Board of Executive Directors
For consideration
On or after 19 February 2019

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5 February 2019
Original: Spanish
Public
Simultaneous Disclosure

To: The Executive Directors

From: The Secretary

Subject: Argentina. Proposal for a Conditional Credit Line for Investment Projects (CCLIP) for the "Provincial Management Development and Strengthening Program" and first individual loan under the line for the "Provincial Management Development and Strengthening Program II"

Basic Information:

Loan type .... Conditional Credit Line for Investment Projects (CCLIP) and Specific Investment Loan (ESP)

Borrower .... Argentine Republic.

Line of Credit

Amount .... up to US$450,000,000

Source .... Ordinary Capital

Individual Loan

Amount .... up to US$150,000,000

Source .... Ordinary Capital

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Remarks: As established in document GN-1838-3, "Report of the Working Group of the Board of Executive Directors of the Inter-American Development Bank on Streamlining Approval Procedures for Sovereign Guaranteed Operations. Revised version", approved on 21 June 2018, Conditional Credit Line for Investment Projects and the first operation under the line are considered by the Board of Executive Directors by Standard Procedure.

Reference: GN-1838-3(6/18), DR-398-18(8/18), GN-2915(2/18), GN-2915-2(8/18), GN-2246-1(7/03), DE-58/03, GN-2246-4(12/06), DE-10/07, GN-2246-7(11/07), DE-164/07, GN-2246-9(9/16), DE-86/16, GN-2246-11(8/17), GN-2564-3(12/11), DE-225/11, PR-4453(11/16), DE-118/16

PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE PROVINCIAL MANAGEMENT STRENGTHENING PROGRAM

(AR-O0007)

FIRST INDIVIDUAL LOAN OPERATION UNDER THE CCLIP PROVINCIAL MANAGEMENT STRENGTHENING PROGRAM II

(AR-L1285)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Emilio Pineda Ayerbe (IFD/FMM), Project Team Leader; Carola Pessino (IFD/FMM), Andrés Muñoz (FMM/CBR); Juan Manuel Leano (TSP/CAR); Edwin Malagon (ENE/CAR); Natasha Kate Ward (VPS/ESG); Soraya Senosier (VPS/ESG); Jennifer Doherty-Bigara (CSD/CCS); Rodolfo Graham (LEG/SGO); Marilia de Souza (FMP/CAR); Ana Niubo (FMP/CAR); Laura Dadomo (CSC/CAR); and Mariana Canillas (IFD/FMM).

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Required

1. Multiyear execution plan and annual work plan
2. Monitoring and evaluation plan
3. Environmental and social management report
4. Procurement plan

Optional

1. Economic analysis
2. Draft program Operating Regulations
3. Diagnostic assessment of provincial public financial management in Argentina (IERAL, 2017)
4. Safeguard Policy Filter

ABBREVIATIONS

AFD	Agence française de développement [French Development Agency]
AGN	Auditoría General de la Nación [Office of the Auditor General]
CABA	Ciudad Autónoma de Buenos Aires [Autonomous City of Buenos Aires]
CCLIP	Conditional credit line for investment projects
CDC	Country Development Challenges
DIGEPPSE	Dirección General de Programas y Proyectos Sectoriales y Especiales [General Directorate for Special and Sector Programs and Projects]
DNIP	Dirección Nacional de Inversión Pública [National Directorate of Public Investment]
ESMF	Environmental and social management framework
ESMR	Environmental and social management report
FPA	Framework participation agreement
GGP	Gross geographic product
GIS	Geographic information system
IBI	Impuesto sobre Bienes Inmuebles [real estate tax]
IERAL	Instituto de Estudios sobre la Realidad Argentina y Latinoamericana [Institute for Studies on Conditions in Argentina and Latin America]
IIBB	Impuesto Provincial a los Ingresos Brutos [provincial gross income tax]
IMF	International Monetary Fund
INDEC	Instituto Nacional de Estadística y Censos [National Statistics and Census Institute]
IRR	Internal rate of return
MIOPyV	Ministry of the Interior, Public Works, and Housing
PEFA	Public Expenditure and Financial Accountability
PEU	Program executing unit
SBA	Stand-by Arrangement
SEPA	Procurement Plan Execution System
SIAF	Sistema Integral de Administración Financiera [Integrated Financial Administration System]
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]
SPM	Secretaría de Provincias y Municipios [Secretariat for Provinces and Municipios]
TIS	Territorial information system

PROJECT SUMMARY

ARGENTINA
CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE PROVINCIAL MANAGEMENT STRENGTHENING PROGRAM
(AR-O0007)
FIRST INDIVIDUAL LOAN OPERATION UNDER THE CCLIP PROVINCIAL MANAGEMENT STRENGTHENING PROGRAM II
(AR-L1285)

<table>
<tr><th colspan="6">Financial Terms and Conditions</th></tr>
<tr><td colspan="4" rowspan="2">Borrower: Argentine Republic</td><th colspan="2">Flexible Financing Facility[b]</th></tr>
<tr><td>Amortization period:</td><td>25 years</td></tr>
<tr><td colspan="4" rowspan="2">Executing agency: Ministry of the Interior, Public Works, and Housing (MIOPyV), through the Secretariat for Provinces and Municipios (SPM)</td><td>Disbursement period:</td><td>5 years</td></tr>
<tr><td>Grace period:</td><td>5.5 years [c]</td></tr>
<tr><th rowspan="2">Source</th><th rowspan="2">CCLIP (US$)</th><th rowspan="2">1st operation (US$)</th><th rowspan="2">%</th><td>Interest rate:</td><td>LIBOR-based</td></tr>
<tr><td>Credit fee:</td><td>[d]</td></tr>
<tr><td>IDB (Ordinary Capital):</td><td>450,000,000</td><td>150,000,000</td><td>75</td><td>Inspection and supervision fee:</td><td>[d]</td></tr>
<tr><td>Local counterpart:[a]</td><td>N/A</td><td>50,000,000</td><td>25</td><td>Weighted average life (WAL):</td><td>15.25 years</td></tr>
<tr><td>Total:</td><td>450,000,000</td><td>200,000,000</td><td>100</td><td>Currency of approval:</td><td>U.S. dollars</td></tr>
</table>

Project at a Glance

Objective of the CCLIP: Contribute to provincial fiscal sustainability with a view to fostering growth by improving the management of provincial revenue, expenditure, and public investment, designing Argentina's fiscal federalism, and implementing investment projects. The interaction between strengthening actions and public investment projects will help to: (i) create incentives for improving fiscal management by linking it with project financing; and (ii) ensure that improvements in provincial investment management are implemented.

Objectives of the first individual operation: The operation's general objective, in keeping with the goal of the CCLIP, is to contribute to provincial fiscal sustainability and growth by improving revenue, expenditure, and public investment and implementing investment projects. Its specific objectives at the provincial level are to increase: (i) less distortionary revenue as a share of total revenue; (ii) the efficiency of public expenditure management; and (iii) public investment.

Special contractual conditions precedent to the first disbursement of the loan proceeds: Entry into effect of the program Operating Regulations under the terms previously agreed upon with the Bank, including technical and strategic eligibility criteria, both for the implementation of the initial and add-on funds under Component II and for the activities under Component III, and the responsibilities of each subexecuting agency to be included in the framework participation agreements (paragraph 3.7). For special contractual conditions precedent to the first disbursement related to social and environmental issues, see Annex B of the environmental and social management report (ESMR).

Special contractual condition for execution: As a special condition for execution of Components I (Subcomponents 1.1. and 1.2) and II, evidence will be provided to the Bank's satisfaction that FPAs have been signed with each of the eligible provinces, whereby these provinces commit to fully executing the program in accordance with the terms and conditions in the program Operating Regulations (paragraph 3.8). For special contractual execution conditions related to social and environmental issues, see Annex B of the ESMR.

Exceptions to Bank policy: None.

Strategic Alignment			
Challenges:[e]	SI ☐	PI ☑	EI ☐
Crosscutting themes:[f]	GD ☑	CC ☐	IC ☑

[a] Will be financed through a loan (joint parallel financing) to the Argentine Republic with resources from the French Development Agency (paragraph 2.1), which has been recognized by the European Central Bank as a financial institution since 2017.

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

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

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

[e] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[f] GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

1.1 In an international financial context that puts pressure on emerging economies as a whole, Argentina faces macroeconomic risks associated with high public financing needs, liquidity surpluses, and a high current account deficit. The government has taken significant actions to mitigate these risks, including entering into a Stand-by Arrangement (SBA) with the International Monetary Fund (IMF) for US$57.1 billion that covers the country's short-term financing needs and will contribute to the goals of reducing inflation and financial vulnerability.

1.2 In tandem with the IMF arrangement, other multilateral lending institutions have committed to presenting programs for fast-disbursing operations within a period of 12 months to their Boards for approval. These commitments total US$5.65 billion, of which US$2.5 billion would be provided by the IDB, US$1.75 billion by the World Bank, and US$1.4 billion by the Andean Development Corporation. This program supports efforts to strengthen the fiscal sustainability of the provinces and boost their contribution to economic growth and, therefore, is consistent with the SBA with the IMF.

1.3 Beyond the short-term macroeconomic challenges, the Argentine economy faces a structural challenge in terms of increasing its medium-term economic growth. Since 1960, the Argentine economy has had average annual growth rates of roughly 1.1%, well below the average rates of other countries in the region.[1] The slow pace of growth is due to limited private and public investment (IDB, 2016).[2,3]

1.4 Argentina is a federal country with 23 provinces and the Autonomous City of Buenos Aires (CABA) and more than 2,000 municipal governments. The Argentine Constitution establishes areas of authority exclusive to the national government; shared between the national government and the provinces; or reserved to the provinces. Based on the allocation of responsibilities to the different levels of government, the provinces execute nearly 45% of public social expenditure and 25% of investment expenditure, both of which are key in determining growth, welfare, and quality of life of residents.[4]

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1 Over a similar period, average growth was 2.1% in Brazil, 4.6% in Chile, and 2.2% in Mexico (Country Development Challenges (CDC), Argentina).

