



# Project Information Document (PID)

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Concept Stage | Date Prepared/Updated: 22-Aug-2024 | Report No: PIDDC00843

**BASIC INFORMATION****A. Basic Project Data**

Project Beneficiary(ies) Argentina	Operation ID P506430	Operation Name Supporting the Transition to a Sustainable Electricity Sector in Argentina	
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 25-Sept-2024	Estimated Approval Date 27-Nov-2024	Practice Area (Lead) Energy & Extractives
Financing Instrument Investment Project Financing (IPF)	Borrower(s) Argentine Republic	Implementing Agency Secretary of Energy	

**Proposed Development Objective(s)**

To support the enhancement of subsidy targeting mechanisms and the sustainability and efficiency of the Argentine electricity sector.

**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**

<b>Total Operation Cost</b>	<b>500.00</b>
<b>Total Financing</b>	<b>500.00</b>
<b>of which IBRD/IDA</b>	<b>500.00</b>
<b>Financing Gap</b>	<b>0.00</b>

**DETAILS****World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	500.00
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Environmental and Social Risk Classification

Moderate

Concept Review Decision

Other Decision (as needed)

## B. Introduction and Context

### Country Context

- 1. With a gross domestic product (GDP) of US\$641 billion in 2023, Argentina is the third-largest economy in Latin America.** The country covers 2.8 million square kilometers and has a population of 46.6 million inhabitants, with 92 percent living in cities. The Buenos Aires Metropolitan Area alone constitutes 30 percent of the national population and generates more than 40 percent of Argentina's GDP. Argentina is a federal state, and its 23 provinces, along with the Autonomous City of Buenos Aires, preserve their autonomy under the national government.
- 2. The middle class has historically been large, with social indicators generally above the regional average. However, persistent social inequalities, economic volatility, and underinvestment have limited the country's development.** The rate of urban poverty<sup>1</sup>, measured under the official thresholds, reached 41.7 percent in the second semester of 2023, and 11.9 percent of Argentines live in extreme poverty.<sup>2</sup> Child poverty, for those under 15 years old, is at 58.4 percent. Post-pandemic, unemployment rates have stayed low, around 6% to 7%. However, about half of the working population is self-employed or works in the informal sector. The high frequency of economic crises—the economy has been in recession during 24 of the past 50 years—has resulted in an average annual growth rate of 2.5 percent, well below the world average of 3.7 percent and the regional average of 3.6 percent. Decades of underinvestment have led to sizeable gaps in capital stock relative to comparable countries. Over the past three decades, Argentina's investment averaged 16.9 percent of GDP. In comparison, developing economies averaged 29 percent of GDP, and Latin America averaged 20.2 percent of GDP. Such a volatile macroeconomic environment has hindered the country's ability to increase incomes, reduce poverty rates, and address the infrastructure deficit.
- 3. The historic drought from late 2022 to early 2023 severely impacted Argentina's already fragile economy, which was burdened by accumulated macroeconomic imbalances.** The primary macroeconomic challenges included the monetization of substantial and recurring fiscal deficits, stringent capital controls, and escalating inflation. In this context, the drought's impact—affecting fiscal revenue, foreign exchange supply, and having spillover effects on non-agricultural activities—along with policy decisions related to the presidential election, exacerbated existing imbalances. This led to triple-digit annual inflation, a historically high exchange rate gap, negative net international reserves, and unusually high levels of commercial debt with foreign suppliers by the end of 2023, further straining external accounts.
- 4. A new administration assumed office on December 10, 2023, and immediately began implementing a stabilization program.** The core of the program was the elimination of the overall fiscal deficit in 2024 (5 percentage points of GDP), along with measures to correct relative price misalignments, strengthen the Central Bank's balance sheet,

<sup>1</sup> The data for poverty measurement is representative of the population living in the 31 largest urban areas in the country, which accounts for almost 62 percent of the total population.

