Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 03-Apr-2023 | Report No: PIDC35275

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Argentina	P180456		Access to Sustainable Finance for Micro, Small and Medium Enterprises Project (P180456)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
LATIN AMERICA AND CARIBBEAN	Jun 05, 2023	Aug 08, 2023	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministerio de Economía	Banco de Inversión y Comercio Exterior (BICE)	

Proposed Development Objective(s)

Promote access to sustainable finance for micro, small and medium enterprises and to respond effectively in case of an eligible crisis or emergency.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	350.00
Total Financing	350.00
of which IBRD/IDA	200.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	200.00

Non-World Bank Group Financing

Counterpart Funding	45.00
Borrower/Recipient	45.00

Commercial Financing	105.00
Unguaranteed Commercial Financing	105.00

Environmental and Social Risk Classification	Concept Review Decision
Moderate	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Argentina, with a gross domestic product (GDP) of US$614 billion, was the third-largest economy in Latin America in 2022[1].** The country has a large territory of 2.8 million square kilometers, and its population of about 47 million inhabitants is highly urbanized with 92 percent living in cities. The Buenos Aires Metropolitan Area (AMBA)[2] alone constitutes 33 percent of the national population and generates more than 40 percent of Argentina's GDP.

2. **The middle class has historically been large and strong, with social indicators generally above the regional average; however, persistent social inequalities, economic volatility, and underinvestment have limited the country's development.** The rate of urban poverty reached 36.5 percent in the first semester of 2022, and 8.8 percent of Argentines live in extreme poverty. Childhood poverty, for those under 15 years old, is at 50.9 percent. The high frequency of economic crises in recent decades—the economy has been in recessions during 21 of the past 50 years—has resulted in an average annual growth rate of 1.8 percent, well below the world average of 3.6 percent and the region´s average of 3.2 percent. Decades of underinvestment have led to sizeable gaps in capital stock relative to comparable countries, although capital spending as a percentage of GDP has slightly improved in recent years.

3. **Argentina has struggled with macro-fiscal imbalances since the end of the commodity super-cycle.** Even as commodity prices began to fall in 2014-15, Argentina's public recurrent spending continued to rise. Thin buffers as well as procyclical policies have further exacerbated the impact of external shocks, such as drought, the pandemic, and resurgent fuel prices. By mid-2018, amidst tighter global financial conditions and a poor harvest, growing concerns around Argentina´s debt repayment capacity triggered a run against Argentine assets. This led to a balance of payment crisis and a request for an International Monetary Fund (IMF) Stand-By Arrangement (SBA).

1 Argentine GDP figures for 2022 refers to the 4-quarters cumulative average between Q42021 – Q32022, using the official exchange rate.
2 AMBA is the urban area composed of the City of Buenos Aires and 40 municipalities from the Province of Buenos Aires that surround the city.

4. **Consequently, the COVID-19 outbreak hit Argentina when its economy was still facing macroeconomic imbalances and an uncertain outlook**. Following a two-year recession, high inflation, and lack of access to capital markets, the strict lockdown established to contain the spread of the pandemic triggered a GDP loss of 9.9 percent in 2020, the largest decline since 2002. In response, the country has prioritized social spending through various programs, including the Universal Child Allowance, a cash transfer that reaches approximately 4 million children and adolescents up to age 18. In a context of restricted market access, financing the response to the pandemic required monetization of the deficit. This has exacerbated macroeconomic imbalances, notably by exerting pressures on reserves, widening the persistent large gap between the official and parallel exchange rate, and fueling inflation. Regarding capital market financing, during September-October 2020 the Government of Argentina (GoA) concluded the process of restructuring its debt in foreign currency (both local and external) with private creditors, significantly improving the maturity profile for the next five to eight years. However, debt service obligations as of 2028 are projected to be equivalent in US$ to those before the debt swap in 2020–2021.

5. **The economy recovered from the COVID-19 crisis at a fast pace, reaching pre-pandemic activity levels by mid-2021.** Argentina's economy grew by 10.4 percent in 2021. Higher commodity prices and trading partners' growth, notably Brazil's, combined with expansionary domestic policies led to a robust growth recovery. However, since early 2022 the pace of growth has slowed down amidst a more turbulent global context and still large domestic macro imbalances. In this context the authorities requested an IMF-supported program to help the country meet its large balance of payment needs, including those arising from the 2018 SBA.

