

## TC DOCUMENT

### I. Basic Information for TC

▪ Country/Region:	Argentina
▪ TC Name:	Support for promoting risk mitigation instruments and finance for renewable energy and energy efficiency investments for SMEs in Argentina with BICE
▪ TC Number:	AR-T1213
▪ Team Leader/Members:	Maria Netto (IFD/CMF); Francisco Demichelis (CMF/CAR); Gloria Lugo, Alex Vasa, Enrique Nieto, Isabelle Braly-Cartillier, and Cecilia Bernedo (IFD/CMF); Filippo Berardi, Gloria Visconti (CSD/CCS); Edwin Malagon, Emilio Sawada (ENE/CAR); Alonso Chaverri-Suarez (LEG/SGO); Daniel Hincapie (ORP/ORP); Ana Maria Niubo, Marisol Pinto (FMP/CAR).
▪ Taxonomy:	Operational Support
▪ Number and name of Operation Supported by the TC:	AR-L1280 - Promoting risk mitigation instruments and finance for renewable energy and energy efficiency investments
▪ Beneficiary:	<i>Banco de Inversión y Comercio Exterior Sociedad Anónima – BICE</i>
▪ Executing Agency:	The Inter-American Development Bank (IDB)
▪ Donors providing funding:	Green Climate Fund (GCF) <sup>1</sup>
▪ IDB Funding Requested:	US\$3,000,000 <sup>2</sup>
▪ Local counterpart funding, if any:	US\$600,000
▪ Disbursement period:	48 months (execution period: 60 months)
▪ Required start date:	July 15, 2018
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	Connectivity, Markets and Finance Division (IFD/CMF)
▪ Unit of Disbursement Responsibility:	IFD/IFD
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and Innovation; and Climate Change

### II. Description of the Associated Loan

- 2.1 The objective of the program [AR-L1280](#), which is in preparation stage to be approved under the Global Credit Program modality, is to promote the efficiency in the production and use of energy in Argentina. The specific objectives are: (i) increase Small and Medium Enterprises (SME)<sup>3</sup> investments in Renewable Energy (RE) and

<sup>1</sup> The Green Climate Fund (GCF) is a UNFCCC's financial mechanism that provides funding to promote mitigation and adaptation to climate change. The IDB is an entity accredited by the GCF to manage these resources. The framework for this relationship is established in an Accreditation Master Agreement (AMA) approved by the IDB Board on August 29, 2017 (GN-2895, Resolution DE-31/17). In addition, a Funded Activity Agreement (FAA), to be agreed between the IDB and GCF will establish terms and conditions specific to this Technical Cooperation (TC) and the associated loan, shall be signed prior to the signing of the associated loan contract ([AR-L1280](#)). Formal approval by the GCF has been received at the nineteenth meeting of the GCF Board, which took place on February 26 - March 1, 2018, and confirmed in writing on March 20, 2018 (see Annex I).

<sup>2</sup> In addition, BICE is receiving continued IDB technical assistance support for the preparation of the GCF project proposal in the framework of [ATN/OC-14741-RG](#) and [ATN/CF-15453-RG](#) for a total of US\$250,000 as reflected in table B.1.2 of the approved GCF funding [proposal](#).

<sup>3</sup> In the context of this program, SME is defined as per Argentina's Government classification of SME (*Resolución General 103-E/2017* of the Ministry of Production), and RE/EE refers to the subset of biomass, biogas and EE sub-projects. Under this resolution, firms are classified by size based on their level of sales, with distinctions by economic activity. SME are firms with sales of up to \$760 million Pesos or \$250 million Pesos for the industrial and services sectors, respectively. Within this range, small firms constitute those with sales up to \$64 million Pesos or \$21 million Pesos, for the industrial and services sectors, respectively.

