Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 20-Jun-2023 | Report No: PIDA36059

Public Disclosure Authorized

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Argentina	P180456	Access to Sustainable Finance for Micro, Small and Medium Enterprises Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
LATIN AMERICA AND CARIBBEAN	21-Jun-2023	22-Aug-2023	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Republic of Argentina	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.

Components

Strengthening capacity of financial sector stakeholders
Promoting access to sustainable finance for MSMEs
Project Management
Contingent Emergency Response

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	386.00
Total Financing	386.00
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	141.00
Unguaranteed Commercial Financing	141.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **With a gross domestic product (GDP) of US$614 billion, Argentina was the third-largest economy in Latin America in 2022.** The country has 2.8 million square kilometers, and its population of about 46 million inhabitants[1] is highly urbanized, with 92 percent living in cities. The Buenos Aires Metropolitan Area alone constitutes 33 percent of the national population and generates more than 40 percent of Argentina's GDP. Argentina is a federal state. Hence, its 23 provinces and the Autonomous City of Buenos Aires preserve their autonomy under the national government.

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 39.2 percent in the second semester of 2022, and 8.1 percent of Argentines live in extreme poverty. Childhood poverty, for those under 15 years old, is at 54.2 percent. The high frequency of economic crises in recent decades—the economy has been in recession 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 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 improved in recent years. Such volatile macroeconomic environment has hindered the country's ability to reduce poverty rates and infrastructure deficit and increase incomes.

[1] https://www.censo.gob.ar

3. **The economy recovered from the Coronavirus Disease (COVID) crisis at a fast pace, reaching pre-pandemic activity levels by mid-2021.** Argentina's economy grew by 10.4 percent in 2021 and 5.2 percent in 2022, the largest increase in GDP since the 2010-2011 biennium, after the global financial crisis. Higher commodity prices and trading partners' growth, notably Brazil's, combined with public investment led to a robust growth recovery in 2021 and the beginning of 2022. However, since 2022 increasing macro imbalances and a more turbulent global context, started to slow down the pace of GDP growth. The Government of Argentina has 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.

4. **Climate change poses additional threats to Argentina's recovery and exacerbates existing climate vulnerabilities.** Average annual temperatures are expected to increase – by 1.5°C by mid-century – together with country-wide annual average precipitation and high variability. As the climate changes, weather-related disasters, such as floods, droughts, and heat waves, are likely to increase in frequency and intensity,[2] posing additional threats to vulnerable populations, reducing their ability to address them, and impacting the government's capacity to deliver public services. Climate change will particularly affect the Argentinian energy sector and its climate resilience, as higher temperatures and extreme weather events will impact power generation, especially clean energy sources such as hydro, solar and wind.[3] Higher demand resulting from economic growth, industrial expansion, urbanization, and population growth will also challenge existing power supply systems. Extreme temperatures and weather events will add further complexities due to an overload of demand and could lead to service disruptions and failures to satisfy the energy demand of the most vulnerable populations. Key investments in both energy efficiency and supply for lower income households and communities will need to be scaled up to reduce and satisfy the growing demand and Argentina's development needs.

5. **In March 2022, Argentine authorities reached an agreement with the International Monetary Fund (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 covers the remaining obligations under the 2018 SBA (US$40.5 billion) and provided a small net financing support for reserves accumulation (US$4.5 billion). 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. A staff-level agreement on the fourth review under Argentina's 30-month EFF arrangement was approved by the IMF Executive Board in March 2023, granting Argentina access to about US$5.3 billion (SDR 4.0 billion).

6. **Despite meeting all the performance criteria under the IMF EFF by end-2022, Argentina's macro-fiscal situation remains challenging.** According to the IMF statement, prudent macroeconomic management in the second half of 2022 supported stability and helped secure program targets through end-2022 with some margin. Nevertheless, capital controls and deficit monetization continue to cause a large gap between the official and parallel exchange rates and limit foreign reserve accumulation. Inflation accelerated to historically high levels (102 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 in 2023,

[2] The World Bank Group, Climate Risk Profile: Argentina, 2021.

[3] The World Bank Group; OLADE, *Evaluación del Impacto del Cambio Climático en la Generación Eléctrica en los Países del Cono Sur*, 2022.

reducing exports and fiscal revenues while limiting the capacity of the Central Bank to accumulate international reserves.