6. **In March-2022, Argentine authorities reached an agreement with the IMF, on an Extended Fund Facility (EFF) program for a period of 30 months and an amount of US$45 billion, to address the economy's macroeconomic imbalances and set the basis for sustainable growth.** This amount will cover the remaining obligations under the 2018 SBA (US$40.5 billion) and already provided a small net financing support for reserves accumulation (US$4.5 billion). According to the memorandum of economic and financial policies, the program sets a gradual fiscal consolidation path toward a zero primary deficit in 2025 (from 3 percent in 2021 to 2.5 percent of GDP in 2022, 1.9 percent in 2023, and 0.9 percent in 2024), a reduction of monetary financing of the deficit (eliminated by 2024), and the framework for monetary policy involving positive real interest rates, as part of a strategy to fight inflation.

7. **The third Review of the EFF program was approved by the IMF Executive Board on December 22nd, 2022, allowing for an immediate disbursement of US$6 billion, elevating total disbursements to close to US$23.5 billion.** All quantitative performance criteria through end-September 2022 were met, on the back of prudent macroeconomic management by the new economic team. According to the IMF statement, decisive policy actions by the new economic team are starting to bear fruit. The IMF Board also approved waivers of non-observance associated with the introduction of policy measures that gave rise to new exchange restrictions and multiple currency practices. However, the statement points that these policies should be avoided and unwound as early as conditions permit.

8. **Despite meeting all the performance criteria under the IMF EFF by end-2022, downside risks are elevated.** Capital controls and deficit monetization continue to cause a large gap between the official and parallel exchange rate and limit foreign reserve accumulation. Inflation accelerated to historically high levels (102.5 percent year-over-year, as of February 2023), denting purchasing power. While fiscal targets have been met so far, a still sizable fiscal deficit continues to put pressure on monetary policy, given limited access to capital markets. A severe drought is expected to strongly affect agricultural production, reducing exports and fiscal revenues while limiting the capacity of the CB to accumulate international reserves. Moreover, potential global

effects caused by a protracted Russian invasion of Ukraine -which increases the cost of imported energy- could hamper the fiscal consolidation program.

Sectoral and Institutional Context

9. **Governments, central banks, supervisors, and financial institutions around the world are recognizing the importance of enhancing climate action related to the financial sector and organizing themselves to support of the goals of the Paris Agreement (PA).[3]** Central banks and supervisors established the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)[4] to help strengthening the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development.[5] Likewise, public authorities in charge of developing environmentally sustainable finance policies created the International Platform on Sustainable Finance (IPSF) with the objective of scaling up the mobilization of private capital towards environmentally sustainable investments.[6] In addition, national development financial institutions are joining together in the International Development Finance Club and the Finance in Common Summit which aims to align financial flows on the 2030 Agenda and Paris Agreement for Climate Change. Moreover, more than 300 banks worldwide representing about US$90 trillion in total assets and 50 percent of global banking assets are signatories of the UN Principles for Responsible Banking recognizing their unique and critical role to play in pivoting the global economic system, using its lending, and financing decisions and client relationships to redirect capital for the transition and accelerate the pace and scale of positive change across entire economies.[7]

10. **Sustainable finance offers an opportunity for the World Bank to engage constructively in the financial sector in Argentina in support of the SDGs and the climate change agenda, in spite of the limitations imposed by the current macroeconomic circumstances.** In Argentina, relevant financial sector actors are beginning to implement actions towards developing a sustainable financial system. The Technical Roundtable for Sustainable Finance (MTFS)[8] was created in 2021 with the objective of creating capacities, public policies, and regulations to

[3] Paris Agreement aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty by: (a) holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change; (b) increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions (GHG) development, in a manner that does not threaten food production; and (c) making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

[4] The NGFS was created in 2017 at the Paris “One Planet Summit” and consists of 121 members and 19 observers.

[5] At the 15th Conference of Parties (COP15) of the UNFCCC in Copenhagen in 2009, developed countries committed to a collective goal of mobilizing USD 100 billion per year by 2020 for climate action in developing countries, in the context of meaningful mitigation actions and transparency on implementation. The goal was formalized at COP16 in Cancun, and at COP21 in Paris, it was reiterated and extended to 2025. From 2013 to 2020, climate finance provided and mobilized by developed countries for climate action in developing countries has increased from 2013 to 2020, from US$52 to US$83 billion; however, the USD100 billion per year goal has not been met (OECD 2022, Aggregate Trends of Climate Finance Provided and Mobilized by Developed Countries in 2013-2020)

[6] The IPSF was created in 2019. The 19 members of the IPSF represent 55 percent of greenhouse gas emissions, 51 percent of the world population and 55 percent of global GDP.

