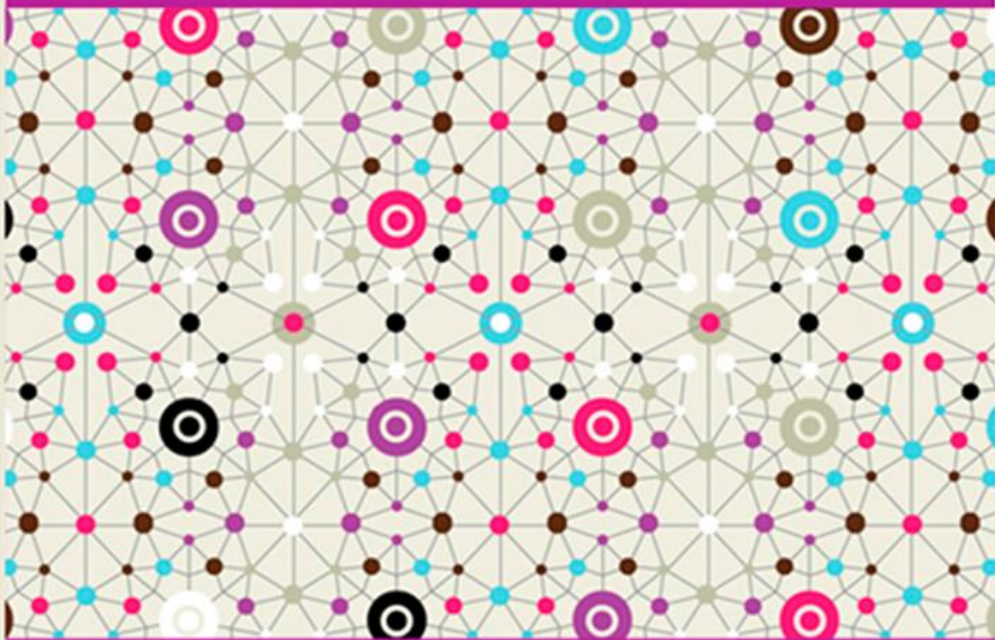


“Mi Galpón”: from the local level to the national agenda



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1. Background

Rafaela is located in the central west part of the province of Santa Fe with a population of 101,945 habitants. The majority of the population is quite young: 46.3% of people in Rafaela are between the age of 0 and 29. In terms of occupational structure, the most employed sector is the service sector (including public administration) with 40.8% of the work force concentrated there; second is industry with 27.0%; third is commerce with 20.5%; and the rest is divided between construction with 10.6% and farming 1.1%. The unemployment rate has gone down from 7.8% in 2009 to 7.5% in 2013¹.

The city of Rafaela is renowned as a model for local development due to a sustained tradition of public and private articulation based on the institutionalization of civil society, strong work ethics, an entrepreneurial spirit, and a deeply rooted interest in associative development.

More organizations were created in the last twenty-five years than in entire the first century after the city was founded. About half of the 400 current entities were shaped in the aforementioned time period, providing an institutional character of plural features, complex and rich in participation opportunities for any kind of vocation (charity, commercial, sports related, health related, mutual help and recreational organizations), according to the data of the Institutional Census (2008).

The city's social capital lies in its aim for improvement and development within its institutions because these values help create a multiplier effect on the scarce resources that the city manages.

Due to the engrained entrepreneurial and industrial tendencies of the region, Rafaela has a large amount of small and medium sized businesses. At the local level, 8 out of 10 firms in Rafaela have between 1 and 10 employees. At the national level, the numbers are quite similar: 75% of businesses have a range of 10- 50 employees. Many of these small companies start off in a garage, home, or small rented space and have to improvise because they cannot afford to expand. In Rafaela alone, 35% of firms have a need to increase their workspace (DERF, 2010).

