Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)
**BASIC INFORMATION**

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>P159515</td>
<td>Access to Longer Term Finance for Micro, Small and Medium Enterprises Project</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
</tr>
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<tbody>
<tr>
<td>LATIN AMERICA AND CARIBBEAN</td>
<td>05-Sep-2016</td>
<td>17-Nov-2016</td>
<td>Finance &amp; Markets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lending Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Project Financing</td>
<td>Ministry of Economy and Public Finance</td>
<td>Banco de Inversión y Comercio Exterior (BICE)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financing (in USD Million)</th>
<th>Financing Source</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>International Bank for Reconstruction and Development</td>
<td>50.00</td>
</tr>
<tr>
<td>Total Project Cost</td>
<td>Total Project Cost</td>
<td>50.00</td>
</tr>
</tbody>
</table>

Environmental Assessment Category

F - Financial Intermediary Assessment

Decision

Other Decision (as needed)

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### B. Introduction and Context

**Country Context**

1. **After taking office in December 2015, the new Argentine Government moved with significant speed to implement reforms.** The Government has rapidly implemented various macroeconomic reforms and initiated a program of structural reforms. These include: (a) the elimination of export taxes on major crops, beef, and most industrial manufacturing products, and the reduction by 5 percent of export taxes on soy; (b) unification of the exchange rate, effectively ending most foreign exchange restrictions; (c) moving from a system of discretionary to automatically provided import licenses in line with World Trade Organization procedures; and (d) resolution of the dispute with holdout creditors. In addition, the National Institute for Statistics launched a new inflation index and improved the overall quality of statistics. Electricity tariffs and transport fees were increased to
reduce subsidies, while protecting low-income users with a social tariff. However, efforts to reduce energy subsidies (which account for a large portion of fiscal deficit) have not been fully successful. The Supreme Court ruled against the increase in gas tariffs as mandatory public hearings before the tariff increases were not completed.

2. Economic activity is projected to contract in 2016, before growth accelerates in 2017 as the positive impact of the recent policy changes kick in and the global economy recovers. Argentina is in the midst of a costly transition to a more sustainable macroeconomic framework. Economic activity will decline by an estimated 1.5 percent this year, taking a toll on labor markets, where 101,000 formal private sector jobs were lost since October 2015 (1.6 percent of total employment). Inflation is running high (estimated at about 40 percent for 2016), however it has decelerated in recent months after an initial jump due to currency depreciation and the reduction of energy and transport subsidies. Fiscal consolidation faces pressures and will likely be more gradual than originally planned due to lower revenues, legal constraints to reduce energy subsidies, and increased social spending including adjustment of pension transfers and the settlement of pension system lawsuits.

3. The Argentine Government has started to address the key macroeconomic imbalances with the objective of creating an environment conducive to economic growth and employment creation. Argentina offers many opportunities in a weak global environment, and there is a strong interest from foreign investors and firms. Going forward, the country will need to continue building a growth enabling policy framework to enhance credibility and support broad based growth and quality employment. In particular, the following policies will be important to permanently reduce inflation and put Argentina on a sustainable growth path: (a) increase public spending efficiency and reduce the fiscal deficit in line with government targets; (b) continue improving the credibility of the Central Bank and the monetary policy for anchoring inflation expectations; (c) strengthen competitiveness and productivity through an improved business environment and investments in infrastructure and increasing competition in markets and improving the regulatory framework in sectors; (d) continue strengthening the credibility of official statistics; (e) continue to support better public goods provision and reduce regional disparities (including transportation, health, and education).

Sectoral and Institutional Context

4. Argentina’s bank-dominated financial sector lags well behind its Latin America and the Caribbean (LAC) peers in size and depth. The financial system is mainly transactional. Its assets to GDP stand at 40 percent, with commercial banks representing over 86 percent of total system assets. Credit to the private sector increased from 9 percent to 14 percent of GDP between 2005 and 2014. It remains the lowest in LAC, where the average stood at 46 percent in 2014 (figure 1). The income peer group median is 59 percent, with Chile, Brazil, and Colombia at 80 percent, 70 percent, and 43 percent respectively. Deposits have also lagged behind the regional average. They have remained below 20 percent of GDP since 2005, compare to the LAC average of above 40 percent in 2014. The banking sector is well capitalized, liquid, and profitable, with a low level of non-performing loans.

