



Board of Executive Directors

For consideration

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To: The Executive Directors
From: The Secretary
Subject: Argentina. Proposal for a loan for the "Provincial Management Strengthening Program"

Basic Information: Loan type Specific Investment Operation (ESP)
Borrower Republic of Argentina
Amount up to US\$120,000,000
Source Ordinary Capital

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Remarks: This operation is not included in Annex III of document GN-2849, "2016 Operational Program Report", approved by the Board of Executive Directors on 3 March 2016. In Addition, its amount exceeds the ceiling established for Group A countries. Therefore, the operation does not qualify for approval by Simplified Procedure.

Reference: GN-1838-1(7/94), DR-398-17(1/15), GN-2849(3/16), PR-4428(10/16), DE-79/16, DE-80/16

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

PROVINCIAL MANAGEMENT STRENGTHENING PROGRAM

(AR-L1248)

LOAN PROPOSAL

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ELECTRONIC LINKS
REQUIRED
1. Multiyear execution plan (MEP)
2. Annual work plan (AWP)
3. Monitoring and evaluation plan
4. Environmental and social management report (ESMR)
5. Procurement plan
OPTIONAL
1. Economic analysis
2. Program Operating Regulations
3. Diagnostic assessment of provincial public financial management in Argentina (IERAL, 2016)

ABBREVIATIONS

AFIP	Administración Federal de Ingresos Públicos [Federal Public Revenue Administration]
AGN	Auditoría General de la Nación [Office of the Auditor General]
AOP	Annual work plan
ASAP	Asociación Argentina de Presupuesto y Administración Financiera [Argentine Budget and Financial Administration Association]
CCLIP	Conditional credit line for investment projects
CDC	Country development challenges
CEU	Central execution unit
DNIP	Dirección Nacional de Inversión Pública [National Directorate of Public Investment]
ESA	Environmental and Social Area
ESMF	Environmental and social management framework
ESMR	Environmental and social management report
FPA	Framework participation agreement
GGP	Gross geographic product
HRIS	Human resources information systems
IERAL	Instituto de Estudios sobre la Realidad Argentina y Latinoamericana [Institute for Studies on Conditions in Argentina and Latin America]
IIB	Impuesto de ingresos brutos [gross income tax]
INDEC	Instituto Nacional de Estadísticas y Censos [National Institute of Statistics and Censuses]
IRR	Internal rate of return
JGM	Jefatura de Gabinete de Ministros [Office of the Cabinet Chief]
MEP	Multiyear execution plan
MHFP	Ministry of Economy and Public Finance
MIOPV	Ministry of the Interior, Public Works, and Housing
OC	Ordinary Capital
OECD	Organization for Economic Cooperation and Development
OR	Operating Regulations
PCR	Project completion report
PCU	Program coordination unit
PMR	Project management report
PP	Procurement Plan
SEPA	Procurement Plan Execution System
SIAF	Sistema Integral de Administración Financiera [Integrated Financial Administration System]
SIDIF	Sistema Integrado de Información Financiera [Integrated Financial Information System]
SINTyS	Sistema de Identificación Nacional Tributario y Social [National Tax and Social Identification System]
TOR	Terms of reference
UEPEX	Unidad Ejecutoras de Préstamos Externos [External Loan Execution Unit]
WAL	Weighted average life

PROJECT SUMMARY

ARGENTINA PROVINCIAL MANAGEMENT STRENGTHENING PROGRAM (AR-L1248)

Financial Terms and Conditions				
Borrower: Argentine Republic			Flexible Financing Facility^(a)	
			Amortization period:	25 years
Executing agency: Ministry of the Interior, Public Works, and Housing (MIOPV)			Original WAL:	15.25 years
			Disbursement period:	5 years
			Grace period:	5.5 years
Source	Amount (US\$)	%	Inspection and supervision fee:	(b)
IDB (OC):^(e)	120.0 million	85%	Interest rate:	LIBOR-based
Local	21.2 million	15%	Credit fee:	(b)
Total	141.2 million	100%	Currency of approval:	U.S. dollars from the Ordinary Capital
Project at a Glance				
<p>Project objective and description: The general objective of this operation is to contribute to growth and private sector employment in the provinces by improving the management of revenue, expenditure, and public investment, and by 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 operation's specific objectives at the provincial level are to: (i) increase provincial revenue, with a focus on the real estate tax; (ii) improve the management and targeting of provincial public expenditure; (iii) strengthen investment management; (iv) finance investment projects in strategic sectors, increasing private sector employment; and (v) provide support in the design of fiscal federalism reforms.</p>				
<p>Special contractual conditions precedent to the first disbursement of the loan proceeds: The first disbursement of the program resources will be contingent on meeting the following requirements to the Bank's satisfaction: (i) evidence has been provided that the program coordination unit (PCU) has been created under the MIOPV's Office of the Secretary for Provinces; and (ii) the program Operating Regulations have entered into effect, on the terms previously agreed upon with the Bank, including the environmental and social management framework (ESMF) (see paragraph 3.7).</p>				
<p>Special contractual execution condition: As a special execution condition for program Component I (Subcomponents 1 and 2) and Component II, the following requirement will be met to the Bank's satisfaction: (i) evidence has been provided that a framework participation agreement has been signed with the province eligible for the program, whereby the province commits to fully execute the program in accordance with its terms and conditions (see paragraph 3.8).</p>				
Exceptions to Bank policy: None.				
Strategic Alignment				
Challenges:^(c)	SI <input checked="" type="checkbox"/>	PI <input type="checkbox"/>	EI <input type="checkbox"/>	
Crosscutting themes:^(d)	GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input checked="" type="checkbox"/>	

^(a) 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.

^(b) The credit fee and the 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 relevant policies.

^(c) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

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

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 Argentina is a federal country with 23 provinces and the Autonomous City of Buenos Aires, and more than 2,000 municipal governments. The Argentine Constitution establishes authorities assumed by the national government, those shared between the national government the provinces, and those reserved to the provinces. The federal institutional design thus reflects a decision matrix that is complex legally, fiscally, and with regard to policy. The provinces and the national government share in public expenditures in proportions that vary according to their roles. Under the allocation of responsibilities to the different levels of government, the provinces execute nearly 45% of public social spending, including 93% of expenditure on primary and secondary education, 50% of expenditure on health, 38% of expenditure on social assistance, and 25% of investment expenditure, thus exerting a major influence on the welfare and quality of life of residents.¹
- 1.2 In the past several years, provincial economic growth and private sector employment in the provinces have stagnated. Since 2012, economic growth in the provinces averaged only 0.9%, with growth in the provinces of Corrientes, Mendoza, Salta, and Neuquén consistent with this figure, averaging 1% for the period.² Associated with low economic growth, the number of private sector employees plateaued at approximately 6.5 million workers nationally, while this figure remained around 550,000 workers in the provinces of Corrientes, Mendoza, Salta, and Neuquén.^{3 4} The low growth in private sector employment is mirrored by a high degree of dependence on public sector employment in the provinces. On average, public employment at the provincial level equals 51% of private sector employment, while the corresponding figures for the provinces of Corrientes, Mendoza, Neuquén, and Salta are 79%, 36%, 53%, and 55%, respectively.⁵
- 1.3 **The problem and its causes.** In this environment of slowing growth and low private sector job creation, the capacity of provincial governments to spur growth and private employment through public investment has been eroded. Among the principal factors behind this weakening of provincial capacity to drive growth are: (i) incentives

¹ See “[Diagnóstico de la gestión financiera pública \(GFP\) a nivel provincial en Argentina](#)” [Diagnostic assessment of provincial public financial management in Argentina] (IERAL, 2016). For further discussion, see inter alia: Avila (2000), FIEL (1993), Gervasoni and Porto (ed. 2013), Jones, Sanguinetti and Tomassi (2000), Llach (2013), Núñez Miñana (1973), Piffano (2005), Porto (1990, 2004), Porto and Sanguinetti (2001). The source for the investment data is the National Directorate of Public Investment (DNIP).

