DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

PROGRAM FOR STRENGTHENING PRODUCTION-RELATED PROVINCIAL INSTITUTIONS AND FISCAL MANAGEMENT

(AR-L1002)

LOAN PROPOSAL

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CONTENTS

Electronic Links and References	
Abbreviations	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=414799
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Loans in execution and loans approved	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=414728
Tentative lending program	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=414814
Logical framework	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=427750
Procurement plan	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=414736
Terms of reference, technical specifications, and	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=373261
Operating Regulations	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=361461
Information available in the RE1/SC1 files	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=388682

PROJECT SUMMARY

ARGENTINA

Program for Strengthening Production-related Provincial Institutions and Fiscal Management (AR-L1002)

Financial Terms and Conditions[1]			
Borrower: Argentine Republic **Executing agency:** Subsecretaría de Relaciones con Provincias [Provincial Relations Branch] (SSRP) of the Ministry of Economy and Production's Finance Secretariat		Amortization period: Grace period: Commitment period: Disbursement period:	20 years 5 years 4.5 years 5 years
Source	Amount	Interest rate:	LIBOR
IDB (Ordinary Capital)	18 million (60%)	Inspection and supervision fee:	0%
Local	12 million (40%)	Credit fee:	0.25%
Total	30 million (100%)	Currency:	U.S. dollars from the Single Currency Facility

Project at a Glance

Project objective: The general objective of the program is to help strengthen the institutional investment environment at the provincial level, by creating a predictable legal framework and reforming provincial public-expenditure management. Over the medium and long term, this would contribute to the gradual consolidation of mechanisms for interaction between the federal government, the Provinces, and the productive sectors prioritized by the relatively less developed provinces. This general objective will be supported by the specific objectives for two projects in the program: (a) project "A" for institutional strengthening of the provincial public sectors linked to the productive sectors; and (b) project "B" for strengthening relations between the federal government and the Provinces.

Special contractual clauses: See paragraphs 3.4 and 3.9.

Exceptions to Bank policies: The project does not call for any exceptions to Bank policies.

Project consistent with country strategy:	Yes [X]	No [ ]			
The project qualifies as:	SEQ [ ]	PTI [ ]	Sector [ ]	Geographic [ ]	Headcount [ ]
Verified by CESI on:	09/17/04				
Social and environmental review:	See paragraphs 4.14 and 4.15				
Procurement:	See paragraphs 3.19, 3.20, 3.21, 3.22, 3.23, 3.24 and 3.25				

1 The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount. With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Background

1.1 The year 2003 was a turning point for the Argentine economy during which disciplined implementation of macroeconomic policies, together with a favorable external environment, allowed for recovery of basic macroeconomic equilibria, thus boosting the level of activity. This helped reverse the profound crisis Argentina had been weathering for the last four years. (Recent Economic Performance and Outlook, March 2004, IDB).

1.2 Argentina actually ended 2003 with a real average gross domestic product (GDP) growth rate of 8.7 percent, in contrast to the four preceding years of recession, which culminated in mid-2002 with GDP plummeting 10.9 percent. This recovery was primarily based on greater utilization of installed capacity in several sectors of the economy that achieved maximum levels of production[1] as a result of a significant increase (8.5 percent) in export prices and decreased variability in prices of imported goods (0.5 percent). This rise in export prices in an economy like that of Argentina, where exports represent 22.5 percent of GDP, was a significant boost to growth, having a direct income effect of nearly two percentage points of GDP.

1.3 Nevertheless, despite the strong recovery in 2003, real GDP was 3.1 percent below the 2001 level (the period prior to the devaluation of the peso) and 11.2 percent below the level achieved in the previous five-year period. This difference is also evident in terms of real per capita GDP, which is still below 2001 (4.9 percent) and 1998 (15.2 percent) levels.

1. Economic disparities and provincial growth factors

1.4 Argentina has significant economic disparity at the subnational level. In international comparative terms, the degree of intranational dispersion of per capita GDP for Argentina (0.6) is significantly higher than that of other countries such as the United States (0.22), Spain (0.2), and even Mexico (0.42). Disparities among the provinces are also significant. For example, 80 percent of Argentina's GDP is generated by only five jurisdictions, the so-called *advanced provinces*—Buenos Aires, Santa Fe, Córdoba, and Mendoza—and the Autonomous City of Buenos Aires, while the remaining 20 percent of GDP is generated by the other 19 *relatively less developed provinces* (see paragraph 3.5). The disparity in per capita GDP among the provinces belonging to these groups is also quite high and ranges on average from 8,000 Argentine pesos (Arg$) to Arg$3,000 (1993 pesos). (*Studies and Outlook No.12*, ECLAC).

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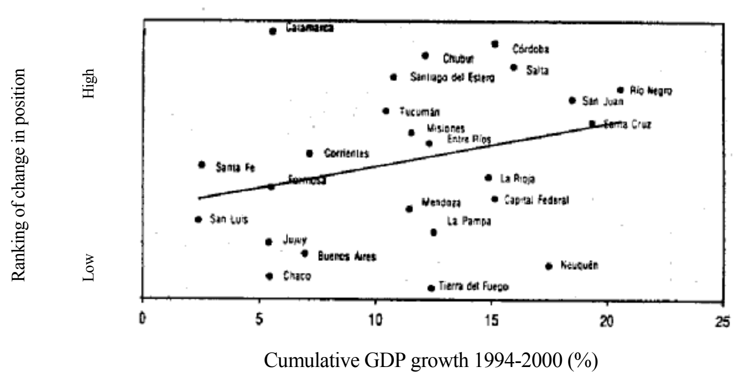
[1] As of the third quarter of 2003, supply in the following sectors reached new highs: (i) agriculture, livestock, hunting and forestry; (ii) supply of electricity, gas, and water; and (iii) education, social services, and healthcare.

1.5 In Argentina there is a notable geographic concentration of population and economic activity in the *advanced provinces*, where two thirds of the population resides. Those provinces also account for a similar or greater percentage of private investment, the country's total exports, and 80 percent of small and medium-sized enterprises (SMEs) and the private employment they generate. In contrast, the economic structures of the *relatively less developed* provinces are not very diversified and are limited in scale. There the percentage of activity represented by traditional productive activities (agriculture, fishing, mining, and manufacturing) varies considerably from one province to another. In 2000, only in seven of these provinces did these aggregated sectors represent more than 30 percent of the GDP of each province (Catamarca, Chubut, Neuquén, San Luis, Santa Cruz, Tierra del Fuego, and La Pampa), with the provinces of Formosa and Santiago del Estero being on the extreme opposite end of the scale, with these sectors representing only 16 percent and 20 percent of GDP, respectively. It is therefore not surprising that Argentina's recent export boom occurred as an expansion highly concentrated in only three *advanced* provinces—Santa Fe, Buenos Aires, and Córdoba—which generated 86 percent of exports of products of agricultural origin (Summary from *Economía Real* No. 44, March 2004, *Centro de Estudios para la Producción* [Production Research Center]. Ministry of Economy and Production (MEyP).