5. Access to credit is a significant constraint for firms, particularly with regard to medium- to long-term finance for productive investments. Access to finance is the second most important constraint that firms face, with nearly half of the firms rating it as a major obstacle (compared to 30 percent for LAC). There are substantial gaps in long-term finance to support productive investment—evident in the short-term nature of bank loans and amplified by the low depth of capital markets and small size of institutional investors.
6. **Access-to-finance constraints are further exacerbated during Argentina’s economic transformation.** Private sector credit growth stalled in the second half of 2015, due to higher costs and weaker demand. There is a risk that interest and exchange rate volatility during Argentina’s economic transition could further affect bank lending.

7. **Micro, small, and medium Enterprises (MSMEs) are the most affected by economic volatility and access-to-finance constraints, despite playing a critical role in employment and growth.** Access to finance is a particularly acute problem for MSMEs. Credit to MSMEs accounts for only 2 percent of GDP, when formal MSMEs account for at least 50 percent of GDP, generate about 71 percent of total employment, and 47 percent of total sales (figure 2). According to the 2010 Enterprise Surveys, only 38 percent of formal small firms had a loan or line of credit, compared to 60 and 75 percent of medium and large firms respectively. MSME informality, with the informal economy estimated at over 40 percent of GDP, implies lack of reliable financial statements, limiting the willingness of the banking sector to lend to this segment. Argentina’s economic transformation process further amplifies the challenges MSMEs face, as these typically experience sharper drops in the availability of finance compared to larger enterprises.

8. **Only a third of MSMEs in the industrial sector have access to bank credit, and this is dominated by short-term working capital loans.** About 90 percent of credit to MSMEs is short term. The majority of MSMEs rely on internal funds for investment decisions, limiting their capacity to invest and grow. This is in contrast to peer countries. In the median developing country, 66 percent and 78 percent of small and medium firms, respectively, report having long-term debt. The average maturity of a loan in low-middle and upper-middle countries is 3 years. In Argentina, 64 percent of loans have maturities below 1 year. A third of industrial MSMEs had to stop investment projects, and the credit demand for unfinished projects remains historically high.

9. **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. In addition, conditions related to mandated lending under the “Line of Credit for Productive Investments” program have eased, with high market expectations of a gradual phase out (especially as the program becomes non-binding under an expected reduction in inflation). The new Government has also highlighted financial infrastructure reforms and the development of nontraditional financial products for MSMEs as crucial for access to finance. These include, among others, reforms in the secured transactions framework, insolvency and creditor rights, the development of factoring and leasing, the development of Mutual Guarantee Associations (Sociedades de Garantías Recíprocas, SGRs), and the revamp of the public credit guarantee scheme (Fondo de Garantía para MIPYMES, FOGAPYME). The MoP has committed to champion these reforms, establishing a task force of public and private sector representatives to advance them. The Ministry of Finance, BCRA, and Ministry of Justice are key players in the financial sector reform agenda.

10. **This proposed pilot project assists the authorities to lay the groundwork for significant financial sector reforms in Argentina.** The project aims to help the authorities to enhance the financial infrastructure and establish market-based pricing to MSMEs. This is the first World Bank financial sector operation since Argentina’s financial crisis in 2001/2002. The financial sector reforms are likely to go beyond the scope and implementation period of this project. Argentina is currently undergoing a transition period and it will take time for the complete phaseout of market distortions (such as the Line of Credit for Productive Investments –LCIP), which have largely been caused by the macroeconomic conditions, and for the effect of the full range of reforms to kick in. The Argentine authorities have expressed interest in a potential follow on operation. If the first pilot project proves successful, a follow on operation would continue strengthening the financial sector landscape.
11. **This operation is highly relevant for the financial sector in Argentina for several reasons.** First, it aims to provide longer term financing in local currency to the banking sector that is currently limited in the market, which in turn will result in improved loan maturity for MSMEs. Second, it aims to pilot a new engagement for BICE and the banking sector, through strengthening the institutional capacity of BICE. Third, it is a pilot operation that will start tackling structural deficiencies in the financial sector, such as a weak financial infrastructure. Fourth, it aims to test the appetite of the banking sector to serve new segments of the MSME population, such as MSMEs that employ indigenous peoples, or have them in the value chains, that promote gender equality, or are first time MSME borrowers.

12. **The Government’s reform agenda includes strengthening the second-tier lending business model of Banco de Inversión y Comercio Exterior S.A. (BICE).** BICE is a small fully state-owned bank, representing only 0.4 percent of system assets. It is focused on first-tier lending, half of which is for SMEs. Although it undertakes second-tier lending, this represents less than 10 percent of its overall portfolio. BICE’s two-year business plan projects an increase of second-tier lending to 40 percent, subject to the availability of funding sources. Its new management’s long-term vision is to substantially strengthen BICE’s second-tier lending role, providing longer-term funding to MSMEs through qualified financial institutions. To support such second-tier growth, the bank will have to improve certain systems and risk processes, supported by this project.

