations and the project's administration unit and technical staff. In addition, it will support the participation of beneficiary representatives in provincial and local development councils, set up as part of the project's operational and decision-making structure. Beneficiaries will also participate in the project monitoring and evaluation system as part of systematic social audit practices.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
ARGENTINE REPUBLIC
FOR THE
PATAGONIA RURAL DEVELOPMENT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Argentine Republic for SDR 13.35 million (equivalent to approximately USD 20.0 million) on ordinary terms to help finance the Patagonia Rural Development Project. The loan will have a term of 18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum, as determined by the Fund annually. It will be administered by the Andean Development Corporation (CAF) as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. The Argentine Republic is located in the southern end of the American continent, covering a total area of 3.7 million km², including the continental Antarctic and the Islands of the South Atlantic. It borders with Bolivia to the north; Paraguay to the north-east; Brazil, Uruguay and the Atlantic Ocean to the east; and Chile to the west. The country is divided into 23 provinces and one autonomous city, the capital. Its total population is 36.48 million (2002).

2. Argentina is recovering from a severe economic and financial crisis that began at the end of 2001. After almost four years of gross domestic product (GDP) stagnation, with official unemployment levels reaching 20%, the country experienced a systemic bank sector crisis – with almost USD 30 billion in capital outflows in the last six months of 2001 – a situation that led to the drastic control of savings accounts. This, in turn, provoked an alarming social and political crisis and the devaluation of the national currency, which had been kept in parity with the United States dollar for over eight years. Once the richest and most diversified economy of Latin America, Argentina saw its GDP decline by 11% in 2002. In May 2003, a new government took over, opening the way for renegotiations on the accumulated external debt and the restructuring of the banking sector. Argentina has experienced a year of economic growth (8.84% in 2003) since emerging from the crisis. Nonetheless, the scars left by its recent economic and social woes remain visible throughout the country. About 46% of the population live under the poverty line, compared with only 22% in 1992-95. Many households rely on social assistance programmes (such as temporary employment or health care services).

3. The agricultural sector represented 5.5% of the country's GDP in 2003. Crops contribute almost 60% of the sector value added, while livestock represents 38%, and fisheries and forests products 2%. Almost 53% of total exports are agricultural and agro-industrial products. The sector also provided from 10 to 13% of national employment. Main crops are soybeans, wheat, maize, sunflower, rice, sugar and fruits. Approximately 32 million hectares (ha) are cultivated with cereals and oilseeds for a total production of over 70 million tonnes (2002). Agricultural production in Argentina is concentrated geographically in the Pampa region, where almost 80% of total sector gross product is

¹ See Appendix I for additional information.

generated. This region contains 87% of the country's total cultivable area and has an ideal climate for agriculture and livestock. However, the rural population in the Pampas is only 32% of the total rural population.

B. Lessons Learned from Previous IFAD Experience

4. The first IFAD project in the country, the Programme of Credit and Technical Support for the Small Producers in Northeast Argentina, was approved in 1988. In 1996, an IFAD loan financed the Rural Development Project for the North-Eastern Provinces (PRODERNEA), and in 1999 the Fund approved financing for the North Western Rural Development Project (PRODERNOA). Both projects are still ongoing. The main lessons learned by IFAD operations in the country are: (i) strong national coordination units are needed to promote the adoption of rural development policies at the provincial level; (ii) targeting should be consistent with project activities and tools; (iii) IFAD-financed projects need to provide greater assistance to indigenous communities; and (iv) they also need to make greater efforts to foster local empowerment and the participation of grass-roots organizations.

C. IFAD's Strategy for Collaboration with Argentina

5. Due to the severity of the financial crisis, poverty reduction in Argentina is closely linked with tackling the problem of income inequality. As a step in this direction, IFAD is focusing on activities that can promote income-generation, human and social capital development, and the participation and empowerment of rural poor populations and their organizations. Participation in the design of a poverty reduction and rural development strategy and its accompanying operational structure is part of the Fund's country activities, its policy dialogue and its strategic linkages with other donors. Since rural women are among the poorest of the poor, IFAD will continue systematically to consolidate and further advance the poverty reduction gains its projects have already achieved for women.

6. The proposed country strategic framework has four strategic thrusts: income-generation; human and social capital development; capacity-building; and linkages and coordination with provincial governments.

7. **Income-generation** activities will be directed towards agricultural and non-agricultural production, and towards local off-farm and urban labour opportunities. Market opportunities will guide the planning of support services for agricultural and small rural enterprises based on the identification of products with high market demand. Skills training and employment support will be an integral part of the services that the project offers to young men and women.

8. **Human and social capital development** activities will be oriented towards strengthening rural grass-roots organizations, bettering living conditions (housing, sanitation and basic services), and improving access to health, education and child nutrition services. Empowerment of the rural poor and their organizations will be the ultimate goal.

9. **Capacity-building activities** will seek to modify and recreate a modern, countrywide structure for agricultural and rural development under a demand-led and participatory scheme.

10. **Linkages and coordination with provincial governments.** IFAD will strengthen ways to create fluid dialogue and exchange mechanisms with provincial governments, in order to articulate in a participatory manner local/regional poverty reduction programmes and central/provincial government interrelationships and coordinating mechanisms.

11. **Argentina's policy for poverty eradication.**² Since the 1980s, successive administrations have formulated and implemented various poverty reduction policies. The current Government is no

² See Appendix IV: Poverty and Rural Poverty.

exception. It has made a major effort to maintain or expand social spending, particularly spending targeted at the poor (safety nets). Total social expenditure has increased as a share of the budget, but declined 32% in real terms. Spending targeted at the poor has risen by 21%, a considerable achievement considering the budgetary constraints the Government faced during the crisis. However, the large increase in the number of poor households has meant that real spending for the poor has actually declined by 16%. The Government's political will and its efforts to direct more resources to the poor have been outpaced by the impressive rise in poverty.

12. The institutional framework for rural development policies comprises both a national and a provincial level. At the national level, the Ministry of Social Development and the Secretariat for Agriculture, Livestock, Fisheries and Nutrition (SAGPyA) are responsible for developing and implementing social programmes and agricultural and rural sector policies, programmes and projects focused on small poor farmers. Among the most important SAGPyA poverty reduction and rural development activities are the Small Farmer Development Project (PROINDER), financed by the World Bank; the Provincial Agriculture Services Programme (PROSAP), financed by the Inter-American Development Bank (IDB); the Government-financed Agricultural Social Programme (PSA); and the IFAD-financed PRODERNOA and PRODERNEA. The central government structure is repeated at provincial level with ministries (secretariats) of social development and agriculture, which carry out provincial rural development policies and programmes. The Federal Agricultural Council, chaired by the National Secretary for Agriculture and composed of the 23 provincial ministers for agriculture, is responsible for the coordination between national and provincial policies.

13. The Government is aware that the rural development policies traditionally implemented in Argentina through different programmes and projects are inadequate in today's fight against rural poverty. There is a growing consensus that a new approach is needed, involving: (i) a combination of social investments in public goods and services, including support for the development of relevant local and regional markets, and (ii) flexible mechanisms for allocating funds to initiatives of the rural poor. Although various SAGPyA and provincial government programmes are seeking to implement this new approach, their efforts are hampered by the lack of stable and consistent policy measures and of a regular flow of resources.

