Report Number: ICRR0023468

1. Project Data

Project ID P159515	**Project Name** Argentina Access to Finance for MSMEs	
Country Argentina	**Practice Area(Lead)** Finance, Competitiveness and Innovation	
L/C/TF Number(s) IBRD-86590	**Closing Date (Original)** 30-Nov-2021	**Total Project Cost (USD)** 48,180,681.14
Bank Approval Date 18-Nov-2016	**Closing Date (Actual)** 31-Aug-2022	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	50,000,000.00	0.00
Revised Commitment	50,000,000.00	0.00
Actual	48,238,781.14	0.00

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2. Project Objectives and Components

a. Objectives

According to both Schedule 1 of the Loan Agreement (p.5) and the Project Appraisal Document (p.14), the project objective was “to improve access to, and strengthen the framework for the provision of, longer term finance for eligible micro, small and medium enterprises”.

This review will assess the project outcome based on the objective parsed as follows:

Objective 1: To improve access to longer term finance for eligible micro, small and medium enterprises,

Objective 2: To strengthen the framework for the provision of longer-term finance for eligible micro, small and medium enterprises.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project consisted of three components:

Component 1. Line of Credit: (Estimated Cost at Appraisal: US$ 44.50 million; Estimated Cost After Restructuring: US$ 45.14 million; Actual Cost at Closing: US$ 50.6 million-including revolving credits) This component was to provide funds to the Bank for Investment and Foreign Trade (BICE) for on-lending through Participating Financial Institutions (PFIs) to Micro, Small and Medium Enterprises (MSMEs). The Ministry of Treasury and Public Finance (MoF) was to borrow the loan in US$ and lend to BICE in local currency while bearing the foreign exchange risk. BICE was to be the implementing agency for this component and was to select PFIs for on-lending to MSMEs (subject to the World Bank's approval). The selected PFIs was in turn to finance MSMEs (the final beneficiaries of the credit line) which were to be determined pursuant to the eligibility criteria agreed by the World Bank. The risk of MSMEs was to be assumed by the PFIs. All sectors were eligible for the Line of Credit (LoC) and was to be a revolving fund to ensure continued second-tier lending by BICE. Taking the challenging macroeconomic conditions at appraisal into account, the project was designed as a pilot project.

Component 2: Institutional Capacity Building for BICE, Financial Infrastructure Reforms, Credit Guarantee Fund and Capacity Building for MSMEs: (Estimated Cost at Appraisal: US$ 4.55 million; Actual Cost at Closing: US$ 2.73 million) The Ministry of Production Development (MoP) was to be the technical counterpart for this component which was composed of three sub-components:

Subcomponent 2.1. Institutional capacity building of BICE: The project aimed to strengthen BICE's capacity to improve and expand its second-tier lending function based on international best practices through (a) establishing a credit risk management unit for second-tier operations; (b) training personnel on financial institution analysis; (c) enhancing the risk analysis of financial institutions supported by a software; (d) enhancing the qualitative process of evaluating banks, with emphasis on risk management and internal controls; (e) systematizing measurements of risks through an improved information technology (IT) platform; and (f) improving the capacity of the financial department of the BICE by adding a treasury module to the core IT system.

Sub-component 2.2 Technical assistance for improving the enabling environment for MSME access to Finance: The project aimed to support improvement of the enabling environment through (a) modernizing the borrower's secured transactions framework; (b) strengthening the insolvency framework; and (c) strengthening the public credit guarantee fund. Support under this subcomponent was to follow a flexible approach to accommodate differential progress among focus areas and to include potential new activities that could arise in the financial sector reform agenda, in line with the objectives of this project. The activities under this sub-component were to include drafting of a new Secured Transactions Law; establishment of a modern online collateral registry and development of supporting regulations; and capacity-building and awareness-raising activities. In addition, drafting amendments to the insolvency law; drafting regulatory framework for insolvency practitioners; and dissemination activities to inform and train key stakeholders about legislative and regulatory changes were to be implemented. Also, the project was to support the public credit guarantee fund to provide partial credit guarantees directly to banks and reinsurance to Mutual Guarantee Associations (SGAs).

Sub-component 2.3 Capacity building for MSMEs: This sub-component was to facilitate the development of a diagnostic of the current Business Development Services (BDS) Program (Experto PYME), development of online training material for MSMEs which was to become part of the new digital learning platform for MSMEs, design, development, and implementation of an online and interactive business service providers database; and strengthen the capacity of the MSME and Regional Development Department (SEPYME)'s portal for MSMEs.