C. **Proposed Development Objective(s)**

**Development Objective(s) (From PAD)**

The Project Development Objectives (PDO) are to improve access and strengthen the framework for the provision of longer term finance for eligible micro, small and medium enterprises.

**Key Results**

13. **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) BICE’s risk management capacity for second-tier operations is strengthened.

D. **Project Description**

14. **The project consists of the following three main components:** (a) a credit line intermediated by BICE to participating financial institutions (PFIs); (b) technical assistance and capacity building to: (i) support BICE’s strengthening of its second-tier lending business model, (ii) strengthen the financial infrastructure and credit guarantee program that will improve the enabling environment for access to credit, and (iii) enhance the capacity of MSMEs to become bankable; and (c) project management.

15. **Since this is the first World Bank financial sector operation in Argentina designed in a transitory macroeconomic environment, it has been developed as a pilot operation.** It will test the role of BICE as a second-tier lender, the demand for longer-term financing in local currency by banks as well as MSMEs, and 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 in the financial sector. The credit line will closely monitor the take up by the banks and MSMEs and the distribution of loans to borrowers.
Component 1: Line of Credit (US$45 Million)

16. The credit line component will provide USD$45 million equivalent to BICE for onlending through PFIs to MSMEs. The credit line will introduce longer-term finance for MSMEs, until financial infrastructure constraints are lifted and alternative sources of long-term finance are in place. The Ministry of Economy and Public Finance (MoF) will be the borrower, bearing the foreign exchange risk and lending to BICE in local currency. BICE will be the implementing agency, onlending through PFIs to MSMEs. BICE will select PFIs pursuant to criteria agreed between BICE and the World Bank and subject to the latter’s no objection. The criteria will be based on PFIs’ financial health and capacity to finance MSMEs. BICE will assume the risk of onlending to PFIs. The selected PFIs will in turn finance MSMEs, which are the final beneficiaries of the credit line. The PFIs will assume the risk of MSMEs, which will be selected based on agreed upon eligibility criteria with the World Bank. There will be no sectoral restrictions.

Component 2: Institutional Capacity Building of BICE, Financial Infrastructure Reforms, Credit Guarantee Fund, and Capacity Building for MSMEs (US$4.05 million)

Subcomponent 2.1. Institutional capacity building of BICE (US$1.12 million)

17. The project will strengthen BICE’s capacity to improve and expand its second-tier lending function based on international best practices, through the provision of support for the introduction of changes in its risk management, policies, and systems.

18. BICE’s capacity for its current level of second-tier operations has been assessed as broadly adequate. A significant expansion, however, will require improvements. These include: (a) strengthening risk analysis for second-tier operations; (b) training personnel on financial institution analysis; (c) enhancing the rating matrix of financial institutions by transitioning from Excel to a more robust software; (d) enhancing the qualitative process of evaluating banks, with emphasis on risk management and internal controls; (e) systematizing measurements of risks (liquidity, interest rate, market, operational, credit) through an improved information technology (IT) platform; (f) establishing a specific unit with responsibility for risk management for the second-tier operations; and (g) improving the capacity of the financial department of BICE by adding a treasury module to the core IT system.

Subcomponent 2.2. Technical assistance for improving the enabling environment for MSME access to finance (US$2.25 million)

19. The project will provide technical assistance to improve the enabling environment for MSME finance, through conducting the preparatory work for: (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 will follow a flexible approach to accommodate differential progress among focus areas and to include potential new activities that can arise in the financial sector reform agenda, in line with the objectives of this project.

a. Secured Transactions Framework

20. The project will provide support on the modernization of the secured transactions framework. The support includes the preparatory work for: (a) drafting of a new Secured Transactions Law; (b) establishment of
a modern online collateral registry and development of supporting regulations; and (c) capacity-building and awareness-raising activities.

b. Insolvency and Creditor Rights Framework

21. The project will support the preparatory work for strengthening of the insolvency framework. The support includes (a) diagnostic of challenges and draft amendments to the insolvency law; (b) a new draft regulatory framework for insolvency practitioners; and (c) dissemination of activities to inform and train key stakeholders about legislative and regulatory changes.

c. Credit Guarantee Fund

22. The project will provide support to the public credit guarantee fund to provide partial credit guarantees directly to banks and reinsurance to SGRs. The World Bank is conducting an evaluation of FOGAPYME according to the Principles for Public Credit Guarantees and is designing a pilot program for FOGAPYME to provide partial credit guarantees to selected banks. The project will evaluate the pilot, and, based on the experience, support the credit guarantee fund to provide guarantees directly to banks and serve as a reinsurance scheme for SGRs. This will include work on a revised legal framework, institutional structure, corporate governance, policies and procedures, and adequate staff skills and capacity. The project will also undertake a feasibility study on an automated financing platform, which would link SGRs, the credit guarantee fund, banks, and MSMEs, and will finance the platform following the results of the feasibility study.

