



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 30-Jan-2025 | Report No: PIDPC00165

**BASIC INFORMATION****A. Basic Program Data**

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Argentina	LATIN AMERICA AND CARIBBEAN	P508935	Tax Administration Services Modernization Program
Financing Instrument	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
Program-for-Results Financing (PforR)	02-Jun-2025	29-Jul-2025	Governance
Borrower(s)	Implementing Agency		
Argentine Republic	Ministry of Economy		

Proposed Program Development Objective(s)

To improve the effectiveness, efficiency and transparency of tax administration.

COST & FINANCING (US\$, Millions)**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Government program Cost	4,000.00
Total Operation Cost	300.00
Total Program Cost	299.25
Other Costs (Front-end fee,IBRD)	0.75
Total Financing	300.00
Financing Gap	0.00

FINANCING

Total World Bank Group Financing	300.00
World Bank Lending	300.00



Concept Review Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **With a gross domestic product (GDP) of US\$641 billion in 2023, Argentina is the third-largest economy in Latin America, but its development has been hindered by underinvestment and recurrent macroeconomic challenges.** The federation, consisting of 23 autonomous states, along with the Autonomous City of Buenos Aires (*Ciudad Autónoma de Buenos Aires, CABA*), is highly urbanized with 92 percent of its 46.6 million inhabitants living in cities. The country's middle class has historically been large, and social indicators have, in general, been above regional averages although showing persistent in-country inequalities. For the past five decades, Argentina grew at a slower pace (2.5 percent) than the regional average (3.6 percent) and its investment during the past 30 years, at 17 percent of GDP, lagged the 29 percent average for developing countries and the 20 percent average for Latin America. The unemployment rate post-pandemic hovers around 6-7 percent, but nearly half of those employed do so in the informal sector or are self-employed. The combination of the impact of a severe drought in late 2022 and the October 2023 presidential elections, put an additional strain on the economy, resulting in extremely high inflation, a large gap between official and market exchange rates, increased depletion of international reserves, and increased commercial debt with foreign entities.

2. **A stabilization program was launched in December 2023 aimed at eliminating the fiscal deficit and curbing inflation, while maintaining capital and exchange rate controls.** Key measures included a one-time devaluation of the official exchange rate by 55 percent, the introduction of monthly crawling peg rate of 2 percent, and the removal of import controls. These actions initially spiked inflation (25.5 percent month-over-month in December 2023), but it began to decline steadily afterwards, reaching 2.7 percent in October 2024. In parallel, strict public spending policies and emergency taxes resulted in a 1.7 percent of GDP primary fiscal surplus by October 2024. In June 2024, the International Monetary Fund (IMF) Executive Board approved the eighth review of the ongoing 30 months Extended Fund Facility (EFF) which provided an additional US\$800 million of resources to support the efforts to stabilize the economy¹.

3. **The stabilization program significantly affected economic activity, with a 3.4 percent year-over-year contraction in the first half of CY2024.** However, growth resumed by Q3, with output in August recovering to January levels. High inflation, rising public service tariffs, and a weakening labor market drove poverty rates to peak at 53 percent of the urban population in the first half of 2024 (under the national poverty line). However, poverty has begun to decline during the second half of 2024, supported by easing inflation and expanded social transfer programs, including the protection of family allowances. Looking ahead, improving the quality of the fiscal adjustment and advancing reforms in monetary, foreign exchange, and fiscal policy will be crucial to fostering sustainable growth. Strengthened mitigation measures are also needed to address the lingering effects of the adjustment on the poor and vulnerable.

¹ The EFF was agreed in March 2022 for a total amount of US\$45 billion. Program targets were reviewed in line with the new administration's plan to stabilize the economy; all end-March performance criteria were met with margins, which resulted in the release of the US\$800 million.