² The averages were: Salta, 1.9%; Neuquén 1.1%; Mendoza 0.1%; and Corrientes 0.9%. Source: MIOPV’s Office of the Secretary for Provinces. For Corrientes, the average is for 2014-2015.

³ Source: Boletín Trimestral de Empleo Privado Provincial [Quarterly Bulletin of Provincial Private Employment], Ministry of Labor and Social Security.

⁴ Another metric reflecting stagnant private sector job creation is the low rate of formal private employment in Argentina, which is 18 formal private sector jobs per 100 inhabitants, poor in comparison with other countries of the region, such as Chile, which has 36 formal private sector jobs per 100 inhabitants. Source: IERAL of Fundación Mediterránea.

⁵ Source: IERAL, based on data from the Ministry of Economy and Public Finance (MHFP) and the Labor Ministry. For the national average, the median figure was used. By way of reference, the average figure for countries of the Organization for Economic Cooperation and Development (OECD) is 15%. Source: OECD and IDB, Panorama de las Administraciones Públicas: América Latina y el Caribe [Overview of Public Administrations: Latin America and the Caribbean], 2014.

under Argentina's system of fiscal federalism; (ii) weaknesses in fiscal management capacity, particularly with regard to investment; and (iii) a reduction in funding for public investment related to growth of public employment.

- a. **Incentives of the Argentine federal framework.** The recent evolution of Argentina's federal system features growing dependence on federal transfers to fund provincial spending, thereby reducing fiscal correlation. The national public sector has increased its share of the country's consolidated revenues, reaching 75% in 2014, while its share of consolidated expenditure rose from 50.5% in 2000 to 56.5% in 2014.⁶ At the same time, discretionary transfers rose from 7.3% of total provincial revenues in 2003 to 18.3% in 2010, then falling to 9.7% in 2015.⁷ Own revenues as a percentage of total revenue fell from 44.7% to 34.9% in Mendoza, from 11% to 8.9% in Corrientes, from 20.5% to 16.2% in Salta, and from 72.8% to 50.1% in Neuquén.⁸ This dependency separates spending decisions from revenue intake in the provincial governments, and thus reduces the incentives of provinces and municipios to spend efficiently and make investments, while also making it difficult for the provinces and municipios to predict revenue. This creates incentives for irresponsible fiscal behavior.⁹
- b. The increase in discretionary transfers has deepened the inequities of the Federal Revenue Shareout System, reflected in a wide variance in the level of per capita provincial spending, which averages 14,700 Argentine pesos at the national level, but reaches extremes of 55,000 pesos in Tierra del Fuego and 9,800 pesos in the Province of Buenos Aires.^{10 11} In the provinces of Corrientes, Mendoza, Neuquén, and Salta, the levels of total per capita spending are 14,000, 16,200, 29,400, and 12,900 pesos, respectively. Reducing the disparities in Argentina's federal system requires a system of transfers with criteria for equalization among the provinces, so that the different provinces have the capacity to provide services of the same quality with the same fiscal effort. In addition, there are no formal mechanisms for intergovernmental

⁶ Source: IERAL, based on MHFP data.

⁷ These transfers show a low level of correlation with various measures of need at the provincial level (the correlation between the per capita transfers and the index of unmet basic needs is 0.09).

⁸ Source: Porto (2015), based on MHFP data.

⁹ As shown by the literature on fiscal decentralization, dependence on transfers generates counterincentives to efficiency and fiscal responsibility, since a government that receives a large proportion of its resources from outside its district loses the necessary contact with its taxpayers, and public spending follows a more expansionary course (Fretes and Ter-Minassian, 2015; Qian and Weingast, 1997; Oates, 1999).

¹⁰ The standard deviation of per capita provincial public spending is 10,196 pesos, whereas the variation coefficient is 0.47. Source: Porto (2015).

¹¹ As an example of the disparities generated by discretionary transfers, the province of Santa Cruz received per capita transfers in 2014 that were 11 times greater than those received by the province of Buenos Aires, although per inhabitant spending in the latter is 33% below the national average. Source: IERAL.

coordination, and the apex agencies have institutional weaknesses that keep them from performing their functions effectively.¹²

- c. **Weaknesses in provincial tax policy and administration.** In the past decade, provincial tax pressure rose from 3.3% to 4.9% of GDP, while the composition of provincial tax revenues became more distortionary with the increase in the gross income tax (IIB), which rose from 2.4% to 4.0% of GDP and from 72% to 82% of provincial own revenue. The gross income tax is a highly distortionary tax, since it taxes intermediate sales, creating a cascade effect that results in rates that rise as products near the end consumer.¹³ In addition, compliance is costly for firms, since:¹⁴ (i) the provinces use different nomenclatures for classifying firms that are inconsistent with those used by the Federal Public Revenue Administration (AFIP) or the National Institute of Statistics and Censuses (INDEC), so the same firm is classified differently by different provinces; (ii) there is no master list of gross income tax payers; and (iii) rates vary widely from province to province, resulting in discrimination based on a firm's domicile.¹⁵ Therefore, to lower the cost of compliance with provincial tax systems and ensure that similar firms are treated similarly in the different provinces, there is a clear need to create a single nomenclature and master list of taxpayers.
- d. Declining efficiency in the provincial revenue mix has also been a result of the decline in revenue intake from the main nondistortionary provincial tax base, namely, the real estate tax, from which revenue has fallen as a percentage of GDP from 0.6% in 2004 to 0.4% in 2014. This was due in part to obsolete cadastral systems; failure to cross-reference data with real estate property records and with income tax payer lists; 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.¹⁶ In the provinces of Corrientes, Mendoza, Neuquén, and Salta, real estate taxes collected, as a percentage of output, are below the national average, at 0.2%, 0.3%, 0.2%, and 0.1%, respectively.¹⁷ Notable among the principal factors affecting the performance of the real estate tax in these provinces are: (i) inconsistency in the cadastral data because different systems for administering it are not

¹² During the analysis mission it became clear that there was a need to strengthen the capacity of the MIOPV's Office of the Secretary for Provinces in order to: (i) conduct studies with a view to improving incentives in Argentina's federal framework; and (ii) coordinate the national government's fiscal management and policy with the provinces, and similarly coordinate the provinces and municipios. See [Ter-Minassian and De Mello, 2016](#).

¹³ For a discussion of the cascade effect of the gross income tax, see: Artana, *El sistema tributario argentino. Análisis y evaluación de propuestas para reformarlo* [The Argentine tax system. Analysis and evaluation of reform proposals] (2015).

¹⁴ For a detailed discussion of distortions of the gross income tax, see: Artana et al., in Fretes and Ter-Minassian (2015).

¹⁵ Twenty-one of the 23 provinces and the Federal Capital tax manufacturers located in other provinces more heavily than in their own territories. This disparity is a barrier to domestic trade, due to the tax savings involved in buying from local manufacturers.