Subcomponent 2.3. Capacity building for MSMEs (US$0.68 million)

23. The project will provide support for strengthening the MSME and Regional Development Department’s (SEPYME) MSME support programs, through the provision of business development and management tools aiming at making MSMEs more bankable. The support includes, inter alia: (a) a diagnostic of the current BDS Program (Experto PYME); (b) development of online training material for MSMEs that will form part of the new digital learning platform for MSMEs; (c) design, development, and implementation of an online and interactive business service providers database; and (d) strengthening the capacity of the SEPYME’s portal for MSMEs (ventanilla PYME).

Component 3: Project Management (US$0.825 million)

24. This component will support the BICE PIU to implement the project effectively. This includes, inter alia: (a) the recruitment and training of a team responsible to coordinate, manage, implement, and supervise the Project; (b) progress and results monitoring activities; (c) a midterm review survey to MSME beneficiaries; and (d) annual external audits.

25. This component will also provide a consultancy service for a part-time social development expert to support the National Directorate of Social Innovation, to promote the credit line amongst indigenous communities, and support PFIs in identifying MSMEs that benefit indigenous peoples as potential beneficiaries.
Comments (optional)
The credit line component will provide USD$45 million equivalent to BICE for on-lending through PFIs to MSMEs.

Component Name:
Institutional capacity building of BICE, financial infrastructure reforms, credit guarantee fund, and capacity building for MSMEs

Comments (optional)
This component will provide capacity building for BICE's second tier operations, technical assistance for improving the enabling environment for access to finance, and capacity building for MSMEs.

Component Name:
Project management

Comments (optional)
This component will provide support for the PIU's capacity to implement the project.

E. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)
The sub-project locations (MSMEs) are not defined since they are expected to be all over Argentina. There is no specific region or province in which the Project will target investments. However, some type of interventions will not be eligible when located in international watersheds.

F. Environmental and Social Safeguards Specialists on the Team
Santiago Scialabba, Elba Lydia Gaggero, Andrea Mara Rispo

IMPLEMENTATION

BICE will be the implementing agency for this project. A PIU within BICE will be responsible to coordinate, manage, implement, supervise and document all the activities related to the project as established in the loan agreement.

The PIU will be staffed with capable and qualified personnel for the implementation of the project. A team will be recruited and trained to coordinate, manage, implement, and supervise project activities. The PIU team will be composed of (a) a project coordinator; (b) a procurement specialist; (c) a financial management (FM) specialist; (d) an environmental and social specialist; (e) a technical expert; and (f) an assistant.

The responsibilities of the PIU will include, among others, (a) managing the implementation of project activities; (b) managing the procurement, FM, and safeguards aspects; (c) coordinating the preparation, adjustments, and use of the project management tools, including the operational manual (OM), Procurement Plan, and disbursement projections; (d) coordinating with the MoP all the technical aspects of Component 2 related to that entity; (e) monitoring the PDO and intermediate indicators of the Results Framework; (f) consolidating project reports; (g) acting as the main point of contact for the World Bank; (h) monitoring of PFIs to ensure compliance with project criteria; and (i) monitoring the use of the line of credit.
In addition, the Project will also provide a consultancy service for a part-time social development expert to support the National Directorate of Social Innovation, to promote the credit line amongst indigenous communities, and support PFIs in identifying MSMEs that benefit indigenous peoples as potential beneficiaries.

**SAFEGUARD POLICIES THAT MIGHT APPLY**

<table>
<thead>
<tr>
<th>Safeguard Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
</tr>
</thead>
</table>
| Environmental Assessment OP/BP 4.01    | Yes        | OP/BP 4.01 is triggered since sub-projects (industrial and services SMEs’ investments) may have socio-environmental associated impacts. The Environmental Category of the project is FI, as the project involves Financial Intermediaries (BICE, as second tier Bank, and PFIs). In this context, investments under the project can not be identified. Environmental issues of sub-borrowers and their sub-projects will be addressed through the sub-loan environmental eligibility assessments and through the Environmental Assessments that will be carried out in accordance with National, Provincial and/or Municipal Environmental Impact Assessment legislation and World Bank Safeguard Policies requirements. Due to the nature of the project, working capital or investment loan applications are expected to include machinery purchase/replacement or small scale construction works. Due to relatively low average loan amounts, it is not expected that the sub-loans would have significant adverse environmental impacts that are sensitive, diverse or unprecedented, or may affect an area broader than the sites or facilities subject to physical works. Any project classified as Category A according to the World Bank’s OP/BP 4.01 will not be eligible under the credit line. For such and other complementary assessments and procedures, an Environmental and Social Management Framework has been developed by BICE. The ESMF sets forth eligibility criteria and environmental and social assessment procedures. Sub-projects not supported are those: (i) classified as Category A; (ii) included in the IFC’s Exclusion List; (iii) of companies with unsolved environmental liabilities/penalties; (iv) involving dams; (v) involving...
purchase of pesticides; (vi) with non-demonstrable sustainable forest management practices; (vii) located in legally designated physical cultural resources sites or in legally protected areas; (viii) implying significant habitat conversion; and (ix) that could have an impact that adversely affect Indigenous Peoples or their interests.

