@#&OPS~Doctype~OPS^blank@pidaprcoverpage#doctemplate

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 14-Oct-2024 | Report No: PIDIA01208

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Argentina	LATIN AMERICA AND CARIBBEAN	P506430	Supporting the Transition to a Sustainable Electricity Sector in Argentina
Financing Instrument	**Estimated Appraisal Date**	**Estimated Approval Date**	**Practice Area (Lead)**
Investment Project Financing (IPF)	14-Oct-2024	19-Nov-2024	Energy & Extractives
Borrower(s)	**Implementing Agency**		
Argentine Republic	Secretary of Energy		

Proposed Development Objective(s)

To strengthen institutional capacity to rationalize energy subsidies in Argentina

Components

C1: Project management, capacity building, and instruments to foster sector sustainability
C2: Financing rationalized electricity subsidies for users with validated eligibility criteria

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Total Operation Cost	**500.00**
Total Financing	**500.00**
of which IBRD/IDA	**500.00**
Financing Gap	**0.00**

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	500.00

Environmental And Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Argentina is going through a stabilization program aimed at eliminating the fiscal deficit and curbing inflation, while maintaining capital and exchange rate controls.** Key measures included a one-time devaluation of the official exchange rate by 55 percent, the introduction of monthly crawling peg rate of 2 percent, and the removal of import controls. These actions initially spiked inflation (25.5 percent month-over-month in December 2023), but it began to decline steadily afterwards, reaching 4.2 percent in August 2024. In parallel, strict public spending policies and emergency taxes resulted in a 1 percent of GDP fiscal surplus in the first half of 2024.

2. **The impact of this program on economic activity has been significant, with a 4.4 percent year-over-year contraction in the first half of 2024.** Although family allowance programs were protected and maintained their value, high inflation, higher public service tariffs including transport, and a weakening labor market are increasing poverty rates. World Bank estimates using the national poverty line suggest that poverty and extreme poverty of the urban population (already very high) increased from 42 to 53 and from 12 to 18 percent, respectively. Moving forward it will be important to improve the quality of the fiscal adjustment and taking initial steps towards an enhanced monetary and foreign exchange policy framework, while implementing reforms to unlock growth. Further, strengthened mitigation measures are needed to contain and reverse the impact of the adjustment on the poor and vulnerable.

3. **The Bank is supporting Argentina's policy reform and mitigation measures through an US$2 billion package of four operations[1].** These operations aim at building and protecting human capital. To build human capital, they support access to early childhood services including education and health, focusing on vulnerable children under four and pregnant women, and in the implementation of a national literacy program. To protect human capital, the operations support cash transfers, energy subsidies to the poor and vulnerable, and urban transport affordability. Further, all operations focus on improving the efficiency of subsidies, thus contributing for less costly and better targeted poverty alleviation and vulnerability mitigation measures. The operations are co-financed with the Inter-American Development Bank (IADB).

Sectoral and Institutional Context

4. **Energy subsidies represented roughly 1.5 percent of Argentina's GDP in 2023, a drop from the 2.0 and 2.3 percent registered in 2022 and 2021, respectively.**[2] Electricity subsidies represent roughly 70 percent of all energy subsidies in the country and cover the gap between electricity generation costs and the established wholesale market operator's (*Compañía Administradora del Mercado Mayorista Eléctrico Sociedad Anónima*, CAMMESA)[3] seasonal price (PEST), which has been consistently set below cost recovery. Overall, for most of the last 25 years, electricity bills for residential consumers have not reflected actual electricity costs.[4]

5. **Although they are progressive, a large share of energy subsidies in the last two decades flowed to middle- and upper-income households as well as non-residential consumers.** Following Argentina's macroeconomic and social crisis of 2001, energy tariffs were frozen until 2015 to mitigate the impact of rising prices on the purchasing power of low-income households. In 2014, subsidies for high-income neighborhoods were reduced, and a voluntary registry to encourage higher-income households to forgo subsidies was introduced, but it had very limited impact. A new and more effective attempt to rationalize subsidies and set cost-reflective tariffs was made in January 2016. At the time, the Government of Argentina (GoA) updated pass-through mechanisms, putting tariffs on the path to reflect actual costs, and introduced a "social tariff" as an attempt to target subsidies to vulnerable population. By the end of 2018, financing of the social tariff was transferred to the province level of government. In 2019, tariffs were re-frozen, increasing the resources devoted to subsidizing generation costs and limiting the resources available to invest in the grid.[5]