Energy Efficiency (EE), by providing access to medium and long-term finance; and (ii) contribute to the reduction of Greenhouse Gas (GHG) emissions.<sup>4</sup> Successful implementation of projects financed will contribute to reduce GHG emissions, supporting the achievement of the country's climate change goals. The program is in line with Argentina's government objective to increase RE share in the energy matrix to 20% and reduce energy consumption in 5.9% by 2025. It is also consistent with the country's Nationally Determined Contributions (NDC),<sup>5</sup> which sets the goal to reduce GHG emissions by 15% in 2030 with respect to projected Business as Usual (BAU) emissions for that year and includes actions related to EE and RE.

### III. Objectives and Justification of the TC

- 3.1 The objective of this technical cooperation is to support the preparation and implementation of the Program AR-L1280.<sup>6</sup> In particular, the TC is intended to improve access to financial and non-financial instruments and operational mechanisms to increase EE and RE investments by SME.
- 3.2 A feasibility analysis<sup>7</sup> undertaken with support by IDB in collaboration with Banco de Inversión y Comercio Exterior (BICE) –national development bank of Argentina– has identified significant investment opportunities for biomass (in particular utilizing agricultural, forestry residues in the timber and paper industry), biogas (such as feedlots, pig farms, food processing) and EE in energy-intensive industry (including chemicals, food processing, dairy and plastics) in Argentina, which are currently hampered by financial and non-financial barriers. According to this analysis, the requested amount of US\$100 million reimbursable resources from the Green Climate Fund (GCF), in combination with BICE's co-financing could finance some 8% of the potential investments identified for biogas and biomass, and 10% of identified Small and Medium Enterprises (SME) for EE projects.
- 3.3 The study also has shown that despite SME's interest in improving their businesses with more energy-efficient and energy generation technologies, such as biomass and biogas, these investments in Argentina are hindered by the lack of medium and long-term finance and perceived risks by SME and Local Financial Institutions (LFI) regarding these investments.<sup>8</sup> In particular: (i) from the SME perspective, perceived

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<sup>4</sup> Program activities include financing mechanisms, as well as non-financial instruments that aim to improve local technical capacity and knowledge on EE investments by Local Financial Institutions (LFI) and SME.

<sup>5</sup> The NDC are public outlines of climate actions countries intend to take under the new international agreement adopted in December 2015 at the Conference of the Parties (COP21) in Paris. UNFCCC, 2016.

<sup>6</sup> This TC is part of a comprehensive funding proposal for the program presented to the GCF (see footnote 1), which is comprised of US\$100 million in reimbursable resources from the GCF, plus US\$60 million from BICE (local co-financing) and this TC to support BICE to adequately engage LFI, SME, and Energy Service and Technology Providers (ESTP) in the program by addressing the financial and non-financial barriers to investment, creating a registry for project impacts in energy savings and generation, as well as GHG emissions, developing methodologies based on international standards to assess project impacts, supporting the strengthening of the regulatory framework, as well as structure a strategy to facilitate project developments. In addition, this TC is complementary to institutional capacity building on green finance being provided to BICE under [ATN/OC-14741-RG](#).

<sup>7</sup> The results of this analysis and the potential sub sectors identified have been used for building an assumed pipeline of sub-projects to be financed by the program, as well as estimations on the results and impacts of the program. The figures presented should be taken merely as indicative. The analysis included a bibliographic review of the principal studies, reports, and documents available on potential for renewables and energy efficiency projects in different sectors in Argentina, including their current status and opportunities for SME. See *Magallon D., 2017. Feasibility Analysis - Green financing program for BICE. BASE* – Basel Agency for Sustainable Energy.