7. **In this context, the government is increasing efforts towards a gradual macroeconomic stabilization program that contains a broad set of economic policies.** To reduce the monetary financing of the fiscal deficit and the associated persistent and high inflation, the government has adopted measures to reduce the cost of subsidies and improve their targeting, especially in the costly energy sector. In addition, it is taking steps to improve the ability of the customs administration to supervise and control the over invoicing of trade and other related distortions. In addition to addressing the urgent need for reserve accumulation, these measures should help pave the way for the eventual easing of foreign exchange controls.

Sectoral and Institutional Context

8. **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 the goals of the Paris Agreement (PA).[4]** Central banks and supervisors established the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)[5] 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.[6] 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.[7] 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.[8]

[4] 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.

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

[6] 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) At COP26, advanced economies acknowledged that they have not met their pledges of providing US$100 billion per year in climate finance to developing countries by 2020.

[7] 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.

[8] The Principles for Responsible Banking, launched in September 2019, include the UN-convened Net-Zero Banking Alliance (NZBA),

9. **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, despite 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)[9] was created in 2021 with the objective of creating capacities, public policies, and regulations to develop sustainable finance in Argentina. Likewise, 18 of the 63 banks operating in Argentina[10] 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.[11]

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)

10. **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

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.

[9] 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 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.

[10] 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.

[11] 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)

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,[12] and only 1.7 percent were loans directed to MSMEs, despite the fact that they represent 99 percent of firms in the country. Moreover, credit to the private sector represented 28.4 percent 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.

11. **Micro, Small and Medium Enterprises (MSMEs) play a major role in the economy of Argentina, accounting for over 60 percent of employment and contributing significantly to job creation.** There are about 536,000 firms in Argentina, about 99 percent are MSMEs.[14] 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 percent), manufacturing industry (10 percent), transportation and storage (8 percent), construction (5 percent) and the remaining 34 percent represent different types of services.

12. **Climate events pose serious challenges for MSMEs in a broad range of sectors and are expected to cause far-reaching repercussions including financial losses, employment reductions, and decreased efficiency for these enterprises.** Observed and anticipated climate impacts, from droughts to floods, can disrupt business operations, damage infrastructure, affect agricultural businesses, or cause disruptions in transportation and logistics, impacting supply chains and resulting in financial losses for MSMEs. For example, according to estimates from the Rosario Stock Exchange[15], the cost of the 2022-2023 drought already amounts to US$10.425 billion for soybean, wheat and corn producers and would erase 2.2 points of this year's GDP estimate. Furthermore, climate change impacts can increase energy and insurance costs posing additional burdens for MSMEs. Businesses can also be impacted by the transition to decarbonization as regulations related to emissions reductions, waste management, energy efficiency, and environmental reporting start being implemented. Compliance with these regulations may require additional investments and operational changes, which can pose challenges for MSMEs with limited resources, capacity and access to finance.

[12] Average term of investment loans is 32 months.
[13] Exposure to the public sector represents around half of all banking system assets.
[14] (SEPYME, *Estructura y dinámica reciente de las mipymes empleadoras*. Sept. 2022.ISSN 2796-8189)
[15] https://www.bcr.com.ar/es/mercados/mercado-de-granos/noticias/el-costo-de-la-sequia-202223-ya-asciende-us-10400-millones-para

Financial institutions can help MSMEs navigate the challenges posed by climate change, support the transition towards a green economy and improve their climate resiliency.

13. **In Argentina, there is a gender gap in access to finance for women led MSMEs**. In 2020, 33 percent of MSMEs in Argentina (some 180,000 companies)[16] had women in leadership positions. According to the Enterprise Survey 2017, 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 (35.6 percent and 32.6 respectively).

14. **Closing the gender gap on sustainable finance will help female entrepreneurs address their particular needs in terms of mitigation and adaptation.** Women and disadvantaged groups tend to be more affected by climate change across various dimensions, including health, livelihoods, and agency as the have fewer resources to protect themselves against climate risks and recover from climate shocks, tend to be disproportionately affected by climate variability and stresses, and face more constraints in accessing climate-related opportunities.[17] 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. Gender analysis of green lending reveals that women typically receive small loan amounts for one-time investments, which limits their ability to make substantial investments that would increase their climate resilience.[18] This also hinders their potential contributions to climate action. Targeted interventions and instruments that expand women led MSMEs´ access to financial capital could enable them to become more resilient and increase their opportunities for engaging in more profitable activities.

