I. Introduction and Context

Country Context

Argentina’s macroeconomic performance in recent years has been relatively strong. Between 2002 and 2008, real Gross Domestic Product (GDP) in Argentina grew on average 8.5% per year in real terms, enabling the country to cut poverty and unemployment rates to levels experienced prior to the 2001 economic crisis. Economic activity started to slow in the last quarter of 2008 due to the impact of the global financial crisis. Real GDP growth declined to 6.8% in 2008 and economic activity declined further in 2009 due to a drop in external demand, declining commodity prices, continued deterioration in investor confidence and a severe drought that weighed on agricultural production.
The economy rebounded strongly in 2010, fueled by fast growth in internal absorption and external demand as well as by increasing commodity prices. Real GDP grew by about 9% in 2010 & 2011.

**Sectoral and Institutional Context**

Argentina’s agriculture sector has been a motor for economic growth in the past decade, contributing 14.7 percent to GDP on average in the past 5 years. Between 2001 and 2011, agricultural production has increased by 24 percent, including an increase of 17 percent in cultivated area; the value of total exports from the sector grew by 74 percent between 2000 and 2011. However, the benefits of this sector growth have not been distributed evenly among regions and subsectors due to the characteristic duality between (i) large scale commercial agriculture, primarily in the Pampean region, which generates 80 percent of sector exports, and (ii) small-scale agriculture which overall represent 75 percent of the more than 330,000 total farms in Argentina, even though they use less than 18 percent of the agricultural land. The non-Pampean regions, also called the regional economies, which include the provinces in the Northwest, Northeast, Cuyo, and Patagonia regions, host about 65 percent of Argentina’s small-scale farms.

Much of the sector’s characteristic imbalance can be attributed to underinvestment in basic productive infrastructure (roads, electricity, drainage and irrigation) for the regional economies by both the public and private sectors. The strong potential and heterogeneity of the regional economies has been constrained by difficult access to credit and technical services for the majority of small farmers, leading to their limited adoption of innovations and technology, low productivity and the poor integration of value chains.

The underdevelopment of agricultural value chains in the regional economies (i.e. the inability to expand beyond primary production into value-added products and services) prevents sector growth from reaching the most vulnerable farmers. For Argentina’s 31 most important value chains, 78 percent of value-added comes from just five provinces, four of them in the Pampean region, with each of the remaining provinces contributing less than three percent of the national total. These same agriculture chains are crucial for economic development in several of the regional economies, accounting for 45 percent of provincial GDP in Entre Rios and over 20 percent in Corrientes, Santiago del Estero, Tucuman, Chaco and Rio Negro, all provinces whose levels of poverty are higher than the national average.

The Provincial Agricultural Development Program (PROSAP) has been addressing key challenges for agricultural production by supporting agricultural infrastructure and services in the regional economies in the last decade. PROSAP1 and PROSAP2, co-financed by the Bank and the Inter-American Development Bank (IDB) since 1995, have implemented over 100 provincial subprojects leading to the construction of 384 km of irrigation canals, over 2,000 km of electric transmission lines in rural areas, and the rehabilitation of 526 km of rural roads. Irrigation subprojects completed during PROSAP2 will convert 7,000 hectares of land to cultivable area and increase the efficiency of rehabilitated irrigation systems by 30 percent. Access to infrastructure is critical to ensure that rural producers in the regional economies are on equal footing with those in the Pampean region and can access the benefits of sector growth at the national level.

**Relationship to CAS**

The project is a key element of the proposed Country Partnership Strategy (CPS) 2013-2015 for the Argentine Republic. PROSAP3 supports the World Bank’s shared prosperity objective through its emphasis on integrating the regional economies and correcting a geographical and socio-economic imbalance in the provision of infrastructure and services. Specifically PROSAP3 supports the CPS’ Strategic Objective 1 Enhanced Growth Fundamentals and Improved Public Sector Management as
II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective for PROSAP3 will be to increase productivity and sales for small and medium-scale producers supported by project activities.

To reach its objective, the project will support capacity-building and investments geared toward a more efficient use of natural resources and energy, increased adaptation to climate change, long-term improvement in productivity and market access, overall contributing to an increased competitiveness and sustainability of agricultural production systems in the regional economies.

Target group. The project primary target group will comprise about 80,000 small and medium-sized producers who have clear potential to participate in a modern and competitive agribusiness system, but need to improve their productivity and profitability in order to be competitive and reduce their vulnerability.

Target areas. While the project is national in scope, the regional economies are the target area for investment subprojects, which constitute the most sizable part of the operation. Eligibility criteria for target areas would include number of small and medium-size producers, number of direct and indirect beneficiaries belonging to the target group.