No potential involuntary use of land or expropriations are foreseen for the Project, since sub-projects will take place within beneficiaries’ premises. If the investment proposal takes place in rented land, the PFI will review the rental contract and request a letter of consent signed by the owner of the land to conduct such investment. The ESMF screen out projects implying a different water use in facilities sited in international basins listed in an Annex.

The ESMF also includes a stepped approach for environmental and social assessment conducted simultaneously with the loan application. Once considered eligible, Category C sub-projects are only requested to provide evidence of the environmental and OHS legal compliance, while Category B are additionally requested to develop and implement an Environmental Management Plan. BICE will prior review every loan application according to environmental compliance before approval. PFIs will annually monitor SMEs’ EMP implementation and PFIs will report about it to BICE, at least yearly. The World Bank will review safeguard documentation of the first sub-project processed by each PFI, and sub-projects bigger than US$1.000.000. If PFIs or BICE detect social and/or environmental non-compliance, PFI will not be entitled to use the project’s funds. If the World Bank team detects non-compliance, the Loan Agreement clauses will apply.

The draft of the ESMF was disclosed in BICE’s website on July 06, 2016 (http://www.bice.com.ar/banco-mundial/) and it was consulted with different key stakeholders (MSMEs’ chambers; relevant sectorial and industrial organizations; and commercial banks) until August 8, 2016. Meetings were also organized by BICE with the institutions that provided inputs to further discuss them. The consultation process
allowed BICE to know participants views, which can be summarized as follows: (i) industrial associations consider appropriate and feasible for MSMEs to implement good practices according to ESMF provisions; (ii) industrial associations express commitment to support MSMEs to improve their socio-environmental management to fulfill requirements; and (iii) PFIs consider ESMF’s guidelines and procedures relatively consistent with their current ones. No changes in the Project design or in the ESMF provisions (beyond reformulating one question of the forms) resulted from consultations.

After the consultations, the final ESMF (including the IPPF, see below) was republished in BICE’s website on August 26, 2016 and in the World Bank’s external website on the same date (www.bice.com.ar/banco-mundial/). The final ESMF documents the results of the consultations and takes into account the participant’s views.

<table>
<thead>
<tr>
<th>Natural Habitats OP/BP 4.04</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>This policy is triggered since MSMEs related to the tourism services may be located in these areas, although the environmental impacts to natural habitats are expected to be minimal or even negligible. Significant conversion and/or degradation, and sub-projects located in areas legally declared as Protected Areas will not be supported by the credit line.</td>
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<thead>
<tr>
<th>Forests OP/BP 4.36</th>
<th>Yes</th>
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<tbody>
<tr>
<td>This policy is triggered due to the fact that MSMEs related to the forest industry may apply for the credit line. The Project will only support forest industries that can demonstrate sustainable forest management practices through certificated produce. This implies that MSMEs in the forest sector will be requested to provide evidence of their certificated sustainable forest management practices, as it is stated in the ESMF.</td>
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<tr>
<th>Pest Management OP 4.09</th>
<th>Yes</th>
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<tr>
<td>This policy is triggered due to the fact that MSMEs related to the agricultural industry may apply for the credit line. While the procurement of pesticides in a sub-loan proposal will not be eligible for this credit line, good practices for the management of pesticides will be included in the ESMF for the agricultural industry MSMEs that may make use of such...</td>
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</table>
### Physical Cultural Resources OP/BP 4.11

| Yes |

The ESMF will screen out projects intended to purchase pesticides. Sub-loans interventions are not expected to involve significant excavations, demolition, movements of soil, flooding, or other environmental changes. However, as the location of potential investments is unknown, there is a chance that some might be located in, or in the vicinity of a physical cultural resources site. Thus, this policy is triggered. The ESMF includes specific measures to avoid affecting physical cultural resources in case of chance finds. However, the ESMF screens out if sub-projects are located in an officially or legally designated physical cultural area.

