Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 10-Apr-2019 | Report No: PIDC26539

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Argentina	P170329		Improving the Electricity Social Tariff in the Buenos Aires Province (P170329)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
LATIN AMERICA AND CARIBBEAN	Jul 04, 2019	Aug 30, 2019	Social Protection & Labor
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Province of Buenos Aires	Provincial Directorate of of Multilateral and Bilateral Financing	

Proposed Development Objective(s)

The development objective is to strengthen the institutional capacity to administer the electricity social tariff scheme and improve its effectiveness in the Buenos Aires Province.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	150.00
Total Financing	150.00
of which IBRD/IDA	150.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	150.00

Environmental and Social Risk Classification	Concept Review Decision

Moderate	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The current macroeconomic context in Argentina is characterized by marked financial volatility emerging from a combination of domestic and external factors.** Since taking office in December 2015, the Government has implemented structural reforms to eliminate distortions in the economy. Given the ambition of the reform program, and in order to maintain the social consensus needed to ensure sustainability over time, the Government adopted a gradual approach to these reforms, which included fiscal and monetary adjustments. Among these, was the gradual reduction of global subsidies for public services such as electricity, gas and transport, while implementing and improving the design of social tariffs to target the poorest households. Despite these reforms, the slow decline of the fiscal deficit and slower than anticipated pace of disinflation, combined with a tightening of global financial conditions, has put stress on the Argentine economy since early 2018.

2. **Argentina's macroeconomic outlook presents substantial downside risks that could have an impact on job creation, real wage variation, and poverty reduction.** Employment has played a more limited role as a driver of household income since 2011, relative to the previous eight years. This is partly due to the expansion of income transfers policies (child allowances and pensions) but also to the relatively limited labor income growth -related to small employment growth and to high inflation levels not matched by salaries in recent years. In this same line, transfers in the form of subsidies to public services were expanded with the aim of increasing household disposable income. Removing energy subsidies, therefore, is stressing people's purchasing power.

3. **The Government's reform agenda was supported by multilateral institutions.** In June 2018 the IMF approved a Stand-by Agreement (SBA) for US$50 billion. The World Bank prepared a set of operations, both Development Policy and Investment Project Financing, which were part of a broader package prepared with international partners, including the Interamerican Development Bank (IADB), and the Development Bank for Latin America (CAF). The World Bank program focuses on supporting the Government's reform agenda to lay the foundations for growth and protect the most vulnerable, being complementary and fully consistent with the IMF-supported program. The program explicitly established an agreed social safety net spending floor and allows some well-targeted social assistance transfer programs to expand if needed.

4. **After a relatively calm period following the first Stand-By Arrangement (SBA) with the IMF, Argentine assets came under renewed pressure in the second half of August 2018.** The Government's ability to tap into capital markets in 2019 became a growing concern. In this context, in October 2018 the Government revised the SBA by putting in place modifications both in the fiscal and monetary program. Government accelerated the fiscal

consolidation, with a commitment to achieve a primary balance in 2019 and a primary surplus in 2020; and shifted the new monetary regime (started in October 2018) from inflation targeting to fixing the monetary base while letting the exchange rate float without intervention[1]. Preliminary results have been positive: the Government reached its fiscal target for 2018 (2.7 percent of GDP primary deficit).

5. **Economic activity suffered a 2.5% contraction in 2018 triggered by the impact of the financial turmoil and the strong drought.** Inflation increased, driven by a sharp adjustment in the exchange rate, reaching 47.7 percent in 2018, the highest since 1991. Nominal wages could not keep up with inflation, and private consumption suffered. Heightened uncertainty and lower demand affected investment, which came to a halt in 2018. The deterioration in economic conditions is reflected in a higher incidence of poverty, which reached 32 percent of the population in the main urban areas according to the latest official estimates (second semester of 2018)[2]**.**

6. **As part of the fiscal consolidation efforts, in 2017 the Government agreed to a Fiscal Pact with the Provinces to normalize fiscal relationships between the federal government and the provinces and to promote fiscal responsibility.** The revenue-sharing system in place at that time had results in an erosion of resources to the Province of Buenos Aires, where the largest share of the Argentinean population (39 percent) and the urban poor households live (52 percent). The Fiscal Pact with Provinces aimed at rebalancing the distribution of revenues. An addendum to the Pact signed at the end of 2018 (Law No. 27469), transferred responsibilities to the Provinces, including the regulatory authority and the financing of social tariffs for residential electricity, starting in 2019.