Selection criteria. To ensure the balanced and equitable allocation of public funding, subproject preparation will include specific selection criteria to be applied early on in the selection and approval process, which could include: (i) counterpart support proportional to the income level of beneficiaries; (ii) investment caps by type of investment and by number and type of beneficiary (direct and indirect); (iii) level of financial leverage (private or public-private) in the investment; (iv) level of climate change mitigation and adaptation measures considered in the project design.

Key Results (From PCN)

The key indicators at the beneficiary level would measure changes in: (i) farmgate sales volume; (ii) labor productivity; and (iii) land productivity.

Intermediate outcome indicators would include: (i) hectares of areas with improved productivity area as a result of project investments (ii) increased yields; (iii) amount of private and/or public financing leveraged; (iv) improved access to public productive infrastructure; (v) improved producers’ access to markets; and (vi) the adoption of climate-smart actions for adaptation and/or mitigation to climate change.

Results from competitiveness subprojects could include additional specific indicators such as: (i) increase in number of farmers reporting improved farmgate sale price as a result of improved quality or value-added in primary production; (ii) increase in number of farmers commercializing new produce/crop as a result of new or improved production technology.

III. Preliminary Description

Concept Description
The proposed project (US$500 million in IBRD financing) will be implemented over a period of five years and comprise three components: (1) Capacity-Building and Services for Competitiveness (15-20 percent of total cost); (2) Investments for Competitiveness (70-75 percent of total cost); and (3) Project Management (5-10 percent of total cost). The project will be implemented by MAGyP through the UCAR.

Component 1: Capacity-Building and Services for Competitiveness (20 percent of cost)

This component will support a range of interrelated services that provide integrated support for agricultural competitiveness in the regional economies. Activities will include: (i) institutional capacity building; (ii) identification and preparation of subprojects; and (iii) facilitating the insertion into value chains.

(a) Institutional Capacity Building: Activities ensuring adequate capacity to manage agricultural development at the territorial level, including support for: (i) the preparation/updating of Provincial Agricultural Development Strategies (PADS), including the incorporation of a climate change adaptation/mitigation strategy; (ii) the elaboration and execution of Regional Competitiveness Enhancement Plans for select micro-regions; (iii) the development of innovation networks and adoption of new technologies

(b) Identification and Preparation of Subprojects: Strengthening the capacity to identify and prepare investment subprojects that will translate PADS into action. Assistance will be provided to: (i) identify existing demand for future public and private sector investments; (ii) develop investment opportunities, including both large and small public infrastructure projects, as well as opportunities to leverage private investment.

(c) Facilitating the insertion into value chains, through (i) subprojects focused on animal health and/or food safety standards and (ii) subprojects focused on improving small farmer’s resilience to the impact of climate change; (iii) technical assistance and training activities to enhance entrepreneurial capacity; and (iv) facilitating access to financing for groups of producers and individual businesses.

Component 2. Investments to Support Competitiveness (75 percent of Project cost)

This component will support public investment and incentivize private investment in productive infrastructure and services. Subproject types will include:

2.1 Public Investment Subprojects

This component constitutes the primary instrument of PROSAP and finances investments in public infrastructure. UCAR will supervise project implementation, to be conducted entirely by a provincial implementing unit. Eligible provinces would apply for sub-loans for the construction, rehabilitation or expansion of infrastructure including, but not limited to, drainage and irrigation systems, rural roads, rural electrification, gas pipelines, as well as agricultural and marketing development infrastructure, and land administration.

Subprojects profiles will have to fulfill a series of objective criteria in order to be eligible for financing, including consistency with project objectives and scope, as well as with the respective PADS. Eligible subprojects would then be evaluated on the basis of their potential to generate income through greater production and productivity or to reduce costs of production and operation,
as well as their incorporation of adaptation to climate change in the project design.

2.2 On-farm and off-farm matching grants
This subcomponent will provide matching grants to expand the productive reach of provincial infrastructure subprojects, expand local ownership of investments, leverage private investment, and address the imbalance of access to credit for small and medium-sized producers in the regional economies. Group or individual small investment projects may be prepared with or without the support of Component 1 services. Different scales of financing will be developed for categories of investments based on type of beneficiary and investment.

2.3 Small Rural Infrastructure
This subcomponent will support the construction, rehabilitation or expansion of community infrastructure projects, at a scale lower than subcomponent 2.1. These investments would be financed through a specific national subproject.

Component 3. Project Management (5 percent of Project cost)
This component will support the strengthening, operation and maintenance of the M&E system, incremental costs of UCAR; preparation of studies, including impact evaluations, progress reports, and audits.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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<th>Total Project Cost: 660.00</th>
<th>Total Bank Financing: 500.00</th>
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<th>Financing Source</th>
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<td>International Bank for Reconstruction and Development</td>
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<td>Local Farmer Organizations</td>
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<td>Total</td>
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VI. Contact point
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