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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

SUPPORT FOR THE TRANSITION TOWARDS A SUSTAINABLE ELECTRICITY SECTOR IN ARGENTINA

(AR-L1406)

LOAN PROPOSAL

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LINKS

REQUIRED:

1. Multiyear execution plan/Annual work plan
2. Monitoring and evaluation plan
3. Environmental and social review summary
4. Procurement plan

OPTIONAL:

1. Economic analysis
2. Compliance analysis with Public Utilities Policy
3. Climate change analysis
4. Program Operating Regulations
5. Technical annex
6. Circuit proposal and process survey
7. Theory of change

ABBREVIATIONS

CAMMESA	Compañía Administradora del Mercado Mayorista Eléctrico, S.A. (Wholesale Electricity Market Administrative Company)
CUD	Certificado único de discapacidad (disability certificate)
DAV	Distribution added value
EDENOR	Empresa Distribuidora y Comercializadora Norte S.A.
EDESUR	Empresa Distribuidora Sur S.A.
ENRE	Ente Nacional Regulador de la Electricidad (National Regulatory Authority for Electricity)
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MECON	Ministry of Economy
MEM	Wholesale electricity market

PROJECT SUMMARY
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Financial Terms and Conditions				
Borrower:			**Flexible Financing Facility[a]**	
Argentine Republic			**Amortization period:**	25 years
Executing agency:			**Disbursement period:**	4 years
The borrower, through the Ministry of Economy (MECON), through the Secretary of Energy			**Grace period:**	5.5 years[b]
Source	**Amount (US$ millions)**	**%**	**Interest rate:**	SOFR-based
			Credit fee:	[c]
IDB (Ordinary Capital)	700	100	**Inspection and supervision fee:**	[c]
Total	700	100	**Weighted average life:**	15.25 years
World Bank parallel financing[d]	500	-	**Approval currency:**	U.S. dollars (US$)

Project at a Glance

Program objective: The general objective of the program is to strengthen the sustainability of the electricity sector by improving the targeting mechanism to safeguard electricity consumption for vulnerable customers. The specific objectives are: (i) to support the affordability of electricity service for vulnerable households in Metropolitan Buenos Aires; and (ii) to strengthen institutional capacity, for the sustainability of the electricity sector.

Special contractual conditions precedent to the first disbursement: The borrower, through the executing agency, will submit evidence, to the Bank's satisfaction, of: (i) the approval and entry into force of the Program Operating Regulations in accordance with the terms previously agreed upon with the Bank; (ii) the delegation of responsibilities to a Specialized Project Team within the executing agency's operating structure and the hiring and/or designation, as needed, for that Specialized Project Team, of a program coordinator, a technical director, a procurement specialist, and a financial specialist; and (iii) the roles and tasks of relevant entities, as laid out in Article 6 of Decree°465/2024 (paragraphs 3.5).

Special contractual conditions of execution: (i) in order to be able to disburse the loan proceeds needed to finance Subcomponent I.2, which is described in paragraph 1.35, the borrower, through the executing agency, will present evidence, to the Bank's satisfaction, of the optimization and updating of the criteria and conditions for identifying residential customers of the low-income public electricity services, under the terms agreed to with the Bank, which will include improvements in the data collection and management by cross-referencing information against various sources, such as socioeconomic records and consumption and tax data, which will facilitate more precise targeting of the targeted electricity subsidies, ensuring that they reach vulnerable groups; and (ii) in order to be able to disburse the loan proceeds needed to finance Subcomponent I.3, which is described in paragraph 1.36, the borrower, through the executing agency, will present evidence, to the Bank's satisfaction, of the approval and implementation of the new system of targeted electricity subsidies, which will include, at least, the objectives established in Article 1 of Decree 465/2024 (paragraph 3.6).

Exceptions to Bank policies: None.

Strategic Alignment							
Objectives:[e]	O1 ☒		O2 ☒		O3 ☒		
Operational Focus Areas:[f]	OF1 ☒	OF2-G ☒ OF2-D ☒	OF3 ☒	OF4 ☒	OF5 ☒	OF6 ☒	OF7 ☐

(a) Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

(d) The parallel financing is a US$500 million investment loan under the World Bank's performance-based conditions (PBC) disbursement modality.

(e) O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

(f) OF1 (Biodiversity, natural capital, and climate action); OF2-G (Gender equality); OF2-D (Inclusion of diverse population groups); OF3 (Institutional capacity, rule of law, and citizen security); OF4 (Social protection and human capital development); OF5 (Productive development and innovation through the private sector); OF6 (Sustainable, resilient, and inclusive infrastructure); OF7 (Regional integration).

I. Description and Results Monitoring

A. Background, problem addressed, and rationale

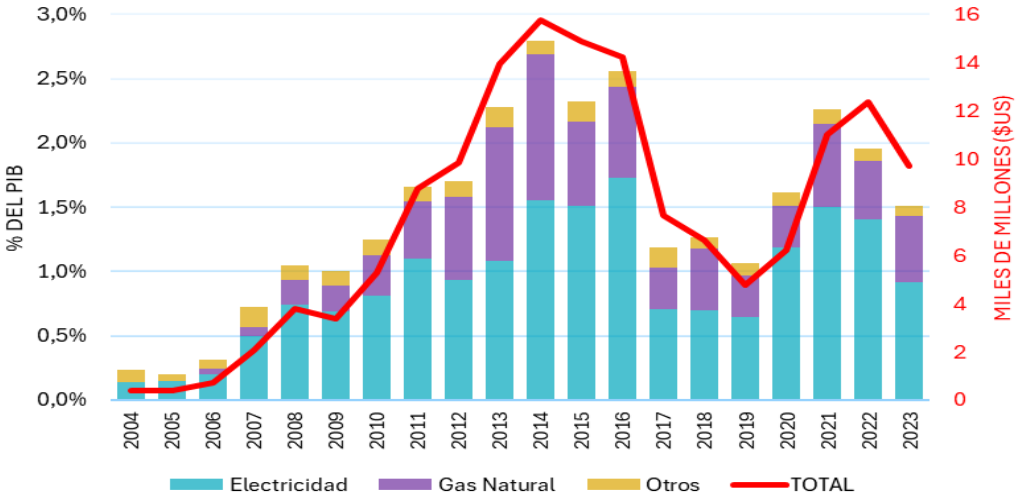
1.1 **Argentina is facing a difficult scenario for correcting macroeconomic imbalances.** By the end of 2023, these imbalances had led to annual inflation of 211%.[1] Since December, a policy change anchored in the elimination of monetary financing of the fiscal deficit caused the inflation rate to slow, from a monthly rate of 25.5% in December 2023 to approximately 4% in August 2024. Economic activity, which fell 3.4% year over year in the first half of 2024, is showing early signs of recovery but unevenly across sectors.

1.2 **A change of course in economic policy.** The administration that took office in December 2023 is implementing an economic program to eliminate the fiscal deficit, reduce inflation, and implement an agenda of structural reforms and economic deregulation. Fiscal measures include cuts to spending and discretionary transfers, a reduction of economic subsidies, and tax increases linked to foreign trade. These steps led to a primary fiscal surplus (before interest) of 1.1% of GDP in the first half of 2024 and a financial surplus (including interest) of 0.4% of GDP. According to projections from the International Monetary Fund (IMF), the primary balance of the nonfinancial public sector will end 2024 with a surplus of 1.7% of GDP, achieving fiscal balance for the first time in decades. Reducing economic subsidies is a central pillar of the government's strategy. In the first half of 2024, spending on energy and transportation subsidies fell 43% year over year in real terms. This has helped reduce the fiscal deficit and free up resources for other priority areas.

1.3 **Energy subsidies exert strong pressure on the nation's public finances.** Energy subsidies, including for electricity and gas, have been a significant burden on the Argentine economy (Figure 1). In 2023, energy subsidies cost US$9.683 billion (1.5% of GDP), representing more than half of the primary fiscal deficit that year. Most of these resources went to subsidizing electricity services (62.4% of the total or US$5.869 billion).

[1] National Institute of Statistics and Censuses (INDEC), 2024. Consumer price index.

Figure 1. Energy subsidies (% of GDP)



Source: Created by the author with data from the Argentine Budget and Public Finance Administration Association, MECON, and the Central Bank of the Argentine Republic.

1.4 **Structure and institutional framework of the electricity sector.** The Secretary of Energy under the Ministry of Economy (MECON) is the authority on energy matters, and its objectives include drafting laws that regulate the sector and implementing national energy policy. Law 24,065, enacted in 1992, set up a new legal framework for the electricity sector by modifying what had been a centralized model for managing the system. The sector was structured into three subsectors: generation, transmission, and distribution. Generation, regulated by the State, began to operate under a free-market system. Transmission and distribution were considered public utilities and treated as natural monopolies. The National Regulatory Authority for Electricity (ENRE)[2] was created to regulate transmission nationwide and distribution in Metropolitan Buenos Aires. Distribution to provinces was regulated by provincial authorities.[3] The Wholesale Electricity Market (MEM) was created, which required an entity to manage it and dispatch electricity to the Argentine Interconnection System. This role was given to the Wholesale Electricity Market Administrative Company (CAMMESA)[4], whose share capital is divided between the State (20%) and the associations that represent the MEM agents (80%), which includes generation, transmission, and distribution companies and large customers. Figure 2 shows the sector's structure. Optional link 5 includes details about the market's operations.

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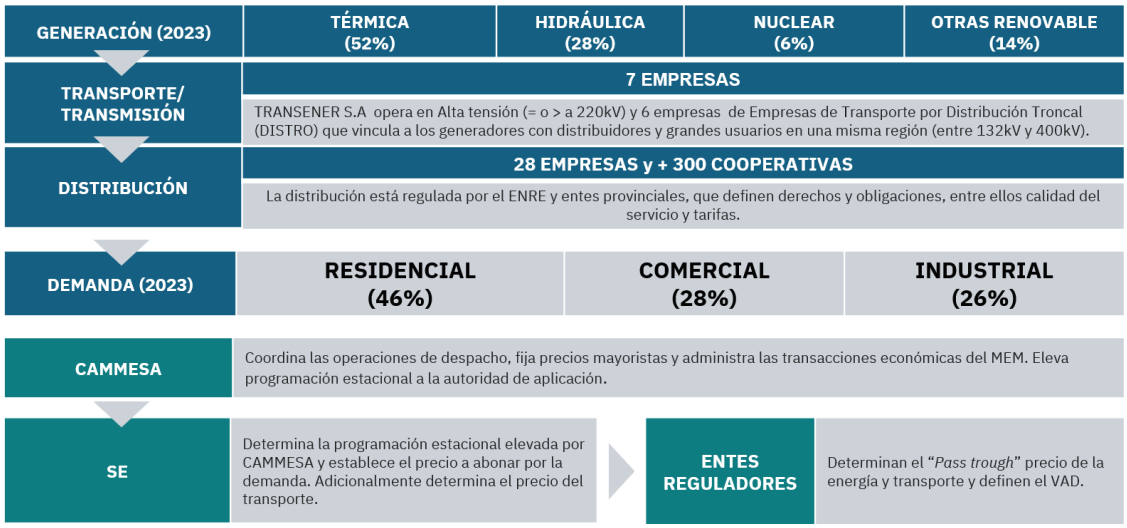
2 ENRE regulates, sets rates, and controls service quality for transmission nationally and for distribution in Metropolitan Buenos Aires. Provincial governments establish their own regulatory bodies for electricity distribution in accordance with national law.