Sectoral and Institutional Context of the Program

4. **Argentina’s tax system faces significant challenges in ensuring voluntary compliance and promoting inclusive growth.** The complexity of the tax structure imposes a heavy compliance burden on businesses and individuals. With a high overall tax burden—representing 29.7 percent of GDP in 2022—it discourages investment, formal employment, and inclusive growth. The tax system includes distinct taxes and levies at federal, provincial, and municipal levels, leading to varying rates and regulations across jurisdictions. This complexity affects all taxpayers, particularly small and medium enterprises, and distorts resource allocation, making the system inequitable. While the tax system includes some progressive elements, such as the solidarity tax on wealthy individuals, it remains largely regressive. Indirect taxes, including the Value Added Tax (VAT), which makes up 24 percent of total tax revenue, disproportionately burden lower-income individuals, undermining the system's redistributive potential and its ability to address inequality. Outdated and distorted taxes, such as the federal tax to exports, and the provincial gross income tax (*Impuesto a los Ingresos Brutos*, IIBB), further exacerbate economic inefficiencies, driving up compliance costs for taxpayers and administrative burdens for the government.

5. **Challenges related to tax expenditures significantly impact Argentina’s tax base, contributing to a complex and evolving fiscal landscape.** In 2025, tax expenditures are projected to account for 3.54 percent of GDP. These expenditures primarily stem from exemptions, reductions, and other preferential treatments granted under various laws and tax regimes. A significant share originates from specific exemptions within individual tax laws, such as the VAT, which accounts for one-third of total tax expenditures, followed by other key taxes like the Simplified Regime for Small Taxpayers (*Monotributo*). Over time, the scale of tax expenditures has remained relatively stable as a percentage of GDP. These expenditures are authorized through multiple legal channels: some are explicitly outlined in the tax laws governing specific taxes, while others are implemented through broader economic promotion regimes aimed at fostering activities or sectors. These measures are established through legislative processes, where laws are passed to provide exemptions, tax relief, or other preferential treatments, often targeting specific industries, investments, or geographic regions. As a result, Argentina’s system of tax expenditures reflects both long-standing tax policies and ongoing legislative actions designed to address changing economic needs.

6. **High levels of informality exacerbate Argentina’s tax challenges.** A large informal sector² reduces the tax base and undermines the government's ability to sustain revenues while attempting to ease the tax burden on formal economic activities. Rather, to finance social programs and infrastructure projects, the government responds by introducing new taxes or increasing the rates of existing ones, thereby raising the tax burden on registered taxpayers. This approach not only complicates the tax system but also intensifies the challenges posed by an already high tax burden.

7. **The May 2024 Tax Administration Diagnostic Assessment Tool (TADAT) evaluation provides a detailed overview of the strengths and weaknesses of Argentina’s tax administration, focusing on the performance of the Federal Administration of Public Revenues (*Administración Federal de Ingresos Públicos*, AFIP).** One of AFIP's key strengths is its robust risk governance model, which effectively manages compliance risks. For example, it has developed comprehensive plans to improve compliance with certain taxes, leveraging data from both public and private sources. This large-scale data collection allows AFIP to cross-check information and detect inconsistencies, thus enhancing the accuracy of tax reporting. Additionally, AFIP has made substantial progress in digitalizing tax administration, as evidenced by the widespread use of electronic channels for tax filings and payments. Taxpayers can conveniently file their returns and make payments through these platforms, reducing administrative burdens. Moreover, AFIP facilitates communication with taxpayers and intermediaries through initiatives like the *Espacio de Diálogo Institucional*, ensuring efficient dialogue and feedback.

² Statista Research Department: <https://www.statista.com/topics/10562/employment-in-argentina/#topicOverview>. Accessed on December 12, 2024.