15. **The Development Bank of Argentina (BICE) is committed to incorporating the role of promoting the development of a sustainable financial system in the country in its core mandate.** 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. In 2018, BICE 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.[19] 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-

[16] Either as companies incorporated as natural persons whose owner is a woman (94,700); or as legal entities (considered to have female leadership when: (i) 51% or more of the shareholding is in the hands of women, or (ii) 25% or more of the shareholding is in the hands of women and at least one of the members of the board of directors is a woman) led by women (85,500). SEPYME, *Mipymes lideradas por mujeres*. March, 2022. ISSN 2796-8189

[17] Deininger, Franziska; Woodhouse, Andrea; Kuriakose, Anne T.; Gren, Ana; Liaqat, Sundas. 2023. Placing Gender Equality at the Center of Climate Action. World Bank Group Gender Thematic Policy Notes Series;Issues and Practice Note.

[18] Asian Development Bank*, How Providing Sustainable Finance to More Women Helps Fight Climate Change*. October 2022.

[19] With the support of the Inter-American Development Bank and the Green Climate Fund. Projects are for SMEs in Argentina and can support a range of activities. So far it has supported 5 renewable energy plants with US$ 20 million in financing and 83 Energy efficiency projects with US$ 40 million in financing.

emission and climate resilient investments by providing lower-cost and longer-term financing. It can be a catalyst of external public and private finance and act as early investor 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.[20]

16. **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 September of 2019 the merger by absorption of two of them was finalized: BICE Leasing and BICE Factoring. It has about 460 employees. In 2022, BICE showed adequate levels of solvency, liquidity, and returns, and low levels of non-performing loans ratios (2,6 percent as of Dec. 2022). The last 3 years BICE has disbursed about US$715 million in subloans for productive purposes (about 10 percent through second-tier lending operations). In 2022, BICE lent about US$300 million which represented around 3 percent of total loans to private non-financial sector.

17. **BICE has previous experience implementing financial intermediary operations financed by the IBRD,[21] supporting access to finance for MSMEs during the COVID-19 pandemic.** BICE channeled US$50.8 million in subloans to MSMEs in the context of a market-wide credit contraction and shortened maturities. 162 credit operations for productive purposes were provided through four participating financial institutions (PFIs) to 91 companies. This amount represents 100 percent of the resources assigned to the credit line (US$45.1 million), in addition to about US$5 million in revolving credits.[22] The PFIs' average credit loan maturity to MSMEs under the project exhibited longer terms than their comparable lending portfolio, evidencing improved access to longer-term finance for MSMEs. In addition, under the Project: (a) BICE improved its capacity (staff training, improved processes, developed the environmental and social management system, renewed hardware and software for its information technology platform and management systems); (b) a new SME platform was created, as a new form of interaction between the state and SMEs; (c) the Data Repository (L*egajo Único Financiero y Económico*, LUFE) was developed, as a new platform for consolidating and standardizing MSMEs' economic, financial, and accounting data;[23] (d) the project supported the government to prepare a proposal with a set of suggestions to reform the Insolvency Framework; and (e) an action plan to support and encourage a greater use of the Electronic Credit Invoice for MIPYMEs was developed and started implementation.[24]

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

[20] UNDP 2022. The Role of Public Development Banks in Scaling Sustainable Financing.
[21] Access to Finance for MSMEs Project (P159515)
[22] MSMEs accessing the credit line were able to sustain their level of employment and increase sales in the context of massive job loss induced by the COVID-19 pandemic. During COVID-19, the Argentine private sector lost more than 300,000 formal jobs. According to the COVID-19 Business Pulse Survey of the World Bank, firms in Argentina experienced a drop of 7.28 percent in their monthly sales in 2021 compared to the previous year. The slowdown in sales disproportionally affected smaller firms: micro - 10.30 percent and small - 5.46 percent. In contrast, the MSMEs that accessed working capital loans in 2021 through the project credit line maintained (on average) their same level of employment and increased their sales by 39 percent. This positive result holds even if micro and small firms are considered, which exhibited a sale increase of 12 percent.
[23] https://www.argentina.gob.ar/produccion/registrar-una-pyme/legajo-unico-financiero-y-economico-lufe
[24] https://www.argentina.gob.ar/sites/default/files/pieza_brochure_factura_de_credito_electronica_2021.pdf

18. **Promote access to sustainable finance for micro, small and medium enterprises and to respond effectively in case of an eligible crisis or emergency**. [25]

Key Results

19. **The key results expected for the proposed Project will be measured by three PDO indicators:** (a) Volume of subloans MSMEs receive for financing ESG subprojects (amount in USD); (b) BICE's governance and strategy arrangements supporting the prioritization of sustainable objectives (scale low to high), and (c) PFIs set up a mechanism to monitor and evaluate sustainable financing in their portfolios (percentage).