Figure II-1
Provincial Business Environment Index
Ranking of change in position and cumulative growth
1994-2000



Source: FIEL. "The Business Environment in the Argentine Provinces". 2003

1.6 The combination of several economic and institutional factors partly explains the history of uneven growth among Argentina's provinces. Some of these factors were analyzed in a recent study which estimated that 60 to 70 percent of the differences in the levels of provincial GDP were determined by the differences in their relative share of economic resources, while the remaining 30 to 40 percent was the result of other factors such as their infrastructure, the performance of public finances, and the business community's perception of the provincial governments' performance.

(Latin American Economic Research Foundation (FIEL), 2003).[2] In general these findings highlight the impact on provincial economic performance that provincial public institutions may have, not only those in the specifically fiscal and financial realm, but also those in the nonfinancial realm that are linked to the functioning of the provincial productive sectors.

2. Financial relations between the federal government and the Provinces and recent fiscal performance

1.7 In the 1990s, the development of Argentine federalism was characterized by the adoption of several fiscal pacts between the federal government and the provincial governments, with shifting rules for distribution of funds and allocation of expenditures. Unfortunately, the short-term political nature of these arrangements in such a changing, unstable environment did not allow for establishing conditions for moving toward a more balanced model of federalism.

1.8 Currently, the federal government collects 80 percent of taxes and is responsible for 49 percent of total expenditure, while the Provinces collect 17 percent and spend 40 percent, with the balance corresponding to municipal governments. The Provinces, in turn, finance on average 47 percent of current expenditure with own resources and the balance with transfers of federal revenue-sharing funds and a series of special arrangements that distribute federal funds to the Provinces. The rules of these arrangements are very complex, and they have primarily been used to finance debt guarantees and social safety net expenditures.

1.9 It may be concluded that the highly vulnerable procyclical and discretionary nature of these financial arrangements between the federal government and the Provinces has created few incentives for them to overcome their own limitations and seek to make interprovincial compensatory taxation more effective. Nonetheless, particularly at times such as these when the economy is starting to recover, and until the revenue-sharing rules are reformed, the Disciplined Financing Programs for provincial finances between the federal government and the Provinces adopted in 2002 have been effective instruments for restoring and maintaining provincial financial discipline. As a result of greater revenues and better spending discipline, from 2001 to 2003, the Provinces went from an average financial deficit of 16.3 percent of their total revenues to an average surplus of 4.98 percent of their total revenues.

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[2] This correlation is measured by estimating an index called the Provincial Business Environment Index (IPAN-1 or IPAN Económico), which is made up of variables corresponding to the factors indicated, except for the business community's perception of "good governance". There is a second index estimated only for 1997 and 2001 that includes the business community's perception, called IPAN-2, and it does not substantially modify the percentages indicated. Estimates of the level of correlation of IPAN-2 ranges and provincial GDP and exports show that there is in fact a positive correlation of 0.64 to 0.65, respectively, from 1998 to 2001.

1.10 The recently enacted Law 25.917[3] establishing the federal fiscal responsibility regulations will also promote fiscal discipline in Argentina. The basic objective of this law is to establish general rules for fiscal behavior and greater transparency of governance. It should be noted that in order for this law to become effective the Provinces must adhere to it and, for more extensive results, municipalities must also do so. The regulations will take effect as of 1 January 2005, and for subnational governments that adhere to it later, it will take effect as of the date of adherence.

B. Institutional and governance considerations associated with the productive and fiscal environment in the Provinces

1.11 The issues listed in Table II-1 suggest there are weaknesses in this area similar to those mentioned in the foregoing section, in the case of six relatively less developed provinces that were chosen as an indicative sample for the underlying analyses for program preparation (Catamarca, Corrientes, Chubut, Formosa, Tierra del Fuego, and Tucumán). On the one hand, these factors show that there is a loose web of public institutions linked to the provincial productive sectors, with potential redundancies, and that they are perceived by the private sector as not very effective. On the other hand, many provinces lack truly integrated financial management systems, and the data they provide are not homogenous with that from the other provinces or the federal government. As will be seen later, the design of the proposed program will take into account the relevance of these issues.

Table II-1

A. INSTITUTIONAL ENVIRONMENT OF PRODUCTION-RELATED PUBLIC SECTORS IN THE PROVINCES *

1. Lack of effective institutional and interagency coordination:

- Overlapping and lack of coordination among central government institutions (Formosa).
- The Ministry of Production does not efficiently perform the important functions it has been assigned in the organizational structure of the provincial public administration. Insufficient budget allocation limits actions to be undertaken (Catamarca).
- Absence of internal organization due to budget restrictions and public reforms (Tucumán).
- Lack of official support in establishing and consolidating the "tourist service", insufficient dissemination of the activity, limited selection of alternative services, and outdated instruments for domestic and foreign marketing (Corrientes).
- Need to promote partnering activities for the tourism sector, set minimum quality standards for services, and improve coordination between the private and public sectors (Tierra del Fuego).
- Need to promote the formation of intermediate entities for the livestock, olive-growing, and walnut-growing sectors and strengthen marketing networks (Catamarca).

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[3] National Law 25.917, Creation of the Federal Fiscal Responsibility Regulations, promulgated by Decree 1079/2004 of the Executive Branch. This law supplements the provisions of Law 24.156, Financial Management and Control Systems (1992), Law 11.672, Ongoing Budget (supplementary law) and Law 25.152, Federal Government Funds Administration, Fiscal Convertibility Regime.

2. Poor quality of supply of relevant data to support business activities:

- Lack of systematized electronic data (Formosa).
- Shortfalls in communications and data handling capacity (Catamarca).
- Lack of coordination of active development policies, low level of linkage with the private sector (Chubut).
- Scarce, disjointed economic data (Chubut).
- Information systems with respect to olive-growing, agriculture, and livestock need to be generated (Catamarca).
- Insufficient access to data on tourist activities (Chubut).
- Insufficient quality and dissemination of information systems on tourist activities (Tierra del Fuego).
- Obsolete hardware (Corrientes).
- Shortfalls in technological equipment and infrastructure (Tucumán).
- Lack of computer hardware and communications equipment (Chubut).

