



Appraisal Environmental and Social Review Summary

Appraisal Stage

(ESRS Appraisal Stage)

Date Prepared/Updated: 09/26/2024 | Report No: ERSRA03640



I. BASIC INFORMATION

A. Basic Operation Data

Operation ID	Product	Operation Acronym	Approval Fiscal Year
P506430	Investment Project Financing (IPF)	ATSES	2025
Operation Name	Supporting the Transition to a Sustainable Electricity Sector in Argentina		
Country/Region Code	Beneficiary country/countries (borrower, recipient)	Region	Practice Area (Lead)
Argentina	Argentina	LATIN AMERICA AND CARIBBEAN	Energy & Extractives
Borrower(s)	Implementing Agency(ies)	Estimated Appraisal Date	Estimated Board Date
Argentine Republic	Secretary of Energy	15-Oct-2024	19-Nov-2024
Estimated Decision Review Date	Total Project Cost		
09-Oct-2024	500,000,000.00		

Proposed Development Objective

To strengthen institutional capacity to rationalize energy subsidies in Argentina

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

No

C. Summary Description of Proposed Project Activities

This IPF project with PBCs will accompany the design, implementation, and evaluation of the reform process GoA is implementing in the electricity sector. The reform will aim for a financially sustainable electricity sector in the medium term, always ensuring to cushion the impact on vulnerable sectors of the population. The proposed operation would seek to support, among other things, the strengthening of institutional capacities of key stakeholders, the improvement of the quality of existing information about households and individuals, the generation of new and valuable information that enhances the ability to adequately identify households, the improvement of information flow to overcome administrative barriers between institutions, or to create incentives for organizations in subnational jurisdictions to join in optimizing the subsidy targeting mechanism.



D. Environmental and Social Overview

D.1 Overview of Environmental and Social Project Settings

This project has a national scope and will support policy reforms to enhance subsidy targeting and the sustainability and efficiency of the Argentine electricity sector. It is expected to facilitate the inclusion of vulnerable households not yet identified in the sectorial databases used at both national and provincial levels to allocate subsidies to electricity fees. Population to be directly affected by the project (both positively and negatively) is covered by the electricity distribution network (that means, mostly urban population, but also some rural population in areas where such kind of public service is provided).

Project activities do not entail civil works, infrastructure investments or any other kind of physical interventions. However, project design does include capacity building and enabling activities (i.e., technical assistance) which downstream risks and impacts must be assessed during implementation. Most of impacts identified would be indirect and hard to attribute exclusively to project implementation.

D.2 Overview of Borrower’s Institutional Capacity for Managing Environmental and Social Risks and Impacts

The SE (Secretariat of Energy) will supervise, monitor, and report on the environmental and social (E&S) aspects of project activities, ensuring compliance with applicable environmental and social requirements and regulations. This responsibility is mainly outlined in the Environmental and Social Commitment Plan (ESCP).

SE has experience working for a long time with a wide range of projects with multilateral financing, as well as bilateral donors. Since the 1990s, SE has been responsible for different WB-financed operations and has received continuous support to expand and enhance its capacity including through the Project Coordination Unit. In the recent past, it implemented the FODER – Argentina Renewable Fund Guarantee Project (P159901), PERMER II – Renewable Energy for Rural Areas Project (P133288) and Clean Energy for Vulnerable Households and Communities Project (P178553) – the latter under WB's Environmental and Social Framework (ESF).

In order to implement Project P178553 Clean Energy for Vulnerable Households and Communities Project (Argentina) under ESF, the WB and the client have developed capacity strengthening measures to address specific E&S aspects. Nonetheless, the recent change in the national administration has brought changes to the existing team of specialists and may require additional strengthening activities. The WB will provide support in this regard.

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

A. Environmental and Social Risk Classification (ESRC)

Moderate

A.1 Environmental Risk Rating

Moderate

The Environmental Risk Rating is deemed moderate at appraisal stage. There is a very low probability of the project causing serious effects to the environment. Project-related direct risks and impacts identified are low or minimal in magnitude, predictable and reversible. However, a few indirect environmental risks and impacts have been identified, related to the eventual induction of a transition, at the household level, towards other cheaper energy sources for heating and cooking, stemming from the reduction of subsidies to electricity fees. They are, in principle, deemed not to be significant and would occur once project implementation is well advanced. Additionally, project design includes

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capacity building and enabling activities (i.e., technical assistance) which downstream risks and impacts must be assessed during implementation, once the scope of such activities is clearly defined. Further assessment of such risks and impacts is required to determine their likelihood and relevance. If relevant, the results of such deeper assessment might lead to a re-classification of project’s environmental risk during the course of the project implementation.