3 In Metropolitan Buenos Aires, Empresa Distribuidora y Comercializadora Norte S.A. (EDENOR) and Empresa Distribuidora Sur S.A. (EDESUR) operate in two distinct jurisdictions (the Autonomous City of Buenos Aires and the Province of Buenos Aires).

4 CAMMESA is a privately managed not-for-profit public-purpose company.

Figure 2. Electricity sector structure



Source: Economy and Energy with data from CAMMESA

1.5 The electricity rate has five components: (i) energy and power, whose consumer prices are set by the Secretary of Energy; (ii) high-voltage transport or transmission, whose prices are under federal jurisdiction and set by the Secretary of Energy; (iii) the National Electric Power Fund, whose value in dollars per megawatt hour ($/MWh) is determined by the national government and is collected under the administration of the Federal Electricity Council; (iv) distribution added value (DAV), which concerns distribution, and whose rates are managed by jurisdiction, with the exception of Metropolitan Buenos Aires, where they are set by ENRE; and (v) taxes: the value-added tax at 21% nationally and additional taxes determined by jurisdiction. The cost of the energy, power, and transmission are transferred directly to consumers through the pass-through mechanisms as set out in the current regulatory framework (Law 24,065). The DAV is the income needed by distributors to cover the costs of operating, maintaining, and expanding the electrical grids.

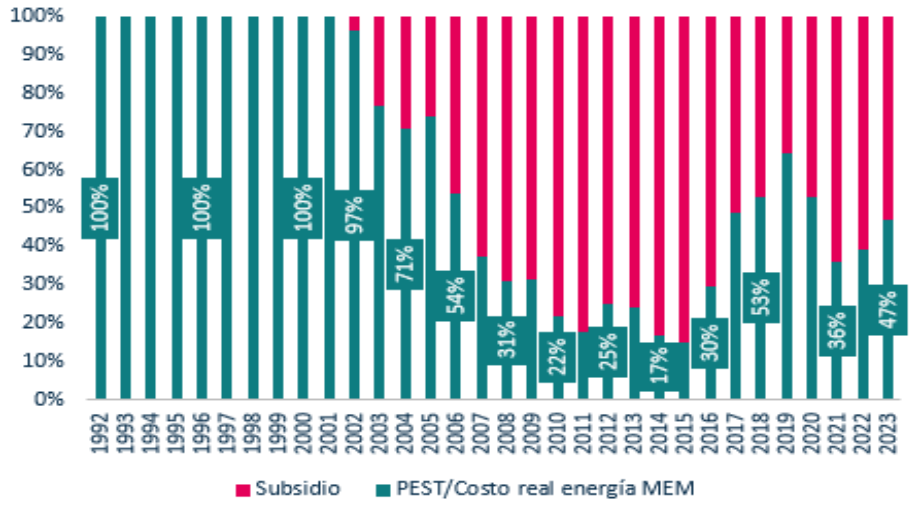
1.6 **Electricity subsidies.** The distributors supply electricity to customers in a specific geographic area under a concession contract. The distributors buy the energy from CAMMESA priced according to the seasonal energy price and sell it based on their own rate schedule. Electricity subsidies applied to the rate structure come from the difference between the energy generation cost, known as the "monomic cost" or "monomic price" (that represents the average cost of generating electric power), and the seasonal energy price (published by the Secretary of Energy and fixed for all distributor demand).[5] The difference between both values is consolidated in subsidies from the National Administration that are financed from the National Treasury. Transfers from the National Treasury are made through the Secretary of Energy to CAMMESA as nonreimbursable contributions. The persistence of a monomic price for generation that was higher than the seasonal energy price led

[5] See paragraphs 3.2 and 3.3 of optional link 5 on monomic pricing and the seasonal energy price.

to a growing volume of subsidies distributed by the State through the National Treasury to ensure the electric power supply.[6]

1.7 Since the sector was deregulated in the early 1990s, the cost of generation was fully shifted to consumers. However, after 2003, the full cost of electric power generation was not included in these prices (Figure 3). The coverage provided by the seasonal energy price has gradually fallen since 2002, and by 2023, it only covered 47% of real energy costs. The fact that rates have not changed has led to a growing gap between generation costs and the seasonal energy price, which has driven up subsidies over the last 20 years, requiring support from the National Treasury (optional link 5).

Figure 3. Seasonal energy price coverage (in % of real energy costs) and subsidy



Source: Prepared by Economy and Energy based on CAMMESA data.

1.8 Given that rates have been frozen in recent decades, different mechanisms have been instituted to transfer resources to distributors to compensate for operational deficits and ensure minimum levels of investment in the system. Because the DAV has not been updated, several distributors have resorted to funding themselves by not paying CAMMESA for the energy they supply, which has increased the need for support from the National Treasury.

1.9 Due to the need to reduce the fiscal impact of the subsidies, the Argentine government implemented a Subsidy Segmentation System in 2022 (Decree 332/22).[7] This system divided residential customers into three groups with differential seasonal pricing, classified according to their socioeconomic and property status: N1 for “high” incomes, N2 for “low” incomes, and N3 for “average” income[8] (Figure 4). Once the segmentation system was in place, efforts were

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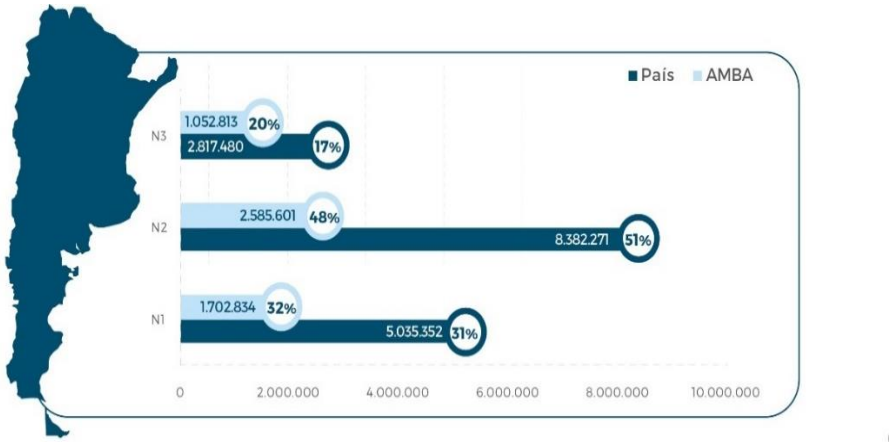
6 Subsidies over the last decades are also explained by an increase in the monomic price of generation, due to: (i) the increase in the price of fuels (thermal generation), and (ii) the incorporation of power under long-term supply contracts (power purchase agreements).

7 Users have to sign up in the Energy Subsidies Access Registry (RASE) to be considered for the subsidy.

8 See optional link 5 for more detail.

made to update rates in the electricity sector, allowing a partial restructuring of the flow of revenue into the system. However, inflation and the depreciation of the exchange rate quickly eroded its real value, once again widening the gap between real energy costs and the value of the seasonal energy price. In December 2023, segments N1, N2, and N3 paid approximately 59%, 9%, and 17% of the cost of MEM, respectively.[9]

Figure 4. Number of customers by segment (July 2024)



Source: Prepared by the authors with data from the Secretary of Energy.

1.10 Looking back, rate policies for electricity services have been marked by cycles of delayed rate adjustments (and partial restructuring) that have kept customer prices lower than the real cost of the service. Regulations have also had broad discretion and high inconsistency, which has blocked efficient investments, affecting both system costs and service quality. Eliminating market mechanisms also led to sustained growth in subsidy levels to make up the difference between the prices covered by demand and the real costs of the system.

1.11 The new government has proposed a gradual reform strategy for the electricity sector, aimed at reestablishing market incentives while protecting the most vulnerable groups. In December 2023, the Argentine government declared an emergency situation in the electricity sector under federal jurisdiction[10] (Decree 55/2023). Using this decree, the government reestablished market incentives, including the gradual recovery of costs and economic rewards for electricity transmission and distribution services as a means to balance the economic-financial equation of electricity service delivery. The Argentine government announced a redesign of the energy subsidy structure with the objective of targeting the subsidies toward the most vulnerable sectors.

1.12 The government's initial actions have focused on aligning customer rates with service delivery costs, including updating seasonal energy prices and changing the segmentation plan. The seasonal energy prices were updated in

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9 CAMMESA report.

10 Decree 70/2023 also declared a public emergency in economic, financial, fiscal, administrative, pension, health, pricing, and social matters until December 2025.

February 2024, through Resolution 7/2024.[11] Although prices for N2 and N3 residential customers did not change, the seasonal energy price was increased for N1 customers. Subsidies were also eliminated for nonresidential (commercial) consumers with demand of up to 10 kW. In June 2024, the changes were made to the rate segmentation system for the entire residential sector, and a single seasonal energy price was put in place for all demand through Resolution 90/2024 (see details in optional link 5). The government's efforts have focused on reducing subsidies in the residential sector for segment N1, and for the commercial and industrial sectors. Optional link 5 includes a detailed description of the changes made and actions taken.

1.13 The government announced the restructuring of the residential energy subsidy systems (Decree 465/2024) to ensure a gradual, orderly, and predictable transition to a targeted system that transfers the real energy costs to customers, promotes energy efficiency, and ensures that vulnerable residential customers have access to needed electricity consumption.[12] The decree established a transition period[13] to move toward targeted energy subsidies between June and November of 2024. The length of the transition period may be extended once, for a period of six months.

1.14 The increase in electricity rates for residential customers has been significant. Between January and June of 2024, in constant values (adjusted for inflation[14]), the increase was 107% for N1 customers,[15] 170% for N2 customers, and 302% for N3 customers (Figure 5). In June 2024, segments N1, N2, and N3 paid approximately 79%, 33%, and 48% of the MEM cost, respectively.

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11 Three increases were made to the seasonal energy price in February, May, and August 2024.