6. **In mid-2022, the government started revising tariff structures to better target subsidies to poor and vulnerable groups.** A new and national ad-hoc registry to access energy subsidies (*Registro de Acceso a los Subsidios a la Energía*, RASE) was created to define new tariff segments and classify energy consumers into low, medium, and high-income categories. To continue receiving subsidized rates, users had to self-declare through RASE their updated information on contract holder, income, and additional socioeconomic information (including listing all household members). Based on the updated data, households in the *Registro* were classified into three categories[6]: N1 – higher-income households not to be further subsidized; N2 – lower-income households continuing to receive subsidies; and N3 – middle-income households to be partially subsidized. The *Registro* has become a key tool to improve subsidy targeting as it has

[1] These operations are Support for Integrated Early Childhood Development Project – P505675; Program for Enhancing Foundational Learning and Strengthening Federal Coordination (P505179); Supporting the Transition to a Sustainable Electricity Sector in Argentina – P506430); and Public Transport Sustainability Project – P506846.
[2] Economía & Energía & PxQ. Tarifas de energía eléctrica y gas natural, July 2024, p. 3.
[3] A public-private entity owned by the market agents (80 percent) and the State (20 percent).
[4] As electricity bills consist of generation, transportation and distribution costs, and local taxes.
[5] Romero, Estado de situación de las distribuidoras eléctricas en Argentina, January 2021.
[6] See Annex 2.

complemented existing and dispersed individual administrative records and outdated information from distribution entities with self-reported household data.

7. **The new administration has emphasized the need to further enact a subsidy reform focused on improving the electricity subsidies targeting mechanism.**[7] Most electricity subsidies for high-income households and commercial customers were reduced or eliminated in early 2024, and in June 2024, new national electricity prices and subsidies impacting all residential customers were announced. The government has delayed the full elimination of subsidies for the N2 and N3 segments to protect the most vulnerable, but the changes introduced in June 2024 meant prices increased for all segments, including for low- and middle-income customers who had last seen energy price hikes in June 2022 and February 2023, respectively.[8] Under the new tariffs, the bottom 40 percent of households have seen the share of monthly income needed to cover the electricity bill rise from 1 percent to between 4 to 6 percent (depending on their classification as N2 or N3).[9] Despite the rate increases, customers classified as N2 or N3 only cover 36 and 44 percent of total generation costs, respectively.

8. **The GoA has found that households registered in the RASE may need to be recategorized.** To decrease inclusion and exclusion errors, the current administration has begun cross verifying the RASE data with administrative records through the national tax and social identification system (*Sistema de Identificación Nacional Tributario y Social*, SINTyS). To date, the GoA has detected that there are households that may not be registered in the RASE but potentially qualify for energy subsidies. As the RASE keeps growing – with over 1 million household entries added in just the last three months – the challenge to improve households' information keeps mounting.

9. **Energy subsidies could drop to between 0.7[10] and 1.0[11] percent of GDP by the end of 2024, reducing their fiscal impact by 30 to 50 percent and demonstrating the value of subsidy reform.** The measures introduced throughout 2024 are already having an impact on improving the RASE as well as household's databases, self-reported information, and utilities' mechanisms to gather, report or share information, amongst others; continuing such efforts would help deliver improved targeting mechanisms. Further incentivizing users to appropriately register in the RASE – including social tariff beneficiaries that were initially grandfathered into the N2 segment – or report additional socioeconomic characteristics – such as other household members' details – could also be of great help in Argentina's reform efforts.[12]