2 Investment declined from 19.5% of gross domestic product (GDP) in 2007 to 14.8% of GDP in 2016. This investment level is significantly lower than in other countries in the region, such as Brazil (18%), Mexico (22.7%), and Chile (22.7%). Crecimiento y producción en Argentina en el siglo XX (Gabriel Sanchez, 2014).

3 Source: Institute for Studies on Conditions in Argentina and Latin America (IERAL), based on data from the Ministry of Finance and the Ministry of Labor.

4 See optional link 3. For a more extensive discussion, see Avila (2000), FIEL (1993), Porto (1990, 2004), and Porto and Sanguinetti (2001). The source for the data on investment is the National Directorate of Public Investment (DNIP).

1.5 **The problem and its causes.** In this low-growth environment, the ability of the provincial governments to foster private investment and carry out public investment without undermining fiscal sustainability is limited by: (i) distortionary provincial taxes that discourage private investment; (ii) expenditure management weaknesses and budgetary rigidity; and (iii) a low level of public investment and inefficient management of this investment.

a. Distortions of the provincial tax system. The provincial tax system includes several highly distortionary taxes that hinder business productivity, investment, and competitiveness (IDB, 2016; and Organization for Economic Cooperation and Development, 2017). Chief among these is the provincial gross income tax (IIBB).

b. The IIBB has an impact not only on investment but on productivity and exports (IDB, 2016) since it taxes intermediate sales, creating a cascade effect.[5]

c. The IIBB accounts for more than three quarters of provincial tax revenue and approximately 4.1% of gross domestic product (GDP).[6] The distortionary impact of the IIBB is particularly noticeable in the provinces of Misiones and Tierra del Fuego, where IIBB revenue collection respectively amounts to 11.7% and 7.2% of gross geographic product (GGP), followed by the provinces of Jujuy, Entre Ríos, Chaco, and Río Negro, where it amounts to roughly 5% of GGP.

d. Reducing the high dependence on the IIBB without undermining fiscal sustainability requires replacing the revenue from this tax with real estate tax (IBI) revenue, which has declined as a share of GDP from 0.6% in 2004 to 0.4% in 2016.[7] This decline is partly due to obsolete cadastral systems; failure to cross-reference data with real estate property records and with income tax payer lists;[8] failure to coordinate with municipal governments, which in some cases are responsible for collecting this tax; and lack of incentives in the provinces for updating assessments.[9] In the provinces of Misiones, Tierra del Fuego, Jujuy, Río Negro, and Chaco, real estate taxes collected as a percentage of GGP are below the national average. In all provinces, IBI revenue accounts for less than 5% of total provincial revenue.[10] The principal factors affecting real estate tax performance in these provinces notably include: (i) inconsistency in the cadastral data because the different

[5] The cascade effect means that products with greater intermediate inputs will be taxed at a higher effective rate, thus distorting consumption and investment decisions.

[6] See optional link 3.

[7] See optional link 3.

[8] Real estate tax is widely acknowledged to be less distortionary for investment decisions, since the taxable base (properties) is not very movable. Effective collection of the real estate tax requires three pillars: a cadastral system with updated values and maps; a link between the cadastre and the property registry, making it possible to connect the property to the taxpayer; and an adequate linkage to the revenue collection system, to be able to collect the tax liability.

[9] El potencial oculto: factores determinantes y oportunidades del impuesto a la propiedad inmobiliaria en América Latina (Bonet, Pineda, and Muñoz, 2015) and Property tax in Latin America, A Comparative Study (Lincoln Institute of Land Policy, 2014).

[10] Source: IERAL.

systems for administering them are not interconnected;[11] (ii) limited records of informal housing arising from state plans, cooperatives, and other developments on public lands;[12] and (iii) insufficient linkage among cadastres, income records, registries, and entities that manage territorial information.[13]

e. **Weaknesses in expenditure management and budgetary rigidity.** The growth in current expenditure has been the biggest constraint on reducing distortionary taxes and maintaining public investment levels. Between 2006 and 2016, provincial payroll costs grew by 4.8 percentage points of GDP (Galliani and Afonso, 2017). Payroll expenditure in the provinces of Río Negro, Jujuy, Tierra del Fuego, and Entre Ríos is respectively 63%, 58%, 58%, and 55% of total expenditure, exceeding the national average. The growth in payroll expenditure adds significant budgetary rigidity, since this expenditure is difficult to reduce. In addition, they have:[14] (i) weaknesses of institutional capacity and systems for processing and providing accurate information on the number of people employed and their distribution; (ii) integration of information on attendance and leave with the payroll system; (iii) lack of systems to record attendance and leave; and (iv) out-of-date payroll systems. Other factors include: (i) weaknesses in the financial administration systems as well as asset administration systems;[15] and (ii) weaknesses and disparities in public procurement systems (in terms of regulatory frameworks and standardization of documents and e-portals), affecting transparency as well as efficiency and the use of public funds.

f. **Low level of public investment and inefficiencies in its management.** Provincial public investment declined as a share of total provincial expenditure from an average of 17% in 2005 to 11.9% in 2016, despite persistent gaps in regional infrastructure.[16] In Entre Ríos, Tierra del Fuego, Río Negro, and Jujuy, investment as a share of total expenditure was respectively 7.6%, 7%, 5.8%, and 9%.[17] The impact of provincial investment is limited by the following:[18] (i) the provinces have no formal methodology for project formulation; (ii) there is no formal process for project evaluation; (iii) the budget integration process is based on political criteria and

11 In Jujuy, Misiones, Tierra del Fuego, Río Negro, and Entre Ríos, cadastral data are administered in separate systems. Each plot's principal data and attributes are administered in an alphanumeric system, while the plot mapping is administered in separate GISs that are not consolidated into a single GIS/TIS.

12 Jujuy is estimated to have 9,000 unregistered occupants.

13 Updates to the cadastre are performed on a batch basis and updating of owners and properties is done in parallel with the registry. There is no link between the cadastre and records such as those on irrigation, mining, and statistics.

14 The human resource systems of these four provinces were graded using PEFA-style indicators, with the following results: Jujuy, C; Entre Ríos, C; Misiones, C; Río Negro, C; and Tierra del Fuego, C. See optional link 3.

15 Principal weaknesses: the multiplicity of accounting and budget systems that had difficulty interacting with one another, combined with technological obsolescence and the absence of debt management systems. See optional link 3.

16 See note on regional indicators in the Country Development Challenges (CDCs) for Argentina, approved along with the country strategy with Argentina 2016-2019 (document GN-2870-1).

17 See optional link 3.

18 The management of provincial investment was graded on the basis of PEFA-style indicators, where A is the highest grade and D the lowest, and the provinces obtained grades approaching a D. See optional link 3.

case-by-case judgments; (iv) there are no formal processes for measuring the quality and cost of services provided; and (v) the data in the budgets are not sufficiently disaggregated to gauge the impact that a cutback or increase in a given item may have on gender equality, including in relation to areas or programs targeting women.[19]

1.6 In this context, in 2017, the Government of Argentina undertook an ambitious reform agenda to reduce restrictions on private investment and strengthen public investment at both the national and provincial levels. At the provincial level, this agenda envisages:

1.7 **Provincial tax reform.** In 2017, the provincial governments and the national government agreed on a fiscal consensus[20] that: (i) reduces IIBB rates within a period of five years, exempting the primary production industries; (ii) eliminates differentiated treatment based on place of domicile; and (iii) phases out taxes on income from export activities.

1.8 **Fiscal responsibility.** To finance the reduction in the IIBB, the government initiated reforms designed to consolidate current expenditure and increase the collection of less distortionary taxes:

a. Reform of the Fiscal Responsibility Law.[21] Stipulates that the primary current expenditure of the provinces may not rise above inflation.

b. Strengthening of the IBI.[22] The provinces undertake to create a federal agency to perform tax valuations of real estate properties in line with market values.

1.9 **Strengthening of the public investment process.** In late 2017, the duties related to national public investment and the National Directorate of Public Investment (DNIP) were transferred from the Ministry of Production to the Office of the Cabinet Chief, and the Undersecretariat for Budget Evaluation and Public Investment was established as the authority responsible for enforcing the National Public Investment System (SNIP). This reform reintroduces the SNIP into the national budget process in Argentina.

1.10 **Rationale.** The national government requested Bank support for the design of a conditional credit line for investment projects (CCLIP) to strengthen their fiscal management capabilities, specifically by improving real estate tax collection and expenditure efficiency, while rewarding improvements in management by providing investment resources, ensuring that robust preinvestment processes are used in managing them. The following factors justify the intervention under the proposed CCLIP: (i) it enables standardizing the common aspects of the line in all operations, promoting economies of scale; (ii) it encourages the achievement of strategic, country-level targets under the fiscal consensus while offering solutions to address the particular needs of each participating province; (iii) in terms of

[19] See Bill S-4473/17, introduced by the Argentine Senate and Chamber of Deputies, promoting the introduction of the concept of a gender-sensitive budget and the creation of a Gender Equity Technical Unit, and providing a diagnostic assessment of budget-related gender gaps and inequalities.

[20] Law 27,429.

[21] Law 24,428.