3. Little effectiveness of regulations on the functioning of the strategic productive sectors:

- Scarce adherence to with national laws establishing standards governing and/or promoting the activities of several productive sectors (e.g., agriculture, livestock, fishing, tourism, mining, forestry), and when there has been adherence, the laws are not operative, and they may not even be organized, developed, and/or updated (All the provinces).
- The system of standards and regulations for promoting productive investment in agricultural activities is very developed, but legislation does not promote small businesses (Catamarca).
- Difficulties in applying general standards and scant institutional capacity to implement existing standards and regulations (e.g., in livestock; economic promotion of agricultural investments is currently not very developed and even in decline, Chubut).
- Scant body of standards for the tourism sector, which is not adequately arranged, nor computerized, making it difficult to access the data (Corrientes).

4. Low human-resources capacity:

- Lack of specialists (Corrientes).
- Lack of personnel with adequate technical and operating capacity to execute lines of action and handle urgent matters as well as ongoing actions (Tucumán).
- Weak capacity in programming and formulating projects (Chubut).
- Lack of training activities to promote specialized studies with production potential and strengthen business sensitivity with respect to the development possibilities of strategic sectors (Catamarca).
- Lack of plans for training specialized human resources to support small and medium-sized business owners. Lack of public-sector professionals promoting business partnerships and collaborating on the implementation of systems to improve the quality of the supply of services (Chubut).
- Officials at the various offices lack the knowledge, skills, and information to better manage the regulations available. Lack of training activities for tourism workers (Tierra del Fuego).
- Insufficiencies in technical and operating capacities to carry out specific research and studies on sustainable use of economic resources (Tierra del Fuego).

B. RELATIONS BETWEEN THE FEDERAL GOVERNMENT AND THE PROVINCES FOR FISCAL AND FINANCIAL MANAGEMENT

5. Weak institutional capacity for monitoring fiscal management agreements between the federal government and the Provinces:

- Lack of a financial data system able to consolidate all the fiscal data from the Provinces.
- Deficit in the level of skills and capacities of the federal government's and the Provinces' human resources to perform the tasks for which they are responsible.

6. Inadequate quality and integration of provincial fiscal and financial data:

- Some Provinces (10) have not passed a Financial Management and Expenditure Control Systems Law or issued implementing regulations.
- Some Provinces (11) have incomplete financial management systems (some modules missing).

- Some Provinces (6) have no financial management system.
- Some Provinces (7) that have financial management systems do not have complete data compatible with the national system.

7. Weak capacity for managing coordination of economic relations with the Provinces:

- The Provincial Relations Branch does not have sufficient human, physical, and financial resources to systematically strengthen economic coordination between the federal government and the Provinces, using a mutually agreed method.

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* The public ***institutions*** included in project "A" of the program are provincial public administration agencies or departments of or reporting to the Ministries of Production, Economy, Tourism, Hydrocarbons, and others with jurisdiction over sectors the provincial authorities consider to be strategic. These are the sectors that form the foundation of the productive structure of the province in question and are identified in the development plans of the provincial governments.

Source: Studies and formulation of projects for the indicative sample for six provinces financed with resources from the Project Preparation and Execution Facility (PROPEF) (1353/OC-AR).

1.12 The results shown in Table II-1 summarize the cycle of preparation of the diagnostic assessments and the "A" projects analyzed in the aforementioned indicative sample. This cycle consisted of the following steps: (i) diagnosis of private-sector demands regarding the functioning of the provincial public institutions with which they interact; (ii) assessment of the institutional capacity of such institutions to satisfy the demands analyzed; (iii) workshops with representatives of the private and public sectors to compare results, identify gaps in institutional capacity, and prioritize problems and options for resolving them; and (iv) formulation and evaluation of projects to address those priorities, including the preparation of a specific logical framework for each one. This cycle will be applied to each and every "A" project to analyze their eligibility and technical and economic viability as explained in Chapter III (sections E, F, G, and H). The program Operating Regulations break down these steps and include a project formulation and evaluation guide.

C. The country's strategy in the sector

1.13 The country's strategy for the period 2004-2006 highlights the structural fiscal reforms necessary to provide a sustainable foundation for public finances and to take steps to improve the investment climate. With respect to fiscal reforms, it provides for: (i) deepening reforms to public-expenditure management, particularly those pertaining to the adoption of common standards for budget coverage, classification, and accounting at all levels of government; and (ii) reforming relations between the national government and the Provinces with respect to revenue-sharing modalities, the introduction of binding debt and deficit limits for provincial governments, and other measures to strengthen administrative capacity. To promote competitiveness in public institutions, the strategy provides for: (i) the establishment of a State modernization process seeking to boost coordination among the various areas of government responsible for drafting policies and implementing them; (ii) the creation of close links between the State, as regulator and facilitator, and private producers; and (iii) participation in identifying the

principal obstacles and measures to overcome them, to boost competitiveness in high value-added areas.

D. The Bank's country strategy with Argentina, experience in the sector, and lessons learned

1.14 **Country strategy with Argentina**. The Bank's country strategy with Argentina for the period 2004-2008 was considered and approved by the Programming Committee of Management on 1 June 2004. The principal objective of this strategy is to help Argentina achieve sustainable, more equitable growth through actions on three strategic issues: (i) institution-strengthening for better governance and fiscal sustainability; (ii) strengthening of the enabling environment for investments and productivity, increasing Argentina's competitiveness; and (iii) poverty reduction, rebuilding of human capital and promotion of sustainable, inclusive social development. Notably, the actions in these three areas will include lending to provincial governments. The proposed program is consistent with the aforementioned strategy, particularly with respect to strengthening provincial public institutions related to the productive sector, creating conditions for the establishment of a productive management environment favorable to investment and competitiveness. The program will also seek to continue the public-sector fiscal and financial reforms in the provinces, making progress on the implementation of financial and tax administration instruments that increase transparency and enhance management of revenue and provincial public expenditure.

1.15 **Experience in the sector**. The Bank has been supporting the institutional strengthening of public productive sectors at the provincial level, through direct loans, as well as at the national level. With respect to direct lending to provinces, the program to support the modernization of production in the Province of Río Negro (1463/OC-AR) and the program to support integrated development of the tourism sector in the Province of Salta (1465/OC-AR) are two examples of specific projects recently approved to support the local productive and business sector. These programs have both an investment component and a State reform component specifically aimed at improving fiscal management, and progress on the latter component is a condition for the release of funds for the investment areas.

1.16 At the national level, the Bank is financing the institutional strengthening of trade policy program (1206/OC-AR) in order to better coordinate trade policy with the private sector and pPovinces, by providing instruments for regulation, promotion, and coordination of local export sectors. The provincial agricultural services program (PROSAP) (899/OC-AR) also plays an important role in strengthening provincial agricultural public services, including the institutional strengthening of the agricultural executing agencies and the execution unit of the Secretariat of Agriculture, Livestock, Fishing, and Food and the improvement of interagency coordination. The project is experiencing execution delays due to the scarcity of counterpart resources and a lack of capacity to execute them, as well as the still

limited effects, which have so far reached only nine relatively less developed provinces, in terms of plant health and water-resources management.

