



Appraisal Environmental and Social Review Summary

Appraisal Stage

(ESRS Appraisal Stage)

Date Prepared/Updated: 06/16/2023 | Report No: ESRSA02770



BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Argentina	LATIN AMERICA AND CARIBBEAN	P180456	
Project Name	Access to Sustainable Finance for Micro, Small and Medium Enterprises Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Finance, Competitiveness and Innovation	Investment Project Financing	6/21/2023	8/8/2023
Borrower(s)	Implementing Agency(ies)		
Republic of Argentina	Banco de Inversión y Comercio Exterior (BICE)		

Proposed Development Objective

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

Financing (in USD Million)	Amount
Total Project Cost	386.00

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

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The proposed project is a financial intermediary investment project financing with the development objective of promoting access to sustainable finance for micro, small and medium enterprises (MSMEs) that would be implemented in four years. The proposed operation would be a US\$ 386 million project financed with a US\$200 million IBRD loan, US\$45 million counterpart funding, and at least, US\$141million of private capital financing. The Republic of Argentina will be the Borrower of the IBRD loan, and the development bank (BICE) will be the Project Implementing Agency.



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

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

Component 1: Strengthening capacity of financial sector stakeholders (US\$15 million IBRD). This component will finance the provision of technical assistance, capacity building, training, and institutional strengthening activities to help BICE, SIDP, PFIs and MSMEs to enhance their ability to better integrate climate change risks, costs, and opportunities into their business models. As part of this component, the project will (a) support BICE in its transition of becoming the green development bank of Argentina, including, among others, technical assistance for adjusting its corporate governance, internal processes, tools and strategy to incorporate sustainable objectives in its operation; (b) support the Secretary of Industry and Productive Development to promote the public policy dialogue for the development of policies and incentives for green and sustainable growth and to improve the enabling environment for access to finance and access to markets for MSMEs; (c) support the PFIs in the transition to a sustainable finance scenario including the provision of technical assistance to develop and/or improve their environmental and social management systems aligned with international best practices; and (d) support MSMEs to better understand how to reduce the impact of climate change events in its productive activity, how to benefit from sustainable practices using resources more efficiently, and how to take advantage of business opportunities that green markets can offer. As part of this component, the project will also facilitate the dialogue among project participants and other key stakeholders to foster cooperation and coordination to accelerate the development of a sustainable financial system in Argentina and foster experimentation and novelty across the sector, to ensure innovative responses to adjust to new climatic conditions and challenges.

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:

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, prioritizing subloans to finance climate mitigation and adaptation activities and/or subloans targeting vulnerable and/or marginalized populations (i.e., women). Under this subcomponent, BICE will use its first-tier operations to promote market creation and demonstration effects of financial products such as green loans, sustainability-linked loans, and social loans for MSMEs. Also, BICE will offer long-term lines of credit to PFIs to channel subloans to MSMEs for ESG investments while mobilizing private capital. In addition, the Project would include targets for the portion of subloans that finance climate mitigation and adaptation activities and subloans that contribute to close gender gaps in access to finance.

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 partial credit guarantee (PCG) fund to reduce the risk of



MSMEs and ESG investments to incentivize private financing. The type of subloans provided by PFIs under this subcomponent will be similar to the ones provided under subcomponent 2.1.

Subcomponent 2.3 – Innovative financial instruments (US\$8 million IBRD, US\$12 million private capital financing). Under this subcomponent the project will support the design and/or improvement, testing, and evaluation of sustainable financial instruments for promoting and expanding access to sustainable finance for MSMEs. For instance, Climate debt funds or hybrid equity funds where the development bank uses its own resources to crowd-in private capital to finance ESG investments.

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, the strategic evaluation of the Ministry of Economy, the design and implementation of the monitoring and evaluation strategy, the design and implementation of the communication strategy, and financial audits of the Project.