¹⁶ See Bonet, Pineda, and Muñoz, *El potencial oculto: factores determinantes y oportunidades del impuesto a la propiedad inmobiliaria en América Latina* [Hidden potential: drivers and opportunities of the real estate tax] (2015), and Lincoln Institute of Land Policy (2014), *Property tax in Latin America, a comparative study*.

¹⁷ Source: IERAL.

interconnected;¹⁸ (ii) incomplete or nonexistent records of informal housing arising from state plans, cooperatives, and other developments on public lands;¹⁹ (iii) not enough linkage among cadastres, income records, registries, and entities that manage subnational information;²⁰ and (iv) obsolete technology platforms.²¹

- e. **Weaknesses in expenditure management.** Current expenditure grew markedly during the period, driven by growth in personnel expenditure, which rose from 44% of total spending in 2005 to 59% in 2015: from 43% to 64% in Corrientes, from 45% to 63% in Mendoza, from 36% to 61% in Neuquén, and from 43% to 58% in Salta. This growth in current expenditure has been accompanied by low levels of fiscal transparency, particularly in the reporting of figures on the number of people employed.²² Among the factors behind this lack of transparency are weaknesses in human resources management in these four provinces, including:²³ (i) weaknesses of institutional capacity in 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. Additional factors in the low level of expenditure transparency in these provinces include: (i) weaknesses in the financial administration systems, as well as asset administration systems;²⁴ 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. An important source of potential efficiencies and savings lies in better use of tools for sharing information to track and better target expenditure for social assistance, pensions, and subsidies. The National Tax and Social Identification System (SINTyS) estimates that cross-

¹⁸ For Mendoza alone, there are an estimated 75,000 cases to be cleared, out of 580,000. There are also problems with data on owners and properties. In Neuquén, it is estimated that there could be over 50,000 cases, and in Corrientes it is estimated that data are missing for between 25% and 30% of a total of 350,000 parcels.

¹⁹ Neuquén alone is estimated to have 15,000 unregistered occupants.

²⁰ Updates to the cadastre are performed on a batch basis, and updating of owners and properties is done in parallel with the registry. Additionally, there is no link between the cadastre and records such as those on irrigation, mining, and statistics (ref. mining, economic, and energy projects).

²¹ The platforms primarily feature personal transactions, and have few specific applications.

²² The Argentine Budget and Financial Administration Association (ASAP), based on the timeliness and completeness of public budget information during 2015, determined that, of the four provinces, only Neuquén reported its figures on persons employed in a timely fashion.

²³ The human resources systems of the four provinces were graded using PEFA-style indicators with the following results: Mendoza D+, Neuquén B, Corrientes D+, and Salta B. For more details, see "[Diagnóstico de la gestión financiera pública \(GFP\) a nivel provincial en Argentina](#)" [Diagnostic assessment of provincial public financial management in Argentina] (IERAL, 2016).

²⁴ Among the principal weaknesses detected in the financial management systems are the multiplicity of accounting and budget systems with difficulty interacting, combined with technological obsolescence and the absence of debt management systems. See "[Diagnóstico de la gestión financiera pública \(GFP\) a nivel provincial en Argentina](#)" [Diagnostic assessment of provincial public financial management in Argentina] (IERAL, 2016)

referencing various databases in these provinces could yield savings of US\$30 million annually through improved targeting.²⁵

- f. **Low level of public investment and weaknesses in its management.** Public investment as a percentage of total provincial expenditure fell from an average of 17% in 2005 to 11.9% in 2015, despite persistent gaps in regional infrastructure²⁶ and the favorable impact of investment on private employment²⁷ and the fact that investment is a greater multiplier of output than is current expenditure.²⁸ In Corrientes, the decline was from 24% to 11%, in Mendoza from 13% to 8%, in Neuquén from 22% to 9%, and in Salta from 22% to 13%. In addition, the impact of provincial investment is limited by the absence of investment management systems that call for mandatory ex ante evaluations of projects, that link investments with strategic planning at the provincial level, and that allow monitoring and evaluation of outcomes. Specifically, in the provinces of Corrientes, Mendoza, Neuquén, and Salta, the main weaknesses identified are that:²⁹ (i) the provinces have no formal strategy for project formulation; (ii) there is no formal process for project evaluation; (iii) the budget integration process is based on political criteria and case-by-case judgments; and (iv) there are no formal processes for measuring the quality of services provided.

- 1.4 **Rationale.** Given the weaknesses in the management of taxation and expenditure, the central government requested Bank support for the design of a program to strengthen 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 and the resources go to priority areas that impact private-sector job creation. The following factors justify the intervention in the proposed program: (i) the Bank's experience in Argentina with programs to strengthen subnational management; (ii) the fact that the proposed activity is aligned with the Bank's country strategy with Argentina (2016-2019), which is currently being negotiated, particularly

²⁵ The main objective of the National Taxpayer and Social Identification System (SINTyS) is to improve the targeting of social spending and detect evasion, while safeguarding the right to privacy. These processes, where conducted, have led to annual savings in excess of US\$140 million. See: Pessino and Fenochietto (2011) and World Bank (2006), which estimate the benefits based on an ex post economic evaluation.

²⁶ See the note on regional indicators in the country development challenges for Argentina, to be approved along with the country strategy 2016-2019.

²⁷ Argentina's National Directorate of Public Investment (DNIP) estimates that for every 10 million Argentine pesos invested in public works, eight direct jobs are generated in the construction sector, five indirect jobs are created, with value-added of 6.49 million pesos for the economy. This estimate is based on an input/output model. See DNIP, "Metodología de análisis de resultados e impactos del Plan Nacional de Inversión Pública" [Methodology for analysis of results and impacts of the National Public Investment Plan], available at: <http://www.mecon.gov.ar/DNIP/eespeciales.htm>.

²⁸ A structural vector autoregression methodology suggests that investment spending in Argentina has had a multiplier effect greater than unity on output, while current expenditure has a multiplier effect of 0.18. See Puig, Jose Pablo, "El multiplicador del gasto público en Argentina" [The multiplier effect of public spending in Argentina], Master's thesis, Universidad de la Plata.

²⁹ The administration of provincial investment was graded using PEFA-style indicators, where A is the highest grade and D the lowest, with the following results: Mendoza D, Neuquén D, Corrientes and Salta D. See "[Diagnóstico de la gestión financiera pública \(GFP\) a nivel provincial en Argentina](#)" [Diagnostic assessment of provincial public financial management in Argentina] (IERAL, 2016).