14. **The poverty eradication activities of other major donors.** The IDB is the largest multilateral donor in the country, with 61 projects under implementation and a total lending programme of approximately USD 7 700 million. In the agricultural sector, IDB cofinances the PROSAP project with the World Bank. Its loan portfolio includes 27 investment loans totalling some USD 3 900 million, sector loans for about USD 3 300 million, and eight private-sector loans for a total of USD 500 million. The bulk of this funding supports state modernization (financial adjustment programme, provincial reforms) and programmes to reduce urban poverty and raise living standards (urban development and social protection and management). The World Bank has a portfolio of 41 projects for a total of USD 4 300 million. It cofinances PROINDER, the largest project for rural development and rural poverty alleviation in the country. IFAD is the third-largest multilateral donor, with two ongoing projects focused on the rural poor population. Among bilateral donors, the Governments of Italy and Spain have been active with social support programmes benefitting the population segments most affected by the economic crisis. The German Agency for Technical Cooperation (GTZ) has been working with the National Institute for Agricultural Technology (INTA) in the area of sustainable development in both Patagonia and in the northern regions.

15. **Project rationale.**³ The project's rationale and design is consistent with the Government's poverty reduction, rural and agricultural development policies and with the *Strategic Framework for IFAD 2002-2006*, as stated in the country strategic opportunities paper. The project will seek to support local human and social capital development and improve the income-generating activities of the target population through a comprehensive approach to rural development. This process will help

³ See Appendix V: Design Matrix and Target Population Focused Strategic Approach.

the Government gradually reduce subsidies to the rural poor in Patagonia. Lessons from ongoing IFAD projects in northern Argentina have been taken into account in the project's design, and factors inhibiting the regional development process have been corrected.

16. To increase beneficiaries' income levels sustainably, the project's conceptual framework is demand-led, and organization-, market- and management-oriented. All productive activities, agricultural and non-agricultural, will be evaluated from the point of view of their market competitiveness with a view to transforming subsistence production into income-oriented market production. The project's rural business and marketing support service will be the axis of its productive activities. In an interactive learning-by-doing process, farmer and microentrepreneurs' organizations will discuss the marketing potential of their selected products with project market analysts prior to receiving financial or technical support. To reduce transaction costs and promote more efficient management of productive and marketing processes, the project will promote and strengthen small farmer organizations and microenterprise economic organizations. Only organized groups will have access to the project's support services and investment funds.

PART II – THE PROJECT

A. Project Area and Target Group

17. The project area comprises all four provinces of Patagonia (Chubut, Neuquén, Río Negro and Santa Cruz), covering an area close to 1 million km². The project will operate in 12 areas, selected on the basis of: (i) concentration of the rural poor, (ii) presence of indigenous communities, and (iii) development potential. The total population of the four provinces is around 1.7 million inhabitants, including 91 000 of indigenous origin (90 000 Mapuches and 1 000 Tehuelches). Patagonia is a harsh, cold and arid region with average minimum temperatures close to -10° C in wintertime. Approximately 85% of this area is composed of an arid plateau where the scarce pastures are used for traditional sheep, goat, cattle and horse raising. Fertile lands along the valleys of the rivers that run from the Andean Mountains to the Atlantic Ocean are used for fruit plantations, vegetables and cultivated pastures. In the fertile inter-Andean valleys, farmers grow wheat, berries and other crops and raise goats. Indigenous communities live in arid and semi-arid zones, settled on 'reserves' granted by the Government one century ago.

18. The project's target group is estimated at 45 000 people, comprising 15 000 direct and 21 000 indirect beneficiaries. It will consist of small poor farmers (45%), microentrepreneurs and artisans (20%), rural youth (20%) and indigenous people (at least 15%).

B. Objectives and Scope⁴

19. The overall project goal is to improve the economic and social conditions of the rural population of Patagonia, reducing poverty by one half, in line with Argentina's Millennium Development Goals. The project's general objective is to achieve, in an environmentally sustainable and gender-equitable manner, the effective economic integration of the target population in the regional and national economic context, by improving their access to business opportunities, technical and financial resources, and local and national labour markets.

C. Components

20. Project activities have been organized into two components: (i) organizational capacity-building; and (ii) rural business development. A gender-oriented and natural resource management strategy will cross-cut all component activities. A central project coordinating unit and

⁴ See Appendix III: Logical Framework.

four decentralized provincial coordinating offices will also be established, with gender, monitoring and evaluation (M&E), technical and administrative support.

21. **Organizational capacity-building.** Under this component, the project will help beneficiaries strengthen and consolidate existing economic organizations and/or create new market-oriented economic organizations. Its operational strategy will be to: (i) prepare territorial and provincial development plans, highlighting existing constraints on and opportunities for economic organizations; (ii) transfer leadership and decision-making capabilities, and knowledge of participatory methodologies to leaders and members of economic organizations through systematic training; (iii) provide skills training to young men and women, so that they can qualify for better-paid work or develop their own economic initiatives; and (iv) create the Patagonia Rural Development Forum, a space for democratic and inclusive regional dialogue on poverty reduction and rural development with the participation of all rural social and economic actors. Attention will also be paid to disseminating project information and creating horizontal communication channels among rural communities.

22. In each provincial site, the project will form a team composed of a local peasant field agent (*promotor campesino*) (selected on the basis of his or her leadership and communication skills) and an organizational development agent (a social scientist or social services professional), both of whom will identify local organizations, groups with common economic and productive interests, and individual beneficiaries. A territorial diagnosis will be conducted, identifying strengths and weaknesses; thereafter, a plan for technical support and training will be established and implemented. Contracted service providers will be responsible for implementing the training and organizational support plan. Interest groups and independent beneficiaries, supported by training, legal and technical-productive advice, will be encouraged to create and formalize economic organizations. Once organizations have reached a sound organizational level, they will have access to services provided under the rural business development component.

23. **Rural business development.** This component will support the targeted population in improving their income-generating capacities, transforming low-performing economic activities into small profitable agricultural and non-agricultural rural businesses. Activities will focus on: (i) rural businesses and services, (ii) marketing, (iii) access to financial services, and (iv) an investment fund. Business and marketing activities will have the specific goal of improving linkages between agricultural/non-agricultural producers and local, regional, national and external markets. The project will promote a regular schedule of local-level marketing events, working with the private sector and the local and national authorities. It will also coordinate its activities with ongoing programmes aimed at increasing regional production of, among others, wool and mohair, Patagonian lamb's meat, bees, berries and organic products. Further, it will empower local microentrepreneurs' organizations to use marketing information and events for developing and increasing their marketing links, assessing competitors' products and identifying new marketing opportunities.

24. Under a demand-led scheme, small farmers' associations and organizations, cooperatives and rural companies will have systematic access to technical services enabling them to become more business-oriented and profitable. The project will build local organizations' and small firms' capacities to identify market opportunities, develop business plans and negotiate with leading private firms, market agents and the financial sector. Technical support will be provided by provincial and INTA field agents, and by qualified outsourced private service providers who will preferably be regionally based and contracted through transparent bidding procedures. Service providers should use participatory methodologies to identify and systematize the activities of beneficiaries' economic organizations in a demand-led operational scheme. Particular attention will be given to including environmental screening in all business plan proposals and as a regular practice of all stakeholders.

25. The project will establish a non-reimbursable productive and environmental investment fund to finance joint investments (small-scale irrigation projects, marketing and processing infrastructure, etc.). Funds will be allocated following a business plan and on a complementary basis to current

provincial and national credit programmes, targeting the weakest organizations, those that cannot meet the minimal capital eligibility requirements. The project will also support the target population in accessing financial services. In the short run, consolidated peasant economic organizations will be able to develop efficient financial management through training on the characteristics, requirements, advantages and disadvantages of credit and savings instruments provided by financial institutions. In the long run, the project will strengthen local microfinance institutions and, taking advantage of the recently approved legal framework for credit unions, target access to financial services, unlike other programmes that target access to credit only. The recent financial crisis presents both constraints and opportunities: financial institutions for the most part lack transparency, whereas this is less so in the non-banking system, giving scope for developing and strengthening local credit unions.