10. **Sheltering households at high risk of severe welfare losses under increasing electricity tariffs while advancing an efficient use of fiscal resources requires new mechanisms to appropriately target the vulnerable population.** Improving targeting can go a long way towards protecting vulnerable populations and sustaining progress. Consolidating the registry of households accessing the subsidies (currently RASE) and validating it with the administrative database

[7] Decree 465/2024 Art.1: "The restructuring of the national jurisdiction energy subsidy regimes is determined to ensure a gradual, orderly, and predictable transition towards a scheme that allows: (i) transferring the real costs of energy to users; (ii) promoting energy efficiency; and (iii) ensuring that vulnerable residential users have access to essential consumption of electricity, piped gas, and bottled gas." Available online at: https://www.boletinoficial.gob.ar/detalleAviso/primera/308255/20240528.

[8] These increases account only for the subsidized block for each user category (350 kWh/month for N2 and 250 kWh/month for N3), any consumption above those level woul be paid at full (N1) tariff. Economía & Energía and PxQ. Tarifas de energía eléctrica y gas natural, June 2024, p. 9.

[9] Estimates based on information for the Greater Buenas Aires region (AMBA). There is heterogeneity across provinces, but the share of household income required to cover the electricity bill is generally higher for households outside AMBA.

[10] IMF, June 2024, Argentina: Eighth Review Under the Extended Arrangement Under the Extended Fund Facility, Requests for Modification of Performance Criteria, Waivers of Nonobservance of Performance Criteria, and Financing Assurances Review, p. 46.

[11] Economía & Energía and PxQ. Tarifas de energía eléctrica y gas natural, June 2024, p. 18.

[12] The GoA's recent authorization for federally-controlled utilities to increase their remuneration for distribution activities (*Valor Agregado de Distribución*, VAD) has also bolstered the sector's financial sustainability by enhancing the profitability of the distribution segment.

(currently grouped through SINTyS),[13] developing national capacities for data collection, improving the technology and software availability, and creating mechanisms to incentivize relevant stakeholders (at the provincial or national level) to share and update information can all be key measures to improve targeting and deepen reform efforts.

11. **The proposed Project would help expand the positive outcomes of subsidy reform by specifically focusing on the institutional capacities to improve targeting mechanisms.** Project activities could help reduce the fiscal impact of the energy sector while creating tools for the GoA to improve policies, incentivize better electricity use, and rationalize public spending. The proposed Project would also help create incentives for key stakeholders to generate valuable information on user characteristics and other enabling activities to potentially help reduce technical and non-technical losses, increase savings, or improve electricity use in households as well as improve key stakeholders' sustainability and financial viability. As these measures increase planning capabilities, they can help generate better policies to improve resilience. Finally, the interlinkages between Argentina's large fiscal imbalances, CO_2 emissions, and subsidies imply that improving the focalization of the latter would result in improving (or reducing) the former.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To strengthen institutional capacity to rationalize energy subsidies in Argentina.

Key Results

Objective	Indicator
To strengthen institutional capacity to rationalize energy subsidies in Argentina	Institutional capacities strengthened (Text)
	Electricity subsidies provided to beneficiaries validated per the eligibility criteria (%)

D. Project Description

12. **The proposed Project consists of a US$500 million IBRD loan to be executed by the Ministry of Economy (MECON) through the Secretary of Energy (SE).** The proposed Investment Project Financing (IPF) loan would finance capacity building and enabling activities to improve electricity subsidies rationalization in Argentina and include "Performance Based-Conditions" (PBCs)[14] linked to expenditures such as subsidies provided to households identified through the improved targeting mechanisms. The proposed operation will consist of two components and will be implemented over 4 years.

13. **Component 1: Project management, capacity building, and instruments to foster sector sustainability (US$20 million)**. This component (with input-based disbursements) will focus on providing resources and strengthening GoA's capabilities for the implementation of Component 2 and to ensure ongoing efforts and potential subsidy reforms can be effective, efficient, and clearly communicated. Activities to be financed could include, *inter alia:*

[13] As efforts from the *Supporting the electricity Social Tariff transition in the Province of Buenos Aires Project (P170329)* have shown, helping provincial entities to cross examine RASE and SINTyS records to assess potential social tariff eligibility helped reduce the percentage of unidentified users to 9.5 percent, compared to an average of 23 percent when not cross checking the databases.