8. **However, the report also highlights significant weaknesses within AFIP's operations.** One notable concern is the lack of trust in the taxpayer registry, which undermines the reliability of the tax system. The selection of audit cases remains largely decentralized, which can lead to inconsistencies and inefficiencies in identifying high-risk taxpayers because centralized systems manage more comprehensive data and information. AFIP's business continuity plan and data backup systems need upgrades to meet modern standards, making the organization vulnerable to disruptions from unforeseen incidents. Human resource management (HRM) also faces challenges, particularly with recruitment, where the system is not sufficiently comprehensive to attract and retain skilled personnel. Furthermore, the tax control process shows flaws, such as a high level of non-compliance among taxpayers and penalties that are not sufficiently deterrent. The absence of effective monitoring of tax audit outcomes and impacts, coupled with an inefficient dispute resolution process, further hampers AFIP's ability to enforce compliance.

9. **The Government of Argentina (GoA) recently restructured its tax administration to enhance trust and credibility in both the tax system and the tax administration.** AFIP was replaced with the Revenue and Customs Control Agency (*Agencia de Recaudación y Control Aduanero, ARCA*)³ to enhance efficiency and modernize tax collection with a focus on enhancing services to the taxpayer. As an autonomous entity designed to function with a streamlined organizational structure, ARCA aims to reduce compliance costs, promote voluntary compliance, and improve the overall effectiveness of tax administration. Building on this restructuring, the GoA has prioritized modernizing ARCA's processes to enhance transparency and efficiency. Key initiatives include implementing pre-filled tax declarations, simplifying payment procedures, and leveraging digital technologies to streamline core business processes. These measures are designed to reduce compliance costs, minimize errors in tax submissions, and curb opportunities for corruption, fostering a more reliable and trustworthy tax system.

Relationship to CAS/CPF

10. **The proposed operation is aligned with the WBG FY19-22 Country Partnership Framework (CPF)⁴ for the Argentine Republic discussed by the WBG of Executive Directors on April 25, 2019, and revised by the Performance and Learning Review (PLR)⁵ on May 24, 2022.** Specifically, it would support CPF Focus area 2 (Strengthening Service Delivery to Protect the Poor and Vulnerable) and would contribute to Objective 6 (Improving Governance and Transparency). Through the proposed Program, the World Bank aims to support the modernization of Argentina's tax administration by enhancing its efficiency, transparency, and accountability. By leveraging modern technologies, the Program aims to simplify processes, improve taxpayer services, and foster voluntary compliance, directly contributing to the CPF's emphasis on improving PFM systems and addressing institutional constraints to more efficient and equitable resource allocation.

Rationale for Bank Engagement and Choice of Financing Instrument

11. **The World Bank's global experience in tax administration reforms and institutional capacity building positions it as a valuable partner in supporting Argentina's ambitious reform agenda.** Its comprehensive approach highlights the importance of effective coordination and communication between tax policy and tax administration to ensure continuous improvements in the country's tax system. Tax administration can offer evidence-based contributions to tax policy to simplify the tax system and broaden the tax base. The World Bank integrates technical assistance with financial support, leveraging global international experience and the adaptation of relevant best practices. This approach directly supports higher development objectives, including fostering a more equitable tax system, enhancing fiscal sustainability, and promoting inclusive economic growth.

³ AFIP was dissolved in October 2024 through Decree 953/2024: <https://www.boletinoficial.gob.ar/detalleAviso/primera/316055/20241025>

⁴ Report No. 131971-AR, World Bank.

⁵ Report No. 170668-AR, World Bank.



12. **The proposed operation is structured as a Program-for-Results (PforR), a financing instrument ideally suited to the scale and complexity of Argentina’s tax administration reform.** PforR operations link disbursements to the achievement of specific, measurable results, creating strong incentives for sustainable reforms while emphasizing transparency, accountability, and the efficient use of resources through strengthened fiduciary and results monitoring systems —key elements for advancing institutional transformation objectives, such as those targeted in this operation. The PforR instrument also facilitates the institutionalization of reforms by integrating them into the existing structures. This approach promotes ownership and accountability, ensuring that the reforms endure beyond the project’s lifecycle.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

13. **PDO Statement:** To improve the effectiveness, efficiency and transparency of tax administration.