26. The project's gender strategy aims to: (i) create the conditions for equitable access for rural women (particularly those of indigenous descent) to all project training, productive and investment opportunities; and (ii) support the full participation of rural women in economic organizations. As a result, the project should significantly improve rural women's self-esteem and their productive/entrepreneurial and income-generating capacities. A variety of gender-oriented operational activities will be implemented and/or financed under the project. These include: selection of gender-sensitive project staff; systematic gender training for the staff of the project management unit and service providers; application of gender-oriented strategies and methodologies in all project components; leadership training for women members of local organizations; implementation of required gender-related field studies; and promotion of community investments such as nurseries in support of rural women engaged in economic activities.

27. The project's natural resource management and conservation strategy aims at bettering the quality of life of the target population through activities to improve soil, water, vegetation and biodiversity management and conservation in the Patagonia region. In close cooperation with the Secretariat of Environment and Sustainable Development, the project will support and act as counterpart for the grant (USD 4.0 million) from the Global Environmental Facility, now under formulation.

D. Costs and Financing

28. The total project cost is estimated at USD 29.0 million (Tables 1 and 2). IFAD will provide a loan of USD 20.0 million (69% of total costs); the Government will contribute USD 8.0 million (27.6%); and beneficiaries will provide an in-kind contribution of USD 1.0 million (3.4%). Government funding has been distributed between the central government (SAGPyA), which will contribute USD 2.0 million, and the four participating provinces, which together will contribute over USD 6.0 million (Chubut USD 1.6 million; Neuquén USD 1.7 million; Río Negro USD 2.4 million and Santa Cruz USD 0.6 million). Funds will be allocated proportionally according to the number of areas and beneficiaries covered by the project in each territory.

29. The base cost of each component is as follows: organizational capacity-building, USD 6.2 million (representing 23% of total project costs) and rural business development, USD 14.9 million (56%). Project administration has a total cost of USD 5.4 million, including USD 334 000 allocated to the project central coordinating unit (1% of project costs), USD 3.1 million for the four provincial coordinating units (12%), USD 974 000 for planning and M&E (4%) and USD 936 000 for gender activities (4%). The project will be implemented over six years.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Cost
A. Organizational capacity-building					
Component administration	554	4	558	1	2
Territorial diagnosis and planning	648	--	648	--	2
Strengthening economic organizations	3 604	--	3 604	--	14
Patagonia Rural Development Forum	90	--	90	--	--
Dissemination and communication	221	4	225	2	1
Labour skills training	1 047	--	1 047	--	4
Subtotal	6 163	9	6 172	--	23
B. Rural business development					
Component administration	323	2	325	1	1
Rural businesses and services	6 943	--	6 943	--	26
Marketing	1 663	--	1 663	--	6
Access to financial services	638	--	638	--	2
Investment fund	5 349	--	5 349	--	20
Subtotal	14 917	2	14 919	--	56
C. Project administration					
Central project coordinating unit	328	6	334	2	1
Provincial coordinating units	3 007	133	3 140	4	12
Planning, monitoring and evaluation	968	6	974	1	4
Gender	934	2	936	--	4
Subtotal	5 236	148	5 385	3	20
Total baseline costs	26 316	159	26 475	1	100
- Physical contingencies	931	8	939	1	4
- Price contingencies	1 583	2	1 585	--	6
Total project costs	28 831	169	29 000	1	110

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components and PMU	IFAD		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
A. Organizational capacity-building											
Component administration	605	99.3	4	0.7	--	--	609	2.1	5	601	4
Territorial diagnosis and planning	481	69.8	208	30.2	--	--	689	2.4	--	689	--
Strengthening economic organizations	2 912	72.6	1 097	27.4	--	--	4 010	13.8	--	3 992	17
Patagonia Rural Development Forum	87	85.0	15	15.0	--	--	102	0.4	--	87	15
Dissemination and communication	175	70.4	74	29.6	--	--	248	0.9	4	241	3
Labour skills training	719	59.8	483	40.2	--	--	1 202	4.1	--	1 202	--
Subtotal	4 979	72.6	1 881	27.4	--	--	6 860	23.7	9	6 812	40
B. Rural business development											
Component administration	353	99.4	2	0.6	--	--	355	1.2	2	351	2
Rural businesses and services	4 460	56.6	3 422	43.4	--	--	7 882	27.2	--	7 882	--
Marketing	1 337	72.0	521	28.0	--	--	1 858	6.4	--	1 786	71
Access to financial services	421	58.9	295	41.1	--	--	716	2.5	--	716	--
Investment fund	3 279	61.3	1 070	20.0	1 000	18,7	5 349	18.4	--	5 349	--
Subtotal	9 850	61.1	5 309	7.6	1 000	6.2	16 159	55.7	2	16 083	73
C. Project administration											
Central project coordinating unit	351	96.7	12	3.3	--	--	363	1.3	7	345	12
Provincial coordinating units	2 997	85.8	497	14.2	--	--	3 494	12.0	142	3 089	263
Planning, monitoring and evaluation	1 003	92,5	82	7.5	--	--	1 084	3.7	7	1 071	6
Gender	819	78,9	219	21.1	--	--	1 039	3.6	2	1 034	2
Subtotal	5 171	86.5	810	13.5	--	--	5 980	20.6	158	5 539	284
Total project costs	20 000	69.0	8 000	27.6	1 000	3.4	29 000	100	169	28 434	397

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

30. Procurement of goods, works and consulting services financed by the IFAD loan will be undertaken in accordance with the procurement guidelines of IFAD in conformity with national and provincial legislation. Vehicles and equipment will be procured through competitive bidding as stipulated in the loan agreement. Private rural development agencies and technical assistance will be contracted through local bidding, using the cooperating institution's procedures acceptable to IFAD and in agreement with the Government's service contracting regulations.

31. Withdrawal applications concerning operating costs, salaries and small contracts costing less than USD 10 000 equivalent or other expenditures as agreed by IFAD will be made against statements of expenditure. Disbursement against expenditures related to the purchase of vehicles and equipment, and fees for local contractors involved in development activities and technical assistance will require detailed documentation. A special account with an authorized allocation of USD 2.0 million will be opened at the Central Bank of Argentina. The project director will submit withdrawal applications to the cooperating institution, which will verify the eligibility of expenses incurred and will then request the disbursement of funds from IFAD's related loan account. The principle of double signature will be applied for review and control of accounting statements and expenditures.

32. Not later than three months after receipt of the initial deposit of the Special Account, the project will set up accounting and internal control systems, satisfactory to IFAD, which will be installed by a specialized local accounting firm. Accounting will be by component and category, and according to government expense classification procedures.

33. An external audit firm, satisfactory to IFAD, will be selected to undertake annual financial and management audits and will be financed from the loan. Contracted agencies will keep separate accounts for project-related expenditures.

F. Organization and Management⁵

34. By agreement with the Government, the project will be implemented by SAGPyA, under the direct responsibility of the Under-Secretariat of Agriculture, Livestock and Forestry. An advisory project coordinating committee will be established, chaired by the Under-Secretary of Agriculture and Livestock Economy, and composed of the ministers/secretaries for agriculture of each participating province, the president of INTA and a national technical project coordinator, as *ex officio* member. The committee will be responsible for overall policy guidance, coordination with provincial governments and approval and supervision of annual operative plans. A committee will be established to ensure coordination between the project and the two ongoing IFAD-financed projects, PRODERNEA and PRODERNOA. The committee will meet at least twice a year to harmonize pro-poor policies and rural development operational tools, exchange experiences and identify and scale up good practices.