[22] Law 27,429.

design, it makes it possible to approve several operations under a single set of objectives and outcomes, components, priority outputs, and evaluations; (iv) it provides a long-term vision for the provincial management strengthening actions that require continuity in order to contribute to fiscal sustainability and economic growth; (v) it offers a streamlined mechanism for preparing and approving operations, with low processing costs for both the Bank and the government, allowing all provinces to be included; (vi) the Bank's experience in Argentina with programs to strengthen subnational management (loans 3835/OC-AR, 1855/OC-AR); and (vii) the Bank's experience in formulating and executing infrastructure projects, with particular emphasis on the dimension of sustainability across the project cycle.[23]

1.11 **Complementarity with previous operations.** This operation will make it possible to consolidate and expand strengthening actions undertaken under loan 3835/OC-AR in the provinces of Corrientes, Mendoza, Neuquén, and Salta. The first operation under the new CCLIP is aimed at extending the strengthening actions to six more provinces, on the expectation that the CCLIP can encompass all provinces in the medium term. In addition, it will make it possible to solidify advances in designing the apex agencies of the country's fiscal federalism system, particularly by creating a federal real estate property valuation agency. This operation also complements the taxpayer facilitation actions undertaken under loan 4500/OC-AR.

1.12 **The Bank's experience and lessons learned.** The Bank's previous experience in strengthening subnational governments demonstrates the advantages of designing programs that have investment incentives tied to improvements in management, as well as the importance of a long-term relationship in actions to strengthen management. The Subnational Infrastructure, Institutional Strengthening, and Public Services Program (ME-X1002) in Mexico and the Fiscal and Public Investment Expenditure Strengthening Program for Subnational Entities (CO-X1018) in Colombia, both of which are CCLIPs, together with the investment projects Program to Improve Municipal Management (loan 1855/OC-AR) in Argentina and Subnational Development and Management Program (loan 2668/OC-UR) in Uruguay, demonstrate the positive results of this strategy, encouraging the tax effort and a more efficient use of public resources.[24] The Fiscal Management Modernization Program (PROFISCO I, CCLIP BR-X1005) in Brazil demonstrates the positive impacts of this type of credit line on improving tax collection. Lastly, the Bank has experience executing road infrastructure projects financed in Argentina since 2000 that highlight the importance of financing preinvestment studies.

1.13 This operation incorporates the following lessons learned from the Program to Improve Municipal and Provincial Management (loans 1855/OC-AR and 3835/OC-AR) to heighten impact and facilitate execution: (i) target improvement to provincial fiscal and financial systems so as to address the provincial and municipal level through a single system more efficiently; (ii) establish an execution

[23] What is sustainable infrastructure? A framework to guide sustainability across the project cycle.

[24] For example, the project completion report for loan 2550/OC-ME shows that simultaneous actions in the areas of revenue collection and urban infrastructure improvements in the State of Mérida made it possible to surpass the outcome targets for own revenue by 45%.

and program participation mechanism that does not require approval by provincial legislatures; (iii) establish an execution mechanism that centralizes the majority of the bidding processes at the national level; and (iv) tie access to investment resources to progress on management strengthening projects in order to create greater incentives to completing these reforms.

1.14 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is strategically aligned with the development challenge of productivity and innovation by expanding the use of less distortionary taxes, distortionary taxes being one of the principal challenges to investment and productivity, and by improving the efficiency of public investment. The program is also strategically aligned with the crosscutting areas of: (i) gender equality and diversity, by fostering the quantification of provincial programs that promote gender equity; and (ii) institutional capacity and rule of law, through the objective of strengthening the tax and public resource management and planning systems. In addition, the program contributes to the Corporate Results Framework 2016-2019 (document GN-2727-6), particularly the indicators: (i) percentage of GDP collected in taxes; (ii) subnational governments benefited by decentralization, fiscal management, and institutional capacity projects; (iii) countries benefited by IDB projects aimed at improving domestic resource mobilization; and (iv) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery. Furthermore, the program is aligned with the Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), in particular the area of public sector management and finance, through improvements in the management of revenue and expenditure. The program is also consistent with the Decentralization and Subnational Governments Sector Framework Document (document GN-2813-3) in the dimensions of: (i) improving the efficiency and quality of expenditure and service delivery; (ii) improving own revenue collection and access to finance; and (iii) working with greater transparency and accountability; with the Fiscal Policy and Management Sector Framework Document (document GN-2831-3) in the dimension of improving fiscal equity and social inclusion; and with the Gender and Diversity Sector Framework Document (document GN-2800-8) by fostering the quantification of provincial programs that promote gender equity. Lastly, the program is aligned with the Bank's country strategy with Argentina (2016-2019) (document GN-2870-1), particularly the strategic objective of institutional strengthening of the government, with the expected outcome of improving the efficiency of public management.

B. Objectives, components, and cost

1.15 **Objective of the CCLIP.** The objective of the CCLIP is to contribute to provincial fiscal sustainability with a view to fostering growth by improving the management of provincial revenue, expenditure, and public investment, designing the country's fiscal federalism, and implementing investment projects. The interaction between strengthening actions and public investment projects will help to: (i) create incentives for improving fiscal management by linking it with project financing; and (ii) ensure that improvements in the management of provincial investment are implemented. The term for using the CCLIP is 15 years.

1.16 **Borrowers eligible to participate in the CCLIP.** Since 4 provinces (Corrientes, Salta, Mendoza, and Neuquén) are already included in loan 3835/OC-AR, the country's 20 other jurisdictions will be eligible to participate as borrowers under this CCLIP. The jurisdictions have been selected on the basis of geographic representativeness,[25] financial deficit levels,[26] and the commitment of their authorities to improving administration.

1.17 **Objectives of the first individual operation.** The general objective of the first individual operation under the CCLIP, in keeping with the goal of the CCLIP, is to contribute to provincial fiscal sustainability and growth by improving revenue, expenditure, and public investment and implementing investment projects. Its specific objectives at the provincial level are to increase: (i) less distortionary revenue as a share of total revenue; (ii) efficiency in public expenditure management; and (iii) public investment.

1.18 **Beneficiaries.** In this first operation, the direct beneficiary provinces will be Misiones, Jujuy, Chaco, Entre Ríos, Río Negro, and Tierra del Fuego. Since the strengthening actions under Components I and II will provide crosscutting benefits, all residents of these provinces are expected to benefit.[27] In addition, this operation will benefit all provinces through Subcomponent 1.3 and Component III by supporting reforms in the design of the country's fiscal federalism and by strengthening its apex agencies.

1.19 These objectives will be pursued through the program's components and principal activities, which are described below:

1.20 **Component I. Strengthening of tax and financial administration (US$46 million).[28]** The specific objective of this component is to increase the share of less distortionary revenue in total revenue and boost the efficiency of public expenditure and public investment. It will be broken down into three subcomponents:

a. **Subcomponent 1.1. Strengthening of tax administration and cadastral systems (US$17 million).** The program will seek to build the tax administration capacity of the provinces, with an emphasis on the IBI. The cadastral projects to be financed under this program will explicitly address integrating the provincial cadastral systems with the real estate registries and tax administrations.[29] The subcomponent includes:[30] (i) modernization of territorial information systems; (ii) modernization of property records systems; and (iii) modernization of tax administration systems.

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[25] Refers to ensuring that the various regions of Argentina are represented.

[26] The financial deficit of the selected provinces averages 9% of total revenue, indicating their strengthening needs.

[27] Misiones has 1.2 million residents; Jujuy has 0.7 million; Chaco has 1.1 million; Entre Ríos has 1.3 million; and Tierra del Fuego has 0.2 million.

[28] Efforts will be made to ensure that the systems developed under this component are aligned with the technology standards for Argentina's public administration.

[29] Real estate tax collection will be improved through interventions on the pillars of the system: cadastre, real estate registries, and revenue system, based on the specific weaknesses of each province.

[30] Updating values and cadastral systems in Argentina has been associated with increases of 18% to 44%. See Bonet, Muñoz, and Pineda (2015).

b. **Subcomponent 1.2. Strengthening of financial administration, public expenditure, and provincial investment (US$17 million).** To improve expenditure effectiveness and efficiency, this subcomponent will support optimizing the (current and capital) expenditure management procedures so as to strengthen financial administration and the provincial investment cycle. The subcomponent will seek to optimize all systems associated with the administration of public resources. The outputs to be financed include: (i) implementation and strengthening of human resources systems;[31] (ii) modernization of financial administration and results-based and gender-sensitive budgeting systems;[32] and (iii) implementation and strengthening of provincial public investment systems, including conservation and maintenance actions and training in environmental and social management in the public investment systems.

c. **Subcomponent 1.3. Strengthening of the design of Argentina's fiscal federalism (US$12 million).** This subcomponent will carry out activities aimed at suggesting adjustments in the national-level institutional arrangements that govern provincial management and at the same time support provincial tax and public expenditure management and promote coordination among the various levels of government, through: (i) design and implementation of a socioeconomic data system for the regional economies; (ii) design of indicators and measurement of the cost of service delivery; (iii) design and studies of provincial tax systems; and (iv) institutional strengthening of the apex agencies to improve tax management and policy coordination between the central government and the provinces and between the provinces and the municipios, including a study of how GGP is calculated.

1.21 **Component II. Investments for development (US$95 million).** The objective of this component is to increase provincial public investment while increasing the commitment of the provincial authorities to achieving better revenue administration and improving the quality of public expenditure. The component will create a fund comprised of two financing tranches:

a. **Initial fund.** The first of these tranches consists of an initial fund (US$59 million), to which the provinces have access once they sign a framework participation agreement (FPA) for the program, formalizing and stating their commitment to the fiscal strengthening objectives of Component I. The initial fund will be distributed equally among the six beneficiary provinces.

b. **Add-on fund.** The second tranche consists of an add-on fund (US$36 million), accessible only to those provinces that demonstrate

[31] Aggarwal and Kapoor (2012) review the benefits of human resources information systems and point to cost reductions as among the principal benefits.