D. Project Description

20. **The proposed project is a financial intermediary investment project 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$ 386 million project financed with a US$200 million IBRD loan, US$45 million counterpart funding, and at least, US$141 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.

21. **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.

22. **Component 1: Strengthening capacity of financial sector stakeholders (US$15 million IBRD).** This component aims to support key financial sector stakeholders to implement relevant actions to facilitate and speed up the transition of the financial sector into a sustainable financial system that is aligned and contributes to the achievement of the Paris Agreement objectives. Under this component, the project 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 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 and foster experimentation and novelty across the sector, to ensure innovative responses to adjust to new climatic conditions and challenges.

23. **BICE will receive support from the project in its transition of becoming the green development bank of Argentina.** Under this component, the project will finance, *inter alia*: (a) technical assistance for adjusting its corporate governance, internal processes, tools, and strategy to incorporate sustainable objectives in its operation; (b) the implementation of an action plan supporting ESG objectives prioritized under BICE's governance and institutional strategy; (c) technical assistance to enhance its capacity to integrate climate change risks as part of its credit risk analysis; (d) technical assistance to prepare and/or improve sustainable financial products and services for MSMEs; (e) design and implementation of a mechanism to identify, monitor, evaluate, and report ESG financing in its operations, including the acquisition of hardware and software as needed; (f) the creation of an ESG unit that would be established and functioning as part of the

[25] The second part of the PDO reflects a contingent financing mechanism available to Argentina to have immediate access to Bank financing to respond to an eligible crisis or emergency (see component 4).

organizational structure of BICE with clearly defined roles and responsibilities, trained staff, and adequate tools to operate; (g) the implementation of BICE's plan to reduce its own greenhouse gas footprint, including the acquisition of equipment and/or other goods as needed for that purpose; and (h) other strengthening capacity activities.

24. **The Secretariat of Industry and Productive Development will receive support from the project to promote the transition of the real economy to net-zero emissions.** Under this component, the project will finance, *inter alia*: (a) technical assistance for the development of financial sector related policies and incentives for low-carbon, climate-resilient and sustainable growth of the productive sector; (b) the design of a strategy for export-oriented firms to stay in compliance with market access requirements being developed with a growing focus on sustainability (i.e., deforestation-free products); and (c) the operationalization phase of the Data Repository (*Legajo Único Financiero y Económico, LUFE*)[26].

25. **PFIs will receive support in the transition process to a sustainable finance scenario.** Under this component, the project will organize knowledge sharing activities to support PFIs, *inter alia*: (a) to develop and/or improve their environmental and social management systems (ESMS) aligned with international best practices[27]; (b) to enhance their capacity to integrate climate change risks as part of their credit risk analysis[28]; (c) to increase their knowledge on how to create sustainable financial products and services[29]; and (d) to set up a mechanism to identify, monitor, evaluate, and report ESG financing of their lending portfolios.[30]

26. **MSMEs will receive capacity building and technical assistance to better understand how to reduce the impact of climate change events in their productive activity.** Under this component, the Project will finance, *inter alia*: (a) technical assistance to enhance sustainable production practices and increase efficiency in the use of electricity, gas and water; and (b) capacity building activities, including training courses to be offered through the online training Platform managed by SIDP, on relevant topics for MSMEs, including climate change mitigation and adaptation courses, the potential of carbon markets, how to benefit from sustainable practices using resources more efficiently, and how to take advantage of business opportunities that markets demanding goods and services sustainably produced can offer. The project will benefit from the experience of SIPD to offer the capacity building activities tailored to the needs of different target groups, including MSMEs from different economic sectors, size, geographical areas, women MSMEs, among others.

---

[26] The World Bank supported the design and implementation of the Data Repository in the previous IPF operation. https://legajounico.produccion.gob.ar/.

