

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

PROMOTING RISK MITIGATION INSTRUMENTS AND FINANCE FOR RENEWABLE ENERGY AND ENERGY EFFICIENCY INVESTMENTS

(AR-L1280)

LOAN PROPOSAL

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(*) At the request of the borrowing country, the information contained in this electronic link is confidential in accordance with the country-specific information exception in paragraph 4.1 i of the Bank's Access to Information Policy (document GN-1831-28).

ABBREVIATIONS	
AMA	Accreditation Master Agreement
BASE	Basel Agency for Sustainable Energy
BAU	Business as Usual
BICE	<i>Banco de Inversión y Comercio Exterior</i>
CAIT	Climate Analysis Indicators Tool
CC	Climate Change
CEPAL	<i>Comisión Económica de América Latina y el Caribe</i>
CIF	Climate Investment Funds
CO ₂	Carbon Dioxide
COP21	21 st Conference of the Parties
CRF	Corporate Results Framework
E&S	Environmental and Social
EE	Energy Efficiency
ESI	Energy Savings Insurance
ESMS	Environmental and Social Risks Management System
ESTP	Energy Service and Technology Provider
FAA	Funded Activity Agreement
FI	Financial Institution
FAEE	<i>Fondo Argentino de Eficiencia Energética</i>
FODER	<i>Fondo para el Desarrollo de las Energías Renovables</i>
FONAPyME	<i>Fondo Nacional de Desarrollo de la Micro, Mediana y Pequeña Empresa</i>
GCF	Green Climate Fund
GDP	Gross Domestic Product
GHG	Greenhouse Gas
ICAS	Institutional Capacity Assessment System
IDB	Inter-American Development Bank
IEA	International Energy Agency
IMF	International Monetary Fund
IPP	Independent Power Producer
IRR	Internal Rate of Return
kWh/MWh/GWh	Kilowatt-hour/Megawatt-hour/Gigawatt-hour
LAC	Latin America and the Caribbean
MDB	Multilateral Development Banks
MINEM	<i>Ministerio de Energía y Minería</i>
MW/GW	Megawatt/Gigawatt
MWe/GWe	Megawatt equivalent/Gigawatt equivalent
NDB	National Development Bank
NDC	Nationally Determined Contribution
OECD	Organization for Economic Co-operation and Development
OR	Operating Regulations

PCR	Project Completion Report
PPA	Power Purchase Agreement
PUP	Public Utilities Policy
RE	Renewable Energy
SECI	Institutional Capacity Assessment
SME	Small and Medium Enterprise
TC	Technical Cooperation
tCO ₂	Ton of Carbon Dioxide
tCO ₂ e	Ton of Carbon Dioxide Equivalent
TWh	Terawatt hours
UNFCCC	United Nations Framework Convention on Climate Change
UIS	Update to the Institutional Strategy
US	United States
WB	World Bank

PROJECT SUMMARY
ARGENTINA
PROMOTING RISK MITIGATION INSTRUMENTS AND FINANCE FOR
RENEWABLE ENERGY AND ENERGY EFFICIENCY INVESTMENTS
(AR-L1280)

Financial Terms and Conditions				
Borrower: Republic of Argentina		Amortization period: ^(a)		20 years
		Disbursement period:		5 years
Executing Agency: <i>Banco de Inversión y Comercio Exterior Sociedad Anónima (BICE)</i>		Grace period:	5.5 years ^(b)	
Source	US\$ Millions	%	Interest rate:	0.75%
IDB (Green Climate Fund - GCF): ^(d)	100.0	62.5	Service fee:	0.50% ^(c)
Local:	60.0	37.5	Commitment fee:	0.50%
Total:	160.0	100.0	Currency of approval:	United States dollars (US\$)
Project at a Glance				
Project Objective/Description: The general objective of the project 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) (defined as per Argentine's government classification) investments in Renewable Energy (RE) and Energy Efficiency (EE), by providing access to medium and long-term finance; and (ii) contribute to the reduction of Greenhouse Gas (GHG) emissions.				
Special Contractual Clauses prior to the first disbursement of the loan: Signing and entry into force of a subsidiary agreement between the borrower, represented by the Ministry of Production of Argentina and BICE, under terms previously agreed upon with the Bank that regulates inter-alia, the transfer of loan proceeds from the Borrower to BICE and the requirements for using of such funds. In addition, BICE shall provide evidence of approval and entry into effect of the Operating Regulations (OR) of the project in terms previously agreed with the Bank (¶3.8).				
Exceptions to Bank Policies: None.				
Strategic Alignment				
Challenges ^(e) :	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
Cross-Cutting Themes ^(f) :	GD <input type="checkbox"/>	CC <input checked="" type="checkbox"/>	IC <input type="checkbox"/>	

^(a) The period will be calculated from the date of entry into force of the Loan Agreement between IDB and BICE. Payments will be made bi-annually. Amortization payments, commitment and service fees will be made at the same date as interest payments.

^(b) Repayment will be done in 30 installments commencing on the first interest payment date following the fifth anniversary of the effectiveness of the loan agreement.

^(c) The service fee established by the GCF applies only to loans financed with GCF resources. The service fee is set to cover the GCF's administration and mobilization costs. The service fee is payable on the outstanding principal amount.

^(d) The Board of the GCF at its nineteenth meeting (February 27 to March 2, 2018) approved a funding proposal to provide resources to be used for financing this project. Resources from the GCF will be used in accordance with the provisions set forth in the Accreditation Master Agreement (AMA) entered into between the GCF and the IDB on August 29, 2017, pursuant the Resolution DE-31/17 (GN-2895) and those set forth in the Funded Activity Agreement (FAA) for this project, which will be entered into between the GCF and the Bank subject to the approval of the Loan Proposal by the IDB's Board of Executive Directors. GCF resources for the project will be available once the FAA has been signed and entered into effect.

^(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(f) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, Problem Addressed and Justification

- 1.1 **Economic context and financial system.** Following a period of contraction, Argentina changed its economic policy framework in 2016; actions taken by the government to correct internal imbalances, have reflected in a recent positive evolution of country risk, access to international debt and inflation levels. The annual inflation rate dropped from 37.7% to 24.8% in 2017, and growth projections for 2017 are at 2.9%, up from a -2.2% in 2016.¹ The government is pursuing a gradual strategy of reducing the fiscal deficit by taking advantage of the current levels of public debt and the increasing appetite of international credit markets. This strategy may help level the adjustment costs, but it also introduces financing needs in the short term and some vulnerability to adverse shocks in international financial markets.
- 1.2 Argentina's financial system shows limited risks on its overall activity, good levels of liquidity and solvency, and regulatory and supervision frameworks that are in line with international standards.² A renewed stability of the system sets a funding base for the expansion of the intermediation activity that can lead to achieving depth levels comparable to those in other emerging markets of the region. However, debt financing in Argentina is still insufficient to fund investment (only 16% of the country's private sector financing needs is provided by the financial sector),³ and the economy is yet to achieve greater integration with global financial markets.
- 1.3 Argentina's ratio of domestic credit to private sector as a percentage of Gross Domestic Product (GDP) is below peers in the region, standing at 13.9%, compared to 47.1% in Colombia and 36.2% in Peru.⁴ The deposit structure especially restricts medium and long-term lending by Financial Institutions (FIs) to individuals and businesses. By the end of 2016, the bulk of deposits (99.4%) had maturities of less than one year.⁵ Correspondingly, 92.8% of the system's portfolio is concentrated in loans of up to one year.⁶ In addition, lending interest rates (over 28% in 2017, up from 20% in 2013) and intermediation spreads (over 10% in 2017) are high.⁷
- 1.4 The country's underdeveloped (small and mostly transactional) financial system,⁸ combined with limited access to international capital markets, affects the competitiveness of local firms.⁹

¹ [Article IV Consultation with Argentina](#). International Monetary Fund (IMF), 2016; *Relevamiento de Expectativas de Mercado*, Central Bank of Argentina; *Instituto Nacional de Estadística y Censos de la República Argentina*.

² [Informe de Estabilidad Financiera](#) (Central Bank, 2016). Liquid assets are equivalent to 47% of deposits and non-performing loans remain below 2%.

³ IMF, World Bank (WB) and Ministry of Labor - Observatory of Employment and Business Dynamics.

⁴ Data from 2016, [WB Indicators](#).

⁵ Deposits by residual term at maturity. Central Bank of Argentina, 2017.

⁶ Distribution by maturity was estimated from data on loan disbursements to firms (linked to productive investment) and in local currency only, which represents 90% of total disbursements.

⁷ In 2016, interest rates and intermediation spreads in other economies in the region were: 5.4% and 1.6% in Chile, 14.4% and 7.5% in Colombia, 6.9% and 4.8% in Mexico. World Bank Indicators, citing IMF. Comparability is limited by terms and conditions attached to these rates, which may differ by country.

⁸ [IMF Working Paper 16/5](#). IMF, 2016. Argentina's financial development ranks 65 (103 in terms of depth) out of 183 countries analyzed in 2013. The index combines data from depth, access and efficiency of financial institutions and financial markets.

⁹ [Country Report No.16/347](#). IMF 2016.

- 1.5 **Access to finance by Small and Medium Enterprises (SME) and sustainable energy projects.** While the financial system conditions described above concern all economic sectors, limited access to credit is particularly relevant in the case of SME, which face higher transaction costs than larger firms, and in many cases, lack appropriate collateral to comply with banking requirements.
- 1.6 In Argentina, credit to microenterprises and SMEs represents only 3% of GDP, although these firms account for at least 50% of GDP and generate around 71% of total employment.^{10,11} From the demand side, SMEs finance up to between 62% and 64% of their fixed assets (on tenors longer than one year) mainly using their own resources or retained earnings. The proportion of loans taken out for the same kind of assets is only 18% for small businesses and 22% for SMEs. On the lending side, Argentina falls short in its financing for SMEs, which accounts for just 10% of total credit in the financial system. This percentage is below the average for Latin America (12.4%) and for countries of the Organization for Economic Cooperation and Development (OECD) (25.6%).¹² This lack of credit produces a negative effect on investment, innovation and expansion of firms, posing a critical obstacle for SMEs to narrow technology gaps and boost productivity and growth.^{13,14}
- 1.7 The instrumental role that SMEs play in furthering growth, innovation, and development, coupled with a growing clean technology sector, brings about important opportunities for clean energy investment in both developed and emerging economies.¹⁵ According to the International Energy Agency (IEA), initiatives for reducing SME energy demand, besides benefiting SMEs themselves, can help countries meet a variety of policy goals. From a country perspective, reducing SME energy consumption is cheaper than investing in new generation and transmission. Evidence shows that the potential for implementing Energy Efficiency (EE) in SMEs is typically more cost-effective than in other sectors, as relatively few of them have implemented these improvements.¹⁶ In addition, in areas that are not grid-connected, SMEs can obtain electricity from smaller scale, Renewable Energy (RE) sources such as wind, solar, and/or biomass and biofuels.¹⁷ SMEs can realize not only the benefits involved in generating all of their own energy with clean sources, but their business profitability can also be increased if any excess energy can be offered to the system. This is already the case in Argentina. Moreover, targeting SMEs clean

¹⁰ Office of the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development.