At the municipal, provincial, and national levels the state provides various economic stimuli with the goal of developing the activities of small businesses. However, only one out of every ten small and medium sized businesses utilizes the financial tools and loans offered by banks. Many business owners are unaware of the existing policies regarding access to financial help for businesses: in Rafaela, only 35% of entrepreneurs are aware of the financial tools available and approximately half of them actually utilize them². According to national statistics, between 2005 and 2009, only 27% of small and medium sized businesses applied for loans, of which 3/4ths were approved. The main reasons about 1/4 of businesses were not approved is related to criticisms about excessive bureaucracy and reticence on the part of the banks, little faith in the firms, etc. Only about

1<http://www.rafaela.gov.ar/nuevo/Noticias-amp.aspx?i=9394&s=74&v=slide>

2 Mi Galpón Project. First guidelines and framework

¼ of the firms that were turned down were rejected due to reasons such as insufficient guarantees and too much debt.

In terms of types of loans available, banks do not finance construction or renovation of industrial businesses on lots where people are living. With respect to credit rates, it is extremely difficult to set up a low rate – the only possibility of a low credit rate is if it is subsidized by a public entity, union, or international fund. Furthermore, in Argentina there existed no long-term (over 10 years) low rate line of credit for construction.

The requirements for access to land and loans are a big obstacle for entrepreneurs and businesses. Most firms do not meet the minimum collateral requirements necessary to access a loan, since banks demand that collateral have twice the value of the loan that they need in order to be eligible to borrow money. In order to register a warehouse on public record, the owner would need to put a down payment of 70-80 % to get the deed, which is very difficult for owners of small businesses, since some of them – such as software industries – only possess intangible assets such as labor (employees)³. The high rates for down payments are rooted in the fact that historically people have bought lots at a discounted rate (on the premise that the land was for industrial purpose), obtained a deed, and not constructed anything – only to sell the land at a higher price and make a profit. Because of this loophole, the law was changed so that a person could only get the deed once something was constructed. Later the law was made more flexible: a person could obtain the deed once the construction was 70 or 80% finished.

The project Mi Galpón, which is the basis for this case study, aimed to improve this scenario by facilitating long-term financial borrowing for the construction of warehouses for small local businesses. The project, which initially began in Rafaela, was able to successfully reach the national level and become a state policy.

2. Rationality

The Commercial and Industrial Center of Rafaela and the Region (CCIRR) were created in 1932 to defend the interests of Rafaela's private sector and encompass both industrial and commercial institutions. CCIRR represents 750 associated companies and is continuously trying to increase the amount of firms represented and accentuate the importance of Rafaela and the region. However, due to the intangible nature of the services that CCIRR provides (representation, defense of interests, etc.) it is often difficult to get very small firms to join.

Within CCIRR, Mi Galpón was introduced by Diego Turco, the then-president of the Commission of Industry (CI), who emphasized to local institutions the importance of creating a project that would help finance the construction of factories. According to Turco, Rafaela had a very valuable industrial



3 Data from Rafaela Socioeconomic Survey 2012, IPEC Santa Fe, developed by ICEDEL, Municipality of Rafaela.

dynamic that has not always been accompanied by a social impact up to par with the work ethic that exists in the region. So, the project aimed to adapt itself to an optimal infrastructure in order to be competitive and enable people to find “livelihood in an industrial environment”. It aimed to incorporate the social concept of industry with the help of financial loans in order to enable entrepreneurs to have their own warehouses.

It is important to note that although Mi Galpón would be the first financial tool for warehouses, similar financial credit programs such as Mi Casa set a precedent⁴. Mi Casa provided funding in order to help the public gain access to lower credit rates than would normally be found in the market. In this way, Mi Galpón aimed to create a similar financial tool for promoting the importance of warehouses.

According to Turco, at the time of the initiation of the Mi Galpón project, the goal of the initiative was to rescue and reinstate the value of industry and the warehouse as a social instrument of development. He goes on to compare the value of the ‘galpón’, or warehouse, to the value of a living space (DERF, 2010⁵). How is it that a warehouse can have a societal value similar to that of a home? The answer lies in positive externalities.