Component 4: Contingent Emergency Response (US\$0 million IBRD). This component is a contingent financing mechanism available to Argentina to have immediate access to Bank financing to respond to an eligible crisis or emergency, defined as “an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact associated with natural or man-made crises or disasters.” As such, this subcomponent is fully aligned with the GCRF, and in particular, with Pillar 3. The mechanism for the triggering of the CERC would be established in the CERC Manual, detailing the applicable fiduciary, environmental and social, monitoring, reporting, and any other implementation arrangements necessary for the implementation of the proposed activities to be financed. In case of an event triggering the component, a reallocation of funds would be introduced to loan disbursement categories, to be able to fund the proposed activities under this component in order to be able to respond to the emergency. The implementation agency for this CERC would be determined in accordance with a CERC Manual.

D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

Argentina is a country located in the southern part of South America. It is the eighth largest country in the world, covering an area of approximately 2.8 million square kilometers. Argentina is bordered by Chile to the west, Bolivia and Paraguay to the north, Brazil to the northeast, Uruguay and the South Atlantic Ocean to the east, and the Drake Passage to the south. The landscape of Argentina is diverse, ranging from the Andes Mountains in the west to the fertile Pampas grasslands in the central region and the rugged Patagonia region in the south. The country also has a long coastline along the South Atlantic Ocean. Argentina's capital and largest city is Buenos Aires, which is located on the eastern coast of the country. Other major cities include Córdoba, Rosario, Mendoza, and La Plata. The proposed Project will be implemented across the nation.

Clearly defined eligibility criteria detailed in the Project Operations Manual (POM) will be followed during the implementation of the Project. These criteria will ensure that the loan proceeds are used for the intended purposes following the obligations described in the Loan Agreement, including E&S requirements. Because of the limited scale of activities, it is unlikely that MSMEs will be engaged in high-risk activities. These activities may include, climate



change adaptation and mitigation activities, closing gender gaps in access to financing, developing sustainable development products, and improving access to financing and markets for MSMEs owned and/or targeted by vulnerable groups. The E&S management system (ESMS) of the Project will include eligibility criteria for the PFI and adequate filters for excluding activities with high and substantial E&S risks from financing.

Environmental context: Based on available information at this stage, the main expected environmental risks and potential impacts include localized occupational and community health and safety issues, and potential site-specific pollution, related mainly to applied research and technology development. Some activities under Component 1 may involve low-scale civil works in connection with the upgrade of equipment (energy/water saver and/or climate change adaptation/mitigation) in buildings of facilities (e.g., expansion, remodeling, refurbishment, etc.); however, no new infrastructure (i.e., construction of new buildings) would be supported by the Project.

Social context: In Argentina, MSMEs play a significant role in generating employment opportunities in Argentina, particularly for vulnerable populations. According to a report by the ILO, SMEs account for approximately 70% of total employment in Argentina and are an important source of jobs for women, young people, and those with low levels of education or skills. Additionally, MSMEs have been recognized as key players in reducing poverty and promoting social inclusion in the Country. A study by the IADB found that SMEs contribute to the economic empowerment of marginalized groups, such as women and indigenous communities, by providing them with access to formal employment and training opportunities. Therefore, promoting the development and growth of MSMEs in Argentina is crucial for creating sustainable employment and improving the lives of vulnerable populations.

D. 2. Borrower's Institutional Capacity

BICE is a financial entity that operates as a corporation, with the Federal Government through the Ministry of Production and the Bank of the Argentine Nation as its shareholders. The primary goal of BICE is to promote productive investment and foreign trade for Argentine companies. BICE has developed policies, manuals, and procedures to manage financial and operational risks and has a management information system to monitor its financial and risk situation, prepare reports, and address internal and external audiences. The organizational structure of BICE is compliant with regulations and includes an internal control system.

BICE is currently updating its Environmental and Social Risk Management System (ESMS), known as SARAS in Spanish, for vetting first-tier lending operations based on various factors, including the potential E&S impacts, the type of environmental license required in Argentina, and BICE's exclusion list. BICE has also strengthened its ESMS to manage E&S risks and impacts for second-tier lending. These policies were developed in accordance with the World Bank Safeguards Policies for the Argentina Access to Medium and Long-Term Finance for SMEs Project (P159515) and another operation with the Inter-American Development Bank. The previous project (P159515) closed with Moderately Satisfactory rating for implementation of applicable safeguards policies.