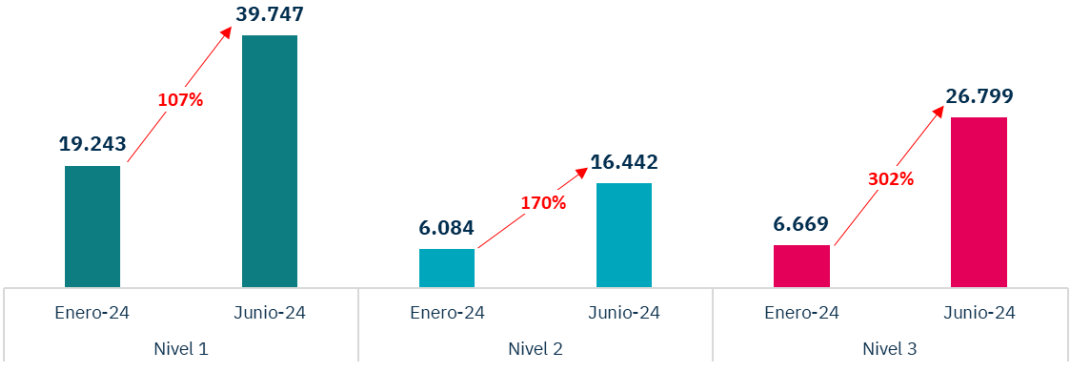
12 This decree overruled the rate adjustment of the component that is fixed as a percentage of the salary change rate from the prior year, which capped increases on bills for segments N2 and N3.

13 Decree 465/24 is a policy measure included in the programmatic policy-based loan for the Fiscal Policy Strengthening Program (AR-L1404). The operation will finance specific investments for the implementation of this policy.

14 Based on INDEC's consumer price index (CPI), the prices of "electricity, gas, and other fuels" in Metropolitan Buenos Aires climbed by 380.8% in the first nine months of 2024, compared with general aggregate inflation of 104.7%. Although these services carry a low weight in the index (2.5%), their aggregate impact on variation in the general level of the CPI as of September was 5.72 percentage points. The information on Metropolitan Buenos Aires is scalable at the national level.

15 For N1/Metropolitan Buenos Aires customer, the seasonal energy price represented 75% of the bill (before taxes) in August 2024.

Figure 5. Electricity bills for consumption of 350 kWh/month (Constant Arg$[16]/month)



Source: Prepared by the authors with data from the Ministry of Economy, the Secretary of Energy, and ENRE.

1.15 **Reducing subsidies affects affordability for vulnerable groups.** The adjustment to electricity rates, focused on reestablishing price signals and improving the recovery of system costs, combined with a drop in real incomes, is colliding with the ability of vulnerable groups to pay for basic services like electricity. Figure 6 illustrates the share of income needed to pay for electricity service by income decile, comparing a subsidized scenario and an unsubsidized scenario for different income groups.[17] Without the subsidy, households in decile 1 (those with the lowest incomes) have to put 23% of their income toward an electricity bill that covers the entire cost of service delivery. This number far exceeds the threshold for energy poverty (defined as spending on energy, including electricity, gas, and other fuels, that does not exceed 10% of income). In contrast, with the subsidy in effect in June 2024, a household in the first decile spent about 7% of their income on electricity. In this context, one of the specific objectives of this program is to guarantee affordable electricity services for the most vulnerable households, ensuring that their bills do not exceed 7% of their income. By maintaining this percentage, vulnerable households will not have to face an economic burden disproportionate to their household budget, ensuring that the service is affordable without compromising the wellbeing of vulnerable groups. As of July 2024, 2.5 million households in Metropolitan Buenos Aires had received the subsidy as part of segment N2. Group N2 is diverse. The majority are women (66%), 10% of whom are heads of household. At the same time, 6% of N2 householders have a disability certificate (CUD), and 2% have children with a disability certificate. In other words, 8% of the N2 population are households with a member with a disability. However, there is no disaggregated data by gender or diversity (including those who self-identify as Indigenous or of Indigenous descent and people with disabilities) about the energy use of targeted households.

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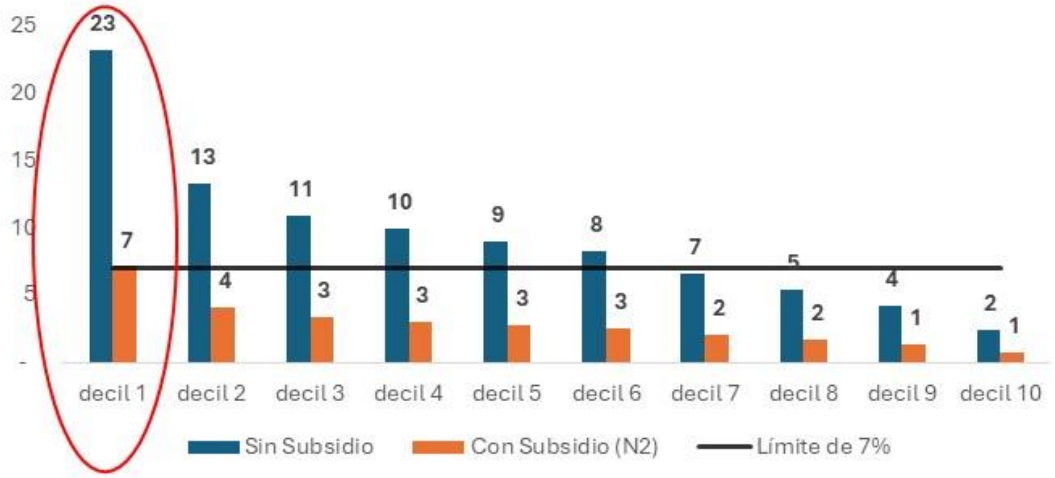
[16] The exchange rate in August 2024 was Arg$/US$ = 953.5 (Central Bank). For N2, the bill in dollars was US$17.9.

[17] Simulation of 350 kWh of consumption. One feature of Argentina is that the level of consumption does not vary significantly between different income deciles and is relatively high compared with the average for Latin America and the Caribbean. The amount 350 kWh/month was used because it is the baseline electricity consumption defined by the Argentine government.

Figure 6. Percentage of household income needed to pay electric bills (simulation with and without subsidies)



Source. Created by the authors based on the Permanent Household Survey (EPH) 2024, ENRE, and CAMMESA.

1.16 **This change of course on energy has revealed the need to confront the electricity sector's structural defects.** Rate segmentation has enabled certain progress in targeting subsidies, but the deterioration of infrastructure and the delay in adjusting rates has demonstrated the electrical system's fragility. The challenges related to institutional capacity are critical to ensure the sector's sustainability and guarantee a reliable and affordable supply for all customers, especially for the most vulnerable groups. It is crucial to develop new tools and robust capacities to holistically address the sector's structural problems.

1.17 **Institutional strengthening is essential to implement a subsidy system that is efficient, progressive, and sustainable.** Solid institutions enable the design and implementation of targeted subsidy policies, ensuring transparent management of resources. The Argentine government has made significant strides in restoring price signals and adopting rate schedules that reflect the real cost of the service, but the reform process demands more precise targeting. There are shortcomings in communication about subsidies, technical regulation, and data management. In order to move toward a more sustainable energy system, these areas must be strengthened with tools, equipment, trained staff, and effective communication that promotes customer understanding and responsibility around energy consumption.

1.18 **It is essential to develop institutional tools and capacities to properly manage demand and encourage efficient electricity use.** Even though the law and distributor concession contracts establish the obligation to promote rational energy usage, its implementation has been limited due to lack of proper price signals and modern technology, each as smart grids and meters. There are an estimated 700,000 smart meters in Argentina,[18] not enough to drive efficient management of demand. These technologies are crucial to reduce energy

[18] Taking into account public and nonpublic data from distributors, generators, large customers, and the OED, the number of meters in Argentina is 721,263.

consumption, improve efficiency, and decrease environmental impact, but their limited adoption has left the system vulnerable to overload and inefficient use of energy resources.[19] High-quality data and information are essential to improve targeting, along with appropriate technological infrastructure that includes hardware, software, and trained personnel. This will enable the data to be captured, analyzed, and used efficiently to make informed decisions. However, this digital transformation of the energy sector also increases exposure to cybernetic risks, which calls for the implementation of security measures that will protect information systems and the electrical grid.

1.19 **Implementing a rate plan that reflects the real cost of service delivery is critical.** The lack of proper price signals has prolonged the inefficiencies in the electrical grid's management and discouraged investments in modernizing the infrastructure, as well as the installation of solar panels by customers to reduce their energy costs. Setting rates that reflect the real costs of service delivery will attract investment to modernize the system and incentivize the efficient use of resources. Over the last decades, this lack of investment has weakened the quality and reliability of service. As an example, the thermal power plant is facing maintenance problems, putting its ability to meet demand at risk. CAMMESA warns about the risk of massive cuts on extremely hot days. Concessions of important hydroelectric plants have also expired, and without new investment, their generation capacity may decline. In transmission, growing demand has the system running at full capacity, causing bottlenecks in the electrical grid.[20] Defects in the medium- and high-tension grids[21] have led to negative operating effects, with limited operating reserve levels that are not compatible with reliable operation.

1.20 **A reduction in subsidies and establishment of sustainable rates are key tools to reduce greenhouse gas emissions and support the country's climate change targets (optional link 3).** Fossil fuel subsidies and energy consumption contradict Argentina's emissions reduction goals and have made it hard to implement the long-term policies needed for the sustainable energy transition. Not only are these subsidies a considerable cost to the State, but they have discouraged greater penetration of renewable sources (World Bank, 2022). Reducing electricity subsidies is a key measure to reduce greenhouse gas emissions and is considered to be one of the most effective climate actions,[22] especially in Argentina, where the energy sector represents 45% of greenhouse gas emissions[23] and the energy matrix is still dominated by hydrocarbons. Reducing the subsidies could also facilitate greater adoption of renewable energy in residences by eliminating the distortions that have limited their growth in the market. The reduction in subsidies aligns with the Argentine Republic's commitment to achieve carbon neutrality by 2050 (ELP), its Nationally Determined Contribution and the 2030 Climate Change Adaptation and Mitigation Plan.

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19 Smart metering in Latin America and the Caribbean (IDB, 2023).

20 2022 estimates indicate US$5.575 billion in investment is needed by 2030.

21 AIE, 2021. Most of the investment needed in sustainable development, after the expansion of renewable energy, is for expansion and modernization of the grid. Grid investments need to be doubled.