[32] Based on before-and-after evaluations, Dener, Watkins, and Dorotinsky (2012) found that SIAF implementation has been associated with a reduction in the time taken to deliver public sector financial reports from 21 months to 8 months.

progress on the activities and goals of Component I, thus serving as an added incentive.[33]

1.22 The investment projects for both tranches must meet the technical, economic, environmental, and social eligibility criteria to be established in the program Operating Regulations, including the following: (i) the project cycle of the works must have observably advanced; (ii) the works must have an impact on local development and be backed by an economic technical analysis; and (iii) they must comply with the environmental and social management framework (ESMF). The Bank will actively participate in selecting, preparing, and evaluating these investments through its sector specialists. Agreement was reached on the sample of projects, which accounts for 35% of Component II and includes: (i) works on Provincial Route 4; (ii) expansion of the multiservice trunk line in Río Negro; and (iii) the Jujuy National Interconnected System (see economic analysis). Based on this, eligible sectors were established, principally: digital connectivity, provincial roads, energy, and infrastructure for development, including climate change adaptation and mitigation. The projects cannot be Category A. This component's resources may also finance preinvestment studies. The guide for provincial investment in resilient and low-carbon infrastructure will also allow the nationally determined contribution targets to translate into specific guidelines for investments aimed at achieving the objectives of the Paris Agreement.[34] If public utility projects are financed, they must meet the financial sustainability and economic evaluation conditions (Chapter IV) of the Public Utilities Policy (document GN-2716-6) and demonstrate consistency with the principles of that policy.

1.23 **Component III. Support for provincial fiscal sustainability (US$50 million).** This component directly contributes to fulfilling the objectives of the SBA with the IMF. In line with the objective of increasing the share of less distortionary revenue in total revenue, and in the framework of the fiscal consensus commitments, this component will support the creation of a federal territorial information and valuation agency. The component will finance the activities required to create and launch this agency, which in coordination with the provincial and CABA governments will integrate the national cadastre data, reflecting actual market prices more uniformly and equitably throughout the country.[35] In addition, this component may assist provinces that are not direct beneficiaries of Components I and II in strengthening their: (i) tax administration systems: (ii) cadastral management systems; (iii) financial administration systems; and (iv) studies quantifying provincial programs using gender-equity criteria. Since resources are finite, priority will be given to provinces with higher financial deficits and to projects aimed at strengthening real estate revenue.

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[33] The program Operating Regulations will establish the criteria for measuring progress, which will include progress on agreed action plans and works execution. This fund's final allocation for each province will depend on the province's degree of progress.

[34] It is estimated that 60% of global greenhouse gas emissions is generated by existing infrastructure and that the infrastructure to be built will generate 35% to 60% of global emissions.

[35] Will include the creation of real estate observatories that will be used as an input for making updated estimates of market value. These reference prices will be supplemented by an analysis of satellite imagery, road maps, market information, soil type maps, urban density maps, and other tools. Lastly, this agency will use machine learning techniques, modeling the real estate markets, particularly land values.

1.24 **Program administration and management (US$9 million).** Program resources will finance the operation of the program team at the Secretariat for Provinces and Municipios (SPM) and the General Directorate for Special and Sector Programs and Projects (DIGEPPSE), as well as other administration and management expenditures.

C. Key results indicators

1.25 **Expected impacts and outcomes.** The expected impact is a reduction in each province's financial deficit. The main expected outcomes of the program are: (i) an increase in less distortionary taxes as a share of revenue; (ii) an increase in expenditure efficiency (number of provinces with a certified integrated financial administration system—SIAF);[36] and (iii) an increase in the province's investment as a proportion of total expenditure.

1.26 **Economic evaluation.** The program team performed a comparative analysis of financial costs and benefits, taking into account the main expected outcomes. It was decided to conduct a component-by-component analysis, considering only those actions for which there is a high degree of certainty regarding outcomes, and from which major impacts are expected. The evaluation of Component II used a sample of projects representing 35% of the component (see economic analysis).

1.27 Within Components I and III, there was a financial analysis of the real estate management area. An internal rate of return (IRR) of 35.3% was estimated. Sensitivity analyses support this high return. For Component II, an economic evaluation was performed of a sample of projects identified as possible beneficiaries of the program. The economic benefit of the projects has an average estimated IRR of 22.4%. The sensitivity analyses show that the IRR remains above the critical threshold of 12%, even with significant declines in the main assumptions.[37]

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 **Program resources and disbursement schedule.** This operation is structured as the first individual operation under the CCLIP (AR-O0007). The financing instrument for the first operation will be a sovereign-guaranteed specific investment loan. The total cost of the program is US$200 million, of which US$150 million will be financed by the Bank from the Ordinary Capital and US$50 million will be the local counterpart contribution.

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[36] Law 27,428 stipulates that the provincial financial administration systems must be compatible with the national system and additionally be capable of producing quarterly, semiannual, and annual fiscal transparency reports. The Consejo Federal de Responsabilidad Fiscal [Federal Council on Fiscal Responsibility] is responsible for certifying these systems.

[37] Using the Montecarlo method, it was shown that, assuming a 95% confidence level, the confidence interval for the IRR includes the 12% for all projects.

Table 1. Costs by component (US$)

Component	IDB	Local counterpart	Total
I. Strengthening of tax and financial administration	**46,000,000**	**0**	**46,000,000**
I.1 Strengthening of tax administration and cadastral systems	17,000,000	0	17,000,000
I.2 Strengthening of financial administration, public expenditure, and provincial investment	17,000,000	0	17,000,000
I.3 Strengthening of the design of Argentina's fiscal federalism	12,000,000	0	12,000,000
II. Investments for development	**95,000,000**	**0**	**95,000,000**
III. Support for provincial fiscal sustainability	**0**	**50,000,000**	**50,000,000**
Program administration and management	**9,000,000**	**0**	**9,000,000**
Total	**150,000,000**	**50,000,000**	**200,000,000**

2.2 **Local counterpart.** The local counterpart contribution for the operation is expected to be funded with the proceeds of a loan from the French Development Agency (AFD).[38] Since these resources will be used jointly with IDB resources, it was agreed that the operation would be executed in accordance with the Bank's policies and procedures, including the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) of March 2011, and that the AFD will acknowledge acceptance of the Bank's technical no objections regarding works to be financed from both sources as well as regarding the environmental and auditing aspects of the program, with a view to avoiding execution delays.[39] In the event that the loan contract with the AFD is for any reason not executed, the borrower will complete the counterpart contribution with its own resources.

2.3 The disbursements will be made over a period of five years, running from the loan contract signature date, according to the disbursement schedule in Table 2.

Table 2. Disbursement schedule (US$ millions)

Source of financing	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Financing	14.2	42.0	34.8	38.0	21.0	150.0
Counterpart	3.5	10.0	11.5	15.0	10.0	50.0
TOTAL	**17.7**	**52.0**	**46.3**	**53.0**	**31.0**	**200.0**
%	**9**	**26**	**23**	**26**	**16**	**100**

[38] By signing the relevant agreement, the AFD and the Bank may agree on collaboration, supervision, information sharing, and assistance mechanisms for coordinating the implementation of their respective loans in accordance with the Bank's applicable policies and procedures.

[39] The AFD participated jointly with the Bank team in the orientation and analysis missions.

2.4 **Compliance with eligibility criteria for the CCLIP.** The proposed operation meets the eligibility criteria established in the applicable policy for CCLIPs (document GN-2246-9) and its operational guidelines (document GN-2246-11).

2.5 In compliance with the applicable policy for CCLIPs (paragraph 1.19 of document GN-2246-9), the following is worth noting: (i) the areas to be financed by the CCLIP are aligned with the Bank's country strategy with Argentina (2016-2019) (document GN-2870-1), particularly the strategic objective of institutional strengthening of the government and infrastructure upgrades for investment and inclusion, and are included in the 2019 country program with the Bank (document AR-O0010); (ii) the Ministry of the Interior, Public Works, and Housing (MIOPyV) is an integral and sustainable part of the sectors covered by the CCLIP, and it has adequate institutional capacity;[40] (iii) the executing agency for the individual loan operations has already executed similar operations in the last five years;[41] (iv) the performance of this executing agency was satisfactory, fulfilling the conditions set forth in the respective loan contracts, including the provisions applicable to procurement, contracting, budget and accounting execution, accountability reports, audits, and operational reports; and (v) the performance of the executing agency is expected to continue to be satisfactory in respect of the individual loan operations to be financed under the new CCLIP.

2.6 **Compliance with eligibility criteria by the first individual operation under the CCLIP.** This operation meets the CCLIP eligibility criteria established in document GN-2246-11: (i) it is consistent with the objectives and components of the proposed CCLIP; (ii) the MIOPyV has extensive experience in the execution of operations to strengthen subnational management and investments for development[42] and is the executing agency for the Provincial Management Strengthening Program (loan 3835/OC-AR), which is being satisfactorily executed; (iii) the MIOPyV is an integral and sustainable part of sector governance; and (iv) the first individual operation, like the CCLIP, is aligned with the Bank's country strategy with Argentina (2016-2019) (document GN-2870-1) and is included in the 2019 country program (AR-O0010).