¹¹ Although women have increased their labor market participation, they continue to face unequal access to economic opportunities. Female's labor participation in Argentina is 55% vs 82% for men, which is lower than the regional average-58% vs 84.1% (WB. Data Bank. Gender Statistic). Women represent just 40% of the total labor force in the country and even with higher education levels, women earn 12% less than men (WB, 2011). The project will include monitoring requirements of gender elements (¶1.45).

¹² Latin American Economic Outlook 2013 – SME Policies for Structural Change. OECD/Economic Commission for Latin America and the Caribbean, 2013.

¹³ [New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments](#), OECD, 2015; [G20/OECD High-Level Principles on SME Financing](#), OECD, 2015; [Financial Development in Latin America and the Caribbean: The Road Ahead](#), Policy Research Working Paper 2380, WB, 2012.

¹⁴ Access to finance ranks second in the Top Business Environment Obstacle for Firms, according to Argentina's most recent [WB-Enterprise Survey \(2017\)](#). One third of medium-sized firms (20-99 employees) and one-fifth of small (5-19 employees) identify access to finance as a major constraint for doing business (compared to 24.9 and 29.5% for LAC, respectively).

¹⁵ Building Competitive Green Industries: The Climate and Clean Technology Opportunity for Developing Countries, WB, 2014.

¹⁶ Accelerating EE in SMEs, IEA, 2015.

¹⁷ [Empowering Development, Energy and SME](#), United States Agency for International Development.

energy investments can also stimulate the growth of local markets for energy technology goods and services, including energy service per se and financial products, and can provide business opportunities for other SMEs participating in the value chain as suppliers.¹⁸ In the case of industrial SMEs in Argentina, energy expenditure occupied the third place among the different kind of costs, accounting around 6% of the total costs.¹⁹

- 1.8 A feasibility analysis²⁰ undertaken by the IDB in preparation of this project identified significant potential for investments by SMEs in EE and RE in Argentina, equivalent to more than US\$2 billion, linked to modernization of equipment and substitution of energy sources using biomass and biogas (¶1.38).²¹ However, investments in energy technologies by Argentine SMEs face a series of barriers that hinder their development, one of the most significant being the inadequate access to finance. SME potential for implementing RE/EE projects is directly impacted by the financing gap described above (¶1.3 to ¶1.6), not only because of the difficulties they face as SMEs, but also due to the incremental risks of these relatively unknown technologies. The referred feasibility analysis also shows that RE/EE projects involve high upfront costs, along with longer terms to see a return on investments, making them incompatible with the conditions offered by the banking system.²² Also, operational and administrative costs and, therefore, interest rates, tend to be higher for these projects, mostly due to the lack of experience with this type of lending by local FIs, who often have limited comprehension of the associated risks and opportunities and no project-finance skills.
- 1.9 In addition to the limited supply of adequate financing, SMEs face other barriers that deter them from investing in RE/EE:
- a. Financing is necessarily dependent on a bankable project, but SMEs normally struggle to understand the economics of these technologies without support from specialized third-parties (Energy Service and Technology Providers (ESTP)), and their capacity to prepare adequate business plans is limited. In the case of EE, there is usually little information available on the performance of new equipment and on existing service for its installation and maintenance, including ESTP capacity to deliver the energy savings they offer. As a result, SMEs in general do not prioritize these investments.

¹⁸ Accelerating Energy Efficiency in SME, IEA, 2015; Building Competitive Green Industries: The Climate and Clean Technology Opportunity for Developing Countries, WB, 2014.

¹⁹ [*Informe Especial: El entorno local y el acceso a infraestructura de las PyME industriales*](#). Fundación Observatorio PyME (2015).

²⁰ [Feasibility Analysis](#), Basel Agency for Sustainable Energy (BASE), 2017.

²¹ While the project does not impose restrictions on particular RE/EE technologies that will be eligible for financing, the [Feasibility Analysis](#) (BASE, 2017) identified subsectors with highest potential. In addition, the preparation of the project considered potential in the development of awarded projects under the government's *RenovAr* tendering program (¶1.18). In this context, and in line with government priorities, the project considers the following RE/EE technologies: (i) RE from biogas and biomass projects, particularly in the context of *RenovAr*; biogas technology uses bio digesters to capture gases from organic waste and produce energy and biomass converts dry waste from agricultural and forestry activity, as well as industry (wood and furniture, paper, logging) into energy via thermochemical processes; and (ii) EE in industry and service (electric/thermal), mainly energy intensive subsectors such as chemical, food processing, dairy, plastic; technologies in this category include cooling systems, pumps, cogeneration, solar heating, boilers and heat recovery.

²² While these projects have long payback periods (ranging from five to ten years), the majority of existing local credit supply for any type of firm is currently below five years, with SMEs having greater access restrictions.

- b. Local ESTPs do not have financial capacity to take on risks in these investments. Thus, their business is dependent on SME willingness to invest and their capacity to access financing.
- 1.10 With high interest base rates (¶1.3) and insufficient capacity to properly address inherent risks of these technologies, financing becomes unavailable or too expensive to make projects viable. A comprehensive strategy to financially support firms in Argentina in the implementation of RE/EE solutions that contribute to reduce Greenhouse Gas (GHG) emissions requires actions to stimulate both the supply and the demand side of financing, coordinating all relevant actors: government institutions, ESTPs, FIs and SMEs. Hence, the strategy shall combine medium and long-term financing that is adequate for these projects with incentive mechanisms (instruments to mitigate the risks, such as monitoring and verification methodologies, standard contracts, guarantees, insurance, as well as awareness, capacity building and training) that can encourage investment by firms to develop viable projects.²³
- 1.11 To articulate these efforts, the *Banco de Inversión y Comercio Exterior* (BICE), Argentina's National Development Bank (NDB), is well-suited as financial institution integral to the government's development strategy. BICE's goal is to promote Argentine firms' productive investment and trade, and it has established two main objectives: (i) catalyze financing for SMEs, including preferential rates and flexibility in currency and amortization of the loans; and (ii) create a long-term credit market. In addition, its knowledge of the local market and its engagement with local FIs make it a key partner to align development financing with national priority mitigation actions, and canalize international climate funding for EE and RE investments by SMEs (¶3.2 and ¶3.3).
- 1.12 **Significance of RE/EE in Argentina.** The energy sector is essential to modern economies. As economic activity grows, more and better availability of energy is required. Governments in emerging economies face the complexities of securing a supply to cover increasing demands for energy while maximizing their system's efficiency. Factoring sustainability into this equation has become important in the face of global Climate Change (CC), as energy generation and consumption contribute to growth but are two of the main sources of CO₂ emissions. It is estimated that over 70% of global GHG emissions come from the energy sector,²⁴ making it critical to any solution aimed to address the threat of CC. Investments in power generation from clean sources contribute to mitigating the negative environmental impacts of fossil fuel technologies. Likewise, promoting consumption patterns that allow for more efficient energy use, can have a significant impact in reducing emissions in the long term.
- 1.13 According to the Third National Communication on CC, Argentina's GHG emissions are estimated at 429 M ton CO₂e; 43% of those emissions come from the energy sector.²⁵ The country's goal, as set forth in the first revision of its 2015 Nationally Determined Contributions (NDC),²⁶ is to reduce GHG emissions by 18% by 2030 with

²³ Scheme recognized by the "[The Global Innovation Lab for Climate Finance](#)" as one of the most promising financing strategies to promote and leverage private investment in EE.

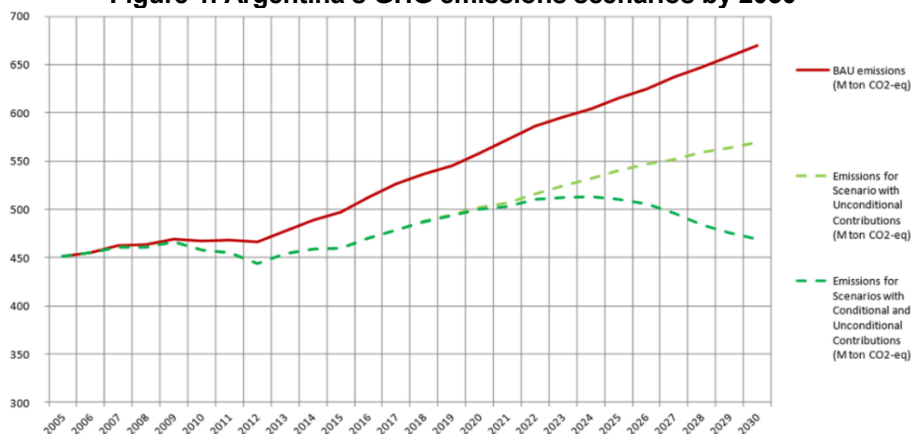
²⁴ World Resource Institute, Climate Analysis Indicators Tool (CAIT) 2.0. 2014. Washington, D.C.

²⁵ [Argentina's Third National Communication to the UNFCCC](#). This figure represents an 80% increase from 2000 levels, as reported in the Second National Communication.

²⁶ NDCs are climate actions that countries committed to take under the UNFCCC agreement adopted in December 2015.

respect to projected Business as Usual (BAU) emissions for that year.²⁷ This goal includes actions related to EE and RE.²⁸ Furthermore, the government considers increasing its reduction goal to up to 37%, if: (i) adequate and predictable international financing becomes available; (ii) support for transfer, innovation and technology development and capacity building; and (iii) support to the creation of capacities to spread good practices and effectively implement the proposed measures are provided.²⁹

Figure 1. Argentina's GHG emissions scenarios by 2030



Source: Argentina's Intended NDC, United Nations Framework Convention on CC (UNFCCC), 2015.