<sup>8</sup> While the theoretical internal rate of return of these projects is generally attractive, at 9%-18%, in practice, the long pay-back periods require special funding conditions, which are not currently available in the market. Furthermore, adequate support for project structuring and pipeline generation activities is virtually non-existing in the market. Presently, the electricity price in Argentina is subsidized. The government foresees a trajectory to phase out electricity subsidies over time, which would decrease the payback time of EE projects. Nonetheless, without long-term finance these projects will not be implemented. A breakdown of the potential market and the scope of the proposed financing line can be found in the [feasibility study](#).

risks associated with these technologies are related to their higher up-front costs, lack of information or trust on the performance of new equipment, and availability of reliable service for its installation and maintenance by local Energy Service and Technology Providers (ESTP); and (ii) from the perspective of LFI, their traditional “asset-based” lending approach limits the firms’ borrowing capacity; LFI give little or no collateral value to equipment and typically do not recognize or are not willing to rely upon the project’s positive cash flows to determine a firm’s repayment or borrowing capacity. Furthermore, even if they would accept to consider such cash flows, the inability to validate the risks involved in generating them restrains LFI from considering EE projects as bankable business opportunities.

- 3.4 This TC addresses the aforementioned barriers to SME industry investments in EE and RE, respectively, by complementing the provision of financial instruments through the program with a series of non-financial instruments aimed at distributing and managing risks, to mobilize demand and engage SME and LFI in these investments, to enhance the investment environment for eligible sub-projects and to ensure local capacity building with a view to develop sustainable mechanisms beyond donor support. The activities proposed in each of the components of this TC presented below are built based on similar initiatives developed by the IDB with national development banks in the region.<sup>9</sup>
- 3.5 This TC is consistent with the Update to the Institutional Strategy 2010-2020 (AB-3008) and is aligned with the development challenge of “productivity and innovation” by supporting productivity investments in small and medium-sized enterprises through innovative finance mechanisms, and with the cross-cutting theme of “climate change and environmental sustainability” by developing mechanisms to address barriers to climate change mitigation investments. The TC is also aligned with the objectives of Improvement of infrastructure for investment and Inclusion and inclusive financial development and SME financing of the IDB Country Strategy with Argentina (2016-2019) (GN-2870-1), as well as with Bank’s priorities as set out in its Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy (GN-2609-1), and with the SME and Financial Access/Supervision Sector Framework Document (GN-2768-7), the Sustainable Infrastructure for Competitiveness and Inclusive Growth Strategy (GN-2710-5) and the Institutions for Growth and Social Welfare Strategy (GN-2587-2). Following the [joint MDB approach on climate finance tracking](#), an estimated 100% of IDB funding for this Program will be invested in climate change mitigation activities and will contribute to the IDB’s climate finance goal of 30% of operational approvals by year’s end 2020.
- 3.6 The program will be jointly prepared by the Connectivity, Markets and Finance Division (IFD/CMF), the Energy Division (INE/ENE), and the Climate Change and Sustainability Division (CSD/CCS) of the Bank.

#### **IV. Description of Activities/Components and Budget**

- 4.1 Under this TC, GCF grant resources will help structure the demand for financing by supporting the development of financial and non-financial instruments to develop an

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<sup>9</sup> For instance, for EE with the Energy Savings Insurance (ESI) model that is currently being piloted in several countries in Latin America and the Caribbean (LAC), including Brazil, Colombia, El Salvador, Nicaragua, Mexico and Peru. The activities of this TC capture lessons learned and methodologies of the ESI model, which the IDB, with support from the Clean Technology Fund, the Nordic Development Fund and the Danish Government, has been implementing with Bancoldex in Colombia ([2983/TC-CO](#), [ATN/TC-13728-CO](#), [ATN/TC-14011-CO](#)), Bancomext and FIRA in Mexico ([3335/OC-ME](#) and [ATN/TC-14513-ME](#), [ATN/TC-14889-ME](#)), *Banco de Producción* in Nicaragua ([ATN/NV-15877-NI](#)), BANDES, BRDE and *Goias Fomento* in Brazil, Cofide in Peru, and Bandedal in El Salvador ([ATN/CF-15453-RG](#)) – see <https://www.greenfinancelac.org/es/>.

enhanced investment environment for sustainable energy (SE) projects specifically biomass, biogas, and energy efficiency projects by SMEs.