As BICE has limited experience with ESF, it has taken several steps, including:

- i) Finalizing an ESMS for managing E&S risks for first and second-tier lending and ensuring that beneficiary MSMEs comply with E&S provisions set forth in the Project's Loan Agreement and ESCP. BICE's ESMS covers all Project-supported activities and must be followed by all PFIs. The implementation of the ESMS will be financed under Component 3.
- ii) PFIs are required to develop/update and implement their ESMS based on BICE's ESMS, commensurate with the risks.



iii) Throughout Project implementation, BICE will maintain a Project Coordination Team (PCT), responsible for coordinating the procurement, financial management, disbursements, and E&S aspects of the Project. The PCT will be composed of key staff from BICE at central and regional levels with acceptable functions, experience, responsibilities, and qualifications according to the World Bank.

II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Substantial

Environmental Risk Rating

Substantial

Based on the proposed activities, the environmental risk classification of the Project is Substantial. However, it is expected that the Project will not have significant environmental impacts. The potential environmental risks and impacts of activities are predictable, temporary and/or reversible, low in magnitude, site-specific without the likelihood of impacts beyond the actual footprint of the Project and have a low probability of serious adverse effects on human health and the environment. The Project will not increase water and energy consumption, air pollution, or e-wastes due to the manufacturing of new products or computer hardware upgrades, and it will not support loans that have significant adverse impacts on biodiversity and habitats or on cultural heritage. BICE has developed an exclusion list as part of its ESMS to identify activities that will not receive investment under this Project, and only Low (e.g.: entertainment services), Moderate (e.g.: garment manufacture), and Substantial (e.g.: sugar cane crops) risk investments will be financed. The Project's proceeds will not be used for new infrastructure, but for targeted activities that allow MSMEs to adapt and mitigate climate change. Subcomponents 2a and 2b will only finance small-scale activities that meet eligibility criteria and exclude damage to human and environmental health. Partial credit guarantees (subcomponent 2.3) will be screened against a tiering system to manage various levels of environmental risks and ensure that the activities supported by these subcomponents are not environmentally harmful. Financing of substantial E&S risk projects will only be carried out through a sustainable linked loan, which aims to improve the E&S conditions of their operation. The main environmental risks of the Project resulting from ongoing business activities of MSMEs are related to occupational health and safety (OHS), water use, energy use, and waste management. These risks are expected to be site-specific, temporary, and can be readily addressed through standard mitigation measures and compliance with national E&S laws. High E&S risk activities of MSME beneficiaries will not be eligible for financing, and BICE's updated ESMS will be implemented as part of the MSME finance approval process to manage these risks. Due to the low to substantial E&S risks of the activities, streamlined E&S due diligence procedures that include screening against the exclusion list, eligibility criteria, and compliance with national laws can serve as a framework for addressing E&S risks and impacts. In summary, the Project activities through MSME financing are not expected to have large-scale, significant, and/or irreversible E&S impacts. The provision of technical assistance (TA) (component 1) is expected to have limited environmental implications. TA activities will follow the WB requirements set out in ESS1, as relevant and appropriate to the nature of the risks and impacts of these activities. The scope and TA outputs will be developed in line with ESSs 1-10 to ensure that the advice and other support provided is consistent with environmental and social management systems. Although BICE has no prior experience in applying WB ESSs to their operations, it will ensure that domestic commercial banks that do not currently undertake the necessary E&S risk assessment and management of their financing portfolios are updated in line with the new ESMS and will benefit from activities under component 1.

Public Disclosure



Social Risk Rating

Moderate

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

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

This standard is relevant under the proposed activities.

E&S risks of the proposed Project are mostly related to Component 2 and partially to Component 1. Each of these sub loans of funds may be used for investments and operating expenses, such as salaries, utility bills, among others, and/or acquisition of assets or equipment. Other Project activities will focus on improving access to sustainable finance and markets that will not carry negative environmental or social risks or impacts.

