Board of Executive Directors
Simplified Procedure
On or after 29 November 2017

PR-4531
14 November 2017
Original: Spanish
Public
Simultaneous Disclosure

To:	The Executive Directors
From:	The Secretary
Subject:	Argentina. Proposal for a loan for the “Program to Implement the National Financial Inclusion Strategy of Argentina”
Basic Information:	Loan type .... Global Credit Operation (GCR) Borrower .... Republic of Argentina Amount .... up to US$20,000,000 Source .... Ordinary Capital
Inquiries to:	Fernando de Olloqui (extension 1523) or Francisco Demichelis (telephone Country Office in Argentina 5411-4320-1812)
Remarks:	Management has determined that this loan proposal meets the requirements for presentation by Simplified Procedure, in accordance with Part III, Section 2 (paragraph 3.29(b)) of the Regulations of the Board of Executive Directors and document GN-1838-1, paragraph 2.
Reference:	GN-1838-1(7/94), DR-398-17(1/15), GN-2884(3/17)

PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

PROGRAM TO IMPLEMENT THE NATIONAL FINANCIAL INCLUSION STRATEGY OF ARGENTINA

(AR-L1249)

LOAN PROPOSAL

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ABBREVIATIONS

AGIP	Administración Gubernamental de Ingresos Públicos [Governmental Public Revenue Administration]
AGN	Auditoría General de la Nación [Office of the Auditor General]
BdO	Banca de las Oportunidades ["Bank of Opportunities," Colombia]
CNCIF	Consejo Nacional de Coordinación de la Inclusión Financiera [National Coordination Council for Financial Inclusion]
EFT	Electronic funds transfer
ESMR	Environmental and social management report
FONCAP	Fondo de Capital Social [Social Capital Fund]
ICAS	Institutional Capacity Assessment System
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MFI	Microfinance institution
MSEs	Micro and small enterprises
MSMEs	Micro, small, and medium-sized enterprises
NFIS	National Financial Inclusion Strategy
NRC	Nonreimbursable contribution
OR	Operating Regulations
PCR	Project completion report
POS	Point-of-sale terminals
RADIM	Red Argentina de Instituciones de Microfinanzas [Argentine Network of Microfinance Institutions]
SIGEN	Sindicatura General de la Nación [Office of the Comptroller General]
SMEs	Small and medium-sized enterprises
TC	Technical cooperation
UCP	Unidad de Coordinación de Programas y Proyectos con Enfoque Sectorial Amplio [Coordination Unit for Sector-wide Approach Programs and Projects]
UNSGSA	United Nations Secretary-General's Special Advocate for Inclusive Finance for Development

PROJECT SUMMARY

ARGENTINA
PROGRAM TO IMPLEMENT THE
NATIONAL FINANCIAL INCLUSION STRATEGY OF ARGENTINA
(AR-L1249)

Financial Terms and Conditions

			Flexible Financing Facility[a]	
Borrower: Argentine Republic			**Amortization period:**	25 years
Executing agency: Argentine Republic, acting through the Ministry of Finance			**Disbursement period:**	4 years
			Grace period:	5.5 years[b]
Source	**Amount (US$)**	**%**	**Interest rate:**	LIBOR-based
			Credit fee:	[c]
IDB (OC)	20 million	95.3%	**Inspection and supervision fee:**	[c]
Local	1 million	4.7%	**Weighted-average life (WAL)**	15.25 years
Total	21 million	100%	**Currency of approval:**	U.S. dollars

Project at a Glance

Project objective/description: To contribute to increased financial service access and use for households and businesses through: (i) implementation of the National Financial Inclusion Strategy; and (ii) increased access to credit for micro and small enterprises (MSEs).

Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) formal appointment of the program coordinator and the contracting of technical specialists in financial inclusion to support the Coordination Unit for Sector-wide Approach Programs and Projects (UCP) in implementing the program; and (ii) approval of the program Operating Regulations by the Ministry of Finance with the Bank's prior no objection, including clauses relating to socioenvironmental issues based on the environmental and social management report (ESMR) (see paragraph 3.4).

Special contractual execution conditions: As a special contractual execution condition for Component 2, a subsidiary agreement will be signed between the Ministry of Finance and the Social Capital Fund (FONCAP), as the financial intermediary responsible for making subloans under the operation (see paragraph 3.5).

Exceptions to Bank policies: None.

Strategic Alignment

Challenges:[d]	SI ☑	PI ☑	EI ☐
Crosscutting themes:[e]	GD ☐	CC ☐	IC ☑

[a] Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes in the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[b] Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

[c] The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with relevant policies.

[d] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[e] GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

1.1 **Argentina's financial system.** Argentina's financial system has low levels of financial deepening.[1] The ratio of bank deposits to GDP is only 16%, substantially less than the average of 38% for Chile, Brazil, Uruguay, and Colombia, whereas bank lending to the private sector represents only 13% of GDP, much less than the average of 47% for the countries mentioned.[2] This suggests that, beyond the lack of access to services for economic segments excluded from the financial system, there is a wide underserved gap for households and businesses of all sizes. The current administration has taken a number of steps to encourage greater financial intermediation.[3]

1.2 Argentina has numerous banks and regulated finance companies that exist side-by-side with a sizable group of unregulated entities, such as nonbank lenders (including nonbank issuers of credit cards, saving and loan cooperatives, credit unions, as well as microfinance institutions). Segmentation of the saving and lending markets among public banks (which represent around 40% of financial system assets) and private banks, in which the public banks dominate the mass savings market while the private banks are predominant in lending, is an indication that the financial intermediation of individuals and firms is also segmented. In terms of the physical coverage and penetration of the financial system, Argentina ranks lower than its regional peers in terms of coverage per channel[4] for every 10,000 adults,[5] even though 97% of the departaments have at least one point of service. Moreover, there is segmentation of products at the departmental level between public and private banks.

1.3 **Financial inclusion.** Since the early part of this decade, financial inclusion—defined as access to formal financial services[6] and their use by businesses and households—has acquired growing importance on the international economic agenda and in the eyes of policymakers and financial regulators at the country level.[7] This has been reflected, in part, in the launch of National Financial Inclusion Strategies in countries of Latin America and the Caribbean[8] and elsewhere, to diagnose the problem and determine actions with specific goals.[9]

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1 International Monetary Fund (IMF), Argentina 2016 Article IV Consultation.

2 IMF, Financial Access Survey. Figures for 2015.

3 IMF, op. cit., 2016. Actions include the elimination of minimum interest rates for term deposits and maximum interest rates for consumer loans, more information on bank fees, simplified procedures for opening bank accounts, and introduction of a new inflation-indexed unit of account.

4 Includes branches, point-of-sale terminals, and automated teller machines (ATMs).

5 Diagnóstico y lineamientos para la estrategia de inclusión financiera en Argentina [Diagnostic assessment and guidelines for the financial inclusion strategy in Argentina], IDB, May 2017.

6 Including transfers and payments, savings, credit, and insurance.

7 For example, the Global Partnership for Financial Inclusion was created following the G20 meetings of 2010, which recognizes this issue as one of the pillars of the global development agenda and establishes a platform for a plan of action.

8 El Salvador, Colombia, Mexico, Jamaica, Peru, and Paraguay have adopted strategies, while Brazil, Chile, and Uruguay have made similar efforts.

9 See for example World Bank, Financial Inclusion Strategies: Reference Framework, August 2012.

1.4 This interest in financial inclusion comes at a time when there is increasing evidence of its many different socioeconomic benefits.[10] For low-income households, those benefits include reducing vulnerability by providing instruments to limit ups and downs in their consumption and cope more efficiently with adverse shocks, as well building their assets. A recent review of empirical evidence on the impact of programs that promote the use of savings accounts reveals a consistent positive impact on beneficiaries' income, consumption, investment, production, and other areas.[11] For businesses, financial inclusion enhances the potential for investment through credit.[12] In addition, the use of digital means of payment not only makes financial transactions more affordable and secure but is also a tool for formalization.[13] At the macroeconomic level, there is evidence of positive impact of expanded access to financial services on growth and on reducing inequality.[14] The benefits are particularly important in the macroeconomic setting, when the authorities seek to protect the most vulnerable population groups during the transition period of economic reform.[15]

1.5 It should be noted that financial inclusion refers both to individuals and businesses that have no access to financial services, particularly low-income segments, as well as to the population that fails to make effective use of services and as a consequence fails to build those services into its financial practices and reap their benefits.[16] The broader definitions of financial inclusion also stress the importance of service quality and insist that services be provided in the context of financial stability for the system and for users.