Putting a greater emphasis and importance on the value of warehouses and industrial factories leads to overall economic and social development because warehouses and factories are aspects of generation and reactivation of social capital. However, a large quantity of warehouses and factories can have negative effects on the people and communities in close proximity. This is why Mi Galpón also had objectives that aimed to moderate the negative externalities that could arise.

Mi Galpón aimed to systematically support small and medium sized firms and promoted improvements in internal and environmental quality for social coexistence. This included building infrastructure as well as developing the organizational quality and structure of small and medium sized firms by way of long term financing (approximately 20-30 years). In addition to changes in organizational quality, Mi Galpón aimed to improve the design of internal processes by optimizing resources and reducing unnecessary or hidden spending.

Most importantly however, Mi Galpón came to be because of the necessity for local businesses to adapt their space to growing industry and demand and the need for a financing tool distinct from those offered by the market. Mi Galpón aimed to emphasize industrial development in the area of public policy in the short and long term, specifically through policies that promote accessible financing to small entrepreneurs. As a source of support and financial aid that puts value onto the activities of small and medium sized firms, Mi Galpón will ultimately contribute to the development of the province and the entire nation.

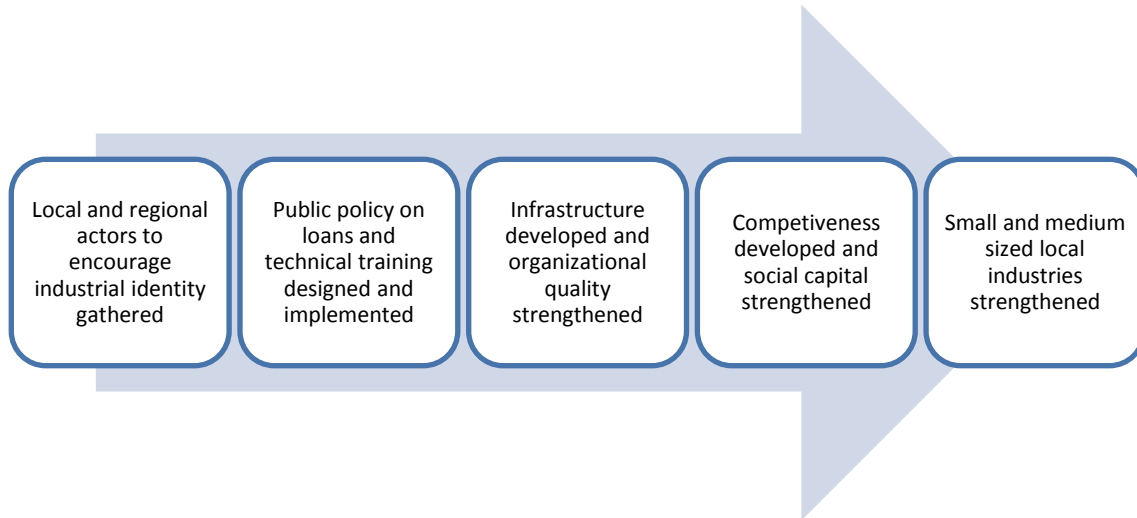
Last but not least, the project is valuable as a case study since the National Ministry of Industry has incorporated it in its agenda of benefits as a way to finance the private initiative. The strategies used in order to accomplish the objectives established provided

⁴ Mi Casa is a program led by Banco Nación that helps with mortgage financing for homes.

⁵ http://www.derf.com.ar/despachos.asp?cod_des=330526

the chance to promote a local initiative at the national level, an example of effective influence.

Figure 1: CCIRR's theory of change



Source: CIPPEC

3. Influence Strategies

One of the biggest difficulties for the major actors of this case was transforming the idea of Mi Galpón into a reality. The project had to be brought to a myriad of institutions and presented in front of many people over the course of two years in order for it to finally be approved and started as a trial run after the meeting with Minister Giorgi in October 2011.