[7] The Principles for Responsible Banking, launched in September 2019, include the UN-convened Net-Zero Banking Alliance (NZBA), which is the climate-focused initiative of this global framework. The Alliance, launched in April 2021, reinforces, accelerates, and supports the implementation of decarbonization strategies, providing an internationally coherent framework and guidelines in which to operate, supported by peer-learning from pioneering banks. It recognizes the vital role of banks in supporting the global transition of the real economy to net-zero emissions.

[8] The MTFS is led by the Ministry of Finance (MoF) and integrated by the main public entities in the financial system: the Central Bank of the Argentine Republic (BCRA), the National Securities Commission (CNV), the National Insurance Superintendency (SSN), the Argentine National Bank (BNA), the Investment and Foreign Trade Bank (BICE), the Guarantee and Sustainability Fund (FGS), as well as other actors

develop sustainable finance in Argentina. Likewise, 18 of the 63 banks operating in Argentina[9] are signatories of the National Sustainable Finance Protocol (SFP). The protocol has the objective of facilitating and encouraging financial institutions in Argentina to implement best practices and international policies that promote the integration of economic, social, and environmental factors. The Protocol's signatories commit to: (a) implement internal policies to implement sustainable strategies; (b) develop financial products and services that support financing projects with positive environmental and social impact; (c) strengthen their current risk analysis systems incorporating environmental and social risks and costs, and (d) promote a culture of sustainability within their organizations. The provision of technical assistance, institutional strengthening activities, and training is needed to support these financial sector stakeholders to go further and faster towards the achievement of their climate action objectives.[10]

Box 1. Sustainable finance enables growth with environmental, social, and governance considerations

Sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects. Environmental considerations might include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy. Social considerations could refer to issues of inequality, inclusiveness, labor relations, investment in human capital and communities, as well as human rights issues. The governance of public and private institutions – including management structures, employee relations and executive remuneration – plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process. (European Commission)

11. **Crowding-in the private sector to finance climate transition is necessary, especially in a scenario where access to finance in Argentina continues to be limited.** Argentina has a small and underdeveloped financial sector. Although the banking sector is well capitalized, sound, liquid, and with limited maturity and currency mismatches; the provision of credit in the economy is to be among the lowest in the world. Credit to private non-financial sector as a percentage of GDP reached a 15-year low at 9.2 percent in 2022, from which only 1.4 percent of total loan portfolio was long term,[11] and only 1.7 percent were loans directed to MSMEs, despite the fact they represent 99 percent of firms in the country.[12] Moreover, credit to the private sector represented 28.4 percent

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involved in the design and implementation of public development policies such as the Secretary of Industry and Productive Development of the Nation and the Ministry of Environment and Sustainable Development of the Nation. In May 2021, the Roundtable approved the roadmap to develop sustainable finance

[9] There are 63 commercial banks operating in Argentina, 35 private local banks with local capital, 9 private local banks with foreign capital, 6 branches of foreign banks, 13 government-owned: federal, provincial, and municipal banks. The 18 banks signatories of the protocol represent more than 80 percent of total loans to private non-financial sector.

[10] The potential exposure of LAC financial institutions to the physical and transition risks associated with climate change mean the sector can benefit from integrating climate into risk assessment models and including an assessment of climate risk in strategic underwriting tools. In addition, initiatives to broaden the range of green asset classes can contribute to making additional resources available to invest in resilience. (WB Roadmap for Climate Action in LAC, 2021-2025)

[11] The estimated average term of investment loans is 32 months.