1.6 In light of international experience, a number of causes can be identified as impeding financial service access and use, including: (i) low profitability for service providers, given the high cost of serving low-income segments (or in remote locations), especially through traditional banking technologies and business models, given the thin margins expected; (ii) little innovation in products that deliver value to users, and other restrictions on demand such as remoteness and the affordability of services, and the modest financial means of users; (iii) a relatively unfavorable regulatory

[10] For a summary of the socioeconomic benefits, see: "La inclusión financiera en América Latina y el Caribe. Coyuntura actual y desafíos para los próximos años" [Financial inclusion in Latin America and the Caribbean. Current conditions and challenges for the coming years], IDB, 2015.

[11] Karlan, D., A.L. Ratan, and J. Zinman (2014), "Savings by and for the poor: A research review and agenda."

[12] There is ample and compelling evidence of the impact that small-scale credit can have on boosting investment in assets for starting or growing a business, opening greater opportunities, improving profit margins, and diversifying sources of income for households. In the last decade many studies and evaluations on this issue has been published, including: Banerjee, A. (2013), Microcredit under the microscope: What have we learned in the past two decades, and what do we need to know?; Banerjee, A., et al. (2015), Six randomized evaluations of microcredit: Introduction and further steps: Dataset; and Woutersen, T. and S. Khandker (2014), Estimating the long-run impact of microcredit programs on household income and net worth.

[13] See for example Kearney, A.T., The shadow economy in Europe (2011); or Better Than Cash Alliance, "The journey toward 'cash lite': Addressing poverty, saving money and increasing transparency by accelerating the shift to electronic payments", 2012.

[14] Jahan, S., and B. McDonald (2011), "A bigger slice of a growing pie." IMF work on income inequality; and Clarke, G., L. Xu, and H. Zou (2006), "Finance and income inequality: What does the data tell us?"

[15] IMF, op. cit., 2016.

[16] Access generally involves the opening of an account, whereas use refers to transfers and payments, credit, savings, and insurance. Credit can also be a measure of access.

climate that deters competition or raises costs for service providers; and (iv) market failures resulting from information asymmetries or imperfections. The motivation behind efforts to achieve financial inclusion, therefore, lies in the potential of new business models that use digital infrastructure and technologies to lower costs and achieve the scale necessary for sustainability, together with the ability to adapt products to users' needs.[17]

1.7 **Financial inclusion in Argentina.** Financial inclusion faces a number of challenges in Argentina, in both service access and use, and encounters the same obstacles as described in paragraph 1.6.[18] Following is a description of the problems of access and use (especially payments and transfers), with a focus on individuals (although they are also applicable to businesses), as well as of credit, with a focus on micro and small enterprises (MSEs).

1.8 **Problems of access to financial services.** In line with the rest of LAC, it is estimated that only 50% of adults have access to an account in a financial institution, a figure that drops to 44% for the population within the first two income quintiles.[19] These figures already reveal important recent progress[20] thanks to government efforts to pay salaries, subsidies, pensions, and retirement benefits through direct deposit to bank accounts: taken together, these represent more than half of total savings accounts. There is also no difference of access in the rural sector. There are two main problems relating to access for segments that are now excluded, which are concentrated among the poor and vulnerable whose incomes are from informal activities. The first problem is the low profitability for service providers of serving low-income segments through traditional business models. The development of suitable products for attracting deposits (or the opening of accounts) on the part of regulated financial institutions faces particular conditions that reduce the profitability of maintaining accounts and mobilizing savings, such as high reserve requirements and the obligation to offer certain services free of charge in savings accounts and remuneration (paycheck deposit) accounts. The problem is made worse by the limited innovation in products that deliver value to users. Secondly, on the regulatory front, the documentation required to open accounts has been expended to include requirements related to tax obligations, automatically excluding the informal sector from the financial system. The government has sought to resolve this problem through rules recently issued by the Governmental Public Revenue Administration (AGIP).

1.9 **Problems with the use of financial services.** In addition to access, there are other challenges relating to the limited use of financial services, with indicators substantially below those of other countries in LAC, especially among lower-income groups.[21] Thus, an analysis of savings behavior shows that, while 40.7% of individuals in a set of six LAC countries[22] reported saving in the last year, and 13.1%

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17 See for example IDB, op. cit., 2015, and G20 High-level Principles for Digital Financial Inclusion.

18 IDB, op. cit., 2017.

19 Global Findex 2014, World Bank. In Argentina, the deposit-taking products are current accounts, savings accounts, remuneration (paycheck deposit) accounts, and social security benefit accounts.

20 In 2011, the access figure for all adults was 33%.

21 World Bank, op. cit., 2014.

22 Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

held their savings in the financial system, those figures plunge to 23.1% and 4.1% in Argentina. Looking at the subset of the first two quintiles, the respective figures for LAC countries are 32% and 6.7%, versus 16.3% and 1.1% in Argentina. For other use-cases, when it comes to payments and transfers Argentina trails Brazil, Chile, and Mexico in the payment of bills using financial products or channels; in Argentina, only 8% of people use these services, compared to an average of around 12% in the other three countries. Moreover, the use of debit and credit cards to make payments is lower than in countries with a similar penetration of such products, such as Brazil and Chile. The value of electronic fund transfers (EFT) as a proportion of GDP is one of the lowest in the region. Businesses make little use of their accounts for conducting transactions, partly due to taxes on current account transactions. Overall, the ratio of electronic payments to GDP is only 2.1% in Argentina, compared to 14.9% in Mexico and over 6.3% in Brazil and Chile, while the number of electronic payments per year per capita is 41, well behind Brazil (137) and Chile (88).[23] The limited use of electronic payments confirms the concern over the prevalence of cash as the means of payment, with all the inefficiencies and costs this entails. The failure to use electronic means of payment reflects insufficient market infrastructure (penetration), the lack of incentives for financial institutions and businesses to promote them,[24] and the absence of a suitable operating framework for the promotion of digital financial services.

1.10 The government has sought to promote greater financial inclusion and digitalization of payments based on access to mobile and Internet technology and its use for facilitating financial transactions at low costs for providers and users.[25] It also has initiatives with financial products that make use of these technologies, such as e-wallets or websites, that have also been introduced into the market. Following a study of Fintech enterprises in Latin America, more than 60 Argentine firms have put platforms in place that are earning increasing recognition.[26] As in other countries, the digital transformation of the financial sector has sparked the emergence of increasing numbers of Fintech firms that are developing solutions to address the needs that traditional financial institutions have not succeeded in covering, in particular those of underserved or excluded segments, with a clear focus on payments and transfers. Nevertheless, the lack of a regulatory framework and effective supervision of electronic money, in contrast to various countries of the region, produces uncertainty and frustrates decision-making by stakeholders. Additionally, those firms have difficulty interconnecting with low-value payment systems, preventing for example transfers from mobile wallets to savings accounts or vice versa, or not allowing payments platforms or issuers of alternative means of payment to use the existing payment and clearing networks.

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[23] Data to 2015, based on Statistics on Payment, Clearing and Settlement Systems for Countries of the Committee on Payments and Market Infrastructures (CPMI), December 2015; and central banks for the remaining LAC countries, December 2015. Includes EFT, direct debit, debit card, and credit card transactions.

[24] IDB, op. cit., 2017.

[25] IDB, op. cit., 2017.

[26] See link, Fintech Radar Argentina: 60 startups a la vanguardia del sector Fintech argentino [Fintech Radar Argentina: 60 startups in the vanguard of Argentina's Fintech sector]. Fintech refers to a business (or sector) that provides financial services using new technologies.

1.11 **The credit problem.** Low-income households and small businesses face the greatest credit restrictions. According to a survey of household demand,[27] Argentina ranks last in a comparative group of seven LAC countries[28] on the question of access to credit products of financial institutions (8.3%, compared to an average of 14.3% for the other countries). This rate is even lower in the case of the first two income quintiles (where the index is 4.5%, compared to an average of 9.9% for the other countries).

1.12 Credit to micro, small, and medium-sized enterprises (MSMEs) represents only 3% of GDP, although such firms account for at least 50% of GDP and generate around 71% of total employment.[29] Looking at this problem from the demand side,[30] microenterprises finance up to 71% of their fixed assets (on tenors longer than one year) mainly using their own resources or retained earnings. The equivalent figure for small businesses is 64%, and for medium-sized enterprises, 62%. The proportion of loans taken out for the same kind of assets is only 11% for microenterprises, 18% for small businesses, and 22% for medium-sized enterprises. Moreover, only 11% of working capital for SMEs is financed with credit, resorting primarily to financing by discounting checks. Among microenterprises, only 2.5% have an outstanding loan, and only 7.7% have a borrowing history,[31] the majority through regulated entities. Nevertheless, the same studies show that microenterprises that have taken on debt in the past tend to regard credit as a viable alternative in the future.[32]

1.13 On the lending side, Argentina falls short in its financing for SMEs, which account for just 10% of total financial system credit. This percentage is below the average for Latin America (12.4%) and for countries of the Organization for Economic Cooperation and Development (OECD) (25.6%).[33] Financing to the microenterprise sector has not kept pace with other LAC countries. Microfinance institutions (MFIs) lack financial resources, and some of the sector has taken an approach tending more toward welfarism than financial sustainability,[34] which in turn limits investment in the sector and its funding. Moreover, the lack of financing leads to market concentration. There are also some major institutional weaknesses among MFIs that work against their access to credit. Argentine MFIs operate with a large number of manual processes: fewer than 10% of them have any software for integrated portfolio management or conduct any systematic market research to maximize the efforts of their human team.[35] This represents a real opportunity for the sector to extend the reach of financial services provided. There are an estimated 371 active

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27 World Bank, op. cit., 2014.