The Project is not expected to disproportionately impact vulnerable and disadvantaged groups. Conversely, social Projects will be prioritized, involving activities targeting excluded and/or marginalized population, underserved (owing to a lack of quality access to essential goods and services), women and/or sexual and gender minorities, or vulnerable groups as a result of natural disasters. For example, the Project aims at expanding benefits to women-led businesses and MSMEs with the Norte Grande region (one of the poorest regions in Argentina). Project activities include tailored campaigns, mobilization, and training to enable such groups to participate in, and benefit from the Project. During implementation and while calling for applicants and proposals, BICE will work closely with PFIs to conduct outreach, training and consultations with citizens and prospective beneficiaries to ensure that all social groups and specifically the ones prone to exclusion, will have the opportunity to benefit from the Project.



The SEP includes consultations with relevant organizations representing vulnerable groups such as the National Indigenous Affairs Agency (INAI), National Disability Agency (ANDIS), National Institute against Discrimination (INADI) and the Ministry of Women, Genders and Diversity, to better design and develop technical assistance (Component 1) to these groups and improve their conditions so they can better benefit from the Project as well as similar opportunities in the future. For instance, this consultation process might help understand the barriers IPs and other vulnerable groups might have to register as MSMEs or the barriers IP-led MSMEs might have to access finance, as well as the different measures can be done to support them.

According to the Bank's CERC Guidance Note (Oct. 2017) the ESMS will include a specific section of CERC including: i) Identification of potential activities that the CERC could finance (Positive list of goods, services and works); ii) Analysis of potential E&S risks and impacts based on the positive list; iii) E&S Management Procedures (screening, clearance and approval, Implementation and M&E, and Completion and Evaluation); and iv) Institutional Arrangement for the EAP (Emergency Action Plan) implementation. MSMEs activities with high E&S risk will not be eligible for Project financing. This would be based on the WB's categorization of high risk which will be used as part of the exclusion and screening checklist.

The likely environmental risks mainly related to OHS, water use, energy use, and waste management that may result from the activities of MSME beneficiaries. These risks are likely to be site specific, temporary and can be effectively managed through standard mitigation measures and compliance with national laws governing environmental and social matters. MSMEs activities with high E&S risk will not be eligible for Project financing. Therefore, the overall risk of BICE's portfolio supported by the Project is considered substantial. BICE will ensure that all PFIs adopt an ESMS satisfactory to the WB and apply it to the Project-supported activities.

The WB conducted an evaluation of BICE's E&S management procedures, which served as the basis of their new ESMS for operations under this Project. In this Project, BICE will be required to update, implement, and maintain this ESMS, consistent with the requirements set out in ESS9 and proportionate to the second tier PFI activities risks. BICE's updated ESMS, will be finalized by appraisal.

Both BICE's ESMS and the PFI's ESMSs, must include at a minimum the following components: (i) E&S policy; (ii) E&S procedures and capacity to screen activities, conduct due diligence to evaluate E&S risk and assign risk category; (iii) systems/processes for due diligence to evaluate, monitor, review and manage E&S risks and impacts of activities; (iv) organizational capacity and competence; and (v) external communications and reporting mechanisms on E&S performance. These requirements will be included in the eligibility criteria for determining PFIs and also in the Subsidiary Financing Agreement between both parties.

The ESMS will specifically include the following elements to avoid and/or mitigate potential E&S risks and impacts, relevant to ESS1:

1. Exclusion List: As an important part of the ESMS, BICE will update an exclusion list of activities, works or Projects that will not be financed under this Project. BICE's updated Exclusion List (incorporated in the ESMS) must explicitly include Projects involving high-risk activities/sectors, inter alia: involuntary resettlement; any new construction or any major civil works; infringement of natural and critical natural habitats; production or



commercialization of any product or activity considered illegal according to the laws or regulations of Argentina and or included in the IFC exclusion list; production or activities with negative impact on lands owned or claimed by indigenous peoples; production or trade of alcoholic beverages (except beer and wine); production, trade, storage or transport of large volumes of hazardous chemicals; and any dams that would be considered high or substantial risk to support.