[27] 72 percent of commercial banks in Argentina do not have an ESMS, 14 precent has an ESMS, and 14 percent has a MSME and consider climate change risks. Source: BCRA, *Encuesta Nacional de Finanzas Sostenibles y Cambio Climático 2023*

[28] 63 percent of commercial banks do not incorporate the impact of climate change as part of the credit and investment risk analysis, although 65 percent do consider that climate change represents a potential risk for the stability of the financial system. 77 percent of banks confirmed that they do not have the technical capacity to incorporate variables and scenarios of climate change in their analysis and risk management. Source: BCRA, *Encuesta Nacional de Finanzas Sostenibles y Cambio Climático 2023*

[29] Financial institutions expressed interest of developing sustainable financial products: (i) 58 for lines of credit to finance green projects (energy efficiency, electric mobility, disposal and use of waste, renewable energy, sustainable construction or similar); (ii) 39 percent for lines of credit 'earmarked' for climate smart agriculture projects/activities, ecotourism, comprehensive waste management, biobusinesses, biodiversity conservation, among others; (iii) 35 percent for lines of credit to finance vulnerable groups; and 35 percent for thematic bonds (ESG, green, social, gender, etc.); (iv) 16 percent for issuance of guarantees for thematic bonds of other issuers, among others. BCRA, *Encuesta Nacional de Finanzas Sostenibles y Cambio Climático 2023*

[30] 82 percent of commercial banks in Argentina do not have do not have a definition or specific criteria to identify and classify credit operations or productive projects that generate environmental benefits, that contribute to mitigation or adaptation to climate change, or with a positive social impact. Source: BCRA, *Encuesta Nacional de Finanzas Sostenibles y Cambio Climático 2023*

27. **Component 2: Promoting access to sustainable finance for MSMEs (US$183 million IBRD, US$45 million counterpart funds, US$141 million private capital financing).** This component will finance:

28. **Subcomponent 2.1 - Line of credit (US$170 million IBRD, US$45 million counterpart funds, US$104 million private capital financing).** 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, financing subloans for climate mitigation and adaptation activities and/or subloans targeting women, and vulnerable and/or marginalized populations.[31] Under this subcomponent, BICE will use its first-tier operation to promote market creation and demonstration effects of financial products such as green loans, sustainability-linked loans, and social loans[32] for MSMEs. Also, BICE will offer long-term lines of credit to eligible PFIs[33] to channel subloans to MSMEs for ESG investments while mobilizing private capital. [34] In addition, the Project includes targets for subloans that finance climate mitigation and adaptation activities,[35] (at least USS$170 million) and subloans that contribute to close gender gaps in access to finance (at least US$90 million).

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.** As part of the Borrower's climate finance approach for making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development, the borrower would pass the funds to BICE for this subcomponent at concessional terms as a strategy to mobilize the significative needed private sector capital into climate finance; [36] thus, increasing the funding provided by private financial institutions and firms into ESG activities

[31] For instance, regarding the regional distribution of credits, the "Norte Grande" region (Tucumán, Salta, Santiago del Estero, Jujuy, Catamarca, Misiones, Chaco, Formosa, Corrientes, and La Rioja) represents 9 percent of total loans while the Central zone (CABA, Buenos Aires, Santa Fé, Córdoba and Entre Ríos) concentrates 82 percent, although this would be explained by the number of firms located in the Central Zone (above 70 percent).

[32] 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, sustainable water management, green buildings, low-carbon technologies). This type of subloans will finance mitigation and adaptation activities.
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 explored 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 or climate-induced disasters).

[33] Financial institutions need to comply with a qualification process under BICE's policies to ensure that are commercially oriented, financially sound, and well-managed. Currently there are 28 qualified financial institutions.

[34] During the life of the Project, PFIs will match with their own funds a percentage of the line of credit received from BICE to provide subloans to MSMEs following the same project's eligibility criteria. In addition, final borrowers will invest a portion of the subproject financed by the subloan.

[35] 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 need to comply the criteria defined in the operations manual under the category of social subloans.

[36] The borrower will support its development bank by providing them lower-cost finance, support for longer-term finance in addition to lowering the cost, and support in dealing with currency risk when receiving support in US dollars or other international currencies

(est. at least US$104 million under this subcomponent), since climate-related considerations are not among the key factors that currently determine bank lending decisions. BICE and the PFIs will follow their respective pricing policy according to market conditions, which currently are influenced by the interest rates offered by the Credit Line for Productive Investment (LFIP, in Spanish) stablished by the BCRA in the context of the pandemic COVID-19, and the Credit Line for Productive Investment (CreAr) created by the central government.[37] 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.