28 Argentina, Brazil, Chile, Uruguay, Mexico, Colombia, and Peru.

29 Office of the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA).

30 Latin American Economic Outlook 2013 – SME Policies for Structural Change. OECD/ECLAC, 2013.

31 Microcréditos en la Argentina: una herramienta clave para la inclusión financiera [Microcredits in Argentina: A key tool for financial inclusion], FONCAP, 2015.

32 Ibid.

33 OECD/ECLAC, op. cit.

34 IDB, op cit., 2017, p. 43. Lines financed with public resources have generally set limits on interest rates charged to the end-customer, which could affect the sustainability of the MFIs. A number of MFIs also appear to associate microlending with a social welfare activity.

35 FONCAP, op. cit.

MFIs,[36] most of them nonprofits offering microfinance services. Several banks have also made forays into the sector with specialized microcredit units. The aggregate portfolio in the first half of 2017 stood at approximately US$103 million,[37] serving a total of 76,000 microborrowers. The portfolio is highly concentrated with eight for-profit MFIs accounting for 87% of the total portfolio. Only 9% have a portfolio with more than 500 clients.

1.14 In light of the microfinance problems described above, the government has sought to strengthen the role of the Social Capital Fund (FONCAP),[38] a second-tier vehicle intended to develop the MFI sector by providing funding, technical assistance, and training. FONCAP is undergoing a transformation (see paragraph 1.19) to scale up the sector and make it sustainable. Nevertheless, it lacks the funding to meet MFIs' demand for financing that they can then onlend to SMEs. Another factor that has held back the growth of credit (to both businesses and households) is the insufficient infrastructure for credit reporting on borrowers. Information on the quality of borrowers in Argentina is fragmented among various credit bureaus that focus on different types of businesses, some of them local. The variety of consultation sources, their cost, and the difficulty of consolidating reports and sharing information all create difficulties in the market when originating credit, especially in the case of low-income persons who traditionally meet their funding needs through unregulated entities. Mutual guarantee associations have been an important tool for addressing the collateral problems that have traditionally constrained SMEs.

1.15 **Rationale.** With technical support from the Bank,[39] the government has prepared a National Financial Inclusion Strategy (NFIS) that lays out a diagnostic assessment and roadmap for policies and actions to increase financial inclusion in the country. The NFIS defines priority target areas under six objectives: (i) increase the use of financial services and electronic means of payment; (ii) promote digital financial service offerings; (iii) improve access to savings accounts for households and MSMEs; (iv) improve responsible and sustainable access to credit for households; (v) improve MSME access to credit on sustainable terms; and (vi) ensure adequate protection for financial consumers and suitable financial means for individuals. It also highlights the importance of the institutional structure required to implement the NFIS, and the monitoring indicators that must serve as the basis for the targets set by the government. In this connection, the government has created the National

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[36] FONCAP, op. cit. Pursuant to Law 26117 of 2006, a microfinance entity is an individual undertaking or social economy collective that offers microcredits in an amount not exceeding twelve times Argentina's minimum sliding scale of living wages, known as the SMVM. They generally employ specialized lending models. MFIs may be either profit-making or not-for-profit organizations (civil associations, cooperatives, mutual societies, foundations, indigenous communities, government organizations).

[37] Mapping Report of the Argentine Network of Microfinance Institutions (RADIM). The exchange rate used is 17.5 Argentine pesos to the U.S. dollar.

[38] FONCAP S.A. is a mixed-capital organization operating under the Ministry of Finance, created by the national government in 1997. Its capital is 51% private and 49% public. At the end of 2015, its portfolio was distributed among 46 MFIs, and was financing approximately 10% of Argentina's microfinance sector.

[39] With resources from technical cooperation operation ATN/KR-14171-RG, Support Program for the Development of Comprehensive Strategies for Financial Inclusion.

Coordination Council for Financial Inclusion (CNCIF).[40] Formalization of the NFIS will be determined by the CNCIF once its sessions begin. Importantly, the NFIS will need to supplemented with a sizeable additional source of information in the form of a survey of the features of demand for formal financial services, in order to delve deeper into the reasons for low financial inclusion and to more accurately understand the perception of demand.

1.16 Possible government interventions to foster financial inclusion and thereby achieve strategy objectives based on programs in other countries[41] can be classified as follows: (i) make regulatory changes to promote competition and innovation in services and channels for underserved or excluded segments, and to ensure a framework for financial stability and consumer protection; (ii) take direct action such as providing the necessary financial infrastructure or funding for financial institutions that deal with underserved segments, such as MSMEs; (iii) provide supply-side incentives to make the previous policies more effective within a shorter time frame so as to develop new products and channels for serving the identified segments; and (iv) introduce the necessary institutional measures, such as an intergovernmental coordination committee and an execution and monitoring body.

1.17 The evidence indicates that countries with an NFIS make swifter progress toward greater inclusion.[42] This program seeks to help the government in implementing the NFIS through the following interventions. First, it will provide technical assistance and incentives to build capacity at regulated financial institutions for developing products and services to enhance financial inclusion, based on successful experiences in other countries with similar objectives, in particular the Banca de las Opportunidades [Bank of Opportunities] (BdO) program in Colombia.[43] The second intervention will be the necessary institutional measures for financial inclusion in the country, support for regulatory changes, and providing information to the market. The third intervention addresses the objective of improving MSME access to credit on sustainable terms through financing for financial institutions serving this segment, specifically MSEs.

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40 The Ministry of Finance created the CNCIF by ministerial resolution published on 27 July 2017. roles CNCIF's objectives are to prepare and implement a financial inclusion strategy for the development of policies for universal access to banking and financial services. Among other functions, it coordinates public policy design and participatory processes among the various public and private stakeholders.

41 For example, Colombia, Ecuador, Paraguay, and El Salvador.

42 2016 Annual Report of the UNSGSA.

43 Banca de las Oportunidades (BdO) is a government program administered by Colombia's foreign trade bank, Banco de Comercio Exterior, to promote access to financial services for poor families, unbanked households, microenterprises, and small businesses. The BdO began as a US$50 million competitive fund and conducts its activities through: (i) cost subsidies; auction of funds to intermediaries, by activity or product when not initially profitable; (ii) project cofinancing: covers a portion of the costs of innovative projects that support financial inclusion; (iii) technical assistance: support in kind through the hiring of advisors with experience in financial inclusion. Among its most significant accomplishments, BdO has achieved 99% coverage of municipios with access points and increased the proportion of individuals with at least one product from 55% to 69% between 2007 and 2013. The impact evaluation also estimated that, for persons living in municipios served by the program, the probability of opening an account increased 13% (Econometría-SEI, 2011, "Evaluación de impacto: Acceso a servicios financieros en los municipios intervenidos por el Programa de Inversión 2007-2010" [Impact evaluation: Access to financial services in municipios targeted by the Banca de las Oportunidades investment program 2007-2010]).

1.18 Based on information from the Findex financial inclusion surveys, demographic data for Argentina, and a FONCAP study,[44] there is estimated potential demand of 8.5 million individuals who could benefit from the services offered by a formal financial institution. In particular, based on revealed financing needs, there is demand on the part of 3.5 million individuals who could benefit from formal financial services. Lastly, when it comes to microcredit, a study conducted by FONCAP shows that, in a conservative scenario, there is credit demand on the part of 406,861 self-employed individuals who are outside the formal financial system.

1.19 **The Bank's knowledge and lessons learned.** In terms of the Bank's sector experience in Argentina, several MSME lending and technical assistance operations have been concluded, including two Lending Programs for Productive and Job Development in the Province of San Juan (1798/OC-AR and 2763/OC-AR). A rigorous evaluation showed their positive impact on sales, employment, investment, and productivity of beneficiary firms.[45] These experiences have yielded lessons on the importance of public-sector intervention to deepen lending to small businesses. Technical assistance operations have been conducted to support microfinance in Argentina,[46] and experience gained to identify the areas where the second-tier entity needs to improve, to support the microfinance sector. In particular, this operation will have the support of technical cooperation (TC) operation ATN/OC-15795-AR, Support for the Institutional Strengthening of the Social Capital Fund (FONCAP) (US$500,000). Its objective is to reform and develop FONCAP by supporting the necessary institutional, organizational, and internal process reforms for FONCAP to better meet its development objectives and improve information access, sharing, and processing, including upgrades in information and communication technologies and human resource development, in order to expand and strengthen the MFI network. This TC, now in execution, will support the outcomes of the program, as it will enable FONCAP to optimize its sector development activities. The TC will thus support FONCAP with technical assistance and, in parallel with the program, supply the financial resources necessary to deepen the market.