- 1.14 As of 2016, the share of RE sources in Argentina accounted only for 2% of total generation,³⁰ compared to 18% in Brazil, 13% in Chile and 24% in Uruguay, for example. Almost 66% of the country's generation matrix still comes from fossil fuels and 26.5% is large hydropower (the remaining 5.6% is nuclear). In terms of installed capacity, also around 2% of the 33.8 GW total capacity of the system corresponds to RE (1.4% of which is small hydro).³¹
- 1.15 Regarding EE, most countries in Latin America and the Caribbean (LAC) still lack national strategies, policies, regulation, standards and capacities for EE programs. On the private side, EE equipment and service markets are underdeveloped and private actors are not yet sufficiently informed of energy saving opportunities in the different business sectors.³² Particularly in Argentina, there are opportunities for improvement in the field of EE, as the country still has the highest levels of energy intensity among its counterparts with similar income levels in South America.³³ According to scenarios from *Prospectiva 2025*, policies related to EE could result in a reduction of end consumption of 5.9% by 2025. The highest impact would be found

²⁷ [First Revision to its Nationally Determined Contribution](#), Republic of Argentina, 2016.

²⁸ Criteria for actions selection: potential for reducing GHG emissions, potential cobenefits, and the viability of using nationally developed technologies.

²⁹ [Industrial energy efficiency and competitiveness](#), Working Paper 05/2011, United Nations Industrial Development Organization, 2011.

³⁰ RE sources includes wind, solar Photovoltaics, small hydro, biogas and biomass.

³¹ 61% of installed capacity is thermal, 32% large hydro, 5% nuclear, and only 2% wind and small hydroelectric. Electricity demand was 132,970 GWh in 2016 (increasing 3.2% annually in the last ten years), of which industrial and commercial sectors represent over 50%.

³² [Eficiencia Energética en América Latina y el Caribe](#), Comisión Económica de América Latina y el Caribe (CEPAL), 2014.

³³ Argentina's energy intensity is 0.19 toe/US\$1,000, compared to 0.09 in Colombia, 0.11 in Uruguay, 0.13 in Peru and Brazil, and 0.14 in Chile. Indicators for 2015, Key World Energy Statistics 2017, IEA.

in the electricity demand, for which savings are projected to reach levels in the order of 15%.³⁴

- 1.16 **Regulatory framework for RE/EE.** While, over the past decade, RE/EE were not imperative issues in Argentina because of low tariffs and considerable subsidies to the sector, public institutions are now building a sustainable energy system in the medium to long run. Through its *Ministerio de Energía y Minería* (MINEM), the government set goals for 2015-2019, including: (i) normalizing regulatory agencies and energy markets operation; (ii) improving energy access and efficient use by households and productive sectors; (iii) ensuring energy supply; and (iv) diversifying energy supply incorporating renewables to the country's energy matrix.³⁵ In addition, Law 27.424 approved in December 2017 fosters production and self-consumption of RE, mainly in SMEs, as well as the development of supply chain industry, including the provision of goods and services related with RE distributed generation.
- 1.17 In the field of RE, Argentina's government has a comprehensive plan for improving and developing regulation that promotes the expansion RE technologies and the long-term development of the market. [National Law 27.191](#) (approved in September 2016) sets national targets for the share of RE in total energy consumption at 8% by 2018 and 20% by 2025 (up from the current 2%).³⁶ The law also introduces competitive and transparent market rules and contract mechanisms (including government-tendered Power Purchase Agreements (PPA), private PPAs and self-generation projects, as well as fiscal incentives to Independent Power Producers (IPP) and local supply chain,³⁷ and creates a sector specific trust fund (*Fondo para el Desarrollo de las Energías Renovables* (FODER)) to provide guarantees and debt financing to projects.
- 1.18 The government's goal to replace fossil fuels with renewables in the power generation matrix will require an increase in RE capacity of some 2 GW to 3 GW in the next two years. The 2025 target (20% of the share of the matrix) represents a total addition of RE to the system of between 9.4GW and 11.3 GW, which MINEM estimates is equivalent to investments of around US\$15 billion. Accordingly, during 2016 and 2017, 147 RE projects were awarded under the *RenovAr* 1.0 and *RenovAr* 2.0 tenders, adding 4,467 MW from wind, solar, biomass, biogas and mini-hydro technologies to the system.³⁸
- 1.19 Regarding EE, Argentina aims to reduce final consumption by 6% in 2025 with respect to the trend scenario, for which it has advanced with institutional actions, regulatory framework, and sectorial measures. In the institutional sphere, the Undersecretary of Savings and EE was created in 2015, with the mission of promoting and implementing dialogue and programs for the efficient use of energy.

³⁴ [Prospectiva 2025](#). MINEM, 2016.

³⁵ Subsecretariats of RE and EE have been created at the MINEM, which indicates the importance given to these topics by the current administration.

³⁶ The current and planned *RenovAr* auctions by the government should allow the government to reach the established goals.

³⁷ Fiscal incentives include: (i) exemption of import duties for equipment, parts and raw materials; (ii) accelerated fiscal depreciation; (iii) advances of Value Added Tax return; (iv) exemption of minimum presumed income tax; (v) exemption of dividend tax for reinvestment in infrastructure; (vi) tax deduction of all financial expenses when calculating income tax; and (vii) fiscal certificates for local content.

³⁸ The successful implementation of projects awarded in *RenovAr* 1.0 and 1.5 are expected to increase the share of RE in the mix to 5%. With *RenovAr* 1.0, the government estimates carbon emission reductions of around 2 million tCO₂ annually, and other cobenefits such as the creation of 5,000 to 8,000 jobs and US\$300 million annual savings in fuel.

In the regulatory field, a EE National Law, is under discussion among national authorities, which will establish policy guidelines and measures to encourage investments in EE, and to promote research and development. This law will also define the National ten-year EE Plan, including the consumption savings goals and regulatory mechanisms for the promotion of EE.

- 1.20 In 2016, the government started a gradual increase in energy tariffs, which seeks to reflect the actual costs of providing the service. It is expected that by 2018 the subsidy on the seasonal electricity price for large customers will disappear (in 2019 for the rest of the demand), maintaining subsidies only for the most vulnerable users. In parallel, it has created incentives to promote efficient consumption in different sectors; in electro-intensive industries, a temporary discount (up to 20%) in the seasonal price of energy was established for companies that implement energy management systems.³⁹ For all users, a 10% discount on the seasonal electricity price is applied to those who reduce their consumption by 20% or more with respect to the same month of 2015.
- 1.21 The Federal Government is actively working on setting clearly defined rules and competitive mechanisms to provide more appropriate legal and economic frameworks for private participation in the sector. There are ongoing programs and policies for the development of EE directed towards the industrial sector. Particularly for SME, the MINEM implemented a program ([*Diagnósticos Energéticos*](#)) to support firms in carrying out energy diagnostics to determine their potential for savings from adopting EE measures.⁴⁰ In addition, a joint initiative by the MINEM and the Ministry of Production –through its *Fondo Nacional de Desarrollo de la Micro, Mediana y Pequeña Empresa* (FONAPyME) – provides loans to SMEs for their investments in EE (see also [*Fondo Argentino de Eficiencia Energética \(FAEE\)*](#)).⁴¹
- 1.22 In sum, the government plays a key role and is committed to addressing the issue through policy and a well-designed regulatory framework that can create incentives to scale up private sector initiatives. Advances in sector regulation are expected to help consolidate an environment that promotes viable investments in both the RE and EE sectors. But an effective engagement of the private sector also calls for appropriate finance mechanisms and promotion of capacity-building and information exchange. In this sense, the proposed project seeks to accompany the government efforts in the sector and is not exclusive of any ongoing initiative that may complement project funding with other existing sources.⁴²
- 1.23 **Problem addressed by the project.** The diagnosis identifies two fundamental aspects pertaining the development of RE/EE projects by SME: (i) the lack of medium and long financing alternatives for RE/EE; and (ii) lack of knowledge and absence of

³⁹ Joined ministerial resolution 280-E/2017, MINEM and Ministry of Production.

⁴⁰ The government provides 90% of the financing for studies with recommendations on a case-by-case basis for the installation/substitution of different technologies. So far, the 219 diagnostics carried out show there is an estimated average saving potential of 20% in the firms evaluated. [*Eficiencia Energética en el Sector Productivo. Resultados-2017*](#), MINEM, 2017.

⁴¹ Target subsectors of the beneficiaries of these loans include SMEs in the services, industry, commerce and agriculture subsectors. Funding is provided for up to 70% of the total cost of the project, loans ranging from AR\$100,000 to AR\$4 million.

⁴² BICE is the government's main channel for the provision of finance via special lines of credit. As of 2015, BICE was operating a series of dedicated, public-funded financing lines related to SMEs and energy, including: SME and cooperative investment finance and financing for RE investments (including FODER), technological modernization, and energy and technology service companies.

a performance record that negatively affects investors and financiers in more subtle and permanent ways.

