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Report No: PAD5444

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN

IN THE AMOUNT OF US$200 MILLION

TO THE

ARGENTINE REPUBLIC

FOR THE

ACCESS TO SUSTAINABLE FINANCE FOR MICRO, SMALL AND MEDIUM ENTERPRISES PROJECT

August 1, 2023

Finance, Competitiveness And Innovation Global Practice
Latin America And Caribbean Region

CURRENCY EQUIVALENTS

Exchange Rate Effective July 13, 2023

Currency Unit =	AR$
AR$ 276 =	US$1

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

BCRA	Central Bank of Argentina *(Banco Central de La República de Argentina)*
BICE	Bank for Investment and Foreign Trade *(Banco de Inversión y Comercio Exterior)*
BNA	Argentine National Bank *(Banco de la Nación Argentina)*
CABA	Autonomous City of Buenos Aires
CCDR	Country Climate and Development Report
CERC	Contingent Emergency Response Component
CNV	National Securities Commission *(Comisión Nacional de Valores)*
CSA	Climate-Smart Agriculture
E&S	Environmental and Social
ESG	Environmental, Social, and Governance
GCRF	Global Crisis Response Framework
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRS	Grievance Redress Service
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPSF	International Platform on Sustainable Finance
LAC	Latin America and the Caribbean
LFIP	Credit Line for Productive Investment *(Línea de Financiamiento para la Inversión Productiva)*
LTS	Long-term Strategy
LUFE	Data Repository (*Legajo Único Financiero y Económico*)
MSMEs	Medium, Small, and Medium Enterprises
MTFS	Technical Roundtable for Sustainable Finance (*Mesa Técnica de Finanzas Sostenibles*)
NAP	National Adaptation Plan
NDC	Nationally Determined Contribution
PAD	Project Appraisal Document
PCG	Partial Credit Guarantee
PCT	Project Coordination Team
PDO	Project Development Objective
PFIs	Participating Financial Intermediaries
PLR	Performance and Learning Review
POM	Project Operational Manual
SDG	Sustainable Development Goals
SEPYME	Department of MSME and Regional Development *(Secretaría de Emprendedores y Pequeña y Mediana Empresa)*
SFP	National Sustainable Finance Protocol
SIDP	Secretary of Industry and Productive Development *(Secretaría de Industria y Desarrollo Productivo)*
SPTs	Sustainability Performance Targets
UEPEX	External Loan Executing Unit (*Sistema de Unidades Ejecutoras de Préstamos Externo*)
UNFCCC	United Nations Framework Convention on Climate Change
WBG	World Bank Group

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name
Argentina	Access to Sustainable Finance for Micro, Small and Medium Enterprises Project

Project ID	Financing Instrument	Environmental and Social Risk Classification
P180456	Investment Project Financing	Substantial

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[✓] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[✓] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
22-Aug-2023	31-Dec-2028

Bank/IFC Collaboration
No

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

Component Name	Cost (US$, millions)
Strengthening capacity of financial sector stakeholders	15.00
Promoting access to sustainable finance for MSMEs	183.00
Project Management	2.00
Contingent Emergency Response	0.00

Organizations

Borrower:	Argentine Republic
Implementing Agency:	Banco de Inversión y Comercio Exterior (BICE)

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

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2024	2025	2026	2027	2028	2029
Annual	57.00	55.00	47.00	32.00	9.00	0.00
Cumulative	57.00	112.00	159.00	191.00	200.00	200.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description

Schedule 2, Section I. D. PFI Financing. For purposes of carrying out Part 2.1 of the Project, the Borrower, through SIDP, shall cause BICE to on-lend the proceeds of the Loan to Eligible PFIs (the PFI Financing) pursuant to the relevant PFI Financing Agreement, under terms and conditions approved by the Bank.

Sections and Description
Schedule 2, Section I. F. Partial Credit Guarantees. For purposes of carrying out Part 2.2 of the Project, the Borrower, through SIDP, shall cause the FOGAR to enter into an agreement ("Partial Credit Guarantee Agreement") with the relevant Eligible PFI on terms and conditions acceptable to the Bank.

Sections and Description
Schedule 2, Section I. G. Fund Manager. For purposes of carrying out Part 2.3 of the Project, the Borrower, through SIDP, shall cause BICE to enter into an administration agreement ("Fund Management Agreement") with each fund manager on terms and conditions acceptable to the Bank.

Sections and Description
Schedule II, Section III. B.1 (a). Withdrawal Condition. For payments made prior to the Signature Date, except those withdrawals up to an aggregate amount not to exceed US$40,000,000 may be made for payments made twelve months prior to the Signature Date, for Eligible Expenditures under Categories (1), (2) and (5).

Sections and Description
Schedule II, Section III. B.1 (b). Withdrawal Condition. For Emergency Expenditures under Category (6), unless and until all the following conditions have been met in respect of such expenditures: (i) the Borrower, through SIDP, has determined that: (A) an Eligible Crisis or Emergency has occurred and has furnished to the Bank a request to withdraw Loan amounts under Category (6); and (B) the Bank has agreed with such determination, accepted such request, and notified the Borrower thereof; and, (ii) the Borrower, through SIDP, shall cause BICE to adopt the CERC Manual and Emergency Action Plan in form and substance acceptable to the Bank.

Sections and Description
Schedule II, Section III. B.2. Withdrawal Condition. Prior to submitting any withdrawal application for advances under Categories (1) and (5), the Borrower, through SIDP, shall cause BICE to confirm, in a manner satisfactory to the Bank, the existence of an adequate fiscal budget space for implementing activities under Parts 1 and 3 of the Project.

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	The Subsidiary Loan Agreement has been executed on behalf of the Borrower and BICE in form and substance acceptable to the Bank.

I. STRATEGIC CONTEXT

1. **With a gross domestic product (GDP) of US$632 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 30 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 1.9 percent, well below the world average of 3.1 percent and the regional average of 2.9 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 a volatile macroeconomic environment has hindered the country's ability to reduce poverty rates and infrastructure deficit and increase incomes.

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 10.7 percent in 2021 and 5.0 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, the impact of a historic drought and external shocks, started to slow down the pace of GDP growth. As fiscal revenues declined as a result of the drought, the government continued to reduce overall primary spending in real terms, mainly by improving the targeting of energy subsidies, although partially offset by an increase public investment.[2]

4. **Climate change poses additional threats to Argentina's recovery and exacerbates ongoing 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 climate changes, weather-related disasters, such as floods, droughts, and heat waves, are likely to increase in frequency and intensity,[3] 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 agricultural and 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.[4] Higher demand resulting from economic growth, industrial expansion, urbanization, and population growth will also challenge ongoing 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.

[1] https://www.censo.gob.ar
[2] Such as the new President Néstor Kirchner Gas Pipeline
[3] The World Bank Group, Climate Risk Profile: Argentina, 2021.
[4] The World Bank Group; OLADE, *Evaluación del Impacto del Cambio Climático en la Generación Eléctrica en los Países del Cono Sur*, 2022.

5. **In March 2022, Argentine authorities reached an agreement with the International Monetary Fund (IMF), on an Extended Fund Facility (EFF) program for 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, more 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 (115.6 percent year-over-year, as of June 2023), denting purchasing power. Moreover, the severe drought that strongly affected agricultural production in 2023 reduced exports and fiscal revenues, limiting the Central Bank's ability to accumulate international reserves.

7. **In this context, the government is increasing efforts toward 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.

B. 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.[5]** Central banks and supervisors established the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)[6] to help strengthen the global response required to meet the goals of the Paris agreement and 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.[7] Likewise,

[5] 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.

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

[7] 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

public authorities in charge of developing environmentally sustainable finance policies created the International Platform on Sustainable Finance (IPSF) to scale up the mobilization of private capital towards environmentally sustainable investments.[8] 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.[9]

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 toward developing a sustainable financial system. The Technical Roundtable for Sustainable Finance (*Mesa Técnica de Finanzas Sostenibles*, MTFS)[10] 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[11] 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 apply 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 toward the achievement of their climate action objectives.[12]

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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.

[8] 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.

[9] 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.

[10] 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.

[11] 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.

[12] The potential exposure of LAC financial institutions to the physical and transition risks associated with climate change mean the sector can

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, including to help increase the resilience and productivity of MSMEs, 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 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 (about US$8.5 billion),[13] and only 1.7 percent were loans directed to MSMEs (about US$10 billion), 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.[14] The provision of long-term maturity sources of funding to both commercial banks and MSMEs and the provision of partial credit guarantees 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, which would not be possible from the supply and demand side without longer-term finance.

11. **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.[15] About 83 percent (approx. 446,000) are microenterprises, from one to nine employees; 13 percent (approx. 70,000) are small, from 10 to 49 employees; three percent (approx. 15,000) are medium, from 50 to 199 employees, and one 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 one percent sell 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, MSME firms are mainly concentrated in commerce (31 percent), agriculture (12 percent), manufacturing industry (10 percent), transportation and storage (eight percent), construction (five percent) and the remaining 34 percent represent different types of services.

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)

[13] Average term of investment loans is 32 months.

[14] Exposure to the public sector represents around half of all banking system assets.

[15] (SEPYME, *Estructura y dinámica reciente de las mipymes empleadoras*. Sept. 2022.ISSN 2796-8189)

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

13. **There is a gender gap in access to finance for women led MSMEs**. In 2020, 33 percent of MSMEs (some 180,000 companies)[17] 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 they 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.[18] 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.[19] 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 Bank for Investment and Foreign Trade (*Banco de Inversión y Comercio Exterior*, BICE) is committed to incorporating the role of promoting the development of a sustainable financial system in the country in its core**

[16] *https://www.bcr.com.ar/es/mercados/mercado-de-granos/noticias/el-costo-de-la-sequia-202223-ya-asciende-us-10400-millones-para*
[17] 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
[18] 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.
[19] Asian Development Bank*, How Providing Sustainable Finance to More Women Helps Fight Climate Change*. October 2022.

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 completed the disbursement of a US$100 million 'Green Line' as part of its promotion of risk mitigation instruments and investment financing in renewable energy and energy efficiency.[20] It annually prepares a sustainability report in accordance with the Global Reporting Initiative (GRI) standards and reflects 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 relatively lower-cost and longer-term financing. It can be a catalyst of external public and private finance and act as an 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.[21]

16. **BICE is a public entity owned by the Argentine Republic.[22]** 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 2016, three complementary services companies of the *Banco de la Nación Argentina* (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 loan ratios (2,6 percent as of Dec. 2022). In 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,[23] 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, with PFIs repaying 100 percent of their borrowings (0 percent nonperforming loan [NPL] ratio). 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. [24] In addition, under

[20] With the support of the Inter-American Development Bank/Green Climate Fund, BICE, through first tier operations, disbursed US$100 million (total loan amount) supporting about 200 projects related to renewable energy and energy efficiency. This project will complement this initial effort supporting BICE to continue financing directly to MSMEs for green subprojects that the market is not serving (e.g., due to its risk profile and/or maturity needed). This project will also support BICE to expand its ESG financing by working together with commercial banks (75 percent of the credit line will be second-tier lending).

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

[22] BICE is a public entity of the National State created on December 20, 1991, by the Presidential Decree 2703/91. The main shareholders are the Ministry of Economy and BNA. As part of the transfer of the shares of Nación Leasing S.A., Nación Factoring S.A. and Nation Trusts S.A. to BICE, it was issued the Decree 527/2016, dated March 29, 2016, which mandated the transfer of the National State shares representing the capital of BICE from the Ministry of Economy to the Ministry of Production in favor of BNA, retaining the usufruct of the profits and the exercise of voting rights for a term of 20 years.

[23] Access to Finance for MSMEs Project (P159515)

[24] 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

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;[25] (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 greater use of the Electronic Credit Invoice for MIPYMEs was developed and started implementation.[26]

C. Relevance to Higher Level Objectives

18. **The 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 project is also aligned with the four pillars of the GCRF[27] 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.

19. **The project is aligned with the World Bank Group's Country Partnership Framework (CPF) FY19-22 for the Argentine Republic discussed by the Executive Directors on April 25, 2019[28], and revised by the Performance and Learning Review (PLR)[29] on May 31, 2022, which extended the CPF period until FY24.** 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 help mitigate the country´s global environmental footprint.

20. **The project is consistent with the Argentina Country Climate and Development Report (CCDR)[30] 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

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.

[25] *https://www.argentina.gob.ar/produccion/registrar-una-pyme/legajo-unico-financiero-y-economico-lufe*

[26] *https://www.argentina.gob.ar/sites/default/files/pieza_brochure_factura_de_credito_electronica_2021.pdf*

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

[28] Report No. 131971–AR.

[29] Report No. 170668-AR, World Bank.

[30] 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.

technical assistance to financial intermediaries and private sector companies will focus on the integration of climate change adaptation[31] and mitigation[32] 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.[33] Besides, given the weight and importance of the agri-food sector in Argentina's economy and export potential, the project aims to complement ongoing or recently completed agriculture sector investments, including the Climate Intelligent and Inclusive Agri-food Systems (P176905), Socio-Economic Inclusion in Rural Areas (P106685) and Integrated Risk Management in the Rural Agroindustrial System (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.

21. **The project is aligned with the goals of the Paris Agreement[34] as it is consistent with the country´s climate commitments reflected in its Nationally Determined Contribution (NDC), National Adaptation Plan (NAP)[35] and Long-term Strategy (LTS)**[36]. Argentina´s 2021 NDC[37] identifies that the main barriers for adaptation implementation of prioritized thematic areas are financial resources, technology transfer and capacity building. In addition, the project directly supports three of the four main instrumental lines highlighted in the country´s NAP and LTS: (a) transition financing; (b) institutional strengthening; and (c) action for climate empowerment; and is consistent with the strategic lines of the NAP and LTS: (a) Transformation of the industrial production system, and (b) Transformation of the food and forestry system. The project has been screened for climate change and disaster impacts and specific resilience-enhancing measures have been identified and properly reflected in the project documents.

22. **The project will also contribute to gender equity objectives as set out in the WBG Gender Strategy 2016-2023.** The project will contribute to Pillar 2 of the WBG Gender Strategy on "Access to Economic Opportunities" specifically by increasing women's access to productive assets such as sustainable financing to adapt their businesses to the green transition. The project aims to promote access to finance for women led MSMEs in Argentina and increase access to technology and markets for MSMEs that are owned or partly owned by female entrepreneurs. To this end, the project will support the provision of specific social subloans for women entrepreneurs and capacity building aiming to contribute to close gender gaps in access to finance in the country.

[31] 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.

[32] Mitigation (of climate change): A human intervention to reduce emissions or enhance the sinks of greenhouse gases. IPCC, 2022.

[33] 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.

[34] The project´s Paris Alignment analysis has been performed based on a transaction-based assessment (support targeted to a specific end use of proceeds or clearly defined financial intermediary subprojects).

[35] https://www.argentina.gob.ar/sites/default/files/manual_-_adaptacion_y_mitigacion_al_cambio_climatico_1285pag_1.pdf

[36] https://www.argentina.gob.ar/sites/default/files/estrategia_de_desarrollo_resiliente_con_bajas_emisiones_a_largo_plazo_2050.pdf

[37] *https://unfccc.int/sites/default/files/NDC/2022-06/Argentina_Segunda%20Contribuci%C3%B3n%20Nacional.pdf*

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

23. **Promote access to sustainable finance for micro, small and medium enterprises and to respond effectively in case of an eligible crisis or emergency.**[38]

PDO Level Indicators

24. **The key results expected for the project will be measured by three PDO indicators:** (a) BICE's governance and strategy arrangements support the prioritization of ESG objectives (scale low to high); (b) Percentage of financial intermediaries that set up a mechanism to monitor and evaluate ESG financing in their portfolios (Percentage); and (c) Volume of subloans MSMEs receiving ESG subloans (amount in US$).

B. Project Components

25. **The project is a financial intermediary investment operation with the development objective of promoting access to sustainable finance for MSMEs that would be implemented in five years.** The 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 Argentine Republic will be the borrower of the IBRD loan, and the development bank (BICE) will be the Project Implementing Agency.

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

27. **Component 1: Strengthening the 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, the Secretary of Industry and Productive Development (*Secretaría de Industria y Desarrollo Productivo*, 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.

28. **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

[38] 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).

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 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 actions required to comply with observations made by the Central Bank of Argentina (*Banco Central de La República de Argentina*, BCRA).

29. **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 (for instance., deforestation-free products); and (c) the operationalization phase of the Data Repository (*Legajo Único Financiero y Económico, LUFE*).[39]

30. **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;[40] (b) to enhance their capacity to integrate climate change risks as part of their credit risk analysis;[41] (c) to increase their knowledge on how to create sustainable financial products and services;[42] and (d) to set up a mechanism to identify, monitor, evaluate, and report ESG financing of their lending portfolios.[43]

31. **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

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

[40] 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*

[41] 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*

[42] Financial institutions expressed interest of developing sustainable financial products: (i) 58 percent 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*

[43] 82 percent of commercial banks in Argentina 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*

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 SIDP to offer the capacity building activities tailored to the needs of different target groups, including MSMEs from different economic sectors, sizes, geographical areas, women MSMEs, among others.

32. **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:

33. **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.[44] 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[45] for MSMEs.[46] Also, BICE will offer long-term lines of credit to eligible PFIs[47] to channel subloans to MSMEs for ESG investments while mobilizing private capital.[48] In addition, the project includes targets for subloans that finance climate mitigation and adaptation activities,[49] (at least USS$170 million) and subloans that contribute to close gender gaps in access to finance (at least US$90 million).[50]

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[44] 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).

[45] 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 (e.g. 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 (e.g., 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. (e.g, 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).

[46] Only 18 percent of financial institutions count with financial products that could contribute to mitigation or adaptation to climate change, or with a positive social impact. Source: BCRA, National Survey of Sustainable Finance and Climate Change 2023.