[12] Medium, Small and Medium Enterprises (MSMEs) play a major role in the economy of Argentina. There are about 536,000 firms in Argentina, about 99 percent are MSMEs. About 83 percent (approx. 446,000) are microenterprises, from 1 to 9 employees; 13 percent (approx. 70,000) are small, from 10 to 49 employees; 3 percent (approx. 15,000) are medium, from 50 to 199 employees, and 1 percent (approx. 4,000) are large firms, from 200 employees and above. MSMEs generated 61 percent of the registered salaried employment, concentrated 46 percent of the turnover, and 16 percent of the total amount exported (about US$78,000 million in 2021). Of the total number of MSMEs in the country, 0.5 percent export goods, 17 percent are suppliers to large companies and 1 percent sells goods to both markets. The rest of the MSMEs (81 percent) are not linked to any of the mentioned markets. 70 percent of the total number of firms are concentrated in the province of Buenos Aires (32 percent), the Autonomous City of Buenos Aires (CABA) (18.4 percent), Córdoba (9.9 percent) and Santa Fe (9.5 percent). On economic sectors, firms are mainly concentrated in commerce (31 percent), agriculture (12

of banking sector assets in the same year.[13] The provision of long-term maturity sources of funding to both commercial banks and MSMEs will facilitate the mobilization of private capital to finance productivity-enhancing investments in technology and innovation, needed by MSMEs to increase their capacity to better mitigate and adapt to climate change risks, and improve its conditions to compete in the growing green markets.

12. The Development Bank of Argentina (BICE[14]) is committed to incorporate in its core mandate the role of promoting the development of a sustainable financial system in the country. BICE, the project implementing entity, is starting a transition beyond its original mission as an investment and external credit bank to play a greater role in promoting sustainable development and helping transition to a low-carbon climate-resilient economy. BICE in 2018 issued the first sustainable bond in Argentina (US$30 million). BICE has also developed and started to implement a new 'Green Line' as part of its promotion of risk mitigation instruments and investment financing in renewable energy and energy efficiency.[15] It annually prepares a sustainability report in accordance with the Global Reporting Initiative (GRI) standards and reflecting its commitment to responsible investment and the achievement of the United Nations Sustainable Development Goals. BICE is part of both the MTFS and the SFP. As a development bank, BICE can finance and foster low-emission and climate resilient investments by providing lower-cost and longer-term financing. It can be catalyst of external public and private finance and act as early investors to prove commercial viability. It can also engage in public policy dialogue to support the development of an enabling policy environment to attract private investment.[16]

Relationship to CPF

13. The proposed project contributes to the World Bank Group's (WBG) Twin Goals of reducing poverty and promoting shared prosperity and is aligned with the WBG's Global Crisis Response Framework (GCRF), underpinned by the WBG's Green, Resilient, and Inclusive Development Agenda. It contributes to the twin goals by promoting access to sustainable finance for MSMEs that will better integrate climate change risks, costs, and opportunities into their productive activities; thus, helping firms maintain/increase job opportunities and promote sustainable and inclusive local economic development and growth where the production processes of beneficiary MSMEs take place. The proposed project is also aligned with the four pillars of the GCRF[17] since it will support: (i) green and sustainable growth, (ii) the development climate smart policies and incentives, (iii) climate resilience, and (iv) the support of production and producers.

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percent), manufacturing industry (10 percent), transportation and storage (8 percent), construction (5 percent) and remaining 34 percent represent different types of services. (SEPYME, *Estructura y dinámica reciente de las mipymes empleadoras*. Sept. 2022.ISSN 2796-8189)

[13] Exposure to the public sector represents more than 40 percent of all banking system assets.

[14] Banco de Inversión y Comercio Exterior (BICE) is a public entity owned by the Republic of Argentina, whose shareholders are the Ministry of Finance, Banco de la Nación Argentina (BNA) and Fundación BNA. Created in 1991 as a second-tier commercial bank, it was authorized in 2003 to grant direct financial assistance to firms, with a focus on productive investment, infrastructure and foreign trade. In 2018, three complementary services companies of the BNA Group were incorporated as subsidiaries and in Sep'19 the merger by absorption of two of them was finalized: BICE Leasing and BICE Factoring.

[15] With the support of the Inter-American Development Bank and the Green Climate Fund. Projects are for Small and Medium Sized business in Argentina and can support a range of activities. So far it has supported 5 renewable energy plants with USD 20 m in financing and 83 Energy efficiency projects with USD 40 m in financing.

[16] UNDP 2022. The Role of Public Development Banks in Scaling Sustainable Financing.

[17] (1) Responding to Food Insecurity, (2) Protecting People and Preserving Jobs, (3) Strengthening Resilience, and (4) Strengthening Policies, Institutions, and Investments for Rebuilding Better.

