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Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

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I. BASIC INFORMATION

A. Basic Operation Data

Operation ID	Product	Operation Acronym	Approval Fiscal Year
P507616	Investment Project Financing (IPF)	DECARB-SMES	2025
Operation Name	Mexico: Decarbonizing Value Chains with clean energy and sustainability investments in SMEs		
Country/Region Code	Beneficiary country/countries (borrower, recipient)	Region	Practice Area (Lead)
Mexico	Mexico	LATIN AMERICA AND CARIBBEAN	Energy & Extractives
Borrower(s)	Implementing Agency(ies)	Estimated Appraisal Date	Estimated Board Date
NACIONAL FINANCIERA SNC (NAFIN)	NACIONAL FINANCIERA SNC (NAFIN)	03-Mar-2025	05-May-2025
Estimated Concept Review Date	Total Project Cost		
09-Dec-2024	213,000,000.00		

Proposed Development Objective

The Project Development Objective is to facilitate clean energy and sustainability investments in Mexican small and medium enterprises (SMEs) in order to reduce their greenhouse gas emission and enhance their market opportunities.

B. Is the operation being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project Activities

In the context of the global trends towards green value chains, the near shoring opportunity, and the energy sector challenges in Mexico, the program will incentivize and facilitate investments in clean energy and sustainability by Mexican SMEs. Affordable financing will be accessible through financial institutions to support investments aligned with the Mexico Sustainable Taxonomy that enable SMEs to obtain a sustainable certification, linking, for the first time, financing to a sustainability certification, thus ensuring alignment with Mexico's climate change and other sustainability objectives (as specified by the Taxonomy). The sustainability certification will serve as a form of labelling/differentiation

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to enable their identification for sourcing by large firms and multinationals seeking to ensure the sustainability and lower carbon footprint of their value chains. Moreover, compliance with sustainability criteria as specified in the Mexican Taxonomy, and aligned with the requirements of international markets, will position SMEs to expand their client portfolio, accessing value chains from large firms domestically and internationally, as well as become better positioned for responding to national public tenders. The greening and optimization of use of energy, as well as water and raw materials will enable lowering production costs and increase SMEs' productivity, leading to an increase in competitiveness and a smaller carbon footprint. It will also contribute to lessening the pressures on Mexico's strained energy infrastructure (especially electricity transmission). The project's support to enhance sustainability will also include gender considerations, with special focus on women-inclusive firms. To ensure the success of the sustainable financing made available, building on NAFIN's and other countries' experience with clean energy financing to SMEs, the project will also consist of a set of comprehensive capacity building activities targeted at the SMEs, as well as the FIs. The PDO would be achieved through the following components: i) Clean Energy and Sustainability investments in SMEs; (ii) Risk mitigation facility, and (iii) Capacity Building, technical assistance, and project management. Component 1: Clean Energy and Sustainability investments in SMEs (US$ 185 million). This component will provide access to affordable financing to SMEs through a credit line administered by NAFIN. The decision on the modality of credit line – i.e., lending to beneficiary firms through private participating financial institutions (PFIs) or direct lending by NAFIN to beneficiary firms or combination thereof - will be made during project preparation based on further analysis of market demand and capacity of lenders to implement this innovative and technically complex loan product. The climate finance expected to be mobilized from the CTF will be critical and will be blended with IBRD financing and subsequently with banks' own financing to offer SMEs affordable financing for their sustainability investments. The option of a guarantee from MIGA will also be explored with NAFIN to potentially mobilize additional financing from capital markets without the use of a sovereign guarantee and thereby enable further scaling of the financing for the Project. The Project financing will mostly be channeled towards investments which will help beneficiary SMEs lower the carbon footprint and increase sustainability. The specific eligibility criteria for SMEs investments will be agreed with NAFIN during project preparation. These may include investments to reduce thermal and/or electric energy consumption, which would lower energy costs otherwise borne by the SMEs. Examples include investments in more energy efficient equipment and machinery (e.g. electric motors, cooling equipment, as well as replacement of use of fossil fuels and grid-electricity with distributed RE sources, as well as smart energy systems). The relatively long-term maturity of sub-loans would enable beneficiary SMEs to repay their loans with the cost savings generated by the investment. The detailed eligibility criteria for PFIs and beneficiary enterprises, and the sub-loan terms and conditions (size, maturity, etc) will be agreed with NAFIN during project preparation and recorded in the Project Operations Manual. Component 2: Risk mitigation facility (US$ 15 million). This component will help financing a guarantee mechanism to cover risk of non-payments by SMEs and attract the participation of commercial banks, wary about risks associated with lending to SMEs. The climate finance to be mobilized from the CTF will provide a critical contribution to this component, and hence the successful roll out of the Project. Component 3: Capacity Building and technical assistance (US$ 13 million). This component will deploy capacity building and technical assistance.