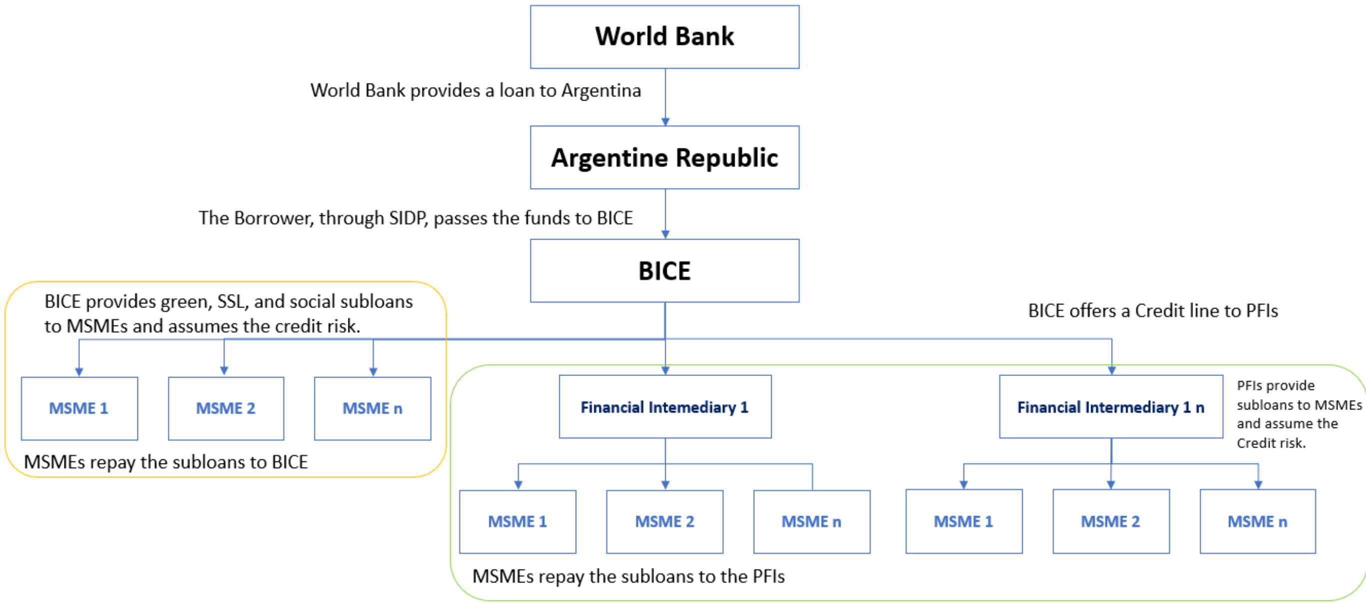
[47] Financial institutions need to comply with a qualification process under BICE's policies to ensure that are commercially oriented, financially sound, and well-managed. Currently there are 28 qualified financial institutions.

[48] 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.

[49] 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 is equal to the amount of the IBRD loan for subcomponent 2.1. 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 with the criteria defined in the POM under the category of social subloans.

[50] In 2022, about US$10 billion were disbursed by the banking sector to MSMEs for subloans for productive purposes. BICE is projecting to disbursed about US$1.3 billion in the next 5 years.

Figure 1: Credit Line Structure



34. **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 that borrow from them.** 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;[51] thus, increasing the funding provided by private financial institutions and firms into ESG activities (est. at least US$104 million under this subcomponent), and enhancing climate-related considerations among the key factors that determine bank lending decisions.

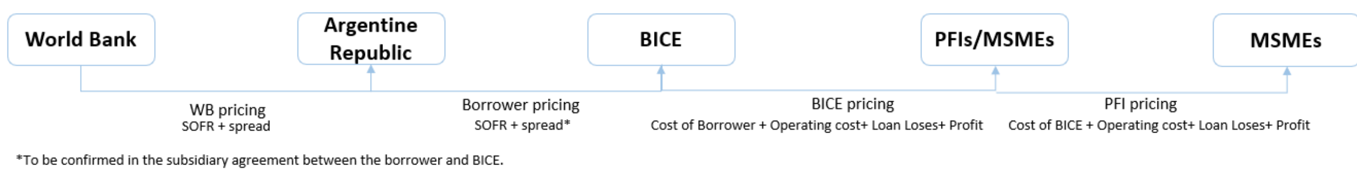
35. **BICE and the PFIs will follow their respective pricing policy according to market conditions covering their cost of on-lending.** BICE and the PFIs will be able to offer the subloans in local currency and in US$. The cost of on-lending financing of BICE to MSMEs will include, at a minimum, the cost of funding the borrower will pass to BICE (the borrower will assume the foreign exchange risk for subloans in local currency),[52] plus an on-lending margin reflecting BICE's administrative costs and taxes, a credit risk margin associated with the eligible MSME and an expected profit. The cost of on-lending financing through PFIs will include, at a minimum, the cost of funding the borrower will pass to BICE, plus an on-lending margin reflecting BICE's administrative costs and taxes, a credit risk margin associated

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

[52] For subloans in US$, the borrower will pass to BICE, through the SIDP, the cost of funding of the IBRD loan (SOFR plus spread). The rates BICE and the PFIs would offer would be around the ones the market is offering. Since the BICE's operative cost and the risk of lending to the PFIs would be relatively low compared to those costs of lending directly to the MSMEs, BICE would be able to offer to the PFIs a rate that will allow PFIs to cover the cost funding, their operative costs, risk and to get a margin while still offering a similar market rate. For the credit line in local currency, both BICE and the PFIs would be able to offer competitive rates to MSMEs and generate a positive margin since both will benefit from the confessional financing in terms of rate and term to be offered under this operation. The borrower accounts in its macro planning the foreign exchange risk of the portion of the line of credit for subloans in AR$, which would not affect its fiscal program in the short-term since the IBRD loan would include a grace period that would surpass the project implementation phase.

with the eligible PFI and an expected profit. Rates are currently influenced by the interest rates offered by the Credit Line for Productive Investment (*Línea de financiamiento para la inversión productive*, LFIP established by the BCRA in the context of the pandemic COVID-19, and the Credit Line for Productive Investment (CreAr) created by the central government. Currently the interest rates for the LFIP 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. [53] Pricing offered to MSMEs by BICE and the PFIs for subloans in local currency will be monitored regularly and reflected in project progress reports.

Figure 2: Pricing



36. **PFIs, MSMEs and subloans will comply with eligibility criteria.** Clearly defined eligibility criteria detailed in the Project Operational Manual (POM) will be followed during project implementation.[54] 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 they 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 POM.

37. **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 (*Fondo de Garantías Argentino*, FOGAR)[55] 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.

[53] The Credit Line for Productive Investment (LFIP, in Spanish) was established 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. 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.
[54] See Annex 1. Eligibility criteria will include the eligible destiny of the financing (working capital and/or investment needs), the eligible type of activities (e.g., 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 (e.g., qualified by BICE, in compliance with all BCRA prudential norms, not a shareholder of BICE. Audited financial reports as per BCRA requirements).
[55] FOGAR is owned by the SIDP and managed by BICE fideicomiso. FOGAR supports access to finance for MSMEs by providing partial credit guarantees. FOGAR would employ comparable financial terms (such as coverage and fees) to those currently offered to PFIs.

38. **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.[56] Eligibility criteria for this subcomponent will be similar to the ones to be applied in subcomponent 2.1. The analysis of the type of financial instruments to crowd-in private capital to finance ESG investments[57] 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. (See other examples in Annex 5).[58]

39. **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[59] (as technical-methodological advisor), the design and implementation of the monitoring and evaluation strategy, the design and implementation of the communication strategy, and financial audits of the project.

40. **Component 4: Contingent Emergency Response Component (CERC) (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 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 activities under this component to be able to respond to the emergency. The implementation agency for this CERC would be determined in accordance with a CERC Manual.

C. Project Beneficiaries

41. **The project would benefit: (a) BICE and the Secretary of Industry and Productive Development (SIDP), (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 reducing greenhouse gas (GHG)[60] emissions and the country´s

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[56] 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.

[57] 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.

[58] Annex 5 describes some examples of financial instruments that could be used within the current framework of the Guidelines for the issuance of social, green, and sustainable negotiable securities approved by the National Securities Commission in Argentina.

[59] Through the Undersecretariat of International Financial Relations for Development. It consists of the evaluation the borrower conducts to measure the progress of the implementation of project activities and the results achieved.

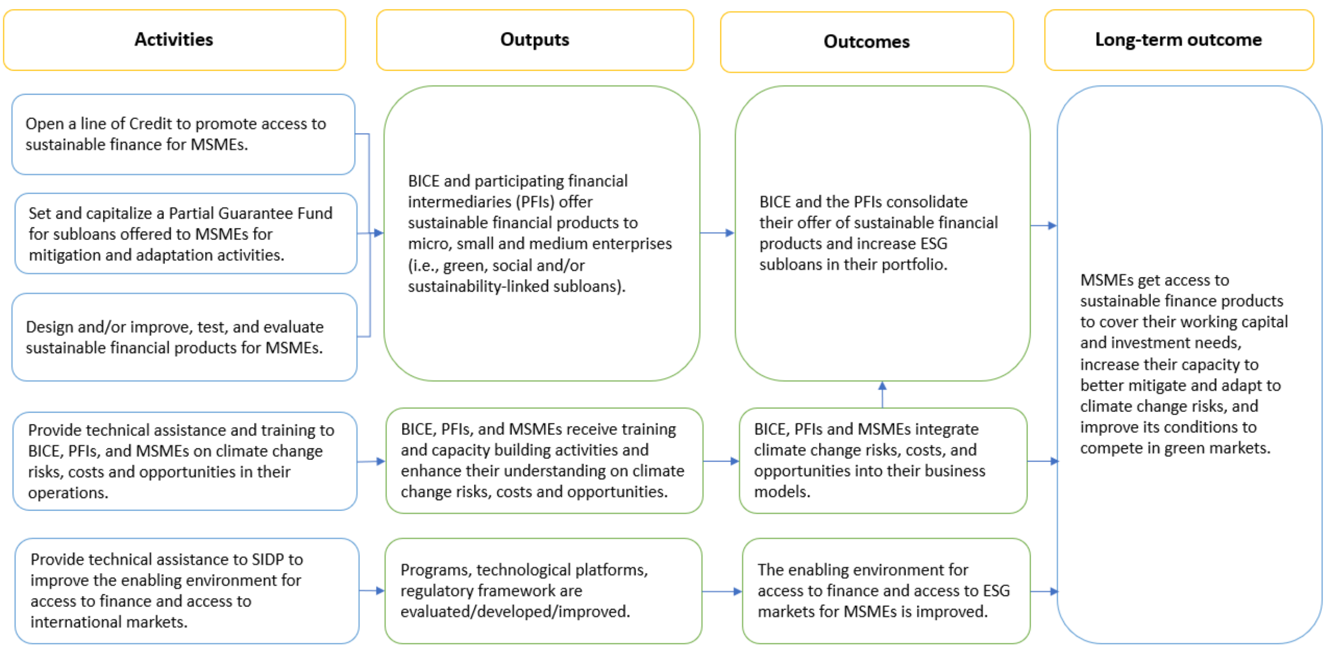
[60] Greenhouse gases (GHGs): Gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of radiation emitted by the Earth's surface, by the atmosphere itself, and by clouds. This property causes the greenhouse effect. Water vapour (H_2O), carbon dioxide (CO_2), nitrous oxide (N_2O), methane (CH_4) and ozone (O_3) are the primary

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.

D. Results Chain

42. **Development Challenge**: (a) MSMEs have limited access to finance, (b) Productive sector is facing the impact of climate change.

Figure3: Theory of Change



43. **Critical Assumptions**: (a) BICE's governance and strategy arrangements support the prioritization of ESG objectives (b) PFIs demand the line of credit under the project, (c) PFIs set up a mechanism to monitor and evaluate ESG financing in their portfolios (d) MSMEs demand subloans for eligible activities.

E. Rationale for Bank Involvement and Role of Partners

44. **The World Bank experience in developing similar operations across the world, its global knowledge, and the competitive rates and maturity of its loans will bring significant value-added to assist the country to expand access to sustainable finance for MSMEs and advance its climate change agenda.** The competitive rate, maturity, grace period and flexible repayment profile of the IBRD loan will facilitate the provision of long-term finance required by PFIs to expand the term of its subloans and needed by firms for technology adoption or other green investments.

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.

Finally, the World Bank's convening power is a very strong reason for getting involved in this type of operation. It will be a critical asset to foster coordination and cooperation across project participants and other key stakeholders. This strength the World Bank can offer is essential in the current scenario where several actors need to work jointly, permanently, and efficiently to achieve a shared global objective.

45. **This project includes financial intermediary financing under challenging macroeconomic conditions as this is a least-cost and effective way of achieving the project's development objective**. The focus of the project is to enhance the role of a public bank (BICE) in scaling up finance with an ESG focus, and the design closely follows the recommendations from the UNDP sustainable finance hub.[61] Recognizing that Argentina is experiencing a challenging macroeconomic environment, with high inflation and large distortions in the monetary market, it is worth noting that the country has met all the performance criteria under the IMF EFF by end-2022 and the government is increasing efforts towards a gradual macroeconomic stabilization program; in recent months the central bank rate has experienced monthly increases as shown in the figures in Annex 4. Conditions will continue to be monitored and the macroeconomic context will be assessed in a 12–18-month period after the project begins implementation to ensure success in achieving the PDO. The capacity building to be offered by the project to the financial sector for scaling up ESG finance is complemented by the incentives provided by a line of credit under which the borrower would pass the funds to BICE at concessional terms (e.g., subsidy mechanism). In this context, it is important to mention that there are strong and capable financial institutions that will be involved in supporting the project implementation. At the same time, the project design complies with the conditions highlighted in the World Bank's financial intermediary financing guidelines for the use of subsidies. As mentioned above, in section B on the project components, the project will include a well targeted and transparent eligibility criteria to direct the financing flows to the specific project purposes. These criteria are part of the POM that will be followed during Project implementation. In addition, the credit line will have the same treatment for all financial institutions and will not provide any unfair advantage to some financial intermediaries. Also, as mentioned in section B, BICE and the PFIs will follow their respective pricing policy according to market conditions, and the cost of on-lending financing through PFIs will include, at a minimum, the cost of funding plus an on-lending margin reflecting BICE's administrative costs and taxes and a credit risk margin associated with the eligible PFI. This operation is about instituting behavioral changes to support the growth of sustainable finance in Argentina, with a client that is very interested in this area given that the economic structure of the country is vulnerable to climate change, as experienced with the recent severe drought in early 2023 and its impact on overall production and exports.[62]

F. Lessons Learned and Reflected in the Project Design

46. **The project follows and reflects lessons learned from the successful financial intermediary operations by the World Bank across the Latin American and Caribbean region and worldwide.** Overall, lessons learned point to: (a) a simple and flexible design, allowing for operational adjustments, and avoiding sectoral or regional targets; (b) technical assistance to strengthen the institutional capacity of the borrower; (c) intensive monitoring of key indicators that measure the quality of the loan portfolio; (d) quantified eligibility criteria for selecting PFIs; (e) sound analysis and data on the financial performance of PFIs, and external audit for verification; and (f) leveraging lines of

[61] UNDP, *"The Role of Public Banks in Scaling Up Sustainable Finance"*, 2022

[62] Since 2019 large parts of Argentina and neighboring countries have been reeling under drought conditions with the last four months of 2022 receiving less than half of the average precipitation: the lowest rainfall in 35 years. Combined with high temperatures, this has led to widespread crop failures. Argentina is one of the world's top wheat exporters but agricultural exports for 2023 are projected to further drop 28 percent compared to 2022 levels. *World Meteorological Organization, Feb.21, 2023.*

credit with other Bank operations.[63] In addition, the project takes into account the lessons learned from the Argentina Access to Finance Project (P159515), which recommends that the government and World Bank teams (a) maintain close communication and coordination links, (b) encourage adaptive capacity throughout the life of the project, (c) define clear and simple eligibility rules, and (d) acknowledge the high added value of technical assistance components.

47. **Moreover, the project considers the lessons learned provided by the development bank in charge of the previous financial intermediary operations in Argentina,** including: (a) the importance of designing projects that allow for necessary adjustments during execution to adapt to changing contexts; (b) the need to ensure that counterparts have the management and decision-making capacity to work effectively across different government areas; (c) Ensuring a successful deployment of lines of credit, the eligibility criteria should be clear, simple, and widely accepted. Second-tier lines of credit require coordination with both commercial and support areas of participating financial institutions; (d) methodologies for monitoring and measuring the impact and additionality of activities and loans channeled through the project must be designed with appropriate incentives to ensure responses from intermediaries and beneficiaries; (e) structural reforms and the creation of instruments that facilitate credit access generate most values in terms of public goods. Tools that facilitate access to productive credit for MSMEs and institutional improvements are universal, but it is necessary to ensure the sustainability of these reforms and instruments.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

48. **The Argentine Republic 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 Argentine Republic, through SIDP, 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.

49. **BICE has 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, the *Corporación Andina de Fomento*, the South America sub-regional Plata Basin Financial Fund, and the French Development Agency.

[63] See also the recent Independent Evaluation Group (2019) report: World Bank Group Support for SME Support: A Synthesis of Evaluative Findings.

50. **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 POM, 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.

B. Results Monitoring and Evaluation Arrangements

51. **A monitoring and evaluation (M&E) strategy will be developed and implemented to measure the results of project activities.** This strategy will ensure that key information is regularly collected and tracked so BICE can monitor the status of project activities and measure the progress toward the achievement of the project development objectives.

52. **The PCT at BICE will be in charge of implementing the M&E strategy.** During project implementation, the PCT will prepare M&E tools, including a project working plan with detailed information about the activities to be implemented, an estimated time frame for completion, and the team responsible for completing the tasks. In addition, the PCT will conduct periodic meetings with key stakeholders to monitor the progress of key activities, identify potential delays, and take timely actions to minimize associated risks. For activities under component 1, the PCT at BICE will coordinate the implementation of the M&E strategy with the technical team of the SIDP, especially for measuring the results of TA and capacity building activities provided to MSMEs. For activities related to component 2, the project will support BICE and the PFIs that access to the credit line and/or the partial credit guarantees to set up a mechanism to identify, monitor, evaluate, and report the ESG financing of their lending portfolios.[64]

53. **This project will include a set of additional indicators to monitor progress and provide detailed information about the activities implemented and results achieved by the project.** In addition to the PDO and intermediate level indicators included in the Results Framework (section VII), this Project will include a set of additional indicators in the POM that will help BICE provide additional details about the activities implemented under the project. For instance, BICE will monitor subloans provided under the project by the type of ESG subloan (green, SSL and/or social subloans), the economic sector, the size of firms, the use of the subloans proceeds (working capital, fixed assets, and /or other types of investments), the subloans that finance mitigation and adaptation activities based on the eligibility criteria defined in the POM, the geographic areas where the financed activities are implemented, and all the beforementioned disaggregated by gender. The progress of these indicators will be measured periodically and reported as part of the semiannual progress reports.