2. Identification of E&S Risks and Impacts: As part of the ESMS, BICE is expected to have robust procedures for screening, review, and approval of E&S assessment. This includes a process for categorizing Projects based on their level of E&S risks and using as reference the WB’s criteria for E&S risk categorization of Projects, E&S due diligence, and E&S monitoring and reporting for implementation of their first tier and second-tier lending. BICE’s ESMS will ensure that any PFI receiving funds is compliant with ESF requirements and in accordance with the WBG Environmental, Health and Safety Guidelines. For the implementation of the credit line, BICE will enter into a subloan agreement with MSMEs and PFI Financing Agreement with eligible PFIs to on-lend to eligible MSMEs through Sub loan Agreements. E&S obligations will be contractually passed through to PFIs and MSMEs. PFIs will include them as part of their ESMSs.

3. Roles and Responsibilities: BICE’s ESMS will specify the roles and responsibilities for E&S screening and assessment of the PFI ESMS performance; monitoring and reporting procedures; and measures aimed at inclusion and non-discrimination in the delivery of benefits. Activities listed in the exclusion list (see #1 above) are ineligible for financing.

4. CERC: The implementation of the CERC will be carried out by the Ministry of Economy and they will develop a CERC Manual in line with the requirements of the ESF and as a withdrawal condition under Section III.B(1)(b) of Schedule 2 to the Loan Agreement.

5. Criteria for the identification and selection of PFIs: PFI will need to comply with a set of technical, environmental and social criteria for participating in the project. These criteria will be specified in the POM and BICE’s ESMS.

6. Eligibility criteria of activities: PFI activities will need to comply with a subset of technical, environmental, and social criteria to be eligible for financing.

ESS10 Stakeholder Engagement and Information Disclosure

This standard is relevant under the proposed activities.

BICE has prepared a draft SEP and will consult it and publicly disclose it by appraisal. The SEP identifies Project affected parties and other interested parties and outlines measures for stakeholder engagement throughout the life of the Project. Key stakeholders include MSMEs organizations, chambers and representatives, PFIs, and national government institutions representing vulnerable groups. The draft SEP has been prepared in a participatory manner, based on preliminary interactions and consultations with Project stakeholders (which are still being carried out). The SEP also specifies the institutional roles and responsibilities, timeline, and budget for conducting the stakeholder engagement throughout the Project. It also details differentiated measures for engaging potentially vulnerable or



excluded groups such as tailored communications to women-led businesses, indigenous peoples, among others. After the draft SEP is consulted upon, it will be updated and the final document will include a description of the stakeholders consulted, a summary of the feedback received and a brief explanation of how the feedback was considered (and will be reflected in the project design), or the reasons why it was not.

BICE already has a grievance mechanism (GM) in place which has been described in the SEP and ESMS, and it will be maintained throughout Project implementation, dedicating sufficient resources, and staff time to GM management. The GM also includes provisions and appropriate procedures to manage SEA/SH complaints to the Ministry of Women, Genders and Diversity. PFIs will develop and implement culturally appropriate GMs as part of their ESMS, tailored towards receiving and addressing any Project-related feedback or grievances.

Stakeholder engagement and information disclosure activities in BICE are managed by a dedicated team. PFIs which undertake the selection process, engage in additional outreach and engagement with their prospective beneficiaries. BICE will have primary responsibility for the management of SEP activities, with PFIs having a role within the mandate of their programs. PFIs will be made aware of the Project SEP, their responsibilities within it (including the GM and the requirement to conduct stakeholder engagement commensurate to the activities' risks), and have the capacity, staff, and resources to comply with their responsibilities under the SEP.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

This standard is relevant under the proposed activities.

The proposed Project is classified as an FI Project and ESS2 applies to the BICE itself as well as to the second tier PFIs. The Project will mostly involve direct workers – BICE's staff, and contracted workers - consultants providing technical advisory services. No major civil works will be implemented under the Project; hence no civil works contractors are expected to be involved, only those related to adaptation and mitigation measures, which will be small in scale. The Project will not utilize community workers.