Component 3: Project management (Estimated Cost at Appraisal: US$ 0.82 million; Estimated Cost After Restructuring: US$ 0.18 million; Actual Cost at Closing: US$ 0.12 million). This component was designed to finance the project's financial audits, support to coordinate, manage, implement, and supervise the project, progress and results monitoring activities, and a midterm review survey to MSME beneficiaries.

Revised Components: The disbursement and institutional arrangements and financial management arrangements for Component 1 were revised at the first and the second restructurings. However, the principle of implementation remained unchanged while introducing the flexibility to BICE to lend to PFIs in US Dollar in addition to pesos. The flow of funds arrangements was revised to meet the Borrower's internal requirements. Regarding the Component 2, some adjustments were made on activities covered under sub-components 2.2. and 2.3. The activities with respect to credit guarantee fund, secured transactions framework and movable collateral registry were cancelled in accordance with the Government of Argentina's changing needs. The activities related to the credit guarantee fund were already implemented during the period between the approval of the project and its effectiveness through the government's own funds. Under sub-component 2.3, diagnostic of the current BDS Program and development of online training material for MSME were not implemented. Instead, an SME platform and data repository were developed. In addition, an action plan for the greater use of electronic credit invoicing was prepared. Please see section on restructurings below for details.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project cost estimated at appraisal was US$ 50 million. The actual cost at closing was US$ 53.70 million. This amount includes revolving credits disbursed under Component 1 on top of the proceeds of the Loan.

Financing: The project was financed through an IBRD loan. The Bank's financing estimated at appraisal was US$ 50 million. At project closing, actual disbursements reached US$ 53.70 million. The increased amount is a result of revolving credits.

Borrower's Contribution: Some Borrower's contribution at the sub-loan level materialized, however, this was not measured and reported by the project.

Restructurings:

The project had four Level 2 restructurings:

Restructuring 1-January 23, 2018: This restructuring changed the flow of funds arrangements on the request of the Borrower.

Restructuring 2-October 4, 2018: The restructuring introduced flexibility in the light of the market conditions at the time for BICE to offer product to PFIs in both US Dollar and pesos. This enabled meeting market demand for FX-denominated loans as the interest rates in pesos were excessively high. Some additional activities were introduced, and some were modified under Component 2 with the overall scope remaining unchanged. The support under Component 2 would cover including (i) conducting a diagnostic of the secured transactions framework in Argentina, and based on the findings propose legal, regulatory, and institutional changes; (ii) conducting a diagnostic of the insolvency framework and proposing legal and regulatory recommendations; and (iii) strengthening of the national Partial Credit Guarantee Scheme (FOGAR), which started pilot operations. As part of sub-component 2.3, the project was to support implementation of a Central Balance Sheet Platform that would require the mandatory submission of companies' financials, improving the transparency of their information, and thus contributing to improved bankability. In line with these adjustments, revisions were introduced in intermediate results indicators. The target value for the volume of bank support was decreased and the number of sub-loans by PFIs to MSMEs was increased. A new indicator for the Central Balance Sheet Platform was added. Indicators of the portfolio at risk, return on equity, and outstanding SME portfolio were deleted and moved to Project Operational Manual for monitoring purposes. The indicator related to the movable collateral registry was deleted.

Restructuring 3-October 19, 2021: Project's implementation period was extended by seven months to June 30, 2020. The extension was to allow BICE to complete the disbursement of the total amount allocated for the line of credit component and the MoP to complete the technical assistance activities under Component 2. Some additional revisions were introduced related to intermediate results indicators in the results framework**.** The targets for the volume of bank support and the number of sub-loans by PFIs to MSMEs were increased. The indicators for credit guarantee fund and secured transactions law were deleted. The Central Balance Sheet Platform was replaced by the agency's new name "Data Repository (LUFE)". A new indicator on Electronic Credit Invoice was introduced. The wording of other indicators was clarified to reflect actual activities.

Restructuring 4-June 29, 2022: The implementation deadline was extended for another two months to August 31, 2022, for BICE to complete disbursements and allow time for delivery of laptops purchased under Component 2.

Dates: The project was approved on November 18, 2016, and became effective almost two years later, on October 5, 2018. The original closing date was November 30, 2021, but it was extended by nine months in two restructurings (the third and the fourth). The project was closed on August 31, 2022.

3. Relevance of Objectives

Rationale

Nearly half of the firms in Argentina rate access to finance as the second major obstacle for doing business compared to 30 percent in LAC. It is particularly a major problem for MSMEs. Credit to MSMEs accounts for only 2 percent of GDP, while formal MSMEs account for at least 50 percent of GDP and generate about 71 percent of total employment and 47 percent of total sales (PAD, p.10). Only a third of MSMEs in the industrial sector have had access to bank credit, and short-term working capital loans dominate this. About 90 percent of the credit to MSMEs is short-term. In the absence of long-term finance, the MSMEs rely on internal funds for investments and thus have limited capacity to invest and grow.