54. **The M&E strategy will be supported by a communication strategy that will be implemented during the life of the project.** As part of the communication strategy, BICE will interact periodically with PFIs and MSMEs which will

[64] In addition, BICE will work with the World Bank team to design a randomize control trial (RCT) impact evaluation where the impact of ESG subloans would be identified by comparing differences in outcomes related between regular lending and ESG lending.

facilitate the monitoring and evaluation activities. BICE will be responsible for defining and implementing a broad communication strategy. In a first phase, the communication strategy will be used to make information available to MSMEs and PFIs about the activities to be financed under the project. BICE will provide information about the characteristics of the financial products and capacity building activities offered under the project, how to apply, who can apply, what kind of activities can be financed. In a second phase the communication strategy will be used to carry out site visits to the final borrowers and other MSMEs to assess their satisfaction with the financial products and capacity building activities offered under the project, and to evaluate and document the progress achieved by those MSMEs. Finally, the communication strategy will be used to showcase how MSMEs got access to financial products and to disseminate the results achieved by those borrowers.

C. Sustainability

55. **There is a clear commitment of the borrower, BICE and other financial sector stakeholders to transition towards a sustainable financial system.** Relevant financial sector participants are committed to developing a sustainable financial system; however, this path is just starting, and support is needed to accelerate the achievement of that goal. This operation will support the institutions of both the Technical Roundtable for Sustainable Finance and the National Sustainable Finance Protocol to move further and faster toward the achievement of their climate action objectives. Beyond the duration of the project, it is expected that the course of actions set by public and private entities to develop a sustainable financial sector will continue and the objectives would become more ambitious and consistent with the urgent need of supporting the achievement of the Paris Agreement objectives.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

Paris Alignment

56. **The operation is aligned with the goals of the Paris Agreement on both mitigation and adaptation**.

57. **Assessment and reduction of adaptation risks**: Given the diversity of sectors and locations that will be subject to this financial intermediary investment project, different climate change risks have been identified. Future changes in droughts, excess precipitation, and flood frequency due to climate change can substantially impact Argentina´s agriculture, industrial and services sectors. Argentinian MSMEs 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. As the project aims to promote access to sustainable finance for Argentinian MSMEs to enable them to integrate climate change mitigation and adaptation considerations in their productive processes, MSMEs in all these sectors may be subject to finance and technical assistance granted by the project. The project design takes into consideration the droughts, extreme heat, precipitation, and flooding risks that threaten the outcomes of the project and it has incorporated the following measures to strengthen the capacity of project beneficiaries to better reduce or manage identified climate risks: (i) through Component 1, strengthen the capacity of BICE to integrate climate change risks as part of its credit risk analysis and (ii) through Component 2, streamline access to green finance for MSMEs and prioritize investments that aim to reduce the financial and private sector´s vulnerability to climate change. Specifically, the provision of long-term maturity sources of sustainable funding to both commercial banks and MSMEs through the project will increase their capacity to better mitigate and adapt to climate change risks and reduce the risk from climate and geophysical

hazards. Also, the provision of institutional strengthening to BICE and capacity building and technical assistance to financial intermediaries and private sector companies will focus on enhancing the ability of participating public agencies, financial intermediaries and MSMEs to better integrate climate change risks, costs, and opportunities into their business models. Combined, these features adequately reduce the physical climate risks to the project outcomes, and the project's climate resilience and adaptation design considerations reduces the exposure to acceptable levels of residual risk.

58. **Assessment and reduction of mitigation risks**: The project does not carry a risk of preventing Argentina´s transition to a low-carbon development pathway and will likely have a positive contribution to it. The project will support the country´s transition to a low-carbon economy by providing financing for sustainable development activities from MSMEs that reduce GHG emissions across various sectors of the economy including renewable energy, energy efficiency, and climate-smart agriculture. Moreover, the project will support BICE in becoming the green development bank of Argentina, promoting policy dialogue for sustainable growth, and assisting PFIs and MSMEs in transitioning to low-carbon sustainable finance scenarios. The project will also facilitate dialogue among stakeholders to accelerate the development of a sustainable financial system in Argentina and foster the development of innovative financial products designed to promote sustainable development, emissions reduction and environmental stewardship including sustainability-linked loans and green loans. The technical design incorporates necessary measures to ensure that the activities supported by the project do not result in lock-in of GHG emissions in the medium and long-term including the application of clear eligibility criteria for MSMEs and the activities to be financed. In addition, the project will implement a monitoring strategy to identify the reduction of GHG emissions related to electricity and gas consumption of MSMEs getting access to SSLs (using the quantity of electricity and gas purchased and the appropriate emission factor). [65]

Economic and Financial Analysis

59. **The investment of the IBRD loan proceeds is expected to have positive results.** The economic and financial analysis includes three aspects: (a) the financial intermediation process of BICE channeling subloans directly and through financial intermediaries, (b) the potential benefits of MSMEs getting access to finance, and (c) the potential reduction of GHG emissions as a result of enhancing the efficiency in the use of electricity and natural gas by MSMEs. In terms of profitability, BICE estimates net positive results (net results/financial income) between 10.1 and 31.6 percent[66] where the borrower assumes the exchange rate risk and passes the funds to BICE in local currency at concessional terms as a strategy to mobilize private sector capital into climate finance (US$141 million of PCM is estimated). Currently, the interest rate BICE will receive from the borrower for subloans in local currency would be below inflation rate. BICE will be able to cover their financial intermediary costs and generate a financial margin by lending those funds directly to MSMEs and through PFIs even in the current scenario where interest rates are influenced by the LFIP and CreAr. The process of financial intermediation would also generate tax revenues for the government (35 percent of income taxes generated by BICE and the PFIs) and tax revenues for the provinces from gross income taxes (e.g., 8 percent in C.A. Buenos Aires). In addition, according to the evaluations carried out by BICE on subloans that financed investment needs of SMEs in the period 2021- (April) 2023 mobilized investments of

[65] Link: *https://ghgprotocol.org/scope-2-guidance, https://www.epa.gov/sites/default/files/2020-12/documents/electricityemissions.pdf*

[66] These estimates use different scenarios considering, among others, the level of disbursement, non-performing loans, interest rate, inflation rate, the use of revolving funds during the term of the IBRD loan similar to previous loans in Argentina. In addition, the financial income considers the actual interest earned by the subloans financed with the loan proceeds during a term of the IBRD loan similar to previous loans in Argentina. Expenses are distributed based on the participation of the number of credits granted by this line in the total loans granted by the bank. Operating expenses are based on the actual participation of expenses in financial income for the period Jan22 - Mar23. Gross Income Taxes (IIBB) rate is assumed as 8 percent for first tier and 1.5 percent for second tier and 35 percent of the Income tax of the operating result. A detailed description of the model will be part of the POM and it will be revised and updated during project implementation, especially in the mid-term review and closing.

US$2.31 million for every million dollars disbursed. Moreover, the evaluation of three financing programs for SMEs in Argentina,[67] found that accessing a program increases employment by 10 percent and 1.2 percent in the average salary paid by the beneficiary firms with respect to a control group. This effect on employment is higher for micro and small companies with increases of 12.7 percent and 10.5 percent, respectively. Additionally, it has a positive, albeit slight, effect on the probability of exporting by 0.7 percent, and in exporting firms, it generates an increase of 16.1 percent in export levels. Likewise, considering the subloans financed by BICE for investment activities, the analysis of the portfolio for the period 2015-2023 (April) shows that for every million dollars disbursed, the SMEs generated 17.7 new jobs. Considering the last three years (2021-2023), for every million dollars disbursed, 21.3 jobs were generated by MSMEs. Moreover, the impact evaluation on employment of the working capital subloans financed by BICE in 2020 to assist the needs of firms affected by the shock of the COVID-19 pandemic, showed that SMEs that accessed to working capital subloans had 6 percent more employment than the control group.[68] In the last three years, investment subloans to women MSMEs generated 23.1 jobs for every million dollars disbursed - in line with the average for the total portfolio.[69] These positive results on job creation have positive effects on consumption and consequently, on the level of economic activity, and the public sector side, it generates higher tax revenues due to the increase in the collection of personal contributions and employer contributions and VAT.[70] In the case of BICE's lending that promotes energy efficiency practices of the final borrowers, for every US$1 million disbursed, energy savings are estimated at 2,415 MWh per year.[71] Moreover, companies that received subloans from BICE that promoted energy efficiency, produced 52 percent more, with a similar level of energy. This indicator improved for 83 percent of the final borrowers.

B. Fiduciary

(a) Financial Management

60. **FM Assessment:** A FM Assessment was carried out on June 05 and 06, 2023 to assess the adequacy of FM arrangements in place at the BICE whose shareholders are the Ministry of Finance*, Banco de la Nación Argentina* (BNA) and Fundación BNA. The scope of the FM Assessment included: (a) an evaluation of ongoing FM systems to be used for project planning and budgeting, monitoring, accounting, and reporting; (b) a review of staffing arrangements; (c) a review of the flow of funds arrangement and disbursement methods; (d) a review of internal control mechanisms in place, including internal audit; (e) a discussion with regards to reporting requirements, including the format and content of Unaudited Interim Financial Reports (IFRs); and (f) a review of the external audit arrangements.

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[67] Giuliodori, D., Guinazú, S., Correa, J. M., Butler, I., Rodriguez, A. and Tacsir, E., 2018. Finance programs for Smes, access to credit and performance of firms: Evidence from Argentina.

[68] Danon, A. M., Tessone, R., and Guido, Z. (2021). Banca de desarrollo en tiempos de pandemia. Evaluación de impacto de créditos de capital de trabajo. Technical report, Asociación Argentina de Economía Política.

[69] Favoring access to financing for companies led by women improves the allocation of resources and promotes economic growth: It would increase productivity and social welfare gains by 7 and 18 percent, respectively. (Chiplunkar and Goldberg, 2005). A 25 percent reduction in the gender gap in employment, GDP would increase by 4 percent in Latin America and the Caribbean. (ILO, 2018).

[70] Bracco, Jessica Roxana & Galeano, Luciana Maria & Juarros, Pedro Francisco & Riera-Crichton,Daniel & Vuletin, Guillermo Javier, 2021. "Social Transfer Multipliers in Developed and Emerging Countries: The Role of Hand-to-Mouth Consumers," Policy Research Working Paper Series 9627, The World Bank. https://scioteca.caf.com/handle/123456789/1883

[71] Representing a reduction of 1 million kg of C02 (Electricity 2,415,000 KWh/Yr x 0.4589 Emission Factor Arg.2021 = Reduction of 1,108,244 Kg of CO2).

The reduction of 1,108,244 kg of CO2 would be equivalent to: (i) 18,325 tree seedlings grown for 10 years, (ii) 42,004 incandescent lamps switched to LEDs, (iii) 140 homes' energy use for one year, or (iv) 2,841,038 miles driven by an average gasoline-powered passenger vehicle. (U.S. Environmental Protection Agency)

61. **FM System:** In general terms, the Argentine national-level public FM system is reasonably well aligned with international good practices and standards as they are schematized by the PEFA framework.[72] The project will make extensive use of country's systems in terms of budgeting, accounting, internal controls, and internal and external audit.

62. **FM Risks:** The FM Assessment identified the following risks to the achievement of the Project Development Objective: (a) Funds Flow complexity, including a large sub-loans component that will require a robust FM system to effectively monitor the implementation of sub-loans, and (b) the fact that the project's financial reports generated by the System of Financial Administration and Control for Agencies Executing Foreign Loans (Argentine budget execution and recording software for multilateral financed operations, UEPEX) are not compatible with IFR data structure and need to be manually typed in a spreadsheet to provide the necessary data points to the Bank. The main mitigating measures include: (i) preparation of a POM (including a section with FM arrangements acceptable to the Bank), with a detailing of the Funds Flow accounting register and the mechanics surrounding them, (ii) enhanced monitoring control over the flow of funds; (iii) adoption of a customized IFR (where a field for the register of the Cuenta Especial de Exportadores (CEE) entries and account's balance will be present), (iv) implementation of rigorous control for IFR preparation and reconciliation in order to ensure accuracy and reliability of the financial reporting processes, (v) annual audit of project's financial statements following auditing standards and terms of reference acceptable to the Bank; and (vi) continued close Bank support and supervision.

63. **The overall conclusion of the FM Assessment** is that: (a) the FM arrangements for the project are considered adequate; (b) the funds flow, disbursements, monitoring, auditing, and supervision arrangements have been designed in a way to respond to the project's implementation arrangements; and (c) the overall FM residual risk after mitigating measures is assessed as Moderate. The project risk rating will be reviewed regularly during project implementation support.

(b) Procurement

64. **Procurement will be conducted using the World Bank's 'Procurement Regulations for IPF borrowers', issued in July 2016 and updated in November 2020, for the supply of goods, non-consulting and consulting services.** World Bank's Standard Procurement Documents will govern the procurement of World Bank-financed Open International Competitive Procurement. For procurement involving National Open Competitive Procurement, the borrower will use standard procurement documents acceptable to the Bank that will be included in the POM. All contracts would also be subject to the World Bank's Anticorruption Guidelines, dated October 15, 2006, revised in January 2011, and as of July 1, 2016.

65. **The fiduciary implementation will be the responsibility of BICE while technical inputs such as technical specifications and terms of reference will be provided by BICE's and SIDP's technical areas.** This will be the second operation to be implemented by BICE, after the implementation of P159515 - Access to Longer Term Finance for Micro, Small and Medium Enterprises Project. In the previous project, procurement activities were carried out by the PCT created and established in BICE, whereas in this operation procurement activities will be carried out by BICE's Procurement Unit (*División de Compras y Contrataciones*). To this extent, in April 2023 the Bank updated the procurement capacity assessment of BICE to review the current organizational structure and experience for carrying out procurement under the project. The assessment concluded that the Procurement unit staff has adequate experience and capacity to successfully carry out the procurement function. However, the staff has no previous experience under the Bank's financed projects and Procurement Regulations. Based on the capacity assessment, the

[72] Argentina - Public Expenditure and Financial Accountability (PEFA): Performance Assessment Report, Report No: AUS0001244, December 2019

following actions are recommended at this stage of project preparation to reduce risk and facilitate project implementation: (i) Procurement Regulations training for BICE's Procurement Unit team (already delivered on April 18 and May 3, 2023); (ii) promote close coordination with the technical areas to provide technical specifications and terms of reference, and the design, implementation and supervision of the activities; (iii) the Bank's procurement team will assist the Procurement unit during project implementation through regularly formal and informal discussion of procurement issues and provide capacity building to conduct its procurement activities; (iv) formal supervision missions to follow up on any procurement issues; and (v) supervision missions to carry out the post review of procurement contracts.

66. **Based on the above mentioned, the overall project risk for procurement at this stage is assessed as Moderate, which may be reassessed during implementation.**

67. **The borrower prepared a Project Procurement Strategy for Development (PPSD) to define a fit-for-purpose procurement approach for the activities envisaged in Components 1 and 3.** The PPSD focuses on Components 1 and 3 because Procurement Regulations for Component 2 are not applicable as they are loans made directly or through eligible financial intermediaries to private borrowers (clause 2.2 of "Section II – General Considerations") and activities of Component 4 (CERC) will be defined in a timely manner.

68. **Considering the size of the contracts to be procured under the project, the borrower through the Procurement unit prepared a short PPSD with World Bank support in accordance with the World Bank's Procurement Regulations**, where the most relevant activities are identified. The Procurement defined the most convenient alternatives to address how procurement activities will support the PDO, deliver the best value for money under a risk-based approach and provide adequate justification for the selection methods and arrangements to be used.

69. **As a result of this analysis, it is concluded that the best alternative for most activities for the procurement of goods is an approach via requests for bids and/or quotations through open national competitive processes.** Additionally, the borrower has identified four activities for advance procurement and wishes to proceed with them before signing the Legal Agreement: i) Goods: Back up Data Centers; VPN licenses; IT equipment; and ii) Individual consultant. These procurement procedures shall be consistent with Sections I, II and III of the Procurement Regulations.

70. **Planned procurement activities do not present potential or actual cyber security risks.**

71. **Procurement activities expected to be carried out during the first 18 months of project implementation are detailed in the Procurement Plan as a result and conclusions of the PPSD.** The Procurement Plan containing the methods, estimated costs, review requirements, and time frame will be registered in the corresponding System (STEP – Systematic Tracking of Exchanges in Procurement). Both the Procurement Strategy and the Procurement Plan for the project will be updated on a regular basis during project implementation, in accordance with the needs identified and to reflect changing circumstances. Any updates to the PPSD should be agreed upon by BICE and the World Bank and the updates to the Procurement Plan should be submitted to the World Bank for its review and no-objection. The rest of the activities will be added to the Procurement Plan once they are defined by the technical areas and any updates on the Procurement Strategy will be reflected during project implementation.

C. Legal Operational Policies

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

D. Environmental and Social

72. **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 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 cultural heritage. BICE has developed an exclusion list as part of its Environmental and Social Management System (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. Financing of substantial risk activities (which justifies the current environmental risk rating) will only be carried out through sustainable linked subloans, which aims to improve the E&S conditions of their operation. It must be noted that BICE's ESMS and other E&S instruments, such as the Stakeholder Engagement Plan (SEP) and the Labor Management Plan (LMP), have already been consulted and publicly disclosed.[73]

73. **The project's proceeds will not be used for new infrastructure, but for targeted activities that allow MSMEs to adapt and mitigate climate change.** They will only finance small-scale activities that meet eligibility criteria and exclude damage to human and environmental health. Partial credit guarantees 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.

74. **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.