1.20 **The Bank's country strategy with Argentina.** This operation is aligned with the IDB Group country strategy with Argentina 2016-2019 (document GN-2870-1), under the strategic objective of inclusive financial development and SME finance, supporting expected outcomes of increased financial depth of the private sector, and increased financing for SMEs. The strategy also indicates that providing financing to vulnerable groups will also contribute to the objectives in the strategic area of reduction of poverty and inequality.

1.21 **Alignment with Bank strategies and policies.** The operation is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008), and aligned with the development challenge of "productivity and innovation" through deepening financial markets and improving MSME access to finance, as well as "social inclusion and equality" through the inclusion of all segments of the unbanked population in financial markets. It is also aligned with the crosscutting theme of

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44 FONCAP, op. cit.

45 Impact of the Lending Program for Productive and Job Development in the Province of San Juan, IDB, 2016.

46 Including operation ATN/ME-9415-AR, which provided technical assistance to FONCAP and a selected subset of member MFIs in its network, and ATN/ME-10820-AR, which supported an important foundation in the sector.

"institutional capacity and rule of law" through strengthening the institutional capacity of the government to develop financial inclusion policies. The program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) under the indicator of the number of micro/small/medium-sized enterprises financed, as well as the auxiliary indicator for beneficiaries of improved access to formal financial services. The project is included in the 2017 Country Program Document (document GN-2884) and is consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), which includes interventions that will expand the financing frontier for the productive sector, including financing for other groups and segments not fully served in the market that have productive potential. The project is als consistent with the Social Protection and Poverty Sector Framework Document (document GN-2784-5), in promoting the financial inclusion of the beneficiaries.

1.22 The operation delivers additionality in the promotion of "gender equality and diversity" by collecting relevant information on existing gender gaps in financial inclusion in Argentina. A striking aspect of the diagnostic assessment is that there are no statistics disaggregated by gender. This is significant given the importance of the gender issue in financial inclusion, since the available data on demand at the regional and global levels indicate substantial gender gaps.[47] Therefore, as a first step toward mainstreaming the gender issue in the NFIS, a specific gender and diversity module is included in the survey on the features of demand for formal financial services (see paragraph 1.28). This will help to broaden the financial inclusion strategy in Argentina.

B. Objective, components, and cost

1.23 The program objective is to contribute to increased financial service access and use for households and businesses through: (i) implementation of the National Financial Inclusion Strategy; and (ii) increased access to credit for micro and small enterprises (MSEs).

1.24 **Component 1. Implementation of the National Financial Inclusion Strategy (US$13.5 million).** This component is divided into two subcomponents: capacity-building of financial service providers, and government institutional capacity-building to develop financial inclusion policies.

1.25 **Subcomponent 1.1. Capacity-building of financial service providers (US$10 million).** Technical and financial assistance will be provided to regulated financial institutions through conditional cash transfers, to improve the levels of service access and use by households. This will be achieved through competitions to foster financial inclusion that provide knowledge and monetary incentives for financial institutions to conduct specific projects that expand coverage into underserved markets.

1.26 **Competition requirements.** The competitions must be designed to achieve at least one of the two following outcomes: (i) increased access for persons previously

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[47] For further reference, see "Datos de oferta desagregados por sexo relevantes para la inclusion financier" [Supply data disaggregated by gender with relevance for financial inclusion], IDB, 2016. Additionally, V. Swamy, 2014, "Financial inclusion, gender dimension, and economic impact on poor households," shows rigorous evidence of the greater impact that financial inclusion programs have on women.

excluded from the system, defined as those who have not had access to at least one financial service (specifically a savings account) in the past year, with a focus on informal or low income segment, to be measured by the accounts opened during the year by customers new to the system; and (ii) increased use of services, to be measured by the increase in the number of persons performing at least three digital transactions[48] per month, specifically transfers and payments.[49] The resources under this subcomponent will be used for technical assistance and nonreimbursable contributions to financial institutions participating in the competition that must be devoted to expanding the coverage of their access channels and designing and implementing new financial services for excluded or underserved population segments, as well as developing financial education programs.[50] The target population is described in paragraph 1.31.

1.27 The competitions, to be conducted by the Ministry of Finance, will operate on the basis of the methodology and intervention instruments of Colombia's Banca de las Oportunidades (BdO) program. Eligible entities will be financial institutions regulated and supervised by the central bank, and ancillary firms financial system enterprises partnering with them to provide technical, technological, and operational project support. Potential support instruments include cofinancing, direct incentives, technical assistance, and innovation competitions. The planned instruments and objectives for the program's outcomes include: (i) a technical assistance competition to develop business lines aimed at promoting service and access for excluded segments. Specifically, the assistance will involve training financial institutions in the savings account product under the simplified due diligence regime intended for low-income informal segments. Financial institutions do not currently offer this due to lack of knowledge about the product, the target segment, and its profitability. For this reason, assistance in developing the product will contribute to the expected outcome of boosting access, measured by the increase in accounts opened by clients new to the financial system, compared to the year-end stock of accounts of the institutions involved; (ii) a competition to promote expanded coverage of low-cost channels[51] that facilitate the population's access to electronic payments (and other financial services), with the expected outcome of increasing use, measured by the number of persons with at least three digital transactions per month as a proportion of the total customers of the institutions participating in the competition. This will be achieved by offering cofinancing arrangements to partially offset the operating costs associated with deploying this kind of market infrastructure to expand coverage in the country. Participants will be required to deploy channels in departments with lower density (defined as having fewer points of contact per 10,000 inhabitants than the national average); participants must specify their goals, in terms of both coverage and more digital transactions, as well as the instruments to achieve them; and (iii) a competition to support the promotion of innovative products that will foster

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[48] Digital financial services encompass financial products and services delivered to customers via digital or electronic technology (G20 High-Level Principles for Financial Inclusion).

[49] Includes EFTs, direct debit, debit card, and credit card transactions.

[50] By definition, it is impossible to know how many financial institutions will participate, given the fact that these competitions are intended to encourage demand. However, the BdO program's experience in Colombia suggests that there could be an average of three participating entities per competition.

[51] Includes ATMs, points of service, branches, correspondent banks, branches, mobile devices, and Internet gateways.

digital financial service development and offerings, particularly payments. The solicitation for the competition will include the requirement that the financial service that the participant wishes to develop will produce the expected outcome of increasing the number of persons with at least three digital transactions per month, and how that is to be achieved; an example of a possible digital payment service is the deployment of a payment mechanism via mobile communication devices (or e-wallets), which may require application software support, training of agents, promotion, and market research.

1.28 **Subcomponent 1.2. Government institutional capacity-building to develop financial inclusion policies (US$3.5 million).** Public institutions will be supported in implementing the NFIS. Eligible activities and expenditures under this subcomponent include: (i) studies and training to promote regulatory reforms or provide information to the market and policy-makers with a view to increasing financial inclusion. The main areas of regulatory reform considered include defining a regulatory framework conducive to the development of viable models of digital financial services, authorizing the delivery of financial services through agent or correspondent banks, improving the reporting of regulated and unregulated financial institutions to credit bureaus, and ensuring adequate protection for financial consumers. In addition, a survey will be conducted on the features of demand for formal financial services, to more fully understand the demand and identify the population's financial needs and behavior, emphasizing the gender dimension so that it can be integrated into the NFIS; (ii) measures to improve financial education and consumer protection. As the NFIS is on the whole geared toward benefiting low-income or vulnerable sectors of the population, it is important to develop programs to ensure that those segments have the capabilities to make use of the new financial products, and the tools to identify and compare the terms on which those products may or may not be acceptable. To this end, eligible expenditures include studies for coordinating a better financial education policy and communications strategies involving information campaigns to promote financial product access and use; and (iii) management and communication expenditures relating to implementation of the NFIS and the coordination of participatory processes among the different public and private stakeholders.

1.29 **Component 2. Improved access to credit for MSEs (US$6.5 million).** To overcome the constraints on access to credit for micro and small enterprises (MSEs),[52] the Ministry of Finance will transfer the funds from this Component to FONCAP, which will channel them to MFIs on a reimbursable basis, through: (a) funding lines, so that the MFIs can channel loans to MSEs, addressing the MFI financing obstacle. The target population is described in paragraph 1.31. Financing will be provided for these firms' production-related activities (e.g., business, agriculture, industry, commerce, and services) in the form of fixed capital or working capital. There will be no restrictions on the borrower's economic activity, which will ensure that the outcomes are satisfactory in terms of creating opportunities for the population without access to financial services; and (b) direct loans to the MFIs themselves, to expand their coverage[53] and their technical and operational capacity

[52] Classified according to the criterion set by the Ministry of Production, based on the maximum values of total annual sales, by sector (http://www.produccion.gob.ar/pymes).