B. Environmental and social risks

2.7 Under the Environment and Safeguards Compliance Policy (Operational Policy OP-703), the CCLIP and the first operation under the CCLIP are classified as category B.13, not requiring ex ante classification (similarly to their predecessor, the Provincial Management Strengthening Program (loan 3835/OC-AR)), since

[40] The MIOPyV has adequate, satisfactory operating, technical, and human capacity to execute the program due to its extensive experience executing loans financed by multilaterals, such as FONPLATA, the World Bank, and the IDB. In April 2017, the IDB conducted an institutional capacity assessment under the Water and Sanitation Services Development Program—Belgrano Plan—loan 4312/OC-AR, and the MIOPyV was found to have institutional capacity with a satisfactory degree of development and low level of risk for program execution.

[41] In the area of actions to strengthen management, loan 1855/OC-AR concluded satisfactorily in 2017. In the area of investments for development, similar operations include: (i) loan 1896/OC-AR (transportation, energy, and infrastructure for development) completed in October 2014; (ii) loan 1855/OC-AR (digital connectivity) completed in June 2017; and (iii) loan 2662/OC-AR is 100% disbursed (transportation, energy, and infrastructure for development).

[42] See footnote 42 listing operations satisfactorily executed by the MIOPyV.

they will finance investment projects in priority infrastructure sectors through the two funds in Component II. The program will invest in category B infrastructure projects (pursuant to social and environmental criteria, category A projects will be excluded). This type of instrument differs from a traditional investment loan (since the projects to be financed under Component II are not identified), and thus an ex ante impact classification is not feasible. However, alternative social and environmental evaluation and management tools may be applied to determine the level of social and environmental impacts and risks associated with each project.[43]

2.8 While most of these projects have not yet been identified, they will be infrastructure projects (i.e., road, energy, and small- to medium-scale production infrastructure) that will generate primarily local and short-term negative environmental and social impacts for which mitigation measures will be available that are known and have been effectively applied in similar projects (consistent with the scope and type of impacts and risks). In general terms, there will be a variety of environmental and social impacts and risks associated with the construction and operating phases of these projects, including temporary impacts on the local communities during the period of execution of the works.

2.9 As a result of the first loan operation (loan 3835/OC-AR), an environmental and social management framework (ESMF) was developed and implemented for all projects under the program, and it will also be used for all new projects under this loan. The ESMF is a system that establishes the environmental and social guidelines and requirements enabling the provinces participating in the program to prepare their own environmental and social impact studies and their environmental and social management programs when they are in a position to apply for resources from the fund under the program. During program preparation, it was agreed that the executing agency would adjust the ESMF to strengthen certain social issues, especially prior to the first disbursement of this new loan.

2.10 While the DIGEPPSE has adequate environmental capacity, it lacks social specialists. Moreover, there is a lack of social and environmental capacity in some of the provincial subexecuting agencies within the program. In performing the risk analysis, the possibility that they would incur in violations of rules and parameters of good environmental and social performance due to their lack of awareness of environmental and social safeguard policies was identified as a medium-level risk. This risk will be mitigated by establishing the ESMF reflected in the program Operating Regulations. In addition, loan 3835/OC-AR included resources for training in and strengthening of environmental and social management, and this will be continued under this program, with better definition and implementation in the provinces.

C. Fiduciary risks

2.11 A risk management workshop was held, following the Bank's methodology, and the operation was determined to be of medium risk. The following medium-level fiduciary risks were identified, along with their respective mitigation measures: (i) delays in procurement processes due to weaknesses in the capacity to formulate bidding specifications, to be mitigated by providing the SPM with sector

[43] For more information on the expected environmental risks, see the environmental and social management report (ESMR).

specialists capable of formulating bidding specifications of the necessary technical quality and providing the DIGEPPSE with fiduciary specialists who will contribute to the efficient management of procurements; and (ii) delays in procurement processes due to lack of coordination among the program stakeholders, to be mitigated by preparing instructions and flow charts on the financial and procurement procedure and reflecting them in the program Operating Regulations.

D. Other risks and key issues

2.12 **Development.** Two medium development risks were identified: (i) delays in the execution of works due to an absence of preinvestment studies and final designs, to be mitigated by using preinvestment resources from loan 3835/OC-AR to formulate high-quality investment projects; and (ii) delays in execution due to lack of budget space, to be mitigated by using provincial fiscal space through the signing of subsidiary agreements. These and other mitigation measures have been identified and budgeted.

2.13 **Macroeconomic and fiscal sustainability.** In addition, there are macroeconomic risks associated with the high public and external financing needs, excess liquidity, and the high current account deficit. These factors render the country vulnerable to a potentially greater hardening of global financial and trade conditions. The program objectives could be compromised should macroeconomic and fiscal shocks lead to a deterioration of the public accounts. As a mitigation measure, the Government of Argentina has negotiated an SBA with the IMF for US$57 billion.

2.14 **Program sustainability.** The provinces will be responsible for the operation and maintenance of the assets financed by this program and for the recurrent expenditures generated by them. Given the provinces' weaknesses in investment management, Component I will finance actions to build capacity for conservation and maintenance to include the establishment of a systematic process for planning road conservation and specific scheduling of routine and periodic maintenance activities, including the creation of databases on roads and the compilation of existing information related to all works on major highways. In addition, one of the expected outcomes of the program is the strengthening of the provinces' sources of own revenue, which will give them more resources and flexibility to finance the maintenance of these assets.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The MIOPyV, acting through the SPM, will be the executing agency. The SPM will be responsible for the general, technical, and operational coordination of all activities associated with program execution. The DIGEPPSE will centralize administrative, budgetary, and financial/accounting execution and management, including fiduciary and legal issues, fulfillment of environmental and social issues, procurement procedures, as well as program planning, programming, monitoring, and auditing. The SPM will instruct the DIGEPPSE on matters associated with the fiduciary administration of the program and will define the general technical specifications for procurement processes, whereas the DIGEPPSE will be responsible for the entire process of document preparation, for selection and award, and the processing of payments associated with each contract. The

DIGEPPSE will maintain an environmental and social area that will be responsible for reviewing, managing, and monitoring environmental and social considerations in the program's projects. A breakdown of the functions and competencies of the SPM and the DIGEPPSE will be provided in the program Operating Regulations.

3.2 Eligible provinces will participate in the program, for which they will first sign an FPA with the executing agency and, in coordination with the executing agency, will designate the entities to serve as subexecuting agencies. The program Operating Regulations will contain the terms and conditions for the participation of the provinces and subexecuting agencies in the program, which will in turn be included in the FPA.

3.3 **Coordination mechanism.** The execution of Subcomponents 1.1 and 1.2 of Component I, and of Component II, will be coordinated between the SPM and each subexecuting agency, as established in the program Operating Regulations.

3.4 Program execution of the add-on fund (Component II) will be subject to the execution progress made by the provinces benefitting from Component II, in keeping with the commitments made in the FPAs. Each subexecuting agency will submit a works plan to apply to the add-on fund, following the criteria in the FPA. The documentation submitted by the subexecuting agencies will be evaluated on the basis of the criteria established in the program Operating Regulations.

3.5 The SPM will be responsible for execution of Subcomponent 1.3 of Component I, and of Component III, which call for fiscal strengthening actions applicable to all provinces in the country. Beneficiary provinces of these activities will be selected based on strategic criteria set by the SPM, including the provincial financial deficit, provincial authorities' commitment to reform, and their geographic representativeness. The execution of Subcomponent 1.3 and of Component III will not require the signature of an FPA.

3.6 **Program Operating Regulations.** The program Operating Regulations are dynamic and subject to periodic reviews but may only be modified with the Bank's consent. They establish, among other provisions, the following: (i) the duties and responsibilities of the parties involved; (ii) the arrangements for execution of the initial and add-on funds; (iii) the guidelines for the program's financial and procurement management processes; (iv) the program monitoring and evaluation arrangements; and (v) the program's strategic and operating coordination mechanisms.

3.7 **Special contractual conditions precedent to the first disbursement of the loan proceeds: entry into force of the program Operating Regulations under the terms previously agreed upon with the Bank, including technical and strategic eligibility criteria, both for the implementation of the initial and add-on funds under Component II and for the activities of Component III, and the responsibilities of each subexecuting agency to be included in the FPAs.** This condition is justified in light of the operational, fiduciary, and institutional responsibility issues that will need to be regulated for orderly execution of the program in accordance with policies and guidelines based on good practices.

3.8 **Special contractual condition for execution.** As a special execution condition for Component I (Subcomponents 1.1 and 1.2) and Component II, evidence will be provided that an FPA has been signed with each of the eligible provinces, whereby these provinces commit to duly executing the program in accordance with the terms and conditions in the program Operating Regulations. This condition operates as a coordination mechanism and is crucial in ensuring that the beneficiary provinces and their provincial entities will provide the MIOPyV with the necessary cooperation and be governed by the program policies and guidelines.

3.9 **Retroactive financing.** The Bank may retroactively finance against the loan proceeds up to US$15 million (10% of the proposed loan amount) in eligible expenditures made by the borrower prior to the loan approval date in the categories of works, goods, nonconsulting services, and consulting services, provided that requirements substantially similar to those established in the loan contract have been met, including compliance with the Bank's safeguard policies. Such expenditures must have been made on or after the project profile approval date (5 July 2018), but in no case will expenditures made more than 18 months before the loan approval date be included.

3.10 **Disbursements.** The disbursement modality will be advance of funds based on actual liquidity needs. These advances will preferably be made on a semiannual basis, after accounting for at least 80% of the advanced amount. The required documentation will be the accountability forms and the financial planning spreadsheet. The documentation will be subject to ex post review.