D. Environmental and Social Overview

D.1 Overview of Environmental and Social Project Settings

The Project, led by NAFIN, will support SMEs in improving their environmental and social sustainability standards, with a focus on climate mitigation. This initiative contributes to greening global value chains and enhancing the environmental and social governance of Mexico's private sector, where SMEs account for 98% of businesses, 75% of formal employment, and 50% of GDP.

By promoting investments in sustainability measures, the Project will drive national-level carbon mitigation while enabling SMEs to integrate into green global value chains. Operating nationally, SME participation will be determined by criteria set by PFIs selected by the apex FI. All activities will comply with the ESF, national laws, and the apex FI's Environmental and Social Management System (ESMS).

The Project will foster positive impacts by facilitating the adoption of greener technologies. Potential financed activities include upgrading electric motors, installing energy-efficient cooling equipment, replacing fossil fuels, and implementing smart energy systems. These measures are expected to reduce greenhouse gas emissions, improve resource efficiency, and promote sustainability. The Project aims to benefit municipalities with Indigenous Peoples and other vulnerable populations.

D.2 Overview of Borrower's Institutional Capacity for Managing Environmental and Social Risks and Impacts

NAFIN has extensive experience operating as both a first- and second-tier bank, promoting energy efficiency and renewable energy through targeted financial products and programs, as well as serving as a fiduciary agent for loans provided by development banks such as the WB, the IDB, and KfW. Through these partnerships, NAFIN has gained significant knowledge of the World Bank's fiduciary, environmental, and social management policies. NAFIN applies a policy for managing environmental and social risks based on the IFC Performance Standards and the Equator Principles and is a Green Climate Fund-accredited institution. NAFIN utilizes an Environmental and Social Management System (ESMS) to identify, evaluate, and manage potential environmental and social risks in projects it finances, both as a first-tier bank (since 2020) and as a second-tier bank (since 2024). To support this, NAFIN has established a dedicated Environmental and Social Management Unit responsible for implementing the ESMS, staffed with specialists in environmental and social issues. NAFIN is also committed to promoting gender inclusion in its operations through a dedicated policy. During project preparation, the WB team will review NAFIN's SARAS (ESMS in English) to ensure compliance with the Environmental and Social Framework (ESF) requirements, specifically ESS9. The team will provide guidance and support to address any gaps identified. The World Bank team will assess NAFIN's capacity to operationalize the SARAS, including its ability to monitor the environmental and social risk mitigation measures proposed for the credit line through the SARAS. This assessment will also evaluate the capacity to monitor the environmental and social risk mitigation measures and current staff capacity. To support this process, the Project will establish a Project Coordination Unit (PCU) within NAFIN and will leverage the existing capacities within NAFIN. During preparation, the team will also assess the PFIs' SARAS.

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II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC) — Moderate

A.1 Environmental Risk Rating — Moderate

The environmental risk rating at the concept stage is assessed as Moderate based on the proposed project activities and a preliminary screening of potential risks and impacts. This assessment takes into account current information on the Borrower's capacity to manage these risks in accordance with the Environmental and Social Framework (ESF). The project activities at the PCN include: (i) Component 1 – Technical Assistance for capacity building, training, and institutional strengthening for SMEs; (ii) Component 2 – Access to affordable financing for SMEs; (iii) Component 3 –

Risk mitigation; and (iv) Component 4 – Demand stimulation program. The project is expected to generate national environmental benefits, particularly through supporting climate mitigation and the adoption of clean technologies in SME operations, and by raising environmental standards—especially for clean energy and energy efficiency—within Mexico's SME sector. Specific technologies and practices to be incentivized will be explored in greater detail before project appraisal to determine a final environmental risk rating. At this stage, identified potential risks and impacts primarily involve environmental concerns related to construction and rehabilitation activities, which are expected to be site-specific and low in magnitude. The project activities are not considered significant or irreversible and can be mitigated through straightforward measures and industry best practices. During preparation, and as part of its SARAS, NAFIN will establish criteria to determine PFI eligibility, including their capacity to manage the environmental and social risks associated with the loans.