[53] Such as loans for expanding offices, adopting information technologies, etc.

for serving more MSEs, as a way of addressing the institutional weakness of the MFIs. Taken together, these two outputs will yield the expected outcome of increasing the percentage of credits to new MSE clients as a proportion of total lending to MSEs by beneficiary MFIs. To this end, FONCAP will make it a requirement of its funding lines to MFIs that at least 25% of the firms financed be new clients, stepping up the current MFI efforts that result in an average of only 15% new clients. In addition, promoting new clients will also be a condition for investment loans. These outcomes will have the effect of boosting credit to the private sector as a proportion of GDP.

1.30 FONCAP will vet the financial institutions for compliance with the eligibility criteria and conditions. The eligible MFIs must meet the requirements of applicable laws and regulations, as well as those of FONCAP and the program Operating Regulations (OR). FONCAP will use its evaluation tool to ensure that the MFIs are healthy enough for effective intermediation from the financial and corporate governance standpoints. As a minimum, they must: (i) use specialized credit technologies for small amounts; (ii) maintain controls to prevent money laundering and financing of terrorism; (iii) show three years of audited financial statements; (iv) possess sound corporate governance; and (v) demonstrate viable financial indicators.

1.31 **Final beneficiaries.** The target population for Subcomponent 1.1 is the people who obtain financing instruments offered by the participating financial institutions, including: (i) the population now excluded from the financial system (as defined in paragraph 1.26), particularly the poor and vulnerable and segments reliant on income from informal sources; and (ii) the population that does not make effective use of services, particularly electronic transfers and payments (as defined in paragraph 1.26). For Component 2, the target population will be MSEs (as defined in paragraph 1.29), with a focus on those that have not obtained credit in the past year from any MFI supported by FONCAP. FONCAP will set conditions for taking on new clients. The funds will be earmarked for the low-income population segment, which is typically living in poverty or at risk of falling into poverty and is dependent on multiple sources of income. The Results Matrix projects the number of beneficiaries under both components. In addition, Component 1 (and particularly Subcomponent 1.2) may benefit other financial inclusion segments through crosscutting measures, such as credit to individuals and the opening of accounts and use of digital payments by businesses.

1.32 The criteria and processes for identifying projects and eligible beneficiaries will be established in the program Operating Regulations (OR). For Component 1, specifically, the following will be established: (i) the objectives of the competitions, (ii) the criteria for using support instruments; (iii) activities eligible for financing, (iv) financial institutions eligible to receive funds; (v) amounts, counterparts, and items eligible for financing; (vi) the solicitation process for the competition; and their award and publication; and (vii) monitoring and evaluation. The executing agency will have technical experts to ensure the success of the competitions (see paragraph 3.4). The eligible expenditures for Subcomponent 1.2 are to be determined. For Component 2, the following will be described: (i) eligibility criteria and conditions for MFIs; (ii) the features of eligible operations; and (iii) the maximum numbers of financial institutions. FONCAP will establish the features of disbursements and financial terms,[54] as stated in the program OR.

C. Key results indicators

1.33 **Results indicators.** Based on the requirements established (see paragraphs 1.26 and 1.27), the expected outcomes of Subcomponent 1.1 will be expanded financial service access and use by households and firms, as measured by the number of accounts opened during the year by new clients to the system, compared to the year-end stock of accounts of the competition participant (access) and the number of persons performing at least three digital transactions per month as a proportion of total clients of the competition participants (use). These outcomes will have an impact on increasing financial service access and use within the system, with similar indicators in terms of the number of accounts per 10,000 inhabitants, and the number of electronic payments per person per year. The expected outcome of Component 2 will be to increase loans made to new MSE clients as percentage of the total loans made to MSEs by beneficiary MFIs (see paragraph 1.29). This will also increase lending to the private sector as a proportion of GDP. Activities under Subcomponent 1.2 may impact the expected outcomes of Subcomponent 1.1 and Component 2 by affecting the environment and the regulations surrounding their activities: for example, measures to strengthen credit reporting systems will support greater access to credit, and improved regulation of electronic financial services will support the use of digital payments, while financial education, consumer protection and the information generated by the demand survey will impact both.

1.34 The economic analysis identifies the differential inflows and outflows generated by the program. These were calculated on the basis of estimated economic impacts of the components for access to new services, use of digital financial services, and lending through FONCAP. The estimates were based on conservative assumptions. After discounting the resulting flows at the rate established by the Bank (12% real), the net present value is US$4.7 million. A sensitivity analysis was also performed, and found that the net present value remained positive and robust under all scenarios considered.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The total cost of the program is US$21 million. Of that amount, US$20 million will be provided as a loan from the Bank's Ordinary Capital resources, and the local contribution will be US$1 million. The operation is designed as a global credit program to encourage and strengthen the technical capacity of financial institutions to serve as effective sources of funding, while increasing the supply and accessibility of credit for small businesses.

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[54] FONCAP will determine the interest rates in keeping with its policies, which reflect the institution's sustainability and nature as a development entity.

Table 1. Cost structure (US$ millions)

Category	Bank	Local counterpart
Component 1. Implementation of the National Financial Inclusion Strategy	13.5	0.0
Subcomponent 1.1. Capacity-building of financial service providers	10.0	0.0
Subcomponent 1.2. Government institutional capacity-building to develop financial inclusion policies	3.5	0.0
Component 2. Improved access to credit for MSEs	6.5	0.0
Administration, audits, and monitoring and evaluation	0.0	1.0
Total	20.0	1.0

2.2 The disbursement period will be up to 48 months, running from the effective date of the loan contract. Component 2 is expected to be disbursed evenly over the first three years, whereas the bulk of Component 1 will be disbursed from the second year onward, to conduct the corresponding competitions. The executing agency will present a financial plan for the program according to the guidelines agreed upon between the Bank and the country. Disbursements will be in the form of advances. To qualify for a new advance, at least 80% of the previous advances will have to be accounted for.

Table 2. Projected disbursements

Year of disbursement	2018	2019	2020	2021	Total
Amount (US$ millions)	3	8	7	2	20
Percentage per year (%)	15	40	35	10	100

B. Environmental and social safeguard risks

2.3 This is a financial intermediation operation, governed primarily by Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), and does not require classification. Given the nature of the projects to be financed and the primary beneficiaries, mainly households and micro and small enterprises (MSEs), no adverse environmental or social impacts are foreseen. The specific requirements to be included in the program OR are described in the environmental and social management report (ESMR).

C. Fiduciary risks

2.4 The fiduciary capacity of the executing agency was assessed in August 2016, using the methodology of the Institutional Capacity Assessment System (ICAS), which was applied to the Coordination Unit for Sector-wide Approach Programs and Projects (UCP).[55] That assessment covered the following systems: programming of activities and components, administrative organization, personnel administration, administration of goods and services, financial administration, and internal and

[55] Performed in the context of designing operation 3759/OC-AR, which has the same execution unit as this program.

external control. It found that the UCP possesses institutional capacity and a satisfactory degree of development, and a low level of risk for program execution.

2.5 Fiduciary risks relate to delays both in preparing the procurement documents and in conducting the procurement processes, due to unfamiliarity with policies. This generates a medium level of risk for program execution, which will be mitigated through support from the Bank for preparing the bidding documents in order to ensure their quality, as well as training and monitoring of the executing agency and a specification in the program OR on the details of the applicable policies. With respect to Component 2, the technical cooperation operation (see paragraph 1.19) will support the institutional strengthening of FONCAP, so this execution risk is low.

D. Other key risks and issues

2.6 The remaining risks identified as medium, and their mitigating measures, include: (i) as a development risk, the limited capacity of financial institutions to submit eligible projects under Component 1, which will be mitigated by providing technical assistance on the presentation of projects, and misuse of the resources allocated through Component 1 by the financial institutions, which will be mitigated by strengthening the fiduciary capacity of the UCP and ensuring that the UCP management team has suitable professional staff with technical skills to monitor the results of the projects during their execution. In addition, the National Coordination Council for Financial Inclusion (CNCIF) calls for coordination of participatory processes among the different public and private stakeholders; and (ii) as a public management and governance risk, the activities in support of implementing financial inclusion policies involve a number of public-sector actors (particularly the ministries of Revenue and Finance and the Central Bank),[56] which poses a coordination risk. This risk will be mitigated through establishment of the CNCIF (see paragraph 1.15).