35. A technical project coordinating unit will be composed of a national technical project coordinator with administrative, gender, technical and M&E support (see Appendix VI). Its responsibilities include: (i) planning and supervising the overall project; (ii) harmonizing and coordinating central and provincial government policies and activities affecting project implementation; (iii) establishing poverty reduction and rural development policy dialogue; (iv) coordinating the implementation of the Patagonia Rural Development Forum; (v) articulating and consolidating administrative and M&E activities and reports; (vi) preparing consolidated annual reports; and (vii) interacting directly with IFAD and the cooperating institution. The central project coordinating unit will contract an independent international/national administrative facilitator for selected expenses, in agreement with IFAD.

⁵ See Appendix VI.

36. Four provincial coordinating units, with technical, operative and budgetary autonomy, will implement all project field activities. These units will be established in Chubut, Neuquén, Río Negro and Santa Cruz, using to the extent possible the provincial and INTA institutional framework and staff. If required, the existing structure will be strengthened, either by adding additional staff or increasing operating costs, in agreement with the provincial government. The provincial minister/secretary for agriculture will act as provincial project coordinator, with support from a project-contracted executive coordinator. While the provincial government will provide administrative support, the project will fund technical staff to provide support for strengthening economic organizations, rural businesses, gender, and M&E. Field services will be provided by provincial staff, INTA local professionals, contracted peasant field agents, and contracted national, state and local consulting enterprises, professional groups, private and government foundations, and non-governmental organizations. Local contractors will provide productive, rural business and marketing services to local project beneficiaries. All contracts will be based on provincial and national bidding regulations to the satisfaction of the cooperating institution and IFAD.

G. Economic Justification

37. Of an estimated target population of 45 000, the project will directly benefit 15 000 people (7 500 adult men, 4 500 adult women and 3 000 young men and women) and indirectly benefit 21 000 people from four provinces and 12 geographical areas. Of the former group, 2 250 will be from local indigenous communities (Mapuches and Tehuelches). It is expected that the poverty levels of the targeted beneficiaries will be at least halved, as a result of increases in their social and economic assets and in their production and marketing capacities. Similarly, the project will contribute to their social and economic empowerment through stronger organizations, more effective participation in local development, sustainable production systems and systematic linkages with local, national and international markets. Project activities and the activities of the Patagonia Rural Development Forum will contribute to strengthening SAGPyA and provincial government capacities to generate and coordinate pro-poor policies and programmes.

38. The formation and consolidation of economic organizations oriented towards crop and livestock production will benefit 6 750 persons, while economic organizations oriented towards microenterprises, rural tourism and services will provide sustainable income for 3 000 adult men and women. An analysis of selected agricultural and non-agricultural economic activities with potential for development in the Patagonia region has yielded encouraging results (see Appendix VII). It is expected that second-level organizations (marketing, export, processing support cooperatives, etc.) and export-promotion entities will be created through the project's intervention. Some 3 000 young men and women will benefit from labour skills training, stable working opportunities and support to initiate small rural business. Agricultural, livestock and non-agricultural activities in indigenous communities will also be strengthened, taking into consideration indigenous social, cultural and organizational patterns.

H. Risks

39. Project risks may arise from possible political differences among central, provincial and municipal governments and institutions, and between these and the central government and federal entities, affecting the project implementation schedule and the degree of coordination among project implementation entities. The proposed Patagonia Rural Development Forum will have among its objectives the development of common policies, agenda and instruments that will assure close coordination among central, provincial and municipal governments and institutions. A second risk relates to the possibilities of limited availability and/or untimely provision of provincial counterpart funds. However, given the financial situation of participating provinces, whose income is derived from oil royalties, it is unlikely that this situation will occur.

I. Environmental Impact

40. The project has been classified as Category B in the environmental impact assessment given that potential impact can be addressed through environmentally sensitive recommendations and interventions. The project will aim at reducing the environmental vulnerability of the Patagonia region. Therefore, environmental activities are at the centre of its activities, and will involve all rural development stakeholders in desertification concerns. Moreover, field-level investments will specifically aim at mitigating and recovering degraded lands. Increasing the productive intensity of pasture lands for established herders, while limiting soil degradation through the introduction of appropriate water basin management and biodiversity conservation practices, will represent concrete benefits to be generated under the project. These activities will be supported by an investment of USD 4 million from the Global Environmental Facility, under formulation by the Secretariat of Environment and Sustainable Development.

J. Innovative Features

41. The project will be innovative in several ways. It will implement a market-oriented business approach to rural development, in order to reverse the current practice of allocating subsidies to the rural poor. Its approach will also be participatory and stress asset-building as reflected, inter alia, in the establishment of the Patagonia Rural Development Forum, a permanent mechanism to be created at provincial and regional levels for rural development policy discussion and activities. The project's emphasis on the coordination of institutions and programmes through coordinating committees at central and provincial levels is also innovative.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

42. A loan agreement between the Argentine Republic and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

43. The Argentine Republic is empowered under its laws to borrow from IFAD.

44. I am satisfied that the proposed loan will comply with the *Agreement Establishing IFAD*.

PART IV – RECOMMENDATION

45. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Argentine Republic in various currencies in an amount equivalent to thirteen million three hundred and fifty thousand Special Drawing Rights (SDR 13 350 000 to mature on or prior to 15 December 2022 and to bear an interest rate equal to the reference interest rate per annum as determined by the Fund annually, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED FINANCING AGREEMENT**

(Loan negotiations concluded on 30 November 2004)

1. **Project implementation.** The project will be implemented by the Under-Secretariat of Agriculture, Livestock and Forestry and the Provinces of Chubut, Neuquén, Río Negro and Santa Cruz. To that end, the Government of the Argentine Republic (the “Government”), through the aforementioned under-secretariat, will transfer a portion of the loan proceeds to each province.
2. **Project accounts.** The lead project agency will open and maintain at a branch of Banco de la Nación Argentina, or in another bank selected by the Government to the satisfaction of IFAD, a current account (the “national project account”) in pesos for operation of the project at the national level. The technical project coordinator will be fully authorized to administer and utilize this account. Each province will open and maintain at a commercial bank acceptable to IFAD a current account in pesos (the “provincial project account”) for operation of the project, into which the loan proceeds will be transferred. The provincial coordinator will be fully authorized to administer and utilize the respective account.
3. **Project implementing agency.** The lead project agency will hold general responsibility for project implementation through the Under-Secretariat of Agriculture, Livestock and Forestry. The Government will delegate project implementation to the provinces under a subsidiary loan and implementation agreement with each province.
4. **Financing of project implementation.** The Government will make the loan proceeds available to the lead project agency and the Under-Secretariat of Agriculture, Livestock and Forestry, in accordance with the annual work programme and budget (AWP/B) and the customary national procedures of the Government in respect of development cooperation for carrying out the project. To that end, the Government, through the Under-Secretariat of Agriculture, Livestock and Forestry, will transfer to each province – as a loan – the loan proceeds under a subsidiary loan and implementation agreement to be signed by the Government and each province.
5. **Counterpart funds.** The Government will ensure the availability of counterpart funds from its own resources in a total amount of approximately USD 8 million, in accordance with the customary national procedures of the Government in respect of development cooperation. To this end, the Government will make budgetary allocations each fiscal year equivalent to the amount of counterpart funds set forth in the AWP/B for the relevant project year and, to that end, will ensure that: (i) said allocations are made available to the project; and (ii) each province deposits in the respective provincial project account the provincial counterpart funds called for in the AWP/B for the respective project year.
6. **Additional events of suspension**
 - (a) IFAD will suspend, in full or in part, the right of the Government to request withdrawals from the loan account in the event the audit has not been conducted satisfactorily within the six months following the date established for such purposes.
 - (b) IFAD may suspend, in full or in part, the right of the Government to request withdrawals from the loan account in the event: (i) the technical project coordinator has been removed from the project without the prior consent of IFAD; (ii) IFAD has determined that the material benefits of the project are not reaching adequately the target group or are

benefiting persons not associated with the project; (iii) the subsidiary loan and implementation agreement, or any of its provisions, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the project; (iv) the Government has failed to honour any covenant and IFAD has determined that such failure has caused, or is likely to cause, detriment to the project; (v) the project implementation manual, or any of its provisions, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the project.