- 1.24 The problem that the proposed project intends to address is the absence of adequate financing for SMEs, where a significant potential for RE/EE investments has been identified (§1.8).
- 1.25 There is an intrinsic link between the level of investments in RE/EE and the availability of financing. SMEs are largely dependent on external financing to realize new projects; in turn, external financing relies on the banking sector, as stock markets and venture capitalism are not well enough established to provide funding. However, the underdevelopment of the banking sector, in addition to problems specific to RE/EE, such as high up-front costs and long lead times, hamper the emergence of RE/EE innovations. These arguments are supported by empirical data; a study conducted on finance for RE⁴³ is conclusive in that financial intermediation has a significant positive effect on the amount of RE produced, and the impact is especially large when considering non-hydropower RE such as wind, solar, geothermal and biomass. The same could be expected from EE, as these technologies share with RE the same characteristics in terms of financial needs.
- 1.26 Other issues related to the lack of knowledge and market structure aspects obstructing the development of RE/EE, including (i) insufficient information, risk assessment skills, and track record for these projects within the SME and FI community; (ii) inexistence of network effects (investors, investment opportunities, established range of ESTPs found in established markets); and (iii) lack of familiarity with and skills related to project-finance structures, will be addressed via complementary TC activities (AR-T1213 to be approved separately) (§1.40).
- 1.27 **Magnitude of resources needed.** As explained in §1.18, the government's target of 20% of RE share in the generation matrix by 2025 represents a total addition of RE to the system of between 9.4 GW and 11.3 GW, equivalent to some US\$15 billion in investments. Similarly, the target to reduce consumption in 5.9% by 2025, involves expected savings in electricity demand of 15%, which represent annual savings in final electricity consumption of 29TWh by year 2025. This equals to an investment of US\$536.5 million.⁴⁴ Based on these figures and extrapolating for a five-year period, we can estimate that the resources from the project expected to finance RE projects (US\$119 million) would represent 1.6% of total investment needs. Likewise, resources from the project expected to finance EE projects (US\$41 million) would represent about 15.7% of financing required to achieve EE savings expected in the next five years.
- 1.28 **IDB experience and lessons learned.** Existing literature identifies several areas in which Multilateral Development Banks can support countries to mitigate the barriers to the deployment of sustainable energy projects, through technical, financial, and policy support measures.⁴⁵ Securing private sector investment via the provision of more and better access to finance is among the most important elements of this support. The proposed project combines IDB ongoing and completed experiences

⁴³ Brunnschweiler, Christa N. Finance for RE: an empirical analysis of developing and transition economies. *Environment and Development Economics* 15.03 (2010): 241-274, 2010.

⁴⁴ Considering a cost of US\$18.5 per avoided MWh (*Associação Brasileira das Empresas de Serviços de Conservação de Energia*, 2015).

⁴⁵ Accelerating Energy Efficiency in SME, IEA, 2015; Climate Investment Funds (CIF) [Annual Reports](#); and Multilateral Development Banking for This Century's Development Challenges, Center for Global Development, 2016.

with similar projects in several countries across the region (§1.30). The project also benefits from the Bank's sector experience and lessons learned regarding the importance of public-sector intervention to deepen lending SMEs in Argentina, including two Lending Programs for Productive and Job Development in the Province of San Juan ([1798/OC-AR](#) and [2763/OC-AR](#)), the recently approved loan to Implement the National Financial Inclusion Strategy of Argentina ([4411/OC-AR](#)), and the Competitiveness of Regional Economies Program ([3174/OC-AR](#)) - where BICE is executor for the component of channeling financing for SME for productive development.

- 1.29 Particular lessons from other programs incorporated into the project design are:
- a. Support an integral approach, addressing barriers and risks from the perspective of all the actors involved (both demand and supply sides) through financial and non-financial instruments.
 - b. Adapt to the local circumstances and ensure coordination of this program with other initiatives being supported by the government such as FONAPyME (§1.21) and by BICE, including the FODER (§3.3 and §3.4) and its already ongoing support to finance projects from the *RenovAr* program (§1.22).
 - c. Combine loans, technical assistance and risk mitigation instruments to support a better environment for financial intermediation, as none of these alone will ensure that the supply of financing for RE/EE projects will meet its demand.
 - d. Tailor investment products and incorporate RE/EE to private sector needs.
 - e. Build on local knowledge and on the existing financial distribution network.
 - f. Invest in reputation and trust building, particularly when the deployment of new technologies is sought.
- 1.30 For EE subprojects, complementary TC activities will apply the [Energy Savings Insurance](#) (ESI) model,⁴⁶ which combines best practices and lessons from initiatives and projects in LAC and beyond. As shown by the in-depth analysis of the Global Innovation Lab for Climate Finance Lab, the ESI methodology was structured to provide an integral package that addresses all barriers and assigns specific risks to those stakeholders best suited to manage them.
- 1.31 The IDB has significant experience in the design and implementation of climate finance instruments and NDBs across LAC. These NDBs have progressively increased their role in filling financing gaps and developing long-term financing, supporting investment and mobilizing broader financial resources.⁴⁷ The regional scope of IDB's work also provides an opportunity to share experiences and to optimize the use of funding available due to potential economies of scale. All results, knowledge material and publications will be shared via the IDB dedicated websites, including the IDB institutional website, the [Financial Innovation Lab](#), and the [LAC Green Finance](#).

⁴⁶ ESI is currently being piloted in several countries, including Colombia (via Bancoldex, [2983/TC-CO](#)) and Mexico (via FIRA), [3335/OC-ME](#), and is to be deployed in El Salvador (via Bandesal, ES-L1132, pending approval). See also TC [ATN/CF-15453-RG](#).

⁴⁷ [Bancos públicos de desarrollo: ¿Hacia un nuevo paradigma?](#), De Ollóqui, Fernando et al., IDB, 2013; and *Investment Financing in the Wake of the Crisis: The Role of Multilateral Development Banks*, Chelsky, Jeff et al., WB, 2013.

- 1.32 **Strategic alignment.** The project is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008), particularly with the challenge of Productivity and Innovation through the financing from third parties mobilized by the project, and with the crosscutting theme of Climate Change and Environmental Sustainability through promotion of the EE and ER projects. Following the [joint MDB approach on climate finance tracking](#), an estimated 100% of IDB funding for this project will be invested in CC mitigation activities and will contribute to the IDB Group's climate finance goal of 30% of operational approvals by year's end 2020. Additionally, it will contribute to the Corporate Results Framework (CRF) 2016-2019 (GN-2727-6) in the performance indicators of reduction of emissions, and micro, small and medium enterprises financed. The project is aligned with the objectives of improvement of infrastructure for investment and inclusion and inclusive financial development and SME financing of the IDB Country Strategy for Argentina 2016-2019 (GN-2870-1). It is also consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (GN-2768-7), the Sustainable Infrastructure for Competitiveness and Inclusive Growth Strategy (GN-2710-5), and the Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and RE (GN-2609-1). The operation is under the Operational Program Report for 2018 (GN-2915).
- 1.33 **Consistency with Bank's Policies.** The project is consistent with the IDB Public Utilities Policy (PUP) (GN-2716-6), as: (i) for RE projects the tariff structure of the power sector guarantees that all the costs of the service are covered; and (ii) there is regulatory framework and institutions to promote the reliability, quality and efficiency of the electricity service, including a mechanism to ensure that generation projects are select based on least cost, in a transparent manner ([Assessment of compliance with the IDB PUP](#)). The project complies with the conditions of GN-2716-6 as it: (i) is financially viable, as it will be operated through a public financial institution that requires as an eligibility criteria that each subproject is financially sustainable; and (ii) has social and economic viability, as demonstrated in the economic analysis of the project (¶1.46).
- 1.34 The project is also aligned with Argentina's government objectives to increase RE share in the energy matrix to 20% and reduce energy consumption in 5.9% by 2025 and consistent with the country's NDC, which sets the goal to reduce GHG emissions by 18% in 2030, including actions related to EE and RE (¶1.13).

B. Objectives, Components and Cost

- 1.35 The general objective of the project is to promote the efficiency in the production and use of energy in Argentina. The specific objectives are: (i) increase SME (defined as per Argentine's government classification)⁴⁸ investments in RE and EE, by providing access to medium and long-term finance; and (ii) contribute to the reduction of GHG emissions.
- 1.36 The proposed project consists of a single component in the form of an investment loan global credit operation to be executed by BICE. Green Climate Fund (GCF)⁴⁹

⁴⁸ In the context of this project, SME is defined as per *Resolución General 103-E/2017* of the Ministry of Production, based on their level of sales, with distinctions by economic activity. SMEs constitute firms with sales of up to AR\$760 million and AR\$250 million for the industrial and services sectors, respectively.

⁴⁹ The [GCF](#) provides funding to promote mitigation and adaptation to CC. The IDB is accredited by the GCF to manage these resources, under the terms established in the AMA approved by the IDB Board (GN-2895). The project has Argentina's National Designated Authority's non-objection.

concessional resources will be channeled by IDB through the Ministry of Production to BICE and blended with BICE's own resources to provide long-term financing for RE and EE projects by SMEs. Financing may be delivered through first-tier FIs regulated by the Central Bank (participating FIs must be accredited by BICE⁵⁰) or directly to projects by BICE, on a first-come-first-served basis.

- 1.37 Eligible projects are expected to consist of small-sized (up to 5MW) RE generation projects (mainly biogas and biomass) and efficiency improvements in industrial processes, including equipment replacement and cogeneration. No projects with an "A" environmental and social risk classification will be financed.⁵¹ The eligibility criteria for beneficiary projects will be described in detail in the Operational Regulations (OR), including the legal, financial, environmental, social and technical requirements for each individual project to be eligible, following local legislation and IDB standards (¶3.5).⁵² All guidelines included in this OR shall be consistent with BICE's and IDB's operational policies and procedures.
- 1.38 While the project does not impose restrictions in particular RE/EE technologies that will be eligible for financing, discussions with BICE about their ongoing work in the sector, public information on the current status of *RenovAr* and the list of awarded projects⁵³ and the feasibility analysis,⁵⁴ carried out as an input to the project design, serves as the basis to build a pipeline of potential projects to be financed by the project. The analysis of this information shows there is significant potential demand for financing in biomass and biogas small-sized projects (of up to 5 MW installed capacity) and EE improvements in industrial SMEs (footnote 21). Although the project does not pre-establish specific amounts to be allocated for each type of project, the initial indicative pipeline of projects is built upon the identified demand.⁵⁵ The same applies to assumptions associated to the economic analysis (¶1.46), and estimations of results indicators of the project (¶1.44).
- 1.39 The inclusion of local financial actors into the design of this project aims to capitalize from their knowledge of the local business, promote their participation and familiarize them with investments of this kind. Over time, the project is expected to have an

⁵⁰ Accreditation is based on financial audited data and FI reports and risk qualification utilizing metrics on efficiency, liquidity, capitalization, assets, profitability, governance and shareholder structure, following regulation by the Central Bank (see [Operational Presentation of BICE and Management of Financial Risks](#)).

⁵¹ To be eligible, the beneficiary must be a SME (footnote 48). It is expected that direct lending will only be available for loans larger than US\$5 million, and that only some of the potential participant RE projects (particularly, biomass) have the potential to be this large. The project will be strictly conditioned to these eligibility criteria, as established in the project's OR.

⁵² The same criteria and conditions will apply to direct and indirect operations.