### 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 sub-project that could have a negative impact will not be eligible.

An Indigenous People’s Planning Framework (IPPF) was prepared by BICE and it establishes the procedures to guarantee the IP’s participation with respect to MSMEs sub-projects that could affect their interests. The main objective of the IPPF is to set forth adequate mechanisms to make sure that information is available and accessible, to guarantee consultation and participation in a culturally appropriate manner for indigenous communities and organizations identified during the design and implementation phases of sub-projects, in order to protect their rights while minimizing any potential negative impacts, and in particular, supporting the maximization of positive impacts.

The IPPF is an integral part of the Project’s ESMF as an Annex and it’s also included in the Operational Manual. The draft IPPF was disclosed in BICE’s website on July 06, 2016 (www.bice.com.ar/banco-mundial/) and it was consulted with Indigenous Leaders at the national level through the National Institute of Indigenous Affairs (Instituto Nacional de
Asuntos Indígenas - INAI) and the Indigenous Participation Council (Consejo de Participación Indígena - CPI) on the same date (document had been distributed in advance for review). During consultations, it was agreed that in order to ensure a successful implementation of the project in a way that will benefit the indigenous communities, it will be necessary to carry-out a collaborative approach, working closely with the indigenous communities to identify opportunities, and promoting a continuous dialogue with indigenous leaders and communities in order to monitor and inform project implementation.

During the consultations, the IPs representatives made some comments and recommendations; and BICE and the Ministry of Production prepared an action plan to address them. The action plan include actions to: (i) implement a permanent consultation process through regular INAI/CPI meetings; (ii) use this fora to identify MIPyMES that could benefit IP communities; (iii) incorporate a process to make sure that MIPyMEs that employ IP communities’ members in order to access the credit line, have honored their contracts with those employees; (iv) incorporate a process to make sure that MIPyMEs will respect ILO’s Convention No. 169 on Indigenous and Tribal Peoples in terms of contracts and employment conditions; (v) channel the request for training and direct financing for IP’s MIPyMEs through the DNIS programs, as an input for potential future operations with focus on financial inclusion for vulnerable groups; (vi) incorporate a clause on fair trade; and (vii) promote the line of credit in a culturally appropriate way, when required.

Following the consultations, a revised IPPF was published in BICE’s website on August 26, 2016 and in the World Bank’s external website on the same date (www.bice.com.ar/banco-mundial/). The final IPPF documents the results of the consultations and takes into account the participant’s views.

<table>
<thead>
<tr>
<th>Involuntary Resettlement OP/BP 4.12</th>
<th>No</th>
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<tbody>
<tr>
<td>The policy on Involuntary Resettlement OP/BP 4.12 is not be triggered. Any involuntary land acquisition or associated involuntary resettlement that would trigger the World Bank Operational Policy (OP) 4.12</td>
<td></td>
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</tbody>
</table>
### Safety of Dams OP/BP 4.37

| No |

This Policy is not triggered since sub-projects to build or rehabilitate dams are not eligible. Investment projects whose outcomes depend on the performance of an existing dam or a dam under construction will not be eligible either. This type of projects will be screened out in the ESMF.

### Projects on International Waterways OP/BP 7.50

| No |

Most of the industrial MSMEs are located in watersheds that are international according to the World Bank’s OP/BP 7.50 definition. In this Project it is not possible to develop a list of positive locations avoiding international waterways, because 86% of the MSMEs’ industrial activity is concentrated in two regions (Pampeana & Centro) that cover the city of Buenos Aires and 5 Provinces (CABA, Buenos Aires & La Pampa, and Córdoba, Santa Fe & Entre Ríos). Both regions host rivers whose tributaries discharge waters into international waterways. Due to the broad acceptance of industrial sectors MSMEs, and the relatively low average amount of each sub-loan that limits the scale of the adverse environmental impacts, the negative changes that may affect the quality or quantity, or compromise the uses of those international waterways are not known until implementation.