7. **Project implementation manual.** The technical project coordinator will prepare a draft implementation manual and will submit it to the advisory project coordinating committee for approval. The Under-Secretariat of Agriculture, Livestock and Forestry will submit the draft manual to IFAD for comment and its no objection. The lead project agency will adopt the manual in the form approved by IFAD.

8. **Subsidiary loan and implementation agreement.** The Government will sign a subsidiary loan and implementation agreement with each province. This agreement will establish the amount of the subsidiary loan and the provisions whereby each province will contract the legal obligation to implement the project.

9. **Participation of women and beneficiary indigenous populations.** The lead project agency will ensure that women and indigenous populations are fully involved in and benefit from all project activities and that the interests of beneficiary indigenous populations are respected during project implementation. To that end, it will ensure that: (i) the gender approach is borne in mind in all project activities; (ii) the rights of beneficiary indigenous populations are duly respected; (iii) communities of indigenous populations that are part of the target group have access without any type of discrimination to the various project activities; and (iv) the project does not lead to usurpations in territories traditionally occupied by indigenous communities.

10. **Conditions for effectiveness.** The following are conditions precedent for effectiveness of the loan agreement:

- (i) the advisory project coordinating committee has been duly established and the technical project coordinator has been selected and appointed to the satisfaction of IFAD;
- (ii) the Government has opened the special account and the national project account;
- (iii) the Government has made the initial budgetary allocation of counterpart funds available to the project parties;
- (iv) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by the necessary institutional, administrative and governmental action;
- (v) the Government has presented to IFAD a legal opinion, issued by the Director-General of Legal Affairs of the Ministry of Economy and Production or other legal counsel acceptable to IFAD; and
- (vi) at least one province has established the provincial coordinating committee, has signed the subsidiary loan and implementation agreement and has duly opened the provincial project account.

APPENDIX I

COUNTRY DATA

ARGENTINA

Land area (km² thousand) 2002 1/	2 737	GNI per capita (USD) 2002 1/	4 220
Total population (million) 2002 1/	36.48	GDP per capita growth (annual %) 2002 1/	-12
Population density (people per km²) 2002 1/	13	Inflation, consumer prices (annual %) 2002 1/	26
Local currency	Argentine Peso (ARS)	Exchange rate: USD 1 =	ARS ***ADD RATE***
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	0.9	GDP (USD million) 2002 1/	102 042
Crude birth rate (per thousand people) 2002 1/	19	Average annual rate of growth of GDP 1/ 1982-1992	0.7
Crude death rate (per thousand people) 2002 1/	8	1992-2002	1.3
Infant mortality rate (per thousand live births) 2002 1/	16	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	74	% agriculture	11
Number of rural poor (million) (approximate)	n/a	% industry	32
Poor as % of total rural population	n/a	% manufacturing	21
Total labour force (million) 2002 1/	15.72	% services	57
Female labour force as % of total 2002 1/	34	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	12
School enrolment, primary (% gross) 2001 1/	120	Household final consumption expenditure, etc. (as % of GDP)	61
Adult illiteracy rate (% age 15 and above) 2002 1/	3	Gross domestic savings (as % of GDP)	27
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita,	n/a	Merchandise exports 2002 1/	25 352
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	12 a/	Merchandise imports 2002 1/	8 988
Malnutrition prevalence, weight for age (% of children under 5) 2002 3//	5 a/	Balance of merchandise trade	16 364
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2001 1/	10	before official transfers 2002 1/	9 015
Physicians (per thousand people)	n/a	after official transfers 2002 1/	9 592
Population using improved water sources (%) 2000 3/	n/a	Foreign direct investment, net 2002 1/	1 429
Population with access to essential drugs (%) 1999 3/	50-79	Government Finance	
Population using adequate sanitation facilities (%) 2000 3/	n/a	Overall budget deficit (including grants) (as % of GDP) 2001 1/	-3
Agriculture and Food		Total expenditure (% of GDP) 2002 1/	17
Food imports (% of merchandise imports) 2002 1/	5	Total external debt (USD million) 2002 1/	132 314
Fertilizer consumption (hundreds of grams per ha of arable land) 2001 1/	255	Present value of debt (as % of GNI) 2002 1/	146
Food production index (1989-91=100) 2002 1/	144	Total debt service (% of exports of goods and services) 2002 1/	18
Cereal yield (kg per ha) 2002 1/	3 385	Lending interest rate (%) 2002 1/	52
Land Use		Deposit interest rate (%) 2002 1/	39
Arable land as % of land area 2001 1/	12		
Forest area as % of total land area 2000 1/	13		
Irrigated land as % of cropland 2001 1/	4		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2004

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2004

PREVIOUS IFAD FINANCING IN ARGENTINA

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
225 Programme of Credit and Technical Support for the Small Producers in Northeast Argentina	IFAD	IDB	0	15 Sep 88	17 Apr 91	30 Jun 97	L-I-225-AR	SDR	8,200,000	100%
506 Rural Development Project for the North-Eastern Provinces (PRODERNEA)	IFAD	CAF	0	18 Apr 96	15 Oct 98	30 Jun 07	L-I-417-AR	SDR	11,350,000	36%
1098 North Western Rural Development Project (PRODERNOA)	IFAD	CAF	0	08 Sep 99	04 Mar 03	30 Sep 08	L-I-514-AR	SDR	12,800,000	4%

LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Development objective</p> <ul style="list-style-type: none"> Reduction in the economic and environmental vulnerability of the rural poor in Patagonia by rural development asset-building with gender equity and sustainable use of natural resources, and pursuant to the Millennium Development Goals for Argentina 	<ul style="list-style-type: none"> Rural poverty levels down 50% by the year 2015. Progress indicators and goals set for Argentina (2015). 	<ul style="list-style-type: none"> National inventories UNDP (United National Development Programme) development indices PBAS⁶ - IFAD reports 	
<p>Project purpose</p> <ul style="list-style-type: none"> Through their economic organizations, the rural poor develop capacities to increase their income, improve their living conditions and facilitate their participation in the poverty-reduction processes, with natural resource sustainability 	<ul style="list-style-type: none"> 60% of households improve asset ownership or additional asset index (RIMS – Results and Impact Measurement System - indicator). Reduction in prevalence of infant malnutrition: weight-for-age (RIMS indicator). 4 province governments implement strategic province development plans, emphasizing the environment and gender. 60% of organizations of rural poor in Patagonia (15% Aboriginal people) reinforce their organizational capacities. Approximately 50% of the economic organizations of agricultural and non-agricultural producers have entered domestic markets competitively. 50% of the economic organizations have surpluses, reinvest resources and increase use of labour. 45% of young people having received technical training get stable employment in the province economy and 15% start new businesses. Rural poverty alleviation policies are implemented, as derived from Patagonia Forums. There is a growth in investments and in the impacts on rural investment due to the increase in resources from inter-institutional coordination. The producers use techniques to mitigate deterioration of natural resources in the intervention areas. There is an increase in hectares for the resources owned jointly by the Aboriginal people, with improved environmental practices (RIMS indicator). At least 50% of the economic organizations have access to lines of credit in the existing financial subsystem. 	<ul style="list-style-type: none"> Baseline survey Impact studies. Evaluation reports monitoring and evaluation (M&E) reports ProGender survey 	<ul style="list-style-type: none"> State and province poverty reduction policies and strategies are favourable.