BICE has prepared a draft LMP, which identifies the different types of workers and risks according to the activities they may perform under the Project. The LMP lays out requirements to promote transparency in terms and conditions of employment, nondiscrimination, and equal opportunity. BICE has a Human Resources department that coordinates internal labor management in the institution. This unit will be responsible for the implementation of the LMP for BICE and the criteria to be included into the ESMS for the second tier PFIs in accordance with national legislation and requirements under ESS2 and ESS9. The LMP is an integral part of BICE's and each PFI's ESMS to comply with ESS2 and ESS9 requirements for first and second-tier lending operations. The draft LMP focuses on labor procedures for BICE's staff working directly with the Project and will develop labor criteria to be included into the ESMS that will be prepared for second-tier lending operations. No community workers or primary suppliers are foreseen in the context of the activities that would be financed with the Project line of credit.



Among other elements, to ensure health and safety of workers during the construction and implementation phases of the Project, the LMP will also include a generic Occupational Health and Safety Plan (OHSP) for likely small civil works activities and general MSMEs operations, under component 2, in line with the WBG General EHS Guidelines. Some of OHS hazards associated with the Project activities may include among others: (i) operation of heavy machinery (i.e., transportation or installation of equipment), (ii) slips, trips and falls; (iii) material handling; (iv) exposure to hazardous substances; and (v) traffic safety. The OHSP includes generic measures addressing these and other types of typical OHS issues, as well as procedures for incident/accidents investigation and reporting, recording and reporting of non-conformances, emergency preparedness and response procedures, and continuous trainings for workers. It will also contain measures to address potential risks and impacts that may arise from the interaction between Project workers and local communities. Nonetheless, to ensure that the Project promotes safety of women, and to avoid that beneficiaries become targets of sexual harassment or assault, the LMP includes a labor GM as well as the overall Project GM both with specific grievance channels, to be managed by trained personnel, for potential complaints related to gender based violence (GBV) or sexual exploitation and abuse (SEA). Given that some activities funded by BICE may require labor due to construction or civil works, BICE's ESMS will address labor risks, for example risk of forced and child labor and OHS and ensure that sub clients will adopt and monitor labor management procedures consistent with local laws and ESS2.

Given that labor procedures and requirements will be an integral part of BICE's ESMS, a draft version of the LMP has been prepared and will be finalized and disclosed prior to appraisal.

ESS3 Resource Efficiency and Pollution Prevention and Management

This standard is relevant under the proposed activities.

Activities which are likely to have minimal or no adverse environmental or social risks or impacts, will apply local & national laws per paragraphs 14 and 16 of ESS9. FI activities for activities and sectors of high risks will not be financed with this operation. BICE's ESMS will include provisions to consider ESS3 requirements in the screening of all FI-activities to exclude any activities with significant adverse impacts related to this standard. Even though the exact investments to be financed by MSMEs will not be known until implementation and is based on demand, no significant pollution and resource efficiency issues are expected to arise in the supported activities.

As described under the E&S Overview section, clearly defined eligibility criteria will be followed during the implementation of the Project. Eligibility criteria for productive investments (e.g., new equipment and machinery, vehicles, etc.) to be financed by MSMEs will include the use of best available technology, energy, water, and raw materials efficiency, and low-carbon considerations, as defined in the POM.

ESS4 Community Health and Safety

This standard is relevant under the proposed activities.

Activities which are likely to have minimal or no adverse environmental or social risks or impacts, will apply local & national laws as per paragraphs 14 and 16 of ESS9. FI activities and sectors of high risks will not be financed with this



operation. BICE's ESMS will include provisions to consider ESS4 requirements in the screening of all FI activities to exclude those with significant adverse impacts related to this standard.