14. **The proposed Project is aligned with the Country Partnership Framework (CPF) FY19-22 for the Argentine Republic discussed by the Executive Directors on April 25, 2019[18], and revised by the Performance and Learning Review (PLR)[19] on May 24, 2022.** The Project will support Focus Area 1, "Supporting inclusive recovery" that highlights the support for "improving access to financing – with a focus on small and medium enterprises and marginalized groups" by contributing to (i) foster stronger market institutions, productivity-led growth, and increased exports; and (ii) leverage private finance for sustainable development by supporting BICE, and thus enabling the provision of sustainable financing to MSMEs. Additionally, the Project will also support Focus Area 3, "Supporting climate measures and long-term sustainable growth" by expanding access to green finance to MSMES to reduce Argentina´s vulnerability to climate change and helping mitigate the country´s global environmental footprint.

15. **The proposed project is consistent with the Argentina Country Climate and Development Report (CCDR)[20] and aligned with ongoing interventions implemented under other relevant World Bank development operations in the country.** Argentina´s CCDR identifies green competitiveness as a priority for decarbonization. The provision of technical assistance to financial intermediaries and private sector companies will focus on the integration of climate change adaptation[21] and mitigation[22] considerations including facilitating increased access to international carbon markets and helping Argentina's export sector stay aligned with market access requirements being developed with a growing focus on sustainability.[23] Besides, given the weight and importance of the agri-food sector in Argentina's economy and export potential, the proposed Project aims to complement ongoing or recently completed agriculture sector investments, including the CIAF (P176905), PISEAR (P106685) and GIRSAR (P162316) projects. For example, by complementing efforts to promote energy efficiency, the adoption of innovative and Climate-Smart Agriculture (CSA) technologies and strengthening the financial inclusion of agro-industrial MSMEs.

C. Proposed Development Objective(s)

16. **Promote access to sustainable finance for micro, small and medium enterprises and to respond effectively in case of an eligible crisis or emergency.**

Key Results (From PCN)

[18] Report No. 131971–AR.
[19] Report No. 170668-AR, World Bank.
[20] It is also aligned with the World Bank Group Climate Change Action Plan (2021-2025) that aims to deliver record levels of climate finance to developing countries, reduce emissions, strengthen adaptation, and align financial flows with the goals of the Paris Agreement.
[21] Adaptation (of climate change): In human systems, the process of adjustment to actual or expected climate and its effects, in order to moderate harm or exploit beneficial opportunities. In natural systems, the process of adjustment to actual climate and its effects; human intervention may facilitate adjustment to expected climate and its effects. Source: The Intergovernmental Panel on Climate Change (IPCC), the United Nations body for assessing the science related to climate change. IPCC, 2022.
[22] Mitigation (of climate change): A human intervention to reduce emissions or enhance the sinks of greenhouse gases. IPCC, 2022.
[23] A significant portion of Argentina's export markets include countries that are expanding the use of carbon border adjustment mechanisms (CBAMs), negotiated trade agreements that involve environmental provisions, and bans on importing agriculture goods that cannot prove they were produced without deforestation. The EU CBAM proposal poses minimal risk to Argentina since the industrial products currently affected are not relevant in its export basket unless their base is broadened to include agriculture products. Moreover, the proposed EU ban on products that are not deforestation-free could affect up to 4 percent of Argentina's exports, with impacts concentrated in soybean and beef production. (CCDR Argentina 2022) Deforestation-free products: produced on land that was not subject to deforestation after 31 December 2020.

17. **The key results expected for the proposed Project will be measured by three PDO indicators:** (a) Volume of subloans MSMEs receive for climate change mitigation and adaptation activities; (b) BICE's governance and strategy arrangements supporting the prioritization of sustainable objectives, (c) PFIs set up a mechanism to monitor and evaluate sustainable financing in their portfolios.[24]

D. Concept Description

18. **The proposed project is a financial intermediary investment project financing with the development objective of promoting access to sustainable finance for micro, small and medium enterprises (MSMEs) that would be implemented in five years.** The proposed operation would be a US$ 350 million project financed with a US$200 million IBRD loan, US$45 million counterpart funding, and at least, US$105 million of private capital financing. The Republic of Argentina will be the Borrower of the IBRD loan, and the development bank (BICE) will be the Project Implementing Agency.

19. **The proposed project would benefit: (a) BICE and the Secretary of Industry and Productive Development (SIPD), (b) the participating financial intermediaries (PFIs), and (c) MSMEs, the main project beneficiaries.** The project will promote access to sustainable finance for MSMEs that will enable them to integrate climate change mitigation, adaptation, and resilience considerations in their productive processes. By providing access to long-term loans for MSMEs to undertake the needed investments in technology and innovation, productivity enhancement and green competitiveness, the project would contribute to reduce greenhouse gas (GHG)[25] emissions and the country´s vulnerability to the effects of climate change. Moreover, technical assistance, training and institutional development support will be granted to both financial intermediaries and MSMEs to operationalize ESG considerations.