1.17 In the area of fiscal and financial management, in September 2001 the Bank approved the sector program in support of the federal commitment to growth and fiscal discipline (1341/OC-AR), the third and final tranche of which was released on 3 December 2003. This program played a fundamental role in supporting the Argentine government in making progress on the implementation of structural fiscal reforms. Its principal achievements include: (i) implementation of follow-up actions on priorities in the allocation of federal government resources and those of 11 provinces; (ii) better coordination and transfer of information between the provincial administrations and the Federal Public Revenue Administration (AFIP) in 11 provinces, increasing effective control of taxpayer obligations; (iii) institutionalization of public dissemination of fiscal data at the national and provincial levels (ref. citizen consultation site: http://www.mecon.gov.ar/consulta/index0a.html); and (iv) support for technical discussion of reform proposals for the federal revenue-sharing system. The law enacting this reform was to come into force in August 2004, according to the target set in the September 2003 arrangemenet with the International Monetary Fund (IMF).

1.18 For purposes of the proposed program, the sector program (1341/OC-AR) laid the foundation for execution of project "B" in some provinces, since it fostered the enactment of financial management laws consistent with national Law 24.156 in 15 provinces—Catamarca, Córdoba, Chaco, Chubut, Entre Ríos, Formosa, Jujuy, La Rioja, Misiones, Neuquén, Río Negro, San Juan, San Luis, Tucumán, Tierra del Fuego—and in the Autonomous City of Buenos Aires.

1.19 In the 1990s, the IDB and the World Bank financed a series of projects for Argentina that sought to consolidate the national financial management system and implement financial management systems in the country's provinces and municipalities. The following such projects are worthy of note: consolidation of the administrative and financial reform of the federal public sector (826-OC/AR), with financing for the national government; financial recovery and economic development program for the Argentine Provinces (619-OC/AR), executed together with the First Provincial Development Project (IBRD 3280-AR) and known as "Provinces I"; and the Second Provincial Development Project (IBRD 3877-AR), currently in execution. Other projects currently under way to benefit provinces that include specific financial management activities are the project in support of modernizing the Córdoba provincial government (1287-OC/AR), the support program for modernization of the State and fiscal strengthening in the Province of Buenos Aires (979-OC/AR), and the program to support integrated development of the tourism sector in the Province of Salta (1465-OC/AR). With respect to loan 1287-OC/AR for Córdoba, upon achieving its objectives for financial management systems, the project should eventually be standardized like the other projects mentioned above.

1.20 While the “Provinces I” program has made significant institutional progress, it has not achieved the objective of implementation and operation of integrated financial management systems at the subnational level. Probably the greatest benefit of the “Provinces I” and “Provinces II” projects with respect to financial management has been that they have placed on the public agenda the need to have integrated financial data systems (IFDSs) in the provinces, since they financed the implementation of a few financial management systems in several provinces. Specifically, the “Provinces II” project is concluding its execution phase, having financed several IFDSs that will be “standardized” with funds from the proposed program. In summary, as shown in Table II-1, the current status of implementation and operation of the provincial IFDSs is still very uneven and inconclusive.

1.21 The situation has been different for projects targeting municipalities, including the following: the municipal institutional development and social-investment program (830/OC-AR; 932/SF-AR), executed together with the second municipal development project (IBRD 3860-AR); the integrated development program for large urban areas in the interior (1068/OC-AR); the program of institutional support, fiscal reform, and investment planning for the City of Buenos Aires (1107/OC-AR); and the municipal reform and development program (1164/OC-AR).

1.22 Execution of the first two projects, known as the “municipal development program,” is now concluding, and with respect to the financial management systems, it has been rather difficult to put the issue on the agenda of municipal governments. IBRD project 3860-AR financed the development of a municipal financial management system called RAFAM[4], which is to be implemented in all municipalities in the Province of Buenos Aires. While the system is provided at no cost (source program) to the municipalities, they must cover the training and computer hardware costs for their systems. Due to institutional and financing difficulties, implementation has not yet concluded.

1.23 With respect to the other programs, without going into detail, both 1068/OC-AR and 1164/OC-AR have encountered various difficulties that hindered their normal execution, and therefore both of them had to redirect their funds. 1068/OC-AR funds were partially redirected and 1164/OC-AR funds were redirected in their entirety through the reformulation and reorientation of the portfolio in Argentina. The project for the City of Buenos Aires has also encountered several difficulties, but is making progress towards achieving its objectives.

1.24 In conclusion, after ten years of efforts to improve fiscal relations between the federal government and the Provinces and to improve public-expenditure

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[4] The acronym stands for Municipal Financial and Administrative Reform, the title under which the reform of the financial management systems in the Province of Buenos Aires was undertaken. Provincial Decree 2980/2000 enacted the Organic Law of the Municipalities, stipulating that by 2007 all municipalities should have these systems installed and operating.

management, there is sufficient consensus and awareness among both levels of government that financial management is key to improving the efficiency and performance of services. Furthermore, it is the opportune time for the Provinces to improve the timeliness and integrity of their financial data systems and to standardize basic data classifications and requirements, to enable national and provincial financial data to be aggregated and to facilitate compliance with fiscal rules and restrictions.

1.25 **Lessons learned**. The Bank's experience in the sector, seen through common threads in the operations described above, provides three important general lessons: (i) national programs have lacked sufficient incentives to benefit the less developed provinces, and this has translated into a lack of a sense of ownership by these provinces in carrying out their projects; (ii) execution of programs targeting specific provinces that are structured on specific sectors have tended to achieve their investment targets to a greater degree than they achieve institutional change; and (iii) the absence of conditions in the political and economic environment does not permit continuous policy actions for deepening the fiscal and financial management of the Provinces to be maintained. This strongly influences their scope and fosters the potential duplication of actions over time, as may be the case with the financial management systems. Nonetheless, these same lessons suggest the importance of acting to improve the provincial institutional environment, especially targeting a specific group of provinces—the *relatively less developed provinces*—where the federal government clearly has a key role to play. With respect to fiscal and financial management, the lessons learned indicate that actions must be taken to improve the institutional framework, as it is a key element in achieving continued fiscal discipline in the Provinces, which is the aim of the proposed program.