Potential impacts on community health and safety will be identified and assessed within the scope of BICE's ESMS in accordance with ESS4 requirements. Any activities of Project beneficiary MSMEs which may be associated with tangible impacts on communities will be rated as high risk will be considered ineligible for Project financing. Given that the Project will finance loans to MSMEs for productive purposes, meaning working capital or investments that will help firms to run their businesses, improve their production process, improve business management, create or improve their products, the most important community health and safety potential risks could be related to temporary construction such as dust, noise, disposal of hazardous and non-hazardous wastes, safe operation of vehicles etc. BICE's ESMS will include provisions to consider ESS4 requirements in the screening of all FI activities to exclude activities that could involve significant risks associated with community health and safety.

BICE will ensure that specific measures consistent with the requirements of ESS4 and WB guidance on Use of Security Forces are adopted, for project activities that may require the use of security personnel or security forces. Furthermore, BICE will ensure that security personnel follow a strict code of conduct and avoid any likely adverse impacts throughout project implementation.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

This standard is not relevant because the Project excludes any investments which may require involuntary resettlement or negative impacts on assets or livelihoods or formal or informal users. Aspects that are covered by ESS5 will be part of the exclusion list (i.e., activities that require physical or economic restrictions to land use, land acquisition or involuntary resettlement will be deemed ineligible for financing).

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

This standard is not relevant because sub-Projects which might adversely impact biodiversity and sustainable management of living natural resources will not be eligible for Project support. However, the project could provide a sustainable linked loan for improving the environmental considerations (i.e., solar panels instead of thermic energy an activity classified as substantial risk, as there are allegations of forced labor risks associated with polysilicon suppliers, the main element in the manufacturing of solar panels).

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

This standard is relevant. The Project has a national scope and indigenous peoples (meeting the criteria specified in ESS7) are present within its area of influence. No adverse impacts on indigenous peoples or other vulnerable groups are expected under the Project. Activities under component 1 will include the provision of technical assistance to improve the enabling environment for access to finance and access to markets for MSMEs, especially for those owned and/or led by vulnerable groups, including IPs.

The SEP establishes that indigenous peoples' representatives within the framework of the National Institute of Indigenous Affairs (INAI) will be consulted before the initiation of activities under component 1. BICE ESMS will also



include a section to assess the access of indigenous peoples to project benefits, identify any existing or potential barriers that these groups may face in this regard and propose mitigation measures to inform project design accordingly (particularly regarding activities under component 1).

ESS8 Cultural Heritage

This standard is relevant. Activities which are likely to have minimal or no adverse environmental or social risks or impacts, will apply local & national laws as per paragraphs 14 and 16 of ESS9. FI activities for activities and sectors of high risks will not be financed with this operation. BICE's ESMS will include provisions to consider ESS8 requirements in the screening of all FI activities to exclude those with significant adverse impacts related to this standard.

It is not anticipated that FI activities will have direct or indirect impacts on tangible or intangible cultural heritage and the exclusion list will incorporate restriction for financing Projects located in, or in the vicinity of, a recognized cultural heritage site; or, iii) specifically designed to support the conservation, management and use of cultural heritage. BICE's ESMS will include provisions to consider ESS8 requirements in the screening of all FI activities to exclude those that could involve significant impacts on cultural heritage.

ESS9 Financial Intermediaries

This standard is relevant under the proposed activities.

The Project aims at supporting BICE to establish and expand second-tier lending operations to serve MSMEs through PFIs. BICE will assume the credit risk of the PFIs, while the latter will take on their books the credit risk of the MSMEs. As such, they will be required to develop and adopt ESMSs consistent with BICE's ESMS, satisfactory to the WB, and demonstrate the relevant capacity to screen and manage E&S risks. BICE will be responsible to ensure that PFIs adhere to their ESMS, their own institutional ESMSs and duly apply E&S risks management approach to the Project-supported financial intermediation.

During preparation BICE has been updating their E&S management procedures, which will serve for activities under first-tier operations and as basis for designing the ESMS for the second-tier operations. Under the proposed operation, BICE and PFIs will be required to update, implement, and maintain this ESMS, consistent with the requirements set out in ESS9 and proportionate to the second tier FI activities' risks. The updated ESMS from BICE, satisfactory to the Bank, will be ready for implementation prior to appraisal. BICE will report to the WB semi-annually on the E&S performance of PFIs. The content of semiannual reports will be detailed in the POM. The WB will conduct prior review for an initial set of Sub-Projects under each PFI and thereafter conduct supervision based on sampled checks for a number of sub-Projects. The details of prior and post review will be described in the POM. BICE will ensure that E&S risk management for the PFIs is integrated into each respective institution's credit approval process.

