



**The World Bank**

Access to Longer Term Finance for Micro, Small and Medium Enterprises Project (P159515)

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# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

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Concept Stage | Date Prepared/Updated: 02-Jun-2016 | Report No: PIDISDSC17616



**BASIC INFORMATION**

**A. Basic Project Data**

Country Argentina	Project ID P159515	Parent Project ID (if any)	Project Name Access to Longer Term Finance for Micro, Small and Medium Enterprises Project (P159515)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Jun 10, 2016	Estimated Board Date Sep 13, 2016	Practice Area (Lead) Finance & Markets
Lending Instrument Investment Project Financing	Sector(s) SME Finance(100%)	Theme(s) Micro, Small and Medium Enterprise support(75%), Other Financial Sector Development(25%)	Borrower(s) Ministry of Economy and Public Finance
Implementing Agency Ministry of Production,Banco de Inversión y Comercio Exterior (BICE)			

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**Financing (in USD Million)**

Financing Source	Amount
International Bank for Reconstruction and Development	50.00
<b>Total Project Cost</b>	<b>50.00</b>

Environmental Assessment Category  
F-Financial Intermediary Assessment

Concept Review Decision  
Track I-The review did authorize the preparation to continue

Other Decision (as needed)

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**B. Introduction and Context**

Country Context

**Economic growth in Argentina is expected to experience a mild contraction in 2016 but accelerate in 2017 as the positive impact of the recent policy changes kick in and the global economy recovers.** Hefty state intervention, policy uncertainty before the elections, and worsening external conditions slowed down economic growth in 2015 and exacerbated the country’s existing macroeconomic imbalances. 2016 will be a year of transition for Argentina as the much needed adjustment is likely to initially slow economic activity. Inflation, which is already high, will further increase, at least in the short-term, as a result of the devaluation of the exchange rate. Both inflation and exchange rate depreciation are likely to have a negative impact on private consumption. However, economic growth is expected to accelerate in 2017 and 2018 under the assumption that a more stable



macroeconomic framework will promote private consumption and investment and facilitate access to capital markets. Going forward, the country needs a sound macroeconomic program and a growth enabling policy framework to build credibility, enable reentry to capital markets and support broad based growth and quality employment.

#### Sectoral and Institutional Context

**Argentina's bank-dominated financial sector lags behind its LAC peers in terms of size and depth.** The financial system in Argentina is mainly transactional and is dominated by commercial banks which represent over 86 percent of total system assets. Credit penetration is well below peers in the region (it is the lowest in LAC at 14 percent) and has grown slowly over the past decade. Deposits have also lagged behind the regional average. The limited size of the financial system means there are substantial gaps in financial sector development, especially for long-term finance for productive investments, housing, and infrastructure

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**Given the small size of the financial sector, access to finance constraints are a key obstacle for firms especially for Micro, Small and Medium Enterprises (MSMEs) which play a critical role in employment and growth.** Access to finance is the second most important constraint that firms face, with nearly half of firms believing that access to finance is a major obstacle (higher than the average of 30 percent in the LAC region). However, access to finance is even a bigger problem for MSMEs. Credit to MSMEs accounts for only two percent of GDP. Formal MSMEs are of paramount importance to the economy as they contribute to 50 percent of GDP, generate about 71 percent of total employment and account for 47 percent of total sales.

**The new Government is spearheading structural reforms in the financial sector.** Policy reforms already undertaken include the elimination of caps on consumer and credit card lending rates, and of floors on deposit rates. The new Government has also highlighted financial infrastructure reforms and the development of nontraditional financial products for MSMEs as crucial for access to finance.

**The Government's reform agenda also includes strengthening the second-tier lending business model of Banco de Inversión y Comercio Exterior (BICE).** BICE, a public bank, is primarily a small, first-tier lending institution, and undertakes some second-tier lending to qualified banks (at less than 10 percent of its overall portfolio). Its new management's long-term vision is to turn BICE into a primarily second tier institution, providing longer term funding to MSMEs through qualified financial institutions. BICE has strong financial fundamentals, limited exposure to risks and adequate corporate governance.

#### Relationship to CPF

The Project is consistent with and supports the Country Partnership Strategy for FY15-18 period. The Project supports the strategic objective of **sustaining employment creation in firms**, through the provision of longer term finance to MSMEs, increasing their capacity to leverage their own funds, with an impact on improved productivity and jobs maintenance.

### C. Proposed Development Objective(s)



The Project Development Objectives (PDO) are to improve access to longer term finance for micro, small and medium enterprises, and to support the authorities in improving the enabling environment for access to finance.