Moderate

A.2 Social Risk Rating

The Social Risk Rating is moderate at Appraisal stage. The project aims at sheltering the poor from electricity tariff increases while advancing an efficient use of fiscal resources. The project will develop new mechanisms that appropriately target the vulnerable population by consolidating the national registry to access energy subsidies (RASE), developing national capacities for data collection and verification, and improving the existing registries at provincial levels, correcting existing inclusion or exclusion errors (i.e. including households that currently do not benefit from subsidies and should, while excluding those who do benefit from subsidies and should not). The project will support the establishment of a robust grievance and redress mechanism to provide beneficiaries channels for effective feedback. The Project will also ensure that tariff reforms can be effective, efficient and avoid negative impacts on vulnerable households. Despite the expected benefits from the project, the substantial modifications to the subsidy program may cause discontent among certain individuals and businesses. Therefore communication strategies that are inclusive and timely will be implemented throughout the Project cycle to ensure all stakeholders are well-informed and can adapt to the changes effectively.

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

B.1 Relevance of Environmental and Social Standards

ESS1 - Assessment and Management of Environmental and Social Risks and Impacts

Relevant

This standard is relevant. Project activities do not entail civil works or physical interventions. No activities have the potential of harming people or environment and there are no significant, complex and/or large E&S risks or impacts. All risk and impacts identified are predictable and can be easily mitigated. The project is designed to benefit vulnerable groups by addressing exclusion errors. The substantial modifications to the subsidy program may cause discontent among certain individuals and businesses, necessitating effective, inclusive communication to facilitate adjustment. Minor indirect environmental risks and impacts have been identified (related to shifts to alternative energy due to the increased tariffs perceived), but are not significant and would occur once project implementation is well advanced. This would be assessed with an Environment and Social Strategic Assessment to be done in the first 2 years of Project implementation (as stated in the ESCP).

ESS10 - Stakeholder Engagement and Information Disclosure

Relevant

This standard is relevant. The Project design specifically aims at supporting the adaptation of the existing (as part of the borrower's framework) grievance and redress mechanism to provide beneficiaries channels for effectively sharing their project-related feedback. It will also include behavior change communication campaigns to support better use of energy and achieve savings to counter any further potential negative impacts from the reduction of subsidies, and to “close the loop” by including their feedback in the process. The Client will ensure that this is done in an culturally appropriate, inclusive and timely manner. The Client is preparing a Stakeholder Engagement Plan (SEP) for the Project that will be finalized prior to Appraisal, which shall include measures to, inter alia, provide stakeholders with

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timely, relevant, understandable and accessible information; receive and facilitate resolution of concerns and grievances in relation to the Project; and consult with them in a culturally appropriate manner, which is free of manipulation, interference, coercion, discrimination and intimidation. The Client will establish, publicize, maintain, and operate an accessible grievance mechanism (GM), to receive and facilitate resolution of concerns and grievances in relation to the Project, promptly and effectively, in a transparent manner that is culturally appropriate and readily accessible to all Project-affected parties, at no cost and without retribution, including concerns and grievances filed anonymously, in a manner consistent with ESS10. The grievance mechanism shall be equipped to receive, register, and facilitate the resolution of SEA/SH complaints, including through the referral of survivors to relevant gender-based violence service providers, all in a safe, confidential, and survivor-centered manner.

ESS2 - Labor and Working Conditions

Relevant

This standard is relevant. The Project will be implemented by a small number of public servants and direct and contracted workers (e.g., consultants to support project activities implemented by the PIU and consulting firms to provide specific services). Activities under this project are not expected to have any negative impacts related to labor and working conditions. According to the assessment for Project P178067, Argentina's legal framework largely aligns with ESS2 requirements. In addition to the Borrower's Framework (i.e.; National Law 20.744), the client will implement the following complementary measures: • Ensure that all Project workers receive, through written agreements or other documents provided together with orientation sessions, information, and documentation that is clear and understandable regarding their terms and conditions of employment under the Borrower's E&S Framework, including, inter alia, rights relating to working hours, wages, overtime, compensation and benefits, prior written notice of termination of employment, and details of severance payments, as appropriate. • Implement measures to ensure that all entities that employ Project workers keep a record complete and up-to-date performance of project workers and hours worked and wages, including accounting for overtime and corresponding pay. The Client will notify the Bank of any material change in the Borrower's labor legal or institutional framework that may affect the Project, providing adequate details of such change, including potential risks and impacts to Project workers, and immediate measures taken or that are planned to be taken to address such change and the resulting potential risks and impacts to Project workers, in accordance with ESS2. If, in the opinion of the Bank, such change adversely affects material labor aspects and working conditions of Project workers, the Borrower will agree to adopt measures and actions to address them in a manner acceptable to the Bank. The Client will establish and operate a grievance mechanism for Project workers, in line with the Borrower's framework and consistent with ESS2.