BICE has experience working with a wide range of PFIs under their ongoing programs. Under the proposed Project, eligible and approved PFIs will be required to follow the updated ESMS by: (i) developing and adopting their own ESMS applicable to the Project-supported financial intermediation (if a PFI already has a corporate ESMS, it will be reviewed and strengthened as needed to ensure consistency with ESS 9); (ii) designating a focal point with oversight responsibility to implement the ESMS; (iii) screening activities against the exclusion list and ensuring compliance with



national E&S legislation of Argentina; (iv) screening, reviewing and categorizing activities according to their E&S risks and impacts according to the preset criteria; (v) applying relevant requirements of the ESF through the use of E&S action plans (ESAPs) where necessary; (vi) monitoring implementation of any corrective actions proposed for activities; (vii) submitting E&S performance reports to BICE; and (viii) building capacity and receiving training on the WB ESF, with emphasis on ESS9 and the ESF instruments such as ESMS, ESCP, and SEP.

BICE’s ESMS will include guidelines for PFIs for developing and implementing a Grievance Mechanism. The GM will enable beneficiaries as well as those who believe they are adversely impacted by the grant or financing of beneficiaries’ activities to submit complaints, feedback, inquiries, and suggestions such as violation of Project policies, guidelines, or procedures, including those related to child labor, health and safety of workers, workplace harassment. The GM will also allow submission of anonymous grievances and a channel for managing SEA/SH grievances. The details of the GM will be explained in the SEP and will also be presented in the POM. BICE will monitor PFI’s resolution and response of complaints, feedback, inquiries, and suggestions received.

The updated ESMS, as defined in ESS9, will include:

- i) E&S Policy: BICE has updated its E&S policies and procedures to be following the ESF.
- ii) E&S procedures and capacity: to screen activities (application of exclusion list, review of industry sector and technical aspects of each activity) and conduct due diligence to evaluate E&S risk and assign risk categories (low, moderate, substantial and high risk). High risk activities will be excluded.
- iii) Evaluate, monitor, review and manage E&S risks: capacity to evaluate the E&S performance of on-going activities and the portfolio on a periodic basis.
- iv) Organizational capacity and competence: including a budget and a senior management position designated for reporting on the ESMS as well as providing training and capacity-building on ESMS procedures and performance.
- v) Reporting: External communications and reporting mechanisms on E&S performance.

BICE will require that the participating PFIs implement or update their ESMS. The requirements of the ESMS for PFIs will be the same as those requested by the WB to BICE. The ESMS should include at a minimum the following components: (i) E&S policy; (ii) E&S procedures and capacity to screen activities, conduct due diligence to evaluate E&S risk and assign risk category; (iii) systems/processes for due diligence to evaluate, monitor, review and manage E&S risks and impacts of activities; (iv) organizational capacity and competence; and (v) external communications and reporting mechanisms on E&S performance. BICE will require each PFI to appoint a focal point to be responsible for the day-to-day implementation of the ESMS.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways	No
TBC	
OP 7.60 Projects in Disputed Areas	No
TBC	

B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts

Public Disclosure



Is this project being prepared for use of Borrower Framework?

No

Areas where “Use of Borrower Framework” is being considered:

The use of borrower framework is not considered for the whole of the Project or any of its parts.

IV. CONTACT POINTS

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Borrower/Client/Recipient

Borrower: Republic of Argentina

Implementing Agency(ies)

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

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VI. APPROVAL

Task Team Leader(s): Daniel Ortiz del Salto, Ana Maria Aviles
 Practice Manager (ENR/Social) Genevieve Connors Cleared on 16-May-2023 at 14:36:4 EDT

Public Disclosure