PDO Level Results Indicators

14. **Preliminary PDO-level results indicators to reflect progress towards the PDO include:**

- a. Percentage reduction of the tax gap for the income tax and VAT.
- b. Reduction of compliance costs for taxpayers and collection costs for the tax administration.
- c. Percentage of taxpayer inquiries resolved within the established service level agreement timeframe.
- d. Number of aggregated reports on voluntary compliance, tax collection, tax gaps, cost of compliance, cost of control, and operational outcomes published and accessible to the public on a regular basis (twice a year).

D. Program Description

PforR Program Boundary

15. **Results Area 1: Improve tax policy.** The primary objective of this RA is to strengthen the tax policy framework, with an emphasis on enhancing policies that support tax administration performance. The risk management tools developed by ARCA are expected to play a critical role in identifying and recommending improvements to the tax policy framework. The PforR will focus on three key areas of tax expenditure management: (i) reducing tax exemptions by identifying and eliminating unnecessary or inefficient exemptions that distort the tax base or diminish revenue; (ii) improving transparency and communication on tax expenditures by enhancing national budget reporting to clarify the costs and impacts of tax incentives for stakeholders; and (iii) conducting cost-benefit studies to evaluate the effectiveness and efficiency of tax expenditures in key sectors, ensuring that their design considers differential impacts on women, men and marginalized groups, while also aligning with other policy priorities, such as incentives for climate change-related activities. These efforts are expected to build greater trust and confidence in the tax system, while also streamlining coordination and fostering a stronger partnership between the Ministry of Economy (MECON) and ARCA. By focusing on inclusive tax expenditures, the PforR seeks to advance tax policy and administration, contributing to more efficient revenue collection and improved governance of public finances. The approach includes climate considerations, such as the economic impacts of droughts and contributions to climate adaptation initiatives, to inform tax policy.

16. **Results Area 2: Enhance tax administration services and operations.** The PforR aims to enhance tax administration services and operations, focusing on taxpayer experience to support ARCA's goal of encouraging voluntary compliance. This vision will be realized through the development of operational tools designed to understand and address the diverse needs of taxpayers across various segments, including gender-disaggregated segments such as women-owned businesses or informal workers, who are often underrepresented in tax systems. A central element of this strategy is the development of a taxpayer services model designed to measure and respond to taxpayers' interactions with ARCA's



services, while prioritizing accessibility and equity. By leveraging insights from taxpayer experiences, ARCA can customize its services to address the specific needs of different segments. This RA will support key initiatives: (i) development of the Taxpayer Services Model – incorporating global best practices to design a model responsive to taxpayer needs and aligned with modern service delivery standards, including tailored approaches to support female entrepreneurs and workers in informal sectors; (ii) enhancing the Taxpayer User Experience – implementing a multi-channel communication and feedback system accessible to individuals with diverse needs; (iii) adoption of pre-filled tax returns – simplifying the filing process for individuals and businesses to reduce compliance burdens while improving accuracy; and (iv) use of micro-data analytics for risk management – leveraging advanced analytics to develop tools for improved transparency and accountability, ensuring audits are conducted equitably and do not disproportionately affect women or vulnerable groups. The use of micro-data analysis is expected to enhance tax policy by providing valuable insights to inform policy decision-making. For example, it can help identify how compliance may be influenced by unclear tax laws and regulations. This positive loop between the tax administration and the tax policy should be strengthened to simplify the tax system and encourage voluntary compliance. These actions aim to improve the efficiency, accessibility, and effectiveness of tax administration services, fostering voluntary compliance and building taxpayer trust. By supporting these efforts, the PforR aims to help ARCA establish a modern, efficient, and taxpayer-centric system that addresses the needs of all population segments.