⁶ PBAS: Performance-based allocation system

<p>Output 1</p> <ul style="list-style-type: none"> The organizational capacities of the target population are developed and strengthened in terms of economic and sustainable activities 	<ul style="list-style-type: none"> The 4 provinces have strategic province development plans, emphasizing environmental and gender issues. 60% of the beneficiaries train economic organizations. Approximately 50% of the economic organizations and producer groups are consolidated into formal organizations able to manage their own affairs. 80% of the organizations are strengthened, with equitable participation of women At least 70% of the organizations are sensitized with an emphasis on gender issues. Female membership in economic organizations grows by 25%. 4 province governments use a decision-making support system for planning. 3 000 rural young people participate in technical training, with 50% women. 	<ul style="list-style-type: none"> Monitoring reports M&E reports Case study reports Government archives Register of organizations and institutions Service provider reports 	<ul style="list-style-type: none"> Those with political power support development and implementation of the project.
<p>Output 2</p> <ul style="list-style-type: none"> Inter-institutional linkage is strengthened to reinforce Patagonia rural development 	<ul style="list-style-type: none"> Inter-institutional coordination and linkage mechanism are institutionalized. The rural development interventions of the existing programmes and projects are linked. The Patagonia Forum catalyses and reinforces the rural poverty alleviation policies. The poverty alleviation policies of the SAGPyA (Secretariat for Agriculture, Livestock, Fisheries and Food) are linked with Patagonia province policies. 	<ul style="list-style-type: none"> M&E reports SAGPyA archives Government archives Minutes of meetings 	<ul style="list-style-type: none"> The political will and basic common objectives of coordination and rural development exist among the institutions.
<p>Output 3</p> <ul style="list-style-type: none"> The subsistence agricultural and non-agricultural economic activities are transformed into sustainable rural businesses 	<ul style="list-style-type: none"> Approximately. 13 000 rural poor (15% Mapuche and Tehuelche Aboriginal people) have access to technical support services: agricultural, agro-tourism, agro-forestry, micro-enterprise, small business and agro-industrial, among others. By the 6th year of the Project at least 380 economic organizations are trained and strengthened. At least 70% of the agricultural and non-agricultural economic organizations strengthen their productive and commercial management capacities, implementing business plans. 50% of the economic organizations transform their agricultural and non-agricultural activities into sustainable and profitable businesses. Approximately 30% of the rural micro-enterprises and economic organizations have gender equity between men and women in operations and in internal regulations. 70% of the economic organizations have access to the productive and environmental Capital Development Fund. 20% of the beneficiaries organized have management capacities and access to current financial services. 	<ul style="list-style-type: none"> Monitoring reports M&E reports Case studies Fund reports Organization archives Institution registry Service provider reports 	<ul style="list-style-type: none"> The economic, social and rural development policies remain favourable to rural development.

MAIN ACTIVITIES BY COMPONENT		
<p>Organizational capacity-building</p> <ul style="list-style-type: none"> • Province diagnoses (economic, social, productive) and provincial development strategic planning • Promotion, dissemination and communication • Training and orientation: <i>staff and organizations</i>. • Development and organizational consolidation: <i>unconsolidated organizations and groups of interest</i>. • Technical training of young people (men and women). • Patagonia Forum (annual) <p>Gender actions</p> <ul style="list-style-type: none"> • Dissemination and promotion of rural women: <i>posters, fairs, radio programmes, etc.</i> • Provincial and regional meetings of rural women • Survey on women and economic organizations • Gender sensitization and training actions • Sensitization of province authorities on gender issues • Training of organization leaders on gender issues • Training women on leadership and business management • Training service providers on gender • Mobile day care • Positive discrimination for access to project funds 	<p>Rural business development</p> <ul style="list-style-type: none"> • Strengthening and development of economic organizations and rural micro-enterprises • Market linkage support: <ul style="list-style-type: none"> - Market intelligence. - Development of marketing plans by output chain - Operation of a business opportunities system - Participation in fairs and business circles - Commercial promotion - Strategic and commercial contacts and partnerships • Strengthening of commercial and entrepreneurial capacity <ul style="list-style-type: none"> - Identification of new markets and agribusinesses - Management and business planning training - Organization of a supplier network: inputs and services • Specialization and optimization of the supply of economic organizations and micro-enterprises: <i>generation of clusters, production protocols, quality certificates, name of origin, etc.</i> • Training of human resources on commercial management and business planning: <i>project staff and service providers</i> • Organization and establishment of technical assistance <ul style="list-style-type: none"> - Selection and contracting of service providers and specialists. - Dissemination and release: <i>radio program and materials</i> - Technical assistance programmes • Operation of the productive-commercial Capital Development Fund, for investments that are: i) <i>productive</i>, ii) <i>commercial and iii) environmental</i>. • Access to financial services <ul style="list-style-type: none"> - Diagnosis of microfinance lenders and of beneficiary access to financial services - Institutional strengthening of microfinance lenders - Training on “financial supply”: <i>staff and beneficiaries</i> 	<p>Planning, M&E</p> <ul style="list-style-type: none"> • M&E system design and implementation • EUP (Executing Unit of the Project) and province coordination for M&E system implementation • Orientation and training in M&E: staff and beneficiaries. • Institutionalization of M&E participatory mechanisms at the level of staff and of beneficiary organizations • M&E field support for provinces • Design and operation of monitoring software • Contracting of impact evaluation and surveys • Formulation of M&E reports

POVERTY AND RURAL POVERTY

1. As Argentina is currently in the midst of a deep and unparalleled economic, social, and political crisis. After three years of continuing recession, the economic and financial crisis deepened during 2001. Various attempts were made throughout 2001 to spur growth as a prelude to improved public finances and the debt profile but to no avail. Market perceptions of risk of default increased, especially in mid-2001. Efforts to protect the banking system from wide-spread withdrawal of deposits (the corralito) resulted in strangling of liquidity and economic activity and generated popular discontent. This finally culminated in the resignation of then President de la Rúa in December 2001, a quick succession of appointed Presidents, a formal announcement of default on public sector borrowings, and in early 2002, the abandonment of the Convertibility Plan.

2. Now in its fourth year of recession, the economy this year is projected to decline by about 16%, bringing the decline in GDP to over 25% since its 1998 peak. With the peso depreciating sharply since its float and undefined monetary policy, Argentina is experiencing significant inflation for the first time since 1991. Between the decline in economic activity and the currency's depreciation, per capita GDP has declined sharply, to a projected US\$2,850 in 2002 (down from US\$8,210 at its peak in 1998).

