



1. Project Data :			
OEDID:	L3709		
Project ID:	P005988		
Project Name :	Capital Market Development Project (Backstop Facility)		
Country :	Argentina		
Sector:	Financial Sector Development		
L/C Number:	L3709		
Partners involved :	None		
Prepared by:	David Greene (Consultant), OEDCR		
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Date Posted :	08/04/1998		

2. Project Objectives, Financing, Costs and Components :

The Capital Market Development Project (CMDP) of 1994 provided a US\$500 million Backstop Facility (BF) to support term lending by Argentine banks by ensuring liquidity to banks in the event of bond market disruptions . Prime rated commercial banks would be encouraged to issue medium -term bonds to finance loans for long-term investment. The BF would offer banks the option to sell dollar -denominated securities issued should the banks be unable to roll-over or extend such debentures in the market . The effect of this was to be an improvement in market confidence and insurance of the liquidity of banks in the event of spikes in domestic interest rates . The loan supported an agreed policy agenda, including macroeconomic stability, freely determined interest rates, removal of existing interest rate subsidies, and strengthened supervision of the capital market .

3. Achievement of Relevant Objectives :

Because of implementation delays and inappropriate design, the project did not accomplish the objectives of strengthening the capital market and closing the gap between the demand and supply for long -term capital for productive investments. Implementation was delayed and the loan had an operational life of about a year . It was canceled in March 1997 with US\$394 million undisbursed.

4. Significant Achievements :

The Bank's approval of a loan for US\$500 million lent credibility to the Argentine reform effort of 1993-94. Another accomplishment, unrelated to its original objective, is that the loan provided liquidity to four banks given the outflow of deposits for Argentine banks following the Mexican currency ("tequila") crisis.

5. Significant Shortcomings :

The project was identified in March 1991, appraised in August 1993, but did not become effective until August 1995. The delays undermined commitment and momentum . In addition, the economic situation in Argentina evolved rapidly. During 1991-94, financial activity recovered and the maturity of lending increased, undermining the justification for the operation. In 1995, there was a state of financial emergency and the loan was amended to permit it to be used to supply short-term liquidity to banks. After an auction sale in March 1996 received no bids, the project was reappraised and, after a short period of renewed operations, it was canceled in March 1997 after a survey indicated limited interest by commercial banks. The BF was designed in a way that limited its market impact . It counted on only one instrument, involved only highly rated banks, and supported lending to small and medium enterprises. In addition the project was overly complex and was not fully understood by the banks . Weak ownership was evident in administrative inertia and ineffective marketing .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Negligible	Negligible	
Sustainability :	Unlikely	Unlikely	

Bank Performance :	Deficient	Unsatisfactory	
Borrower Perf .:	Deficient	Unsatisfactory	
Quality of ICR :		Exemplary	

7. Lessons of Broad Applicability :

The project offers some important lessons for development of innovative, market -oriented projects. (1) There may be a conflict between the need for "market agility" and the Bank's institutional requirements. Procedural and policy conditions may take precedence over the requirements of good market performance. Market related expertise inside and outside the bank should be used to assess the demands of the market. (2) Borrower reluctance or lack of understanding can result in inertia in implementation and lack of essential marketing of project objectives and instruments. (3) Using loan operations for "product development" can result in, lack of the detachment necessary for objective project appraisal, insufficient attention to the requirements of the borrower and to excessive attention to technical details at the expense of requirements for successful project management.

8. Audit Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR :

Due to the innovative nature of this project, and the complex circumstances surrounding its preparation, implementation and subsequent cancellation, the ICR is considerably longer than usual. It contains a complete chronology of project-related events. This is fully justified and the ICR is highly satisfactory. The ICR is a case study that warrants wide dissemination and discussion, in view of the "differing views regarding the soundness of the project concept, the project design, the justification for cancellation and the ultimate value of the operation to the Bank and Borrower." Unfortunately, the ICR does not include input from the borrower which would have been useful to present a complete picture. The Government subsequently responded to the Region and expressed its substantial agreement with the ICR evaluation. This response is in regional files.