<sup>2</sup> Using the international poverty line for upper middle-income countries (\$6.85 in 2017 PPP), the poverty rate is estimated a 12.4 percent of the urban population.



and deregulate the economy. Key initiatives included a one-time devaluation of the official exchange rate by 55 percent, the introduction of a monthly crawling peg rate of 2 percent, the removal of import controls, and strategies to address the significant importer debt overhang. Inflation surged in December 2023, fueled by the devaluation's pass-through and the lifting of key price controls, but it has been on a gradual decline. Month-over-month inflation peaked at 25.5 percent in December 2023, decreasing to 8.8 percent by April 2024. Although social assistance is well-targeted, the real value of social benefits, including pensions and social transfers, fell by 17 percent year-over-year by April 2024. Stringent public spending policies along with increasing emergency taxes (PAIS Tax), enabled a 0.7 percent of GDP primary fiscal surplus during the first 4 months of 2024. Moreover, through a combination of currency controls, a revised import payment schedule, a weaker Peso, and a negative real interest rate, the Central Bank has accumulated approximately US\$10 bn in reserves since the Government took office. However, net reserves remain negative at -US\$1.5 bn.

5. **On June 2024, the International Monetary Fund (IMF) Executive Board approved the eighth review of the Extended Fund Facilities (EFF), enabling the disbursement of around US\$800 million.** In March 2022, Argentine authorities reached an agreement with the IMF, on an EFF program for a period of 30 months and an amount of US\$45 billion. This amount covered the remaining obligations under the 2018 SBA (US\$40.5 billion) and provided a small net financing support for reserves accumulation (US\$4.5 billion). The program originally set a gradual fiscal consolidation path toward a zero primary deficit in 2025 and a reduction of monetary financing of the deficit (eliminated by 2024). However, given Argentina's macroeconomic imbalances the program had gone significantly off-track by end-2023. By January 2024, program targets were modified (e.g., targeting a 2 percent of GDP primary fiscal surplus for 2024), in line with the authorities' initial actions and ambitious plans to bring the program back on track and restore macroeconomic stability. Building on the better-than-expected performance (all end-March performance criteria were met with margins), the approval of the eighth review of the EFF provides resources to support the efforts to entrench the disinflation process, rebuild fiscal and external buffers, and underpin the recovery. However, the Staff Report states that sustaining progress requires improving the quality of fiscal adjustment, taking initial steps towards an enhanced monetary and FX policy framework, and implementing reforms to unlock growth.

#### Sectoral and Institutional Context

6. **Argentina's power sector has been open to private investment and competition since 1992 and is structured vertically into generation, transmission, and distribution businesses.** It is the third largest power market in the region after Brazil and Mexico, with a total electricity demand of approximately 141 terawatt-hours per year (TWh/yr),<sup>3</sup> driven by the residential sector, which accounts for 46 percent of power consumption<sup>4</sup>. Although renewables share in the electricity mix has doubled in recent years, growing from just over 6 percent in 2019 to 14 percent in 2023 (excluding large hydro, which accounts for an additional 27 percent of total supply)<sup>5</sup>, fossil fuels still account for nearly 50 percent of the total power supply.<sup>6</sup> The energy sector alone represents almost half of total Greenhouse Gas (GHG) emissions in the country;<sup>7</sup> power generation accounts for 10 percent of total emissions, and fuels used in transport account for another 10 percent.<sup>8</sup> The sector's share of total emissions – and its net emissions have consistently increased since 1990.

<sup>3</sup> CAMMESA, Informe Anual 2023, available online at: <https://microfe.cammesa.com/static-content/CammesaWeb/download-manager-files/Informe%20Anual/2024/Informe%20Anual%202023.pdf>.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> MAyDS. 2023. Quinto Informe Bienal de Actualización de Argentina a la Convención Marco de las Naciones Unidas sobre el Cambio Climático (CMNUCC), available online at:

<https://unfccc.int/sites/default/files/resource/5to%20Informe%20Bienal%20de%20Actualizaci%C3%B3n%20de%20la%20Rep%C3%ABlica%20Argentina.pdf>.

<sup>8</sup> Ibid.