Bank Strategy: At appraisal, the project objectives aligned with the first objective of the Country Partnership Strategy (CPS) for the Argentine Republic (FY-15-FY18), which targeted sustained employment creation in farms and firms. As the project supported MSME's access to finance and improved business environment, it directly contributed to MSMEs' increased productivity, profitability, and employment. At closing, the project's objectives remained fully aligned with the World Bank Country Partnership Framework (CPF) 2019–2022. The CPF highlighted the need to address the problem of access to long-term finance and the difficulties encountered in the financial sector in providing credit. Accordingly, it proposed actions to leverage private development capital, strengthen market institutions and productivity-led growth, and increase exports. In addition, the Performance and Learning Review of the CPF (2022) included the need to support MSMEs to sustain jobs during the pandemic. The changes introduced during the implementation, such as the flexibility to channel sub-loans to exporting MSMEs in US dollars, supported MSMEs in sustaining jobs and increasing exports.

Country Context: The project objectives were aligned with the Government of Argentina's priorities at appraisal. The government emphasized the financial infrastructure reforms and the development of nontraditional financial products for MSMEs as crucial issues for access to finance. These reforms included, among others secured transactions framework, insolvency and creditor rights, and a public guarantee scheme. The government's reform agenda also included strengthening BICE's second-tier lending business model by providing longer-term funding to MSMEs through qualified financial institutions. The project's objectives remained highly consistent with the Government of Argentina's strategies at closing. In 2021, the MoP adopted the Argentinian Productive Development Plan 4.0, which had, among others, the objective of providing support to MSMEs to adopt or develop productivity-boosting technological solutions.

Previous Sector Experience: The project design benefited from lessons from the World Bank's peer country projects, such as Turkey. In addition, at the design stage, the Independent Evaluation Group (IEG)'s review results of eight closed World Bank line of credits were considered. The lessons indicated that the line of credits is critical to alleviate longer-term finance to support investment growth and employment generation. However, they need to be complemented by policies and adequate financial infrastructure. In addition, for successful implementation of a line of credit, strong borrower accountability and management capacity, clearly defined indicators for monitoring the financial performance of PFIs, flexible project design, and close monitoring of the project's impact were found to be critical elements. The project, therefore, included capacity building activities for BICE, support for improving financial infrastructure, and flexible project design. The IBRD team and the International Finance Corporation (IFC) have collaborated closely on the project's design. The IFC has provided technical assistance to diagnose the secured transactions framework (PAD, p.20.).

According to PAD, the project was a pilot operation and was: (i) to test the role of BICE as a second-tier lender with the stronger capacity to intermediate to the banking sector, the demand for longer-term financing in local currency by banks as well as MSMEs, and (ii) whether, if given funding incentives, the banking sector has an appetite for lending to certain segments of MSMEs that may be currently excluded, such as MSMEs that employ indigenous groups or have them in their value chains, that promote gender equality, or that are first-time borrowers of longer-term loans in recent years, as defined in the operational manual (PAD, p. 15). However, the PDO statement was very broad, i.e., the articulation of the PDO did not reflect the above-mentioned aims.

Thus, the relevance of the project's objectives is rated Substantial.

Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Objective 1: To improve access to longer term finance for eligible micro, small and medium enterprises,

Rationale

Theory of Change: The casual links between project activities, outputs, and outcomes were direct. According to the theory of change, the WB would disburse the LoC of US$ 45.1 million to MoF (after restructuring to MoP), which would transfer the funds to BICE in pesos for on-lending to eligible PFIs. On-lending to the PFIs could either be in pesos or US Dollars. As output, the PFIs would get access to lines of credit to on-lend sub-loans to eligible MSMEs in pesos or in US dollars, depending on the need of the MSME. As an outcome, the MSMEs get access to longer-term sub-loans to cover their working capital and investment needs which would support them to invest and grow. BICE was expected to bear the credit risk, whereas the PFIs were expected to bear the risk of the MSMEs. The critical assumptions for the project were that the PFIs would demand the funds offered by the BICE and they would meet the eligibility criteria. The PDO indicator for this objective was to achieve a higher than 1 ratio of the average portfolio maturity of MSME sub-loans under the project over the average portfolio maturity of PFI’s MSME lending portfolio not financed under the project. It was to assess the impact of the line of LoC on the overall maturity of loans extended to MSMEs and was sound.