22 Science, 2024; Talbot-Wright et al., 2024; Delgado et al., 2023; Enríquez et al., 2018; Arzaghi and Squalli, 2023.

23 MAyDS, 2023.

1.21 **Gender and diversity.** In Argentina, women are more economically vulnerable than men. More than 60% of the first individual income decile is women. In contrast, more than 60% of the wealthiest decile are men.[24] The average gender income gap is 27.4%.[25] This situation is even more critical for women who are heads of household, whose poverty rate is almost 10 points higher than male heads of household.[26] People with disabilities represent 10.2% of the Argentine population, and 25.3% of households have an least one member with a disability (in Metropolitan Buenos Aires, this number is 26.2%).[27] In 2018 (the most recent data available), 23.7% of people with disabilities were at risk of financial poverty, compared with 15.3% of the population without a disability.[28] The unemployment rate for persons with disabilities was 10.3%, one percentage point higher than the population without disabilities, which points to greater economic vulnerability for people with disabilities. Approximately 2.9% of the population self-identified as Indigenous or of Indigenous descent[29] (2.19% in Metropolitan Buenos Aires), and they face disparities in housing, education, employment, and health compared with the non-Indigenous population.[30] Because of this, as part of Component II: (i) data disaggregated by gender (women) and diversity (Indigenous people and persons with disabilities) will be collected in the comprehensive information system about subsidy targeting; and (ii) as part of the household energy performance assessment, energy use data will be collected and disaggregated by gender (women) and diversity (Indigenous people and people with disabilities) criteria.

1.22 **Joint response with the World Bank and Inter-American Development Bank (IDB) to target subsidies and support the vulnerable population.** In the last two reviews of the program with the IMF (February and June 2024), complementary support from the World Bank and IDB was included in the structural reforms, particularly improved subsidy targeting and protection of vulnerable households. The 2024 IDB program with the Argentine Republic aligns with these priorities, focusing on macroeconomic stabilization, fiscal prudence, and protections for the most vulnerable groups. In collaboration with the World Bank, the technical teams from both institutions designed programs to support the Argentine Republic in transitioning toward a more efficient system of electricity subsidies (paragraph 2.3). The World Bank investment loan, for US$500 million, accompanies the subsidy regime restructuring and is aligned with the structural milestones of the IMF program. In parallel, the IDB loan is also aligned with the IMF program and supports affordable electricity for vulnerable households in Metropolitan Buenos Aires. This region is a priority due to its size and importance, given that it accounts for 32% of the country's total energy demand, and of the 20 million people in the country who live below the poverty line, 5.7 million of them reside in Metropolitan Buenos Aires. The programs were prepared in coordination, are complementary, and will be jointly supervised.

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24 EPH, 2024

25 Idem.

26 Idem.

27 *Estudio Nacional sobre el Perfil de las Personas con Discapacidad*.

28 ILO.

29 *Censo Nacional de Población, Hogares y Viviendas 2022*.

30 The Socioeconomic Outcomes of Native Groups in Argentina. World Bank Document, 2024.

1.23 **Program design strategy.** Access to electricity is fundamental for social and economic development, impacting household wellbeing, education, health, and economic growth, and contributing significantly to poverty alleviation.[31] Laws 15,336 and 24,065 establish that electricity service is essential for citizens, and necessary investments should be made to ensure a reliable supply at affordable rates. In line with IMF recommendations,[32] the energy subsidy program must reconcile the rate adjustments required for fiscal sustainability with social protection for the most vulnerable. However, these programs must be carefully designed to ensure that they are efficient and sustainable.[33] The deterioration of the electricity sector, characterized by a lack of investment and operating inefficiencies, could create a vicious cycle of higher costs, a declining quality of service, and a growing need for subsidies.[34] The program has been designed to assist the Argentine government in the transition to a targeted electricity subsidy plan, protecting vulnerable households and promoting the sector's sustainability by addressing two critical challenges: affordability of electricity services; and gaps in governance and institutional capacity that hinder the implementation of a progressive and sustainable subsidy system.

1.24 **Proposed solution.** The program proposes a comprehensive approach to confront the challenges in the electricity sector, promoting sustainability, energy efficiency, and the reduction of greenhouse gas emissions, while also managing the cost of subsidies and protecting the most vulnerable customers. In Metropolitan Buenos Aires, the program is focused on ensuring that low-income households maintain access to affordable electricity service, while institutional capacity is strengthened in order to implement a fairer and more progressive subsidy system. It will drive efficient management of energy demand and the adoption of rates that reflect the real cost of electricity. These efforts seek not only to ensure a more sustainable electricity sector but also to provide quality services to the entire population (optional link 7).

1.25 **IDB experience in the sector and country.** This is the first operation in Argentina where the Bank will provide direct support with an investment loan to help solve a historic program like subsidies in the energy sector. The Bank has financed cash transfer programs in the region in other sectors, including: (i) "Hacemos Futuro (Forging Our Future)", "Becas Progresar (Scholarships for Advancement)", and the program for discounted public bus fares for low-income riders, with the objective of promoting employability and education among vulnerable populations in Argentina (4648/OC-AR); (ii) subsidies conditional on health and education in Colombia (2356/OC-CO); and (iii) transfers to increase the incomes of the poorest households and protect against external shocks in Honduras (5681/BL-HO). The energy portfolio itself includes loans for hydroelectric generation, such as the Modernization of the Salto Grande Binational Hydropower Complex (4694/OC-RG, 4695/OC-RG) and Phase II-a of that same project (5767/OC-RG, 5768/OC-RG), and transmission lines with the Federal Electric Power Transmission Program (5564/OC-AR). The Bank has helped strengthen institutions, improve transparency, and promote efficient subsidy design in the region. This was achieved through

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31 Cavallo et al., 2020.

32 IMF Eighth Review Agreement.

33 Marchán, Espinasa, and Yépez-García, 2017.

34 Idem.

technical assistance, financing of energy reform programs, and policy dialogues. Some examples include: (i) Honduras (3386/BL-HO, 3619/BL-HO, 4448/BL-HO); (ii) Panama (4234/OC-PN, 5178/OC-PN); and (iii) Suriname (2848/OC-SU, 3062/OC-SU, 3691/OC-SU).

1.26 **Lessons learned.** These include: (i) establish proactive communication with society about the impact of the rate adjustments, essential for managing public expectations and ensuring that the reforms are accepted.[35,36] For this, one output was the design and implementation of a communications plan about subsidies and rates; (ii) establish effective mechanisms for dialogue and collaboration between sector entities, which will be addressed with the coordination mechanism laid out in the Program Operating Regulations. This facilitates the implementation of reforms and mitigates the risk of delays, especially for reforms that are politically sensitive, like those related to rates and subsidies;[37] (iii) define clear limits and exit mechanisms for temporary subsidies, so that they do not become fiscal burdens in the long term.[38] The program will support the Argentine government in designing a targeting mechanism; and (iv) allow programs the flexibility to adapt to the reality of each country without losing sight of the general objectives. In that sense, the program has been designed in phases to adapt to the country's circumstances.

1.27 **Value added of the IDB, complementarity with technical support.** The World Bank and IDB technical teams held joint technical meetings with personnel from MECON and the Secretary of Energy about energy subsidies, with the objective of providing technical support based on international experience with targeted energy subsidies, sharing studies and practices about various methodologies, relationship between income and electricity consumption, examples of best practices in communication about these policies, and more. Execution of the program will also be supported through technical cooperation for "Support for the Program for Energy Sustainability: Integrating Social Protection and Efficiency" (AR-T1371). As part of the technical cooperation, a diagnostic assessment will be conducted of the current data systems used to target the subsidies. This will be critical to gather relevant and necessary data for preparing the bidding documents to procure hardware and software, design the impact evaluation, and improve the effectiveness and sustainability of the subsidy targeting plan. This diagnostic assessment will help identify weaknesses and opportunities in data management, facilitating the adoption of new technologies for data collection and analysis. The technical cooperation will also support hiring of sector specialists, who will provide specialized advisory services on systems and regulation, ensuring that the proposed improvements are sustainable in the long term. These activities are expected to lead to the optimization and updates of the beneficiary criteria for the targeting of electricity subsidies, guaranteeing that the subsidies reach those who really need them. Likewise, the Bank provides support in two key areas: (i) playing a role as a technical secretary and supporting dialogue between Argentina and its neighboring countries to facilitate efficient energy exchange, under the Regional Energy Integration of the Southern Cone System; and (ii) through studies on the status of large hydroelectric facilities with

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35 Increasing the Acceptance of Energy Subsidy Reforms. Vieites et al., 2022.

36 PCR 4448/BL-HO; PCR 2848/OC-SU.

37 PCR 4234/OC-PN.

38 PCR 3420/OC-EC.

concessions that are approaching expiration and preparing the legal documents. Finally the Bank formed a technical team that provides technical assistance to explore regulatory options and financing models to attract private investment to the sector.[39] The Bank is also preparing a programmatic policy-based loan (PBP), "Fiscal Policy Strengthening Program" (AR-L1404), that promotes policy measures to improve the quality of public spending and includes the restructuring of the electricity subsidy regime and the transition period, addressed in Decree 465/2024 (paragraph 1.13), with implementation financed by this operation; and an investment loan "Social Protection Program" (AR-L1409), aimed at reducing early childhood poverty and increasing access to services that promote child development in vulnerable households.[40]

1.28 **Strategic alignment.** The program is consistent with the IDB Group's Institutional Strategy: Transforming for Greater Impact and Scale (CA-631) and is aligned with the objectives of: (i) reducing poverty and inequality by guaranteeing affordable electricity access for vulnerable households, thereby protecting the poorest population from the impact of rate reforms; (ii) addressing climate change by supporting the transition toward a more efficient and sustainable energy subsidy plan, encouraging energy efficiency, and contributing to the reduction of greenhouse gas emissions; and (iii) bolstering sustainable regional growth by strengthening institutional capacities, increasing transparency, and encouraging private participation in the energy sector. The program is also aligned with the following operational focus areas: (i) biodiversity, natural capital, and climate action; (ii) gender equality and inclusion of diverse population groups; (iii) institutional capacity, rule of law, and citizen security; (iv) social protection and human capital development; (v) sustainable, resilient, and inclusive infrastructure; and (vi) productive development and innovation through the private sector. The program is aligned with the Extension of the Transition Period of the Country Strategy with Argentina[41] (GN-3051-2) with the strategic objectives of: (i) poverty reduction; (ii) improving technical efficiency and allocative efficiency of public spending; (iii) improving the regulatory framework; and (iv) digital governance. The operation is consistent with the Energy Sector Framework (GN-2830-8) because it contributes to: (i) replacing non-targeted energy subsidies with others that are properly targeted and sustainable directed at the vulnerable population; and (ii) develop capacities to create energy policies; with the Climate Change Sector Framework (GN-2835-13) by supporting the reduction of greenhouse gas emissions; and with the Strategy for Sustainable Infrastructure for Competitiveness and Inclusive Growth (GN-2710-5), with the strategic principle of planning and maintaining infrastructure to provide quality services that encourage sustainable and inclusive growth.

1.29 **Climate financing.** As the energy sector is the largest source of greenhouse gas emissions (paragraph 1.20), actions that encourage efficient energy use are key to accelerating decarbonization. This is in line with the Nationally Determined

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[39] The technical group is focused on transmission and includes: IDB Invest, public-private partnerships, and the IDB mining and energy divisions. The objective is to analyze the regulatory framework and financing mechanisms to promote private investment. The group is holding work meetings and preparing a road map.