- 4.2 The financial and non-financial instruments developed will establish rules for all relevant market players, hence building trust among them. This will be achieved through two of components with the following key sub-activities: (a) the design of financial and non-financial instruments; (b) the capacity building of interested parties on these instruments and knowledge dissemination of the lessons learned from the program in a dedicated module on [www.GreenFinanceLac.org](http://www.GreenFinanceLac.org); (c) implementation of monitoring mechanisms for aspects relevant to the quality of implementation of the program; and (d) the translation of lessons learned informing the regulatory framework for EE, biomass, and biogas. This package of components aims at developing a set of instruments which are sustainable beyond the support rendered by this TC.
- 4.3 **Component 1: Development of financial and non-financial instruments, including standard performance contract, insurance policy covering energy savings and validation methodologies to account energy savings and generation.** This activity will support the development of a ready-to-use strategy that blends financial and non-financial instruments to promote RE and EE by SME. The development of financial and non-financial instruments includes a standard performance contract, an insurance policy to cover expected energy savings and energy generation, respectively, and validation methodologies to account for energy savings and generation. This activity will include, among others: (i) in-depth market assessments to update initial feasibility study and create a gender baseline, and identification of a third-party validator and insurance provider; (ii) development of a standard performance contract; (iii) development of a procedure for SME to participate in the government programs promoting RE ([RenovAr program](#)) in coordination with the Ministry of Energy and Mining (MINEM); (iv) development of process and methodologies to account for technology/project energy savings/generation and to validate their adequacy to the program criteria utilizing international standards and in coordination with MINEM; (v) development of insurance policy in collaboration with local insurance companies; (vi) development of a business plan for program promotion and execution; (vii) development of a project pipeline such as support to clients and ESTP in initial project identification; and (viii) strengthening of the regulatory framework including through lessons learned, good practices and discussing with public authorities especially the implementation will inform the regulatory discussion with demonstration examples from practice for regulators. To ensure alignment and support for regulatory activities, the budget contemplates a further detailed assessment of the current regulatory situation and continuous lessons learned activities, coordinated with the Ministry of Production and MINEM and other relevant government entities, to give decision tools to the regulatory discussion on barriers and effective framework implementation, including incentives for ISO certification, and the provision of an enhanced investment environment.
- 4.4 For this component, it is expected that national and international consultancies will be hired to design financial and non-financial mechanisms and the overall strategy. The profile of these consultants will include both financial and technical abilities, so as to ensure quality in the design and development of all mechanisms based on specific knowledge in the field of energy generation and energy efficiency (energy experts), as well as the essential financial elements involved (financial experts).
- 4.5 **Component 2: Strengthening capacity of BICE, LFI, ESTP, project developers, validators, and MINEM for SE project development. Seed incentives and Knowledge sharing.** This activity will aim to strengthen the capacities of energy service and technological providers to develop a new line of business, namely, the

sale of guaranteed energy savings and energy generation rather than merely the sale of equipment for EE and biomass and biogas, respectively. Also, activities in this component are expected to support the development and dissemination of information on new risk mitigation products, such as the standard performance contract, insurance products and the monitoring, reporting and verification methodologies, among relevant stakeholders. As part of this activity, there will be training and dissemination of information to LFI, energy service and technical providers and validators on project mechanisms and methodologies, as well as knowledge generated at the local and regional level. This activity will include: (i) training for BICE staff on program mechanisms and methodologies, as well as training activities (workshops, seminars, etc.) for LFI, technical validators, ESTP, SME, and MINEM on program mechanisms; (ii) the establishment at BICE of a business unit dedicated to EE and RE financing; (iii) establishment of an electronic registry system within BICE for monitoring and evaluation of projects and program's results; (iv) implementation of a seed incentive strategy for projects to cover initial project design costs and project validation cost depending on sub-project-specific needs; (v) monitoring of project results;<sup>10</sup> and (vi) knowledge dissemination through events, country market reports and webinars.