Outputs:

BICE disbursed the first credit to a PFI only six months after the effectiveness of the project due to the terms of the loans, complex environmental and social requirements, and documentation. Although the World Bank team addressed these issues, the entire credit line was disbursed in two years by four PFIs instead of four years. The project could not reach the revised target volume of BICE loans (US$ 54 million) but achieved US$ 50.8 million (including revolving funds). With respect to the number of sub-loans granted by selected

PFIs to MSMEs, the project achieved 162 sub-loans underachieving the revised target of 210 sub-loans. About 85 percent of the operations (72 percent of the resources) were used for working capital focused on pre-financing exports, placed in dollars, and 15 percent (28 percent) for investment in pesos. The average loan size for working capital loans was US$268,000, and US$537,000 for investment loans. (ICR, p.10). By project closing, none of the loans granted by PFIs had defaulted (zero NPL ratio). A survey for the beneficiary MSMEs of the LoC was conducted to assess their satisfaction level. All MSMEs participated in the survey (21 MSMES out of 91 beneficiary MSMEs) and reported being very satisfied with accessing the credit line.

Outcomes:

The PFIs' average credit loan maturity to MSMEs under the project exhibited longer terms than their comparable lending portfolio, evidencing improved access to longer-term finance for MSMEs (ICR, p.11). The average maturity of working capital loans not financed through the project was 4 months, and 31.8 months for investment loans. The maturities of the loans extended by the PFIs within the scope of the project reached 6.3 months for working capital loans and 42.3 months for investment loans. The ratio of the average portfolio maturity of MEME sub-loans under the project over the average portfolio maturity of eligible PFIs' MSME portfolio not financed under the project was 1.5, achieving the target of higher than 1. In addition, the ICR reports that a comparison with operations across the entire Argentina credit market made using alternative data sources from the Central Bank of Argentina also indicates longer maturities offered by the project (ICR, p.11).

The credit line beneficiaries were diversified geographically and were evenly distributed among the provinces with a high concentration of MSMEs in Argentina. The LoC had a higher penetration in provinces with lower financial inclusion metrics when compared to the banking system (banks allocate more than 40 percent of their loan portfolio to the Federal Capital), thus having a positive impact on poverty reduction and shared prosperity by promoting greater access to long-term finance throughout the national territory (ICR, p. 17).

Another positive outcome of the project was its impact on employment and increased sales of MSMEs in the context of COVID-19. Although during COVID-19, the private sector in Argentina lost more than 300,000 formal jobs, the MSMEs that accessed working capital loans maintained their level of employment and increased their sales by almost 40 percent. On the other hand, the impact on the MSMEs that accessed investment loans could not be assessed as most of the firms in this sub-group borrowed in 2022, and the decisions to implement investments were yet to follow.

The project's results indicate that in the environment of macroeconomic uncertainty and the high exchange rate hedging costs for MSMEs, extending local currency loans at competitive rates by BICE could not be possible. Instead, MSMEs' demand for loans denominated in foreign currency (US Dollars) for pre-financing exports was relatively high, with income revenue in US Dollars contributing to Argentina's objective of increasing exports. The project managed to promote gender equity by reaching out to companies managed by women. Around 40% of LoC beneficiary MSMEs were managed by women. This outcome significantly outperformed BICE's first-tier operations, as their credit operations to women's companies averaged 18 percent for 2021–2022 (ICR, p.16). However, this result was not part of the results framework. On the other hand, the project results revealed that the outreach of the credit line to indigenous peoples proved difficult. As a pilot, providing a US$1 million increase in the credit line quota for PFIs to incentivize them to comply with social inclusion requirements was tested, but this could not attract demand. These outcomes are expected to shed light on future operations in Argentina and other countries with similar circumstances.

The project was designed as a pilot in a transitory macroeconomic environment, and the credit line represented less than 1 percent of the total bank credit portfolio for SMEs in Argentina. In this context, a change in market behavior could hardly be attributed exclusively to the credit line (ICR, p. 11).

Overall, the project's efficacy in achieving the first objective is rated Substantial.

Rating
Substantial

OBJECTIVE 2
Objective
Objective 2: To strengthen the framework for the provision of longer-term finance for eligible micro, small and medium enterprises

Rationale
Theory of Change: The casual links between the project activities, outputs, and outcomes were logical. The project included activities such as the development of a platform to facilitate access of data by the MSMEs, a platform for MSMEs to share their financial data, training to BICE on strengthening their second-tier lending, drafting a proposal to reform insolvency framework, procurement of equipment and improving management systems of BICE. These activities were expected to result in outputs such as an established credit risk management system, document management system, contingency management system, comprehensive risk management system, and a risk management unit at BICE. In addition, a report on proposed changes to Electronic Credit Invoicing Law, a draft legislative proposal for insolvency regulatory framework, an SME platform, and LUFE were developed as outputs. As an outcome, this was expected to lead to MSMEs have better access to existing policies, and tools and increase their interaction with peers and potential clients. The LUFE, by regularizing, and formatting financial, economic, and accounting data of MSMEs for the use of financial institutions and other interested parties, improves the framework for access of MSMEs to finance. The draft legislation, when adopted, is expected to contribute to MSMEs' access to finance by enabling early collection of credits and notes receivables. The critical assumptions were the government's commitment to improving access to finance conditions for MSMEs continues and that BICE implements introduced management systems.