In order to accomplish the objectives of the project, the principal actors involved executed five strategies:

3.1 Strategy I: Gather the industrial actors interested in developing their industrial energy under a common project

This organization entailed many difficulties, since there were a great number of proposals to be coordinated. Moreover, a considerable portion of the society is surrounded by a strong atmosphere of disbelief, as although they are convinced that these kinds of projects should be encouraged, they doubt the viability of accomplishing the tasks. So the initial stages of the public policy process went by rather slowly as CCIRR had to introduce the project to the major players in the industrial trade in order to gain

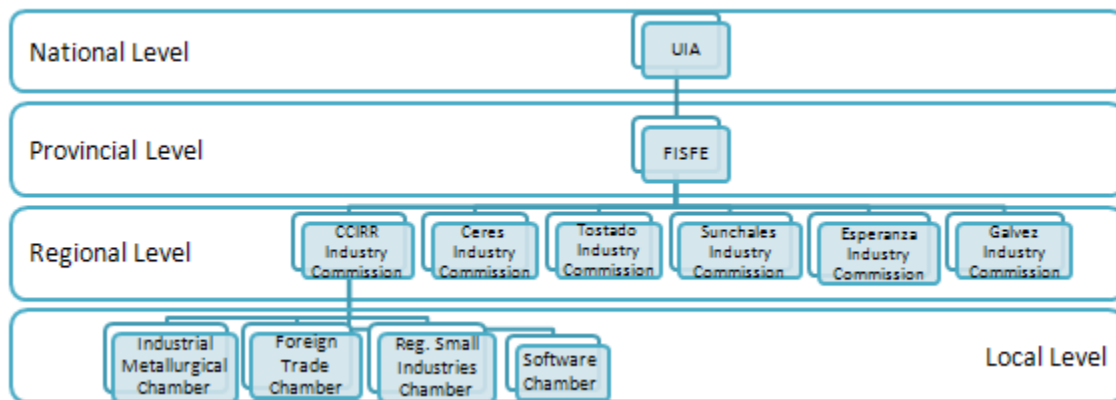


their support and make progress with the design of the project.

3.2 Strategy II: Engage a grass rooted broad range of actors

The role of the Industrial Federation of Santa Fe (FISFE, for its Spanish initials) on this stage was fundamental. FISFE was the channel through which the first project was presented to the rest of the Industry Commissions of the province of Santa Fe. After being presented, boards of directors from the regional cities of Ceres, Tostado, Sunchoales, Esperanza, Gálvez and Rafaela analyzed the idea with the Regional Agenda of Industries and gave their recommendations and commitment to the project. Afterwards, the planning, designing and modifying stages took place, a six-month period of time in 2010 in which the different ideas enriched the final project.

Figure 2: Regional level industrial actors map



Source: CIPPEC

Worth to underline is that the project was originally created to promote industrial development on the regional level. While the project was presented along these meetings, the actors in charge of developing it took into account the feasibility of introducing the idea to the national stage, and therefore the strategies that took place aimed to reach national contact.

3.3 Strategy III: Build alliances with important national actors in two areas: finance and technical training

1.1.1. Finance

This aspect involved the way through which the owner would be able to acquire the property in order to develop his or her business. The designers of the plan implemented the following strategies:

- Reengage with Bank of the Argentine Nation (BNA)⁶ and modify the details of the loans in order to include the construction of warehouses through their connection with members of the Ministry of Industry; and work with the Department of Small and Medium Sized Businesses (SEPyMe) to secure funds for subsidizing the loans.

After the 28 firms were chosen, SEPyME joined the process in order to assess the reality of the small and medium sized firms in Rafaela and the region. SEPyME also helped with subsidizing the loans. SEPYME pays 3% of the loan for micro and small firms (up to 800,000 pesos for the first five years). It works with the Ministry of Industry and the provinces to subsidize the rates. For example, if the credit rate is 14%, and SEPYME pays 3% and the province matches the 3%, then the person taking out the MiGalpón loan pays a discounted rate of 8%. In this way the project is financed and supported both at the national and local level.