Hence, it was decided in order not to trigger this OP to develop a negative list of international watersheds, where interventions related to water use are not eligible. Thus, any sub-loan proposal involving discharges into or uptakes from tributaries of international watersheds and/or from international

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The ESMF includes a question on involuntary resettlement that will allow PFIs to exclude activities that may result in resettlement impacts. In addition, a list of non-eligible interventions have been included in the ESMF for screening purposes. PFIs will verify that the transactions proposed for financing will be carried out within the land to which applicants have legal titles and no competing claims or legacy exists. PFIs will file the result of verification for record with BICE, and review by the World Bank.

on Involuntary Resettlement will not be eligible for financing under this project. In light of this, BICE will be screening the sub-projects accordingly to ensure that OP 4.12 is not triggered.
rivers will not be eligible under this credit line. This includes projects for irrigation, implying water pumping, effluent discharges or any project involving a different water use from the one that the MSMEs are currently allowed to do by the National, Provincial and/or Municipal authorities. Any sub-loan proposal to change the water use of the MSME is not eligible to be funded under this 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 included in the ESMF for screening purposes. Furthermore, MSMEs will be requested to provide evidence that their current operations comply with regulations upon submission for access to the credit line by providing evidence of the permit to uptake or discharge waters, either already issued or a certificate of the beginning of the licensing process. This mechanism will be set forth in the ESMF. Any MSME applying for a sub-loan that implies a change in the current water use in non-international waterways will be eligible and the specific permit for such intervention will be requested upon submission together with the rest of the environmental licenses.

Footnote 1: Source [http://www.academia.edu/8495199/Boletin_regiona_n_2_-_El_mapa_territorial-sectorial_de_las_Pymis_en_Argentina]

<table>
<thead>
<tr>
<th>Projects in Disputed Areas OP/BP 7.60</th>
<th>No</th>
</tr>
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<tr>
<td>The Policy is not triggered since the Project will not be implemented in or will not affect areas known to involve disputed areas.</td>
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**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT**

**A. Summary of Key Safeguard Issues**

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
No large scale, significant or irreversible potential negative impacts are anticipated for Component 1 Credit Line from sub-loan proposals. Since these may involve machinery purchase/replacement or small scale construction works, risks are not expected to have significant adverse environmental impacts, sensitive, unprecedented, or that may affect an area broader than the sites subject to physical works. Legal compliance and the application of good practices will lead to the prevention/mitigation of such risks and potential impacts.

The Project will not finance sub-projects that: (i) are classified as Category A; (ii) are included in the IFC’s Exclusion List; (iii) of companies with unsolved environmental liabilities/penalties; (iv) involving dams, (v) that involve purchasing of pesticides, (vi) with non-demonstrable sustainable forest management practices, (vii) located in legally designated physical cultural resources sites or in legally protected areas; (viii) implying significant habitat conversion; and (ix) that could have an impact that adversely affect Indigenous Peoples or their interests.

No potential involuntary use of land or expropriations are foreseen for the Project since sub-projects will take place within beneficiaries’ premises. If the investment proposal takes place in rented land, the PFI will review the rental contract and request a letter of consent signed by the owner of the land to conduct such investment.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

No long term negative impacts are anticipated. Cumulative incremental adverse effects from sub-projects are not expected to be significant, due to sub-projects general characteristics and the nationwide scope of the Project.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Since access to funding under the credit line will be demand-driven, an analysis of alternatives of sub-project locations does not apply; sub-projects will be implemented in the beneficiary premises. However, recommendations on sub-project design improvements might arise from the environmental screening and assessment process included in the project’s ESMF, to help avoid adverse impacts.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
BICE, through its Risk Assessment, Commercial, Operational Risk, and Operations & Methods Units developed an ESMF. The ESMF fulfills Safeguard Policies through a stepped approach simultaneously conducted when filling in the Loan Request Form. First, it screens out non-eligible projects and categorizes them into A, B or C, based on the risk of the activities, considering the UN’s ISIC codes and the risks equivalence developed by the EBRD and IDB. Once deemed eligible through a list of questions, full environmental and OHS compliance is requested. Projects B are also requested to develop and implement an EMP, which also include good practices for adequate pesticides management applicable for agri-business. BICE and PFIs intervene in all stages of screening and PFIs follow-up on the established measures applied by beneficiaries during implementation.

The PFIs will be responsible for environmental due diligence through the mechanisms set forth in the ESMF. MSMEs will report annually to the PFIs, who will also report annually to BICE. The WB and BICE will be entitled to visit facilities to audit on a random basis. BICE will establish a Project Implementation Unit, which will have a socio-environmental specialist to lead tasks related to ensure proper environmental due diligence, supported by the risk analysts to be appointed in BICE on environmental and social management issues. Training sessions for BICE’s technical risk analysts and for PFIs will be organized to build up the capacity and to enhance socio-environmental management. The socio-environmental expert will also support PFIs, as necessary, to appropriately apply the guidelines and procedures established in the ESMF. Hiring this socio-environmental specialist, as part of the PIU, is an effectiveness condition. The National Directorate of Social Innovation (Ministry of Production) will also be involved for raising awareness of the project amongst indigenous peoples' communities and MSMEs that could get access to longer term finance, through an eligible PFI, with Project funds.