- 4.6 For this component, it is expected that national and international consultants will be hired to conduct capacity building activities and program information dissemination. Similar to Component 1, the required profile of consultants for this activity will be both financial and technical (energy and financial experts). A series of capacity building events will be undertaken for each of the stakeholders and market actors identified in Argentina.
- 4.7 To ensure proper execution of the proposed program, the project team will organize meetings and conference calls, mid-term and a final review with BICE and the consultants for each of the phases of the design and implementation of the planned activities.
- 4.8 The total cost of this operation is US\$3,600,000 of which US\$3,000,000 will be financed by the Green Climate Fund (GCF), which will be used to hire the services of experts to implement the Components 1 and 2 above, as well as to pay for logistics of consulting events and travel expenses related to consultants. The remaining US\$600,000 will be financed by BICE as in-kind local counterpart funding, which will consist on staff time, facilities for the development of planned promotional workshops and events, and office space for the consultants supporting the design of the different products envisioned under this TC

**Indicative Budget (US\$)**

Component	Description	GCF	Counterpart Funding	Total Funding
1. Develop financial and non-financial instruments, including standard performance contract, insurance policy covering energy savings and	Market Assessments	166,250	33,250	199,500
	Development of a standard performance contract for risk sharing between SME investing and ESTP	94,050	18,810	112,860
	Development of a procedure to participate in the RenovAR program	9,500	1,900	11,400
	Develop standards and validation methodologies for project level accounting and project proposal design validation in coordination with MINEM	150,100	30,020	180,120

<sup>10</sup> This component will support a mid-term evaluation and an impact evaluation of the program towards the end of the execution period (including IDB monitoring and evaluation reports; Project Monitoring Report (PMR) and Project Completion Report (PCR)).



Component	Description	GCF	Counterpart Funding	Total Funding
validation methodologies to account energy savings and generation	Development of financing structuring and risk mitigation instruments (ESI for EE) and project incentive strategy	73,150	14,630	87,780
	Development and implementation of a promotion and execution plan	171,000	34,200	205,200
	Development of a project pipeline	190,700	38,140	228,840
	Strengthen regulatory framework (lessons learned, good practices and discussing with public authorities on barriers and potential solutions to the current regulation)	200,000	40,000	240,000
2. Strengthen capacity of BICE, LFIs, ESTPs, project developers and validators for SE project development. Seed incentives and Knowledge sharing	Training of project developers/technology solution providers/LFI/Validators/SME/MINEM (at least 20% women) about program mechanisms	222,300	44,460	266,760
	Establishment at BICE of a business unit dedicated to SE financing	384,750	76,950	461,700
	Establishment of electronic registry system for monitoring and evaluation of projects and program's results	80,000	16,000	96,000
	Seed incentives for projects (initial project design costs, project validation cost)	1,019,200	203,840	1,223,040
	Monitoring of the project	42,750	8,550	51,300
	Development of six products/publications, knowledge sharing events, country market reports published, and webinars	71,250	39,250	110,500
	Contingencies	125,000		125,000
<b>Total</b>		<b>3,000,000</b>	<b>600,000</b>	<b>3,600,000</b>

## V. Executing Agency and Execution Structure

- 5.1 The execution of this TC will be done by IDB. BICE formally requested the IDB to execute this TC. Given the diversity of actors that this TC aims at supporting, and since it involves a number of highly complex technical inputs, which would feed into specific program preparation and reporting requirements from both the IDB and the GCF, it is appropriate for the IDB to directly execute it in order to provide a centralized coordination of the various studies and ensure their proper dissemination in the countries and the region. The beneficiary and the Bank agree that the execution by the IDB would enhance the quality control of the studies and methodologies to be developed and would improve the efficiency and velocity in the execution of the TC and the design of the operation. The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of the Connectivity Markets and Finance Division (IFD/CMF).
- 5.2 For implementation purposes, BICE will create an executing unit within its current institutional structure, and appoint a project coordinator, to be responsible for the overall execution of the project and for interaction with the IDB.
- 5.3 IDB execution would be carried out in accordance with the Operational Guidelines for Technical Cooperation (TC) Products (GN-2629-1) and its Appendix 10 as an Operational Support TC. All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV) and will be executed according with the