7. **Energy subsidies represented roughly 1.5 percent of GDP in Argentina in 2023, a drop from the 2.0 and 2.3 percent registered in 2022 and 2021, respectively.**<sup>9</sup> Electricity subsidies cover the gap between electricity generation costs and the wholesale market operator's (*Compañía Administradora del Mercado Mayorista Eléctrico Sociedad Anónima*, CAMMESA)<sup>10</sup> seasonal price (PEST), which has consistently been set below the total cost of energy. Overall, as some tariffs for transmission and distribution have also been set below economic costs, entities in these subsectors are cross-subsidizing consumers and arrears to CAMMESA have accumulated. This has meant that for most of the last 25 years, electricity bills for residential consumers have not reflected actual costs.<sup>11</sup>

8. **Increased operational costs, collection issues and electricity losses have also directly and negatively impacted the finances and efficiency of the electricity sector.**<sup>12</sup> Together with subsidies, these factors have limited distribution entities from fully compensating CAMMESA for their electricity purchases and further explain the debt accrued to the *Compañía* in the last few years. This situation has prevented distribution entities from appropriately investing in the grid. The lack of investment partly explains the high level of losses, which amount to 16 percent on average, ranging from slightly above 6 percent in some cooperatives to around 20 percent in EDESUR (the second-largest distribution company in the country).<sup>13</sup> Losses would be expected to increase if subsidies were to be removed without appropriate targeting.<sup>14</sup>

9. **Sector sustainability is also challenged by external factors, such as climate risks or rising fuel prices.** The high reliance on hydro generation makes the country particularly vulnerable to fuel price volatility (for example, resulting from events such as Russia's invasion of Ukraine) and especially during droughts.<sup>15</sup> Such risks typically result in larger subsidies or an additional burden on consumers (and can potentially result in higher losses). The fact that power generation contracts are denominated in US dollars makes the sector further liable to exchange rate volatility.

10. **Energy subsidies in the last two decades have been deeply marked by the 2001 crisis.** As a result of that macroeconomic and social crisis, energy tariffs were frozen until 2015. Attempts to increase both natural gas and electricity rates were contested in courts, blocking most efforts to unfreeze tariffs. Subsidies kept growing and their impact on Argentina's primary expenditures expanded, creating a heavier burden on the country's finances. In 2014, subsidies for high-income neighborhoods were reduced, and a voluntary registry to encourage higher-income households to renounce subsidies was introduced, with very limited impact.

11. **A new attempt to rationalize subsidies and set cost-reflective tariffs was made in early 2016.** In January 2016, the Government of Argentina (GoA) updated pass-through mechanisms, putting tariffs on the path to reflect actual costs, and created a "social tariff" to focus subsidies on the poorest citizens of Argentina. Verifying eligibility criteria under the new social tariff required relying on dispersed databases amongst several government agencies and levels, making data access and updates difficult. In 2019, tariffs were re-frozen, increasing the resources devoted to subsidizing generation costs and limiting the resources available to invest in the grid.<sup>16</sup>

<sup>9</sup> Economía & Energía & PxQ. Tarifas de energía eléctrica y gas natural, June 2024, p. 18.

<sup>10</sup> A public-private entity owned by the market agents (80 percent) and the State (20 percent).

<sup>11</sup> As electricity bills consist of generation, transportation and distribution costs, and local taxes.

<sup>12</sup> Romero, *Estado de situación de las distribuidoras eléctricas en Argentina*, January 2021.

<sup>13</sup> Rivera, *Consultoría Pérdidas de Energía, Empresas Distribuidoras Argentina, Evaluación Programa de Inversiones*, November 2021.

<sup>14</sup> According to ADEERA (*Asociación de Distribuidores de Energía Eléctrica de la República Argentina*, distribution companies association) data from over 20 distribution companies and cooperatives, with data from 2022 and 2023.

<sup>15</sup> According to CAMMESA data, in periods when hydro participation on overall generation decreased (for example from 2019) to 2023), the correlation between generation costs (either measured by average marginal operated cost or *monomic* price) and oil costs is above 90 per cent, while during periods of higher hydro participation (2005-2018) the correlation is below 50 per cent.