20. **The proposed project consists of four components:** (1) Strengthening capacity of financial sector stakeholders (2) Promoting access to sustainable finance for MSMEs, (3) Project Management, and (4) Contingent Emergency Response component.

21. **Component 1: Strengthening capacity of financial sector stakeholders.** This component will finance the provision of technical assistance, capacity building, training, and institutional strengthening activities to help BICE, SIDP, PFIs and MSMEs to enhance their ability to better integrate climate change risks, costs, and opportunities into their business models. As part of this component, the project will (a) support BICE in its transition of becoming the green development bank of Argentina, including, among others, technical assistance for adjusting its corporate governance, internal processes, tools and strategy to incorporate sustainable objectives in its operation; (b) support the Secretary of Industry and Productive Development to promote the public policy dialogue for the development of policies and incentives for green and sustainable growth and to improve the enabling environment for access to finance and access to markets for MSMEs; (c) support the PFIs in the transition to a sustainable finance scenario including the provision of technical assistance to develop

[24] The Project will define, at appraisal stage, the intermediate results indicators for the results framework and additional indicators for the operations manual.

[25] Greenhouse gases (GHGs): Gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of radiation emitted by the Earth's surface, by the atmosphere itself, and by clouds. This property causes the greenhouse effect. Water vapour (H2O), carbon dioxide (CO2), nitrous oxide (N2O), methane (CH4) and ozone (O3) are the primary GHGs in the Earth's atmosphere. Humanmade GHGs include sulphur hexafluoride (SF6), hydrofluorocarbons (HFCs), chlorofluorocarbons (CFCs) and perfluorocarbons (PFCs); several of these are also O3-depleting (and are regulated under the Montreal Protocol). IPCC, 2022.

and/or improve their environmental and social management systems aligned with international best practices; and (d) support MSMEs to better understand how to reduce the impact of climate change events in its productive activity, how to benefit from sustainable practices using resources more efficiently, and how to take advantage of business opportunities that green markets can offer. As part of this component, the project will also facilitate the dialogue among project participants and other key stakeholders to foster cooperation and coordination to accelerate the development of a sustainable financial system in Argentina.

22. **Component 2: Promoting access to sustainable finance for MSMEs.** This component will finance:

(a) **Subcomponent 2.1 - Line of credit.** Under this subcomponent the project will support BICE to expand its offer of subloans to serve MSMEs, directly and through PFIs, to help them cover their working capital and investment needs, prioritizing subloans to finance climate mitigation and adaptation activities and/or subloans targeting vulnerable and/or marginalized populations (i.e., women). Under this subcomponent, BICE will use its first-tier operations to promote market creation and demonstration effects of financial products such as green loans, sustainability-linked loans, and social loans[26] for MSMEs. Also, BICE will offer long-term lines of credit to PFIs to channel subloans to MSMEs for ESG investments while mobilizing private capital. [27] In addition, the Project would include targets for the portion of subloans that finance climate mitigation and adaptation activities[28] and subloans that contribute to close gender gaps in access to finance[29].

BICE will assume the credit risk of the MSMEs when lending directly and of the PFIs on second-tier operations, while the PFIs will assume the credit risk of the MSMEs. BICE and the PFIs will follow