2.7 **Sustainability.** Through the National Financial Inclusion Strategy and the CNCIF, the government has demonstrated the high priority of financial inclusion within its policies for protecting the most vulnerable during the transition period of economic reform. The program's sustainability also relies on the demonstration effect of positive outcomes in terms of serving segments previously excluded from the system, and doing so in a profitable way. This will expand the supply of services to these segments.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower of the program will be the Argentine Republic. The program will be executed and administered by the Ministry of Finance, acting through the Coordination Unit for Sector-wide Approach Programs and Projects (UCP). The UCP will coordinate actions of the public and private entities involved in implementing the National Financial Inclusion Strategy (NFIS), provide the necessary input to other bodies for decision-making, and ensure participation by the financial system and the participating entities. The UCP will be

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[56] The Central Bank regulates and supervises the financial system, and therefore has responsibility for the regulatory measures contained in Subcomponent 1.2. It may also support the design of the competitions under Subcomponent 1.1.

guided in its work by the National Coordination Council for Financial Inclusion (CNCIF). Specifically, for Component 2, the Ministry of Finance will negotiate an agreement with FONCAP transferring execution and accountability to the executing agency for purposes of achieving the program outcomes.[57] Under this mechanism, FONCAP will make direct loans to the microfinance institutions (MFIs), as well as finance the loans that the MFIs make to the micro and small enterprises (MSEs), as described in Component 2. The Ministry of Finance may transfer funds to FONCAP on a nonreimbursable basis, so that FONCAP can use loan repayments to continue financing projects to improve access to credit.

3.2 The UCP will employ its own organizational structure and will be responsible for technical, operational, financial, and procurement management of the program, as well as coordination with other government entities. However, it must be supported by a minimum of two technical experts in this area, to be engaged with the local counterpart resources. For execution of Component 1, the technical area of the UCP will, among other key functions, examine and approve the solicitations for the competition and the precontractual documents, and recommend the approval of projects, competitions, and the corresponding disbursements. For execution of Component 2, FONCAP will be responsible for monitoring and supervising the proper use of the subloan resources and provision of the necessary human and technological resources as planned and on schedule.

3.3 Additionally, the CNCIF will be involved in program execution, particularly Component 1, coordinating the participatory processes among the different public- and private-sector actors.

3.4 **Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) formal appointment of the program coordinator and the contracting of technical specialists in financial inclusion to support the program coordination unit in implementing the program.** The coordinator will support more effective and efficient execution through use of the UCP's organizational structure: however, program administration must be supported by a minimum of two technical experts, to be engaged prior to disbursement with the Bank's no objection. These contracts will be financed with the local contribution resources; and **(ii) approval of the program Operating Regulations by the Ministry of Finance with the Bank's prior no objection, including requirements relating to socioenvironmental issues raised the environmental and social management report (ESMR)**, given the need to ensure that the program is consistent with Bank policies and procedures and with the country's financial laws and practices, and has the agreed key features.

3.5 Additionally, as a special contractual execution condition for Component 2, a subsidiary agreement will be signed between the Ministry of Finance and FONCAP, as the financial intermediary responsible for making subloans under the operation, given its responsibility for administering the resources of that component. The agreement must specify the conditions for the transfer of resources and expressly state what use FONCAP is to make of the funds received from the MFIs as payment

[57] This agreement will take as a guide the one used in 3174/OC-AR between the Ministry of Production and the Bank for investment and Foreign Trade.

for the loans made, and accountability to the executing agency for program monitoring.

3.6 **Fiduciary agreements and requirements.** The main fiduciary measures are described in Annex III. They cover: (i) the exchange rate to be used; (ii) audits; (iii) modalities and thresholds for procurement processes, as stipulated in the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9); (iv) all procurements must be included in the Procurement Plan approved by the Bank through the Procurement Plan Execution System (SEPA) or such system as the Bank may determine, and the methods and ranges established in it, as described in Annex III; and (v) financial supervision plan. For justification of expenditures to the Bank on the use of resources under Component 2, the expenditure will be deemed to be the disbursements made by FONCAP to the MFIs.

B. Summary of arrangements for monitoring results

3.7 **Reports.** The program will be monitored by means of six-monthly reports prepared by the executing agency and delivered to the Bank within 60 days after the close of each calendar semester, and a final report delivered within 60 days after the date of the last disbursement, which will serve as the basis for preparing the project completion report (PCR). For Component 2, FONCAP will deliver the necessary information to the executing agency. The program financial statements will be audited by external auditors acceptable to the Bank, and must be delivered within 120 days after the close of each fiscal year of the executing agency.

3.8 **Information and evaluation.** The borrower and the executing agency will compile and retain all relevant information, including all documentation required for preparing the PCR. The impact evaluation is described in the monitoring and evaluation plan. That evaluation will use an ex post cost-benefit method based on information compiled during the life of the project and compared against estimates made for a control group.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Micro / small / medium enterprises financed (#)* -Beneficiaries of improved access to formal financial services (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2870-1	Inclusive financial development and SME financing.
Country Program Results Matrix	GN-2884	The intervention is included in the 2017 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	8.1	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	2.4	
3.3 Results Matrix Quality	2.7	
4. Ex ante Economic Analysis	8.5	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	0.0	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	6.7	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	4.2	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Accounting and Reporting, External Control. Procurement: Information System.
Non-Fiduciary	Yes	Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality	Yes	The program promotes gender equality and diversity by obtaining information regarding the gender gap in financial inclusion based on a survey. Project documentation discusses the lack of gender information regarding financial inclusion and its relevance.
Labor		
Environment		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The "Program for the Implementation of the National Strategy for Financial Inclusion of Argentina" (AR-L1249), for a total amount of $US 21 million, has the general objective of contributing to increment the access and use of financial services for households and firms. The diagnostic identifies various problems: (a) low access to a bank account, particularly for low income people; (b) low levels of electronic payments relative to GDP compared to other countries in the region; and (c) low access to credit for microenterprises.

The proposed solutions focus on two components. The first component consists primarily of competitions where resources are allocated to the winning financial institutions (FI). The competitions aim at promoting higher access to bank accounts for those excluded from the financial markets, and a higher use of digital financial transactions. This component is innovative and the expected results are not often targeted by Bank programs. However, an important limitation is that various aspects of the design of the competitions remain open (to be determined during execution), and the executing agency (EA) has limited experience in this area. The second component consists of channeling resources to microenterprises through a top tier institution (FONCAP), and is similar to other Bank operations. Although all result indicators are SMART, in some cases no baseline data is provided, which makes it difficult to set specific targets.

The economic analysis relies on a partial equilibrium model. The benefits of higher access and use of financial services are monetized based on parameters from the literature. However, given the lack of some relevant information, the model relies on a large number of assumptions. Results show that the program remains cost-efficient for most of the scenarios considered. According to the monitoring plan, financial institutions benefiting from the program must report baseline and follow-up information. A questionnaire will be designed to ensure that the data reported by different FIs will be comparable. The evaluation plan relies on an ex-post cost benefit analysis using the same methodology as the ex-ante analysis. Additionally, the program aims to complement this analysis with some information from FIs that did not participate in the program (control group); however, it is not clear whether those FIs will be sufficiently comparable to program beneficiaries.

RESULTS MATRIX

Program objective:	The program objective is to contribute to increased financial service access and use for households and businesses through: (i) strengthening the technical and operational capacities of service providers, (ii) increasing access to credit for micro and small enterprises (MSEs), and (iii) strengthening the institutional capacity of government for developing financial inclusion policies.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Base year	Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021	Final target	Means of verification	Comments
IMPACT: Expanded financial service access and use by households and businesses										
Indicator 1. Number of accounts per 10,000 adults	Number	15,339	2015					N/A	Financial Access Survey, IMF	Targets not available. To be determined by the government during program execution, as part of implementing the NFIS.
Indicator 2. Number of electronic payments per person per year	Number	41	2015					N/A	Central Bank	See previous comment.
Indicator 3. Credit to the private sector/GDP	Percentage	13%	2015					N/A	Financial Access Survey, IMF	See previous comment.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Base year	Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021	Final target	Means of verification	Comments
OUTCOME 1: Expanded financial service access and use by households and firms through the program										
Indicator 1. Accounts opened during the year by new clients to the system, compared to the year-end stock of accounts (average for financial institutions participating in the competition)	%	n/a	2017					Double the baseline	Program monitoring system	This is a measure of access to at least one service or product within the financial system. New users refers to persons previously excluded from the system, defined as those who have not had access to at least one financial service in the last year (particularly, a savings account), with a focus on the informal and low-income segment. This consequently excludes remuneration accounts as well as accounts related to payments of subsidies, pensions, and allowances. The baseline is not available as the year-end stock of accounts of the participants, and the number of accounts opened by new clients to the system, will not be known until each competition is held. The institutions will be required to supply this information as a condition for submitting bids. along with data on their beneficiaries' access to other accounts. This information will be included in the program OR. However, it is estimated that the figure could be less than 2%. It is assumed that there will be three winning bidders, with average support of between US$500,000 and US$1,000,000.