[40] Both operations will go before the Bank's Board of Executive Directors for consideration in November 2024.

[41] IDB Country Strategy 2021-2023 transition period extendable until June 2025.

Contribution and the 2050 carbon neutrality target (ELP). The market signals and incentives that come from rates based on real costs encourage rational energy use and improve the system's efficiency (paragraph 1.20). Until 2024, there was no limit on the consumption of subsidized energy (paragraph 1.13), which disincentivized energy savings and hindered the adoption of renewable energy, such as solar panels in the residential sector, as well as distorting carbon prices.[42] The subsidy reform supported by this program addresses the problems targeted at: (i) transferring the energy cost to the end customer, (ii) establishing a ceiling on subsidized consumption and reducing subsidies to N3,[43] and (iii) targeting subsidies to the most vulnerable population in Metropolitan Buenos Aires, supporting a fair transition toward decarbonization.[44] In accordance with the joint methodology of the multilateral development banks, 98.81% of resources contributed by the IDB correspond to program climate financing (optional link 3).

1.30 **Paris alignment.** This operation has been reviewed using the Joint MDB Assessment Framework for Paris Alignment and the IDB Group Paris Alignment Implementation Approach (GN-3142-1). It has been found to be: (i) aligned with the Paris Agreement's adaptation goal; and (ii) aligned with the Paris Agreement's mitigation goal, based on a specific analysis. The alignment is based on the following: (i) the data center equipment, in accordance with the Program Operating Regulations, will be rated Energy Star or the equivalent; and (ii) no refrigeration with hydrofluorocarbons will be financed. There is no risk of compromised emissions, and no transition risks have been identified.

1.31 **Consistency with the Public Utilities Policy (GN-2716-6).** The program is consistent with the objectives and principles of the Public Utilities Policy (optional link 2). The analysis shows that it meets the conditions of: (i) financial sustainability, inasmuch as the distributors have the technical and financial capacity to cover the operating and maintenance costs, and the Argentine government has pledged to covering the subsidies; and (ii) economic evaluation, with an internal rate of return higher than 12% and a positive net present value (optional link 1).

B. Objective, components, and cost

1.32 **Objective.** The general objective of the program is to strengthen the sustainability of the electricity sector by improving the targeting mechanism to safeguard electricity consumption for vulnerable customers. The specific objectives are: (i) to support the affordability of electricity service for vulnerable households in Metropolitan Buenos Aires; and (ii) to strengthen institutional capacity, for the sustainability of the electricity sector.

1.33 **Component I. Social protection for vulnerable populations through subsidies to ensure access to electricity service (US$678 million).** This component supports affordable electricity service for vulnerable households in

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42 The price of carbon in Argentina (US$5 per ton of carbon dioxide equivalent) is considered low compared with the IMF and High-Level Commission on Carbon Prices (€75 and €40-€80 per ton, respectively). The energy subsidies create a significant negative impact on effective carbon rates by distorting the price applied to carbon emissions, meaning CO_2 emissions are not appropriately taxed (IDB, 2023).

43 Resolutions 90/2024 and 91/2024.

44 A fair transition toward decarbonization includes steps to minimize the impact of energy price increases on the most vulnerable population (IDB, 2023).

Metropolitan Buenos Aires (paragraph 1.8) by ensuring that they can continue to access essential electricity service through targeted electricity subsidies. This program's electricity subsidies are applied to the rate structure resulting from the difference between: (i) the cost of generating energy, known as the "cost" or "monomic price," which represents the average electricity generation cost; and (ii) the price that vulnerable residential customers pay. This component will finance expenses related exclusively to the electricity subsidies[45] granted to vulnerable residential customers in Metropolitan Buenos Aires that are reflected on the bill from distributors to customers and are settled through funds from the National Treasury to CAMMESA (the targeted electricity subsidies). To improve these subsidies in a way that is both gradual and progressive, Component I is divided into three phases, as explained in the following subcomponents:

1.34 **Subcomponent I.1. First phase of targeted electricity subsidies (US$300 million).** Financing will be provided for up to 90% of the amount of the targeted electricity subsidies whose beneficiaries meet the criteria and conditions for low-income residential consumers of the public electricity service established in the Program Operating Regulations, in accordance with Decree 332/22 and Decree 465/24, as appropriate.

1.35 **Subcomponent I.2. Second phase of targeted electricity subsidies (US$150 million).** Financing will be provided for up to 90% of the amount of the targeted electricity subsidies whose beneficiaries meet the criteria and conditions that have been optimized and updated for low-income residential consumers of the public electricity service, under the terms agreed upon with the Bank with the support through Component II.

1.36 **Subcomponent I.3. Third phase of targeted electricity subsidies (US$228 million).** Financing will be provided for up to 90% of the amount of the targeted electricity subsidies whose beneficiaries meet the criteria and conditions for low-income residential consumers of the public electricity service that are set up in the new restructured subsidy system approved and implemented by the borrower with Bank support through Component II. The new targeted electricity subsidies plan will improve resource targeting, ensuring affordable electricity service for vulnerable groups. It will also optimize the use of public funds and improve the sector's financial sustainability (paragraph 2.9).

1.37 **Component II. Institutional strengthening and technical studies (US$20 million).** This component will finance the strengthening and improvement of institutional capacities with tools and instruments to drive development and sustainability in the energy sector. Financing will be provided for the following, among other activities: (i) the hiring of sector experts in different action areas, including data, systems, and technical regulation (consulting firms or individuals); (ii) the procurement of goods and services to improve data and information management systems used in the subsidy targeting plan, including software and hardware; (iii) the design and implementation of a communications plan about the subsidies, rate structure, and energy efficiency, including programs and educational, training, and awareness campaigns about efficient electricity use and the implementation of energy efficiency measures; (iv) consulting assignments and trainings to improve the

[45] No other kind of subsidy or transfer, either direct or indirect, to participants in the Argentine energy market will be eligible for financing with proceeds from the loan.

complaint mechanism; (v) the preparation of infrastructure investment plans, including the demand management plan (smart grids), along with the necessary rules and regulations; (vi) trainings on cybersecurity and data management, including the implementation of a security framework; (vii) regulatory studies that include sustainability improvements for the sector and updated rate sheets; (viii) technical studies to develop a new targeting mechanism; (ix) procurement of equipment with high energy efficiency certification; (x) development of energy saving strategies and technical trainings in energy efficiency and renewable energy, complemented by outreach campaigns and technical support; (xi) rigorous impact evaluation of the new targeting system and rate structure on relevant variables; and (xii) assessment of households' energy use performance, including the development of tools, questionnaires, and data collection about energy use disaggregated by gender (women) and diversity (Indigenous people and persons with disabilities) criteria. All of these activities are key to define and refine the targeting criteria and conditions.

1.38 **Administration, audits, and evaluation (US$2 million).** Financing will be provided for: (i) implementation of the program's monitoring and evaluation plan; (ii) program administration, coordination, and supervision; and (iii) the external audit and the costs of the midterm and final evaluations.

C. Key results indicators

1.39 **Strategic impact and expected results.** The program impact indicators (Results Matrix) are: (i) the fiscal impact of the energy subsidies; and (ii) the share of spending on electricity subsidies targeted to vulnerable residential customers over total spending on electricity subsidies. The outcome indicators are: (i) spending on electricity relative to the income of vulnerable residential customers who receive the subsidy for public electricity in Metropolitan Buenos Aires; (ii) customers with an outstanding balance, over the total number of vulnerable residential customers who receive the subsidy for public electricity in Metropolitan Buenos Aires; (iii) subsidized electricity over total electricity consumed by residential customers in Metropolitan Buenos Aires; (iv) coverage of the MEM cost of energy; and (v) training in data management and cybersecurity for energy sector personnel.

1.40 **Beneficiaries.** Of the 16.2 million residential customers of the electrical system in the Argentine Republic, this program will benefit the most vulnerable, those who meet the criteria for N2 eligibility under Decree 332/2022 and its modifications (Decree 465/2024). According to the Energy Subsidies Access Registry, as of 31 July 2024, N2 includes approximately 8.3 million customers, with at least 2.5 million in Metropolitan Buenos Aires (paragraph 1.8). IDB financing will benefit customers in Metropolitan Buenos Aires (paragraph 1.15), while the World Bank financing will have a nationwide impact. Indirectly, it is expected to improve efficiency and sustainability for all customers of the electrical system.

1.41 **Economic evaluation (optional link 1).** The economic evaluation of the program indicates that the economic return is positive under different configurations of parameters that are considered reasonable. This is focused on the quantification of three benefits during the period of program support: (i) the social welfare gains associated with a reduction in inefficient energy consumption; (ii) greenhouse gas reduction; and (iii) the fiscal savings as a consequence of reducing administrative costs linked to subsidy allocation. In the evaluation's base-case scenario, the estimates indicate that if the targeting improvements only impacted N2 customers,

the project would have an internal rate of return of 39%. The results are robust to changes in the assumptions about the improvements that can be achieved through subsidy targeting, to the price elasticities, and to changes in the main pricing parameters.

II. Financing Structure and Main Risks

A. Financing instrument

2.1 **Instrument and modality.** The program is structured as an investment loan under the specific project modality inasmuch as: (i) it will finance defined projects in terms of cost and design that are technically, financially, and economically feasible; (ii) disbursements will be made against specific expenditures made by the executing agency for program components; and (iii) the logic of its components cannot be separated without affecting the nature of the program.

2.2 **Cost and financing.** The cost of the program is US$700 million, which will be financed through a loan from the Bank's Ordinary Capital, as shown in Table 1. See details in procurement plan.

Table 1. Estimated program costs (US$)

Component I. Social protection for vulnerable populations through subsidies to ensure access to electricity service	**678,000,000**
Subcomponent I.1. First phase of targeted electricity subsidies	300,000,000
Subcomponent I.2. Second phase of targeted electricity subsidies	150,000,000
Subcomponent I.3. Third phase of targeted electricity subsidies	228,000,000
Component II. Institutional strengthening and technical studies	**20,000,000**
Improve data quality	3,100,000
Improve technical and technological capacities of teams	5,032,500
Improve integration of information into the database - technical and technological capacities	1,700,000
Communications plan designed and implemented	3,200,000
Strengthen call center capacities	1,360,000
Design targeting plan	500,000
Regulatory updates	692,500
Strengthen planning capacities	475,000
Cybersecurity framework	1,380,000
Energy efficiency trainings	360,000
Evaluation of households' energy performance	1,400,000
Impact evaluation	800,000
Administration, audits, and evaluation	**2,000,000**
Execution unit	1,760,000
Monitoring and evaluation	40,000
External financial audits	200,000
Total	**700,000,000**

2.3 **Parallel financing.** For the transition to a more efficient electricity subsidy plan, the World Bank will provide US$500 million in parallel financing[46] (paragraph 1.22) through an investment financing loan under the performance-based conditions disbursement modality.[47] The World Bank loan will be given directly to the Argentine Republic to strengthen the institutional capacities need to streamline electricity subsidies nationally.[48] The technical supervision will be handled jointly, and joint supervision missions will be conducted to ensure alignment and monitoring.