The PDO level indicators for this objective were relatively output oriented. While activities and outputs for this objective were revised at the second and third restructurings, PDO indicators in the results framework remained unchanged.

Outputs:

The institutional capacity of BICE as a second-tier development bank was strengthened through training, management systems, and information technology platform improvement. A Comprehensive Risk Management System was developed to support BICE’s qualitative and quantitative risk analysis capacity. In addition, a Credit Management System was developed. Through the provided training capacity of second-tier credit line divisions was increased, and the BICE staff was informed about recent trends in environment and social factors that could be related to credit activities.

An assessment report and proposed changes were developed concerning Electronic Credit Invoicing Law (Law 27,440). The report also included guidelines on improving e-commerce, designing a guarantee scheme related to FCE, and ensuring FCE sustainability. BICE developed an action plan to implement the suggested changes. Furthermore, BICE drafted a law to reform the insolvency regulatory framework for MSMEs, which has been submitted to the Government.

A digital platform was designed and developed for MSMEs to share their financial, economic, and accounting data. Through the established Data Repository (LUFE), MSMEs' data will be consolidated and regularized in a documentary format and could be submitted to financial institutions and other interested parties. This will save MSMEs time and effort and increase data regularity and transparency in the market. The ICR reports that the LUFE has also improved the relationship between the SEPYME and the MSME ecosystem, especially concerning easier decision-making and implementing evidence-based public policies (ICR, p.13).

Outcomes:

With the introduction of new management systems and particularly new systems related to risk management BICE has established a unit (staffed with eight personnel by the time of project closing) dedicated to comprehensive risk management. With the support of the established Credit Management system, the unit was able to evaluate and formalize the credit operations of companies and industries of different sizes. The MSME platform was developed and operated by SEPYME. The platform enabled the MSMEs to access all available programs and tools provided by SEPYME and increased interaction between MSMEs and the other relevant stakeholders. To assess the impact of the established platform, the BICE conducted a survey with the participation of 138 MSMEs. The survey results indicated that the firms that 71% of the MSMEs used the platform recommend the platform to other potential users. However, the take-up rate remained low.

Overall, the project's efficacy in achieving the project's second objective is rated Substantial.

Rating

Substantial

OVERALL EFFICACY

Rationale

The project's efficacy in achieving both the first and the second objectives is Substantial. Therefore, the project's overall efficacy is rated Substantial.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic and Financial Analysis:

Ex-Ante Analysis: A thorough analysis was not conducted at appraisal. The PAD states that MSME sub-projects were to be identified by PFIS, with no limits on geography or sector; a traditional economic/financial analysis would not capture the potential gains from MSME investments under Component 1. Instead, positive quantitative results from other line of credit (Turkey) were reported as examples. An evaluation study of credit lines in Turkey in 2011 indicated that these credit lines helped firms undertake long-term investments enabling them to expand output and employment. As assessed by the client firms, a significant amount of additional employment has been generated due to these credit lines. A significant share of clients stated that they would reduce employment and output without the credits – the employment impact is around 2.6-2.7 percent of employment growth for SME clients (PAD, p. 22). Accordingly, taking these results into account, it was expected that the LoC would impact outputs and job maintenance in MSMEs through supporting access to finance. However, the direct employment effect was expected to be limited due to the pilot size of the operation. With respect to Component 2, supporting financial infrastructure reforms was expected to have significant long-term benefits which could not be easily captured in traditional economic and financial analysis models.

Ex-post Analysis: The ICR reports that the credit line beneficiaries could sustain their level of employment and increase sales during the COVID-19 pandemic when massive job loss was experienced in Argentina. The MSMEs that accessed working capital loans in 2021 through the LoC maintained their level of employment and increased their sales by 39 percent (micro and small firms increased their sales by 12 percent). However, the ICR highlights that analyzing firms accessing investment loans is problematic as most firms in this subgroup borrowed in 2022, and only nine firms borrowed in 2021. Since implementing investment decisions usually takes time, indicative attributable impacts of such investments cannot be assessed yet (ICR, p.16). A survey among the beneficiaries of the investment loans could have contributed to the ex-post analysis of the project.