ESS3 - Resource Efficiency and Pollution Prevention and Management

Relevant

This standard is relevant. According to the project concept note, it is expected to induce a reduction of GHG emissions (through reduced electricity generation and enhanced energy use). The project economic analysis conducted by appraisal estimated the Project gross GHG emissions in XXXXX tCO2eq, providing such estimation is technically and financially feasible. There is some risk that reducing the access from some groups to subsidies might force them to increase their use of other cheaper energy sources for heating and cooking (such as burning fuelwood, waste, kerosene or diesel). The increased use of "dirtier" energy sources might lead to GHG emissions, indoor air pollution and, thus, to an increased risk of respiratory diseases. Further assessment of these risks will be addressed as described in the Overview of Required Environmental and Social Risk Management Activities.

ESS4 - Community Health and Safety

Relevant

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This standard is relevant. The risk that reduced subsidies indirectly induce the increased use of alternative energy sources for heating and cooking might have implications on health (e.g., increased exposure to hazardous wastes and outdoor air pollution) which will be addressed as described in the Overview of Required Environmental and Social Risk Management Activities.

ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement Not Currently Relevant

This standard is not relevant. There are no potential risks and/or impacts relevant to ESS5. Activities to be financed by the Project will neither require land acquisition, nor restrictions on land or involuntary resettlement as defined under this Standard.

ESS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources Relevant

This standard is relevant. There is some risk that reducing subsidies might force some groups to an increased use of other cheaper energy sources derived from living natural resources for heating and cooking (such as firewood, charcoal or peat). If not properly managed, such increased use of living natural resources might cause habitat degradation. Such risks and eventual impacts will be conducted as described in the Overview of Required Environmental and Social Risk Management Activities.

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

This standard is relevant since Argentina is a multicultural country with a notable presence of indigenous people (accounting for 2.9% of its citizens at the national level). Moreover, the project will benefit indigenous peoples' households. While no significant negative impacts on indigenous peoples are anticipated—given the project's objective to enhance the distribution of subsidies to vulnerable families— project implementation must ensure that communication and participation is done in a culturally appropriate and timely manner. These considerations will be incorporated in the ESCP, as well as in the SEP.

ESS8 - Cultural Heritage Not Currently Relevant

This standard is not currently relevant. There are no risks and/or impacts relevant to ESS8.

ESS9 - Financial Intermediaries Not Currently Relevant

This standard is not currently relevant. The Project will not involve the use of Financial Intermediaries.

B.2 Legal Operational Policies that Apply

OP 7.50 Operations on International Waterways No

OP 7.60 Operations in Disputed Areas No

B.3 Other Salient Features

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Use of Borrower Framework

In Part

The Client will use parts of Argentina's national legal and institutional framework to address requirements from ESS1 and ESS2.

Regarding ESS1, specific parts of BF (the guidelines for this type of evaluation, established by Resolution 337/19 from the former National Environment and Sustainable Development Ministry https://www.argentina.gob.ar/sites/default/files/guia_elaboracion_diaee-2_0.pdf) will be used for the purpose of assessing the indirect risks associated to the eventual transition, at the household level, towards cheaper and dirtier energy sources for heating and cooking, stemming from the reduction of access to subsidies to electricity fees.

When it comes to ESS2, Argentina's legal framework is mostly in line with the principles of such standard. ESCP includes AN additional action that are needed to fill identified gaps and meet the WB's ESS.

Use of Common Approach

No

N/A

C. Overview of Required Environmental and Social Risk Management Activities

C.1 What Borrower environmental and social analyses, instruments, plans and/or frameworks are planned or required by implementation?

The appraisal stage Environmental and Social Review Summary as well as the draft project Environmental and Social Commitment Plan and a draft Stakeholders Engagement Plan are being prepared and will be disclosed prior to appraisal. A negotiated version of the ESCP will be disclosed after negotiations.

A Strategic Environmental Assessment will be developed during the first 2 years of project implementation to assess the indirect risks associated to the eventual transition towards cheaper and dirtier energy sources for heating and cooking, stemming from the reduction of subsidies to electricity fees. For that purpose, the guidelines established by Resolution 337/19 from the former National Environment and Sustainable Development Ministry will be used.

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III. CONTACT POINT

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