3. The downturn of the past six months has sharply aggravated the already difficult social conditions in the country. Already high levels of unemployment (18.3% in October 2001) have jumped to 21.5 percent as of May 2002 according to official indicators. Moreover, the destruction of jobs (particularly unskilled jobs) has been sharp. During the first quarter of 2002 the construction industry (key for unskilled labour) fell by 25 percent with respect to the last quarter of 2001 (42% with respect to the first quarter of 2001).³ Poverty is also on the rise, confirming the well known links between economic crises and sharp increases in poverty. Official estimates for 28 urban centres indicate an increase from 38.3 % in October 2001 to 53.0 % in May 2002. This extremely negative context has also had a strong impact on the health and education sectors where there is growing evidence of deterioration in service delivery. The combined effect of all these factors has resulted in an increasingly conflictive social situation with high levels of crime, violence and diverse forms protests.

4. As a result of the economic crisis at the country level, the rate of poverty rose from 37% in 2001 to a peak of 58% by the end of 2002. The number of people living below the extreme poverty (indigence) line doubled. Income distribution worsened, suggesting that the poorest segment of the population suffered more than the non-poor. The sharp rise in poverty in great part has been due to unemployment and the rise in the prices of food a major portion of the expenditures of the poor. Last available information¹ shows that 58 % of total population have incomes below the Income Poverty Line (IPL) in June 2003, while almost 25 % live in conditions of extreme poverty. Per-capita GDP has declined sharply to an estimated USD 2,695 in 2002, down from USD 8,210 in 1998².

5. Poverty is measured using GOA's poverty line calculated through the Permanent Household Survey, a bi-annual survey of 30,000 urban households, covering 70% of the urban population. Thus the surveys leave out the population in small urban places and all of the rural population, much of which has a higher average poverty rate. A limited survey of 2,800 undertaken by the World Bank in 2002 found a poverty rate of 53% in urban areas and 73% in rural areas³. These figures would imply that approximately 19.2 million people are poor in the country. In the cities the poor would be 17.1 million. The rural poor would reach 2.8 million people (or, approximately 0.7 million households).

¹ World Bank. 2003. Crisis and Poverty: A poverty assessment. July 2003. Report No. 26127-AR.

² World Bank. 2003. Ibid.

³ World Bank. Crisis and Poverty 2003: A poverty assessment. Part II. Background Paper 1. July 2003. Report No. 26127-AR.

Extreme poverty reaches almost 7.4 million urban people while it would affect 1.6 million people in the rural areas.

6. A large proportion of the rural poor are located in the Northern provinces of the country, but there are also other areas in the South where rural poverty is still significant. In the North-Western region around 51% of rural population is poor while this percentage reaches 48% of total rural population in the North-Eastern region. The Patagonia region follows with a rural poverty incidence of 32% of total rural population.

7. Income inequality, low salaries and incomes, non enforcement of rural labour legislation, unemployment and lack of access to productive assets and services are the main sources of rural poverty in the country. The lack of adequate housing facilities for the rural workers is one of the main Unsatisfied Basic Need – UBN identified (86% of total UBN rural households). This is so in spite of existing legislation that would enforce agricultural entrepreneurs to provide these facilities to their workers. Poverty yields serious effects on human wellbeing in the rural sector. Infant malnutrition is present and school attendance in the rural areas is below national average. In addition, many rural households still lack of several basic services.

8. Current rural poverty conditions are harsher over several vulnerable groups of population. The most vulnerable are rural women and children of all ages. Indigenous communities, mostly located in rural areas, are also among the most affected by poverty. According to available data, approximately 90 000 rural households are headed by women. Out of this number, 69 000 households are headed by “economically inactive” or unemployed women. This is an indicator of extreme poverty since most of the women do not have permanent incomes. Actually, the incidence of poverty among this group of rural households (measured by Unsatisfied Basic Need – UBN) is higher than average. Almost 48% of rural households headed by women are poor.

APPENDIX V

**DESIGN MATRIX AND TARGET POPULATION
FOCUSED STRATEGIC APPROACH**

Project Design Matrix

Project strategic operational axes	IFAD Strategic Framework 2002 – 2006			Outputs
	Human and Social Assets	Productive Assets and Technology	Financial Assets and Markets	
Target group focused development paths	Clear assessment of target groups strengths and weaknesses	Services tailor made for the characteristics of each target group	Alternative market and financial services suited to the capacities of identified target groups	Human, social and economic capital development
Organizational Strengthening	Strengthening the capacity of the rural poor organizations	Strengthening the offer of rural services in the Patagonia region	Development of local, regional, national and external markets	Empowerment
Rural Business and Marketing	Strengthening the income generating capacity of the poor	Access to local rural technical support services, irrigation and markets	Access to local rural marketing and financial support services	Improved income
Institutional Linkages	Coordinated investments in social and productive services	Central and provincial governments harmonic investments in productive infrastructure	Improving marketing infrastructure	Articulated investments in rural areas

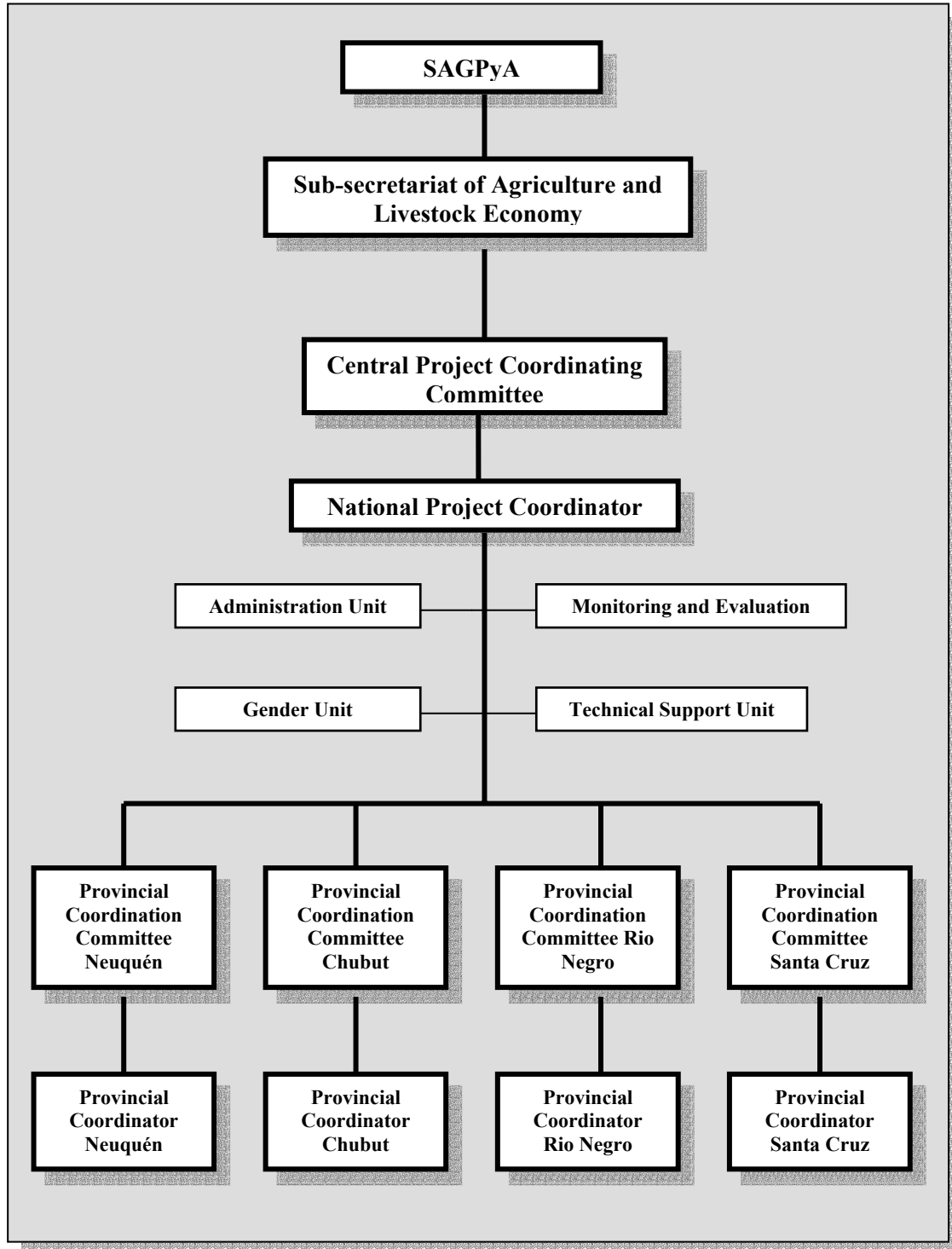
Target Population Focused Economic Development Paths