[14] PBCs are a disbursement mechanism that links the disbursements to the accomplishment of certain pre-specified milestones.

i. Training activities and deployment of technological solutions for centralization and processing data from RASE, SINTyS (or their successors), regulatory entities, or other relevant sources, as needed.
ii. Development of protocols and procedures to allow for systematic information exchanges between regulatory entities, provincial bodies, SE, CAMMESA, and other key stakeholders at the federal and sub-national (or provincial) levels.
iii. Provision of software and technical support to SE, distribution companies, and other institutions to be defined by SE as needed, to improve data updating processes and user identification.
iv. Diagnostics and support to distribution entities to improve residential consumption databases.
v. Assessments and evidence on changes in household energy use patterns and evaluating related impacts on non-technical losses and the financial sustainability of key sector entities.
vi. Methodologies to identify and define low-income households to be protected from further tariff increases, including a gender perspective when feasible.
vii. Studies of geospatial distribution of different households' categories, aiming at better design and direct interventions.
viii. Design policies and energy efficiency initiatives that can improve the well-being of vulnerable households and help them reduce energy expenditures and GHG emissions. Include innovative approaches to account for the GHG reduction linked to subsidy reform.
ix. Produce potential subsidy reform improvements to reduce inclusion and exclusion errors.
x. Design and deploy innovative subsidy delivery mechanisms that can help tackle potential errors and improve subsidies focalization and rationalization.
xi. Assess and pilot digitalization as a tool to (i) Enhance the deployment of energy subsidies through cash transfers, (ii) capture the social perception of subsidy reform, (iii) integrate a gender lens on the information gathered from surveys or grievance mechanism.

14. **Component 2: Financing rationalized electricity subsidies for users with validated eligibility criteria (U$S 478.75 million)**. This component will mostly rely on PBCs to improve targeting mechanisms and implement better focalized subsidy schemes resulting from the capacity building and instruments supported and developed through Component 1. It will also support the provision of external shock-related electricity subsidies.[15] Throughout 2024, the GoA has been implementing an initial set of subsidy reform endeavors to be supported under this Component.[16] As such results planned to be incorporated in the Project have already been achieved, their retroactive financing for up to 40 percent is envisaged. The disbursement of funds for the rest of the component will be triggered by the achievement of specific PBCs and linked to subsidies expenditures provided to households identified through the improved targeting mechanisms:

a. **PBC 1: Deploying the mechanisms to improve subsidies rationalization**: This PBC will include activities such as deploying integrated operational platforms to facilitate users and residential consumption information flow from provincial or subnational sources to SE; systematization of information exchanges between the SE and its registries and regulatory entities' or provincial databases; increasing the share of users for which relevant

[15] The provision of shock-related electricity subsidies will be triggered in the case of external events that impact generation costs and thus tariffs paid by vulnerable users. Disbursements will be linked to criteria established in the Project's Operational Manual (POM) and are expected to be made within the first two years of Project implementation.

[16] These include: (i) Issuance of Decree 465/2024 dated May27th 2024, which clearly defines the transition period for reformulating the subsidy allocation from a universal scheme to a targeted one and mandates organizations to share administrative data to enhance household targeting (ii) defining key identification criteria and processes for potential beneficiaries to request and obtain electricity subsidies (Resolution N° 91 of June 2024); and, (iii) improving RASE registry forms to incorporate additional information and enhance cross-referencing with the SINTyS. In addition, the SE has continued working on improving the information contained in the RASE and lowering the share of entries that entirely rely on self-reported data or those provided by the provincial Social Tariff.

electricity consumption data has been shared with the SE; and the update or correction of subsidy granting eligibility criteria.

b. **PBC 2: Strengthening targeting schemes:** The PBC will help design, develop, implement, and comply with a system to address household classification errors and resolve related complaints; and reduce the number of subsidized households registered in the RASE that lack administrative records in the SINTyS.