7. **The provincial public sector experienced a strong expansion in the last decade as overall expenditures went from 10.5% to 15.2% of GDP during 2007-2017.** A significant increase in the tax burden was not enough to cope with public expenditures, leading to structural fiscal imbalances. Since the current administration took office fiscal accounts have improved, largely helped by a compensation from the Federal Government to reverse the historical decrease in the share of federal transfers to the Province of Buenos Aires (PBA). Buenos Aires is among the four jurisdictions that rely less on central government resources (its own revenues represent more than 70% of net recurrent revenues). However, PBA still suffers strong fiscal imbalances since it receives around 20% of federal shared taxes while contributing more than 33% to national GDP and having almost 40% of Argentina's population. On the expenditure side, Buenos Aires Province has one of the lowest shares of capital expenditure (infrastructure), while more than 80 percent of its net expenditure is on personnel (60%) and pensions (23%) spending. **In the coming years, the PBA faces significant fiscal challenges given the commitment to gradually reduce distortive sales taxes and additional fiscal pressures arising from new expenditure responsibilities (economic subsidies).**

Sectoral and Institutional Context

8. **Since 2002, the government has introduced a wide range of subsidies to protect households from rising inflation and to support specific sectors of the economy.** When the new administration took office at the end of 2015, public policy tools included transfers to the private sector; revenue-related support measures (e.g., tax exemptions and deductions); and programs aimed at supporting specific regions (e.g., Patagonia, Tierra del Fuego,

[1] However, the Central Bank may conduct limited interventions if the exchange rate falls outside a non-intervention band.
[2] INDEC's Poverty and Extreme Poverty Incidence Press Report.

and La Rioja), sectors (e.g., mining), and policy objectives (e.g., supporting Small and Medium sized Enterprises, youth entrepreneurship, or R&D).

9. **Energy subsidies have played a critical role in protecting poor households from rising inflation in Argentina, but their cost has increased rapidly since they were introduced.** The emergency arrangements introduced in 2002 succeeded in freezing energy tariffs while maintaining the provision of public services. This was important during the 2001-02 crisis to protect the real purchasing power of the poor.[3] However, the cost of this subsidy quickly increased due to a rise in international energy prices, internal inflation, and the increasing demand of subsidized goods in the context of a fast-growing economy.

10. **The fast growth of energy subsidies (together with other subsidies) has been a key driver behind the growth of public expenditures, and constituted a large share of federal government spending by 2016.** Subsidies have contributed to the rise in public expenditures since 2007 and represented the second largest component of current expenditures, after social security, in 2016. Energy subsidies increased from 0.4 percent of GDP in 2005 to almost 3 percent of GDP in 2016[4].

11. **Many of Argentina's electricity and gas subsidies have benefitted middle- and upper-income households as well as non-residential consumers.** While the original objective of the government's subsidies was to offset the negative effects of rising prices on low-income households' real purchasing power, subsidies have been distributed across all income groups, with non-poor households receiving the largest share.

12. **In this context, the current administration made reforming energy subsidies a priority in order to reduce fiscal costs while protecting the most vulnerable, as well as to lessen the detrimental effects of the subsidies on the sustainability and efficiency of the energy sector.** In early 2016, the government implemented measures towards a gradual convergence of tariffs to the costs of generation, transmission and distribution for residential, commercial and industrial users. At the same time, the Government implemented a new social tariff (ST) to protect poor and vulnerable households from upcoming tariff increases. The ST offer electricity generation cost discounts for specific residential users as well as community-based organizations. A few months after implementation, more than 20 percent of households were covered by the ST. Despite the success in quickly and effectively enrolling beneficiaries in the ST (a large majority were automatically enrolled), important challenges remain in covering the target population due to issues in design (eligibility criteria and information used) and implementation (information constraints to identify beneficiaries).

Electricity Social Tariff at the federal level

13. **Following the energy emergency declared by Decree No. 134 in December 2015, upstream subsidies to the electricity sector declined and in February 2016 the federal government launched the electricity ST to cushion residential tariff increases (Resolution No. 7/2016).** The electricity tariff for grid-connected users has three components: the cost of electricity (the wholesale market is administered by CAMMESA -*Compañía Administradora del Mercado Mayorista Eléctrico SA*); the cost of transmission; and the cost of distribution. In addition, national, provincial and municipal taxes and fees are included. Users pay distribution companies,

[3] Lombardi et al (2014)
[4] World Bank (2018), *Argentina Public Expenditure Review*, Washington DC.

distribution companies pay to transporters and to CAMMESA, and CAMMESA pays to electricity generators. The ST focused on the first component, subsidizing 100 percent of the cost up to 150 kilowatts (kWh) and 50 percent of the following 150kWh consumed per user per month. The subsidy does not cover the other components of the electricity cost invoiced to customers (i.e., transport and distribution). The subsidy does not go through the distribution companies, who only receive payments from users. If these users are assigned the Social Tariff, then they pay a reduced amount to the distribution company, and the distribution company then pays the corresponding reduced amount to CAMMESA.