<sup>16</sup> Romero, *Estado de situación de las distribuidoras eléctricas en Argentina*, January 2021.



12. **In mid-2022, the government started revising tariff structures to better target subsidies to poor and vulnerable groups.** A new tariff segmentation through the approximation of consumers into low, medium, and high-income categories was launched, creating a new and national ad-hoc registry to access energy subsidies (*Registro de Acceso a los Subsidios a la Energía*, RASE). Under the RASE, users who considered themselves subject to maintaining the subsidy had to self-report their incomes and additional socioeconomic information (such as cohabitants of the households) and request the continuation of subsidies. Households in the *Registro* were divided into three categories<sup>17</sup>: N1 – higher-income households not to be subsidized any longer; N2 – lower-income households that continue to receive subsidies; and N3 – middle-income households who still benefit but from a smaller subsidy. Since then, the RASE has become a key tool to improve subsidies targeting as it complements existing and dispersed individual administrative records with self-reported household data. As a result, the RASE has helped improve the understanding of household’s demographics and social dimensions and has created incentives to update utilities databases as electricity bills are not necessarily addressed to the actual potential beneficiaries of subsidy schemes.

13. **Since December 2023, the new administration has emphasized the need to further reform the energy sector and reduce subsidies.** Most subsidies for high-income households and commercial customers were 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 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 income segments.<sup>18</sup> Under these tariff increases, the bottom 40 percent 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).<sup>19</sup>

14. **Amid rising tariffs in various sectors and the recessionary impact of fiscal adjustments, supporting vulnerable populations is crucial.** This support helps sustain progress already made and ensures that those least able to improve consumption efficiency do not bear a disproportioned share of the burden. It is now expected that subsidies could represent between 0.7<sup>20</sup> and 1.0<sup>21</sup> percent of GDP by the end of 2024, demonstrating the value and impact of subsidy reform (US\$ 6,516M in 2024, a 30 percent reduction compared to 2023).<sup>22</sup>

15. **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.** Consolidating the RASE and validating it with the administrative database grouped through SINTYS, developing national

<sup>17</sup> Classification criteria for the RASE categories include: N1 (high-income): Total monthly household income equivalent to or greater than 3.5 basic baskets for a type 2 household according to INDEC, having 3 or more vehicles less than 5 years old. Owning 3 or more properties. Possessing a boat, a luxury aircraft, or being the holder of corporate assets that demonstrate full economic capacity. N2 (low-income): considering all household members together, meet any of the following conditions: Net income less than 1 total basic basket, Own up to 1 property. Do not own 1 vehicle less than 3 years old. N3 (mid-income): households not within the higher income segment and meet any of the following conditions: Total monthly income between 1 and 3.5 basic baskets, Own up to 2 properties. Own up to 1 vehicle less than 3 years old. For all the cases, there are exceptions linked to Disability Certificate, receiving a Lifelong Pension for Veterans of the South Atlantic War, or possessing a Housing Certificate issued by ReNaBaP. For further details <https://www.enargas.gob.ar/secciones/regimenes-de-beneficios/criterios-de-inclusion.php>

<sup>18</sup> 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 would be paid at full (N1) tariff. Economía & Energía and PxQ. Tarifas de energía eléctrica y gas natural, June 2024, p. 9.

<sup>19</sup> Estimates based on information for the Greater Buenos 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.

<sup>20</sup> 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.

<sup>21</sup> Economía & Energía and PxQ. Tarifas de energía eléctrica y gas natural, June 2024, p. 18.

<sup>22</sup> Own calculations based on Economía & Energía. Informe n°99, June 2024, p. 20.



capacities for data collection, 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 subsidy targeting and deepen reform efforts.