c. **PBC 3: Tracking and Communicating Subsidy Reform:** This PBC will link disbursements to activities or milestones such as the share of subsidies granted to the segment receiving the greatest discount (N2) that have been cross-verified in SINTyS; developing communication and education campaigns, including crafting a timely, assertive, and targeted communications strategy to clearly introduce any subsidy reform to key stakeholders and beneficiaries; preparation of in-depth analyses of overall reform impact on the sector, including all stakeholders (consumers, distribution entities, CAMMESA) and issues such as the evolution of total electricity losses by province and on collectability indicators for the residential segment; distributive and sectoral impact of tariff increases on vulnerable households, on energy use patterns in households (including a gender perspective on the last analyses to assess differential effects and identify areas of action to mitigate those gaps), and on the environmental risks and impacts related to the eventual induction of a transition, at the household level, towards other cheaper energy sources for heating and cooking (such as wastes, firewood, charcoal, coal, kerosene or diesel), stemming from the reduced access of some groups to subsidies to electricity tariff.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

15. **The overall environmental and social risk is classified as Moderate at Appraisal stage.** The Project is not expected to have significant negative social impacts since it specifically aims at sheltering the poor from electricity tariff increases while advancing an efficient use of fiscal resources. In doing so, the project will develop communication strategies as well as mechanisms aiming at properly targeting vulnerable populations. The Project also involves the development of specific mechanisms for sheltering the poor from external volatility or climate risks over generation costs. For these reasons is that the Project is expected to deploy the Borrower's Framework to manage social risks and impacts, particularly in regards to ESS1 and ESS2. Relevant social management measures will be either embedded in the project design or incorporated in the project's SEP and ESCP. There is a very low probability of the project causing serious effects to the environment. Identified project-related risks and impacts are low or minimal in magnitude, predictable and reversible. However, some indirect risks have been identified related to the eventual induction of a transition, at the household level, towards other cheaper energy sources for heating and cooking (such as wastes, firewood, charcoal, coal, kerosene or diesel), stemming from the reduced access of some groups to subsidies to electricity tariff. Such transition might have implications in terms of living natural resources exploitation and habitats degradation, GHG emissions, individual and public health, which merit

further assessment. As such risks would occur once project implementation is well advanced, such assessment will be conducted during the first stages of project implementation (e.g., as part of the tracking of subsidy reform planned for PBC 3). As such indirect risks and impacts are, in principle, deemed low this might become an opportunity to use and strengthen parts of Borrower's Framework to cope with ESF requirements on environmental assessment.

E. Implementation

Institutional and Implementation Arrangements

16. **Overall implementation of the Project will be the responsibility of the Secretariat of Energy (SE) within the Ministry of Economy**. SE has overseen a wide range of projects with external multilateral financing – as well as with bilateral donors – for a long time. The SE will rely on a Project Coordination Unit (PCU) which will perform most technical, management, reporting and monitoring and evaluation (M&E) tasks while the MECON's General-Directorate for Sectorial and Special Programs and Projects (DGPyPSyE) will be responsible for fiduciary activities. The PCU will ensure compliance with all environmental and social regulations and monitor the implementation of the subprojects and tasks, compiling information from the various implementation partners and activities. Overall fiduciary capacities tend to be adequate in Argentina and the Project is expected to make extensive use of country's systems in terms of budgeting, flow of funds, and internal and external audits.

CONTACT POINT

World Bank

Lucia Spinelli
Senior Energy Specialist

Borrower/Client/Recipient

Argentine Republic
Cecilia Rabinovich
National Director for Strategic Prioritization of International Financing
crabinovich@mecon.gov.ar

Implementing Agencies

Secretary of Energy
Damian Sanfilippo
Undersecretary of Electric Energy
dsanfilippo@mecon.gov.ar

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Lucia Spinelli

Approved By

Practice Manager/Manager:	Gabriela Elizondo Azuela	02-Oct-2024
Country Director:	Cristina Isabel Panasco Santos	14-Oct-2024