75. **The provision of technical assistance (TA) under Component 1 is expected to have limited environmental implications.** TA activities will follow the WB requirements set out in Environmental and Social Standard (ESS) 1, 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 Environmental and Social Standards (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.

76. **Social risk rating is classified as moderate** considering the nature and magnitude of the potential social risks and impacts of FI activities. The project is expected to have significant benefits for MSMEs, PFIs and BICE itself, by enhancing their capacity to better integrate climate change risks, costs, and opportunities into their business models.

[73] LMP disclosed on May 31, 2023; ESCP and SEP on June 17, 2023; and ESMS on July 13, 2023 *https://operationsportal.worldbank.org/secure/P180456/home?tab=documents#IB*

Likewise, it will increase the availability of sustainable finance products to help MSMEs, the main beneficiaries of the 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 within green product markets. Lastly, the project is expected to improve the enabling environment for access to finance and access to markets for MSMEs, especially targeting 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).

77. The main social 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 loans that would result in either are included as part of the exclusion list. BICE's ESMS and SEP have been 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 Redress Mechanism (GRM).

78. **Citizen Engagement**. The project will have a GRM accessible to all stakeholders leveraging on BICE´s ongoing GRM that includes phone lines; social networks; a dedicated email address; and established processes and procedures for response timelines and scaling up of grievances. The Project's Stakeholder Engagement Plan (SEP) and communication strategy will ensure that all actors, including financial intermediaries and MSMEs know about: (a) the financial products and capacity building activities available under the project, (b) the eligibility criteria, requirements, and processes for getting access to them, and (c) the existence and functioning of BICE´s GRM and have access to it. As per the requirements of ESS10, the project has conducted a series of consultations with PFIs and MSMEs focused on the project design and the importance of E&S risk management in financial intermediation activities. Finally, an indicator has been included in the Results Framework to measure MSMEs satisfaction with the financial products and capacity building activities offered under the project, based on the results of surveys conducted as part of the monitoring and evaluation strategy.

V. GRIEVANCE REDRESS SERVICES

79. ***Grievance Redress.*** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

VI. KEY RISKS

80. **The overall project risk is considered substantial.** The macroeconomic risk is assessed as high and the risks assessed as substantial are related to: (a) political and governance risks, (b) technical design of project risks, and (c) environmental and social risks. All other underlying risks have been defined as Moderate at this stage.

81. **Macroeconomic risk:** The macroeconomic risk is related to the impact that factors such as a slowdown of the economic activity, high inflation, and foreign exchange restrictions, can have in the demand and supply of credit; hence, the potential impact on the disbursement levels of this operation. This risk is reduced by the size of the project that would represent less than 1 percent of the total estimated amount of credit to be disbursed to MSMEs during the life of the project,[74] the number of potential PFIs in the market (28 of 60 already working with BICE), and by the long-term maturity of the lines of credit and subloans to be offered to both PFIs and MSMEs, which are scarce in the market.[75]

82. **Political and governance risk:** The main political and governance risks are associated with the upcoming presidential and congressional elections in October 2023 and the change in government expected by December 2023. The transition period could undermine political commitment and ownership of the operation and could generate implementation delays.[76] This risk will be mitigated by (i) having technical staff from BICE in charge of project preparation and implementation to ensure continuity in project implementation, and (ii) by completing all the necessary implementation arrangements so the borrower could start key project activities and use the retroactive financing option, if needed. [77]

83. **Technical design of project risk:** The inherent risks related to the technical design of the operation are related to the ambitious objective of this first Paris Aligned operation in the financial sector in Argentina, of promoting access to sustainable finance to MSMEs. Having a clear predefined set of eligibility criteria as well as a robust monitoring, reporting and verification system under the project is key to ensure the effectiveness and credibility of the operation. Lack of clarity in this aspect could delay the start of project implementation and/or limit the attractiveness of the credit line for PFIs. To mitigate this risk, a POM with clear eligibility criteria for PFIs, MSMEs, and subloans has been developed, and other project implementation tools and communication material targeting project beneficiaries will be developed. These will follow the examples set by internationally recognized frameworks such as the Green Loan Principles to guide loan classification and monitoring process. In addition, the project will support BICE and participating financial intermediaries in the design and implementation of a mechanism to identify, monitor, evaluate and report ESG financing in its operations/ lending portfolios, and provide training and capacity building for employees responsible for overseeing green and sustainability-linked loans.

84. **Environment and social risk:** The overall environment and social risk of the project is substantial considering the nature and magnitude of potential environmental risks and impacts. No adverse impacts on biodiversity and habitats or cultural heritage are expected, nevertheless, this will be better defined and limited by an Exclusion List. Social risk rating is classified as moderate considering that the project is expected to have positive impacts on BICE, PFIs and MSMEs by enhancing their capacity to better integrate climate change risks, costs, and opportunities into their

[74] In the five years of project implementation, about US$50 billion could be directed in credit to SMEs in a scenario where the historic low levels of 9.2 percent of credit to private non-financial sector of GDP and 1.7 percent to SMEs remain during the life of the project.
[75] Only 1.4 percent of credit to private non-financial sector is long term (average term for investment loans is 32 months).
[76] In a non-expected scenario, a risk could arise if a new government changes position on climate finance, which could undermine BICE efforts on sustainable finance development.
[77] On the governance risks, the project will also evaluate the potential impact on achieving the PDO of alternative lines of credit offered by the government to MSMEs, such as the Credit Line for Productive Investment (LFIP, in Spanish) stablished by the BCRA and the government line of credit for MSMEs "*Crédito Argentino*, CreAr".

business models and by increasing the availability of sustainable finance products to help MSMEs. In addition, the project is expected to improve the enabling environment for access to finance and access to markets especially for those MSMEs owned and/or led by vulnerable groups and those developing their productive activities in sectors and geographical areas that experience limited access to finance. The SEP includes measures to ensure these groups access information about the project, as well as its benefits.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Argentina

Access to Sustainable Finance for Micro, Small and Medium Enterprises Project

Project Development Objectives(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 Development Objective Indicators

Indicator Name	PBC	Baseline	End Target
Strengthening capacity of financial sector stakeholders			
BICE's governance and strategy arrangements support the prioritization of ESG objectives (Text)		Low	High
Percentage of financial intermediaries that set up a mechanism to monitor and evaluate ESG financing in their portfolios (Percentage)		0.00	100.00
Promoting access to sustainable finance for MSMEs			
Volume of subloans MSMEs receiving ESG subloans (Amount(USD))		0.00	340,000,000.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Strengthening capacity of financial sector stakeholders			
BICE, PFIs, and MSMEs integrate climate change risks, costs, and opportunities into their business models. (Text)		Low	High
BICE integrates a ESG Department as part of its organizational structure. (Yes/No)		No	Yes
Promoting access to sustainable finance for MSMEs			
Volume of subloans MSMEs receive for climate change mitigation and adaptation activities with project funds (Amount(USD))		0.00	170,000,000.00
Volume of subloans financed with Project funds for women MSMEs (Amount(USD))		0.00	90,000,000.00
Volume of subloans guaranteed by the partial credit guarantee fund (Amount(USD))		0.00	20,000,000.00
Percentage of subloans guaranteed by the PCG fund financing mitigation and adaptation activities. (Percentage)		0.00	50.00
Number of MSMEs receiving ESG subloans (Number)		0.00	1,200.00
Project Management			
MSMEs report their satisfaction with the financial products and capacity building activities offered under the project (Percentage)		0.00	75.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
BICE’s governance and strategy arrangements support the prioritization of ESG objectives	This indicator measures the level of implementation of ESG objectives prioritized under BICE's governance and institutional strategy that are supported by the project (benchmarked to international standards). The indicator has four levels: High (if at least 85 percent of the activities are implemented), Substantial (between 60 and 85 percent) , Moderate (between 40 and 59 percent), Low (less than 40 percent of activities implemented).	Semiannual	BICE	BICE's governance and institutional strategy. Project Progress Report.	Project Coordination Team - BICE
Percentage of financial intermediaries that set up a mechanism to monitor and evaluate ESG financing in their portfolios	This indicator measures the percentage of financial intermediaries, including BICE, that access to the credit line and/or the partial credit guarantees under the project that set up a mechanism to identify, monitor, evaluate, and report ESG financing of their	Semiannual	Project Progress Report	PFIs reports	Project Coordination Team - BICE

	lending portfolios.				
Volume of subloans MSMEs receiving ESG subloans	This indicator measures the total volume (US$) of green subloans, sustainability-linked subloans, and/or social subloans provided by BICE and PFIs to eligible MSMEs, including the subloans guaranteed by the partial credit guarantee fund.	Semiannual	Project Progress Report	BICE and PFIs	Project Coordination Team - BICE

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
BICE, PFIs, and MSMEs integrate climate change risks, costs, and opportunities into their business models.	This indicator measures the level of integration of ESG practices recommended by a ESG best practices action plan developed under component 1 for BICE, PFIs and MSMEs getting access to finance. This indicator has four levels: High, Substantial, Moderate, Low.	Annual	BICE	Project Progress Report	Project Coordination Team - BICE
BICE integrates a ESG Department as part of its organizational structure.	This indicator measures the organizational ESG unit established and functioning at BICE with clearly defined	Semiannual	BICE	BICE's organizational structure. Project Progress Report	Project Coordination Team - BICE

	roles and responsibilities, trained staff and adequate tools to operate.				
Volume of subloans MSMEs receive for climate change mitigation and adaptation activities with project funds	This indicator measures the minimum volume (US$) of subloans that MSMEs receive with project funds to finance their working capital and investment needs that qualify as climate change mitigation and/or adaptation activities as described in the POM.	Semiannual	BICE	Project Progress Report	Project Coordination Team - BICE
Volume of subloans financed with Project funds for women MSMEs	This indicator measures the minimum volume (US$) of subloans that MSMEs receive with project funds to finance their working capital and investment needs, including for mitigation and adaptation activities, that qualify as women MSMEs as described in the POM.	Semiannual	BICE	Project Progress Report	Project Coordination Team - BICE
Volume of subloans guaranteed by the partial credit guarantee fund	This indicator measures the total volume (US$) of ESG subloans provided by PFIs with their own funds to MSMEs for financing their working capital and investment needs that are guaranteed by the partial	Semiannual	BICE	Project Progress Report	Project Coordination Team - BICE

	credit guarantee fund.				
Percentage of subloans guaranteed by the PCG fund financing mitigation and adaptation activities.	This indicator measures the percentage of subloans, guaranteed by the partial credit guarantee fund, provided by PFIs with their own funds to MSMEs for financing their working capital and investment needs that qualify as climate change mitigation and/or adaptation activities as described in the POM.	Semiannual	BICE	Project Progress Report	Project Coordination Team - BICE
Number of MSMEs receiving ESG subloans	This indicator measures the total number of MSMEs getting access to green subloans, sustainability linked subloans, and/or social subloans for financing their working capital and investment needs. This indicator includes the number of MSMEs getting access to subloans guaranteed by the partial credit guarantee fund.	Semiannual	BICE	Project Progress Report	Project Coordination Team - BICE
MSMEs report their satisfaction with the financial products and capacity building activities offered under the project	This indicator measures the level of satisfaction of MSMEs that get access to finance and/or benefit from strengthening capacity	Semiannual	BICE	Surveys conducted to MSMEs.	Project Coordination Team - BICE

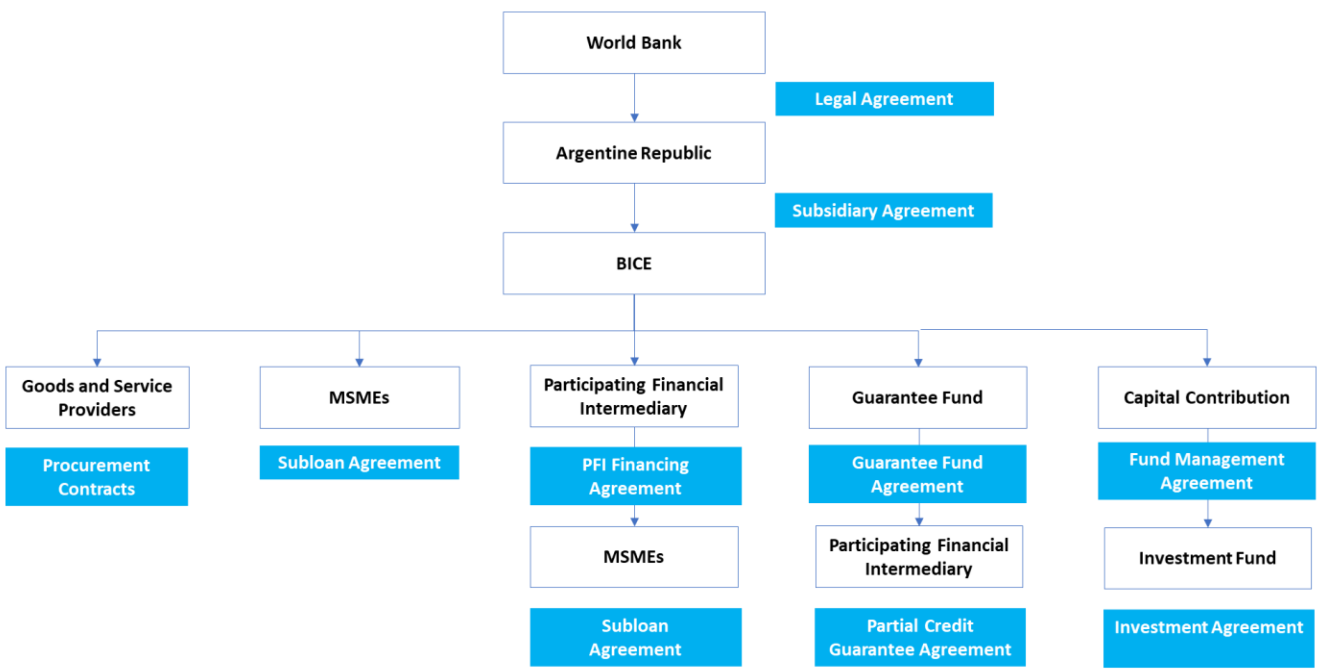
	activities. This indicator will measure the results of surveys conducted to MSMEs: (i) after the application process for getting access of a financial product is completed and/or a capacity building activity is delivered, (ii) one year (or another period of time defined in the POMl) after getting access to products and/or services under the project, and (iii) before the closing date of the product.				

ANNEX 1: Implementation Arrangements and Support Plan

Project institutional and implementation Arrangements

1. **The Argentine Republic 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 Argentine Republic, which in turn will enter, through SIDP, 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.

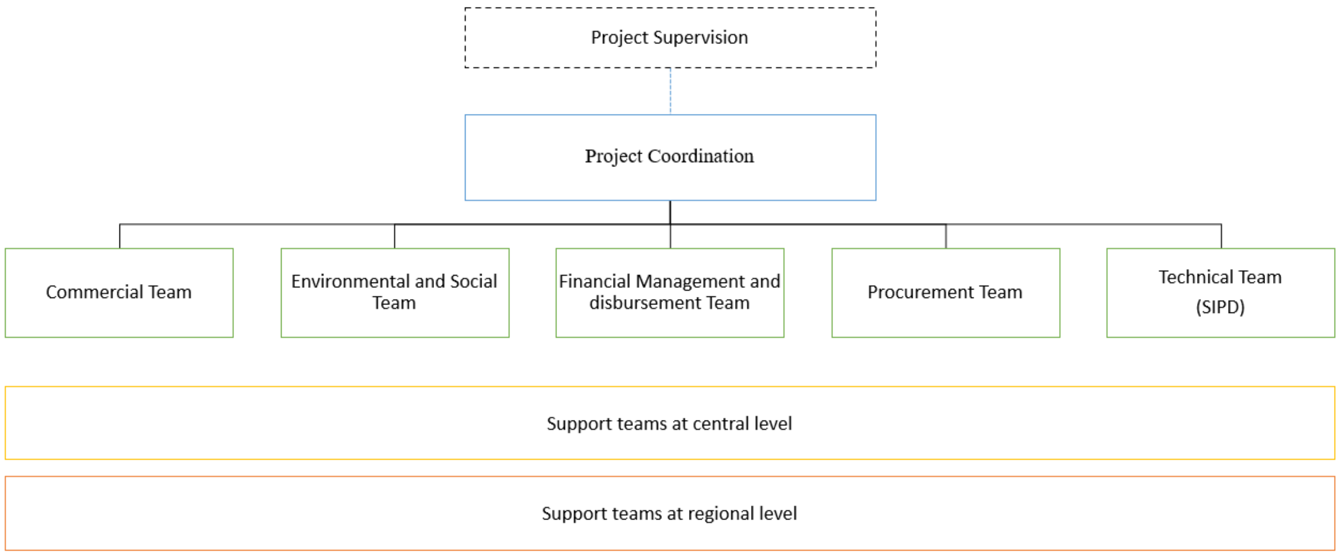
Figure A1-1: Implementation Arrangements – Agreements



2. **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 POM, working annual plan, Procurement Plan, progress monitoring tool, 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.

Figure A1-2: Project Coordination Team Structure



3. **The PCT at BICE will be in charge of implementing the M&E strategy.** During project implementation, the PCT will prepare M&E tools, including a project working plan with detailed information about the activities to be implemented, an estimated time frame for completion, and the team responsible for completing the tasks. In addition, the PCT will conduct periodic meetings with key stakeholders, including progress review meetings with the World Bank implementation support team, to monitor the progress of key activities, identify potential delays, and take timely actions to minimize associated risks. The progress of the project will be measured periodically and reported as part of the semiannual progress reports. In addition, the PCT uses the project communication strategy to periodically disseminate the results achieved by project.

4. **PFIs, MSMEs and subloans will comply with eligibility criteria.** Clearly defined eligibility criteria detailed in the POM will be followed during the implementation for activities to be financed under component 2. The criteria would include, *inter alia*:

(a) **Eligible PFIs**

- Comply with the regulatory requirements of the Central Bank and/or the National Securities Commission.
- Comply with the BICE credit rating process which includes passing quantitative criteria related to the capitalization of the entity, the quality of its assets, profitability, efficiency, and liquidity, as well as qualitative aspects related to its administration, shareholders, and compliance with regulations.
- They are not a shareholder of BICE.
- Have audited interim financial reports that comply with the borrower's Central Bank requirements.
- Have signed the PFI financing agreement with BICE.
- Comply with BICE's Environmental and Social Management System (SGAS).