16. **Argentina’s success in implementing reforms hinges on understanding the effects of current subsidies on households and communities, especially how their reduction might impact them.**<sup>23</sup> Engaging in such efforts can help identify critical challenges and influence design to avoid negative outcomes, particularly for the most vulnerable, as well as ensure policy continuity. Furthermore, accompanying a subsidy reform with efforts to improve the efficiency and sustainability of the sector would maximize impact. Such goals can be achieved if key institutions have capacities and access to updated information – particularly regarding electricity use and consumption – that can inform policymaking and planning. Such evidence can also help create and deploy additional measures – even beyond the energy sector interventions – to protect vulnerable populations. Improving databases at the national or provincial level (or within distribution entities) can also generate inputs that help make better and more informed decisions. Leveraging all these measures through communication strategies that engage with the most vulnerable can help ensure subsidy reform is an opportunity for fiscal savings and improved energy use. Finally, the interlinkages between Argentina’s large fiscal imbalances, CO<sub>2</sub> emissions and subsidies, imply that improving the focalization of the latter would result in improving (or reducing) the former.

#### Relationship to CPF

17. **The proposed Project objectives are consistent with the World Bank Group’s Country Partnership Framework (CPF) for the Argentine Republic (FY19-FY22) (Report No. 131971-AR)<sup>24</sup> that was revised by the Performance and Learning Review (Report No. 170668-AR) on May 31, 2022.** The proposed operation would help improve the overall sustainability of the power sector as well as Argentina’s capacity to improve subsidies targeting and overall sector efficiency, thus contributing to improved governance and climate mitigation outcomes, as well as to the capacity to cope with climate shocks.

18. **The Project also supports Green, Resilient and Inclusive Development (GRID),<sup>25</sup> particularly Pillar 4 – Strengthening Policies, Institutions and Investments for Rebuilding Better.** It will spur green and sustainable growth by supporting a better targeting of subsidies, improving energy efficiency, incentivizing better electricity use thus reducing the use and reliance on fossil fuels, supporting institutional strengthening and capacity building, while also creating data and information tools that can help enhance the sector’s resilience. The Project is also aligned with the Global Challenge Program Energy Access and Transition (CGP-E), as it will support energy efficiency and future integration of more renewables, as well as contributing to the World Bank’s Climate Change Action Plan 2021-2025 (CCAP) which aims to advance the climate change aspects of the GRID approach. It also follows the directives of the LAC Roadmap for Climate Action 2021–25 as it guides the Bank’s “response for scaled-up, transformational climate action in the region.” The Project is also aligned with the recommendations of the Argentina Country Climate and Development Report (CCDR) that “Argentina could undertake a path towards net zero carbon dioxide emissions and smaller decreases in emissions from other pollutants by 2050, if it, among others, decarbonizes electricity production with increased capacity for renewable

<sup>23</sup> Adapted from: The World Bank & ESMAP, Energy Subsidy Reform in Action: Political Economy Analysis and Communications for Energy Subsidy Reforms. Approaches and Insights from Recent Technical Assistance, March 2024.

<sup>24</sup> The CPF was discussed by the Board of Executive Directors on April 25, 2019.

<sup>25</sup> The World Bank Group, Green, Resilient, and Inclusive Development, 2021, available online at:

<https://openknowledge.worldbank.org/handle/10986/36322>.



energy and increase energy <sup>2627</sup>. The project is aligned with the Paris Agreement’s mitigation and adaptation goals as new information on electricity use is expected to assist in introducing measures to improve energy efficiency and reduce emissions, as well as increase resilience and adaptation to climate change.

### C. Proposed Development Objective(s)

To support the enhancement of subsidy targeting mechanisms and the sustainability and efficiency of the Argentine electricity sector.

#### Key Results (From PCN)

19. The proposed PDO-level indicators would be:
  - a. Strengthening of RASE: Number of households information updated
  - b. Targeting mechanism improved
  - c. Projected lifetime electricity savings achieved in connection to the Project

### D. Concept Description

20. **The Project would consist of three components:**

21. **Component 1: Enabling conditions to improve subsidies targeting.** This component will help improve the existing registers at national and provincial levels, the appropriate inclusion of vulnerable households into them, the correction of other inclusion or exclusion errors within such registries and improved information sources and data on electricity consumption at the residential level. Identifying and correcting the registry of households within appropriate segments of the subsidy scheme will improve subsidies targeting and reduce wasteful spending. Furthermore, improving information sources and households’ electricity consumption data will facilitate energy use monitoring and enable programs and policies to incentivize more efficient electricity use and reduce emissions, as well as planning activities to increase the sector’s resilience to climate risks.