3.11 **Procurement and financial management.** Annex III shows the fiduciary arrangements for execution in terms of disbursement modalities, financial management and procurement systems, and auditing arrangements. The procurement of works and goods and the contracting of consultants financed by the operation will be conducted in accordance with the Bank's Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), of March 2011, and with the specific requirements of the loan contract and the program Operating Regulations. The procurement plan will be managed through the Procurement Plan Execution System (SEPA). In the cases identified in the Procurement Plan, individual consultants will be contracted pursuant to document GN-2350-9, Section V, paragraphs 5.1 to 5.4. Pursuant to the provisions of paragraphs 3.10(a) and 5.4(a) of said document, consultants currently working under IDB-financed contracts that the DIGEPPSE is executing can be contracted through single-source selection for the purposes of continuity in the services and operation of the DIGEPPSE.

3.12 **Audits.** The executing agency will deliver the project's audited financial statements on program-financed activities, along with an audit report, on an annual basis and at program-end. These reports are to be delivered within 120 days after the close of each fiscal year, and the final report within 120 days after the last disbursement, as established in the Bank's policies. Midterm reports may be submitted at the Bank's request. For such purpose, it is recommended that both the Office of the Auditor General (AGN) and independent audit firms be contractually eligible to perform the program audits.

B. Summary of arrangements for monitoring results

3.13 **Monitoring and supervision system.** The program will be monitored using the following instruments: multiyear execution plan and annual work plan, semiannual reports including the progress monitoring report as one of its chapters, and the onsite supervision plan. This will be supplemented by periodic updating of the risk analysis conducted in program design. Resources for monitoring and evaluation are included as part of the program. For fiduciary supervision, the unit will continue using the country systems, which are already implemented and satisfactory to the Bank. The required financial reports will be the financial execution plan for the 180 days following the request for advance of funds, and the audited financial statements. Procurements will be monitored based on the SEPA. Monitoring of the environmental and social requirements will require a semiannual report satisfactory to the Bank in form and content. See monitoring and evaluation plan.

3.14 **Evaluation.** The program will also conduct a midterm evaluation and a final evaluation. The SPM will prepare and send a midterm report to the Bank within 90 days from the date on which 50% of the loan proceeds have been disbursed, or after 30 months of execution, whichever occurs first. It will also send the Bank a final evaluation as input for the project completion report, within 90 days from the date on which 90% of the loan proceeds have been disbursed.

3.15 The principal outcomes of the program will be evaluated according to the data presented in the Results Matrix appearing in Annex II and in the monitoring and evaluation plan. Specific resources have been earmarked for the evaluation. An ex post economic analysis (cost-benefit analysis) will be done as part of the program's final evaluation to verify the social return calculated as reflected in the "Economic analysis" section.

Development Effectiveness Matrix		
Summary	**AR-L1285**	
I. Corporate and Country Priorities		
1. IDB Development Objectives	**Yes**	
Development Challenges & Cross-cutting Themes	**-Productivity and Innovation -Gender Equality and Diversity -Institutional Capacity and the Rule of Law**	
Country Development Results Indicators	**-Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Countries benefited by IDB's projects aimed at improving domestic resource mobilization (#)* -Subnational governments benefited by decentralization, fiscal management and institutional capacity projects (#)***	
2. Country Development Objectives	**Yes**	
Country Strategy Results Matrix	**GN-2870-1**	**Institucional strengthening of government**
Country Program Results Matrix		**The intervention is not included in the 2018 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**9.1**	
3.1 Program Diagnosis	**2.4**	
3.2 Proposed Interventions or Solutions	**4.0**	
3.3 Results Matrix Quality	**2.7**	
4. Ex ante Economic Analysis	**9.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**3.0**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**0.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**9.3**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**6.8**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Low**	
Identified risks have been rated for magnitude and likelihood	**Yes**	
Mitigation measures have been identified for major risks	**Yes**	
Mitigation measures have indicators for tracking their implementation		
Environmental & social risk classification	**B.13**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)		
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	**Yes**	**The Bank is supporting the government in the implementation of fiscal reforms with the 4500/OC-AR operations at the national level and with the 3835/OC-AR at the sub-national level. Additionally, the bank is supporting the implementation of the SNIP reforms with ATN/OC-16721-AR. The bank has also technically accompanied the government in the preparation of the Reforms to the LRF.**

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The objective of this first CCLIP operation is to contribute to the provincial fiscal sustainability of Argentina to foster economic growth through improvements in the management of the income and expenses, the provincial public investment, the design of Argentine's Fiscal federalism and the implementation of investment projects. Specifically, the operation has three objectives: (i) to increase the participation of income of low distortion in the total revenues; (II) to increase the efficiency of the management of the public spending; and (III) to increase the levels of provincial public investment.
The proposal diagnoses that the provincial fiscal sustainability is limited by over-sized tax revenues from the Provincial Tax on Gross Sales (which is highly distorting). In order to provide a solution to this problem, the program promotes technological, organizational, and administrative reforms to increase the participation of the property tax in the total Provincial revenues. The proposal also indicates that there are inefficiencies in the management of expenditures and investments that affect the provincial deficit and proposes to fund a series of reforms to enhance the efficiency of the systems of financial management, human resources and public investment in the Provinces. The proposal also evidences that there are increasing needs for public investment and proposes a novel mechanism of conditional funding to the Provinces that, along with other reforms to increase fiscal management efficiency, would give incentives to the Provinces to make sustainable and high-productivity investments.
The project presents a robust vertical logic. We make notice, nevertheless, that it could be improved by more detailed explanations that, grounded on empirical evidence, better elucidate the attribution analysis that connects concrete products with specific results. The outcome indicators associated to specific objectives 1 and 2 could be detailed better, as far as their capacity to attribute that they are caused by the propose interventions.
The economic analysis considers the present net value of the program. The quantification of the benefits is associate to improvements in the collection of the property tax. The costs include investments associated to the three components of the project. The analysis concludes that the project generates a rate of positive intern return of the 35,3 percent, which was considered high by the SPD team.
Monitoring of the program would be advanced by two units created at the expense of the administration of the program: the Coordinating Unit (UCP) and the Central Execution Unit (UEC). These units will hire dedicated consultants with expertise in program monitoring, who would be in charge to coordinate the activities of monitoring the performance of the project components.
There will be an ex-post impact evaluation based on the synthetic control method that would estimate the direction and magnitude of the effects of the program on the provincial financial deficit, collection of the property tax and the public investments made by the provinces. The project discusses the limitations of such methodology to generate causal estimates and discusses challenges that are expected to evaluate the effectiveness of the program given some expected data quality and availability problems.

RESULTS MATRIX

Project objective:	The general objective of the first individual operation under the CCLIP, in keeping with the goal of the CCLIP, is to contribute to provincial fiscal sustainability and growth by improving revenue, expenditure, and public investment and implementing investment projects. Its specific objectives at the provincial level are to increase: (i) less distortionary revenue as a share of total revenue; (ii) the efficiency of public expenditure management; and (iii) public investment.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
IMPACT 1: Financial deficit reduction										
Chaco – Total provincial financial deficit (as a percentage of revenue)	Percentage	10.9	2017	8.9	6.9	4.9	2.5	0	Provincial administrative data, MIOPyV's Undersecretariat for Relations with Provinces	
Entre Ríos – Total provincial financial deficit (as a percentage of revenue)	Percentage	7.16	2017	6.16	5.16	4.16	2.16	0		
Jujuy – Total provincial financial deficit (as a percentage of revenue)	Percentage	11.94	2017	10.94	8.94	3.94	1.94	0		
Misiones – Total provincial financial deficit (as a percentage of revenue)	Percentage	8.63	2017	7.63	5.63	3.63	1.63	0		
Río Negro – Total provincial financial deficit (as a percentage of revenue)	Percentage	8.16	2017	7.16	5.16	3.16	1.16	0		
Tierra del Fuego – Total provincial financial deficit (as a percentage of revenue)	Percentage	7.05	2017	6.05	4.05	2.05	1.0	0		

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments[2]
OUTCOME 1: Increase in less distortionary taxes as a share of revenue										
Consolidated real estate tax collection (percentage of total provincial revenue) – Chaco	Percentage (Arg$/Arg$)	0.12	2017	0.12	1.0	1.5	2.0	2.2	Provincial administrative data, MIOPyV's Undersecretariat for Relations with Provinces	Real estate tax collection will be improved through interventions targeting the pillars of the system: cadastre, real estate registry, and revenue system, based on each province's specific weaknesses
Consolidated real estate tax collection (percentage of total provincial revenue) – Entre Ríos	Percentage (Arg$/Arg$)	4.57	2017	4.57	4.57	5.7	6.0	6.0		
Consolidated real estate tax collection (percentage of total provincial revenue) – Jujuy	Percentage (Arg$/Arg$)	0.57	2017	0.57	0.57	1.5	2.0	2.8		
Consolidated real estate tax collection (percentage of total provincial revenue) – Misiones	Percentage (Arg$/Arg$)	0.32	2017	0.32	0.32	1.0	1.71	2.4		
Consolidated real estate tax collection (percentage of total provincial revenue) – Río Negro	Percentage (Arg$/Arg$)	1.32	2017	1.32	1.32	2.0	2.5	3.45		
Consolidated real estate tax collection (percentage of total provincial revenue) – Tierra del Fuego	Percentage (Arg$/Arg$)	0.02	2017	0.02	0.02	0.05	1.0	1.27		
OUTCOME 2: Increase in expenditure efficiency										
Provinces that comply with the certified provincial financial administration system	Provinces	0	2018	0	0	2	4	5	Report from the Federal Council on Fiscal Responsibility	The certification is done in accordance with the requirements set out in Article 9 of Law 27,428. This certification is based on increased financial reporting speed and monitoring of expenditure execution. PEFA indicators were used for the participating provinces to evaluate deviations in expenditure execution. Misiones D; Jujuy D; Río Negro D; Entre Ríos C; Tierra del Fuego D; and Chaco D. The certification is expected to raise grades by at least one.