- the objective of improving the business climate by enhancing government efficiency; and (iii) the Bank's experience in formulating and executing infrastructure projects.
- 1.5 **Experiences 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 BANOBRAS Subnational Credit Line for Infrastructure, Public Services, and Institution-Strengthening (ME-X1002) in Mexico and the program for Fiscal and Public Investment Expenditure Strengthening in Subnational Entities (CO-X1018) in Colombia, both multisector conditional credit line for investment projects (CCLIP), as well as the investment projects Program to Improve Municipal Management (loan 1855/OC-AR) in Argentina, Subnational Development and Management Program (loan 2668/OC-UR) in Uruguay, and the program for Improvement of Territorial Public Investment Management (loan 2703/OC-PE) in Peru, all demonstrate the positive results of this strategy.
 - 1.6 In particular, this operation incorporates the following lessons learned from the Program to Improve Municipal Management (loan 1855/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 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 in strengthening management, to create greater incentives to complete these reforms. In addition, by focusing its interventions at the provincial level, this operation complements the Development Program for Metropolitan Areas Outside the Capital II (loan AR-L1243), now in process, which focuses on the municipal level.
 - 1.7 **Strategic alignment.** The program is aligned with the Bank's country strategy with Argentina 2012-2015 (document GN-2687), specifically in the dialogue area of national and provincial public management. It is also aligned with the priorities of the new country strategy for 2016-2019, now in preparation, especially the objective of improving the business climate by enhancing the efficiency of the State, and the crosscutting issue of institution-strengthening.
 - 1.8 The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and is aligned with the development challenge of social inclusion and equality by fostering a more distributive fiscal policy as a result of strengthening collection of the real estate tax, which is a direct tax with a progressive impact on income distribution. The program is also aligned with the crosscutting area of institutional capacity and rule of law, given its objective of government capacity-building through improvement of the taxation management, expenditure management, and investment management of provincial governments. Additionally, the program contributes to the Corporate Results Framework (CRF) 2016-2019 (document GN-2727-6), as reflected in the outcome indicator for percent of GDP collected in taxes, through the strengthening of real estate tax revenue intake; and the output indicator for government agencies benefited by projects that strengthen tools to improve public service delivery, through the strengthening of cadastral and financial management systems in the targeted provinces. In addition, the program is

consistent with two sector frameworks: first, 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 financing; and (iii) working with greater transparency and accountability; and second, the Fiscal Policy and Management Sector Framework Document (document GN-2831-3) in the dimension of improving fiscal equity and social inclusion. Lastly, the program is consistent with the Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), specifically the area of public sector management and financing, through improvements in the management of revenue and expenditure.

B. Objectives, components, and cost

- 1.9 **Objective.** The general objective of this operation is to contribute to growth and private sector employment in the provinces by improving the management of revenue, expenditure, and public investment, and by 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 operation's specific objectives at the provincial level are to: (i) increase provincial revenue, with a focus on the real estate tax; (ii) improve the management and targeting of provincial public expenditure; (iii) strengthen investment management; (iv) finance investment projects in strategic sectors, increasing private sector employment; and (v) provide support in the design of fiscal federalism reforms.
- 1.10 The provinces that will be direct beneficiaries of this operation are Salta, Mendoza, Corrientes, and Neuquén. These were selected on the basis of geographical representativeness, per capita public investment levels below the consolidated national level, and the commitment to improving administration, as demonstrated by their respective authorities. In addition, the program will indirectly benefit all of the provinces by supporting reforms in the design of the country's fiscal federalism and by strengthening its apex agencies.
- 1.11 These objectives will be pursued through the program's components and principal activities, which are described below:
- 1.12 **Component I. Strengthening of tax and financial administration and the management of public investment (US\$42.8 million).** The objective of this component is to improve the fiscal autonomy of the provinces, along with the efficiency and effectiveness of public expenditure, by strengthening provincial capacities related to tax collection, financial administration, and management of the public investment cycle. The component is divided into three subcomponents:
- a. **Subcomponent 1. Strengthening of tax administration and cadastral systems (US\$20 million).** This includes:³⁰ (i) modernization of territorial information systems; (ii) modernization of property records systems; (iii) modernization of tax administration systems; and (iv) the integrated

³⁰ Updating values and cadastral systems in Argentina has been associated with increases of between 18% and 44%. For a summary of these experiences based on before-and-after evaluations and using regressions, see Bonet, Muñoz, and Pineda (2015).

identifying cadastral system and other tax base systems and coordinating these with the municipios.

- b. **Subcomponent 2. Strengthening of financial administration, public expenditure, and provincial investment (US\$16 million).** Strengthening of financial administration and provincial investment. The outputs to be financed include: (i) implementation and strengthening of human resources and payroll systems;³¹ (ii) strengthening of financial administration and results-based budgeting systems;³² (iii) strengthening of asset administration systems; (iv) implementation of e-purchasing systems;³³ (v) implementation and strengthening of provincial public investment systems, including conservation and maintenance actions;³⁴ and (vi) training and strengthening of environmental and social management in the public investment systems.
- c. **Subcomponent 3. Strengthening of the design of Argentina's fiscal federalism and its apex agencies (US\$6.8 million).** This subcomponent will implement crosscutting actions to strengthen the Ministry of the Interior, Public Works, and Housing (MIOPV) in its role as coordinator for improvement of fiscal federalism and provincial management, including the Arbitral Commission of the Multilateral Convention and the National Tax and Social Identification System (SINTyS), as the entities associated with revenue intake and expenditure targeting in the provinces. The outputs to be financed include: (i) new nomenclature for provincial taxpayer activities, consistent with the AFIP; (ii) an Integrated national list of gross income taxpayers;³⁵ (iii) a strengthened and optimized tax collection system under the Multilateral Convention; (iv) integrated identifying systems for the beneficiaries of social and subsidized programs;³⁶ (v) pilot programs on expenditure efficiency by strengthening results-based management; and (vi) studies and seminars to develop a new legislative bill on the Revenue Shareout System.

1.13 **Component II. Investments for development (US\$96 million).** The objective of this component is to finance investments in strategic sectors of the provinces' investment programs, in order to reduce the main obstacles to economic growth

³¹ Aggarwal and Kapoor (2012) review the benefits of human resources information systems (HRIS), and point to cost reductions and improved budget control as among the principal benefits.

³² The literature shows that implementation of an Integrated Financial Administration System (SIAP) offers more timely and complete access to financial information. Based on before-and-after evaluations, Dener, Watkins, and Dorotinsky (2012) found that SIAP implementation has been associated with a reduction in the time taken to deliver public sector financial reports from 21 months to 8 months.

³³ The Argentine Federal Purchasing Network has identified significant weaknesses in the provincial purchasing systems, including weakness or absence of vendor lists, no mandatory e-purchasing system, and no annual procurement plan.

³⁴ This includes establishing a systematic process for road upkeep planning and specific scheduling of routine and periodic maintenance activities, which involves creating databases on road networks and compiling existing information on all work done on the principal highways. Training and strengthening of environmental and social management will also be included.

³⁵ For a discussion of the cascade effect of the gross income tax, and of how the absence of a single nomenclature, along with the absence of a unified taxpayer list, increases costs to taxpayers, see: Artana, El sistema tributario argentino. Análisis y evaluación de propuestas para reformarlo [The Argentine tax system. Analysis and evaluation of reform proposals] (2015).