In terms of industry, CCIRR also wanted to change the original plan with BNA because the first loan was only for the purchasing of warehouses and did not include any provisions for their construction. The agreement was just valid for the purchase of an already existing structure. This was highly problematic for people who already owned land and needed help financing the construction of a warehouse. Luckily, CCIRR was able to reengage with BNA and change the details of their loan in order to include the construction of warehouses through their connection with members of the administration of the Ministry of Industry. Thus, BNA allowed for the creation of a 15-year loan for the purchase and construction of warehouses.

- Working with Garantizar in order to help more people gain access to loans

One of the major issues that entrepreneurs encounter is that they need to have a very high guarantee to back any credit they seek out. Essentially, they need to duplicate the amount they are looking to borrow in order to have access to the loan. This type of guarantee is almost impossible for most owners of small and medium sized businesses. If the business owner does not have the money to guarantee the loan, they have to seek out help, which is provided by Garantizar SGR, a Society of Reciprocal Guarantee (SGR) pioneer and leader in the Argentine system guarantees, whose social objective is the granting of guarantees to its participating partners⁷. However, the SGR guarantee is clearly incompatible with the 15 year loan that Mi Galpón offers since it only gives guarantees of up to five years. This step with Garantizar brought the guarantee term up to 15 years so that it would be compatible with Mi Galpón's financial loan.

1.1.2. Technical training

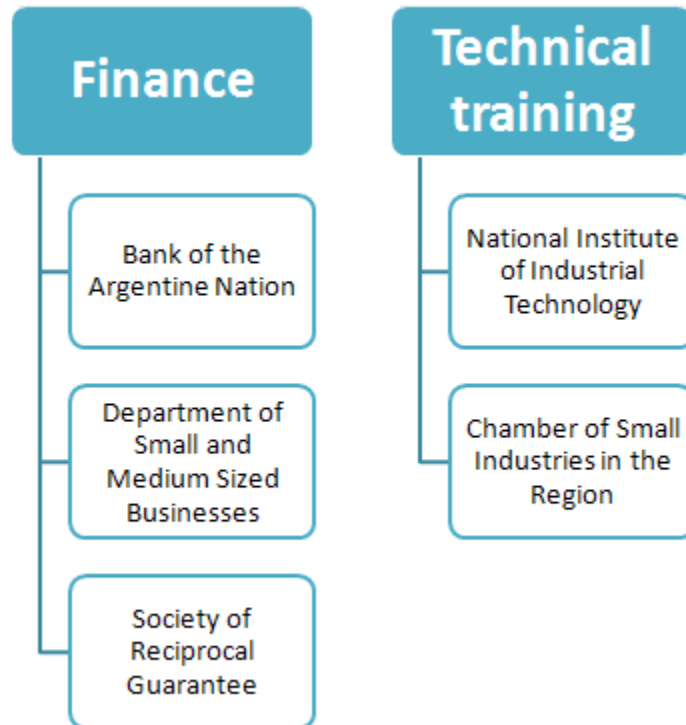
The National Institute of Industrial Technology (INTI) became involved as it offered technical assistance. Model warehouses are designed by the engineers Ariel Ferreyra and Javier Gazzola according to technical and industry requirements. The design process is overseen by the Chamber of Small Industries in the Region (CAPIR) with collaboration and support from INTI Rafaela and the Commission of Industry. The planning of urban

⁶In this regard, the role played by Raúl Nocera, BNA General Manager, was key to involve de Bank's Board.

⁷<http://www.garantizar.com.ar/acerca-de-garantizar-que-es-sgr.php>

and industrial development of Rafaela and the region was taken into account as the framework of the project.

Figure 3: Building alliances



Source: CIPPEC

3.4 Strategy IV: Sensitize policy relevant actors

Simultaneously, the designers of the project intended to present the plan to the political authorities that would help to promote it. Once Mi Galpon passed the planning, design, and modification stages, a presentation and discussion was held in April 2010 with BNA at CCIRR. This was a key moment, since the manager of BNA was interested in the idea and wanted more information on the impact of the program and the funds that would be necessary to get it done. They came up with Linea 400/23 which was the previously mentioned plan for a 15 year loan for the purchase of a warehouse.