During the implementation, some cost savings were achieved. BICE used its existing staff and infrastructure to implement project management activities, thus resulting in a saving of US$ 645,000. This amount was later transferred to Component 1, and loan resources were fully disbursed. In addition, establishing LUFE is expected to generate cost savings for the MSMEs as they will not have to notarize their financial statements for submitting a loan application. Assuming each company only makes one attempt at one bank, it is expected that the LUFE could save these companies approximately US$875,000 (35,000 companies multiplied by US$25 for notarization). If each company applied to at least two banks, the LUFE could generate savings for companies seeking financing of approximately US$1.75 million (ICR, p. 36).

Administrative and Operational Efficiency:

The significant delays in project implementation had a negative impact on administrative and operational efficiency. The project became effective twenty-three months after the approval due to economic and political crises and government transition in the country. The start of disbursements was later for another six months after the effectiveness. Under Component 1, the unattractive loan terms (pesos lending becoming excessively expensive due to substantial exchange rate depreciation), complex environmental and social requirements, and documentation requirements for eligible operations constituted obstacles to disbursements. As for Component 2, activities could start only in June 2020 due to the absence of the government's budget allocation. With these delays, the disbursements were completed in two years instead of the originally planned four years. The ICR reports that some of the project's targets, like several sub-loans and the volume of sub-loans by BICE, could not be reached because of these delays. (ICR, p. 15).

Overall, the project's efficiency is rated Modest due to a lack of financial/economic analysis and administrative and operational inefficiencies.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project objectives were substantially relevant to the country's context and the Bank's strategy. The project's efficacy in achieving the first objective (to improve access to longer-term finance for eligible micro, small and medium enterprises) is rated Substantial. The efficacy in achieving the second objective (to strengthen the framework for providing longer-term finance for eligible micro, small and medium enterprises) is also rated Substantial. Overall efficacy rating is Substantial. The project's efficiency is rated Modest because of the lack of analysis demonstrating the financial/economic efficiency of the project and significant shortcomings in operational and administrative efficiency. Based on these sub-ratings, the outcome is rated Moderately Satisfactory.

a. **Outcome Rating**
Moderately Satisfactory

7. Risk to Development Outcome

As ICR reports, the size of the credit line (less than 1 percent of the total SME credit portfolio) was relatively small to change the market behavior attributable to the line of credit. Nevertheless, the project contributed to improving the framework for providing longer-term finance to MSMEs by increasing BICE's capacity, developing digital platforms for accessing information, and sharing financial data by the MSMEs. According to the additional information provided by the project team, the governance and institutional risk to development outcome is relatively low. The Central Bank of Argentina is committed to pursuing reform actions on using electronic credit invoicing initiated by the project and recently introduced additional measures to support this action further. Furthermore, building on the experience gained through this project, the Government of Argentina requested the WB help the country transition to a sustainable financial system that is aligned and contributes to the achievement of the Paris Agreement objectives and promotes access to sustainable financial products and services for MSMEs. The proposed project's development objective is to promote access to sustainable finance for micro, small, and medium enterprises that would be implemented in five years. BICE will again be the project implementing agency. On the other hand, the macroeconomic risk to development outcome is high.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project was strategically relevant to the Government of Argentina's financial infrastructure reforms and target of developing nontraditional financial products for MSMEs. The technical assistance and capacity building components complemented the credit line. The project's technical design was overall streamlined for the country and the sector; however, ambitious, particularly in the context of the macroeconomic crisis and political transition. Considering the difficult macroeconomic context, the project was designed flexibly to accommodate possible necessary changes during the implementation. The project was a pilot; however, the PDO was not articulated in a way to reflect the testing/piloting aim of the project. Particular emphasis was on the M&E framework for monitoring and evaluating the approach the project was testing. But the results framework had weaknesses. Two PDO level indicators were relatively output oriented. Although revised at the second and the third restructurings, the intermediate results indicators did not capture the impact of the intervention fully (access to LoC by women and indigenous peoples). The implementation arrangements were adequate. On the other hand, the environmental and social requirements and the required documents were too complex. This resulted in the PFIs not engaging in the LoC in the early years of implementation. Lastly, the economic analysis was not conducted at the design stage; only lessons learned from other countries LoC experiences were considered as examples.

Overall, the quality-at-entry is rated Moderately Satisfactory due to the abovementioned weaknesses.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The project team kept its focus on the development impact while closely monitoring shortcomings and addressing them during the project implementation. The team benefited from flexible project design and made necessary adjustments in the LoC process, enabling US Dollar lending by BICE and the PFIs. The loans in US Dollars contributed to the financing of exporting MSMEs. Furthermore, the Bank simplified environmental and social requirements and the documentation for eligible operations, significantly facilitating disbursements. In line with the changing priorities, the activities under Component 2 were revised to meet the demands of the Government. Accordingly, the results framework was modified to reflect these changes. Although the indicators for women and indigenous peoples were not included in the results framework, these indicators, as additional indicators related to the profile and performance of MSMEs, were monitored separately by the PIU and enabled the project team to draw results out of the intervention. The Bank team worked closely with BICE at the operational and technical levels and provided continuous support during the implementation. The ICR reports that the World Bank support staff had a low turnover rate during the implementation phase, and any reassignments did not affect the quality of supervision and implementation (ICR, p.23).