14. 14. **Eligibility criteria for the ST were defined by the Ministry of Energy, with inputs from the National Council of Social Policies (CNCPS)**. The inclusion criteria included users who were retirees, pensioners, beneficiaries of non-contributory pensions, salaried or self-employed workers with income below two minimum wages, beneficiaries of social programs, low productivity self-employed workers registered under the "*monotributo social*"[5] scheme, war veterans, domestic workers, beneficiaries of unemployment insurance, persons with disabilities and electricity-dependent persons. Users who had more than one property, one car newer than ten years, a plane or a luxury boat are excluded. Vulnerable populations living in slums are usually covered freely through community meters under a separate scheme, *Convenio Marco*, governed by agreements between regulatory agencies and electricity providers.

15. **Three federal agencies were involved in designing the ST. The Ministry of Energy defined the eligibility criteria and the subsidy amount** (Resolution No. 6/2016, Resolution No. 122/2018); the electricity regulatory agency (*Ente Nacional de Regulación de la Energía Eléctrica* -ENRE) supervised implementation; and the CNCPS verified users' eligibility through its database (*Sistema de Identificación Nacional Tributario y Social* -SINTyS). In addition, ENRE intermediated between the service provider companies (distributors) and SINTyS exchanging the information on electricity users' and their socioeconomic attributes. SINTyS combined different administrative data sources to verify eligibility conditions and classify users into three groups: (i) those who qualify for the ST, (ii) those who do not qualify for ST; and (iii) users who do not qualify for ST due to the lack of information to verify the inclusion criteria. ENRE sent the resulting list of eligible users to the distributors, who in turn applied the ST to the corresponding electricity bills.

16. **The eligibility criteria have weaknesses.**[6] First, it includes some groups (such as formal workers and pensioners earning close to two minimum wages) that are not among the most vulnerable. Also, the criteria excluded low-income users who are neither informal workers nor beneficiaries of social programs. Thus, the criteria for inclusion and exclusion result in the incorporation of some non-vulnerable households and the exclusion of some vulnerable ones. Second, the criteria are formulated on an individual -instead of a household basis, and therefore are not able to identify the vulnerability conditions accurately. As the identification mechanism (listing of service holders) does not incorporate information about all individuals residing at the same address, the eligibility conditions are verified only for the formal service holder (who is named on the bill). This information constraint translates into exclusion errors when the household member who qualifies for ST is not the holder of the service; and into inclusion errors when other family members would not be eligible under the established criteria.

[5] Simplified income tax regime, for small independents workers with very low income.
[6] During 2017, the World Bank provided technical assistance to Jefatura de Gabinete de Ministros (JGM), as part of the government's efforts to reassess the effectiveness of the ST in protecting vulnerable families. The analysis resulting highlighted the existence of potential targeting errors.

17. **There are also challenges to applying the eligibility criteria effectively.** The administrative records needed for verifying conditions are dispersed among different governmental agencies and government levels which sometimes are hard to obtain and update. Therefore, when SINTyS is not able to gather these data sources in a timely and complete manner, there are difficulties in screening users and determining their eligibility for ST. This is the case of tax information and property registries in charge of Provinces. In addition, holders of electricity bills may not be the users. This could be due to owners' records not being updated, a recent change in the property ownership, or residents not owning their homes (i.e., they are tenants). Finally, the last stage of the ST process lacks institutional governance to assure that only verified eligible users receive the benefit. There is no feedback between the information that companies receive from ENRE on users once the ST is applied.

18. **In addition to residential customers, before January 2019 different ST schemes were in place for community centers and electro-dependents.** In the case of social clubs with 50 to 2000 members enrolled in the Clubs National Registry, the Secretary of Sports at the federal level agreed to reimburse 40 percent of the electricity bill (Argentinean Clubs Program, 2016). For the provision of electricity services to public wellbeing institutions such as foundations and non-profit associations, there are specific tariffs established by the Ministry of Energy (Res. 14, 2017). Regarding electro-dependents, free electricity service is provided to those citizens enrolled in the National Registry of Electro dependents due to health reasons (Law No. 27351, 2017).