⁵³ [RenovAr](#) works as a tender in which local and foreign developers participate and aim to be awarded a long-term contract to provide energy at the best bidding price. As of December 2017, 18 biomass projects and 40 biogas projects had been awarded (for a total of 236 MW of new capacity), most of which have already expressed their need for financing to BICE. This would be the first credit line targeting SME RE projects.

⁵⁴ [Feasibility Analysis](#), BASE, 2017. The analysis compiles a review of sector-related studies and reports available, including opportunities and perspectives for the evolution of these investments. In addition, interviews were carried out with experts, public actors and ESTPs. Based on the information collected, different opportunity areas were evaluated following a pre-established set of criteria, to identify and produce a list of technologies and subsectors with high potential for viable RE/EE investments.

⁵⁵ On account of the project design and the nature of the RE/EE sector, in which technologies vary widely and size of projects to be financed is unknown ex ante, the project does not establish limits per individual loan. Setting a cap is considered inconvenient, as it may discriminate projects that comply with all eligibility requirements and can contribute to outcomes. As the credit line is conditioned on having SMEs as beneficiaries, loan size will hence indirectly be limited to the size of debt they can carry.

important transformational impact as it is expected that FIs will be encouraged to further support RE/EE investments, once demonstration of its viability and profitability (track record) has occurred.

- 1.40 A Technical Cooperation (TC) project (AR-T1213, in preparation) includes activities to support the structuring of various mechanisms that will complement the provision of loans and improve capacities of participating actors.⁵⁶
- 1.41 **Concessional terms.** As long as there remains a lack of a larger and more sophisticated banking system in the country and given the levels of risks associated to RE/EE projects, some subsidy element is considered necessary to structure funding instruments that will make projects viable. GCF funding will contribute to offset the incremental cost of financing resulting from high perceived risks of these relatively new technologies. By working via BICE, the project will also be able to leverage funding from this institution and participating FIs, while at the same time creating support mechanisms and skills to assess and implement these projects in the future.
- 1.42 In order to ensure that concessionality of the funding is passed on to end beneficiaries, project reporting (including rates and tenors, loan-to-equity ratio, collateral requirements, GCF funding used) will need to be available for monitoring and verification by the IDB. These measures are usually determined based on the characteristics of the executing entity and the local financial system operation as a whole. The definition of agreed-upon measures, and plans to supervise their compliance, will be clearly set forth in the OR and will also be included in the loan contract between the IDB and BICE.
- 1.43 **Beneficiaries.** The end borrowers and intended beneficiaries of the project will be SMEs investing on RE and EE projects.⁵⁷ Improved efficiency in the use and production of energy will also enable energy consumers to benefit from greater and better availability of cleaner energy at competitive prices and may allow the government to downscale existing subsidies for fossil-fuel based generation. Finally, communities should benefit from positive externalities associated to environmental and economic impacts of the project.

C. Key Results Indicators

- 1.44 The outcome indicators are: (i) financing from third parties mobilized by the project; (ii) EE projects financed by the project; (iii) electricity generation from RE sources by projects financed; (iv) energy savings from EE projects financed; and (v) GHG emissions reductions. Impact indicators are: (i) share of power generation from RE sources in Argentina (%); and (ii) energy intensity to GDP. Finally, output indicators are: (i) installed RE capacity financed; and (ii) credit line used in EE projects financed (Annex II).

⁵⁶ These include support for project implementation, training and capacity building, advisory services for the design of risk mitigation mechanisms, workshops, marketing campaigns to raise public awareness, etc.

⁵⁷ The quantification of potential beneficiaries includes current *RenovAr* awarded projects in biomass and biogas (18 and 40, respectively), plus some 5,800 SMEs with EE potential in Argentina identified by the market study. Voluntary participation of the private sector in the *RenovAr* tenders, under market conditions and at a bidding price, is indicative of the financial viability and willingness to invest in eligible RE projects. Also, the study identified a potential for developing eligible EE projects for at least US\$60 million investment and the activities supported by the TC AR-T1213, in preparation, should stimulate this demand.

- 1.45 Given the importance of the cross-cutting element of gender and equality in IDB operations, and the existing gender gaps with regards to access to finance, BICE will be requested to monitor the share of beneficiary SMEs that are led by women ([OELink#8](#)).
- 1.46 **Economic evaluation.** The [cost-benefit analysis](#) of the proposal quantifies ex ante the net economic benefits of the project. Using a simulated portfolio of RE/EE projects, based on discussions with BICE on their tentative pipeline for RE projects, existing information on the *RenovAr* tendering process and awarded projects, and the feasibility analysis (¶1.38),⁵⁸ the analysis shows that the benefits exceed the costs under the assumed scenarios, with a net current value of US\$87.24 million (using a 12% discount rate as per IDB standards) and a 20.1% Internal Rate of Return (IRR) for the project as a whole.
- 1.47 Costs and benefits are quantified for the scenarios with and without the project and environmental externalities are accounted for based on a valuation of GHG emission reductions. In addition, a sensitivity analysis is carried out on key criteria, including the marginal cost of generation in the counterfactual scenario, energy consumption costs, monetary value of emissions reduced, project mix and effectiveness in the implementation of financed projects. The standard cost-efficiency ratio (total investment per expected unit of reduced CO₂) is calculated at US\$26.6/tCO₂e if only GCF funding is considered and US\$60.4/tCO₂e when total investment (project funds plus third-party investment leveraged) is accounted for.⁵⁹

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

- 2.1 Financing for the project includes US\$100 million reimbursable resources from the GCF, plus US\$60 million from BICE local counterpart.⁶⁰ As mentioned in ¶1.36, the project consists of an investment loan under the Global Credit modality, to be disbursed over a 60-month period from the effective date of the loan contract (¶3.7 and Table 1. For more detail see: [Detailed Disbursement Plan](#)).⁶¹ BICE will use GCF concessional resources to diversify and lengthen its funding sources, thus better responding to the financing needs of SMEs investing in RE/EE. The total amount of GCF resources will be channeled to end borrowers by BICE directly, or indirectly through regulated FIs (second-tier transactions). Resources will ultimately be used to provide loans to finance RE or EE projects.

⁵⁸ Based on all this information combined, the economic analysis uses a simulated portfolio of projects consisting of two broad categories of projects: (i) small RE projects of up to 5MW capacity, particularly biogas and biomass; and (ii) EE in industry and service, mainly energy-intensive; technologies in this category include cooling systems, pumps, cogeneration, solar heating, boilers and heat recovery.

⁵⁹ This cost is considered effective relative to the international standard. By way of reference, the abatement cost (cost per reduced tCO₂e) for international donors such as the Clean Technology Fund is considered acceptable up to US\$200/tCO₂e.

⁶⁰ The complementary technical cooperation [AR-T1213](#), under preparation (will finance TC activities to support the structuring of various mechanisms that will complement the provision of loans and improve BICE, FIs, ESTPs and SMEs technical capacities, using US\$3 million GCF grant resources complemented by resources from BICE (in-kind) and IDB grant resources.

⁶¹ The commitment of resources will be made in four years under BICE's established agreements with FIs or agreements with subborrowers and in accordance with the annual disbursement projections informed to the IDB.

Table 1. Disbursement Plan
(Millions of US\$)⁶²

Single Component – Financing	Year I 2019	Year II 2020	Year III 2021	Year IV 2022	Year V 2023	Total
BID	9.7	19.4	27.1	33.8	10.1	100.0
Local	5.8	11.6	16.2	20.3	6.0	60.0
Total	15.5	31.0	43.3	54.1	16.1	160.0

- 2.2 The Global Credit Investment Loan, under a single component, promotes an efficient and flexible mechanism for preparing and approving various lending operations locally. It provides a framework through which IDB can respond effectively to the specific needs of SMEs operating in various sub sectors, upon demand. It also establishes an association between the IDB and BICE, so that local experience and capacity can be strengthened by broad international experience gained by the IDB.

B. Environmental and Social Safeguards Risks

- 2.3 As per IDB Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the project is classified as financial intermediation. Based on the E&S due diligence conclusions and the intended use of proceeds, it is classified as low-risk (FI-3). RE/EE projects deliver long term GHG emission reductions and are considered environmentally friendly, as they entail cleaner energy production and reduced consumption. While risks are expected to be low, some subprojects eligible for financing can have environmental or social impacts that need to be assessed and managed on a project-by-project basis.
- 2.4 The project will be managed through the implementation of an Environmental and Social Risks Management System ([ESMS](#)), agreed between the IDB and BICE, to be fully integrated in the project's OR. The ESMS integrates all applicable Argentine norms and contains: (i) the exclusion list and eligibility criteria for the project; (ii) rules, procedures and guidance for screening, evaluating and managing E&S for each type of eligible subproject; (iii) an institutional capacity assessment; and (iv) a stakeholder engagement plan, including grievance mechanisms.
- 2.5 Activities to be financed under the project will exclude those that: (i) involve involuntary resettlement of people; (ii) have a potentially adverse impact on communities and/or indigenous people; or (iii) involve conversion or degradation of critical natural habitats or cultural sites (see [Exclusion List in the ESMR – Annex C](#)). It is important to note that projects eligible for financing under this project are not greenfield, but projects to be implemented in existing industrial or agricultural facilities. Category “A” projects will not be eligible for the project.
- 2.6 BICE will be responsible for establishing all interagency arrangements needed for properly implementing the ESMS and will ensure that projects financed are in compliance with the ESMS. The due diligence process concluded that BICE has the institutional capacity to manage a portfolio of projects with the risk levels identified.

⁶² Loan resources will be disbursed once available in accordance with the requirements set forth in the FAA and pursuant to the provisions set forth in the Loan Contract entered into between the borrower and the Bank.