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments[2]
OUTCOME 3: Increase in investment										
Investment (percentage of total expenditure) – Chaco	(Arg$/Arg$)	12.3	2017	12.3	15	17	19	20	Provincial administrative data, MIOPyV's Undersecretariat for Relations with Provinces	
Investment (percentage of total expenditure) – Entre Ríos	(Arg$/Arg$)	7.9	2017	7.9	10	12	17	20		
Investment (percentage of total expenditure) – Jujuy	(Arg$/Arg$)	10.7	2017	10.7	12	15	17	20		
Investment (percentage of total expenditure) – Misiones	(Arg$/Arg$)	20.7	2017	21	22	23	24	25		
Investment (percentage of total expenditure) – Río Negro	(Arg$/Arg$)	8.0	2017	8	10	12	16	20		
Investment (percentage of total expenditure) – Tierra del Fuego	(Arg$/Arg$)	10.8	2017	12	13	15	17	20		

OUTPUTS

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
Component I. Strengthening of tax and financial administration										
Subcomponent 1.1. Strengthening of tax administration and cadastral systems										
Output 1.1.1: Territorial information systems installed	Systems	0	2018	1	2	0	0	3	Technical report from the MIOPyV's Secretariat for Provinces and Municipios	See monitoring and evaluation plan
Output 1.1.2: Number of provincial governments with property records systems upgraded	Provinces	0	2018	1	1	0	0	2		
Output 1.1.3: Number of provincial governments with tax administration systems upgraded	Provinces	0	2018	2	2	0	0	4		
Subcomponent 1.2. Strengthening of financial administration, public expenditure, and provincial investment										
Output 1.2.1: Number of provincial governments with human resource systems implemented	Provinces	0	2018	0	1	0	0	1	Technical report from the MIOPyV's Secretariat for Provinces and Municipios	See monitoring and evaluation plan
Output 1.2.2: Number of provincial governments with financial administration systems upgraded	Provinces	0	2018	1	2	1	1	5		
Output 1.2.3: Number of provincial governments with public investment systems strengthened	Provinces	0	2018	0	2	2	0	4		

Outputs	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification	Comments
Subcomponent 1.3. Strengthening of the design of Argentina's fiscal federalism										
Output 1.3.1: Software for socioeconomic data on the regional economies strengthened	Software	0	2018	1	0	0	0	1	Technical report from the MIOPyV's Secretariat for Provinces and Municipios and National Statistics and Census Institute (INDEC)	See monitoring and evaluation plan
Output 1.3.2: Study of indicators and measurement of service delivery cost completed/published	Studies	0	2018	1	1	1	0	3		
Output 1.3.3: Design studies for the provincial tax system completed/published	Studies	0	2018	1	1	1	1	4		
Output 1.3.4: GGP calculation study	Studies	0	2018	1	1	1	0	3	INDEC (measurement)	
Component II. Investments for development										
Output 2.1: Number of works financed by the initial fund	Delivered works	0	2018	0	5	2	0	7	Technical report from the MIOPyV's Secretariat for Provinces and Municipios	See monitoring and evaluation plan
Output 2.2: Number of works financed by the add-on fund	Delivered works	0	2018	0	0	1	5	6		
Component III. Support for provincial fiscal sustainability										
Output 3.1: Number of provincial governments with cadastral management systems implemented	Provinces	0	2018	2	6	4	0	12	Technical report from the MIOPyV's Secretariat for Provinces and Municipios	See monitoring and evaluation plan
Output 3.2: Number of provincial governments with tax administration systems implemented	Provinces	0	2018	0	2	3	1	6		
Output 3.3: Number of provincial governments with financial administration and human resource systems implemented	Provinces	0	2018	0	3	3	0	6		
Output 3.4: Studies quantifying provincial programs with gender-equity criteria approved/published	Study	0	2018	0	1	1	4	6		
Output 3.5: Valuation agency for a federal territorial information system stipulated in Law 27,429 created and in operation	Agency	0	2018	1	0	0	0	1		

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country	Argentina
Project number:	AR-L1285
Name:	Provincial Management Strengthening Program II
Executing agency:	Ministry of the Interior, Public Works, and Housing (MIOPyV), through the Secretariat for Provinces and Municipios (SPM)
Prepared by:	Ana Niubó and Marilia Santos (FMP/CAR)

I. EXECUTIVE SUMMARY

1.1 The program will be executed by the MIOPyV through the SPM, which will be responsible for the general and technical coordination of all activities associated with program execution. Administrative and financial coordination will be the responsibility of the MIOPyV's General Directorate for Special and Sector Programs and Projects (DIGEPPSE).

1.2 The risk assessment followed the Procedures Guide for Risk Management in Sovereign Guaranteed Projects. This procedure determined that there is a medium level of risk for project execution.

1.3 The MIOPyV is considered to have sufficient institutional capacity, because:

a. It has adequate, satisfactory operational, technical, and human resource capacity to execute the program in view of its extensive experience in executing loans financed by multilateral institutions, such as FONPLATA, the World Bank, and the IDB.

b. In April 2017, the Bank conducted an institutional capacity assessment under the Water and Sanitation Services Development Program—Belgrano Plan—loan 4312/OC-AR, which the MIOPyV is executing through the program executing unit (PEU). The PEU reports to the MIOPyV's DIGEPPSE and uses its structure to program, execute, and administer resources. In that regard, the ICAS methodology was applied, and the executing agency was found to have institutional capacity with a satisfactory degree of development and low level of risk for program execution.

c. This is the same executing agency as for the Provincial Management Strengthening Program (loan 3835/OC-AR), which has demonstrated satisfactory execution capacity according to the fiduciary supervision performed by the Bank.

1.4 The program calls for the local counterpart contribution to be financed through the proceeds of a loan (joint parallel financing) to the Argentine Republic from the AFD, the contract for which (for an amount up to US$50 million) is being negotiated. In the event that the loan contract with the AFD for any reason is not executed, the borrower will complete the counterpart contribution with its own resources.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

2.1 The DIGEPPSE is currently responsible for executing nine Bank operations.

2.2 The fiduciary systems used for program execution are the budgeting system through the Integrated Financial Information System (SIDIF) and the information and accounting system (UEPEX).

2.3 For procedures involving the procurement of goods and services and the contracting of consulting services, the MIOPyV will follow the Bank's policies for centralized purchasing and verify that they are followed for purchases made at the provincial level.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

3.1 The risk analysis (including fiduciary risks) was conducted using the project risk management (PRM) methodology with the participation of members of the executing agency. There was deemed to be a medium level of risk given the execution design, which involves the provinces and could lead to delays due to coordination issues among stakeholders.

3.2 The supervision modality applicable to procurement and financial management has been determined on the basis of these identified risks and may be modified during program execution.

Table 1. Institutional capacity and fiduciary risk

Institutional capacity:	N/A	**Tool:**	N/A
Fiduciary risk:	Medium	**Tool:**	PRM
Risk	**Classification**	**Mitigation measures**	
Delays in procurement processes due to weaknesses in the capacity to formulate bidding specifications	Medium	Using program resources, provide the SPM with sector specialists capable of formulating bidding specifications of the necessary technical quality, and provide the DIGEPPSE with fiduciary specialists who will contribute to the efficient management of procurement.	
Delays in procurement processes due to lack of coordination among program stakeholders	Medium	Prepare instructions and flow charts on the financial and procurement procedure and reflect them in the program Operating Regulations.	

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

4.1 **Disbursement management.** The Financial Management Policy for IDB-financed Projects (document OP-273-6) will apply. The executing agency must submit the program financial planning in accordance with the guidelines agreed upon between the Bank and the country. The minimum percentage required to replenish the advance of funds will be 80%.

4.2 The exchange rate applicable for accountability will be the rate stipulated in Article 4.10(b)(i) of the loan contract. To determine the equivalency of expenditures incurred in local currency, chargeable against the local contribution, or the reimbursement of expenditures chargeable against the loan, the agreed exchange rate will be the rate in effect on the first business day of the month of the payment. Given the limitations of the UEPEX system, the exchange rate applicable for conversion of disbursements into local currency will be used for expenditures made with IDB funds and with local counterpart funds ("pesification").

4.3 **Financial supervision.** For the sake of flexibility and the ability to adjust the loan portfolio to fit the Office of the Auditor General's (AGN) capacity to conduct timely audits, it is recommended that both the AGN and independent audit firms be contractually eligible to perform program audits.

4.4 The financial plan will be the report required for financial supervision, in addition to those required for processing disbursements and for the annual audit.

4.5 Other specific financial management requirements that need to be established in the contract or agreement to be signed with the Bank: Disbursements will be made in accordance with Articles 4.03, 4.04, 4.05, 4.06, and 4.07 of the General Conditions of the loan contract.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

A. Procurement execution

5.1 The various types of procurement of goods, works, and nonconsulting services and of contracting of consulting services will be conducted in accordance with policy documents GN-2349-9 and GN-2350-9 of March 2011, respectively.

5.2 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services[1] generated under the program and subject to international competitive bidding (ICB) will be executed using the standard bidding documents (SBDs) issued by the Bank. Those subject to national competitive bidding (NCB) will be executed using country bidding documents agreed upon with the Bank. The Project Team Leader will be responsible for reviewing the technical specifications for procurement during the preparation of selection processes. No direct contracting is envisaged for these categories, but any determined during the course of the program will be identified in the procurement plan with the respective justification, identifying any and all selection processes requiring prequalification of bidders.