In June 2010, Mi Galpón was presented to municipal, provincial, and national authorities such as: the Minister of Production of the Province of Santa Fe, the President of the Industrial Federation of the Province of Santa Fe, the President of the Central Bank of Argentina (BCRA), authorities from the committee of the Presidency of ADIMRA, and the president of the Bank of the Argentine Nation (BNA). In July, it was introduced to the manager of the BNA in Santa Fe. In August, it was presented to the national Minister of industry Mrs. Débora Giorgi. Two months later, the project Mi Galpón was brought to the



Directive Commission of the Argentine Industrial Union (UIA) soliciting support in front of the national organizations involved.

The results hardly covered the expectations until a meeting of Metallurgical Industrials Association of Republic of Argentina (ADIMRA), in September 2011 in which Diego Turco had the opportunity to introduce the project to President Cristina Fernández de Kirchner. That meeting definitely invigorated the process. The idea attracted the president's interest, so political authorities concerted a meeting with minister Giorgi in order to regulate the project. The minister explained her intentions to launch a trial run. In order to develop it, CCIRR gathered the first 28 firms that became part of the project.

3.5 Strategy V: Communications strategy

Last but not least, one of the strategies consisted on the building of a communications network through which the project could be introduced to local and regional civil society and potential entrepreneurs. The designers bet for abroad outreach and a higher chance of policy success through the use of social media accounts such as their website, Facebook, and Twitter to present the plan as well as the news involved in its development.

At the same time, a strong directive committed with the initiative was sustained through the existing institutions and by the means of monthly meetings communicating achievements and jointly analyzing next steps.

4. Balance

4.1 Internal

Mi Galpón has had a very large effect within CCIRR itself. According to Gustavo Segnini, current president of the Commission of Industries, the experience of working with Mi Galpón has changed the entire model and paradigm of work in CCIRR. Today, people present and defend an idea with the conviction that could be able to sell in the industry. It is clear that the project has generated pride and motivation within CCIRR and has shown that with persistence and a proper strategy, a small and local idea can reach the national level and impact the generation of long term policies.

Furthermore, it has incited the development of corporate trade responsibility; essentially, working towards better communication and association with other firms in order to improve business relations, strengthening bonds among local actors.

The main internal factor that allowed Mi Galpón to be a success was the perseverance and insistence of the team that started the project and knew that it was relevant for people all over the nation. The support from members of CCIRR who were not directly involved in the case also was a helpful factor in spreading the word and backing the project.

Taking into account the background and history of Rafaela as a hub for industry and business, the project Mi Galpón emerged in a city very conducive to supporting entrepreneurs, which could also be an internal factor that helped this project reach the national level.

Similarly relevant was the factor that the project was endorsed by the entrepreneur's basis through the commitment of the Regional Industrial Agenda and the Provincial Federation

(FISFE). This support empowered and legitimated the idea and made it significant enough to be promoted along a broader range of actors.

4.2 External

The success of Mi Galpón had a positive effect on a series of other regional and national actors. FISFE, for instance, enhanced its legitimacy as institution as it could be able to turn a local program into a national project.

Moreover, working on Mi Galpón allowed INTI to exercise their leadership and technical skills to give advice and guidance on certain aspects such as worker development, increased competitiveness, industrial architecture, and adapting to the environment.



Mi Galpón also had a large impact on the municipality of Rafaela. According to Marcelo Orteni, Secretary of Development, Innovation, and Foreign Affairs of the Municipality of Rafaela, the program is a financial tool that coincides with the municipality's policy of promoting investment. Mi Galpón has also promoted the modification of by-laws dealing with the regulation of access to land in the area of economic activities, allowing access to registration of lots in cases where a loan has been negotiated. This allows the increase of construction of industrial warehouses. Some municipalities have adapted certain laws according to the needs of Mi Galpón (for example, in Rafaela and Sunchales the laws have been changed so that a beneficiary of a loan for land that is able to pay his credit can use it to guarantee a mortgage without having to construct on 80% of the lot).