BICE also developed an IPPF to establish the procedures to guarantee the IP’s participation in MSMEs’ sub-projects that could affect their interests. The IPPF sets forth the adequate mechanisms to ensure information is available and accessible, to guarantee consultation and participation in a culturally appropriate manner for IPs. The IPPF is part of the ESMF as an Annex and is also part of the Operational Manual.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Key stakeholders are: a) MSMEs’ chambers; b) relevant sectorial and industrial organizations; and, c) commercial banks are also key stakeholders, considering they will have to conduct environmental due-diligence through the ESMF. The draft ESMF was disclosed in BICE’s website on July 06, 2016 and it was consulted until August 8, 2016. The file was sent to key stakeholders asking for their comments and suggestions. In addition, meetings were held with some organizations to further discuss inputs. Main participants’ views can be summarized as follows: i) industrial associations consider appropriate and feasible for MSMEs to implement good practices according to ESMF provisions and express commitment to support MSMEs to improve their socio-environmental management to fulfill requirements; and, ii) PFIs consider ESMF’s guidelines and procedures fairly consistent with their current ones.

Regarding Indigenous Peoples, the main stakeholders are the Indigenous Peoples communities in Argentina. These groups are represented at the national level by the National Institute of Indigenous Affairs (INAI) and the Indigenous Participation Council (CPI). The Social Innovation Directorate under the Small and Medium Enterprises Secretariat is also a key stakeholder that will support BICE and PFIs by helping them to identify MSMEs that benefit indigenous peoples as potential beneficiaries of the credit line financed by the Project.

The draft IPPF was disclosed in BICE’s website on July 06, 2016 and it was consulted with Indigenous Leaders at the
national level on the same date (document had been distributed in advance for review). Main output from consultation is that it will be necessary to carry-out a collaborative approach, working closely with the indigenous communities.

The final ESMF and IPPF document the results of the consultations and takes into account the participant’s views. They were published in BICE’s website on August 26, 2016 and in the World Bank’s external website on the same date. BICE will maintain the final ESMF and IPPF in their website, an e-mail account open (consultasyreclamos@bice.com.ar) and a operational telephone free-line (0800-444-BICE) as a mechanism for people to raise concerns, make enquires and provide feedback related to sub-project activities. These methods for feedback and resolution of people’s concerns and/or request of information will be disseminated through the mechanisms of promotion of the credit line.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

Environmental Assessment/Audit/Management Plan/Other

<table>
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<tr>
<th>Date of receipt by the Bank</th>
<th>Date of submission to InfoShop</th>
<th>For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors</th>
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<td>10-Aug-2016</td>
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"In country" Disclosure
Argentina
06-Jul-2016

Comments
The draft ESMF was published in BICE’s website for consultations

Indigenous Peoples Development Plan/Framework

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"In country" Disclosure
Argentina
06-Jul-2016

Comments
The draft IPF was published in BICE’s website for consultations

Pest Management Plan

<table>
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<th>Was the document disclosed prior to appraisal?</th>
<th>Date of receipt by the Bank</th>
<th>Date of submission to InfoShop</th>
</tr>
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</table>
"In country" Disclosure

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
Yes

OP/BP 4.04 - Natural Habitats

Would the project result in any significant conversion or degradation of critical natural habitats?
No

If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?
NA

OP 4.09 - Pest Management

Does the EA adequately address the pest management issues?
Yes

Is a separate PMP required?
No

If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?
NA

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?
Yes
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?  
Yes

**OP/BP 4.10 - Indigenous Peoples**

Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?  
Yes
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?  
Yes
If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?  
NA

**OP/BP 4.36 - Forests**

Has the sector-wide analysis of policy and institutional issues and constraints been carried out?  
No
Does the project design include satisfactory measures to overcome these constraints?  
NA
Does the project finance commercial harvesting, and if so, does it include provisions for certification system?  
Yes

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank’s Infoshop?  
Yes
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?  
Yes

**All Safeguard Policies**

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?  
Yes
Have costs related to safeguard policy measures been included in the project cost?  
Yes
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?  
Yes
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

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World Bank

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Implementing Agencies

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Web: http://www.worldbank.org/infoshop

APPROVAL

Task Team Leader(s):  Bujana Perolli

Approved By

Safeguards Advisor:  Maria Elena Garcia Mora  06-Sep-2016
<table>
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<tr>
<th>Practice Manager/Manager:</th>
<th>John Daniel Pollner</th>
<th>07-Sep-2016</th>
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<tbody>
<tr>
<td>Country Director:</td>
<td>Zafer Mustafaoglu</td>
<td>09-Sep-2016</td>
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