E. Program strategy

1.26 With respect to the provincial productive sector, the program will target actions on the ***relatively less developed provinces***, taking care not to duplicate actions that may be underway through the provincial agricultural services program. With respect to the fiscal and financial area, actions that permit the development and consolidation of the implementation and operation of integrated financial management data systems in ***all Argentine provinces*** will be prioritized in the period 2005-2007, to provide support for the Argentine Republic’s current arrangement with the IMF on this issue. The program can thus be viewed as the continuation of program 1341/OC-AR, since it will support the integration of provincial financial systems, which are a priority for the Argentine government in connection with reforming public-expenditure management. In addition, the program will take particular care not to duplicate actions that are already under way, especially for those provinces in which the IDB has projects in execution that provide this type of support (e.g., Córdoba, Salta, and Río Negro). It should also be noted that the program will complement the recently approved sector facility for the institutional strengthening of the Economic Policy Secretariat (AR-L1001), since the Secretariat is also part of the Argentine Ministry of Economy and Production (MEyP).

F. Coordination with other financial development institutions

1.27 It is possible that the Argentine government will guarantee a new financing operation for the Provinces, to deepen the structural reforms initiated in the 1990s. The Argentine national authorities have been told that in the event that this initiative—"Provinces III" (World Bank)—comes to pass, actions to supplement the financing provided for by this program must be taken in order to achieve synergy between the two programs and avoid any overlapping.

II. The Program

A. Objectives and description

2.1 The general objective of the program is to help strengthen the institutional investment environment at the provincial level, by creating a predictable legal framework and reforming provincial public-expenditure management. Over the medium and long term this would contribute to the gradual consolidation of mechanisms for interaction between the federal government, the Provinces, and the productive sectors prioritized by the *relatively less developed provinces*.

2.2 This general objective will be supported by the specific objectives for the two projects in the program: (a) *project "A" for institutional strengthening of the provincial public sectors linked to the productive sectors*; and (b) *project "B" for strengthening relations between the federal government and the Provinces,* the components of which are described below (see program logical framework in Annex II-1).

2.3 **Project "A". Institutional strengthening of the provincial public sectors linked to the productive sectors (Bank: US$9 million; Local: US$6 million).** The purpose of the project is to strengthen and develop the institutional capacities of provincial public sectors linked to the strategic productive sectors selected by the *relatively less developed provinces*. Its specific components are as follows:

1. Institutional coordination of nonfinancial support services for the productive sectors (IDB:US$5 million; Local: US$3.4 million)

2.4 The objective of this component is to strengthen the provincial public sector areas so that they are in a position to issue sector policies and strategies and provide effective support services to the prioritized productive sectors. This component provides for financing technical assistance and equipment to support: (i) institutional strengthening or development of public or mixed entities that provide the bulk of support services to the productive sectors, including, in some cases, those of development agencies that already exist or are to be created through project activities; (ii) coordinating and streamlining procedures for producers to access and use support services; and (iii) eliminating overlapping or redundant entities or functions by taking over or reengineering these entities, which will save public resources and enhance service delivery.

2. Development and integration of information systems to support business activities (IDB: US$2.7 million; Local: US$1.9 million)

2.5 The objective of this component is for the relatively less developed provinces to have provincial information systems designed and operating, with the respective links to the federal system. This component will support the integration of

information systems that compile, *inter alia*, economic and productive data, information on business opportunities, and information on legal and procedural standards that are relevant to specific demands from the private sector. The component can finance technical assistance and equipment to: (i) improve the capacity of existing systems; (ii) design and start up new systems; (iii) network existing systems; and (iv) make systems compatible so they can exchange data and form larger networks. These interventions seek to improve efficiency in the use of resources and provide reliable, timely data. In some cases, a system similar to the Ministry of the Economy and Production's legal information system "INFOLEG" may be adopted, and there are some possibilities for synergies here.

3. Adaptation of the provincial regulatory framework for the operation of the priority productive sectors (IDB: US$300,000; Local: US$200,000)

2.6 The objective of this component is for the Provinces to have the regulatory and procedural framework for the productive activities they have prioritized, with adjusted, strengthened, and/or newly-developed procedures. This component will finance technical assistance to: (i) review and analyze relevant existing national and/or provincial legal standards to improve the functioning of these productive activities; and (ii) issue implementing regulations and/or develop such provincial standards. The purpose is to improve and/or facilitate the operation of the strategic provincial productive sectors and contribute to their development. The results will have an impact on private-sector investment decisions.

4. Training provincial public-sector human resources (IDB: US$900,000; Local: US$600,000)

2.7 The objective of this component is to implement training programs for human resources in the provincial public and mixed sectors who deal with the private sector. The program will be scaled to the public-sector human resources training needs deriving from the foregoing components; therefore, this component will finance the holding of the appropriate courses so that provincial officials and civil servants are able to adequately perform their duties. Thus, training activities will strictly meet the specific needs detected through the institutional-capacity analysis of the public entities that participate in the project. The designs must be consistent with the verification of specific demands from the private sector with respect to the services offered by the public sector in the provinces.

2.8 **Project "B". Strengthening relations between the federal government and the Provinces (IDB: US$6 million; Local: US$4 million)** The purpose of the project is to install institutional capacity in the Provincial Relations Branch to examine, verify, and support optimal provincial fiscal and financial performance and help invigorate productive activities. Its specific components are as follows:

5. Strengthening the Provincial Relations Branch (SSRP) (IDB: US$5.4 million; Local: US$3.6 million)

2.9 The objective of this component is to provide the necessary resources to the SSRP to support the provincial ministries of economy and finance in installing and standardizing integrated financial data systems (IFDSs) compatible with National Law 24.156 (National Public-Sector Financial Management and Control Systems Law) in jurisdictions that do not yet have such systems, or whose systems are not set up to exchange data that is comparable with and homogenous to that in the national system, and that do not have budgetary funds to finance them. In the case of existing provincial financial management systems that are not compatible with the national system, the program will support the standardization of data. Its outputs will consist of the availability of consistent, relevant, timely, and homogenous fiscal data from the entire country, which will allow for effective monitoring of consolidated public-expenditure patterns.

2.10 To design provincial IFDS replication or standardization projects, a system with the following features, like that of the Province of Río Negro,[5] will be used as a model for the basic system: (i) it includes the four core modules—Budget, Accounting, Treasury, and Public Credit—it is a single database in which the agencies record their transactions and can keep a record of all provincial government transactions; (ii) it was developed as an institutional project, complying with the requirements of the authorities and the system users themselves; (iii) it has submodules that link to the SAFyC, supplementing the administrative systems; (iv) it has a considerable number of reports that satisfy the data outputs required for the various applications: for analysis, control, decision-making, and the information of national authorities; and lastly (v) it is operational.