(b) **Eligible final borrowers**

- Micro, small and medium enterprises as defined by the National Law.
- Have a certificate from the MSME Registry or the sales level for MSMEs reflected in the audited financial statements.
- Being a 100 percent private MSME.
- Do not have any relationship with the financial entity that finances the subloan.
- Comply with Argentine national/provincial legislation on environmental and social issues.
- Comply with BICE's Environmental and Social Management System (SGAS).

(c) **Eligible financing**

- The use of funds is for productive purposes. Working capital and/or investment (e.g., equipment).
- The types of subloans are green subloans and sustainability-linked subloans for mitigation and/or adaptation, and social subloans.
- Types of eligible activities are those that are not part of the exclusion list or have a high E&S risk.

5. **The eligibility criteria will ensure that the activities will finance working capital and investment needs of MSMEs that have a mitigation, adaptation and/or social focus.** Financial intermediaries getting access to the credit line, partial credit guarantees and/or any other financial product financed with project funds will submit a list of activities for BICE's review. Those activities confirmed by BICE that: (i) are not part of the exclusion list, and (ii) comply with the eligibility criteria, will be financed with project funds.

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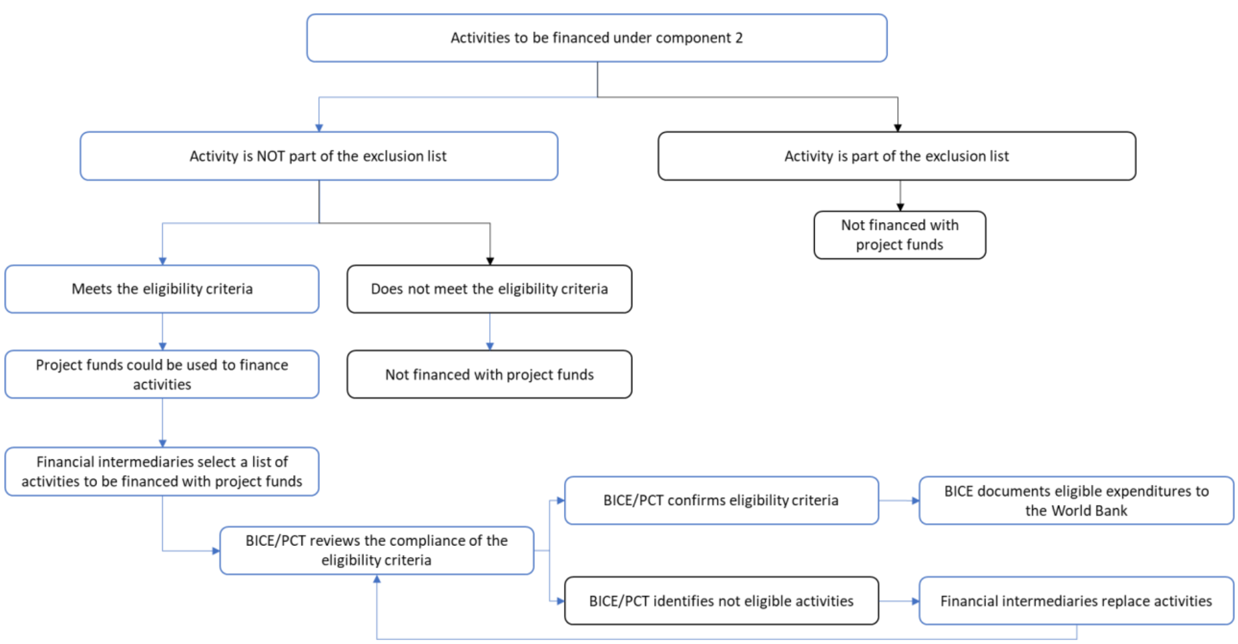
Figure A1-3: Overview of screening process of eligible activities



Project Cost and Financing

6. **The operation would be a US$386 million project.** The project will be financed with: (a) US$200 million IBRD loan, (b) US$45 million counterpart funding from BICE; and (c) at least, US$141 million of private capital financing.

Table A1-1: Project Cost and Financing

Component	IBRD	Private Capital Financing	BICE	Total
	US$			
C1: Strengthening capacity of financial sector stakeholders	**15,000,000**	**-**		**15,000,000**
C2: Promoting access to sustainable finance for MSMEs	**183,000,000**	**141,000,000**	**45,000,000**	**369,000,000**
Subcomponent 2.1: Line of credit	170,000,000	104,000,000	45,000,000	319,000,000
Subcomponent 2.1 (a): First-tier Line of credit	*45,000,000*	*22,000,000*	*45,000,000*	*112,000,000*
Subcomponent 2.1 (b): Second-tier Line of credit	*125,000,000*	*82,000,000*		*207,000,000*
Subcomponent 2.2: Partial Credit Guarantee	5,000,000	*25,000,000*		*30,000,000*
Subcomponent 2.3: Innovative financial instruments	8,000,000	*12,000,000*		*20,000,000*
C3: Project Management (includes Front-end Fee)	**2,000,000**	**-**		***2,000,000***
C4: Contingent Emergency Response – CERC	-	-		-
TOTAL	**200,000,000**	**141,000,000**	**45,000,000**	**386,000,000**

Financial Management

7. **FM Institutional arrangements and staffing**. BICE will be in charge of the overall project implementation and responsible for the project FM activities. This entails among others: managing the project's designated account, coordinating supervision missions, overseeing budgeting formulation, controlling the allocation of resources, following up on budget execution, transferring funds in order to assure adequate and timely financing of eligible expenses, preparing project's accounting records and issuing financial reports required by the Bank, and coordinating the project's external audit. BICE has previous experience in implementing Bank's project, and is adequately staffed; thus, no additional support is envisioned to implement FM tasks.

8. **Internal Control and Internal Audit.** The internal control environment to be used for the project is anchored in Argentina's legal and institutional framework and BICE internal control system that complies with the standards issued by the Central Bank of Argentina (BCRA). Regulatory requirements are based on good practices contained in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Report. According to the regulations of the BCRA, BICE has an Audit Committee (where two board members participate). The BCRA has rated the internal audit as acceptable. The processes are formalized in manuals procedures and, in addition, meet the quality standards laid down by ISO 9001. The internal controls relevant to the project will include arrangements to provide assurance that: (a) operations are conducted effectively, efficiently, and in accordance with relevant financing agreements; (b) financial and operational reporting is reliable; (c) applicable laws and regulations are complied with; and (d) assets and records are safeguarded. Fixed assets/inventories will also be controlled, with regular asset/inventory counts, reconciled with control accounts and procedures in place to control the disposal/sale of assets.

9. **Planning and Budgeting.** The project will rely on the Argentinian Federal procedures for budget formulation and execution. National budget formulation and implementation are guided by rules established by the National Constitution and the Financial Administration Law. In addition to recording the Program's transactions in Bantotal, the project's operations will be recorded in e-SIDIF, and in UEPEX. The BICE's roles and responsibility on: (a) maintaining project accounts using the Chart of Accounts (which should be adequate, and should be adapted to properly account for, and report on, all the project's activities) reflecting the project categories, components, and source of funding; and (b) producing the requisite annual financial statements following International Accounting Standards (IAS). The project will rely on the Argentinian procedures for budget formulation and execution. The BICE will have the responsibility of preparing the specific budget for the project and monitoring budget execution.

10. **Accounting.** The project will apply the government's system specially designed for the execution of multilateral financed operations, which is legally required (UEPEX). This system is compliant with Bank requirements, provides a good ex-ante internal control framework, and is integrated and in line with the national budget execution process. BICE will be responsible for: (a) maintaining project accounts using the Chart of Accounts (which will be adequate, and can be adapted to properly account for, and report on, all the project's activities) reflecting the project categories, components, and source of funding; and (b) producing the requisite annual financial statements following International Accounting Standards (IAS). The cash accounting basis will be used to maintain the project's accounting records. BICE will have access to the WB's Client Connection system for up-to-date information relating to the disbursement of the proceeds of the Loan. The project's accounting records in UEPEX will be reconciled regularly with this information. There are written policies and procedures covering all routine accounting and related administrative activities, and only authorized people may change or establish new accounting principles, policies, or procedures. The accounting function is adequately staffed. The Chart of accounts will be incorporated in the POM.

11. **Financial Reporting.** BICE will be responsible for the preparation of the project's Interim Unaudited Financial Reports (IFRs). The IFRs will be solely used for reporting and monitoring purposes and will be part of the progress. reports submitted by the project. BICE will prepare and submit to the Bank the semiannual IFRs (to be prepared in US dollars and local currency using cash basis), no later than 45 days after the end of each reporting period. Format and content of annual financial statements and IFRs have been agreed with BICE and incorporated in the POM.

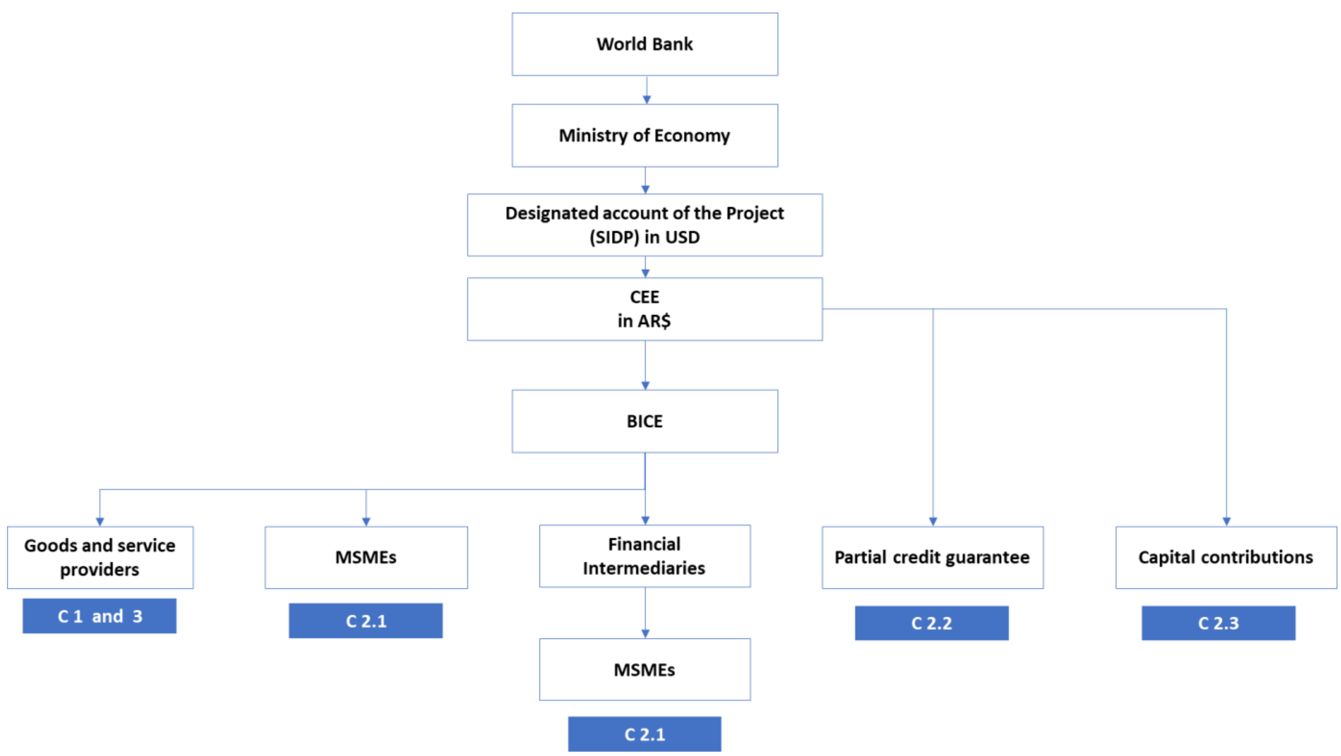
12. **The UEPEX does not have an automated process to automatically generate the project's IFRs in the format required by the Bank.** Therefore, the data will be extracted through UEPEX, and manually formatted in a spreadsheet (e.g., Excel). This routine of "export and import" of data will require the implementation of rigorous control for conciliation. At the end of each fiscal year, BICE will prepare annual audited financial statements for the project.

13. **Funds Flow and Disbursement Arrangements.** The World Bank will disburse loan proceeds using the disbursement methods of advance, direct payment, and reimbursement. For the advance method, a segregated Designated Account (DA) managed by BICE and denominated in the loan currency (US$), will be opened at the state-owned bank, *Banco de la Nación Argentina* (BNA) (acceptable to the Bank). This account will receive advances from the Loan account and will be replenished by the World Bank as execution progresses. The DA will have a Variable Ceiling with a six-month forecast approved by the Bank. The frequency for reporting eligible expenditures paid from the DA will be at least once every six (6) months. Proceeds from the DA will be fully transferred, in a first step, to the *Cuenta Especial de Exportadores* (CEE), an account in local currency, linked to the exchange rate in dollars, which will maintain the value in the local currency against the dollar. Based on the project cash needs the funds will be transferred to an Operating Account managed by BICE, opened in the BCRA and denominated in AR$. BICE will use this account for payments, under Components 1 and 3 for goods and services, and under Subcomponent 2.1 for subloans to MSMEs and PFIs. Under this modality, BICE will document eligible expenditures to the Bank using Statements of Expenditures (SOEs) defined in the Disbursement and Financial Information Letter (DFIL).

14. **A portion of disbursements under Subcomponents 2.2 and 2.3 will follow a specific flow of funds disbursement arrangements.** The capitalization of the Argentine Guarantee Fund under subcomponent 2.2 and the capital contributions under subcomponent 2.3, will be made directly from the DA in US$ or the CEE in AR$ (as defined in the POM). The capitalizations will be considered eligible expenditures and documented to the World Bank as long as the funds would be deposited into the exclusive bank accounts opened for each Fund. As supporting documentation for these expenditures BICE will present evidence, in the form of a copy of a bank statement of said accounts, showing the respective capitalization.

15. **At the request of the government, the Bank will make Direct Payments to vendors based on requests for payments and supporting documentation.** Reimbursement of eligible expenditures will also be authorized. The project's Minimum Application Size for Direct Payments and Reimbursement will be US$500,000 equivalent. The project will have a four (4) month Grace Period after the closing date. The use of the CEE, including a large sub-loans Component by the project, introduces complexity in the flow of funds and mitigating measures were designed to cope with the identified risk and defined in the POM. The project's bank accounts held at the BNA will be reconciled with the accounting records on a monthly basis. Such reconciliations will be performed by a financial specialist and controlled by their corresponding supervisor. All consolidated SOEs documentation will be the responsibility of BICE and will be maintained for post-review and audit purposes for up to one year after the final withdrawal from the Loan account.

Figure A1-4: Flow of Funds



Category of Eligible Expenditures

Table A1-1: Category of Eligible Expenditures

Category	Amount of the Loan Allocated (expressed in US$)	% of Expenditures to be financed (inclusive of Taxes, except for fees levied from financial transactions)
(1) Goods, non-consulting services, consulting services, operating costs, and Training Costs under Part 1	15,000,000	100%
(2) MSME Sub-Loans under Part 2.1 of the project	170,000,000	100%
(3) Capitalization of the Argentine Guarantee Fund under Part 2.2 of the project	5,000,000	
(4) Capital Contributions under Part 2.3 of the project	8,000,000	100%
(5) Goods, non-consulting services, consulting services, Training Costs, and Operating Costs under Part 3 of the project	1,500,000	100%
(6) Emergency Expenditures under Part 4 of the project	0	100%
(7) Front-end Fee	500,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(8) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 4.05 (c) of the General Conditions
TOTAL AMOUNT	200,000,00	

16. **External audit arrangements.** Preliminary, the project's annual financial statements will be audited by a private firm under terms of reference acceptable to the Bank. The project's annual financial statements will be audited under Terms of Reference (ToRs) prepared according to Bank guidelines and performed by an independent auditor following standards acceptable to the Bank. TORs will be agreed upon with BICE. Audited financial statements will be furnished to the Bank no later than six months after the end of each fiscal year—or another period agreed upon with the Bank (not exceeding 18 months) if due to project circumstances, it is more cost effective to join periods to be audited. For audit purposes, the FY will be the calendar year. In accordance with the Bank's Access to Information Policy, upon receipt of the annual audited financial statements of the project, they will be made available to the public by the Bank.

Procurement

17. **Procurement will be conducted using the World Bank's 'Procurement Regulations for IPF borrowers', issued in July 2016 and updated in November 2020, for the supply of goods, non-consulting and consulting services.** World Bank's Standard Procurement Documents will govern the procurement of World Bank-financed Open International Competitive Procurement. For procurement involving National Open Competitive Procurement, the borrower will use

standard procurement documents acceptable to the Bank that will be included in the POM. All contracts would also be subject to the World Bank's Anticorruption Guidelines, dated October 15, 2006, revised in January 2011, and as of July 1, 2016.

18. **The fiduciary implementation will be the responsibility of BICE while technical inputs such as technical specifications and terms of reference will be provided by BICE's and SIDP's technical areas.** This will be the second operation to be implemented by BICE, after the implementation of P159515 - Access to Longer Term Finance for Micro, Small and Medium Enterprises Project. In the previous project, procurement activities were carried out by the PCT created and established in BICE, whereas in this operation procurement activities will be carried out by BICE's Procurement Unit (*División de Compras y Contrataciones*). To this extent, in April 2023 the Bank updated the procurement capacity assessment of BICE to review the current organizational structure and experience for carrying out procurement under the project. The assessment concluded that the Procurement unit staff has adequate experience and capacity to successfully carry out the procurement function. However, the staff has no previous experience under the Bank's financed projects and Procurement Regulations. Based on the capacity assessment, the following actions are recommended at this stage of project preparation to reduce risk and facilitate project implementation: (i) Procurement Regulations training for BICE's Procurement Unit team (already delivered on April 18 and May 3, 2023); (ii) promote close coordination with the technical areas to provide technical specifications and terms of reference, and the design, implementation and supervision of the activities; (iii) the Bank's procurement team will assist the Procurement unit during project implementation through regular formal and informal discussion of procurement issues and provide capacity building to conduct its procurement activities.; (iv) formal supervision missions to follow up on any procurement issues; and (v) supervision missions to carry out the post review of procurement contracts.