Indicators	Unit of measure	Baseline	Base year	Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021	Final target	Means of verification	Comments
Indicator 2. Number of persons performing at least three digital[1] transactions per month as a proportion of total clients of the competition participants (average for the last six months)	%	n/a	2017					10 percentage points above the baseline	Program monitoring system	This measures the use of financial services, specifically transfers and payments.[2] It includes measures to boost the coverage of low-cost channels,[3] as well as new products and services for digital transfers and payments. The reference to at least three digital transactions is based on the current average of transactions per capita. The baseline is not available, as it will not be known until each competition is held. This information and the targets achieved will be obtained from the competition participants. However, it is estimated that the baseline could be around 10% (see paragraph 1.10 of the main document). Institutions must provide this information, for inclusion in the program OR, as a condition for competing. It is assumed that there will be three winning bidders, with average support of between US$500,000 and US$1,000,000.
OUTCOME 2: Improved access to credit for MSEs through the program										
Indicator 1. Loans made to new MSE clients as percentage of the total loans made to MSEs by beneficiary MFIs during the year	%	15%	2017					25%	Reports and accounting from FONCAP to the UCP	New clients of MFIs funded by FONCAP, understood as persons who have not had a loan in the last year from any MFI supported by FONCAP with funds supplied by this loan. The baseline was provided by FONCAP.

[1] Digital financial services encompass financial products and services delivered to customers via digital or electronic technology (G20 High-Level Principles for Financial Inclusion).

[2] Includes EFTs, direct debit, debit card, and credit card transactions.

[3] Includes ATMs, points of service, branches, correspondent banks, branches, mobile devices, and Internet gateways.

OUTPUTS

Outputs	Unit of measure	Baseline	Base year	Year 1	Year 2	Year 3	Year 4	Final target[1]	Means of verification	Comments[2]
Component 1: Implementation of the National Financial Inclusion Strategy[4] (total cost US$13,5 million)										
Subcomponent 1.1: Capacity-building of financial service providers (US$10 million)										
Output 1. Number of competitions held seeking to develop new products and services for financial inclusion[5]	Number of competitions	0	2017	0	2	1	0	3	Six-monthly UCP reports	See main document (paragraph 1.27) for more information on the proposed competitions.
Subcomponent 1.2: Government institutional capacity-building to develop financial inclusion policies (US$3.5 million)										
Output 2. Number of studies conducted leading to proposals for regulatory reforms	Number of studies	0	2017	0	1	1	1	3	Six-monthly UCP reports	
Output 3. Number of surveys conducted on characteristics of demand for formal services, including a specific module for the gender issue	Number of surveys	0	2017	0	0	1	0	1	Six-monthly UCP reports	
Output 4. Number of communication and education campaigns conducted for implementing the NFIS	Number of campaigns	0	2017	1	0	1	1	3	Six-monthly UCP reports	
Component 2. Improving access to credit for MSEs (US$6.5 million)										
Output 1. Number of MNCs accessing credit thanks to the funding of MFIs	Number of MSEs	0	2017	1.250	2.500	833	0	4.583	Six-monthly FONCAP reports	Assumes an average loan of US$1,200, equivalent to 20,000 Argentine pesos.
Output 2. Number of MFIs supported with resources for institutional strengthening	Number of MFIs	0	2017	0	2	2	0	4		

4 These projections are based on the best estimates available. Since this is an innovative program, they could be changed in the course of program execution.

5 New products and services include credit, savings, and deposits, as well as points of access and channels.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Argentina
Project number:	AR-L1249
Project name:	Program to Implement the National Financial Inclusion Strategy of Argentina
Executing agency:	Ministry of Finance, acting through the Coordination Unit for Sector-wide Approach Programs and Projects (UCP)
Fiduciary Team:	Marisol Pinto (FMP/CAR) and Teodoro Noel (FMP/CAR)

I. EXECUTIVE SUMMARY

1.1 The fiduciary capacity of the executing agency (procurement and financial) was assessed in August 2016, using the methodology of the Institutional Capacity Assessment System (ICAS), which was applied to the Coordination Unit for Sector-wide Approach Programs and Projects (UCP), in the context of designing operation 3759/OC-AR. This is the same executing unit that will be responsible for the present program.

1.2 The assessment covered the following systems: programming of activities and components, administrative organization, personnel administration, administration of goods and services, financial administration, and internal and external control. It found that the UCP possesses institutional capacity and a satisfactory degree of development, and a low level of risk for program execution.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

2.1 The Program to Implement the National Financial Inclusion Strategy of Argentina will be executed by the Ministry of finance, acting through the UCP.

2.2 The fiduciary systems used for executing the program will be the budget system, through the Integrated Financial Information System (SIDIF) and the Information and Accounting System (UEPEX).

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

3.1 The UCP has an administrative and technical operating structure with sufficient experience and capacity to administer this operation. The Organic Structure of the Secretariat was approved by Resolution of the Ministry of Economy in 2009; it has permanent staff as well as personnel seconded from the Ministry of Finance, for whom the rotation rate is low.

3.2 For procurement activities, the UCP will have two consultants who will manage contracting for the program. The UCP is engaged in a process of strengthening, but its execution capacity reveals a low level of risk. Some areas for improvement have been identified, and accordingly it is recommended that, for this operation, the Annual Work Plan should include mechanisms and procedures for monitoring achievement of the program's main milestones, and identifying any deviations between the activities programmed and executed.

3.3 To analyze the risks to the operation, the Project Team Leader applied the Project Risk Management (PRM) methodology, updating the matrix prepared in 2016 for the previously mentioned program, and found that the risk in terms of the fiduciary aspects of procurement is medium.

Table 1. Fiduciary aspects of procurement

Institutional Capacity and Fiduciary Risk				
Institutional capacity		Satisfactory	**Tool:**	ICAS
Fiduciary risk*		Medium (adequate)	**Tool:**	PRM
Type of risk[1]	**Risk**	**Classification**	**Mitigation measures**	
Procurement	Delays in preparing the bid documents	Medium	Bank support in preparing the documents to ensure their quality	
Procurement	Delays in procurement processes going to unfamiliarity with policies	Medium	Training and monitoring for the executing agency The program Operating Regulations (OR) will spell out the applicable flows and policies	

* With respect to financial management risks, the initial analysis was based on the ICAS for operation 3759/OC-AR, which found a low level of financial management risks.

IV. Considerations for the Special Provisions of the Contracts

4.1 The following agreements and requirements must be included in the special provisions:

a. **Procurement.** The policies for the procurement of works and goods financed by the IDB (document GN-2349-9) and the policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9) will be applied for all procurement by the executing agency. For procurement in the context of the nonreimbursable contributions, i.e. the transfers for competitions under Subcomponent 1.1 and all transfers under Component 2, normal commercial practices will be applied, under the supervision of the UCP. The selection criteria for the competitions and for the granting of sub-loans under Component 2 will be established in the program OR.

b. **Disbursement management.** The executing agency will submit the financial plans for the program following the guidelines agreed upon by the Bank and the country. The minimum percentage required to replenish advances of funds will be 80%.

1 Financial management or procurement.

c. **Exchange rate.** For purposes of Article 4.10 of the General Conditions, the parties agree that the applicable exchange rate will be the rate indicated in section (b)(i) of that article. To determine the equivalency of expenditures in local currency from the local contribution, the agreed exchange rate will be the rate in effect on the first working day of the month in which the borrower, the executing agency, or any other individual or legal entity with spending authority makes the respective payment to a contractor, supplier, or beneficiary. To determine the equivalency of expenditure reimbursements from the loan proceeds, the agreed exchange rate will be the rate in effect on the first working day of the month in which the reimbursement request is submitted. Furthermore, owing to the limitations of the UEPEX system, to determine the equivalency of expenditures incurred in local currency from the loan proceeds and the local contribution, the exchange rate indicated in Article 4.10 (b) (i) of the General Conditions will be used.

d. **Financial supervision:**

(i) To maintain flexibility and be able to adjust the loan portfolio to the audit capacity of the Office of the Auditor General (AGN), it is recommended that both the AGN and independent audit firms should be contractually eligible to perform the audits of the program.