22. **Improving subsidies targeting and data will require developing or improving up-to-date and consolidated information sources on electricity use and consumption in the residential sector.** Only through increased dialogue and collaboration with relevant institutions – distribution entities, provinces, regulatory agencies – will such efforts succeed. Achieving such milestones would also necessitate supporting the creation of mechanisms and incentives to encourage the generation and sharing of information and developing new institutional coordination capacities to ensure an efficient flow of information and resources across stakeholders. The *improved mechanism to target* electricity users would result from the exchange and validation of information from the self-reporting database (RASE) with national administrative databases grouped in the SINTyS and other provincial sources of information.

23. **Component 2: Developing capacities and instruments to foster sector sustainability and efficiency.** The component will seek to support sustainability efforts to ensure any potential tariff reforms can be effective, efficient, clearly communicated, and avoid negative impacts on vulnerable households. While Component 1 activities would ensure a better targeting that facilitates the tariff reform by making efficient use of the fiscal resources and creating the

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<sup>27</sup> 3 World Bank Group (2022). Argentina Country Climate and Development Report. CCDR Series; World Bank, Washington, DC. © World Bank Group. <https://openknowledge.worldbank.org/handle/10986/38252> License: CC BY-NC-ND, p. 6.





mechanism to align sectorial stakeholders, Component 2 would prompt such reform by producing additional information on its impacts – including on distribution companies financial and operational efficiency gains –, incentivizing improved energy use based on new evidence and assessments for policymaking, and crafting communication strategies that both seek to further explain and clarify reform as well as opportunities for better energy use. Additionally, it will support the creation of mechanisms for sheltering the poor from external volatility or climate risks over generation costs, as well as aligning incentives for different jurisdictions to enable the reform.

24. **Further revising subsidy schemes will require evaluating the distributive impact of tariff increases on households across the country.** It will also involve developing knowledge and evidence for policymakers to potentially craft – *inter alia* – improved and efficient energy use programs and overall seize the opportunities created by enhanced knowledge of household consumption patterns. Furthermore, the Component will aid in the preparation of solid communication plans and stability mechanisms that help leverage behavioral change for sustainability. Developing these activities would result in improved information that can lead to positive and direct climate outcomes and improved planning for overall climate risks.

25. **Component 3: Project management.** This component would focus on providing resources and capabilities for overall Project management and support the implementation of components 1 and 2. Component 3 will not rely on PBCs; disbursements will be input-based. Activities will include coordination, implementation, technical design, legal, procurement, financial management aspects and fulfillment of all fiduciary obligations; liaising and establishing relevant implementation agreements with key institutions collaborating with the Project, environmental and social management; monitoring, tracking mitigation and adaptation results and impacts, and evaluation; engagement and consultations with targeted populations and beneficiaries, as well as developing, supporting and tracking implementation of any gender-related activities and deploying training activities.

Legal Operational Policies

	Triggered?	
	Last approved	Current
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

The overall environmental and social risk is classified as low at concept stage. The project is not expected to have 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 population. 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 mainly deploy the Borrower’s Framework to manage social risks and impacts. Relevant social management measures (such



as ensuring that the stakeholder engagement process is inclusive) will be either embedded in the project design or incorporated in the project's ESCP. There is a very low probability of the project causing serious effects to the environment. Project-related risks and impacts identified at concept stage are low or minimal in magnitude, predictable and reversible. However, some indirect 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, such as wastes, firewood, charcoal, coal, kerosene or diesel, stemming from the reduction of subsidies to electricity fees. 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 might be conducted during the first stages of project implementation (e.g., as part of the planned tariff reform sustainability and impact analysis). Additionally, 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.

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**APPROVAL**

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Country Director:	Cristina Isabel Panasco Santos	22-Aug-2024
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