5.3 **Selection and contracting of consultants.** Consulting services contracts under the program will be included in the procurement plan and executed using the standard request for proposals issued by the Bank. The project sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services. At present, no direct contracting is envisaged in this category, but any determined during the course of the program will be identified in the procurement plan with the respective justification.

[1] Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9), paragraph 1.1: Nonconsulting services are treated as goods.

5.4 **Selection and contracting of individual consultants.** In the cases identified in the procurement plan, the contracting of individual consultants will be governed by the provisions of document GN-2350-9, Section V, paragraphs 5.1 to 5.4. In the cases identified in the Procurement Plan, the contracting of individual consultants will be governed by the provisions of document GN-2350-9, Section V, paragraphs 5.1 to 5.4. Pursuant to paragraphs 3.10(a) and 5.4(a) of said document, consultants currently working under IDB-financed contracts that the DIGEPPSE is executing can be contracted through single-source selection for the purposes of continuity in the services and operation of the DIGEPPSE.

5.5 **Training.** The procurement plan describes the processes applied to program components that include training elements and are contracted as consulting services or nonconsulting services, as applicable in each case.

5.6 **Recurrent expenditures.** Applicable recurrent expenditures, such as communications, translation, office supplies, advertising or announcements, photocopies, per diem, travel, and other expenses, will be financed by the program under the annual budget approved by the Bank, and paid according to the administrative procedures of the executing agency, provided that they do not violate the basic principles of competition, efficiency, and economy. These expenditures relate to operating costs and do not include wages for civil servants.

5.7 **Advance procurement/retroactive financing.** The Bank may retroactively finance against the loan proceeds up to US$15 million (10% of the proposed loan amount under the first individual operation) in eligible expenditures made by the borrower prior to the loan approval date in the categories of goods, nonconsulting services, and consulting services, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been made on or after the program is officially incorporated into the Bank's pipeline, which is typically the project profile approval date (5 July 2018), but in no case will expenditures made more than 18 months before the loan approval date be included.

5.8 **Cofinancing through the local counterpart.** The program calls for funding a portion of the local counterpart contribution with the proceeds of a loan from the AFD (for up to US$50 million), the contract for which is currently being negotiated. Since these funds will be used jointly with the Bank's resources, it was agreed that the operation will be executed in accordance with the Bank's policies and procedures, including the procurement policies (documents GN-2349-9 and GN-2350-9) and including the Bank's technical and process-related no objections regarding procurements to be financed from both sources.

B. Thresholds for international competitive bidding and international shortlist

5.9 These amounts were set in order to ensure efficient and satisfactory execution of the operation, considering the binational nature of the operation, the technical complexity of its procurement processes, and the execution capacity.

Table 2. Thresholds

Works			Goods			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International advertisement for consulting	100% national shortlist
≥25,000,000	<25,000,000 ≥350,000	<350,000	≥1,500,000	<1,500,000 ≥100,000	<100,000	>200,000	≤1,000,000

C. Main procurement processes

Table 3. Main procurements

Activity	Selection method	Estimated date of call for bids/invitation to bid	Estimated amount (US$)
Works			
Interconnection of isolated Puna system to the Interconnected National System: Tres Cruces – Humahuaca 33 kV MV line	NCB	January 2019	6,948,871
Multiservice trunk network	NCB	January 2019	7,965,203
Consulting services - firms			
Cadastral consulting services	QCBS	February 2019	29,000,000
Tax administration consulting services	QCBS	February 2019	19,470,000
Financial administration consulting services	QCBS	March 2019	22,498,000

* To see the 18-month procurement plan, click here. The plan will be managed through SEPA.

D. Procurement supervision

5.10 The supervision method will be ex post for processes within the NCB thresholds for works, goods, and nonconsulting services. Processes corresponding to ICB, single-source selection, and those that justify ex ante supervision based on their complexity or risk and are indicated in the procurement plan will be subject to ex ante review.

5.11 In the case of consulting services, all processes with an estimated cost equal to or higher than US$1 million will be reviewed on an ex ante basis. All other processes for lower amounts will, in principle, be subject to ex post review or reviewed as indicated in the procurement plan.

5.12 In the case of individual consultants, any contract for more than US$50,000 will be subject to ex ante review. Contracts below that amount will be reviewed on an ex post basis.

5.13 Ex post reviews will be performed every 12 months in accordance with the program supervision plan. Ex post review reports will include at least one physical inspection visit,[2] selected from the procurement processes subject to ex post review.

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[2] The inspection verifies the existence of procurements, leaving the sector specialist to verify quality and compliance with specifications.

E. Special provisions

5.14 **Measures to reduce the likelihood of corruption.** Compliance with policy documents GN-2349-9 and GN-2350-9 as they relate to prohibited practices. The executing agency will also have the duty to review the list of firms and persons prohibited from participating in processes financed by the multilateral banks.

5.15 **Other special procedures.** Update the procurement plan according to the needs of the program and integrate it with the program planning.

F. Records and files

5.16 The contracting division will be responsible for keeping records of program procurements conducted by the DIGEPPSE. The original files of procurements conducted at the program executing units (PEU) will be kept at each PEU.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

A. Programming and budget

6.1 The executing agency's budget contains programmatic categories and other classifications by object of expenditure (sections): personnel costs, consumables, nonpersonnel services, fixed assets, transfers, financial assets, debt service and reduction of other liabilities, and other expenditures. According to their economic type, the categories are: current expenditures, capital expenditures, and short-term investments. Internal sources of financing may be the national treasury, own resources, earmarks, and internal transfers. External financing includes external transfers and external credits.

6.2 The MIOPyV is responsible for formulating and programming the annual budget and for all procedures leading to consolidation of the annual budget for approval. Budgetary appropriations are executed through accrued monthly and quarterly commitment installments, allocated by the National Budget Office of the Ministry of Economy and Public Finance.

6.3 Due to potential national government budget restrictions, the program calls for using the provincial fiscal space by signing subsidiary agreements.

B. Cash flow and management of disbursements

6.4 The MIOPyV is responsible for opening a bank account in dollars and an operating account in pesos exclusively to separately manage the financing resources to be used for program execution.

6.5 The National Treasury transfers the local counterpart funds to the MIOPyV, crediting the operating account in pesos, as this is a program cofinanced with Bank funds.

6.6 Disbursements will be made on the basis of a detailed financial plan, the format for which has been agreed upon with officials from the Ministry of Finance and the Office of the Cabinet Chief.

C. Accounting, information systems, and reporting

6.7 The MIOPyV will use the UEPEX system as the financial administration system. Accounting will be on a cash basis, following International Financial Reporting Standards (IFRS) when applicable, in accordance with established national criteria. The financial reports required will be: (i) financial execution plan for up to 180 days following the request for an advance; (ii) audited annual financial statements, as stipulated in Article 7.03(a) of the General Conditions of the loan contract; and (iii) other reports to be requested by the Bank.

D. Internal control and internal audits

6.8 Argentina's national internal control body is the Sindicatura General de la Nación [General Accounting Office] (SIGEN). Internal audit of each executing agency is conducted through the Unidad de Auditoría Interna [Internal Audit Unit] (UAI). The UAI, reporting directly to the Minister, is responsible for conducting audits and making recommendations in accordance with the powers conferred under Law 24,156 (Financial Administration Law).

E. External control: external financial audit and project reports

6.9 In 2011 the Bank concluded a diagnostic assessment of the governmental audit practices of the AGN, in accordance with the Bank's guide for determining the development of public financial management systems. The evaluation concluded by validating the AGN as the auditor for Bank projects.

6.10 For the sake of flexibility and the ability to adjust the loan portfolio to fit the AGN's capacity to conduct timely audits, it is recommended that both the AGN and independent audit firms be contractually eligible to perform program audits.

F. Financial supervision of the program[3]

6.11 The initial financial supervision plan is based on the risk and fiduciary capacity evaluations performed on the basis of onsite and desk reviews planned for the program, and includes the scope of operational, financial, and accounting activities, compliance and legality, frequency, and identification of the parties responsible. The report required for financial supervision, in addition to those required for processing disbursements and the annual audit report, will be the financial plan.

G. Execution mechanism

6.12 Details of program execution are contained in the program Operating Regulations.

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[3] See "Financial Management Guidelines for IDB-financed Projects" (document OP-273-6), Annex I, Application of Financial Management Principles and Requirements, Requirement 4, Financial supervision.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Argentina. Conditional Credit Line for Investment Projects (CCLIP)
for the Provincial Management Strengthening Program (AR-O0007)

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with the Argentine Republic to establish the Conditional Credit Line for Investment Projects (CCLIP) for the Provincial Management Strengthening Program (AR-O0007) for an amount of up to US$450,000,000 chargeable to the resources of the Bank's Ordinary Capital.

2. To determine that the resources allocated to the above-mentioned Conditional Credit Line for Investment Projects (CCLIP) for the Provincial Management Strengthening Program (AR-O0007), shall be used to finance individual loan operations in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07, DE-164/07, and DE-86/16; (b) the provisions set forth in documents GN-2246-9 and GN-2564-3; and (c) the terms and conditions included in the Loan Proposal for the corresponding individual operation.

(Adopted on __ __________ 2019)

LEG/SGO/CSC/EZSHARE-1044359933-17151
AR-O0007

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Argentina. Loan ____/OC-AR to the Argentine Republic. First Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Provincial Management Strengthening Program (AR-O0007) for Provincial Management Strengthening Program II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Argentine Republic, as Borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Provincial Management Strengthening Program II, which constitutes the first individual operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Provincial Management Strengthening Program approved on __________ 2019 by Resolution DE-___/19. Such financing will be in the amount of up to US$150,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ___________ 2019)

LEG/SGO/CSC/EZSHARE-1044359933-17150
AR-L1285