Key Results (From PCN)

**Key PDO indicators include:** (i) Ratio of the average portfolio maturity of sub-loans under the project, over the average portfolio maturity of banks' lending portfolio not financed under the project; and (ii) Number of MSME beneficiaries financed by PFIs under the project.

**D. Concept Description**

**The project consists of the following three main components:**

**Component 1: Credit Line**

The credit line component will provide funding to the Ministry of Finance which will on-lend to BICE for on-lending through qualified banks for medium and long term finance to MSMEs.

**Component 2: Capacity building and technical assistance for BICE, financial infrastructure reforms, credit guarantee schemes, and financial statements for MSMEs**

This component will provide technical assistance and capacity building to: (a) support BICE's transformation into a second tier development bank and encourage the development of nontraditional products that would be helpful for MSMEs (like factoring), (b) strengthen the financial infrastructure that would improve the enabling environment for access to credit, (c) enhance the quality of financial statements for MSMEs.

**Component 3: Project Management**

The Project Management component will support BICE and Ministry of Production to partially finance key activities within the Project Implementation Unit, including monitoring progress, results, and the mid-term review survey to MSME beneficiaries.

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**SAFEGUARDS**

**A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

The project will be implemented by BICE as the Financial Intermediary bank through the PFIs. The sub-project locations (MSMEs) are not defined at this stage and are expected to be all over Argentina; there is no specific region or province in which the Project will target investments.



**B. Borrower’s Institutional Capacity for Safeguard Policies**

An existing Project Implementation Unit (PIU) at the Ministry of Production (MP), with two arms will be used: BICE-PIU will implement the credit line; and MP-PIU will manage the financial infrastructure reforms. BICE-PIU will consolidate reporting from PM-PIU and be the central point of contact for the WB. The BICE-PIU will need to be staffed with adequate personnel for implementation, it will be responsible for: selection of and on-lending/financing to PFIs; monitoring of PFIs; adherence to fiduciary and safeguard requirements for final beneficiaries; and monitoring and evaluation based on indicators. MP-PIU’s capacity still needs to be assessed. PFIs will be selected by BICE based on their financial health and their capacity to extend sub-financing. The eligibility criteria for PFIs are being determined by the WB in collaboration with BICE. Since BICE takes the credit risk of PFIs, it has strong incentives to carefully assess their financial health and operational capabilities. The PFI selection is also subject to a no-objection process by the WB, while SFA covenants between BICE and PFIs require compliance with local regulations thereby supporting continued financial health. PFIs make sub-financing to enterprises based on eligibility criteria, terms and conditions agreed with the WB. The BICE-PIU will be responsible for quality assurance of socio-environmental documentation and for monitoring sub-projects, according to the Environmental and Social Management Framework being developed. BICE-PIU will include at least one environmental expert responsible for safeguards compliance. BICE will be supported by the National Directorate of Social Innovation, MP for managing social aspects. The PFIs will be responsible for requesting environmental data from MSMEs, which will be submitted to BICE for review, and, when appropriate, approval of the credit line. BICE will be entitled to visit the facilities of specific projects to conduct random audits. The Project will include a Citizen Engagement Indicator. A mid-term survey will measure satisfaction of beneficiaries with the sub-loan in term of their needs. This will exclude satisfaction with FI decisions related to the size, terms and conditions that need to be market based (as required by OP10). The survey results will inform the project implementation, as appropriate. BICE will maintain an e-mail account open as a mechanism for people to raise concerns and provide feedback related to sub-project activities.

**C. Environmental and Social Safeguards Specialists on the Team**

Santiago Scialabba, Elba Lydia Gaggero, Andrea Mara Rispo

**D. Policies that might apply**

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Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>Although no project interventions will have direct environmental impacts, the credit lines to MSMEs will finance activities that could have environmental implications (Component 1). Given this, OP4.01 is triggered. The project has been categorized as “FI” in accordance with World Bank OP 4.01 (Environmental Assessment).</p> <p>Due to the nature of the project, investment finance applications are expected to include machinery purchase/replacement or small scale construction works. Therefore, it is expected that there will be no large scale significant and/or irreversible impacts. Sub-projects in environmental Category A according the Bank’s OP/BP 4.01 will not be eligible for funding. Moreover, the project will not finance sub-projects which may have impacts on natural habitats and/or forests, neither sub-projects which may imply the procurement of pesticides. For such analysis, guidance and procedures, an Environmental and Social Management Framework (ESMF) is being prepared by BICE. The ESMF will describe, among other things, the environmental assessment and environmental due-diligence procedures to be approved in sub-project evaluation. The environmental procedures defined in the ESMF will be also consistent with the Government of Argentina,</p>