³⁶ These exercises have led to annual savings of more than US\$140 million. See: Pessino and Fenochietto (2011), and World Bank (2006).

and create private sector jobs,³⁷ while increasing the commitment of provincial authorities to achieving better administration of revenues and improving the quality of public expenditure. The Bank will be actively involved in the selection, preparation, and evaluation of these investments through its sector specialists. A fund will be established, comprising two tranches. The first consists of an initial fund (US\$60 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 second tranche consists of an add-on fund (US\$36 million), accessible only to those provinces that demonstrate progress on the activities and goals of Component I, thus serving as an added incentive.³⁸

- 1.14 To be eligible, the investment projects must meet the technical, economic, environmental, and social criteria 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 job creation, as per the national and provincial strategic plans, with a supporting economic analysis; and (iii) they must comply with the environmental and social management framework (ESMF). The initial fund will be distributed equally among the four provinces. The sample of projects has been agreed upon and represents 37% of Component II, including: (i) works on Provincial Route 8; (ii) expansion of the natural gas main network in southern Corrientes; (iii) construction of the San Agustín Transformer Station; and (iv) works to equip the Salta Industrial Park (see [Economic analysis](#)). Eligible sectors were established on this basis, principally: connectivity and provincial roads, energy, and infrastructure for economic development.³⁹ This component's resources may also finance preinvestment studies. If interventions in residential public services are financed, the projects should meet the conditions of financial sustainability and economic evaluation (Chapter IV) of the Public Utilities Policy (document GN-2716-6) and demonstrate consistency with the principles of that policy (see [Analysis of compliance with the Public Utilities Policy \(document GN-2716-6\)](#)).
- 1.15 **Program administration (US\$2.4 million).** Funds for program administration will finance the creation and operation of the program coordination unit (PCU) and the central execution unit (CEU), as well as expenditures for report preparation, audits, evaluations, and contingencies.

³⁷ See DNIP, "[Metodología de análisis de resultados e impactos del Plan Nacional de Inversión Pública](#)" [Methodology for analysis of results and impacts of the National Public Investment Plan].

³⁸ The program Operating Regulations will establish the criteria for measuring progress, which will include progress on agreed action plans and works execution.

³⁹ Among potential infrastructure works for economic development is the equipping of industrial parks.

Table 1. Costs by Component (US\$ millions)

Component	Financing	Counterpart	Total
I. Strengthening of tax and financial administration	36.4	6.4	42.8
I.1. Strengthening of tax administration and cadastral systems	17.0	3.0	20.0
I.2. Strengthening of financial administration	13.6	2.4	16.0
I.3. Strengthening of the design of Argentina's fiscal federalism and its apex agencies	5.8	1.0	6.8
II. Investments for development	81.6	14.4	96.0
Program administration and management	2.0	0.4	2.4
Total	120.0	21.2	141.2

C. Key results indicators

- 1.16 **Expected impacts and outcomes.** The expected impact is an increase in gross geographic product with respect to the average of the region in each province. The main expected outcomes of the program are: (i) growth of formal private sector employment as a percentage of public employment; (ii) an increase in the generation of nondistortionary own revenues (real estate taxes/total tax revenue); (iii) a decrease in personnel expenditure as a percentage of own revenues; (iv) investment made by the provinces with respect to primary expenditure; and (v) a decrease in leakage of social expenditure as a result of better targeting of expenditure (see [Annex II, Results Matrix](#)).
- 1.17 **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 37% of the component (see [Economic analysis](#)).
- 1.18 For the management strengthening component, a financial evaluation was made of the area of real estate tax administration and the savings generated through mechanisms to target social spending. An internal rate of return (IRR) of 21.5% was estimated. Sensitivity analyses support this high return. For the public investment component, it was decided to perform an economic evaluation of a sample of projects identified as possible beneficiaries of the program. The economic benefit of the projects has an estimated IRR of 20.9%. The sensitivity analyses show that the IRR remains above the critical threshold of 12%, even with significant declines in the main assumptions.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Program resources and disbursement schedule.** The total cost of the program is US\$141.2 million, US\$120 million of which will be financed by the Bank from the Ordinary Capital (OC), and the remaining US\$21.2 million will be the local

counterpart contribution. The financing instrument will be a sovereign guaranteed specific investment loan. 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. Annual Financing (US\$ millions)

Source of financing	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Financing	8.4	27.6	24.0	36.0	24.0	120.0
Counterpart	1.5	4.9	4.2	6.3	4.3	21.2
TOTAL	9.9	32.5	28.2	42.3	28.3	141.2
%	7	23	20	30	20	100

B. Environmental and social safeguard risks

2.2 Under the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation is classified as category B.13 (flexible lending instrument), since the program finances investment projects in priority infrastructure sectors that are not fully defined. However, based on an indicative sample of projects analyzed during program preparation, the majority of the projects under the program are expected to fall into category B, since they may cause local and short-term negative environmental and associated social impacts and for which effective mitigation measures are readily available. The fund will not finance projects in category A. The negative environmental and social impacts are associated especially with construction and the temporary impact on the local community during the works execution period.⁴⁰ The Bank will require the executing agency to create an environmental and social area (ESA) and approve an environmental and social management framework (ESMF), which will be applied to all projects submitted for consideration under Component II. As a mitigation measure, each project will require an environmental and social impact assessment (ESIA) and an environmental and social management plan (ESMP) that is compliant with local legislation and with the IDB's safeguards policies, to be detailed in the ESMF. The [environmental and social management report \(ESMR\)](#) summarizes the environmental and social analysis performed for the program and the sample of projects, and sets the requirements to be included in the contractual conditions of the loan. Noncompliance with standards and parameters for good environmental and social performance has been identified as a risk, so preparation of the ESMF will serve as a mitigation measure.

C. Fiduciary risks

2.3 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 risk was identified: delays in bidding procedures due to bottlenecks in coordination flow between the PCU and the CEU for the execution of the provinces' procurements. The mitigation measures identified are: using program resources, provide the PCU with sector specialists capable of formulating bidding specifications

⁴⁰ These impacts and risks will depend on the individual projects and their location, but could, for example, include: water erosion due to deforestation, affecting roads and electrical grids; worsened road flooding; the possibility of landslides as a result of deforestation; pollution of waterways due to sector management of services in industrial parks; buried pipelines; and harm to cultural and archeological assets.

of the necessary technical quality, and provide the CEU with fiduciary specialists who will contribute to the efficient management of procurements. These actions are expected, among other things, to make it possible to identify the coordination flow among the stakeholders, as well as build capacity at both the PCU and the CEU, while giving the Ministry of the Interior, Public Works, and Housing (MIOPV) an active role in the contracting and procurement process.

D. Other risks

- 2.4 Three risks were assessed as being of medium severity. These are associated primarily with: (i) delays in identifying provincial investment projects; (ii) delays in executing works, due to weaknesses in PCU operational management capabilities; and (iii) noncompliance with standards and parameters for good environmental and social performance, for which the following mitigation measures have been identified: (i) use of preinvestment resources from loan 2851/OC-AR to contribute identifying and formulating investment projects; (ii) support to the PCU's technical coordination area, including training; and (iii) establishment of the ESMF, as reflected in the Operating Regulations. These and other mitigation measures have been identified and budgeted.
- 2.5 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 including 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 maintain these assets.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Argentine Republic, and the executing agency will be the Ministry of the Interior, Public Works, and Housing (MIOPV), acting through the Office of the Secretary for Provinces. A program coordination unit (PCU) will be specially created within the Office of the Secretary for Provinces,⁴¹ responsible for the general and technical coordination of all activities associated with program execution. The main functions of the PCU will be described in the program Operating Regulations.
- 3.2 Administrative and financial coordination will be the responsibility of the MIOPV's central execution unit (CEU). The PCU will instruct the CEU on matters associated with the fiduciary administration of the program. The PCU will define the general technical specifications for procurement processes, whereas the CEU will be responsible for the entire process of document preparation, selection, award, etc.,

⁴¹ The PCU will strengthen administrative capacity through: (i) efficient execution that professionalizes development of the documentation necessary for administrative and operational processes; and (ii) intra-institutional coordination to facilitate execution of the project at the national and subnational levels.

as well as the processing of payments associated with each contract. An environmental and social area (ESA) will be created within the CEU, responsible for providing environmental and social services, as well as services for the review, management, and monitoring of the program's projects.