Target Population	%	Opportunities and Limitations	Development Paths
Small crop and livestock producers	45	<ul style="list-style-type: none"> • Inefficient production • Weak or non-existent economic organizations • Non organized and fragmented production in export or traditional crops • Restricted irrigation potential • Traditional sheep and goat production technologies • Inefficient marketing 	<ul style="list-style-type: none"> • Efficient production • Improved technologies • Organized production • Better quality • Development of productive clusters and/or valued added chains • Efficient marketing linkages with packing and exporting business
Indigenous communities	15	<ul style="list-style-type: none"> • Isolation and dispersion • Limited diversification capabilities • Low technology wool and mutton production • High transaction costs • Traditional organizational patterns • Traditional handy-craft production 	<ul style="list-style-type: none"> • Efficient production adjusted to their communal property characteristics • Improved technologies • Community based organized production • Better quality • Development of productive clusters and/or valued added chains • Efficient marketing linkages with packing and exporting business
Non-agricultural producers (handy-crafts, tourisms, services)	20	<ul style="list-style-type: none"> • Inefficient production • Weak or non-existent economic organizations • Non organized and fragmented production • Low volume and quality of current production/services • Limited development of small rural services business • Marketing problems 	<ul style="list-style-type: none"> • Efficient production • Improved technologies • Organized production • Better quality • Development of productive clusters and/or valued added chains • Efficient marketing linkages with packing and exporting business
Rural youth	20	<ul style="list-style-type: none"> ▪ Unstable participation in labor markets ▪ Educational levels lower than their urban peers ▪ Limited access to land and livestock ownership 	<ul style="list-style-type: none"> ▪ Labor skills training ▪ Opportunities for stable participation in the labor market ▪ Opportunities to develop economic initiatives and small business

PROJECT ORGANIZATION AND MANAGEMENT

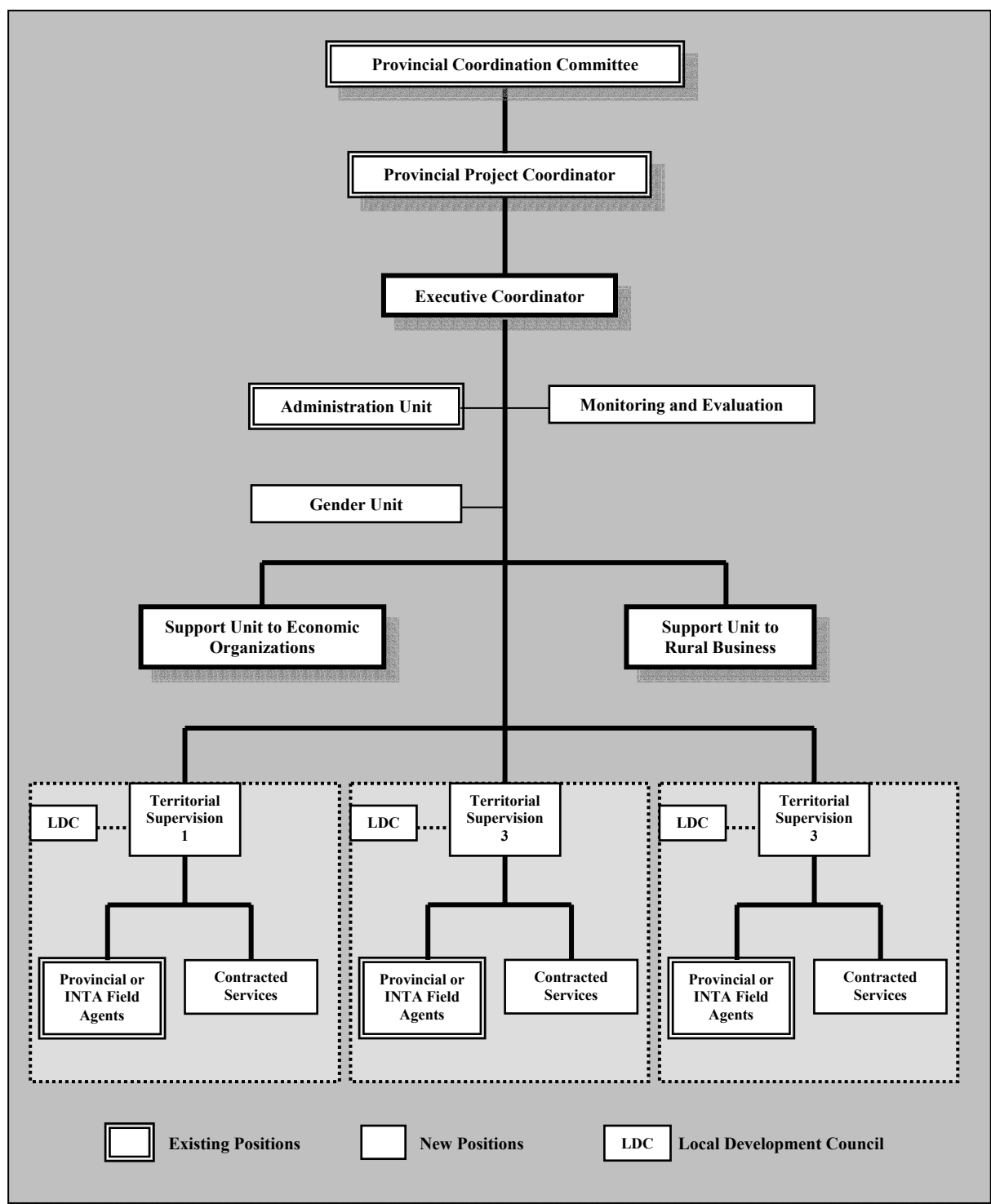
Patagonia Rural Development Project

Project Organization Chart



Patagonia Rural Development Project

Provincial Organization Chart



ECONOMIC RESULTS OF SOME AGRICULTURAL AND NON-AGRICULTURAL BUSINESS

Socio-Economic Indicators of Proposed Livestock Activities

Activity	Initial Investment \$	Incremental Benefits		Internal Rate of Return %
		Apparent \$/cycle	Producer \$/cycle	
Improved sheep model	4.000	10.635,8	12.779,0	87
Improved goat model	2.000	2.852,4	3.574,4	70

Socio-Economic Indicators of Proposed Crop and Microenterprise Activities

	Generation of Employment		Incremental Benefits		Internal Rate of Return %
	Salaries \$	Wages/year No.	Apparent \$/cycle	Producer \$/cycle	
Beekeeping	2.289	96	7.649	9.938	72
Strawberries	8.836	365	29.155	37.991	73
Fruits Preserves	15.600	644	36.559	52.159	92