C. Key Issues

- 2.7 **Financial sustainability.** Long term sustainability of the project is ensured by helping relevant market actors (i.e. SMEs, FIs, ESTPs) refine their risk perception of RE/EE investments and assess project cash flows and investment returns. With project support, BICE will develop instruments that can spur private investments in the RE/EE sectors in the long run. Once project execution is complete, successful implementation of projects financed are expected to foster replication of the business model, further engagement of FIs and increased private sector investment.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation Arrangements

- 3.1 The borrower for the project will be the Republic of Argentina and the Executing Agency (EA) will be BICE.
- 3.2 BICE focuses mainly on promoting investments and foreign trade through export and import financing, operating as a first and second-tier banking institution. Between 2016 and 2017, BICE approved credits for a total of US\$800.94 million. The funding structure for these loans is composed primarily by fixed term deposits (35.2%), multilateral loans (15.6%) and bonds (14.6%) ([OELink#6](#)).
- 3.3 BICE is currently acting as the trustee for the FODER (¶1.17) and as such has been developing its own capacity to carry out its mandate efficiently. This mandate is a sign of the confidence of the government in BICE's capabilities to manage resources specifically directed towards clean energy initiatives.
- 3.4 While there is no prior experience of BICE working with the IDB, the Institutional Capacity Assessment ([SECI](#)) from December 2017, has shown that BICE has sufficient capacity to perform activities of financial management and administration for the resources under the proposed operation. The assessment covered areas such as programming of activities and components, administrative organization, personnel administration, administration of goods and services, and financial administration. In addition, the activities included in the complementary TC AR-T1213 (in preparation) are envisioned to enhance BICE's competences with regards to this project.⁶³
- 3.5 **General execution and management scheme.** BICE will execute the program within the framework of its current organizational structure. The provisions governing the execution of the project will be established in the project's OR, to be agreed between the IDB and BICE. The OR provides guiding principles and requirements for the use of project funds, including: (i) the eligibility criteria of the beneficiaries (FIs and SMEs) and activities of the project;⁶⁴ (ii) the terms and conditions to be complied by BICE and/or the FIs when providing the subloans to the SMEs, including those necessary to ensure that Bank financing provided with GCF resources will not be exposed to higher credit risks than those of local counterpart resources; (iii) other parameters, requirements and/or restrictions that govern the use of resources by BICE, and the FIs and/or SMEs, respectively; (iv) the methodologies to apply the concessionality from Bank financing provided with GCF resources to FIs and SMEs

⁶³ Activities include training and support for developing capacities, improving internal systems, as well as management and monitoring of the project.

⁶⁴ The eligibility criteria included in the OR should be consistent with categories and/or sub-categories for energy efficiency and renewable energy as outlined in the Common Principles for Climate Mitigation Finance Tracking developed by the joint climate group of multilateral development banks.

to ensure that SMEs sufficiently benefit from the project; (v) methodologies to ensure that the ratio of Bank financing and local counterpart will be maintained at 1:1 for the portfolio of subloans provided to FIs or SMEs by BICE over the entire tenor of the Bank loan; (vi) production of audited reports on the financial activities using Bank financing provided with GCF resources, in accordance with relevant financial reporting standards; (vii) terms for BICE to establish and maintain a system to collect and hold project information necessary for BICE to prepare progress reports and the Bank to prepare the interim and financial evaluation reports of the project; and (viii) definition of the corrective measures, including measures to prevent access to finance, in case of failure to comply with the OR. An agreement between BICE and each eligible subborrower will provide the precise terms and conditions (i.e. maturity, rates and costs) of the financing for each subloan, which will be established on a project-by-project basis.

- 3.6 **Procurement.** No procurement of works, goods, services or consulting services is anticipated as part of the project's execution. Subborrowers will use market procurement practices. Since the project works in the form of an investment loan global credit, paragraph 3.12 of the document GN-2349-9 current private sector or commercial practices applies (Annex III).
- 3.7 **Disbursements.** Disbursements of project resources from BICE to eligible subborrowers or accredited FIs will constitute eligible expenditures, pursuant to the terms of effective subloan agreements for eligible projects. Disbursements can be committed and made to BICE within the loan disbursement period, and in accordance with IDB policies, based on a committed portfolio (reimbursements) of projects. In all cases, the portfolio of projects to be recognized by the project will be subject to revision by the IDB in order to proceed with the disbursement.⁶⁵ However, all the modalities of disbursements of funds available in the Bank's Policy OP-273-6 are available to the borrower if needed.
- 3.8 Considering that the borrower is the Argentine Republic and the EA is a distinct legal entity, the borrower and the agency must formalize an agreement for the transfer of loan funds. Thus, **a special contractual clause prior to the first disbursement of the loan will be included requiring signing and entry into force of a subsidiary agreement between the borrower, represented by the Ministry of Production of Argentina and BICE, under terms previously agreed upon with the Bank that regulates inter-alia, the transfer of loan proceeds from the borrower to the BICE and the requirements for using of such funds.** Accordingly, the agreement will describe the mechanism for transferring the loan proceeds from the borrower to BICE; and will establish the obligation of BICE to use the funds and carry out the project's activities in accordance with the terms of the loan contract and the OR. **In addition, prior to the first disbursement of the loan, BICE shall provide evidence of approval and entry into effect of the OR of the project in terms previously agreed with the Bank.** This condition will allow the EA to adapt its internal processes and related documentation to the requirements of this project.⁶⁶

⁶⁵ There is no predetermined schedule for partial disbursement requests by BICE. The number of disbursement requests and the frequency in which they are presented to the IDB will depend on actual demand from eligible projects or FIs, and the credit analysis from BICE on which projects are best suited to be included in each disbursement request portfolio.

⁶⁶ The effectiveness of the OR is also required for the GCF to make its first transfer of resources to the Bank for the project.

- 3.9 Cumulative recoveries from the amortization or prepayments of subloans financed with loan resources and that exceed the amounts required to service the loan to the IDB, will be used by BICE to finance new subloans consistent with the project's objectives and the requirements established in the loan agreement and the OR until the loan to IDB has been fully repaid. Use of those resources should continue to be done under the dedicated account established by BICE for the project. BICE will report on the use of those resources on years ten and twenty of loan agreement.
- 3.10 Financial statements and expenses of the project will be audited annually by an independent auditing firm eligible to the IDB. Annual audited reports will be presented within 120 days after the end of BICE's fiscal year, and the final audit will be presented 120 days after the date of last disbursement.

B. Summary of Arrangements for Monitoring Results

- 3.11 The project will be monitored with semiannual reports prepared by the EA and submitted to the bank within 60 days following the closing of each calendar semester during the disbursement period of the project (five years), with information that will include, among other aspects detailed in the OR, fulfillment of the eligibility criteria of the subloans financed with funds from the GCF.⁶⁷ In addition, the EA shall prepare and send the Bank, which in turn will forward such information to GCF, unaudited financial reports confirming that: (i) appropriate concessionality is applied to the FIs and SMEs; (ii) a ratio of 1:1 of loan financing from the GCF and BICE for the portfolio of subloans is maintained; and (iii) the use of resources available in the revolving account is in compliance with the OR. BICE will send to the Bank the unaudited financial reports annually within 60 days following the closing of each calendar year, starting on the year the first repayment installment of the loan is made and until the loan is fully repaid. As requested by the GCF, the Bank will complement this information with information on the status of principal, repayments, interests and commissions under the loan agreement.
- 3.12 The general procedures established by the IDB for the monitoring and evaluation of investment operations will be applied, based on the indicators in the Results Matrix and the Monitoring and Evaluation Arrangements agreed between the IDB and BICE and to the satisfaction of GCF requirements. The evolution of the indicators must be periodically reported to the IDB during project execution.
- 3.13 **Evaluation arrangements.** BICE will compile and maintain information, indicators and parameters including annual plans, midterm review and final evaluation, necessary for the preparation of the project Completion Report, to be prepared when the operation is fully justified. As per IDB development effectiveness framework requirements, the proposal includes a plan to perform an ex post cost-benefit analysis for assessing the results of the project ([Monitoring and Evaluation Arrangements](#)). The ex post cost benefit analysis uses the same framework defined in the ex ante economic analysis (§1.46 and §1.47), replacing assumed values for simulated beneficiary projects with actual values.

⁶⁷ Annually, BICE shall: (i) inform the percentage of the total investments, at a portfolio level, provided from sources other than the Bank financing and local counterpart financing; and (ii) confirm that subloans are compliant with the eligibility criteria established in the OR.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Climate Change and Environmental Sustainability	
Country Development Results Indicators	-Reduction of emissions with support of IDBG financing (annual million tons CO2 e)* -Micro / small / medium enterprises financed (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2870-1	i) Improvement of infrastructure for investment and Inclusion; ii) Inclusive financial development and SME financing.
Country Program Results Matrix	GN-2915	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	7.7	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	1.7	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	1.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	8.5	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	6.0	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Low	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Accounting and Reporting, External Control.
Non-Fiduciary	Yes	Environmental Assessment National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	BICE is being supported by 2 regional TC programs (RG-T2335 and RG-T3045) to support its institutional capacity to design and promote green finance lines.

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The program "PROMOTING RISK MITIGATION INSTRUMENTS AND FINANCE FOR RENEWABLE ENERGY AND ENERGY EFFICIENCY INVESTMENTS (AR-L1280)" has as a general objective to promote the efficiency in the production and use of energy in Argentina. The specific objectives are: (i) increase SME investments in RE and EE, by providing access to medium and long-term finance and (ii) contribute to the reduction of Greenhouse gas emissions. The proposed program has a single component in the form of an investment loan global credit operation to be executed by Banco de Inversión y Comercio Exterior (BICE). The problem diagnosis identifies the lack of long-term financing and long payback periods as a major obstacle for SMEs to get involved in Energy efficiency (EE) and Renewable Energy (RE) projects. Furthermore, SMEs are not familiar with the benefits of these type of projects and until they understand the business case prefer less expensive equipment that is not efficient. The vertical logic suggests that providing more adequate loan terms and technical support would facilitate the adoption of RE and EE investments by SMEs, resulting in reduced Greenhouse Gas emissions. There is no evidence of the effectiveness of the intervention based on existing evaluations.

The economic analysis suggests positive net benefits that arise mainly from three sources: (i) the reduction in the energy supply costs when biogas and biomass plants are installed, (ii) the reduction in energy costs of SMEs once EE measures are implemented, and (iii) a monetized value of CO2 emissions avoided by all projects financed. The NPV remains positive for a number of different scenarios, such as changes in the distribution of RE and EE projects adopted, cost over-runs, a decrease in the price of CO2 emission reductions, among others.

The M&E plan provides sufficient means for monitoring the products and results of the project. Additionally, the M&E plan proposes to evaluate the project based on a cost-benefit analysis ex-post that will replace the assumptions made in the cost-benefit with ex post data. The proposed approach is considered adequate given the size and characteristics of this operation.