19. **The electricity ST scheme is relatively pro-poor by design, with a higher coverage rate of low than high-income households but with large inclusion errors in the upper tail of the income distribution and considerable exclusion errors at the bottom**. While 84 and 73 percent of households in the 1st and 4th deciles qualify for the ST, 54 and 36 percent in the 7th and 9th deciles, are also eligible, respectively. As a result, only 37 percent of electricity ST went to the bottom forty. Public expenditure in ST represented 0.23 percent of GDP in 2017, where 0.07 percentage points corresponded to electricity.

20. **Starting in January 2019, the regulatory and fiscal responsibilities in the energy sector were transferred from the Federal Government to Provinces.** According to the federal budget approved for 2019 and the fiscal agreement between the federal and provincial governments (Law No. 27.469, Consenso Fiscal), the design and financial responsibilities on electricity ST were transferred to Provinces. Consequently, the Ministry of Energy eliminated the differential electricity tariff associated with the ST for residential customers (Resolution No. 366/2018) and the program that subsidized social clubs was closed. This has resulted in the Provinces both having to commit additional resources for the payment of social electricity tariffs and requiring additional resources for regulation of the electricity sector. Provinces have assumed this delegation through provincial laws accepting *Consenso Fiscal* and including the attached fiscal commitments in their own budgets 2019.

21. **The electricity distribution in the Buenos Aires Metropolitan Area used to be regulated under ENRE, but since January 2019 is under the orbit of the regulation authorities of the Buenos Aires Province and in the Autonomous City of Buenos Aires (CABA)**. Thus, a new bi-partite regulatory agency will replace ENRE, integrated by the subnational regulatory agency (Organismo de Control de la Energía Eléctrica de la Provincia de Buenos Aires -OCEBA) and CABA who will share regulatory responsibility. Eligibility for ST will be defined by SINTyS, which will exchange information with the bi-partite agency and OCEBA.

22. **The electricity ST handover from the federal to the provincial government does not include data management capabilities or specific arrangements for the transition, at least formally.** Technical knowledge, information, and data management capabilities at the federal level were not part of the delegation. Moreover, the assignment of regulatory competencies on electricity providers between ENRE and the subnational regulatory agencies in the case of the Buenos Aires Metropolitan Area (AMBA) were not resolved yet. Provinces do not have experience in dealing with the management of the ST scheme and usually resources committed to related activities are scarce.

23. **The Buenos Aires Province has some capacity to manage the ST scheme and represents a strong case for improving the effective coverage of electricity ST.** The transition posits PBA as a leading case for other Provinces: ST beneficiaries in the PBA reach 1.43 million electricity users[7], representing 0.12 percent of GPP. The PBA has trained, qualified staff at the Provincial Directorate of Subsidies and OCEBA. The PBA is signing data sharing agreements with national entities while the final institutional arrangements are still being designed. Thus, in the upcoming challenge related to implementation, the PBA engages in improving the identification strategy of eligible customers laying stepping stones to further design upgrades. Advancements made by the PBA could turn into examples for other provinces to emulate.

Relationship to CPF

24. The proposed Project is aligned with the Country Partner Framework (CPF) and the Argentina Systematic Country Diagnostic (SCD),[8] whose analyses identify constraints to inclusive and sustainable growth and poverty reduction and recommendations to address them. By supporting poor and vulnerable populations, the planned ST operation with the Province of Buenos Aires is related to the first CPF focus area, supporting Argentina in securing access to long-term private financing on a sustainable basis, while aimed at conducting the fiscal consolidation reforms in a manner which increases equity and efficiency and protects the poor and low-income population from the adverse impacts of policy measures. This Project will focus on the latter aspect supporting the protection of the vulnerable through the electricity ST as subsidies are reduced.

25. The Project is also connected to the second CPF area, contributing to address existing institutional constraints in the areas of governance and public service delivery, by supporting the transition of responsibilities for the ST program to the provinces and improving the program's targeting and administration, thereby enhancing institutional capabilities of regulatory agencies to provide better public service delivery.

C. Proposed Development Objective(s)

The development objective is to strengthen the institutional capacity to administer the electricity social tariff scheme and improve its effectiveness in the Buenos Aires province.