17. **Results Area 3: Strengthen governance, transparency and accountability.** This RA seeks to enhance trust and confidence in the tax system by strengthening governance, transparency, and accountability within ARCA. The PforR will support the following initiatives: (i) establishing a strengthened governance management model for ARCA, including improved internal and external control mechanisms to foster efficiency, transparency, and prevent discretionary actions within the tax administration; (ii) promoting the adoption of a merit-based, professional HRM framework; (iii) improving ARCA’s internal and external reporting systems, including providing detailed estimations of compliance and control costs to optimize resource allocation, demonstrate value for money, and ensure accurate data reporting to MECON and other public sector agencies to improve coordination and informed decision-making; (iv) integrating systems and services within ARCA and across national platforms such as e-SIDIF, Compra.ar, and the civil service HRM system; (v) adopting open data practices to increase transparency and promote public engagement, inviting independent analysis and feedback from stakeholders; (vi) implementing initiatives to build trust between ARCA and taxpayers, such as disclosing how collected taxes are used, thereby improving fairness and ownership among taxpayers; and (vii) strengthening ARCA’s institutional capabilities through targeted capacity-building and change management strategies, fostering a culture of service excellence, transparency, and accountability. These efforts will create a more transparent, accountable, and efficient tax administration, encouraging voluntary compliance, improving taxpayer engagement, and supporting sustainable reforms in the country's tax system.

E. Initial Environmental and Social Screening

18. **The proposed PforR involves no construction or rehabilitation activities, with Information and Communication Technology (ICT) upgrades limited to server and computer equipment refurbishment at the national level.** No linked activities outside the Program are required to meet its PDO. Given the nature of expenditures, the Program is not expected to cause significant adverse impacts that are sensitive, diverse or unprecedented on the environment and/or affected people.

19. **The environmental risk is rated low at concept stage.** As no construction or rehabilitation activities will take place, no adverse direct or indirect impacts on environmental receptors, including natural habitats, and physical cultural resources are expected. Activities proposed to streamline operations and enhance ICT may generate e-waste, primarily from refurbishment of server and computer equipment and disposing of obsolete devices. However, the potential risks associated with exposure of such hazardous waste can be assessed as medium to low, given the limited scope of the



proposed PforR, which focuses solely on national-level ICT enhancements. To mitigate these risks and prevent exposure to hazardous waste, it is recommended to implement robust waste management measures.

20. **The social risk is rated low at concept stage.** The proposed PforR aims to reduce compliance burdens, improve accuracy, and enhance equity, social inclusion, and public trust, developing tools that address the needs of underrepresented groups, such as women-owned businesses and informal workers. While these changes offer benefits, they may also create confusion or uncertainty for some individuals and businesses. To address these challenges, the Program will implement inclusive, timely communication strategies and ensure modernization efforts are culturally appropriate, accessible, and responsive to the needs of groups facing barriers to digital access and literacy, such as indigenous peoples, persons with disabilities, and the elderly. These measures will ensure that the benefits of modernization are equitably distributed across all population segments.

21. **Argentina has a strong legal environmental and social framework, though implementation often lags.** Argentina's new national administration has initiated a comprehensive effort to update the country's institutional and legal framework, including reforms to labor and employment regulations. This often includes changes to the administrative structure and a reduction in staffing levels. Regarding e-waste management, Argentina lacks specific national laws and regulations, but there are good practice manuals available for handling electronic waste.⁶ ARCA's capacity to manage these risks will be assessed during Program preparation, and recommendations for protocols and enhanced citizen engagement will be made.

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Implementing Agencies

⁶ For example, the 'Manual of Best Practices and Recommendations for the Sustainable Management of Electrical and Electronic Devices in a State of Backlog in the National Public Administration': https://residuoselectronicosal.org/wp-content/uploads/2023/12/MANUAL-BUENAS-PRACTICAS-anexo_7016753_1.pdf



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