- 3.3 To facilitate execution, each eligible province will designate the entities to serve as subexecuting agencies, in coordination with the executing agency.
- 3.4 The execution of Subcomponents 1 and 2 of Component I, and of Component II, will be coordinated between the PCU and each subexecuting agency, as established in the program Operating Regulations.
- 3.5 The program includes a second stage of execution, the add-on fund (Component II), subject to the progress in execution achieved by the provinces that have signed the corresponding framework participation agreements (FPAs). The eligible provinces will submit a works plan to apply to the add-on fund, following the criteria in the FPA. The documentation submitted will be evaluated and approved and/or rejected by a Technical Committee, specially created within the MIOPV's Office of the Secretary for Provinces. The Technical Committee membership will be established in the program Operating Regulations.
- 3.6 The execution of Subcomponent 3 of Component 1, "Strengthening of the design of Argentina's fiscal federalism and its apex agencies," calls for crosscutting fiscal strengthening actions applicable to all of the country's provinces. These actions will be conducted by the executing agency, as coordinator of the efforts to improve the country's fiscal federalism and provincial management, in coordination with the apex agencies involved in revenue intake and expenditure targeting in the provinces, such as the Arbitral Commission of the Multilateral Convention and the National Tax and Social Identification System (SINTyS). In addition, support will be provided for strengthening the interfaces between the provincial and national systems. The selection of beneficiary provinces for these activities will be based on strategic criteria set by the MIOPV, which will include the commitment to reform stated by the provincial authorities and geographical representativeness. The execution of Subcomponent I.3 will not require the signature of a FPA.
- 3.7 **Special contractual conditions precedent to the first disbursement of the loan proceeds. The first disbursement of the program resources will be contingent on meeting the following requirements to the Bank's satisfaction: (i) evidence has been provided that the program coordination unit (PCU) has been created under the MIOPV's Office of the Secretary for Provinces; and (ii) the program Operating Regulations have entered into effect, on the terms previously agreed upon with the Bank, including the environmental and social management framework (ESMF).**
- 3.8 **Special contractual execution condition.** As a special execution condition for program Component I (Subcomponents 1 and 2) and Component II, the following requirement will be met to the Bank's satisfaction: evidence has been provided that a framework participation agreement has been signed with the province eligible for the program, whereby the province commits to fully execute the program in accordance with its terms and conditions.
- 3.9 **Retroactive financing.** The Bank may retroactively finance against the loan proceeds up to US\$12 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 (15 July 2016), 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 six-monthly 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 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). For operation of the CEU, consultants currently working under contracts financed by other programs executed by the CEU may be contracted by single-source selection, pursuant to document GN-2350-9, Section V, paragraph 5.4.
- 3.12 **Audits.** The executing agency will deliver the project's audited financial statements on the program-financed activities, along with an audit report, on an annual basis and at project-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 should 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, annual work plan, six-monthly report including the project management report (PMR) 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. The monitoring of procurements will be based on the SEPA. Monitoring of the environmental and social requirements will require a six-monthly report satisfactory to the Bank in form and content. See [monitoring and evaluation plan](#).

- 3.14 The program will also conduct a midterm evaluation and a final evaluation. The PCU will prepare and send a midterm report to the Bank within 90 days running 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 (PCR), within 90 days running from the date on which 90% of the loan proceeds have been disbursed.
- 3.15 **Evaluation.** The principal outcomes of the program will be evaluated according to the data presented in the Results Matrix appearing in Annex II. 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. This will involve determining whether the cost and benefit assumptions included in the analysis have been borne out, including timely execution of the components with their planned activities, outputs, amounts, and time frames; as well as the assumptions regarding operation and maintenance costs, and the projected net benefits. In particular, the following will be evaluated: (i) increases in revenue due to improved management of real estate taxation; (ii) savings due to targeting of expenditure; and (iii) the impact of the investment programs on employment. Additionally, the evaluation will review the environmental and social impacts of the program. Qualified consulting services will be engaged for the evaluation work under terms of reference agreed upon with the Bank.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Institutional Capacity and the Rule of Law		
Regional Context Indicators			
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 (#)		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix			
Country Program Results Matrix	The intervention is not included in the 2016 Operational Program.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)	GN-2687	The program is aligned with the country strategy dialogue area of national and provincial public management.	
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.2		10
3. Evidence-based Assessment & Solution	10.0	33.33%	10
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	4.0		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
5. Monitoring and Evaluation	7.5	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	5.0		
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			Yes
Environmental & social risk classification			B.13
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Accounting and Reporting, External control. Procurement: Information System.	
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

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

The general objective of the project is to contribute to the growth and private employment at the provincial level, through improved management of the revenue, expenditure and public investment, and the implementation of investment projects. The specific objectives are: (i) increase provincial revenues, in special the property tax; (ii) improve the management and the targeting of provincial public expenditures; (iii) strengthen the management of the provincial investment; (iv) finance investment projects in strategic sectors, in order to increase private employment; and (v) support the design of reforms associated with the implementation of the Fiscal Federalism system.

The document adequately presents the problems to be addressed by the project as well as the causing factors. The project identifies the factors slowing growth and the low generation of private employment. The main factors are: (i) the incentive system of the Argentine Federal Framework; (ii) the weaknesses of the provincial administration and tax policy; (iii) weaknesses in expenditure management; and, (vi) the low level of public investment and its management. The project's beneficiaries, the provinces of Salta, Mendoza, Corrientes and Neuquén, are clearly identified. The project presents adequate evidence of internal and external validity of the proposed solutions.

The project's vertical logic is clear and well specified. The Result Matrix is adequately constructed and contains the required elements for monitoring the project.

The program includes a cost-benefit analysis (CBA) of six projects. The most profitable project has an estimated IRR of 24.7% and the least 14.89%. For these six CBA, the economic benefits have been clearly quantified and the costs reflect real resource costs to the economy. The assumptions used are clearly presented and a sensitivity analysis has been performed undertaking variations in key assumptions.

The program includes a satisfactory monitoring and evaluation plan. The project has identified and adequately addressed the monitoring and evaluation requirements and the data availability. The project uses an ex-post cost-benefit methodology for the measurement of its results; the attribution is based on a theoretical level.

The program's overall risk is rated Medium. Mitigation measures were identified with appropriate monitoring indicators.