There have been more solicitations on the part of businesses to move into the area, a sign of success in attracting investment in capital goods and businesses to the region. Mr. Orteni claims that there is almost no available land in the industrial area, and that the municipality is leading discussions on increasing the size of this area in order to managing the larger demand for space.

Beyond the local level, other provinces joined in the process to subsidize the credit rates (this is in addition to the subsidy provided by BNA), taking the example of Mi Galpón as an antecedent.

A major issue for CCIRR and for the entrepreneurs involved is that the political schedule does not always match up with the labor schedule. It is normal for a project approval to take months or years in the world of politics and public policy. However, this does not line up well with the fast paced schedule of a small business. Thus, some of the first 28 firms dropped out of the process. It is also necessary to remark that there have not been any warehouses constructed yet.

It is necessary to say that so far, the results of the policy in terms of lending at the national level are low: by the moment, only four loans were given, with amounts between \$200,000 and \$800,000 (Argentinean pesos). Moreover, other five projects with amounts between \$300,000 and \$1,500,000 are pending of approval.

The fact that the program is relatively new –just two years have passed since the first negotiations with Ministry of Industry- allows us to imagine that it is still in a developing stage. Moreover, as many stakeholders set in the interviews, it is not possible to figure out when the building of the warehouses will begin.

Looking ahead, two pillars will be crucial for the future of the project: on one side, the strategy of dissemination and communication chosen to attract the potential applicants that are not familiarized with the initiative; on the other hand, the feasibility for the construction of the first warehouses in the short or middle term, which will actually define the possibilities of success of the Project Mi Galpón.

5. Lessons

- 1 The local context is a key factor for the development of projects with impact. The innovative initiatives must be aligned with the cultural, sociological, economic and political context in order to create empathy among relevant decision makers that would promote them.
- 2 Teamwork and communication efforts by the institutions involved (BNA, INTI, FISFE, Municipality of Rafaela) contributed to the success of the case as an example of influence in public policy. Collaboration is not an optional factor, but a need when trying to catalyze the triumph of the initiative.
- 3 The project must not restrict to the group of people and specific circumstances of the region. In order to generate interest at the national level, it must be broad enough to attract multiple actors and institutions.
- 4 The will of the national government and the ministry of industry to consider the project are important to understand how the project reached the national level.
- 5 Media coverage, unexpected in the beginnings of CCIRR, helped to disseminate the initiative and position it as a useful and successful idea for the development of the nation.

Annex- Sources of information

People interviewed

Diego Turco, former president of CCIRR

Benjamín Albrecht, manager of CCIRR

Romina Rébola, technical secretary of CCIRR

Pablo Cassina, entrepreneur

Gustavo Segnini, former president of the Commission of Industry of Rafaela

Marcelo Ortenzi, Secretary of development, innovation and foreign affairs, Municipality of Rafaela

List of acronyms

ADIMRA: Metallurgical Industrials Association of Republic of Argentina (Asociación de Industriales Metalúrgicos de la República Argentina)

BCRA: Central Bank of Argentina (Banco Central de la República Argentina)

BNA: Bank of the Argentine Nation (Banco de la Nación Argentina)

CAPIR: Chamber of Small Industries in the Region (Cámara de Pequeñas Industrias de la Región)

CCIRR: Commercial and Industrial Center of Rafaela and the Region (Centro Comercial e Industrial de Rafaela y la Región)

CI: Commission of Industry (Comisión de Industrias)

FISFE: Industrial Federation of Santa Fe (Federación Industrial de Santa Fe)

INTI: National Institute of Industrial Technology (Instituto Nacional de Tecnología Industrial)

SEPyMe: Department of Small and Medium Sized Businesses (Secretaría para la Pequeña y Mediana Empresa y Desarrollo Regional de la Nación)

SGR: Society of Reciprocal Guarantee (Sociedad de Garantías Recíprocas)

UIA: Argentine Industrial Union (Unión Industrial Argentina)

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