2.4 **Disbursement schedule.** The disbursement period will be four years from the date on which the loan contract enters into effect. In agreement with the Argentine Republic, and based on how the program is designed, the estimated projection for loan proceeds is shown in Table 2, provided the borrower meets the disbursement conditions laid out in this document:

Table 2. Projected disbursements (US$ million)

Source	Financial transaction	Year 1 2024/2025	Year 2 2025/2026	Year 3 2026/2027	Year 4 2027/2028
Total	IDB	308	158	117	117

B. Environmental and social risks

2.5 The program is classified as a category "C" operation under the Environmental and Social Policy Framework, as negative environmental or social impacts are expected to be minimal or nonexistent. Environmental and Social Performance Standards 1, 2, and 10 were triggered, and actions will be considered during project design (required link 3).

C. Fiduciary risks

2.6 Identified as a high risk is the limited technological capacity at MECON's Secretary of Energy and ENRE in hardware, software, storage, and data processing, which could cause data loss, jeopardizing management of billing, rates, and control with distributors, which would affect data analysis and traceability. To mitigate this risk, the executing agency, with technical support from the Bank, will strengthen its technological infrastructure by improving its storage capacity, security, and database management.

D. Other risks and key issues

2.7 **Institutional capacity.** The executing agency has a partially satisfactory institutional capacity for program execution. Although the executing agency has previous experience on projects with international financing, there are

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[46] It is considered parallel financing because the World Bank and the IDB will provide separate loans. Each lender will manage their own loan independently following their own policies and procedures, where the approval and execution of one does not depend on the other.

[47] The World Bank project is expected to be presented to the World Bank's Board of Directors in November 2024.

[48] The parallel financing from the World Bank is not needed to implement the activities that will be financed by the IDB and will not be considered as a local contribution from the Argentine Republic for the purposes of the IDB operation.

opportunities for improvement, largely with project management and technical quality management. For this reason, a special contractual condition for the first disbursement has been included, namely, the hiring and/or appointment, as needed, of a Specialized Project Team to guarantee governance of the program mentioned in paragraph 3.5. On the fiduciary side, it was determined that a specific process needed to be established in the Program Operating Regulations to confirm the eligibility of expenditures on targeted electricity subsidies to be financed by the program (paragraph 3.7). The executing agency is believed to have the capacity to take these actions in the short term and execute the program.

2.8 Regarding risk analysis, five risks in addition to the fiduciary risk described in paragraph 2.6 were identified, as described, along with their mitigation strategies, in Table 4.

Table 4. Identification of other risks

Risk description	Risk taxonomy	Mitigation strategy	Risk level
If the data sources used to target beneficiaries of the electricity subsidies have errors or limitations, problems could arise in terms of the incorrect inclusion or exclusion of beneficiaries, which would result in inefficient allocation of loan resources, failure to achieve the program's results indicators, and possible reputational damage.	Technical design	The executing agency will assign a team of data experts to review the integrity of the databases and adjust the selection criteria for the beneficiaries. The program was also designed in phases to gradually improve data quality. As a contractual condition of execution, the targeting criteria will be optimized through improvements to data collection and management, cross-checking information from diverse sources (paragraph 3.6).	High
If improvements to the subsidy plan or fulfillment of the conditions for Subcomponents I.2 and I.3 are delayed, whether because of the learning curve for staff or adaptation of participating entities, it could affect the results, execution timeline, and critical path of the program.	Institutional environment	The Bank will provide technical assistance to the executing agency in the creation of the program planning and implementation tools, meeting the deadlines in the Program Operating Regulations. Training and workshops on project management and planning will also be organized. As a contractual condition for the first disbursement, a Specialized Project Team will be formed with a minimum team to strengthen the executing agency's capacities (paragraph 3.5).	Medium-high
If the roles and responsibilities of each entity or actor involved in managing the subsidy plan financed by the program are not clearly defined, including the data and reporting system, the lack of technical coordination may cause delays in the program's physical and financial execution.		The executing agency will create an interagency coordination mechanism and a flowchart for the decision-making processes based on the Program Operating Regulations. As a contractual condition of the first disbursement, the roles and tasks of the key entities in implementing the electricity subsidy plan should be defined, in accordance with Article 6 of Decree 465/2024 (paragraph 3.5).	Medium-high
If, due to changes in priorities of the Argentine Republic's subsidy policy, including risk of exchange rate lags, changes in the international energy pricing, the destination and scope of the program's financial subsidies are modified, or the conditions of Subcomponents I.2 and I.3 are not met, if could affect the results, execution	Political environment	The executing agency will take steps to mitigate changes in the priorities of the subsidy policies, improve interagency coordination, and make adjustments without affecting the results or the timeline. The new subsidy plan is a commitment by the Argentine Republic backed by an agreement with the IMF, which is also included as a contractual	Medium-high

timeline, and critical path of the program.		condition of execution (paragraph 3.6). The IDB and the World Bank will maintain an active dialogue with the Argentine Republic for its implementation (paragraph 2.9).	
If there were a cyberattack or failure in the data systems of MECON's Secretary of Energy, ENRE, and the Chief of Cabinet, it could reveal sensitive information about the beneficiaries and diversion of resources, which would compromise the institutional reputation, resource management, and transparency.	Information systems	The executing agency should strengthen cybersecurity through advanced protocols and regular audits, implement an incident response plan, and train staff to protect sensitive information. The executing agency is required to appropriately maintain equipment and software (paragraph 3.8).	High

2.9 **Sustainability.** Program sustainability is supported by the Argentine government's commitment to fiscal balance, which is ratified in the policy reforms that is pursuing to increase the efficiency of the tax system and increase the allocative efficiency of public spending. These efforts by the government incorporate lessons learned from previous attempts, raising wholesale electricity prices and exercising strict control over adjustments for inflation, keeping them within margins projected for meeting the fiscal targets agreed upon with the IMF. Additionally, several energy sector reforms have been formalized through laws, decrees, and administrative regulations, ensuring their longevity. The reforms are complemented by active investment projects, financed in part by the Bank, in key areas such as fiscal management, social assistance, and the energy sector. Ongoing technical support from the Bank and other international organizations will be fundamental to ensure the success of the reforms and their proper implementation.

2.10 Secondly, the program also has a comprehensive and gradual strategy to ensure sustainability, addressing different key areas such as targeted subsidies, regulatory modernization, rate revision, and improvement of data and communication systems. These actions include training and outreach about the importance of energy efficiency and the implementation of rates based on real costs, which will reduce the fiscal burden and help mitigate greenhouse gas emissions by promoting more rational energy use. The government, in the framework of its agreement with the IMF, has committed to improving the subsidy targeting plan, with projected spending of US$4.118 billion in 2024 that will fall to US$1.837 billion in 2025, channeling the resources to the most vulnerable sectors. Although IDB financing will not continue after the fourth year, the program will continue to be sustainable as it will have achieved the subsidy reduction objectives.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower will be the Argentine Republic, and the executing agency will be the Ministry of Economy (MECON), through the Secretary of Energy through the Deputy Secretary of Electricity, as the technical division with primary responsibility for that portfolio, and the Special and Sector Projects and Programs Division, which reports to the Deputy Secretary of Asset Administration and Standardization attached to the Secretary of Legal and Administrative Affairs, which will be in charge of managing the operational, financial, procurement, and monitoring aspects of the program. In the event that

changes are made to the organizational structure of MECON, the executing agency may act through any areas, divisions, offices, or agencies with similar duties and responsibilities that may, in the future, replace those mentioned in this paragraph, with the prior consent of the Bank.

3.2 The executing agency will comply with the contractual obligations established for program execution and will monitor payment of the targeted electricity subsidies financed by the program and will take any action needed to update, optimize, and restructure the mechanism established for these subsidies. To ensure proper execution of the program, the executing agency will delegate responsibilities to the Specialized Project Team, which will include the members mentioned in paragraph 3.5.

3.3 The responsibilities of the Specialized Project Team include the following: (i) serving as interlocutor with the Bank; (ii) coordinating with entities taking part in the program (paragraph 3.4); (iii) planning and monitoring the activities; (iv) managing administrative, financial, and technical issues; (v) managing disbursements; (vi) preparing reports on use of resources; (vii) supervising fulfillment of contractual clauses and provisions of the Program Operating Regulations; and (viii) presenting monitoring and evaluation reports to the Bank.

3.4 **Interagency coordination.** The executing agency will meet periodically with entities involved in energy subsidies to discuss various aspects of the current and future plan, including: cross-referencing of data, presentation of reports, monitoring of interagency agreements, and preparation of regulations. The executing agency is responsible for interagency coordination of the program with the public entities, organizations, and other stakeholders involved in electricity subsidy plan, as described in the Program Operating Regulations.

3.5 **Special contractual conditions precedent to the first disbursement. The borrower, through the executing agency, will submit evidence, to the Bank's satisfaction, of: (i) the approval and entry into force of the Program Operating Regulations in accordance with the terms previously agreed upon with the Bank; (ii) the delegation of responsibilities to a Specialized Project Team within the executing agency's operating structure and the hiring and/or designation, as needed, for that Specialized Project Team, of a program coordinator, a technical director, a procurement specialist, and a financial specialist; and (iii) the roles and tasks of relevant entities, as laid out in Article 6 of Decree°465/2024.** The first condition is necessary to guarantee proper execution of the program, ensuring the internal organization of the executing agency for program implementation. The second condition is necessary to ensure that the executing agency will have a Specialized Project Team with the right staffing for program execution, with defined responsibilities, to prevent any type of delay to implementation of the subsidy targeting. The third condition is necessary to determine interagency and technical coordination between the public entities that are involved in administration of the relevant databases to implement the subsidy regime.