30. **PFIs, MSMEs and subloans will comply with eligibility criteria.** A clearly defined eligibility criteria detailed in the project operations manual will be followed during Project implementation[38]. These criteria will ensure that the loan proceeds are used for the intended purposes following the obligations described in the Loan Agreement, including environmental and social standards, fiduciary procedures and anticorruption guidelines. The eligibility criteria for PFIs will ensure that are commercially oriented, financially sound, and well-managed. The eligibility criteria will ensure that the activities will finance working capital and investment needs of MSMEs that have a social focus and/or for mitigation and adaptation to address climate change-related risks and aspects. In addition, eligibility criteria for the productive assets (e.g., new equipment and machinery, vehicles, etc.) to be financed by the MSMEs will include the use of best available technology (BAT), energy efficiency, and low-carbon considerations as defined in the Operations Manual.

31. **Subcomponent 2.2 – Partial Credit Guarantee (US$5 million IBRD, US$25 million private capital financing).** Under this subcomponent the Project will finance the capitalization of a dedicated partial credit guarantee (PCG) fund within the Argentine Guarantee Fund (FOGAR)[39] to facilitate access to finance of MSMEs facing lack of collateral while reducing the risk of those MSMEs and ESG investments to incentivize private financing. The type of subloans provided by PFIs that will be guaranteed under this subcomponent will apply the same eligibility criteria under subcomponent 2.1.

32. **Subcomponent 2.3 – Innovative financial instruments (US$8 million IBRD, US$12 million private capital financing).** Under this subcomponent the project will finance the capital contribution for the implementation of new and/or improved financial instruments with ESG focus that will provide access to sustainable finance for MSMEs.[40] Eligibility criteria for this subcomponent will be similar to the ones to be applied in

---

but lend-on in local currency. UNDP 2022. The Role of Public Development Banks in scaling up Sustainable Finance.

[37] The Credit Line for Productive Investment (LFIP, in Spanish) stablished by the BCRA in the context of the pandemic COVID-19 to provide access to loans to MSMEs. As established in the regulation, financial institutions must allocate to this line at least 7.5 percent of deposits from the non-financial private sector in pesos, calculated on the monthly average of daily balances. The maximum amount per subloan is about US$ 300,000 and a maximum term of 61 months. Currently the interest rates are below inflation rate, 64.5 percent for investments and 74.5 percent for working capital. LFIP has been extended by the BCRA until September 2023. In addition, the Government is implementing approx. US$120 million line of credit for industrial, agro-industrial, and industrial services MSMEs "Crédito Argentino, CreAr" to finance capital goods and the construction of production facilities, with an annual effective total financial cost of about 49 percent, a maximum amount per beneficiary MSME of about US$2 million and a term of maximum 7 years.

[38] Eligibility criteria will include the eligible destiny of the financing (working capital and/or investment needs), the eligible type of activities (i.e., mitigation and adaptation), non-eligible activities (exclusion list and high E&S risk activities), the type of eligible final borrowers (micro, small and medium enterprises), the type of eligible PFIs (i.e., qualified by BICE, in compliance with all BCRA prudential norms, not a shareholder of BICE. Audited financial reports as per BCRA requirements).

[39] FOGAR operates under the SIDP and it is managed by BICE fideicomiso. FOGAR supports access to finance for MSMEs by providing partial credit guarantees.

[40] Under component 1, the Project wound support, if needed, the provision of technical assistance for the design and/or improvement of existing or new sustainable financial instruments for MSMEs.

subcomponent 2.1. The analysis of the type of financial instruments to crowd-in private capital to finance ESG investments[41] and the details of how and when they would be implemented will be defined during the execution phase of the project. For instance, Climate debt funds or hybrid equity funds where the development bank uses its own resources to mobilize private capital will be evaluated.

33. **Component 3: Project management. (US$2 million IBRD).** 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 (PCT), the strategic evaluation of the Ministry of Economy[42], the design and implementation of the monitoring and evaluation strategy, the design and implementation of the communication strategy, and financial audits of the Project.