19. **Based on the above mentioned, the overall project risk for procurement at this stage is assessed as Moderate, which may be reassessed during implementation.**

20. **The borrower prepared a Project Procurement Strategy for Development (PPSD) to define a fit-for-purpose procurement approach for the activities envisaged in Components 1 and 3.** The PPSD focuses on Components 1 and 3 because Procurement Regulations for Component 2 are not applicable as they are loans made directly or through eligible financial intermediaries to private borrowers (clause 2.2 of "Section II – General Considerations") and activities of Component 4 (CERC) will be defined in a timely manner.

21. **Considering the size of the contracts to be procured under the project, the borrower through the Procurement unit prepared a short PPSD with World Bank support in accordance with the World Bank's Procurement Regulations**, where the most relevant activities are identified. The Procurement defined the most convenient alternatives to address how procurement activities will support the PDO, deliver the best value for money under a risk-based approach and provide adequate justification for the selection methods and arrangements to be used.

22. **As a result of this analysis, it is concluded that the best alternative for most activities for the procurement of goods is an approach via requests for bids and/or quotations through open national competitive processes.** Additionally, the borrower has identified four activities for advance procurement and wishes to proceed with them before signing the Legal Agreement: i) Goods: Back up Data Centers; VPN licenses; IT equipment; and ii) Individual consultant. These procurement procedures shall be consistent with Sections I, II and III of the Procurement Regulations.

23. **Planned procurement activities do not present potential or actual cyber security risks.**

24. **Procurement activities expected to be carried out during the first 18 months of project implementation are detailed in the Procurement Plan as a result and conclusions of the PPSD.** The Procurement Plan containing the methods, estimated costs, review requirements, and time frame will be registered in the corresponding System (STEP – Systematic Tracking of Exchanges in Procurement). Both the Procurement Strategy and the Procurement Plan for the project will be updated on a regular basis during project implementation, in accordance with the needs identified and

to reflect changing circumstances. Any updates to the PPSD should be agreed by BICE and the World Bank and the updates to the Procurement Plan should be submitted to the World Bank for its review and no-objection. The rest of the activities will be added to the Procurement Plan once they are defined by the technical areas and any updates on the Procurement Strategy will be reflected during project implementation.

Strategy and approach for implementation support

25. The implementation support strategy considers the identified aspects that could contribute to efficient implementation support, thus, satisfactory overall implementation progress towards the achievement of PDO:

(a) **Technical support.** A team of financial sector specialists will provide technical support and guidance to the borrower and implementation agency and key stakeholders. The technical team will participate in periodic technical discussions to review the project implementation strategy and monitor the progress of components 1 and 2. Technical advice will also be provided during implementation support missions.

(b) **Environmental and Social Standards.** The environmental and social specialists will provide support and periodic guidance to the implementation agency with regard to environmental and social aspects of the project including the development and application of the E&S instruments. In addition, the specialists will participate in project implementation support missions and site visits.

(c) **Operations.** During project implementation, the World Bank will provide implementation support to the team members of the PCT to prepare, update, and use the project management tools, including the POM, work annual plan, procurement plan, disbursement projections, and progress monitoring tool.

(d) **Procurement.** A procurement specialist will provide ongoing guidance to the implementation agency with regard to procurement processes and will participate in project implementation support missions, post-review assessments, and site visits. In addition, the World Bank will review selection processes defined as prior review in STEP.

(e) **Financial management and disbursement.** An FM specialist will provide implementation support to the implementation agency. The World Bank will supervise the project's FM arrangements by reviewing the interim financial reports (IFRs) as well as the annual audited financial statements. In addition, during implementation support missions, the World Bank will review the FM and disbursement arrangements. Moreover, a finance officer will provide support on the aspects related to disbursement, including the processing of withdrawal applications, documentation of eligible expenditures, and managing client connection.

26. The Implementation Support Plan will be reviewed periodically to ensure that it continues meeting the implementation support needs of the project.

Implementation support plan and resource requirements.

Time	Focus	Skills Needed	Resource Estimate
First year	Task management	TTL/senior financial sector specialists	16
	ESS	Environmental specialist	8
	ESS	Social specialist	8
	Procurement	Procurement specialist	6
	FM	FM specialist	6
	Technical support	2 financial sector specialists	12
	Disbursements	Finance officer	3
	Operations support	Operations officer	3
12–60 months	Task management	TTL/financial sector specialist	40
	ESS	Environmental specialist	32
	ESS	Social specialist	24
	Technical support	2 financial sector specialists	48
	Procurement	Procurement specialist	24
	FM	FM specialist	24
	Disbursements	Finance officer	12
	Operations support	Operations officer	12

ANNEX 2: Financial Intermediary Assessment

1. **The current assessment of the Development Bank, BICE, took place in April 2023 in accordance with the principles listed in the World Bank Financial Intermediary Financing Guidance Note 2016**. The principles used to assess BICE and a table with the results are described below:

(a) The bank must be duly licensed and have at least two years in operation.
(b) The bank's owners and managers must be considered 'fit and proper'. It must have qualified and experienced management and adequate organization and institutional capacity for its specific risk profile.
(c) The FI must be in "good standing" with its supervisory authority (e.g., it should meet all prudential and other applicable laws and regulations) and remain in compliance at all times.
(d) The bank must maintain capital adequacy.
(e) The bank must have adequate liquidity.
(f) The bank must have positive profitability and an acceptable risk profile. It must maintain the value of its capital.
(g) The bank must have well defined policies and written procedures for management of all types of financial risks (liquidity, credit, currency, interest rate and market risk, as well as risks associated with balance sheet and income statement structures) and operational risk.
(h) The bank must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions. It must have adequate portfolio quality. The bank should not have more than 10 percent of criticized assets (that is, classified as doubtful and at a loss).
(i) The bank must have adequate internal audits and controls for its specific risk profile.
(j) The bank must have adequate management information systems.

Summary of BICE Assessment

Criteria	Comments
(a) Licensing	BICE was created in December 1991 and is duly authorized by the BCRA to operate as a first and second tier bank and additionally to capture fixed term deposits.
(b) Governance/Management	The bank has a Board of Directors made up of professionals with recognized experience in the Argentine financial field. Senior management is integrated by prestigious professionals of recognized technical capacity in the Argentine financial market, whose permanence in the entity is long-standing, having not been affected by the political changes of the national government. To fulfill its management, the Board of Directors has various committees that cover the different aspects. Said committees work actively, as it appears from the minutes that were provided by the institution.
(c) Compliance with national regulations.	BICE has obtained an adequate rating in BCRA inspections in relation to the volume and complexity of its operations and has complied with the different prudential regulations and laws to which it is subject.

Criteria	Comments
(d) Capital adequacy	The institution more than meets the capital requirement established by the BCRA. This aspect has been highlighted by the risk rating agency, called FIX SCR, as one of the bank's main strengths.
(e) Liquidity	BICE has a significant level of liquidity that allows it to meet the regulatory requirements of the regulatory body and, at the same time, meet the funding needs of the business. Liquidity management is developed in a conservative way.
(f) Profitability	BICE has an acceptable (conservative) risk profile. Its result was positive, preserving the value of the capital, however, it should be noted that, although the operating result is at an adequate level (for the type of institution that BICE is), it is significantly affected, as well as than the rest of the financial system, because of the high annual inflation rate prevailing in the country. Additionally, BICE received non-reimbursable funds of AR$ 15,000 million from FONDEP that allowed it to obtain a positive result that slightly exceeded AR$ 1,000 million[78]. Another aspect to highlight is the source from which it obtains its financial results, which come mainly from treasury management for investment in public bonds and repos operations with the BCRA.
(g) Policies and risk management functions	Risk supervision and control are carried out mainly on the basis of limits established in accordance with the Bank's commercial strategy. BICE has identified the most significant risks (liquidity, credit, currency, interest rate, market, reputational, and operational), has written Policies and Procedures, specific Committees where risk exposure is evaluated, and a Board of Directors that defines the policies and strategy. On the other hand, it has the Comprehensive Risk Management Committee, where the results of risk monitoring are exposed, the evolution of the main variables that affect the risks and the framing of the approved limits. The Bank also has, within its structure, a Comprehensive Risk Management Department, separate and independent from the business areas, which oversees monitoring risks based on previously established limits.
(h) Asset quality and provisions	BICE periodically classifies its loan portfolio, both first and second tier, in accordance with the methodology established by the BCRA (by categories according to delinquency levels, repayment capacity, legal situation and guarantees) and applies, for provisioning, the percentages defined in the regulations of the governing body. On the other hand, the entity has a model that responds to the calculation

[78] In 2022 BICE received AR$ 15,000 million in December 2022 from FONDEP as non-reimbursable funds to provide financial support to the entity to provide productive subloans to SMEs (for investment, working capital and foreign trade). BICE must inform the SIDP, on a quarterly basis, the use of the funds. According to what was reported by BICE, as of April 2023, 36 percent of the funds have been disbursed and the total funds are projected to be on-lent by August 2023. These funds received the accounting treatment provided in "IAS 20 - *Contabilización de las subvenciones del gobierno y revelación de asistencia del gobierno*".

Criteria	Comments
	methodology of expected losses according to IFRS 9 (required by the BCRA, as of 2024, for the category of Banks in which BICE is framed) which yields similar results. to the regulations currently in force. The irregular portfolio with respect to the total portfolio is located at a level close to 3 percent, in line with the average of the financial system. The provisions cover 75 percent of the aforementioned portfolio, and the difference can be absorbed without problems with the capital that the institution has.
(i) Internal audit and controls	BICE has an internal control system suitable for its risk profile. Said system responds to the good practices contained in the BCRA regulations, based on the Committee of Sponsoring Organizations (COSO) report. It has an Audit Committee, required by the aforementioned regulations, whose work (including that of internal audit) has been well qualified by the BCRA. Additionally, internal control has also been satisfactorily evaluated by the external audit carried out by an international audit firm and by the National General Auditor (*Auditoría General de la Nación*, AGN). The control carried out by the General Syndicate of the Nation (*Sindicatura General de la Nación*, SIGEN) also yielded similar results.
(j) Adequate management information systems	BICE's management information systems are adequate for the volume of its operations and have the capacity to absorb a significant increase in it. The Core System, the database and servers are hired from providers of recognized reputation in the financial market. The institution has an alternative processing center contracted to a prestigious market provider. The contingency tests carried out yielded a satisfactory result. The bank has obtained an acceptable rating in the inspections carried out by the BCRA. The cybersecurity measures are adequate for the characteristics of the operation carried out by the entity.

ANNEX 3: Micro, Small and Medium Enterprises in Argentina

1. **Definition of MSMEs.** In Argentina, MSMEs can be classified according to their annual volume of sales (legal definition) or according to the number of employees (statistical definition).

2. **Definition of MSMEs by annual volume of sales**. Micro, Small or Medium Enterprises (MIPYMEs) are companies that fall under the definition of Resolution 23/2022 of the former SEPYME of the former Ministry of Productive Development dated March 31, 2022, and its complementary and amending regulations.

Table A3-1: Employing companies, size by total annual sales[79] values in thousands of Pesos

Type	Construction	Services	Commerce	Industry and Mining	Agriculture
Micro	78,690	36,850	213,150	150,620	90,930
Small	466,910	222,160	1,518,340	1,125,450	334,950
Medium segment 1	2,605,040	1,838,740	7,217,020	8,010,250	1,971,190
Medium segment 2	3,907,130	2,626,990	10,310,100	16,184,690	3,126,440
Large	>3,907,130	>2,626,990	>10,310,100	>16,184,690	>3,126,440

Source: Ministry of Productive Development, 2022

3. **Definition of MSMEs by number of employees.** For statistical purposes, a definition is adopted based on the employment segments that companies declare to the social security system. For this purpose, "employing companies" are those people (physical or legal) that declare workers to the Social Security System through the Federal Administration of Public Revenues (AFIP, by its Spanish acronym) Form 931. Self-employed workers are excluded from this definition.

Table A3-2: Size of Firms by Number of Employees

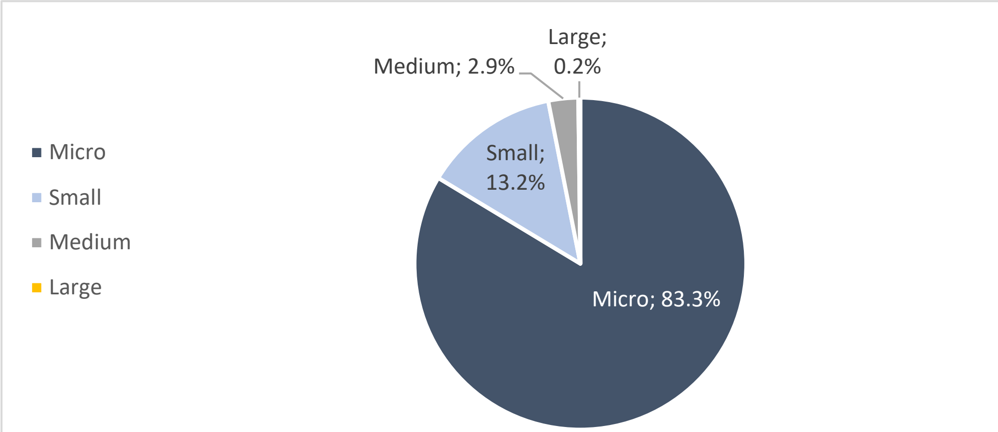
Type	Number of employees
Micro	≤ 9 employees
Small	9-49 employees
Medium	50-199 employees
Large	≥200 employees

Source: Ministry of Productive Development, 2022

4. **Distribution by Size.** The total number of employing companies in Argentina in 2021 totaled about 536,400, of which 532,700 were considered MSMEs (99.3 percent of the total). In turn, they accounted for 16 percent of Argentine goods exported (exceeding US$12.5 billion of Argentina's total of US$77.934 billion exported goods in 2021). In addition, MSMEs accounted for 46 percent of the country’s total annual sales according to the total sales amounts reported to AFIP, while large companies accounted for the remaining 54 percent.

[79] The amount of sales arises from the average of the last 3 business years or fiscal years, excluding VAT, the internal tax(s) that may correspond and deducting 75% of the amount of exports.

Figure A3-1: Percentage of employing firms by size, 2021



Source: SIDP, 2022. Structure and recent dynamics of employing MSMEs

5. **Contribution of employment.** In 2021, MSMEs in Argentina accounted for 61 percent of registered salaried employment that year, divided between micro (19.1 percent), small (21.2 percent) and medium-sized companies (22.2 percent). MSMEs accounted for 49 percent of the wage bill, with large firms accounting for the remaining 51 percent.[80]

Table A3-3: Contribution of Employment by Size

Type	Employing companies		Registered employees		Wage bill		Average salary	
	Thousands	%	Millions	%	Billions	%	Thousands	%
Micro	446.8	83%	1	16%	$54.70	15%	$54.70	93%
Small	70.6	13%	1.4	22%	$104.20	29%	$75.30	128%
Medium	15.3	3%	1.4	23%	$135.90	34%	$89.90	153%
Large	3.7	1%	2.4	39%	$291.80	80%	$121.60	206%
Total	536.4	100%	6.2	100%	$365.20	100%	$58.90	100%

Source: SIDP, 2022. Structure and recent dynamics of employing MSMEs

6. **Distribution by economic sector.** In 2021, Argentine companies were concentrated mainly in trade (31 percent), agriculture and livestock activities (12 percent), manufacturing (10 percent), transportation and storage (8 percent), and construction (5 percent). Microenterprises are more represented in commerce (33 percent) and the primary sector (26 percent). Small businesses are relatively specialized in tourism activities (lodging, food services and cultural activities), construction, computer and communications services, and other professional services. Medium-sized firms are relatively specialized in manufacturing (20 percent), construction (14 percent), information and communications activities (13 percent), financial services (11 percent), and education (9 percent). Large companies are concentrated in manufacturing (32 percent) and higher value-added services such as transportation, logistics, and administrative support services. In terms of employment, micro-enterprises employ more people in the commerce (331,000 workers), agriculture (123,000) and manufacturing (117,000) sectors. Small firms, on the other hand, generate more jobs in commerce (336,000 jobs), manufacturing industry (267,000) and construction (112,000). In turn, medium-sized companies stand out in the education sector with 288,000 jobs and in the manufacturing industry with 279,000.

[80] The wage bill is obtained by multiplying the employment created in each segment of companies by the average wage.

7. **Firms by sector and size.** The following table presents in the first five columns the number of companies and in the second group of five columns, the share of each size segment in each sector of activity. The cells, in which a size segment has a higher share than the economy's average, are shaded in gray, and in light blue, when it only exceeds the average by one percentage point.