A.2 Social Risk Rating

Moderate

The social risk rating at the concept stage is considered Moderate. The screening of proposed activities indicates that the Project is not likely to have significant risks or negative impacts on human populations. By working with a group of financial institutions (FIs), the Project will provide resources to SMEs to align their business models with sustainability and gender equality principles, in accordance with the Sustainability Taxonomy of the Government of Mexico. The Project will offer capacity building to SMEs, helping them create plans to implement sustainable measures that will enable them to obtain certifications confirming their businesses' adherence to socially sustainable practices. Overall, the social impacts are expected to be positive, with only a few social risks identified: (i) local labor practices that may not align with national and local legislation, particularly in small enterprises, including potential risks of Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH) in the workplace; (ii) contextual risks related to conflict, crime, and violence in some municipalities where SMEs operate (specific risks are currently unknown); and (iii) impacts on vulnerable populations, including women, Indigenous Peoples, and Afro-Mexican groups, who might not have equal access to project benefits. During preparation, the team will further assess potential risks of excluding vulnerable groups, IPs and ADs, by conducting an inclusion assessment and consultations with potentially excluded populations. Measures to mitigate these risks will be integrated into E&S instruments and the project design. These risks can also be mitigated by implementing a robust exclusion list that reduces the impact on vulnerable populations and mitigates adverse risks to community health and safety, labor and working conditions, or cultural heritage. Dedicated efforts will be made to offer the credit line to SMEs working on IPs municipalities.

B. Relevance of Standards and Policies at Concept Stage

B.1 Relevance of Environmental and Social Standards

ESS1 - Assessment and Management of Environmental and Social Risks and Impacts Relevant

ESS1 is relevant as it is embedded within ESS9. Subprojects with low E&S risk classification, with minimal or no adverse impacts, will follow national law. Moderate-risk subprojects will primarily follow national law, except in cases involving more complex E&S issues, where the ESF will also apply to address any gaps. Risk identification will be conducted through NAFIN and PFI SARASs. High- and substantial-risk E&S activities will be screened out through the project exclusion list, which will include subprojects involving resettlement, adverse risks or impacts on IPs, or significant risks to the environment, community health and safety, labor and working conditions, biodiversity, or

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cultural heritage. For technical assistance (TA) activities, the requirements set out in paragraphs 14–18 of ESS1 will apply, as relevant and appropriate to the nature of the risks and impacts arising from the TA.

ESS10 - Stakeholder Engagement and Information Disclosure Relevant

ESS10 is relevant. NAFIN policies include a stakeholder engagement component, with specialized credit lines for women, which require specific strategies to engage these populations. The team will assess these strategies to align with ESS10 requirements in the SARAS. Drawing on consultation experiences from similar projects (e.g., Ecuador P172899, Mexico P175940), NAFIN will conduct consultations with Participating Financial Institutions (PFIs) and Small and Medium Enterprises (SMEs). These consultations will address the environmental and social (ES) risk management of eligible investment subprojects and promote good ES practices for credits funded by the Project, to be conducted during Project appraisal. During project preparation, NAFIN's beneficiary grievance mechanism (GM) will be evaluated, with adjustments made as needed to ensure compliance with ESS10 and consultations with potential project beneficiaries will be conducted to assess risks of exclusion.

ESS2 - Labor and Working Conditions Relevant

ESS2 is relevant as it is embedded within ESS9. NAFIN and the financed credits will likely involve (i) direct workers (NAFIN staff) and (ii) consultants and other contracted workers employed by eligible PFIs and SMEs. Labor and working requirements will likely be addressed through compliance with local and national laws. While the national labor law aligns with the principles of ESS2, its implementation is not always consistent. To address this, measures to close any gaps between local legislation and ESS2 will be included in NAFIN's and PFIs' SARASs. NAFIN and PFIs will ensure that the Project and its investments comply with national law when hiring Project workers. Contracted workers may be employed or engaged through third parties, including contractors, subcontractors, agents, or intermediaries to perform Project-related work, particularly on potential investment subprojects.

ESS3 - Resource Efficiency and Pollution Prevention and Management Relevant

ESS3 is relevant as it is embedded within ESS9. The ESS3 requirements for the subprojects will likely be addressed through screening and compliance with national laws, in accordance with paragraphs 14 and 16 of ESS9. Potential localized risks related to construction and/or rehabilitation activities may arise, which could result in impacts such as land pollution, wastewater generation, etc. The exclusion list will screen out credits with potentially substantial or high environmental risks. NAFIN's ESMS and those of the PFIs will incorporate national guidance on pollution management. Depending on the type and scale of activities to be financed, the Project will not require a water balance study. The Project will support the reduction of GHG emissions. To estimate the level of GHG emissions, the project will use the EX-ACT tool (accounting system) during preparation to assess the net balance of CO2-equivalent GHG attributable to the project.

ESS4 - Community Health and Safety Relevant

ESS4 is relevant as it is embedded within ESS9. Given the nature of the investment subprojects, ESS4 requirements are expected to be addressed through screening and compliance with local and national laws, as outlined in paragraphs 14 and 16 of ESS9. Investment subprojects are anticipated to reduce community exposure to environmental and social (E&S) risks and impacts. The exclusion list will screen out credits with high or substantial risks or impacts on community health and safety.

ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement Not Currently Relevant

ESS5 is not relevant at the Concept Stage, as the Project is not expected to cause physical displacement or restrict access to land or natural resources. The Project will not finance investment subprojects that require land acquisition or result in involuntary land taking and resettlement; this will be addressed in the exclusion list. Any infrastructure-related investments will only be built on land within the SMEs' property. To prevent potential conflicts related to land tenure, the Project will ensure that all beneficiaries have the corresponding rights to use their land in order to access Project benefits. However, the relevance of ESS5 will be reassessed during Project preparation.

ESS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources Relevant

ESS6 is relevant as it is embedded within ESS9, and the Project will finance minor infrastructure improvements that may occur within biodiverse-rich or protected areas. Given the nature of the investments, ESS6 requirements will likely be addressed through screening and compliance with local and national laws, as outlined in paragraphs 14 and 16 of ESS9. NAFIN's ESMS screening process will exclude activities that could lead to the loss, conversion, or degradation of natural or protected habitats. NAFIN and the PFIs will ensure that no Project activities will be promoted in areas where they could directly or indirectly induce negative land-use changes that affect natural habitats.

ESS7 - Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities Relevant

ESS7 is relevant. Given the nature of the subprojects, ESS7 requirements are likely to be addressed through screening and compliance with national laws. While the intervention areas have not yet been defined, it is likely that IPs will be among the beneficiaries. Projects with potential high or substantial risks will be included on the exclusion list to prevent significant adverse impacts on land and natural resources subject to traditional ownership or customary use or occupation. During preparation, an assessment will be conducted to determine how and where these groups can benefit from the Project and whether any risks or potential impacts to them may arise. The main challenge lies in ensuring equal treatment for all beneficiaries to access credits. To help address these barriers, the SARAS will include inclusive and culturally appropriate measures. However, if any adverse impacts or risks to IPs are identified, ESS7 will apply.

ESS8 - Cultural Heritage Relevant

ESS8 is relevant for the Project as it is embedded within ESS9. There may be tangible and intangible cultural resources within areas of intervention of investment subprojects. Given the nature of the subprojects, ESS8 requirements are likely to be addressed through screening and compliance with local and national laws per paragraphs 14 and 16 of ESS 9. PFIs will take the necessary actions, through their ESMSs, to avoid or mitigate risks and impacts in the event of any chance finds.

ESS9 - Financial Intermediaries Relevant

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NAFIN must ensure adequate management of environmental and social (E&S) risks for the Project credit line. During preparation, the World Bank (WB) team will determine whether the Project credit line is ring-fenced, and thus assess the extent to which ESS requirements apply specifically to the credit line. The WB will evaluate and support the strengthening of NAFIN's SARAS. As per ESS9 requirements, and subject to NAFIN's agreement, all PFIs channeling Project funds must have their own SARAS as an eligibility criterion. The WB team will conduct an assessment and due diligence process of the SARASs to: evaluate compliance with ESS9, assess performance reporting and organizational structure, review the E&S performance of current and past major clients/sub-borrowers, examine ESMS documentation, identify areas for enhancement or modification, and assess the capacity of PFIs to manage E&S risks and determine strengthening needs.

B.2 Legal Operational Policies that Apply

OP 7.50 Operations on International Waterways	No
OP 7.60 Operations in Disputed Areas	No

B.3 Other Salient Features

Use of Borrower Framework	TBD

To be determined during Project preparation.

Use of Common Approach	TBD

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C. Overview of Required Environmental and Social Risk Management Activities

C.1 What Borrower environmental and social analyses, instruments, plans and/or frameworks are planned or required by Appraisal?

Prepare due diligence of the NAFIN SARAS, identifying gaps and defining a time-bound action plan for gap closure. This will be described in the Appraisal Stage ESRS and set out in the appraisal ESCP.
Versions of the following instruments will be prepared and disclosed prior to Appraisal:
a) Environmental and Social Commitment Plan (ESCP), including the action plan for closing identified gaps between ESS9 and the NAFIN SARAS.

The ESCP will also include:
• Implementation and institutional arrangements, detailing the organizational structure, roles, and responsibilities for adopting and implementing the Project, and managing the ESHS risks and impacts.
• Incidents and accidents reporting procedures.
• Monitoring and reporting mechanisms.
• A commitment to implement NAFIN SARAS and for PFIs to develop and implement SARASs acceptable to the Bank.
• Capacity strengthening measures, including capacity building for relevant actors (PFIs, beneficiaries, etc.) on EHS aspects and support to PFIs in developing their own ESMS if needed.

III. CONTACT POINT

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IV. FOR MORE INFORMATION CONTACT

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V. APPROVAL

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