[7] 38 percent of the ST beneficiaries at the national level.
[8] World Bank. 2018. Argentina: Systematic Country Diagnostic (English). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/696121537806645724/Argentina-Systematic-Country-Diagnostic .

Key Results (From PCN)

- Eligible vulnerable households/groups covered by the social tariff
- Electricity users with updated information in database which will allow identification of eligibility
- Institutional arrangements and regulation approved by provincial authorities on ST management

D. Concept Description

26. This Project would support the Province of Buenos Aires' authorities with the design, implementation, and financing of social tariff for electricity. The Project will focus on improving the effectiveness of this program through better identification of beneficiaries and monitoring, and strengthening the administration capacity to handle the transition in the short term; while supporting institutional capacities to address ST reforms in medium term.

27. The proposed lending instrument is a four-year investment project financing loan (IPF) that would finance ST under a disbursement link indicators (DLIs) component, and that would include a technical assistance component that would disburse under regular procurement methods. The Project is expected to comprise three components:

28. Component 1: Institutional capacity building on Social Tariff implementation and electricity practices (US$5 million). This Component aims to: a) enhance the PBA's institutional structure to manage the ST; including the revision of roles and responsibilities to implement and monitor the ST; b) strengthen information management targeting to that more poor households are covered by the ST.[9] This may involve combining additional administrative sources and updating the users registry; c) support institutional and management design to assess eligibility of SCSC and; d) carry out sectorial studies to improve, inter alia, consumption behaviors (encourage electricity efficiency improvement in lighting and appliances) in ST beneficiaries households; and institutional capacities at provincial regulatory agencies (OCEBA and the new AMBA agency) and at electricity distribution providers' level. Activities under this Component will be implemented by the provincial Directorate of Subsidies and OCEBA and will use traditional IPF procurement and financial management procedures.

29. Component 2: Social Tariff Scheme financing (US$ 143.5 million). This Component would finance subsidies for eligible residential beneficiaries of the ST. To qualify for the ST, a person must meet at least one of the inclusion criteria related to income level and socioeconomic condition and none of the exclusion criteria related to assets ownership.[10] This Component would use DLIs to trigger four disbursements, at approximately 6 months intervals over the 4 disbursements at 4 months intervals in the first 2 years of the lifetime of the Project.

30. Component 3: Project Management Unit, Monitoring and Evaluation (US$1.5 million). This Component will support a Project Management Unit (PMU) which will be responsible for fiduciary activities. The PMU will sit in

[9] Eligibility has not been assessed to 30 percent (1.7M) of electricity users due to missing information that could be used to identify the user (15.4 percentage points), or because of the impossibility to assess users 'requisites for ST (14.9 percentage points).
[10] Potential beneficiaries of STs must meet at least one inclusion criteria and no exclusion criteria. The inclusion criteria are: (i) being a universal child allowance recipient, (ii) being under unemployment insurance; (iii) working as a house helper; (iv) being a formal worker or retiree earning less than two minimum wages (the minimum wage is around US$290 per month). There are two exclusion criteria: (i) having a car less than 10 years old and (ii) having two or more properties.

the Provincial Directorate of Multilateral and Bilateral Financing. The technical responsibilities for monitoring and evaluation as well as conducting studies to design an integrated proposal of Social Tariff will be coordinated by the Directorate of Subsidies. Both Directorates are under the Minister of Economy. Detailed institutional arrangements for the PIU will be finalized during project preparation.

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

Summary of Screening of Environmental and Social Risks and Impacts

The proposed Project will neither finance nor supports any physical intervention. No rehabilitation or construction of new infrastructure or other actions having an impact on the environment will be financed through the Project. In this sense, the overall risks and potential adverse environmental impacts are considered not significant. Furthermore, the Project would entail valuable outcomes and recommendations for decision making related to the improvement in consumption behaviors in social tariff (ST) beneficiaries' households (energy efficiency).

The social tariff was introduced to mitigate the impact of subsidy reform. Although the scheme has eligibility criteria and requirements, there are weaknesses in the current ST system (inclusion/exclusion errors), which could be affecting users in greater need and, in addition, leaving space for more efficient use of the resources. Therefore, the main social risks are associated to the potential exclusion of vulnerable people who qualify and are in most need of the social tariff. There is a formal grievance mechanism for users to complain if they haven't been included or if they have been taken out of the ST roster. The team will assess if the mechanism complies with the World Bank standards and make sure it is consolidated and effective to process grievances related to the ST scheme.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document**.**

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