Table A3-4: Breakdown of companies in Argentina by size and economic sector

Companies by sector and size, total 2021										
	Number of Firms (In thousands)					Number of firms (%)				
	Micro	Small	Med.	Large	Total	Micro	Small	Med.	Large	Total
Agriculture, livestock, forestry, and fishing	55.8	5.6	0.6	0.1	**62.2**	13%	8%	4%	3%	**12%**
Extraction of mining and quarrying	0.7	0.4	0.2	0.1	**1.4**	0%	1%	1%	2%	**0%**
Manufacturing industries	37.8	13.3	3.0	0.9	**55.0**	8%	19%	20%	24%	**10%**
Electricity and gas supply	0.3	0.3	0.1	0.1	**0.8**	0%	0%	1%	2%	**0%**
Water supply; waste management	0.8	0.3	0.1	0.1	**1.1**	0%	0%	0%	1%	**0%**
Construction	20.0	5.7	1.2	0.2	**27.2**	4%	8%	8%	7%	**5%**
Trade	145.1	18.1	2.2	0.3	**165.7**	33%	26%	14%	9%	**31%**
Transportation and storage	38.9	3.7	0.8	0.3	**43.7**	9%	5%	5%	9%	**8%**
Accommodation and food service activities	23.9	4.8	0.4	0.1	**29.1**	5%	7%	3%	2%	**5%**
Information and communication	7.1	2.1	0.5	0.1	**9.9**	2%	3%	3%	4%	**2%**
Financial and insurance activities	5.4	0.8	0.3	0.1	**6.6**	1%	1%	2%	4%	**1%**
Real estate activities	14.6	0.5	0.0	0.0	**15.2**	3%	1%	0%	0%	**3%**
Professional, scientific and technical activities	31.8	2.4	0.4	0.1	**34.7**	7%	3%	2%	2%	**6%**
Administrative and support service activities	11.6	3.0	1.0	0.4	**16.0**	3%	4%	6%	11%	**3%**
Education	2.9	2.5	3.0	0.3	**8.7**	1%	4%	20%	7%	**2%**
Healthcare activities	21.2	3.4	0.7	0.2	**25.5**	5%	5%	5%	6%	**5%**
Arts, entertainment and recreation	7.6	0.7	0.2	0.1	**8.5**	2%	1%	1%	2%	**2%**
Other service activities	20.9	2.8	0.7	0.2	**24.6**	5%	4%	5%	4%	**5%**
Total	446.5	70.5	15.3	3.7	**536.0**	100%	100%	100%	100%	**100%**

Source: SIDP, 2022. Structure and recent dynamics of employing MSMEs

8. **Distribution by geographical area.** In Argentina, the geographical distribution of companies is extremely heterogeneous and highly concentrated. In 2021, four jurisdictions accounted for 70 percent of the total population of firms: the province of Buenos Aires accounted for 32 percent, followed by the Autonomous City of Buenos Aires (CABA) with 18.4 percent, Córdoba with 9.9 percent and Santa Fe with 9.5 percent.

9. **Distribution by gender.** In Argentina, in the case of natural people, a company is considered to be female-led if the owner is a woman. For legal entities, a company is considered female-led if 51 percent or more of the

shares are in the hands of a woman or if 25 percent or more of the shareholding is in the hands of women and at least one member of the board of directors is a woman. The share of MSMEs owned by a woman reached 32percent of the total in 2020, while female employment in the formal private sector reached 33 percent. In 2020, in the case of companies incorporated as legal entities, 35 percent of MSMEs were led by women, with the lowest proportion (26 percent) among those over 60 years of age. In total, 33percent of MSMEs (around 180,000 companies) in Argentina were female-led in 2020.

Table A3-5: Distribution of MSMEs by gender and age of the owner

Natural people: MSMEs according to gender and age of the owner (2020)			
Age group	**Age distribution**		**Women ownership as a percentage of total**
	Woman	**Men**	
Under 30	5.9%	4.6%	37.1%
From 30 to 39	16.1%	13.9%	34.4%
From 40 to 49	28.7%	26.4%	33.1%
From 50 to 59	24.2%	24.0%	31.5%
More than 60	25.1%	31.2%	26.7%
Total	**100.0%**	**100.0%**	**31.7%**

Source: SIDP, 2022. Women-led MSMEs.

Table A3-6: Distribution of women-owned MSMEs by age of owner and sector

Natural people: women-owned MSMEs by age of owner and sector (2020)						
Sector	**Age group**					
	Under 30	From 30 to 39	From 40 to 49	From 50 to 59	More than 60	**Total**
Primary sector activities	20.0%	13.1%	12.7%	14.5%	15.7%	17.0%
Manufacturing industry	31.6%	27.1%	23.2%	21.0%	17.3%	21.7%
Commerce	42.2%	40.4%	39.5%	37.7%	32.3%	**37.9%**
Services	33.9%	33.0%	32.8%	32.4%	29.0%	**32.0%**
Total	**37.1%**	**34.4%**	**33.1%**	**31.5%**	**26.7%**	**31.7%**

Source: SIDP, 2022. Women-led MSMEs.

Table A3-7: MSMEs incorporated as legal entities, participation of women in shareholding versus boards of directors

MSMEs incorporated as legal entities, participation of women in shareholding versus boards of directors		
Definition	**Woman-led businesses**	**Share of total MSMEs**
Definition 1: 51% or more of shares held by women	30,500	12.6%
Definition 2: at least 25-50% of shares and one woman on the board of directors	55,000	22.7%
Total	**85,500**	**35.3%**

Source: SIDP, 2022. Women-led MSMEs.

ANNEX 4: Financial System Indicators

Figure A4-1: Deposits to private sector in local Currency

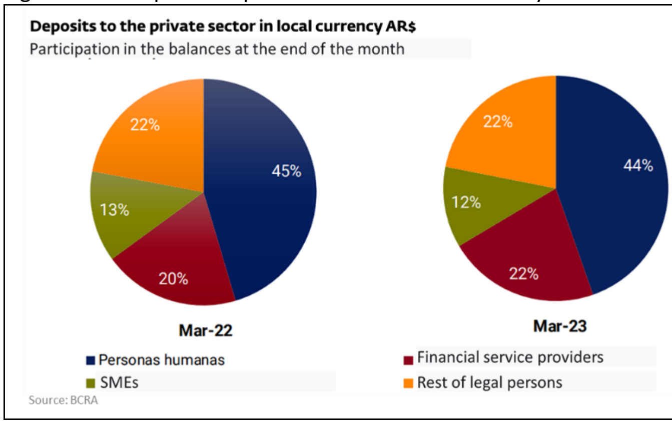


Figure A4-2: Deposit rates in local currency

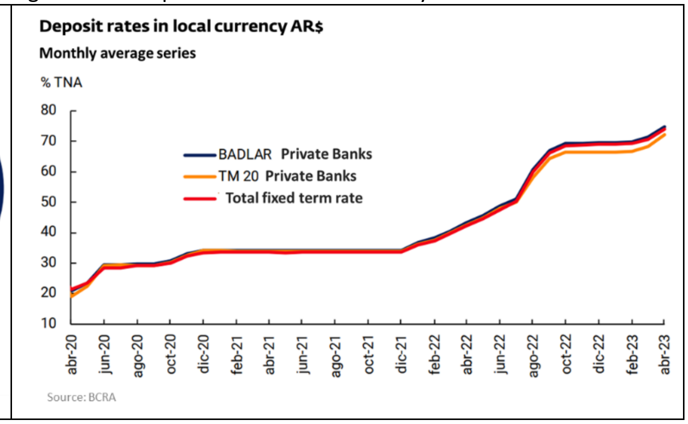


Figure A4-3: Distribution of credit per activity in local currency

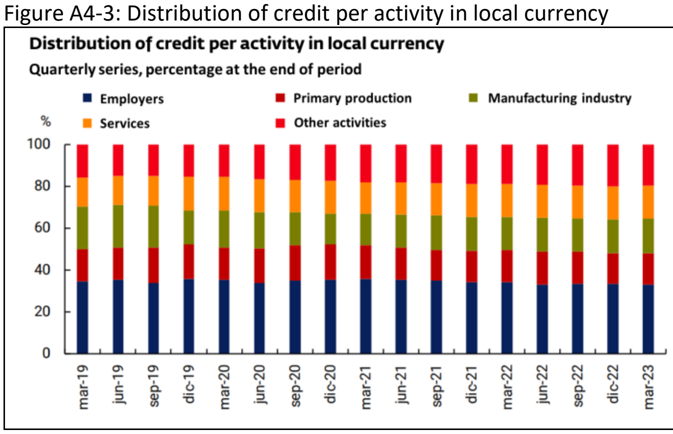


Figure A4-4: Lending rates in local currency

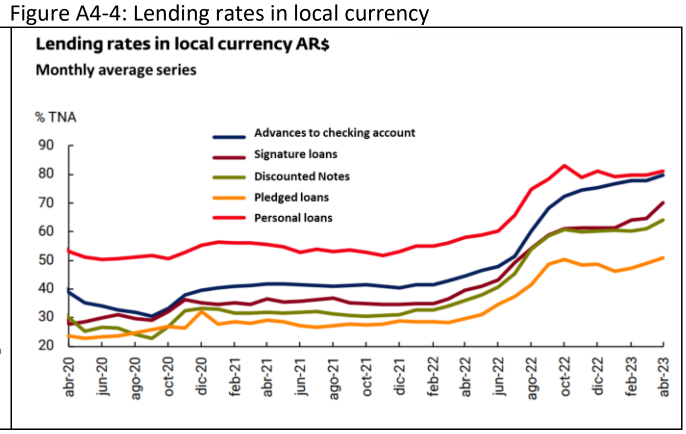


Figure A4-5: Outstanding balance in local currency

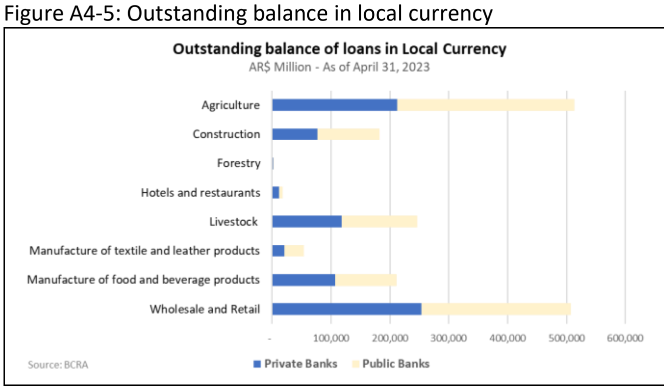


Figure A4-6: Lending rates -Public and Private Banks

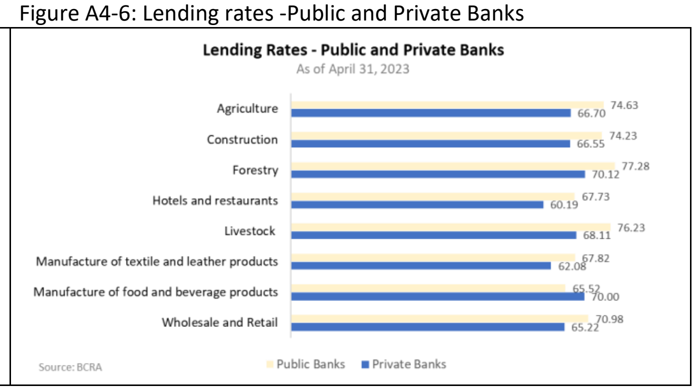


Figure A4-7: Balance of private sector deposits and loans in Fx currency

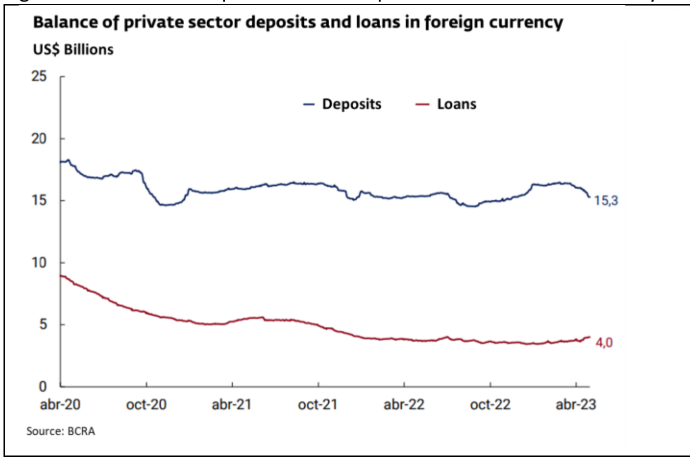


Figure A4-8: Liquidity of financial institutions in foreign currency

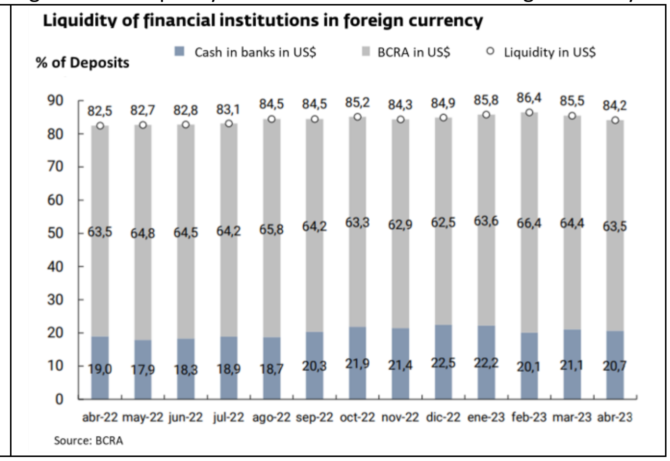


Figure A4-9: Composition of assets of the financial system

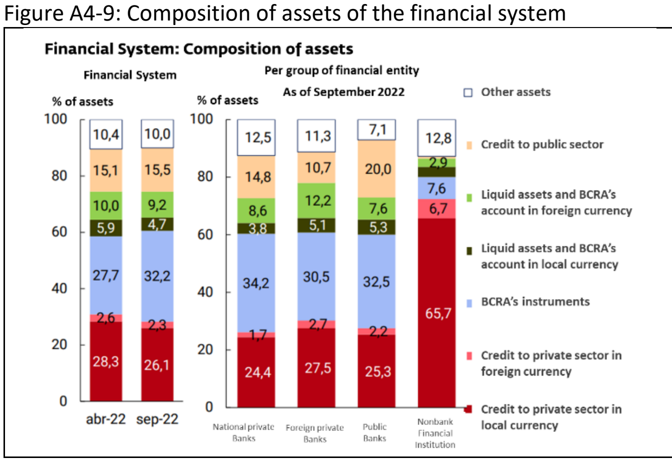


Figure A4-10: Financial system's gross exposure

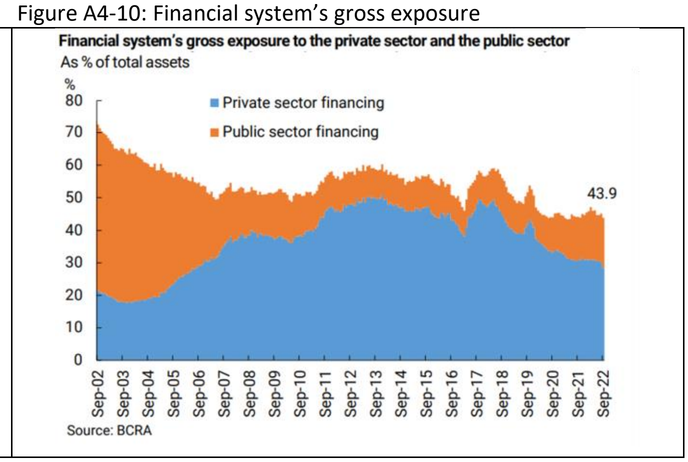


Figure A4-11: Monthly inflation and Central Bank interest rate

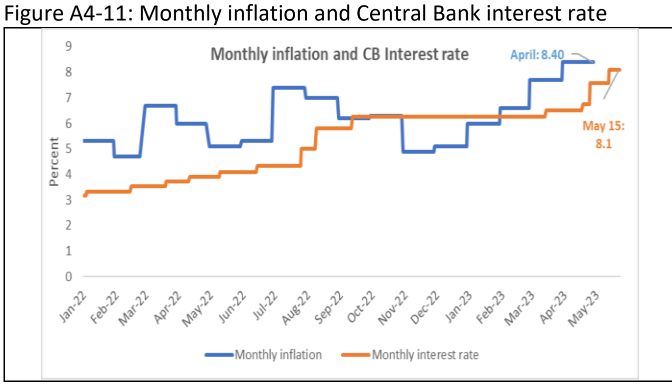


Figure A4-12: Non-performing ratio of loans to the private sector

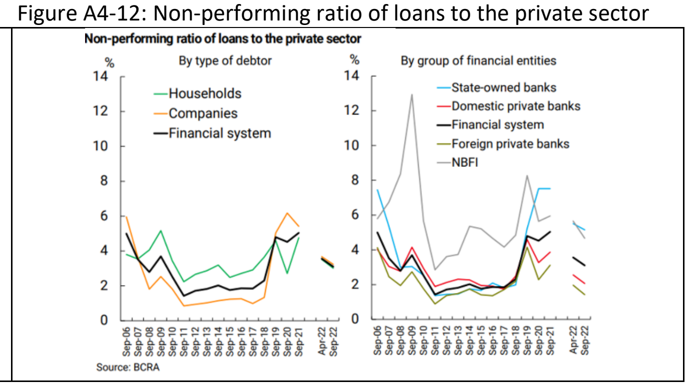


Table A4-1: Total Credit to non-financial sector

Credit to Non-Financial Sector AR$ Million	Monthly average					% GDP	
	abr-23	mar-23	feb-23	dic-22	abr-22	abr-23	dic-22
Total credit to non-financial sector	**8.378.841**	**7.651.908**	**7.220.323**	**6.764.682**	**4.638.583**	**6,5%**	**6,4%**
Total credit to private non-financial sector	***8.280.606***	***7.578.589***	***7.148.137***	***6.693.402***	***4.584.523***	**6,4%**	**6,3%**
Advances	1.013.188	877.152	839.601	774.929	456.968	**0,8%**	**0,7%**
Signature loans and discounted notes	2.264.269	1.996.656	1.837.160	1.708.525	1.175.357	**1,8%**	**1,6%**
Mortgage	397.569	389.774	384.246	371.698	311.607	**0,3%**	**0,4%**
Pledged loan	543.912	508.979	483.832	458.905	288.012	**0,4%**	**0,4%**
Personal	1.288.281	1.214.211	1.152.887	1.050.187	777.034	**1,0%**	**1,0%**
Credit Card	2.376.230	2.247.165	2.126.133	1.999.439	1.314.587	**1,8%**	**1,9%**
Other	397.158	344.652	324.278	329.720	260.959	**0,3%**	**0,3%**
Total credit to public non-financial sector	***98.235***	***73.318***	***72.186***	***71.280***	***54.060***	**0,1%**	**0,1%**