(ii) The financial plan will provide the basis for financial supervision additional to that required for processing disbursements and the annual audits.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

5.1 Procurement by the UCP of goods, nonconsulting services and consulting services will be governed by policies GN-2349-9 and GN-2350-9, respectively. The selection and contracting processes will be supervised ex ante and ex post, as defined in the respective procurement plan, which will be managed through SEPA and will be reviewed and adjusted by the executing agency in accordance with project needs. Changes to the procurement plan must obtain the Bank's no objection prior to implementation.

a. **Procurement of goods and nonconsulting services.** Contracts for goods and nonconsulting services[2] subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Bid processes subject to national competitive bidding (NCB) will be executed using the national bidding documents agreed upon with the Bank. The project's sector specialist will be responsible for reviewing the technical specifications during bid preparation. No direct contracting is anticipated, but any such contracts decided upon during the program will be identified beforehand in a timely manner in the procurement plan, including their justification, and selection processes that require the prequalification of bidders will be identified.

b. **Selection and contracting of consultants.** Contracts for consulting services will be executed using the standard request for proposals issued by or agreed

[2] Document GN-2349-9, paragraph 1.1: Nonconsulting services are treated as goods.

upon with the Bank. The project's sector specialist will be responsible for reviewing the terms of reference for consulting services. No direct contracting is anticipated, but any such contracts decided upon during the program will be identified beforehand in a timely manner in the procurement plan, including their justification.

(i) **Selection of individual consultants.** In the cases identified in the procurement plan, the contracting of individual consultants will be governed by the provisions of document GN-2350-9, Section V (paragraphs 5.1 to 5.4). For operation of the UCP, direct selection may be used for consultants who are currently working under contracts financed by other programs being executed by the UCP.[3]

c. **Nonreimbursable contributions (NRC).** The delivery of funds under Subcomponent 1.1 and Component 2 will be in the form of nonreimbursable contributions, consistent with the program OR. The executing agency will sign a subsidiary agreement with FONCAP for handling the funds from Component 2. Procurement in the NRC context will follow current commercial practices of the private sector, and will be supervised by the executing agency. The Bank will verify the relevance of project expenditures.

d. **Use of country procurement systems.** Any system or subsystem approved subsequently will be applicable to this operation. The procurement plan will indicate which contracts will be executed through approved country systems.

e. **Recurrent costs.** Recurrent costs or operating and maintenance costs will include: travel, per diems, transportation, leasing of equipment and services, office maintenance, expenses, stationary, training, graphics production, printing, publications and copies, messenger and postal services, cleaning services, computer supplies, insurance, telephone, and petty cash required by the UCP for program operation. These costs will be financed by the project using counterpart resources and will be incurred following the executing agency's administrative procedures, provided they do not violate the Bank's fundamental principles of competition, efficiency, and economy. Operating costs do not include civil servants' salaries.

f. **Relevance of expenditures.** Determining the relevance of expenditures, the terms of reference, the technical specifications, and the budget for program procurement will be the responsibility of the Project Team Leader and the Bank's prior no objection will be required.

[3] As an exception, financing will be provided for the incremental personnel costs incurred by the executing agency linked specifically to project execution (document GN-2331-5, Annex I 1.7 and C.c.1.22).

B. Thresholds for International Competitive Bidding (ICB) and the international shortlists (US$000s)

Table 2. Thresholds

Method	ICB works	ICB goods and nonconsulting services	International shortlists of consulting services
Threshold	≥ 25,000,000	≥ 1,500,000	≥ 1,000,000

Note: Consulting services valued at more than the equivalent of US$200,000 will be announced on the websites of UNDB Online and the Bank.

C. Main procurement processes

Table 3. Main procurement processes

Activity	Selection method	Estimated date of bid/invitation	Estimated amount
Transfers			
NRC (Component 1)		2018	10,000,000.00
NRC + loans (Component 2)		2018	6,500,000.00
Nonconsulting services			
Expenses related to financial education and consumer protection (various processes over the life of the project)	Shopping	2018	1,000,000.00
Logistics expenses (holding of events/workshops/seminars) (various processes over the life of the project)	Shopping	2018	400,000.00
Firms			
Consulting firm for studies and training of policy makers promoting regulatory reforms	QCBS	2018	500,000.00
Consulting firm to conduct the survey of demand for financial services	QCBS	2018	500,000.00
Firm to develop and implement statistics and indicators for the market	QCBS	2018	400,000.00
Consulting firm to handle dissemination and communication for the NFIS	QCBS	2018	200,000.00
Consulting firm to develop and implement the NFIS monitoring and evaluation system	QCBS	2018	200,000.00
Individuals			
Consultant to provide technical assistance for managing the Strategy	3CVs	2018	300,000.00

* To access the 18-month procurement plan, click here.

D. Procurement supervision

5.2 Procurement processes will be supervised ex ante, with the exception of shopping processes (goods and nonconsulting services costing less than US$100,000) and individual consultants' services, which will be supervised ex post. The ex post review visits will be conducted every 12 months. The ex post review reports will include at least one physical inspection visit, selected from among the procurement processes subject to ex post review. At least 10% of the contracts reviewed will be physically inspected during the program.

Table 4. Thresholds for ex post review

Shopping (goods and nonconsulting services)	Individual consultants
< 100,000	< 50,000

Note: the thresholds for ex post review are applied on the basis of the capacity of the executing agency, and may be amended by the Bank as that capacity evolves.

E. Special provisions

5.3 Measures to reduce the likelihood of corruption. The provisions of the policies set forth in documents GN-2349-9 and GN-2350-9 relating to prohibited practices will apply. The executing agency will also review the list of firms and individuals prohibited from participating in processes financed by multilateral banks.

5.4 **Other special procedures.** The procurement plan will be kept up to date to reflect project needs and it will be integrated into project planning.

F. Records and files

5.5 Documentation on procurement processes conducted by the executing agency will be kept in the offices of the UCP, and that Secretariat will be responsible for keeping records and files duly organized, classified and updated with all the documentation generated during the procurement and contracting processes. For the preparation and filing of project reports, the formats or procedures agreed and described in the program OR must be used.

VI. Agreements and Requirements for Financial Management

A. Programming and budget

6.1 The UCP will be responsible for formulating and programming the annual budget and will take all the steps necessary to consolidate the annual budget for approval.

6.2 As the need arises to increase or reassign budget items, the UCP will request such modifications and obtain approval of them. Budget allocations will be executed through accrued quarterly and monthly commitments, which are assigned by the National Budget Office.

6.3 No budget management difficulties are anticipated that would affect execution.

B. Cash management and disbursements

6.4 Disbursements will be based on an itemized financial plan, the model for which has been agreed with the authorities of the Ministry of Finance and the Head of the Cabinet of Ministers.

C. Accounting, information systems, and reporting

6.5 The UCP will use the UEPEX system for financial administration. Cash-basis accounting will be used and International Financial Reporting Standards will be followed where applicable under national rules. The required financial reports will be: (i) financial execution plan for up to 180 days after requests for advances; (ii) audited annual financial statements pursuant to article 7.03 (a) of the General Conditions of the Loan Contract; and (iii) other reports as required by the fiduciary specialists.

D. Internal control and internal audit

6.6 The national entity for internal control is the Sindicatura General de la Nación [Office of the Comptroller General] (SIGEN). The internal audit of each executing agency is performed by the Internal Audit Unit. That unit, which reports directly to the minister, is responsible for conducting audits and making recommendations pursuant to the powers conveyed on it by the Financial Administration Act (Law 24156).

E. External control: External financial audit and project reports

6.7 In 2011 the Bank completed a diagnostic assessment of government audit practices of the Auditoría General de la Nación [Office of the Auditor General] (AGN), in accordance with the Bank guidelines for determining the level of development of public financial management systems. The evaluation validated the AGN as auditor for Bank projects.

6.8 The AGN reports to the National Congress and assists it in overseeing the status of public sector accounts. Its creation and operations are regulated by Title VII, Chapter 1, of Law 24156 on Financial Administration and External Control Systems. That law specifies that the AGN is an entity with its own legal personality and functional independence, and consequently it also has financial independence: its capital comprises all the assets assigned to it by the State, those that previously belonged to the Court of Accounts of the Nation, and those transferred by judicial decision.

6.9 To maintain flexibility and be able to adjust the loan portfolio to the audit capacity of the Office of the Auditor General (AGN), it is recommended that both the AGN and independent audit firms should be contractually eligible to perform the audits of the program.

F. Project financial supervision[4]

6.10 The initial financial supervision plan will be based on the risk and fiduciary capacity evaluations performed during the on-site and off-site reviews planned for the program, including the scope of operating, financial, and accounting activities, compliance and legality, frequency, and responsibility.

6.11 The Financial Plan will be the report required for financial supervision, in addition to those required for processing disbursements and performing the annual audits.

G. Execution mechanism

6.12 The details of program execution are found in the draft Operating Regulations and in the main document.

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[4] See document OP-273-6, Annex I.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/17

Argentina. Loan ____/OC-AR to the Argentine Republic
Program to Implement the National Financial Inclusion
Strategy of Argentina

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Argentine Republic, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Implement the National Financial Inclusion Strategy of Argentina. Such financing will be in the amount of up to US$20,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2017)

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