6. Strengthening the Dirección Nacional de Coordinación Fiscal con las Provincias [National Office for Fiscal Coordination with the Provinces] (DNCFP) (IDB: US$300,000; Local: US$200,000)

2.11 The objective of this component is for the DNCFP to have sufficient institutional capacity to fulfill its responsibilities and mandates. To achieve this, the project will finance the institutional strengthening of the Office by improving the information system that compiles financial data from the provincial and municipal governments. It will also finance the new organizational architecture of the Office, the training of its human resources, and the procurement of auxiliary equipment. Its results will be seen in adequate monitoring and control of provincial finances and in the achievement of fiscal targets agreed upon with the IMF for which the Argentine Republic and the Provinces are responsible.

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[5] This particular system is called the Financial Management and Control System (SAFyC).

7. Strengthening the Dirección Nacional de Relaciones Económicas con las Provincias [National Office for Economic Relations with the Provinces] (DNREP) (IDB: US$300,000; Local: US$200,000)

2.12 The objective of this component is to support the DNREP which was recently created in the SSRP (Decree 1359-04), with a view to strengthening it so it has the institutional capacity to perform its provincial institutional and economic development missions and functions. To that end, it will finance training activities for human resources responsible for carrying out such functions and will also support the procurement of the auxiliary equipment needed for these activities. Once the program has been executed, DNREP is expected to have all the resources, knowledge, skills, and information necessary to carry out its activities to prepare studies to support the design, implementation, and assessment of policies and to monitor production-related issues in the provinces.

B. Cost and financing

2.13 The scale of the program was based on: (i) analysis of an indicative sample of projects pertaining to the six provinces indicated in paragraph 1.10, for project "A"; and (ii) analysis of a model IFDS designed for the Province of Río Negro to be replicated or standardized in the rest of Argentina's provinces, as well as analysis of the capacity and need for institutional strengthening of the SSRP-DNCFP, for project "B". These analyses confirm a total program cost of US$30 million, of which the Bank would finance US$18 million, and the remaining US$12 million would come from the local counterpart contribution to be provided by the Argentine Republic, as shown in the following table:

Table III-1 Program Cost and Financing (in US$ millions)

ITEMS	IDB	LOCAL	TOTAL
I. Administration, monitoring, and evaluation	**0.7**	**0.7**	**1.4**
II. PROPEF operations	**1.7**	**0.0**	**1.7**
II. Direct costs	**15.0**	**10.0**	**25.0**
1. Project "A"	9.0	6.0	15.0
2. Project "B"	6.0	4.0	10.0
Subtotal	**17.4**	**10.7**	**28.1**
III. Contingencies	**0.6**	**0.3**	**0.9**
IV. Financial costs	**0.0**	**1.0**	**1.0**
Total	**18.0**	**12.0**	**30.0**
Percentage	**60%**	**40%**	**100%**

2.14 The Bank loan includes financing for two PROPEF operations in the amounts of US$1,374,000 and US$350,000 (1353/OC-AR and 1570/OC-AR), respectively. The first has already been executed and even helped finance activities to support the

fulfillment of conditionalities in the sector program in support of the federal commitment to growth and fiscal discipline (1341/OC-AR). The second PROPEF project, approved recently (9 August 2004), supplements the financing for designing provincial IFDS projects and offers support for the tasks involved in starting execution of the program, particularly training the provinces in formulating and evaluating projects.

III. PROGRAM EXECUTION

A. Borrower

3.1 The borrower is the Argentine Republic. The resources for financing execution of the projects in each province will be provided with no repayment obligation.

B. Structure

3.2 The program executing agency will be the Ministry of Economy and Production of Argentina (MEyP), through the SSRP in the Finance Secretariat. A national coordination and execution unit (UCEN) will be created in the SSRP for program execution. The unit will be responsible for coordinating all program activities, including implementing all procurement, contracting, and payments. The governments of the participating provinces will appoint a Provincial Technical Group (GTP), with personnel assigned full time to program execution taken from their permanent staffs or personnel contracted by the respective ministry who have been on the job for at least one year.

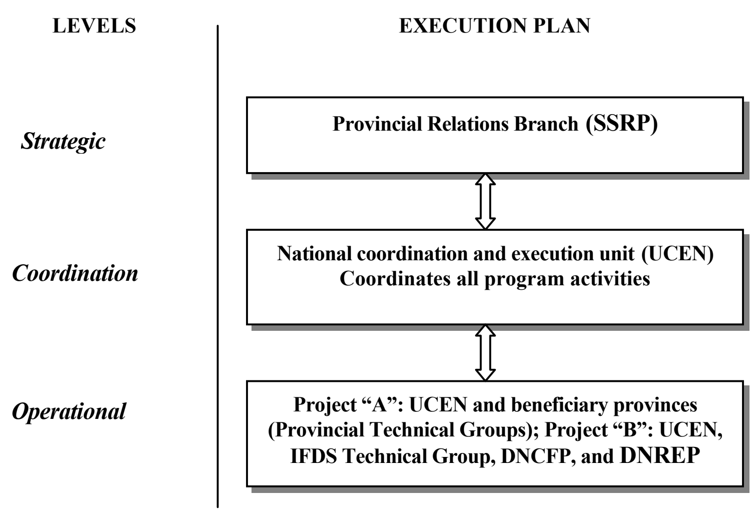
3.3 The composition and primary responsibilities envisioned for each entity are shown below:

a. **Provincial Relations Branch (SSRP)**. The Deputy Secretary will be the national program director. His/her primary functions will be to: (i) approve the program Operating Regulations (OR) with the text previously agreed to with the Bank, the annual work plans (AWPs), and the half-yearly progress reports; and (ii) approve or reject the projects presented by the Provinces, based on a recommendation from the UCEN, and resolve issues raised by the participating provinces.

b. **National coordination and execution unit (UCEN)**. The unit will function within the SSRP, reporting directly to the Deputy Secretary, who will appoint the unit's executive coordinator. The executive coordinator will be a specialist assigned full time from the permanent staff of the ministry or who was contracted by the ministry and has at least three years experience on the job. His/her primary duties will be to: (i) coordinate all program activities and ensure compliance with the OR and the provisions of the contract with the Bank; (ii) prepare the AWPs; (iii) advise and provide technical assistance to the Provinces on issues related to the program (projects "A" and "B"); (iv) recommend, after evaluation, that the national program director approve or reject projects presented by the Provinces; and (v) handle all matters related to the program budget, procurement and payments, and accounting and administrative records. The UCEN will have the following structure for managing program execution: (i) an administration and finance office; (ii) a technical support office for project formulation; and (iii) a program monitoring

and evaluation unit. The two offices will each have a coordinator, and the monitoring and evaluation unit will have an officer in charge, all of whom will be supervised by the executive coordinator of the UCEN. The coordinators will be specialists from the ministry's permanent staff or persons contracted by the ministry who have been on the job for at least one year, and they will be assigned full time to program execution. The three components in project "B" will be executed by the coordinator of the IFDS technical group and specialists from the DNCFP and the DNREP who are appointed by the SSRP to head up each component. The executive coordinator will ensure that execution activities comply with the provisions of the Operating Regulations.