procurement methods established by the IDB, such as: (i) hiring of individual contractual established in the “Human Resources Policies (HRD’s Complementary Workforce Employees) regulations (AM-650); and (ii) hiring of consulting firms for intellectual services according with the Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-1) and its associated operative guidelines (OP-1155-4). Bank staff travel costs will not be covered with these funds. The Bank will be acting in this capacity of accredited entity and EA of the GCF; the execution of this TC will also be subject to the terms and conditions of an FAA to be signed between the Bank and the GCF.

- 5.4 The Bank, as executing agency, will be responsible for approving the products of the different consultancies of the operation. In this regard, if the Bank requests BICE’s technical validation for the approval of a product of this TC, it may do so without prejudice of the Bank’s final decision on any matter related to any such product.
- 5.5 The project team will be responsible for the preparation and submission to the GCF of all execution reports in compliance with the stipulation of the term sheet/Funded Activity Agreement FAA. If at the end of project execution, the project is closed with a positive uncommitted and unspent balance, the project team will be responsible for requesting ORP/GCM to transfer the unspent balance to the donor, pursuant to the terms of the GCF-IDB term sheet/Funded Activity Agreement FAA.
- 5.6 BICE will submit to the IDB the following reports: (i) progress reports every six months, within sixty days from the end of the six months; and (ii) a final report within six months from the end of last project activity executed. The contents of the reports shall be jointly agreed between IDB and BICE.
- 5.7 The Bank may, free of charge, transfer or authorize the use of any intellectual products produced as part of the activities of the TC Operation to BICE, other government agencies, LFIs and/or SMEs, in accordance Section AM-331 of the Administrative Manual of the Bank.

## **VI. Major Issues**

- 6.1 No major issues are expected as the proposed TC is executed by the IDB and ensure appropriate supervision of the work of the consultants, including ongoing monitoring activities and overall evaluation of the program. Peer reviewers to analyze consultant deliverables may be required.

## **VII. Exceptions to Bank Policy**

- 7.1 No exceptions to Bank policy are envisioned.

## **VIII. Environmental and Social Strategy**

- 8.1 Pursuant to filter environmental and social safeguards, the proposed TC was classified as Category “C”. No potential negative environmental or social impacts were identified and therefore no mitigation strategy is needed. See link: [Safeguards Policy Filter Report](#) and [Project Classification Form](#).

## **Required Annexes:**

- Annex I: [Request from the Client \(see pages 9, 10, 12, 28 and 71\)](#)
- Annex II: [Results Matrix](#)
- Annex III: [Terms of Reference](#)
- Annex IV: [Procurement Plan](#)

**SUPPORT FOR PROMOTING RISK MITIGATION INSTRUMENTS AND FINANCE FOR RENEWABLE ENERGY  
AND ENERGY EFFICIENCY INVESTMENTS FOR SMES IN ARGENTINA WITH BICE**

**AR-T1213**

**CERTIFICATION**

The Grants and Co-Financing Management Unit (ORP/GCM) received the commitment of the **Green Climate Fund (GRN)** for up to US\$3,000,000 as confirmed by the Fund Coordinator, Brady Martin (ORP/GCM), March 30, 2018. An operation financed by the GRN receives a conditional certification given the circumstances of the Accreditation Master Agreement between GRN and the IDB. As such, a commitment by the GRN does not have validity until the Funded Activity Agreement (FAA) between the IDB and the GRN is agreed upon and signed for an operation. Therefore, this certification will remain conditional until the FAA is signed and effective.

Original Signed

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Sonia M. Rivera

Chief

Grants and Co-Financing Management Unit  
ORP/GCM

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June 7, 2018

Date