RESULTS MATRIX

Project objective:	The general objective of this operation is to contribute to growth and private sector employment in the provinces by improving the management of revenue, expenditure, and public investment, and by implementing investment projects.
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EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Targets		Means of verification	Remarks		
		Value	Year	Value	Year				
EXPECTED IMPACT									
Increase in gross geographic product (GGP) in the four provinces	Percentage growth	Corrientes	2.1%	2015	Corrientes	3.1%	2021	GGP estimated by the MIOPV's Office of the Secretary for Provinces	The evaluation will determine how much GGP growth is attributable to the program.
		Mendoza	3.4%		Mendoza	4.4%			
		Neuquén	3.4%		Neuquén	4.4%			
		Salta	1.4%		Salta	2.4%			

EXPECTED OUTCOMES

Expected outcomes	Unit of measure	Baseline		Midterm		Targets		Means of verification	Remarks		
		Value	Year	Value	Year	Value	Year				
EXPECTED OUTCOME											
Outcome 1 Growth rate of formal private sector employment	Percentage growth	Corrientes	1.4%	2014	Corrientes	1.9%	2019	Corrientes	2.4%	2021	Observatory of Employment and Entrepreneurship of the Ministry of Labor, Employment, and Social Security
		Mendoza	0.0%		Mendoza	0.5%		Mendoza	1.0%		
		Neuquén	8.1%		Neuquén	8.6%		Neuquén	9.1%		
		Salta	4.6%		Salta	5.1%		Salta	5.6%		
Outcome 2 Generation of nondistortionary own revenues	Real estate taxes/total tax revenue	Corrientes	4.16%	2015	Corrientes	4.3%	2019	Corrientes	4.4%	2021	Provincial and municipal fiscal information published by MECON's National Directorate of Provincial Fiscal Coordination
		Mendoza	4.13%		Mendoza	4.2%		Mendoza	4.4%		
		Neuquén	4.01%		Neuquén	4.1%		Neuquén	4.2%		
		Salta	1.25%		Salta	1.25%		Salta	1.3%		
Outcome 3 Generation of own revenues	Provincial taxes/total current revenue	Corrientes	8.9%	2015	Corrientes	9.9%	2019	Corrientes	10.9%	2021	Idem
		Mendoza	34.7%		Mendoza	35.7%		Mendoza	36.7%		
		Neuquén	50.1%		Neuquén	51.1%		Neuquén	52.1%		
		Salta	16.2%		Salta	17.2%		Salta	18.2%		

Expected outcomes	Unit of measure	Baseline			Midterm		Targets		Means of verification	Remarks
		Value	Year		Value	Year	Value	Year		
Outcome 4 Investment made by the province with respect to total expenditure	Investment/ Total expenditure	Corrientes 10.0%	2015		Corrientes 11.0%	2019	Corrientes 12.0%	2021	Idem	
		Mendoza 8.0%			Mendoza 9.0%		Mendoza 10.0%			
		Neuquén 8.8%			Neuquén 9.8%		Neuquén 10.8%			
		Salta 12.6%			Salta 13.6%		Salta 14.6%			
Outcome 5 Savings in social expenditure as a result of better targeting of expenditure in the four provinces	US\$ million	4.5	2015		15	2019	22	2021	SYNTyS technical report	Estimate of savings realized by SYNTyS from purging and cross-referencing beneficiary databases.

OUTPUTS

Outputs	Estimated cost (US\$)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification
Component 1: Strengthening of tax administration and public expenditure management and policy, as well as management of public investment									
Subcomponent 1.1: a. Strengthening of tax administration and cadastral systems									
Output 1.1.1: Number of provincial governments with modernized territorial information systems	US\$5,000,000	Provinces	0	0	1	2	1	4	Technical report of the MIOPV's Office of the Secretary for Provinces. The systems include software and process adjustment.
Output 1.1.2: Number of provincial governments with modernized property registry systems	US\$5,000,000	Provinces	0	0	1	2	1	4	Idem.
Output 1.1.3: Number of provincial governments with modernized tax administration systems	US\$5,000,000	Provinces	0	0	1	2	1	4	Idem.
Output 1.1.4: Number of provincial governments with Integrated Identifying cadastral systems and other tax base systems, and coordinating these with the municipalities	US\$5,000,000	Provinces	0	0	1	2	1	4	Idem.
Subcomponent 1.2: b. Strengthening of financial administration, public expenditure, and provincial investment									
Output 1.2.1: Number of provincial governments with modernized human resources and payroll systems	US\$4,000,000	Provinces	0	0	2	2	0	4	Idem.
Output 1.2.2: Number of provincial governments with modernized financial administration systems	US\$3,000,000	Provinces	0	0	2	0	0	2	Idem.
Output 1.2.3: Number of provincial governments with updated asset administration and e-purchasing systems	US\$6,000,000	Provinces	0	0	2	2	0	4	Idem.
Output 1.2.4: Number of provincial governments with results-based budgeting introduced	US\$1,000,000	Provinces	0	0	1	1	0	2	Idem.
Output 1.2.5: Number of provincial governments with strengthened public investment systems	US\$2,000,000	Provinces	0	0	2	2	0	4	Idem. The systems include: (i) software; (ii) changes to standards; and (iii) process adjustment.

Outputs	Estimated cost (US\$)	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Final target	Means of verification
Subcomponent 1.3 Strengthening of the design of Argentina's fiscal federalism and its apex agencies									
Output 1.3.1: New nomenclature for provincial taxpayer activities, consistent with the Federal Public Revenue Administration (AFIP)	US\$50,000	Nomenclature adopted by the Multilateral Convention	1	0	0	0	0	1	Technical report of the MIOPV's Office of the Secretary for Provinces.
Output 1.3.2: Integrated national list of gross income taxpayers	US\$120,000	Federal list adopted by the Multilateral Convention	1	0	0	0	0	1	Idem.
Output 1.3.3: Tax collection system under the Multilateral Convention strengthened and optimized	US\$2,630,000	Strengthened system	1	0	0	0	0	1	Idem. The system involves software.
Output 1.3.4: Provinces with an integrated identifying systems for the beneficiaries of social and subsidized programs	US\$2,500,000	Provinces	1	2	2	5	0	10	Technical report of SYNTyS. The system involves software.
Output 1.3.5: Studies and seminars to develop a legislative bill on the Revenue Shareout System	US\$1,500,000	Studies	0	5	5	0	0	10	Idem. The main objective of these studies is to ultimately produce a new legislative bill on the Revenue Shareout System.
Component 2: Investments for development									
Output 2.1: Number of works financed by the initial fund	US\$60,000,000	Works accepted	1	2	5	0	0	8	Idem.
Output 2.2: Number of works financed by the add-on fund	US\$36,023,500	Works accepted	0	0	0	2	3	5	Idem.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Argentine Republic
Project number:	AR-L1248
Name:	Provincial Management Strengthening Program
Executing agency:	Central execution unit (CEU) of the Ministry of the Interior, Public Works, and Housing (MIOPV)
Prepared by:	Ana Niubó (CSC/CAR) and Marisol Pinto Bernal (FMP/CAR)

I. EXECUTIVE SUMMARY

- 1.1 The Provincial Management Strengthening Program will be executed by the central execution unit (CEU) of the Ministry of the Interior, Public Works, and Housing (MIOPV).
- 1.2 The risk assessment followed the Procedures Guide for Risk Management in Projects with Sovereign Guarantee. This procedure determined that there is a medium level of risk for execution of the project.
- 1.3 No institutional capacity assessment was called for, given that:
 - a. The Bank recently assessed the executing agency's capacity to plan, execute, and implement actions to control resources, as part of the approval process for the Emergency Program for an Immediate Response to the Flooding in Argentina (loan AR-L1245). Annex III of that operation's proposal for operation development indicates that the executing agency was found to possess sufficient operational, technical, and human resource capacity to execute the program satisfactorily.
 - b. The CEU has experience executing loans financed by multilaterals such as FONPLATA, and in the case of the IDB is currently executing two loan operations, and soon a third now in the process of approval. The following section provides further details on these operations.
- 1.4 The program includes no financing from other multilaterals.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The CEU has experience managing the following operations now in execution: (i) the Program to Improve Municipal Management (loan 1855/OC-AR, to be completed in December 2016); and (ii) the Development Program for Metropolitan Areas Outside the Capital (DAMI I) (loan 2499/OC-AR, to be completed in 2017). In addition, the CEU will begin executing the Emergency Program for an Immediate Response to the Flooding in Argentina (loan 3688/OC-AR), approved on 2 June