[26] Green loans are any type of loan instruments and/or contingent facilities made available exclusively to finance, re-finance or guarantee, in whole or in part, new and/or existing eligible Green Project (i.e. renewable energy, energy efficiency, clean transportation, sustainable water and wastewater management, green buildings).
Sustainability linked loans are any types of loan instruments and/or contingent facilities which incentivize the borrower's achievement of ambitious, predetermined sustainability performance objectives (i.e. improvement of energy efficiency, reduction of water usage, increase of recycled materials used in manufacturing). The borrower's sustainability performance is measured by applying predefined Sustainability Performance Targets (SPTs) to predefined Key Performance Indicators (KPIs). Incentives for this type of subloans will be explore during project preparation in coordination with the counterparts.
Social loans are any form of loan instrument exclusively made available to finance or re-finance, in whole or in part, new and/or existing eligible Social Projects. (i.e. activities targeting excluded and/or marginalized populations, underserved, owing to a lack of quality access to essential goods and services, women and/or sexual and gender minorities, or vulnerable groups as a result of natural disasters).
[27] Under the Project, PFIs will match with their own funds a fraction of the line of credit approved by BICE with the loan proceeds to provide subloans to MSMEs following the project's criteria. In addition, final borrowers will invest a portion of the subproject financed by the subloan.
[28] It is expected that mitigation and adaptation subloans would include investment subloans mainly for the acquisition of fixed assets/technology adoption. The target for this indicator, to be confirmed during negotiations, would be equal to the amount of the IBRD loan. Working capital subloans may not be expected to be attributable and considered for the indicator measuring results of climate change interventions; however, they would fall under the category of social subloans.
[29] In Argentina, according to the Enterprise Survey 2017, there is a gender gap in access to finance. About 42 percent of companies led by men have a line of credit, compared to 36.5 percent of women. In addition, 20.5 percent of the companies led by women finance their investment needs with bank loans, compared to 42.9 percent of firms led by men. Likewise, 15.4 percent of companies led by women finance their working capital needs with bank loans compared to 31 percent of firms led by men. Access to finance for investment and working capital needs of firms led by women in Argentina is below the average in LAC of 35.6 percent and 32.6 respectively. Regarding mitigation and adaptation to climate change, the SME Finance Forum highlights that gender gaps are increasingly seen as barriers to effective mitigation and adaptation strategies. While investments into climate technologies aimed at mitigation and adaptation are growing rapidly, women-owned businesses are less likely to benefit without action to close gender gaps in access to finance.

their respective pricing policy according to market conditions. The cost of on-lending financing through PFIs will include, at a minimum, the cost of funding the borrower will pass to BICE (the borrower will assume the foreign exchange risk for subloans in local currency), plus an on-lending margin reflecting BICE's administrative costs and taxes and a credit risk margin associated with the eligible PFI.

(b) **Subcomponent 2.2 – Partial Credit Guarantee.** Under this subcomponent the Project will finance the capitalization of a partial credit guarantee (PCG) fund to reduce the risk of MSMEs and ESG investments to incentivize private financing. The type of subloans provided by PFIs under this subcomponent will be similar to the ones provided under subcomponent 2.1.

(c) **Subcomponent 2.3 – Innovative financial instruments.** Under this subcomponent the project will support the design and/or improvement, testing, and evaluation of sustainable financial instruments for promoting and expanding access to sustainable finance for MSMEs. For instance, Climate debt funds or hybrid equity funds where the development bank uses its own resources to crowd-in private capital to finance ESG investments[30].

23. **Component 3: Project Management.** This component will finance the activities required for the coordination, implementation, monitoring, and evaluation of the Project. Under this component, the Project could finance, among other things, hiring and/or training of the project coordination team, the strategic evaluation of the Ministry of Economy, the design and implementation of the monitoring and evaluation strategy, the design and implementation of the communication strategy, and financial audits of the Project.

24. **Component 4: Contingent Emergency Response.** This component is a contingent financing mechanism available to Argentina to have immediate access to Bank financing to respond to an eligible crisis or emergency, defined as "an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact associated with natural or man-made crises or disasters." As such, this subcomponent is fully aligned with the GCRF, and in particular, with Pillar 3. The mechanism for the triggering of the CERC would be established in the CERC Manual, detailing the applicable fiduciary, environmental and social, monitoring, reporting, and any other implementation arrangements necessary for the implementation of the proposed activities to be financed. In case of an event triggering the component, a reallocation of funds would be introduced to loan disbursement categories, to be able to fund the proposed activities under this component in order to be able to respond to the emergency. The implementation agency for this CERC would be determined in accordance with a CERC Manual.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

[30] The calculation for PCM of this subcomponent will be estimated during project preparation.

CONTACT POINT

World Bank

Ana Maria Aviles, Daniel Ortiz del Salto
Program Leader

Borrower/Client/Recipient

Ministerio de Economía
Mauro Conti
Director Nacional de Priorización Estratégica del Financiami
mauconti@mecon.gov.ar

Implementing Agencies

Banco de Inversión y Comercio Exterior (BICE)
Eduardo Pina
Gerente General
eprina@bice.com.ar

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Ana Maria Aviles, Daniel Ortiz del Salto

Approved By

Practice Manager/Manager:		
Country Director:	Marianne Fay	04-Apr-2023