c. **Provincial Technical Groups (GTPs).** Participating provinces should establish the GTPs: (a) for project "A", preferably within their ministries of production and/or economy and finance; and (b) for the project "B" component to strengthen the SSRP, within the ministry of finance or economy, as appropriate. The GTPs will be made up of a coordinator and the specialists from the provincial administration offices involved in each case, and all of them will be professionals from the permanent staff of the entities involved or personnel they have contracted who have been on the job for at least one year, and they will be assigned full time. The primary duties of the GTPs will be, as appropriate, to: (i) prepare, in accordance with the OR, the projects to be financed, to be presented to the UCEN; (ii) take the necessary steps to execute each approved project (especially identifying consultants and preparing terms of reference), except for contracting and payments, which will be handled by the UCEN; (iii) monitor projects in coordination with the UCEN; (iv) prepare all the information needed to draft the AWPs; and (v) prepare the technical annex corresponding to the implementation of the IFDS.



3.4 **Conditions precedent to the first disbursement of program resources.** The following will be conditions precedent to the first disbursement of Bank financing, which the borrower will present for its no objection: (i) legal evidence that the national coordination and execution unit (UCEN) has been created and the appropriate staff appointed to operate it; (ii) entry into force of the OR, which will include among its annexes the procedures manual, the model participation agreement to be signed by the borrower and each of the provincial governments and the Autonomous City of Buenos Aires, and the preparation guide for project "A" and the project "B" component for strengthening the SSRP, as previously agreed to with the Bank; (iii) the annual work plan for the first year of the program; and (iv) evidence that the corrective measures identified in the strengthening plan prepared as a result of the application of the Institutional Capacity Assessment System (ICAS) have been implemented in a satisfactory fashion (see paragraph 4.3).

C. Eligibility of the participating provinces

3.5 All the provinces and the Autonomous City of Buenos Aires can participate in the program, except in project "A" where the eligibility criteria are based on the relative development of the provinces. In order to determine this level of development, the percentage of each province's share in the gross domestic product will be applied. It may not exceed 3 percent, as measured by the MEyP.

3.6 Provinces that have direct loans from the Bank with which they can finance IFDS projects will not be eligible to participate in the program. Nevertheless, provided that duplication in the use of resources is avoided and that there is clearly interest in such jurisdictions in implementing an IFDS project, such provinces may be eligible to receive program support to finance the implementation of this specific type of project.

3.7 Each participating province will sign a participation agreement based on the model agreement mentioned above (Annex II of the OR). This agreement will explicitly state that the Province in question is to present its accession to the National Fiscal Responsibility Law, and will include in each case one or more technical annexes that will reflect their participation, by project (project "A" and/or project "B") and by component. The agreement will also reference the commitment on the part of the provinces to staff the GTPs with appropriate specialists, as indicated in paragraph 3.3(c).

3.8 To be eligible to participate in project "A", each province must determine which strategic sectors it will support, as the provinces selected for the project sample did. The UCEN may finance a workshop to support that process, in which representatives of the provincial public and private sectors would participate jointly. A study of the institutional capacity of the public sector will also be carried out with respect to the strategic sectors, and the productive sector's demand for public-sector services will be analyzed.

3.9 **Conditions precedent to the commitment of program funds to finance a project for a given province.** These conditions will consist of the presentation by the borrower of the following evidence for the Bank's no objection: (i) evidence that the participation agreement with the borrower has been signed; and (ii) evidence that the coordinator of the Provincial Technical Group (GTP) for the province has been appointed. The period for commitment of program funds for projects in a province will be 4.5 years.

D. Allocation of funds among the participating provinces

3.10 The initial allocation of program funds for project "A" among provinces will be in equal portions (for 19 potentially eligible provinces, the average is US$789,000). The initial allocation may remain in place for the **first two and a half years** of the program. Subsequently, the SSRP, with the Bank's no objection, may reallocate any remaining funds based on the pertinence and relevance of the projects identified by the Provinces in the program's areas of activity. For project "B", the funds earmarked to finance provincial IFDS projects will be allocated according to the cost of these projects. If the amount exceeds the average cost of US$415,000 (see paragraph 4.10), whether in the case of a "replication" or "standardization" project, this additional amount must be justified by demonstrating that there are no projects for lesser amounts in other provinces.

E. Eligibility of projects

3.11 To be declared eligible, the projects to be financed must meet the following requirements: (i) pertain to the projects and components included in the project document and logical framework; (ii) correspond to the classification listed in project action areas; (iii) have been included in the technical annex signed with the MEyP; (iv) have been formulated according to the provisions of the OR; and (v) have been evaluated by the UCEN and approved by the SSRP and have the Bank's no objection.

F. Project action areas

3.12 The different types of projects that can be submitted for financing with program funds are indicated below.

3.13 **For project "A"**, specific projects that can include the four components described in paragraphs 2.3 to 2.7 will be considered, including: **(a) Strengthening of public or mixed entities**, including the following activities: (i) market data; (ii) information on labor exchanges and training opportunities; (iii) integration of one-stop window transactions; (iv) technical support services for producer/ marketer/consumer forums; (v) training in formulation of business plans; (vi) training in planning and formulating projects; (vii) improvement of interagency coordination; (viii) training in promoting competitiveness forums; and (ix) training in environmental management and/or management of the tourism sector.

(b) Adaptation of standards, regulations, and procedures that affect the functioning of the strategic productive sectors considered, including the following activities: (i) strengthening and/or adapting standards; (ii) streamlining procedures and/or creating one-stop windows; and (iii) training qualified personnel to properly enforce standards. **(c) Information systems targeting productive sectors**, including activities such as: (i) creating databases (survey activities); (ii) updating databases; (iii) integrating databases (forming data banks); and (iv) systematizing and disseminating data to the private sector.

3.14 **For project "B"**, the following specific projects will be included: **(a) Strengthening the SSRP (Integrated Financial Data System (IFDS)**: (i) Standardization of existing provincial systems with the basic system (that of the Province of Río Negro); and (ii) Replication of the basic system (from the Province of Río Negro) to provinces that do not have a system. **(b) Institutional strengthening of the SSRP**: (i) Strengthening the National Office for Fiscal Coordination with the Provinces (DNCFP); and (ii) Strengthening the National Office for Economic Relations with the Provinces (DNREP).