- 2016, and the Flooding Emergency Assistance in the Northeast and Central Region of Argentina (technical cooperation operation ATN/OC-15515-AR), approved on 16 March 2016. Lastly, the loan for project AR-L1243, Development Program for Metropolitan Areas Outside the Capital II (DAMI II) is in the process of approval, slated to begin execution in 2017, in parallel with DAMI I.
- 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, the CEU will follow the Bank's policies for centralized purchasing and verifying 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. Although the executing agency has gained experience in executing similar programs, a medium level of risk was deemed to exist given the execution design, which involves the provinces and could lead to delays due to issues of coordination among stakeholders.
- 3.2 The supervision modality applicable to procurement management and financial management has been determined on the basis of these identified risks. The supervision modality initially established may be modified, based on evaluations performed during program execution.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 4.1 In order to streamline negotiation of the contract by the project team and principally the Legal Department, the agreements and requirements to be considered in the Special Provisions or in the Sole Annex, as appropriate, are included below; these may be updated or amended during program execution, as appropriate and with prior documentation and authorization from the Bank.
- 4.2 **Conditions precedent to the first disbursement.** As conditions precedent to the first disbursement of the loan:
- a. The execution unit has been created under the MIOPV's Office of the Secretary for Provinces.
 - b. Evidence has been provided that the program Operating Regulations have entered into effect, on the terms previously agreed upon with the Bank, including the environmental and social management framework (ESMF).
- 4.3 Disbursement management
- a. 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%.

- b. 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”).
- 4.4 Financial supervision
- a. 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 should be contractually eligible to perform program audits.
 - b. The financial plan will be the report required for financial supervision, in addition to those required for processing disbursements and for the annual audit.

V. AGREEMENTS AND REQUIREMENTS FOR THE PROCUREMENT EXECUTION

A. Procurement execution

- 5.1 The various types of procurements of goods, works, nonconsulting services and the contracting of consulting services under the program will be conducted in accordance with policy documents GN-2349-9 and GN-2350-9 of March 2011, respectively. As referenced above, the CEU has procurement experience since it is currently executing the Bank-financed programs 1855/OC-AR and 2499/OC-AR, and is therefore familiar with the use of Bank policies. The CEU will be responsible for compliance with the rules established in the loan contract for all program procurements. The program has a procedures manual that has been approved by the institution, containing information on the management of project procurements.
- a. **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services¹ under the project 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 procurements 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.
 - b. **Selection and contracting of consultants.** Consulting services contracts under the project will be included in the procurement plan and executed using

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.

the standard request for proposals (RFP) 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.

- (i) **Selection 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. For the operation of the CEU, the single-source selection method may be used to contract consultants then performing activities under contracts financed by other programs executed by the CEU.
 - (ii) **Training.** The procurement plan describes the processes applied to project components that include training elements and are contracted as consulting services or nonconsulting services, as applicable in each case.
- c. **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 project 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.
 - d. **Advance procurement/retroactive financing.** The Bank may retroactively finance against the loan proceeds up to US\$12 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 works, 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 project profile approval date (15 July 2016), but in no case will expenditures made more than 18 months before the loan approval date be included.
 - e. **Domestic preference.** No domestic preference is envisaged.
 - f. **Other.** There are no special provisions for grants, purchase of land, rights, and easements necessary for project execution.

B. Thresholds for international competitive bidding and international short list (US\$)

Method	ICB works	ICB Goods and nonconsulting services	International short list for consulting services
Threshold	≥ 5,000,000	≥ 500,000	≥ 500,000

C. Procurement supervision

- 5.2 The supervision method will be ex post for processes within the NCB thresholds for works, goods, consulting services, and nonconsulting services. Processes corresponding to ICB, single-source selection, and those that justify ex ante supervision based on their complexity or risk will be subject to ex ante review.
- 5.3 In the case of consulting services under the US\$500,000 threshold, review will be on an ex post basis, except for the first two processes involving each selection method (QCBS, QBS, CQS, etc.), which will be subject to prior review. Any cases of contracting greater than or equal to US\$500,000 will be subject to ex ante review.
- 5.4 In the case of individual consultants, any contracting for more than US\$50,000 will be subject to ex ante review. For contracting below that amount, review will be on an ex post basis.
- 5.5 Ex post reviews will be performed every 12 months in accordance with the project 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.

Ex post review thresholds		
Works	Goods and nonconsulting services	Consulting services
< 5,000,000	< 500,000	< 500,000 ³

Note: 1. The thresholds established for ex post review are applied on the basis of the CEU's fiduciary execution capacity and may be modified by the Bank to the extent that this capacity changes. 2. Procurement processes for goods for an amount less than US\$100,000 may be conducted according to the shopping method, as may works for an amount less than US\$350,000. In both cases, review will be on an ex post basis.

D. Special provisions

- a. **Measures to reduce the likelihood of corruption.** Compliance with policy documents GN-2349-9 and 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.
- b. **Other special procedures.** Update the procurement plan according to the needs of the project and integrate it with the project planning.

E. Records and files

- 5.6 The contracting division will be responsible for keeping records of the project procurements conducted by the CEU. The original files of procurements conducted at the program execution units (PEU) or metropolitan area management entities will be kept at each PEU or management entity.

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

³ In the case of consulting services under the US\$500,000 threshold, review will be on an ex post basis, except for the first two processes involving each selection method (QCBS, QBS, CQS, etc.). Any cases of contracting greater than or equal to US\$500,000 will be subject to ex ante review.

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, capital goods, 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 CEU is responsible for formulating and programming the annual budget and for all procedures leading to consolidation of the annual budget for approval. As needs arise for additions or reallocations of budget line items, the CEU requests revisions, assuming responsibility for managing their approval. Budgetary appropriations are executed through accrued quarterly commitment installments and monthly liquidation installments, allocated by the National Budget Office of the Ministry of Economy and Public Finance.
- 6.3 No problems are anticipated in terms of budgetary management, timeliness of local counterpart funds, or system delays affecting execution.

B. Cash flow and management of disbursements

- 6.4 The National Treasury transfers the local counterpart funds to the CEU, crediting an account opened by the program for the exclusive use of this loan, as this is a program cofinanced with Bank funds.
- 6.5 Disbursements will be made on the basis of a detailed financial plan, the format for which has been agreed upon with officials of the Ministry of Economy and Public Finance and the Office of the Cabinet Chief (JGM).

C. Accounting, information systems, and reporting

- 6.6 The CEU 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 fiduciary specialists.

D. Internal controls and internal audits

- 6.7 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 24156 (Financial Administration and Control Systems Act).

E. External control: external financial audit and project reports

- 6.8 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.
- 6.9 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 external audit firms should be contractually eligible to perform program audits.

F. Financial supervision of the project⁴

- 6.10 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.
- 6.11 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 draft Operating Regulations and in the proposal for operation development.

⁴ 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-___/16

Argentina. Loan ___/OC-AR to the Argentine Republic
Provincial Management Strengthening Program

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 to cooperate in the execution of the Provincial Management Strengthening Program. Such financing will be for an amount of up to US\$120,000,000 from the Ordinary Capital resources of the Bank, 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 ___ _____ 2016)

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