Overall, the quality of supervision is rated as Satisfactory.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The project was designed as a pilot, and as mentioned in the PAD, it was to test the demand for long-term financing in local currency by banks and MSMEs, test the adequacy of incentives for difficult to reach market segments (i.e., women and indigenous peoples) and the role of BICE as a second-tier lender. In this respect, particular emphasis was on the M&E framework for monitoring and evaluating the approach the project was testing. However, the PDO statement was very broad and did not specifically include these aspects. In addition, the results framework was not adequately designed to capture all outcomes of the PDO. Two PDO level indicators are relatively output oriented. The results framework could have been strengthened by including additional indicators. For example, although the project was to test the adequacy of incentives for difficult to reach market segments (i.e., women and indigenous peoples), the results framework did not have any indicator which could reflect on the characteristics of the target beneficiaries. In addition, indicators to assess the borrower's (MSMEs)' repayment behavior could have strengthened the framework and better tested the outcomes providing better evidence and input for future operations. However, this weakness was partly compensated by monitoring additional indicators on the performance of PFIs, the performance of MSMEs, the profile of MSMEs, and the profile of finance under the project by PIU, which include variation in employment, sales, exports, size, economic sector and geographical location of MSMEs, size, maturity, the interest rate of sub-loans. It would have been more beneficial to formally include some of these indicators as part of the M&E framework and have an independent impact assessment to assess these outcomes.

b. M&E Implementation

The results framework was revised, reflecting on macroeconomic conditions (option to lend in US Dollars in addition to pesos) and changing technical assistance and capacity-building needs of the borrower. The Bank team and BICE worked mutually on developing the M&E strategy and the results framework. BICE monitored progress in each project component and reported to the World Bank. Interviews with the

MSMEs were conducted to collect input for the development of LUFE, and the MSME platform informed the design of these virtual platforms. With respect to the reliability and quality of data, the data collection methodology under Component 1 had some shortcomings. The project's operation manual did not specify how financial institutions were to calculate the average terms of their operations. This created confusion, resulting in PFIs reporting either non-variation of the average term or no reporting. The ICR reports that this fact does not detract from the credibility of the measurement of compliance with PDO 1 since this information was supplemented with market data (ICR, p.20). In addition, with respect to the intermediate results indicator measuring the level of satisfaction by the MSMEs with the LoC, the results represent 23 percent of the LoC beneficiaries and, therefore not providing substantive information.

c. M&E Utilization

The M&E data collected regarding the project's achievements and the results were used by project management and regularly reported Implementation Status and Results Reports (ISRs) and decision-making. The use of the M&E data facilitated the restructuring of the project and contributed to the completion of project activities and achieving results. In addition, based on the findings of the pilot project, the WB, upon the request of the Government of Argentina, will be proposing a financial intermediation project again to support access of MSMEs to finance (see section Risk to Development Outcome).

Overall, while the results framework was limited to capturing the outputs and outcomes of the project, it was complemented by monitoring additional information.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was identified as a category FI (Financial Intermediary Assessment) project at appraisal. The project was classified under the safeguards of Environmental Assessment (OP/BP 4.01), Natural Habitats (OP/BP 4.04), Forests (OP/BP 4.36), Pest Management (OP/BP 4.09), Physical Cultural Resources (OP/BP 4.11), and Indigenous Peoples (OP/BP 4.10) as a precaution. Only the safeguards policies of Environmental Assessment (OP/BP 4.01) and Indigenous Peoples (OP/BP 4.10) were implemented. According to the ICR, when the LoC was designed, BICE did not have an Environmental and Social Risk Analysis System Management Framework. With the assistance of the WB, through organizing public consultations with key stakeholders such as indigenous peoples and the chamber of commerce, BICE assessed the needs and expectations and developed an Environment and Social Management Framework for the project (ICR, p.21). The project contributed to BICE's updating environmental and social risk management model, and this helped BICE to comply with the environmental and social requirements of other international organizations and access their credit lines. After the project closure, BICE continued to provide its funds according to environmental and social eligibility criteria introduced by the project.