34. **Component 4: Contingent Emergency Response (US$0 million IBRD).** 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 Assessment of Environmental and Social Risks and Impacts

35. **Environment risk:** Based on the proposed activities, the environmental risk classification of the Project is Substantial. However, it is expected that the Project will not have significant environmental impacts. The potential environmental risks and impacts of activities are predictable, temporary and/or reversible, low in magnitude, site-specific without the likelihood of impacts beyond the actual footprint of the Project and have

[41] Private capital under this subcomponent is expected to come from local impact and/or institutional investors. For instance, from 2019 to 2023 ESG bonds have grown from US$27.1 million to US$1.09 billion (50 bonds: 30 in US$ and 20 in AR$). 60 percent were oversubscribed. Moreover, there are 15 ESG mutual funds (*Fondos de Inversión Común*) approved and 7 launched to finance MSMEs, representing about AR$1.8 billion.

[42] It consists of the evaluation the borrower conducts to measure the progress of the implementation of project activities and the results achieved.

a low probability of serious adverse effects on human health and the environment. The Project will not increase water and energy consumption, air pollution, or e-wastes due to the manufacturing of new products or computer hardware upgrades, and it will not support loans that have significant adverse impacts on biodiversity and habitats or on cultural heritage. BICE has developed an exclusion list as part of its ESMS to identify activities that will not receive investment under this Project, and only Low (e.g.: entertainment services), Moderate (e.g.: garment manufacture), and Substantial (e.g.: sugar cane crops) risk investments will be financed. The Project's proceeds will not be used for new infrastructure, but for targeted activities that allow MSMEs to adapt and mitigate climate change. Subcomponents 2a and 2b will only finance small-scale activities that meet eligibility criteria and exclude damage to human and environmental health. Partial credit guarantees (subcomponent 2.3) will be screened against a tiering system to manage various levels of environmental risks and ensure that the activities supported by these subcomponents are not environmentally harmful. Financing of substantial E&S risk projects will only be carried out through a sustainable linked loan, which aims to improve the E&S conditions of their operation. The main environmental risks of the Project resulting from ongoing business activities of MSMEs are related to occupational health and safety (OHS), water use, energy use, and waste management. These risks are expected to be site-specific, temporary, and can be readily addressed through standard mitigation measures and compliance with national E&S laws. High E&S risk activities of MSME beneficiaries will not be eligible for financing, and BICE's updated ESMS will be implemented as part of the MSME finance approval process to manage these risks. Due to the low to substantial E&S risks of the activities, streamlined E&S due diligence procedures that include screening against the exclusion list, eligibility criteria, and compliance with national laws can serve as a framework for addressing E&S risks and impacts. In summary, the Project activities through MSME financing are not expected to have large-scale, significant, and/or irreversible E&S impacts. The provision of technical assistance (TA) (component 1) is expected to have limited environmental implications. TA activities will follow the WB requirements set out in ESS1, as relevant and appropriate to the nature of the risks and impacts of these activities. The scope and TA outputs will be developed in line with ESSs 1-10 to ensure that the advice and other support provided is consistent with environmental and social management systems. Although BICE has no prior experience in applying WB ESSs to their operations, it will ensure that domestic commercial banks that do not currently undertake the necessary E&S risk assessment and management of their financing portfolios are updated in line with the new ESMS and will benefit from activities under component 1.

36. **Social risk:** Social risk rating is classified as moderate at this stage considering the nature and magnitude of the potential social risks and impacts of FI activities. The Project is expected to have only positive impacts on BICE, PFIs and MSMEs by enhancing their capacity to better integrate climate change risks, costs, and opportunities into their business models and by increasing the availability of sustainable finance products to help MSMEs, the main beneficiaries of the proposed project, to cover their working capital and investment needs, increase their capacity to better mitigate and adapt to climate change risks, and improve its conditions to compete in green product markets. In addition, the project is expected to target, and particularly improve the enabling environment for access to finance and access to markets for MSMEs, especially for those owned and/or led by vulnerable groups (with a focus on women-led MSMEs) and those developing their productive activities in sectors and geographical areas that experience limited access to finance such as the Norte Grande region (region with high levels of poverty). Main risks are related to potential lack of participation of MSMEs in remote areas of the country due to lack of access to clear and culturally appropriate communication and information; and possible exclusion of some subgroups among the MSMEs due to limited efforts from second tier FI regarding strategies/approaches to address specific needs to ensure successful participation of these groups in accessing the offered product. No adverse impacts on indigenous peoples or other vulnerable groups are expected. Restrictions to land use, land acquisition and involuntary resettlement will not be

supported and subloans that would result in either are included as part of the exclusion list. The ESMS is being developed in a culturally appropriate manner to allow for proper engagement with vulnerable groups including IPs, when required. In addition, eligibility criteria for PFI activities include E&S considerations as well as the implementation of a culturally appropriate Grievance Mechanism (GM).