RESULTS MATRIX

Objective of the project:	The general objective of the project 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) (as per Argentina's government classification) investments in Renewable Energy (RE) and Energy Efficiency (EE), by providing access to medium and long-term finance; and (ii) contribute to the reduction of Greenhouse Gas (GHG) emissions.
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Indicator	Unit	Base	Target	Description / Source of verification
IMPACTS				
1. Power generation from RE sources (excludes large hydro) as a share of total demand. ¹	%	1.8	6.8	<p>This measure includes all new investments added to the system, including those supported by the project. This impact is related to RE projects under the project. Target estimate is based on country's authority projections.</p> <p>Source: Official data from the <i>Ministerio de Energía y Minería</i> (MINEM).</p>

¹ Baseline refers to the electric consumption matrix (internal demand) as of end of 2016, MINEM. Target considers an annual 1 percentage point increase, considering the targets set by the government (20% share of the generation matrix by 2025).

Indicator	Unit	Base	Target	Description / Source of verification
2. Energy intensity to Gross Domestic Product (GDP). ²	toe/1,000 US\$ ³	0.19	0.16	Measures the quantity of energy required to generate US\$1,000 of GDP. This impact is related to EE projects under the project. Source: IEA and official data from the MINEM.

Indicator	Unit	Base	Y1	Y2	Y3	Y4	Y5	Target ⁴	Description / Source of verification
OUTCOMES									
1. Financing from third parties mobilized by the project.	Millions of US\$	0	6.5	13.0	18.2	22.6	6.7	67.0	Includes all sources of financing (debt or equity) other than the IDB and <i>Banco de Inversión y Comercio</i> (BICE) own resources. Target estimate based on the average total investment required per project and an average 70/30 debt to equity ratio observed in similar projects. Total investment = US\$160 million from the project + equity + other sources Source: Annual Report (AR) on project execution by BICE.
1.1. Financing from third parties mobilized by RE projects from Small and Medium Enterprises (SME financed).	Millions of US\$								
1.2 Financing from third parties mobilized by EE projects from SMEs financed.	Millions of US\$								

² Baseline value corresponds to Argentina's indicator for 2015, IEA, Key World Energy Statistics 2017. Target considers average values for other countries as a reference (OECD countries 0.11; Non-OECD Americas 0.14; World 0.18).

³ The Ton of Oil Equivalent (TOE) is a unit of energy equivalent to approximately 42 gigajoules (GJ). It is defined as the amount of energy released by burning one ton of crude oil and is used for measuring large amounts of energy. The indicator denominator is expressed in constant US Dollars of 2010.

⁴ Target values for accumulated outcome indicators 3, 4 and 5 are equivalent to Y5 value.

Indicator	Unit	Base	Y1	Y2	Y3	Y4	Y5	Target ⁴	Description / Source of verification
2. Small and Medium Enterprises (SME) that finance EE projects with resources from the project.	Project	0	4	8	23	34	45	114	Measures number of EE projects implemented and in operation. Source: AR on project execution by BICE.
3. Annual electricity generation from RE sources by projects financed by the Project (accumulated). ⁵	GWh	0	0	28.03	84.10	154.18	238.27	238.27	Final target was estimated based on an average production factor for RE technologies expected to be financed, namely biogas and biomass. Electricity prod (GWh) = Installed capacity (GW) x 24 x 365 x production factor The indicator shows the accumulated value for each year, and the target is equal to the sum of the five years of execution. Source: AR on project execution by BICE. Can be validated with information from national utility.
4. Average annual energy savings from EE projects financed by the project (accumulated). 4.1 Average annual energy savings from electricity-sourced EE	MWh MWh MWh	0	4,210	12,630	38,569	76,664	126,913	126,913	Final target was estimated based on an average consumption of firms and savings ratios of EE technologies installed. Savings for fuel-sourced systems are estimated by converting Gal to MWh. ⁶ Energy savings = Baseline energy consumption (MWh or Gal) x % savings produced by system installed The indicator shows the accumulated value for each year,

⁵ Annual programming must consider average times to complete implementation of the technologies financed. Once financing is closed, implementation times of these projects are around 18 months before capacity is installed. For this reason, value of this product is zero (0) in Y1.

⁶ Conversion rate used is 1MWh = 27,32 Gal.

Indicator	Unit	Base	Y1	Y2	Y3	Y4	Y5	Target ⁴	Description / Source of verification
projects financed. 4.2 Average annual energy savings from fuel-sourced EE projects financed.									and the target is equal to the sum of the five years of execution. Source: AR on project execution by BICE.
5. GHG emissions annual reduction, from projects financed by the project (accumulated). 5.1 GHG emissions annual reduction from RE projects financed. 5.2 GHG emissions annual reduction from EE projects financed.	tCO ₂ e tCO ₂ e tCO ₂ e	0	1,814	20,440	61,465	115,178	181,579	181,579	Indicator is based on the CO ₂ e emissions displaced by RE power generation added by the project and the energy savings (electricity and fuel) from EE projects financed. Final target was estimated based on envisaged RE production and EE savings, using a country specific conversion factor for electricity and fossil fuels (0.535 tCO ₂ /MWh and 0.015 tCO ₂ /Gal). Source: AR on project execution by BICE and conversion factor specific to Argentina (included in periodical publications of CAMMESA).
OUTPUTS ⁷									
1. Installed RE generation capacity financed by the project. ⁸	MW	0	0	4	8	10	12	34	Measures installed capacity that becomes operational each year. Source: AR on project execution by BICE.
2. Credit line used in SME EE projects.	Million US\$	0	1.4	2.8	8.1	11.9	15.8	40.0	Measures the annual usage of the credit line for EE projects, as established by the project. Annual

⁷ Given the importance of the cross-cutting element of gender and equality in IDB operations, and the existing gender gaps with regards to access to finance, BICE will be requested to monitor the share of SME that are led by women.

⁸ Annual programming of this indicator must consider average times to complete implementation of the technologies financed. Once financing is closed, implementation times of these projects are around 18 months before capacity is installed. For this reason, value of this product is zero (0) in Y1.

Indicator	Unit	Base	Y1	Y2	Y3	Y4	Y5	Target ⁴	Description / Source of verification
									projections consider that the line is fully operational and ready to use in Y1. Source: AR on project execution by BICE.

FIDUCIARY AGREEMENTS

COUNTRY: Republic of Argentina

PROJECT: Promoting Risk Mitigation Instruments and Finance for Renewable Energy and Energy Efficiency Investments (AR-L1280)

EXECUTING AGENCY: *Banco de Inversión y Comercio Exterior Sociedad Anónima* (BICE)

PREPARED BY: Ana Niubó (FMP/CAR) and Marisol Pinto Bernal (FMP/CAR)

I. EXECUTIVE SUMMARY

- 1.1 The *Banco de Inversión y Comercio Exterior Sociedad Anónima* (BICE) is a public bank, created in 1992, that grants medium- and long-term credit aimed at productive investment and foreign trade, whose sole shareholder is the Argentine State. In accordance with Art. 1 of its Statute, BICE is constituted as a Stock Corporation. It is governed by private law and is subject to Law No. 21.526 of the Central Bank of Argentina (BCRA) and the banking regulations of the country. BICE promotes economic development, job creation, supports investment and foreign trade through financing of exports and imports, and for more than 25 years has been a source of long-term financing for the financial system of the country.
- 1.2 The Bank assessed the capabilities of the BICE, as Executive Agency (EA), in order to plan, execute, and implement the control measures of the resources through the application of the Institutional Capacity Assessment ([SECI](#)) and found that it has adequate operational, technical and human capacity to carry out satisfactorily the execution of the project. The risk related to trust management, considering the various factors, is low.
- 1.3 While BICE does not have experience managing operations financed with sovereign guarantee by the IDB, it is participating in the execution of an IDB loan, “Competitiveness of Regional Economies Program” ([3174/OC-AR](#)), whose EA is the Ministry of Production (MP) and is executing a FONPLATA loan (No. 31/2016) in initial execution, managing projects financed by the World Bank “Access to Long-Term Financing for Micro, Small and Medium-Sized Enterprises Project” (RD-8659) and financed by the European Investment Bank, FI-86706 “Private Sector Credit.”
- 1.4 Due to its nature, BICE is within the framework of the Financial Management and National Public-Sector Control Systems Law (Law No. 24.156, item b) of Article 8), and does not maintain its budgetary, treasury, and accounting records in the Integrated Financial Management System. BICE has its own and reliable regulations, procedures, mechanisms, and systems for its institutional financial management. It is subject to the supervision of the BCRA, to the internal control of the *Sindicatura General de la Nación* (SIGEN), and to the audit of an external auditor firm and to the General Auditing Office of the Nation. In addition, BICE is subject to the control of the Securities and Exchange Commission, for the issuance of negotiable obligations.

II. EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 BICE is a decentralized agency that reports to the MP. BICE is a stock corporation, governed under private law and is not included in the National Administration Budget approved by the National Congress.
- 2.2 BICE, as a stock corporation, has and manages its own resources. However, by being under the MP, it has certain obligations derived from Art. 8 of the 24.156 law, such as presenting its budgets and following the regulations established by the ministry to public banks.
- 2.3 The Assistant Director's Office of Planning, which reports to the General Management, is responsible for preparing BICE's budget, which is approved by its Board of Directors and presented to the MP. The MP does not participate in any way, either in the preparation or execution of the budget. There are no procedural manuals for budget formulation.
- 2.4 BICE has its own Treasury, through which payments and financial transfers are channeled.
- 2.5 BICE's policies, procedures, processes and information systems are clearly defined and have qualified professional staff, functional and reliable information systems, as well as clearly defined working procedures for the performance of their functions.
- 2.6 The UEPEX system will be used to record the transactions of the loan. Nevertheless, it should be noted that BICE has the following systems applied to its management functions:
 - a. BANTONAL system: financial management software, credit management and accounting.
 - b. CALIPSO system: commercial management, goods and services, and trusts software.
 - c. MIS dashboard: business indicators such as level of Concentration, Sectorial Evolution, Loans, Disbursements, and Outstanding COA.
 - d. Operations, Passes and LEBACs dashboard: Annual Progress of Passes, LETEs, and LEBACs.
 - e. BINOVA title management system.
 - f. GDE Electronic File System.
 - g. BREPEVEN System: base system for operational risk events, operational risk self-assessment and fatca.
- 2.7 For the financial management of the operation, BICE's own regulations, procedures and systems will be complemented with the application of the Financial Management Guide for Projects Financed by the IDB (OP-273-6) and other related manuals.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The SECI concluded that BICE can carry out the trust management activities of the loan operation. The trust risk therefore has been determined to be low because BICE has the necessary organizational structure, regulations, systems, and human talent. The risks identified are as follows:

Table 1. BICE Institutional Capacity and Trust Risk

Institutional Capacity and Trust Risk			
Institutional Capacity	Satisfactory	Tool:	SECI
Trust Risk	Low	Tool:	SECI

IV. ASPECTS TO BE CONSIDERED IN THE SPECIAL CONDITIONS OF CONTRACT

A. Disbursement Management

- 4.1 BICE must present the financial planning for the project in accordance with the agreed guidelines between the Bank and the country.
- 4.2 The exchange rate to be applied for accountability will be pursuant to Article 4.10, paragraph (b) (i) of the Loan Agreement. For purposes of determining the equivalence of expenditures incurred in local currency charged to local contribution or expenditure reimbursement charged to the loan, the exchange rate will be the exchange rate of the first working day of the month of the payment. Due to limitations of the UEPEX system, for an expenditure paid with IDB funds and with funds from the local counterpart will use the type of exchange rate of the conversion of the reimbursements to local currency.
- 4.3 According to the requirements of the Green Climate Fund (GCF), requests for disbursements by BICE besides the first disbursement, require showing evidence that at least 70% of resources from the prior disbursement have been cumulatively used.