3.6 **Special contractual conditions of execution. As conditions for disbursement of the loan proceeds: (i) in order to be able to disburse the loan proceeds needed to finance Subcomponent I.2, which is described in paragraph 1.35, the borrower, through the executing agency, will present evidence, to the Bank's satisfaction, of the optimization and updating of the criteria and**

conditions for identifying residential customers of the low-income public electricity services, under the terms agreed to with the Bank, which will include improvements in the data collection and management by cross-referencing information against various sources, such as socioeconomic records and consumption and tax data, which will facilitate more precise targeting of the targeted electricity subsidies, ensuring that they reach vulnerable groups; and (ii) in order to be able to disburse the loan proceeds needed to finance Subcomponent I.3, which is described in paragraph 1.36, the borrower, through the executing agency, will present evidence, to the Bank's satisfaction, of the approval and implementation of the new system of targeted electricity subsidies, which will include, at least, the objectives established in Article 1 of Decree 465/2024. The first condition will enable optimization, in coordination with Bank support through Component II, of the targeting criteria and conditions for vulnerable customers. The second condition will enable completion of the electricity subsidy restructuring, also with Bank support through Component II. Both conditions will enable improved quality of data sources for targeting beneficiaries.

3.7 **Program Operating Regulations.** Program execution will be governed by the loan contract and Program Operating Regulations that will include: (i) the executing agency's organizational chart; (ii) interagency coordination and roles (paragraph 3.4) of the entities involved in electricity subsidies; (iii) workflows and internal controls; (iv) profiles and tasks of the Specialized Project Team and its internal coordination; (v) programming, monitoring, and evaluation; (vi) guidelines for financing, audits, and procurement; (vii) technical and operational arrangements for financial management and procurement; and (viii) process for verification of eligible expenditures.

3.8 **Maintenance.** The borrower, through the executing agency, will commit to maintaining the equipment and software financed by the program following generally accepted technical standards and will provide the Bank with a maintenance plan and annual report, as established in the loan contract, with information about the status of the equipment, the budget allocated to maintenance, and the processes undertaken.

3.9 **Retroactive financing.** The Bank may retroactively finance, against the loan proceeds, up to US$140 million (20% of the proposed loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date. This includes expenditures on targeted electricity subsidies from Component I and other activities from Component II that are necessary to improve targeting, provided that they meet requirements that are substantially analogous to those established in the loan contract. These expenditures may be incurred after the date of approval of the project profile (29 July 2024), but under no circumstances will expenditures incurred more than 18 months prior to the loan approval date be included (Bank Policy on Recognition of Expenditures, Retroactive Financing, and Advance Procurement, GN-2259-1).

3.10 **Fiduciary agreements and requirements.** Annex III includes the financial management and procurement guidelines that will apply to the program.

3.11 **Procurement of goods, works, and services.** Procurements will be handled in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-15) and Policies for the

Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-15). They will also take into account the provisions of the loan contract, the guidelines set out in the procurement plan (required link 4) and the rules established in the Program Operating Regulations. The documents to be used are available to executing agencies on the Bank's webpage for international competitions, and harmonized versions with the country for national competitions. Procurements will be supervised as stipulated in the procurement plan either ex ante[49] or ex post[50] or using the approved country system. No exceptions to Bank procurement policies are requested.

3.12 **Recurrent expenditures.** The targeted electricity subsidies financed by the program are considered recurrent expenditures by the borrower, and as such, the financing thereof is consistent with Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans (GN-2331-5).

3.13 **Disbursements.** Loan proceeds may be disbursed in the form of advances, reimbursements, and/or direct payments. For advances of funds, disbursements will be based on a financial plan to cover the program's liquidity needs for up to six months, in accordance with the Financial Management Guidelines for IDB-financed Projects (OP-273-12). The Bank will process a new advance of funds when at least 80% of the cumulative disbursed balance has been substantiated.

3.14 **Audits.** External audits of the program will be conducted by an independent firm that is eligible to audit operations financed by the IDB, selected and hired pursuant to the procedures, terms of reference, and model contract previously agreed upon with the IDB, or by the National Audit Office. During execution, the executing agency will provide the Bank with audited financial reports within 180 days following the close of each fiscal year and the date of the final valid disbursement.

B. Summary of arrangements for results monitoring

3.15 **Monitoring.** The program has a monitoring and evaluation plan (required link 2), with semiannual progress reports and annual external audits. The executing agency will monitor the program against the targets in the Results Matrix and annual work plan, updated each year. The multiyear execution plan will describe progress and the timeline for the remaining years of the loan. The executing agency will prepare semiannual reports and present them to the Bank in accordance with the monitoring and evaluation plan.

3.16 **Evaluation.** The monitoring and evaluation plan (required link 2) establishes the mechanisms for assessing fulfillment of program targets: (i) a midterm review, upon substantiation of 50% of the loan or 24 months after the first disbursement, whichever occurs first; (ii) a final evaluation 90 days after the final disbursement on the fulfillment of targets, performance of the executing agency, and recommendations; (iii) an ex post cost-benefit analysis; and (iv) an impact evaluation.

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[49] This applies to all international competitions with an estimated amount greater than: (i) US$5 million for works; (ii) US$250,000 for goods and services; and (iii) US$200,000 for consultants and all direct hiring or selection.

[50] The ex post review covers at least one fiscal year and is determined by at least 10% of records, preferably in electronic form, that are selected randomly.

Development Effectiveness Matrix		
Summary	AR-L1406	
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	-Biodiversity, natural capital, and climate action -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Social protection and human capital development -Sustainable, resilient, and inclusive infrastructure -Productive development and innovation through the private sector	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3051-2	(i) reducing poverty; (ii) improve the technical and allocative efficiency of public spending; (iii) improve the regulatory framework; and (iv) digital government.
Country Program Results Matrix	GN-3207-3	The intervention is included in the 2024 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		2.1
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		0.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		C
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		Budget, Treasury, Accounting and Reporting, External Control.
Non-Fiduciary		
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		

Evaluability Assessment Note:
The general objective of the program is to strengthen the sustainability of the electricity sector by improving the targeting scheme to safeguard electricity consumption for vulnerable users. The specific objectives are: (i) to support the affordability of electricity service for vulnerable households in the Buenos Aires Metropolitan Area (AMBA); and (ii) to strengthen institutional capacities for the sustainability of the electricity sector. The operation is being financed through a US$700 million loan, with an additional US$500 million in parallel financing from the World Bank.

The operation presents a diagnosis of the sustainability issues related to electricity use levels among vulnerable populations. Two determinants are highlighted: in the short to medium term, the focus will be on the affordability determinant, while in the medium to long term, the focus will be on the institutional framework determinant.

As part of the program strategy, the following interventions are proposed: (i) electricity subsidies granted to vulnerable residential users in AMBA; and (ii) strengthening and improving institutional capacities with tools and instruments to promote the development and sustainability of the energy sector. It should be noted that the disbursement of funds associated with the payment of subsidies will be subject to improvements in the subsidy targeting processes. The results matrix (RM) is consistent with the specific objectives and adequately reflects the vertical logic of the project. The output and outcome indicators include their respective baseline values, targets, and means of verification.

The economic evaluation is based on a cost-benefit analysis that calculates the change in consumer surplus and savings from lower subsidy payments, resulting from improvements in targeting to monetize the effects of the intervention. The project is economically viable in its baseline scenario and in the scenarios considered in the sensitivity study.

The M&E plan proposes a retrospective evaluation based on a "before and after" analysis of the RM indicators. The M&E arrangements include a properly identified budget.

RESULTS MATRIX

Project objective:	The general objective of the program is to strengthen the sustainability of the electricity sector by improving the targeting mechanism to safeguard electricity consumption for vulnerable customers. The specific objectives are: (i) to support the affordability of electricity service for vulnerable households in Metropolitan Buenos Aires; and (ii) to strengthen institutional capacity, for the sustainability of the electricity sector.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline	Baseline year	Expected year of achievement	Target	Means of verification	Comments
General objective. To strengthen the sustainability of the electricity sector by improving the targeting mechanism to safeguard electricity consumption for vulnerable customers							
Fiscal impact of energy subsidies	%	1.6	2023	2029	0.1	MECON/Secretary of Energy report	Source: IMF Report 24/167
Spending on electricity subsidies targeted to vulnerable residential customers as a share of total electricity subsidies	%	53	2023	2029	70	MECON/Secretary of Energy report	Source: CAMMESA monthly report

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline	Year 1 (2025)	Year 2 (2026)	Year 3 (2027)	Year 4 (2028)	End of Project	Means of verification	Comments
Specific objective 1. To support the affordability of electricity service for vulnerable households in Metropolitan Buenos Aires									
1.1 Spending on electricity relative to the income of vulnerable residential customers who receive the subsidy for public electricity in Metropolitan Buenos Aires	%	7	7	7	7	7	7	Secretary of Energy report	This is calculated as the net spending (out of pocket) for a household that consumes the maximum amount of subsidizable electricity by a vulnerable residential customer receiving a subsidy over the average first decile income in the EPH. The description of vulnerability is that established on the date of approval of the operation in Decrees 332/22 and 465/24.
1.2 Customers with an outstanding balance, over the total number of vulnerable residential customers who receive the	%	11	11	11	11	11	11		This measures how many customers who receive economic assistance for their electricity consumption are behind on payments, which will demonstrate the efficacy of the subsidy and beneficiaries' ability to pay.

	subsidy for public electricity in Metropolitan Buenos Aires								Source: Data from EDENOR and EDESUR reported to ENRE and the Secretary of Energy.
Specific objective 2. To strengthen institutional capacity, for the sustainability of the electricity sector									
2.1	Subsidized electricity over total electricity consumed by residential customers in Metropolitan Buenos Aires	%	74	68	61	52	45	45	Secretary of Energy report	This is calculated by taking the subsidized energy in EDENOR and EDESUR over the total energy consumed for the entire residential sector. Source: CAMMESA.
2.2	Coverage of the MEM cost of energy	%	45	60	72	82	82	82		This is calculated by taking the seasonal energy price over the MEM cost or monomic price. Source: CAMMESA.
2.3	Staff trained and certified in data management and cybersecurity	#	0	0	50	100	100	250		This is measured as an absolute value based on the evaluation of staff at CAMMESA, ENRE, EDENOR, EDESUR, Secretary of Energy, and TRANSENER. Source: Secretary of Energy

OUTPUT MATRIX

Indicators		Unit of measure	Baseline (2023)	Year 1 (2025)	Year 2 (2026)	Year 3 (2027)	Year 4 (2028)	End of Project	Means of verification	Comments
Component 1. Social protection for vulnerable populations through subsidies to ensure access to electricity service										
1.1	Number of vulnerable households[1] in Metropolitan Buenos Aires benefiting from the electricity subsidies program	# (millions)	2.42	1.9	1.46	1.2	1.08	1.08	Secretary of Energy report	
Component 2. Institutional strengthening and technical studies										
2.1	Integrated information system on targeting subsidies with a gender (women) and diversity (Indigenous people and people with disabilities) focus, updated and improved	# Module	0	1	1	1	1	1	Secretary of Energy report	Improved modules per year, one system total. Computer equipment will have an Energy Star seal or the equivalent.
2.2	Communications plan designed and implemented: subsidies, tariffs, and energy efficiency	# Plan	0	1	1	1	1	4		

[1] Vulnerability: households whose net income was lower than one total market basket for an INDEC type 2 home. Have up to one property and not have one vehicle less than three years old.