E. Implementation

Institutional and Implementation Arrangements

37. **The Republic of Argentina will be the Borrower of the IBRD loan. The implementing entity of the Project will be the Ministry of Economy of the Nation through the Secretariat of Industry and Productive Development by means of BICE.** The World Bank will enter into a Loan Agreement with the Republic of Argentina, which in turn will enter into a Subsidiary Agreement with BICE to transfer the proceeds of the IBRD Loan under the terms and conditions approved by the World Bank. For the provision of subloans, BICE will enter into a subloan agreement with MSMEs for getting access to finance (first-tier lending) and into a PFI Financing Agreement with eligible PFIs for getting access to lines of credit that will be used to channel credit to MSMEs (second-tier lending). For the provision of partial credit guarantees, BICE will enter into a Guarantee Fund Agreement with BICE Fideicomiso, manager of the Argentine Guarantee Fund (FOGAR) for the capitalization of the fund; then, BICE Fideicomiso will enter into a Partial Credit Guarantee Agreement with the eligible PFIs. For the provision of capital contributions to mobilize private capital, BICE would enter into a Fund Management Agreement with the fund manager of the potential financial instruments. Finally, for the acquisition of goods and services, BICE will enter into a procurement contract with the providers.

38. **The Republic of Argentina will be the Borrower of the IBRD loan, and BICE will be the Project Implementing Agency.** The World Bank will enter into a Loan Agreement with the Republic of Argentina, which in turn will enter into a Subsidiary Agreement with BICE to transfer the proceeds of the Loan under the terms and conditions approved by the World Bank. For the provision of subloans, BICE will enter into a subloan agreement with MSMEs for getting access to finance (first-tier lending) and into a PFI Financing Agreement with eligible PFIs for getting access to lines of credit that will be used to channel credit to MSMEs (second-tier lending). For the provision of partial credit guarantees, BICE will enter into a Guarantee Fund Agreement with BICE Fideicomiso, manager of the Argentine Guarantee Fund (FOGAR) for the capitalization of the fund; then, BICE Fideicomiso will enter into a Partial Credit Guarantee Agreement with the eligible PFIs. For the provision of capital contributions to mobilize private capital, BICE would enter into a Fund Management Agreement with the fund manager of the potential financial instruments. Finally, for the acquisition of goods and services, BICE will enter into a procurement contract with the providers.

39. **BICE has a recent experience implementing World Bank financial intermediary operations.** BICE completed in 2022 the implementation of an IPF, demonstrating a solid capacity to comply with the terms and conditions of the loan agreement with the IBRD including financial management, procurement, environmental and social aspects. BICE also has experience working with other multilateral development institutions including the Inter-American Development Bank (IADB), the Corporación Andina de Fomento (CAF), the South America sub-regional Plata Basin Financial Fund (FONPLATA), and the French Development Agency (AFD).

40. **BICE will maintain a Project Coordination Team (PCT) throughout Project implementation.** The PCT will be responsible for coordinating the implementation, supervision, completion, and documentation of all the activities related to the Project. The PCT will be composed of key staff from BICE at central and regional levels with functions, experience, responsibilities, and qualifications acceptable to the World Bank. The

responsibilities of the PCT will include, among others: (i) coordinating the implementation of project activities; (ii) coordinating the procurement, financial management, disbursements, and environmental and social aspects of the Project in accordance with the provisions of the Loan Agreement; (iii) coordinating the preparation, adjustments, and use of the project management tools, including the Operations Manual, working annual plan, Procurement Plan, and disbursement projections; (iv) coordinating with key stakeholders all the technical aspects of the Project; (v) monitoring the progress of the PDO and intermediate results indicators of the Results Framework; (vi) preparing project progress reports; and (vii) acting as the main point of contact for the World Bank team.

CONTACT POINT

World Bank

Ana Maria Aviles
Program Leader

Daniel Ortiz del Salto
Senior Financial Sector Specialist

Borrower/Client/Recipient

Republic of Argentina
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:	Paul Procee	27-Jun-2023