Source: BCRA. April 31, 2023

Table A4-2: Financial System Indicators

	Financial system			State-owned banks			Domestic private banks			Foreign private banks			NBFI		
	Sep-21	Apr-22	Sep-22	Sep-21	Apr-22	Sep-22	Sep-21	Apr-22	Sep-22	Sep-21	Apr-22	Sep-22	Sep-21	Apr-22	Sep-22
Liquidity															
Liquidity Coverage Ratio (1)	2.2	2.0	2.0	2.0	1.7	1.9	2.3	2.0	1.9	2.5	2.4	2.3	-	-	-
Net Stable Funding Ratio (1) (2)	1.9	1.9	1.9	1.7	1.7	1.8	2.1	2.1	2.0	2.0	1.9	2.1	-	-	-
Broad liquidity / Deposits (%)	68.7	68.0	72.3	59.0	61.4	66.0	75.2	72.6	77.9	75.9	72.8	76.0	41.6	49.0	66.1
In $	65.0	64.1	68.6	56.7	59.2	64.1	70.3	68.4	73.3	72.2	67.1	70.7	28.0	41.9	55.9
In US$	86.1	88.9	95.7	71.4	75.0	79.7	100.5	99.0	111.5	88.6	95.7	100.3	256.1	163.8	246.9
Solvency															
Regulatory capital / RWA (%)	26.4	27.8	28.9	24.1	25.7	26.3	30.6	31.5	32.3	25.2	26.6	29.0	19.4	21.0	20.5
Regulatory capital Tier 1 / RWA (%)	24.7	26.3	27.7	23.3	25.0	25.7	27.6	29.2	30.4	23.7	25.2	27.8	17.6	18.8	18.3
Leverage ratio (%) (1)	13.2	13.9	14.3	11.1	11.5	11.8	14.9	16.0	16.5	13.9	14.8	15.3	17.4	24.2	22.7
Capital conservation buffer (% verification)	100	100	100	100	100	100	100	100	100	100	100	100	91	99	90
Domestic systemically important banks buffers (% verification)	100	100	100	100	100	100	100	100	100	100	100	100	-	-	-
Regulatory capital / Credit to private sector net of provisions (%)	48.0	50.1	55.2	41.0	42.8	49.5	58.2	61.0	65.2	49.4	51.0	55.4	18.7	20.7	21.3
(Regulatory capital - Regulatory requirement) / Credit to private sector net of provisions (%)	33.2	35.6	39.9	27.5	30.0	34.9	42.5	45.1	48.6	33.4	35.3	39.8	10.7	12.6	12.5
Profitability															
ROE in homogeneous currency (%a.) (3)	8.5	8.5	9.1	9.0	9.6	13.3	6.4	9.0	7.3	11.3	8.0	8.2	-15.4	-19.3	-30.5
ROA in homogeneous currency (%a.) (3)	1.3	1.4	1.5	1.2	1.3	1.9	1.1	1.6	1.3	1.9	1.4	1.5	-2.8	-3.6	-5.7
Private sector credit															
Private sector exposure / Assets (%)	30.8	30.9	28.3	30.4	30.7	27.5	28.2	28.4	26.2	32.1	32.0	30.2	80.5	76.6	72.4
Non-performing loan ratio (%)	5.0	3.6	3.1	7.5	5.5	5.1	3.9	2.6	2.1	3.1	2.0	1.4	5.9	5.7	4.7
Provisions / Credit to private sector (%)	5.6	4.3	4.0	6.8	5.2	5.3	4.9	3.7	3.1	4.9	3.7	3.2	4.2	4.0	4.9
Public sector credit															
Exposure / Assets (4)	13.4	15.1	15.5	21.1	21.2	20.0	11.4	15.2	14.8	6.3	9.1	10.7	0.5	0.7	0.8
Net exposure / Assets (%) (5)	0.4	2.4	2.5	-4.9	-4.6	-6.1	2.1	6.7	6.4	5.2	8.0	9.9	0.5	0.7	0.8
Currency risk															
(Assets - Liabilities + Net term purchases in foreign currency) / Regulatory capital (%)	10.0	11.8	27.9	25.9	26.5	53.2	3.1	6.2	22.5	1.6	2.4	6.4	28.3	36.0	40.5
Deposits in US$ / Total deposits - Private sector (%)	18.6	15.8	14.4	15.1	12.8	12.0	17.7	14.5	13.1	23.0	20.0	18.3	6.1	5.9	5.4
Loans in US$ / Total loans - Private sector (%)	12.2	8.3	8.0	12.1	8.7	8.1	9.3	6.4	6.6	14.7	9.4	9.0	15.8	12.2	6.4

(1) The Apr-22 column includes the latest available information, which corresponds to Mar-22 for these indicators. (2) Jun-22 last available data. (3) 12-month accumulated.
(4) Position in government securities (excluding BCRA securities) + Loans to the public sector. (5) Position in government securities (excluding BCRA securities) + Loans to the public sector - Public sector deposits.
RWA: Risk weighted assets

Source: BCRA. Financial Stability Report Dec.2022

ANNEX 5: Examples of Potential Instruments to Mobilize Private Capital

This annex presents some indicative examples of potential instruments to mobilize private financing through the capital markets in the current conditions that would be evaluated during the implementation phase under subcomponent 2.3:

1. **Organization, structuring and partial financing of ESG[81] SMEs negotiable securities:** within the framework of the Guidelines for the issuance of social, green, and sustainable negotiable securities approved by the National Securities Commission in Argentina (CNV),[82] under this component, there's the option of structuring securities of SME companies with ESG impact. These securities would allow the mobilization of private capital; particularly SME mutual funds (*Fondos de Inversión Común PyME*) and ESG mutual funds (*Fondos de Inversión Común ASG*) whose mandate is to invest in negotiable securities with public offerings issued by SMEs and that are classified as ESG, respectively.

Under the Guidelines, these securities must have an independent certification report (second opinion report, rating, or certification) which certifies the environmental and/or social impact of them, based on the international standards established by International Capital Market Association (ICMA).

In addition, one of the Argentine stock markets, BYMA, has a specific listing and trading panel for these issues [83]; which gives it greater visibility and, in some cases, allows it to obtain better financial conditions than other non-certified securities.

Another option would be sustainability-linked bonds, for which independent certifications are also required and there is a specific BYMA panel. [84] Currently, there are several issuances in the ESG panel of SME issuers; however, the contributions of the project, under component 2.3 may allow further strengthening of this financing channel, facilitating the arrival of other companies to the panel.

In addition, the issues could be made under the regime for guaranteed SMEs. In other words, any guarantee entity (financial institution, public guarantee fund or mutual guarantee company (SGR) registered with the CNV) assumes the payment risk.

The Program could be complemented with the activities of Component 1, through which they SMEs would receive training and technical assistance for formulating their projects and structuring the financial instrument. These are aspects needed by the SMEs, that without this assistance, in many cases, keep firms with good projects away from the capital market.

2. **Guarantees for the issuance of SME negotiable securities in capital markets**: in line with the previous point, resources could be allocated for the constitution of a specific guarantee fund that is exclusively used to grant guarantees for SME issuances with Social, Green, and Sustainable (SGS) projects in capital markets. A dedicated fund could be established within FOGAR and/or within other public guarantee entities, such as provincial guarantee funds, which only guarantee projects that have impact certifications.

Having the guarantee fund assume the risk of repayment through these structures would boost new SMEs that

[81] Environmental, Social and Governance
[82]*https://www.argentina.gob.ar/sites/default/files/lineamientos_para_la_emision_de_valores_negociables_sociales.pdf*
[83]Available at: *https://www.byma.com.ar/productos/bonos-svs/* .
[84]Available at: *https://www.byma.com.ar/bonos-vinculados-sostenibilidad/* .

have not yet reached capital markets. One key element would be the ability to offer competitive costs since one of the challenges that SMEs face when issuing is the cost of structuring and constituting the counter-guarantees in favor of the guarantors.

3. **Constitution of collective investment vehicles to channel financing to ESG projects:** private ESG projects that meet the condition of being projects with a positive environmental and/or social impact could be financed through capital markets. For that purpose, all projects to be financed must have independent certifications that follow the ICMA parameters.

In Argentina, there are two types of collective investment vehicles: financial trusts (FT) and mutual funds for specific purposes (*Fondos de Inversión Común Cerrados*). In both cases, the managers of these vehicles (financial trustee or managing company) are actors regulated by the CNV, the national capital market regulator.
Within this framework, the Program could allocate resources to fund a vehicle of this type whose specific mandate is to finance ESG projects. This would make it possible to finance not only SMEs directly, but also public sector initiatives could be considered, such as provincial or municipal projects that lead to generating new businesses for SMEs or finance value chains of certain industries or economic sectors that have SME actors.

The strategic sectors in which the fund would operate could be selected, in accordance with the public policies defined by the national government. For example, for actors who traditionally find it difficult to access financing such as entrepreneurs, micro and small businesses, and other informal actors in sectors such as tourism, construction, small-scale agricultural production, regional economies, etc. In other words, where financing currently does not exist or is scarce and where a positive environmental impact can be generated (waste treatment, energy efficiency, etc.) and/or social (generation of job opportunities for certain age groups, gender, job opportunities for small towns in the interior, etc.).

The investment vehicle could issue different types of instruments and allow schemes in which the Program assumes a first loss or takes the longest financing; the one the market is not willing to take. This can be done by issuing debt instruments at different terms or, a combination of debt instruments with capital contributions (equity).

4. **The alternative of a catalytic fund under a public offering regime:** This fund could be expanded to an impact catalytic fund that, in addition to lending at market conditions, can offer financing below market cost, guarantees, or even non-refundable contributions; to the extent that the projects to be financed by SMEs meet the condition of generating a positive impact. The catalytic impact funds work in the world as a magnet for the mobilization of private capital from third parties; either from other official financiers, from non-profit entities or, even, from companies that contribute to these vehicles for reasons of philanthropy or corporate social responsibility. The fact that it is a fund under public and regulated offer guarantees transparency and seriousness in the management of resources.

As they are collective financing instruments, the FT or mutual funds created under a public offer require a plurality of investors, which guarantees that BICE will not be the only investor and that the instrument will effectively mobilize private resources.

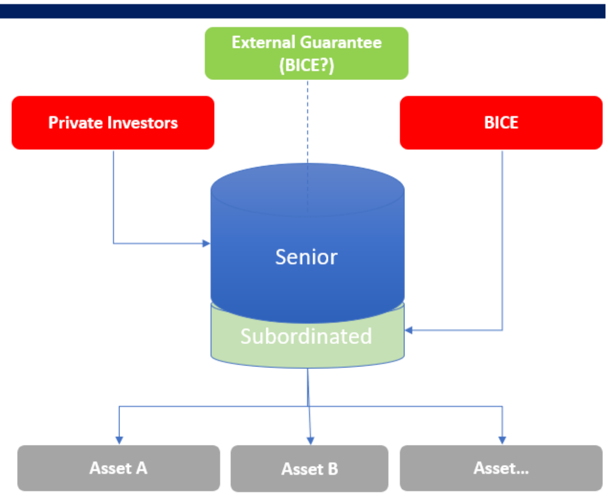
Both BICE and BICE trusts are authorized by the CNV to act as financial trustees. If a mutual fund were chosen, Pellegrini Fondos, a company controlled by BNA would act as a managing company. Both instruments offer enough flexibility so that the corresponding contracts (of trusts or the mutual fund regulations) allow the business to be shaped according to the promoter’s preference; in terms of the types of projects to be financed and any other relevant criteria. Given that the main purpose of the investors for this type of fund is not the search for profitability, they could be structured through the issuance of equity securities, in such a way that the fund does not necessarily require the generation of a return.

5. **Structuring of collective investment vehicles intended to finance activities capable of reaching the carbon market:** in the same line as the previous vehicle, specific purpose FT or mutual funds could be structured to finance activities that, as an alternative or complementary payback, deliver carbon certificates to investors. In other words, the vehicle, with contributions from the Program and from other investors, will finance one or more projects and, in addition, the entire certification process according to the type of project and activity, using internationally recognized certifiers. Certification processes are complex and very expensive; it also depends on the type of activity. For this reason, it is important that the Program can cover all or part of said expenses that are central to materializing the issuance of carbon offsets.

Investors of this type of vehicle may be impact investors or interested companies or companies required by regulations in their countries of origin to offset the impact in terms of greenhouse gases of their activities. For instance, initiatives related to the installation of biodigesters in feedlots, electric urban transport projects, fuel or gas generation treatment projects with biomass or waste, among others.

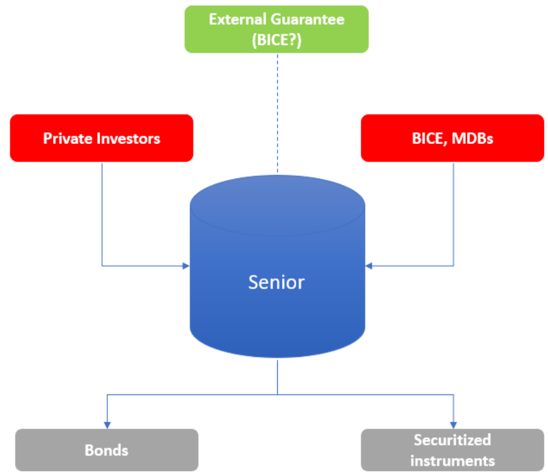
Securitized Instrument

- SI characteristics – composed of revolving loans / financing instruments (SMEs) – over-collateralization or excess of spread
- SI can have senior and subordinated shares and/or first or second loss external guarantee
- BICE capitalizes subordinated shares limited to a percentage of the total portfolio (e.g. At maximum 30%)
- Private investors capitalizes senior shares (e.g. At least 70%)
- Use of escrow account to mitigate risks
- 2 ratings



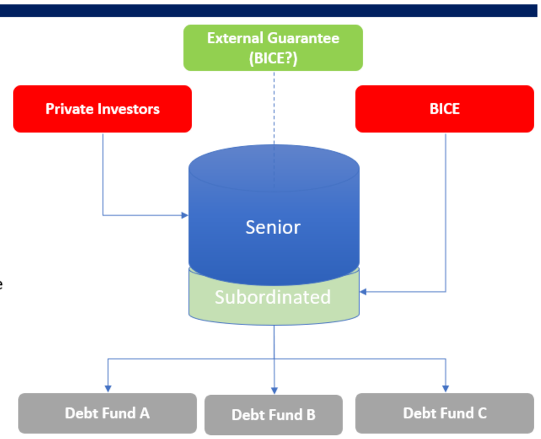
Debt Fund

- DF characteristics – closed-end fund (better if shares are listed and traded in stock exchange)
- BICE (and MDBs) capitalizes senior shares limited to a percentage of the total portfolio (eg. At maximum 30%)
- Private investors capitalizes senior shares (eg. At least 70%)
- DF portfolio composed of bonds (medium-sized entities), and securitized instruments
- Securitized instruments composed of loans (SMEs) – over-collateralization or excess of spread
- Rating – instruments and/or DF?
- Over-collateralization and/or excess of spread can reduce impact in shares if losses occur in securitizations
- Partial external Guarantee?



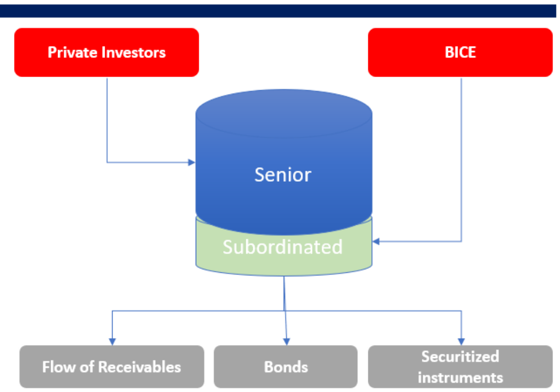
Fund of Funds

- FoF characteristics – closed-end fund with senior and subordinated shares
- BICE capitalizes subordinated shares limited to a percentage of the total FoF portfolio (eg. At maximum 30%)
- Private investors capitalizes senior shares (eg. At least 70%)
- FoF portfolio composed of share of private debt funds that meet the FoF requirements
- Debt Funds must invest in FoF eligible assets
- Partial external guarantee can be an alternative to replace subordinated shares
- Who will be the fund manager?
  - Public institution – credibility, transparency, governance, expertise
  - Private institution – fund regulation, selection criteria, conflict of interest, governance



Credit Rights Investment Fund

- CRIF characteristics – closed-end fund (better if shares are listed and traded in stock exchange)
- BICE capitalizes subordinated shares – TBD the % of subordination
- Private investors capitalizes senior shares
- Mezzanine shares could also be used (capitalized by MDBs?)
- CRIF portfolio composed of bonds (medium-sized entities), securitized instruments and receivables
- Securitized instruments composed of loans (SMEs) – over-collateralization or excess of spread
- Escrow account created to receive flow of receivables (SMEs) - over-collateralization or excess of spread
- Rating – instruments and/or CRIF?
- Over-collateralization and/or excess of spread can reduce impact in subordinated shares if losses occur in receivables and securitizations.



ANNEX 6: Glossary of Key Concepts

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.

Climate change: refers to a change in the state of the climate that can be identified (e.g., by using statistical tests) by changes in the mean and/or the variability of its properties and that persists for an extended period, typically decades or longer. Climate change may be due to natural internal processes or external forcings such as modulations of the solar cycles, volcanic eruptions and persistent anthropogenic changes in the composition of the atmosphere or in land use. Note that the Framework Convention on Climate Change (UNFCCC), in its Article 1, defines climate change as: "a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods." The UNFCCC thus makes a distinction between climate change attributable to human activities altering the atmospheric composition and climate variability attributable to natural causes. IPCC, 2022.

Green loans: 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 (e.g. renewable energy, energy efficiency, sustainable water management, green buildings, low-carbon technologies). This type of subloans will finance mitigation and adaptation activities.

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.

Micro, Small, Medium Enterprise (MSME): Companies that are classified according to the definition of Resolution 23/2022 of the former Secretariat of Small and Medium Enterprise and Entrepreneurs (SEPYME) of the former Ministry of Productive Development dated March 31, 2022, and its complementary and amending regulations.

Mitigation (of climate change): A human intervention to reduce emissions or enhance the sinks of greenhouse gases. IPCC, 2022.

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.

Social loans: 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. (e.g., 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).

Sustainability linked loans: any type of loan instruments and/or contingent facilities which incentivize the borrower's achievement of ambitious, predetermined sustainability performance objectives (e.g., 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).

Sustainable finance: 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

UN-convened Net-Zero Banking Alliance (NZBA): the climate-focused initiative of this global framework 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.