With respect to indigenous peoples, the ICR reports that Component 2 of the project improved conditions for improving their access to finance. However, the outreach of the credit line to indigenous peoples remained limited. Despite the mitigation measure of providing a US$1 million increase in the credit line quota for PFIs to incentivize indigenous peoples to comply with social inclusion requirements, it was insufficient to attract them (ICR, p.22). In any case, the World Bank team continued to work with BICE. It provided support to identify key actors in the area, such as the National Institute of Indigenous Affairs and Argentina's Ministry of Women, Genders, and Diversity.

b. Fiduciary Compliance

Financial Management: The project was the first project that the BICE acted as the implementing agency. A PIU was established in BICE under Component 3 and was responsible for coordinating, managing, implementing, supervising, and documenting all the project activities. Staffing, budgeting, accounting, internal control, cash flow, financial reporting, and auditing consistently complied with the standards required by the World Bank. Financial reports were submitted biannually, and, in accordance with the loan contract provisions, an external audit reviewed the financial statements for 2017–2019, 2020, and 2021. The review of the project closure financial statements was also completed without any opinion. No issues of corruption or misuse of funds associated with the project were reported in the ICR. All reports were submitted in a timely manner and accepted and with satisfactory quality as assessed by the World Bank finance team (ICR, p.22). The loan was fully disbursed. There were no disbursements in the first two years of project execution. From 2020, the project's implementation proceeded apace due to improved coordination with counterparts and adjustments to the line of credit (ICR, p.22). The Financial Management was rated as Satisfactory at project closing.

Procurement: The project's procurement was conducted per the Legal Agreement and the Procurement Regulations. BICE was not experienced in implementing the World Bank's procurement rules or preparing bidding documents. A procurement specialist in the PIU provided support. However, his/her recruitment was delayed significantly, and the World Bank provided the required support and regular guidance to the PIU. Despite these challenges, the procurement activities were completed successfully. Within the scope of the project, procurement of services for sixty-six consultants and twenty-six processes were initiated for the acquisition of goods and non-consulting services and systems. The Procurement was rated as Moderately Satisfactory at project closing.

c. Unintended impacts (Positive or Negative)

None.

d. Other

None.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	Due to shortcomings of quality at entry
Quality of M&E	Substantial	Modest	Due to weaknesses in the PDO indicators
Quality of ICR	---	Substantial	

12. Lessons

This ICR Review draws the following lessons from the ICR of this project (pages 24-25)

-Flexibility of line of credit conditions can increase the project's capacity to adapt to changing environment in the country or globally during the implementation. In the case of the project, the flexibility in the project design enabled the project team to adjust LoC terms and revise the project activities in line with the changing needs of the borrower. Without the option to disburse funds in US Dollars, the LoC could not be utilized entirely in pesos in high inflation and interest rates.

-Clear and simple eligibility rules can facilitate application for an LoC. In the case of the project, one of the reasons for the delayed utilization of funds was the lack of clarity and complexity of the eligibility rules. Once clarified and coupled with simplified documentation, the appetite for PFIs improved. With respect to the environmental and social requirements, compliance with them and strengthened institutional capacity helped BICE access the credit lines of various international organizations.

-Technical assistance components in financial intermediary projects can have more impact than a line of credit per se. The project experience showed that even small amounts of technical assistance components could contribute positively to reform processes by increasing institutional capacities, reducing information asymmetries, strengthening communication among stakeholders, and thus facilitating access to finance.

The IEG also draws the following lesson on monitoring the outcomes of access to finance projects, including LoCs:

-Conducting independent assessments regarding the economic/financial impact of the LoC on the final borrowers can strengthen the evidence on impact as well as provide additional input for the design of future LoC projects in other client countries. In addition, indicators such as access to finance by women and indigenous communities and other excluded segments in the results framework can help assess the outcomes of the LoC on social inclusion. The project's M&E

system was weak concerning these areas; some additional information was collected in an ad hoc manner by the PIU.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a detailed overview of the project. It is candid in explaining the issues encountered at different phases of implementation. The report is concise and follows most of the guidelines. It is internally consistent. There is a logical linking of the various parts of the report. The ICR provides evidence based on the measurement of the indicators in the results framework as well as the additional indicators monitored by the PIU. The report adequately follows the Bank guidance with regard to ratings. The project achieved a majority of its expected outputs and outcomes. However, the ICR does not discuss whether the evidence regarding these achievements was sufficient to test conditions and inform a further decision for future LoC operations. This issue was clarified at the meeting, and the additional written information was provided by the project team. The assessment of the achievement of PDO was made on the compound PDO statement without parsing it. The discussion in the Lessons and Recommendations section is clear, helpful, and based on the evidence outlined in the ICR.

Overall, the quality of ICR is rated Substantial.

a. Quality of ICR Rating
Substantial