V. FIDUCIARY ARRANGEMENTS FOR PROCUREMENT EXECUTION

- 5.1 The project has the characteristic structure of a Global Credit through which funds are provided to BICE to rediscount eligible credit operations: (i) legal and physical entities that carry out activities compatible with the OR (first tier operations); or (ii) Intermediary Financial Institutions (FIs) that place those resources to physical and legal entities that carry out activities compatible with the OR (second tier operations). Accordingly, the provisions in numeral 3.12 of the Policies for the Procurement of Goods and Works financed by the IDB (GN-2349-9) are applicable and hence current private sector or commercial practices apply.
- 5.2 **Records and files.** The documentation of the subloans financed by the operation will be stored: (i) in the BICE whenever it directly finances the operations; or (ii) in the FI (second tier), that performs the analysis and approval of the credit application being considered against the project eligibility, and hence will entirely

assume the credit risk and will be exclusively responsible to monitor the portfolio they have financed.

- 5.3 An Executing Unit (EU) of BICE will be responsible for maintaining the files and records of the project. For the preparation and filing of the reports of this project, the official formats of the reimbursement requests should be used, indicating the list of the subloans object of the rediscount charged to the financing of the project.

VI. FIDUCIARY MANAGEMENT

- 6.1 **Programming and budget.** BICE's budget is approved by the Board of Directors. The Assistant Director's Office of Planning, which reports to the General Management, performs the budgetary monitoring through monthly reports. The project's budget will be managed by the EU using the mechanisms and procedures established for BICE's budget. The project's budget will be approved by the Finance Management office to which the EU reports, for its subsequent approval by the Assistant Director's Office of Planning. BICE's budget will identify the amounts earmarked for the execution of the project.
- 6.2 **Accounting and information systems.** BICE's accounting and financial records system is the BANTOTAL system and concentrates all the operations it carries out. The system issues daily balances. The movements of the project will be incorporated within BICE's financial statements, in expressly allotted accounts. The accounts that will be assigned for project execution and recording must be determined so that the information related to the project is clear and easily identifiable. BICE's financial statements are prepared in accordance with the accounting regulations of the BCRA and the Professional Accounting Regulations in force in the Autonomous City of Buenos Aires. BICE's EU will be responsible for the project's accounting using the UEPEX. The special purpose financial statements of the project on a cash basis will be prepared separately in accordance with the provisions in the Financial Management Guide (OP-273-6) and the Financial Reports and External Audit guidelines. The financial reports required will be: (i) audited annual financial statements, as stipulated in Article 7.03, paragraph (a) of the General Rules of the Loan Agreement; and (ii) other reports to be required by the trust specialists.
- 6.3 **Disbursements and cash flows.** The IDB will disburse the proceeds of the project under the reimbursement modality, and may use other disbursement modality upon agreement with the IDB. Disbursement requests must be accompanied of the list of eligible rediscounted subloans as provided for in the OR. BICE will prepare the disbursement schedule annually.
- 6.4 The following accounts will be opened: (i) MP will open an account in US dollars where the funds of the operation will be deposited and will be of exclusive use of the project; and (ii) BICE will open two accounts exclusively for the project: (a) account in US Dollars, in which the BICE will receive the operation's funds that were previously accredited in the MP account; and (b) account in local currency, to be used by BICE for pesification of the funds.
- 6.5 The funds received by the BICE in US Dollars Account as reimbursement expenses may be of free availability.

- 6.6 The US dollars and local currency accounts will be dedicated exclusively to:
- Deposit and maintain project loan resources received by the EA from the borrower;
 - Deposit and maintain project resources received by the EA from the FIs or from the SMEs as re-payment of subloans and for payments towards principal, interests and commissions.
 - Offer new subloans to eligible sub-projects.
- 6.7 **Internal control and audit.** BICE's internal audit is performed by the Internal Audit Unit (IAU) which reports to the Board of Director. It carries out the audits and make recommendations pursuant to the powers bestowed by Law 24.156 (Financial Management Law), performing a review of BICE's cycles in which the control objectives are evaluated with respect to the five COSO components. The IAU was created and staffed according to the provisions of Law No. 24.156, the BCRA and SIGEN (control bodies).
- 6.8 BICE has formed a Risk Management Committee comprised of the following Directors and Managers: General Manager, Risk Analysis and Recovery Manager, Trust Businesses Manager, Risk Management Coordination Manager, Chief Financial Manager, Legal Manager, Operations and Foreign Trade Manager, and Chief of the Planning and Management Control Division, responsible for risk evaluation, monitoring, and supervision. The Comprehensive Risk Manager presents periodic reports on the risk situation of BICE.
- 6.9 **External control and reporting.** An independent external auditing firm acceptable to the IDB will be contracted to perform the external control of the project. BICE will be responsible for contracting the auditing firm and the latter may be the same that audits the financial statements of BICE, to have a comprehensive control vision on the executor and project management. The Terms of Reference (TR) must be previously agreed upon with the Bank; the TR and call for bids must first have the "no objection" from the IDB. To guarantee the effectiveness of the audit work, the responsible firm must be contracted no later than the month of September of the fiscal year underway and subject to be audited.
- 6.10 **Supervision.** The trust supervision plan is shown in the following table:

Table 2. Fiduciary Supervision Plan

Supervision Activity	Nature and Scope	Frequency	Person Responsible	
			Bank	Other
Operational	Review of progress reports	Semi-annual	Trust and sectoral team	IDB
	Portfolio review with the executor	Based on agreed programming between the Ministry of Finance (MF) and the Bank	Chief of Operations, Trust and sectoral team	BICE/IDB/MF/Chief of Cabinet
Finance	Programming update of cash flow and disbursements	With each advance request when required	Fiduciary and operational specialists	BICE
	Supervision visits	Annual	Fiduciary specialist	BICE
	Financial Audit	Annual	Fiduciary specialist	BICE/External auditor

Supervision Activity	Nature and Scope	Frequency	Person Responsible	
			Bank	Other
Compliance	Compliance of previous conditions	Once	Fiduciary and sectoral team/Operations analyst	BICE/IDB
	Proforma and budgetary allotment	Annual	Trust specialist	BICE
	Presentation of audited financial reports	Annual	Trust specialist	BICE/Auditor

- 6.11 **Execution mechanism.** The borrower will be the Republic of Argentina, who will be legally liable to IDB for payment of the debt. BICE will be the EA, and will carry out the technical, financial and procurement activities of the project through an EU responsible for: (i) the execution and supervision of the proper use of the loan resources; (ii) the provision in time and form of human, technological and budgetary resources necessary for its execution; and (iii) the presentation to the IDB of the documentation required for compliance of disbursement conditions and others of an operational nature required by the project execution. The resources of the GCF loan managed by the IDB will be transferred, via the MP to BICE, and the latter to the FIs, through the normal rediscount mechanism used by BICE or other mechanism agreed upon with the IDB, at a market rate that reflects its financial costs plus a coverage margin of its operational costs, so that the final beneficiaries receive more attractive interest rates than the market rates. BICE will be responsible for identifying and selecting the eligible FIs that will participate in the project as stipulated in the OR and its own policies and processes. The FIs will establish the amount of the subloans, the characteristics of the disbursements, interest rates and commissions, terms and amortization frequency and grace periods based on the characteristics of this project, the credit lines provided by BICE, a credit analysis and the eligibility of the subloans and the life cycle of the project. The EU will be responsible for the project's trust management, which reports to the Assistant Director's Office of Funding Management which, in turn, reports to Finance Management.
- 6.12 **Operational Regulation (OR).** The aspects presented in these agreements and trust requirements will be developed in detail in the OR of the project.

**PROMOTING RISK MITIGATION INSTRUMENTS AND FINANCE FOR RENEWABLE ENERGY AND ENERGY
EFFICIENCY INVESTMENTS**

AR-L1280

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) received the commitment of the **Green Climate Fund (GRN)** for up to US\$100,000,000 as confirmed by the Fund Coordinator, Brady Martin (ORP/GCM), May 15, 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

05/22/2018

Sonia M. Rivera
Chief

Date

Grants and Co-Financing Management Unit
ORP/GCM

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Argentina. Loan ____/_-AR to the Republic of Argentina
Promoting Risk Mitigation Instruments and Finance
for Renewable Energy and Energy
Efficiency Investments

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, acting as Accredited Entity of the Green Climate Fund ("GCF"), to enter into such contract or contracts as may be necessary with the Republic of Argentina, as borrower, for the purpose of granting a financing to cooperate in the execution of a program for promoting risk mitigation instruments and finance for renewable energy and energy efficiency investments (the "Program"). Such financing will be for the amount of up to US\$100,000,000 from the resources of the GCF, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

2. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements with the GCF as may be necessary to receive and administer resources from the GCF for the purposes of the Program and to adopt any other measures as may be pertinent for execution of said agreement or agreements.

3. That the authorization granted in paragraph 1 above will be effective once the corresponding agreement or agreements to which reference is made in paragraph 2 of this Resolution have entered into effect.

(Adopted on ____ 2018)