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			Provincial and Municipal Environmental Assessment requirements and Bank's OP/BP 4.01.
Natural Habitats OP/BP 4.04	No		According to the ESMF that is being developed by BICE, projects that can affect and/or convert natural habitats will not be eligible for the credit line. Thus, this policy is not triggered as the project will not finance activities that have a direct impact on natural habitats.
Forests OP/BP 4.36	TBD		This policy remained TBD at concept given the likelihood that subprojects in the forest sector could be financed and if that were the case to ensure that corresponding measures are included in the ESMF.
Pest Management OP 4.09	TBD		The policy on Pest Management OP/BP 4.09 remains TBD at concept. The procurement or use of any pesticide in a sub-loan proposal will not be eligible for this credit line. However, MSMEs from the agricultural sector may apply to the credit line; thus, if that were the case, good practices for the management of pesticides may be included in the ESMF for the agricultural industry MSMEs that may make use of such substances in their daily practices.
Physical Cultural Resources OP/BP 4.11	No		This policy is not triggered. Sub-loans interventions are not expected to involve significant excavations, demolition, movement of earth, flooding, or other environmental changes neither to be located in, or in the vicinity of a physical cultural resources site. However, in the ESMF that is being developed by BICE, specific procedures to avoid affecting physical cultural resources in case of chance finds will be included.
Indigenous Peoples OP/BP 4.10	Yes		This is a project in all regions of the country, and indigenous peoples are present in Argentina (about 2.5 percent of the population). The primary objectives of triggering the Indigenous People's Policy are to ensure that: (i) indigenous people groups are afforded opportunities to participate in planning that affects them; (ii) opportunities to provide such groups with culturally appropriate benefits are considered; and (iii) any project impact that adversely affect them are avoided, or otherwise minimized and mitigated. An Indigenous People's Planning Framework (IPPF) will be prepared by BICE to establish the procedures to guarantee the IP's participation with respect to MSMEs sub-projects that could affect their interests. This document will be consulted with key indigenous peoples stakeholders at the national level before Appraisal. The IPPF is an integral part of the Project's ESMF as an Annex. The main objective of that IPPF is to set forth the adequate mechanisms to make sure that information is available and accessible, to guarantee free, prior and informed consultation and participation instances in a culturally appropriate manner for indigenous communities and organizations identified during the design and implementation phases of each sub-project, in order to protect their rights while minimizing any potential negative impact, and in particular, supporting the maximization of positive ones. Indigenous Peoples Plans (IPPs) will be prepared, consulted and disclosed.
Involuntary Resettlement OP/BP 4.12	No		This policy is not triggered. Any involuntary land acquisition or associated involuntary resettlement that would trigger the World Bank Operational Policy on Involuntary Resettlement will not be eligible for financing under this project. In light of this, BICE will be screening the sub-projects accordingly. The Environmental and



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			Social Management Framework for the project will include a question on involuntary resettlement that will allow the PFIs to exclude activities that may result in resettlement impacts. In addition, a list of non-eligible interventions will be included in the ESMF for screening purposes. If land is needed for a sub-project; land transactions will be conducted on a willing buyer-willing seller basis. PFIs will verify that the transactions proposed for financing will be carried out within the land to which applicants have legal tiles and no competing claims or legacy exists. PFIs will file the result of verification for record with BICE, and review by the World Bank.
	Safety of Dams OP/BP 4.37	No	The construction or rehabilitation of dams nor other investments which rely on the services of existing dams in a sub-loan proposal will not be eligible for this credit line. Therefore, the Policy is not triggered.
	Projects on International Waterways OP/BP 7.50	No	This Policy is not triggered. Any sub-loan proposal to change the water use will not be eligible for financing under the credit line, if they are located in any of the listed watersheds, and/or if they uptake from/discharge into any of the tributaries of such basin. This list is going to be included in the ESMF for screening purposes. Furthermore, MSMEs will be requested to provide evidence that their current operations comply with regulations, for example, by providing evidence of the permit to uptake or discharge waters, which has either already been issued or provide a certificate of the beginning of the licensing process. This mechanism will be set forth in the ESMF.
	Projects in Disputed Areas OP/BP 7.60	No	The Policy is not triggered because the Project will not be implemented in areas known to involve disputed areas.

**E. Safeguard Preparation Plan**

Tentative target date for preparing the Appraisal Stage PID/ISDS

May 22, 2016

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

April 30, 2016

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# The World Bank

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## APPROVAL

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