Indicators	Unit of measure	Baseline (2023)	Year 1 (2025)	Year 2 (2026)	Year 3 (2027)	Year 4 (2028)	End of Project	Means of verification	Comments
2.3 Complaint mechanism improved	# Mechanism	0	1	0	0	0	1	Secretary of Energy report	
2.4 Targeting mechanism designed	# Mechanism	0	0	1	0	0	1		
2.5 Regulatory improvements for sustainability in the energy sector	# Document	0	1	1	1	0	3		
2.6 Plans developed to manage demand for sustainable infrastructure at the national and/or provincial level	# Plan	0	0	1	0	0	1		
2.7 Comprehensive rate review in Metropolitan Buenos Aires, updated and approved	#Updated rate review	0	1	0	0	1	2		
2.8 Cybersecurity framework implemented	#Framework	0	1	0	0	0	1		
2.9 Training and awareness program developed on efficient electricity use	# Program	0	1	1	1	1	4		
2.10 Energy performance evaluation of households with a focus on gender (women) and diversity (Indigenous people and people with disabilities)	# Report	0	1	0	0	1	1		Given the nature of the evaluations, they are viewed as a single final output.
2.11 Impact evaluation	# Report	0	1	0	0	1	1		

Country: Argentina **Division:** INE/ENE **Operation:** AR-L1406 **Year:** 2024

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: The borrower, through the Ministry of Economy (MECON), through the Secretary of Energy

Operation name: Support for the Transition Towards a Sustainable Electricity Sector in Argentina

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. **Use of country systems in the operation** (any system or subsystem that is subsequently approved may be applicable to the operation, in accordance with the terms of its validation by the Bank).

☒ Budget	☒ Reports	☒ Information systems
☒ Treasury	☐ Internal audit	☐ Shopping
☒ Accounting	☒ External control	☐ Individual consultants

2. **Fiduciary execution mechanism**

☒	Co-financing	The operation has parallel financing from the World Bank, and the activities in the design were coordinated between the two multilateral institutions, including the operation's fiduciary considerations.
☒	Co-executors / sub-executors	N/A
☒	Features of fiduciary execution	The National Treasury grants nonreimbursable contributions to CAMMESA to maintain the MEM price stabilization system. The distributors—EDENOR and EDESUR—charge customers for electric power services at a subsidized rate. The subsidy amount received by beneficiaries is indicated on each bill. The Bank will recognize 90% of total electricity subsidies granted to vulnerable residential customers in Metropolitan Buenos Aires, which should be reflected in the billing from distributors to customers and be settled through funds from the National Treasury to CAMMESA (the targeted electricity subsidies) as an eligible expenditure under Component I. The complete description of this process and supporting documentation for a disbursement request or expenditure voucher can be found in optional link 6.

3. **Fiduciary capacity**

Fiduciary capacity of the executing agency	Based on the institutional capacity assessment, the executing agency was found to have a partially satisfactory institutional capacity for program execution. Although it has a fiduciary department with capacity and experience, opportunities for improvement were identified, largely in project management and technical quality management. The Program Operating Regulations include specific technical and operational agreements and coordination mechanisms, both within the executing agency and with third parties, for financial management, procurement, and hiring. The Program Operating Regulations require a specific established system to confirm the eligibility of spending on subsidies that will be financed by the program. The executing agency is considered to have the capacity to take the identified actions in the short term and carry out execution of the operation.

4. **Fiduciary risks and risk response**

Risk taxonomy	Risk	Risk level	Risk response
Institutional environment: Storage systems and customer service	If ENRE's limited technological capacity (hardware, software, processing) were to generate data losses, management of billing and control with distributors would be jeopardized, which would affect data analysis and traceability.	High	The IDB will help strengthen ENRE's technological infrastructure because it is part of the data value chain (storage capacity, security of backups, and database and customer management).

5. **Applicable policies and guidelines:** GN-2349-15, GN-2350-15, GN-2259-1.

6. **Exceptions to policies and guidelines:** No exceptions to Bank procurement policies are requested.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

Special conditions precedent to the first disbursement:
Exchange rate: For purposes of the Article 4.10 of the General Conditions, the parties agree that the exchange rate will be the rate provided in subparagraph (b)(i) of the aforementioned article. To determine the equivalence for reimbursement in local currency of expenditures chargeable against the loan, the agreed upon exchange rate will be the prevailing rate on the first business day of the month in which the borrower, executing agency, or other entity or individual to which the authority to incur expenditures has been delegated, makes the respective payment to the contractor, supplier, or beneficiary. In the case of reimbursement of subsidies, the exchange rate will be the rate on the first business day of the billing period of the beneficiaries by the distributors.

Type of audit: The executing agency will provide audited annual financial statements on the use of resources under the terms of reference agreed to with the Bank within 180 days after the close of the fiscal year. The final financial statements for the program will be presented within 180 days of the final program disbursement. External auditing of the program will be conducted by an independent audit firm eligible to audit Bank-financed operations, selected and hired in accordance with the terms of reference and contract model previously agreed to with the Bank or the National Audit Office.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

☒	Bidding documents	Contracts for works, goods, and nonconsulting services generated according to the Policies for Procurement (GN-2349-15) and subject to international competitive bidding will use the Bank's standard bidding documents or those agreed to by the Bank and the executing agency for individual procurements. Selection and procurement of consulting services will be done according to the Policies for the Selection of Consultants (GN-2350-15) and will use the Bank's standard request for proposals or those agreed to by the Bank and the executing agency for the specific selection. The project sector specialist is responsible for reviewing the technical specifications and the terms of reference for procurement during preparation for the selection process. This technical review may be done ex ante and is independent of the procurement review method.
☒	Retroactive financing	The Bank may retroactively finance, against the loan proceeds, up to US$140 million (20% of the proposed loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date. This includes expenditures on targeted electricity subsidies from Component I and other activities from Component II that are necessary to improve targeting, provided that they meet requirements that are substantially analogous to those established in the loan contract. These expenditures may be incurred after the date of approval of the project profile (29 July 2024), but under no circumstances will expenditures incurred more than 18 months prior to the loan approval date be included (see Bank Policy on Recognition of Expenditures, Retroactive Financing, and Advance Procurement, GN-2259-1).

<table>
<tr><td>☒</td><td>Procurement supervision</td><td>Supervision will be ex post except in those cases where ex ante supervision is justified. These will be identified in the operation's procurement plan. The supervision method ((i) ex ante, (ii) ex post, or (iii) country system) will be determined for each selection process. Ex post reviews will take place every 18 months in line with the supervision plan, subject to change during project execution.

The limits for ex post review are listed below:

<table><tr><th>Works</th><th>Goods/Services</th><th>Consulting services</th></tr><tr><td>US$5,000,000</td><td>US$1,500,000</td><td>US$200,000</td></tr></table></td></tr>
<tr><td>☒</td><td>Records and files</td><td>For ex ante or ex post supervision by the Bank, the executing agency will maintain digital copies in formats that can be subsequently consulted or requested by the Bank.</td></tr>
</table>

Main procurement items

Procurement description	Selection method	New procedures / tools	Estimated date	Estimated amount US$000
Nonconsulting services				
Data collection in the field to improve subsidy policies	QCBS	N/A	TBD*	3,100
Development of systems for data and equipment management				5,032
Design of communications plan, generation of support material, and implementation				3,200
Development and implementation of an automatic query system via the web				1,360

* The tentative dates of the main processes will be identified in detail during the launch workshop.

See procurement plan (18 months).

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

☒	Programming and budget	The executing agency is responsible for formulation and programming of the annual budget and for carrying out all procedures leading to consolidation of the annual budget for approval. In the event that increases or reallocations of budget lines are needed, the executing agency will request the changes and assume responsibility for obtaining approval. Budgetary appropriations are made through quarterly commitment quotas and monthly accrual quotas, which are allocated by the National Budget Office (MECON).
☒	Cash flow and disbursements	▪ Bank accounts: The executing agency will maintain a special bank account in dollars and another in pesos at Banco Nación, which be separate and identifiable for accounting and operational purposes for the exclusive management of the resources of the IDB program. The reimbursement of retroactive expenditures will be deposited in the General Treasury Account of the Nation. Advances of disbursements that correspond to the financial planning of subsidies will be kept in the dollar-denominated account until they are accounted for. ▪ Financial plan: Disbursements will be made in accordance with a detailed financial plan based on the program's real liquidity needs. ▪ Disbursement methods: The Bank will disburse resources through advance of funds or another modality established in the guidelines set out in OP-273-12. Subsequent disbursements, following the first advance of funds, may be processed once 80% of previous advances have been substantiated. ▪ The Client Portal platform will be used to manage disbursements.
☒	Accounting, information systems, and reporting	The executing agency will utilize the execution units external loan system (UEPEX) for financial administration. UEPEX enables the identification of program funds and financing sources. UEPEX classifies program investments by cost table component, in accordance with the chart of accounts approved by the Bank. Accounting records will be kept on a cash basis and will observe International Financial Reporting Standards when applicable, in accordance with national criteria.
☒	Internal control and internal audits	Internal control is the responsibility of the General Office of the Comptroller (SIGEN, apex agency of the internal audit system), which conducts regular internal audits for the various administrative bodies through the Internal Audit Units.
☒	External control and financial reports	External control is carried out by the National Audit Office (AGN). The AGN is a governing external control body, which reports to the National Congress and assists it with control of government finances and accounts. Its creation and operation are regulated in Title VII, Chapter I of Law 24,156 on Financial Administration and External Control Systems. The annual financial statements, in accordance with terms of reference previously agreed upon with the Bank, will be audited by an independent auditor that is acceptable to the Bank, which may be the AGN or an independent audit firm.

		For purposes of presenting audited financial statements pursuant to Clause 5.02 of the Special Conditions, the IDB loan and the World Bank loan will have the same auditor, provided that such auditor is IDB-eligible. The annual financial statements will be presented within 180 days after the close of the fiscal year.
☒	Financial supervision of the operation	The financial supervision plan will be based on the risk and fiduciary capacity assessments made of the executing agency and will consider onsite and desk supervision visits, analysis and monitoring of results, and recommendations from audits of the annual financial reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/24

Argentina. Loan ____/OC-AR to the Argentine Republic. Support for the Transition Towards a Sustainable Electricity Sector in Argentina

The Board of Executive Directors

RESOLVES:

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 contract or contracts as may be necessary with the Argentine Republic, as borrower, for the purpose of granting it a financing to cooperate in the execution of the program Support for the Transition Towards a Sustainable Electricity Sector in Argentina. Such financing will be for the amount of up to US$700,000,000 from the resources of the Bank's Ordinary Capital and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ _____ 2024)

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AR-L1406