G. Formulation and approval of projects

3.15 The projects formulated will be compiled in technical annexes that will become part of the agreement signed by the respective Province and the MEyP. Responsibility for formulation and approval of the projects is as follows: **(a) Project "A".** The requesting Province will be responsible for the formulation of projects for the various components of project "A". Project preparation will be coordinated with the Provincial Technical Groups (GTPs) and will include contributions from the various areas of the provincial government involved. The UCEN will provide technical support for the preparation of projects through its own technical staff, or using specialized consultants when necessary. The projects must conform to the eligibility criteria indicated in paragraph 3.11. The UCEN will in all cases produce an evaluation report with its recommendation for approval or rejection, which will be submitted for consideration by the Deputy Secretary for Provincial Relations. **(b) Project "B".** Once the participation agreement is signed, Provinces interested in replication as well as standardization of the Basic Integrated Financial Data System will agree with the SSRP on actions by the IFDS Technical Group operating in the SSRP in order to assess the existing systems to determine requirements in terms of technical inputs and human resources tailored to the needs of each province. Once the project to be executed is prepared, it will be submitted by the UCEN for the consideration of the Deputy Secretary for Provincial Relations for approval or rejection.

3.16 The first six projects under project "A" and six projects under project "B" approved by the Deputy Secretary will be submitted to the Bank for its no objection. The Bank will only have to be notified of subsequent projects, unless it, in its sole discretion, determines that it is advisable to continue ex ante review.

H. Project financing

3.17 Once the Bank's no objection is obtained for the proposed provincial projects, the UCEN will so notify the respective province. For the financing of projects, eligible activities must be included in the annual work plans. The budget for each project must clearly specify the expenditures to be financed with loan proceeds and those to be financed with local counterpart funds. The UCEN will be responsible for procurement and payments for each project.

3.18 To facilitate execution of the operation, a revolving fund with up to 5 percent of the total Bank financing may be established, and it must be totally justified 30 days prior to the expiration of the disbursement period.

I. Procurement

3.19 **Goods**. Goods will be procured in accordance with the standards and procedures established in the loan contract. When the amounts are greater than US$350,000, they will be procured by international competitive bidding, with the requirements established for such procedures. For procurements under the US$350,000 threshold, as an alternative, formal requirements or details of procedures contemplated in national law but not included in Bank procedures may be applied provided that their application is not contrary to the basic guarantees for procurement procedures or to Bank procurement policy. In any case, when the proceeds of Bank financing are used, the procedures and documents used for the procurement of goods may not set terms that impede or restrict the supply of goods or the participation of bidders from Bank member countries.

3.20 **Consulting services**. Consulting services will be selected and hired in conformity with the Bank procedures and policies established in document GN-2220-11 of March 2004, and the provisions of the loan contract. Bearing in mind the flexibility required in the contracting provided for in the program and the cumulative experience of the executing unit, the supervision for which the Bank is responsible may be performed ex post when dealing with individual consultants and/or consulting firms hired for up to one year, and/or amounts less than the equivalent of US$10,000 for individuals, or US$50,000 for consulting firms.

3.21 For project "B", for the component pertaining to the IFDSs, the Universidad Tecnológica Nacional [National Technological University] (UTN) may be hired directly based on its vast experience in contracting specialized consulting services such as those required for this operation. The UTN also has an institutional presence throughout the geographical area covered by the program, and it is already serving in this function in the execution of the PROPEF program (1570/OC-AR). This mode of hiring is provided for in the Bank's procurement policy (Procurement manual, section GS-403).

J. Ex post review of procurement and disbursements

3.22 Contracts in amounts less than the thresholds indicated in the foregoing paragraph or in the procurement of goods valued below the equivalent of US$20,000, the Bank may authorize the ex post review of the pertinent processes when the executing agency so requests and the UCEN demonstrates to the Bank's satisfaction that it has appropriate accounting and internal control systems.

3.23 The ex post review refers only to the procedures for procurement of goods or the selection and contracting of consultants. Prior to initiation of these procedures, the executing agency must obtain from the Bank, as established in the OR, the eligibility of the expenditures to be financed with program funds. Procurements and contractings executed under the ex post review modality are subject to Bank procurement standards and policies. The UCEN must keep available to the Bank the background information and documents pertaining to the procurement of goods and the selection and hiring of consultants.

3.24 If the ex post review reveals that the Bank's procedures have not been followed, the Bank reserves the right not to finance such contractings and therefore to demand that the borrower repay any funds already disbursed under such contracts, including interest and fees, and establish ex ante supervision for future contractings.

3.25 Disbursement requests, at the discretion of the Bank, may be reviewed ex post, except for the first three, which will be reviewed ex ante.

K. Execution period disbursement schedule

3.26 The disbursement period for the program will be **five years** according to the disbursement schedule presented below. It may be reviewed during program execution by agreement of the parties:

Table III-1 Disbursement schedule (in US$ millions)

Source	2005	2006	2007	2008	2009	TOTAL
IDB / Ordinary Capital	2.7	3.6	5.4	3.6	2.7	18.0
Local	1.8	2.4	3.6	2.4	1.8	12.0
Total	4.5	6.0	9.0	6.0	4.5	30.0
% / Year	15%	20%	30%	20%	15%	100%

L. Monitoring and evaluation

3.27 **Monitoring**. The Bank's Country Office in Argentina will be responsible for monitoring the project based on information provided by the executing agency and the instruments approved by the Bank for project management.

3.28 The program will have a monitoring and evaluation system that will include the external executing unit financial management system and one or more modules that will permit physical monitoring of execution.

3.29 The UCEN must submit annually to the Bank, in the second half of each calendar year, a quarterly execution document for the following year of program execution, as well as the respective AWP.

3.30 The UCEN will submit to the Bank half-yearly progress reports on project implementation within 60 days following the end of each six-month period. Each report will take into account the indicators designed in the Logical Framework for the activities scheduled for the pertinent six-month period and the targets assigned. During the second half of each year the UCEN will deliver to the Bank the AWP approved by the Deputy Secretary for Provincial Relations. These reports will be an tool for the Bank to monitor execution of the project and will provide appropriate information for updating the project performance monitoring report (PPMR) system.

3.31 Program financial statements will be audited annually by independent auditors acceptable to the Bank based on terms of reference approved by the Bank in advance. The annual audit report will be submitted within 120 days of the end of the fiscal year and the final audit report, within 120 days of the last disbursement.

3.32 **Evaluations**. During the five-year execution period, the evaluation scheme will include a continuous monitoring system, annual evaluations, and a midterm and a final evaluation. The annual evaluations will be based on the reports mentioned in the foregoing paragraph and specifically must: (i) analyze the UCEN's capacity and adopt the adjustments deemed necessary to ensure sound program implementation; and (ii) take into account the level of resources committed for project "A" and project "B" (IFDS projects) and, if appropriate, work out the transfer of funds needed to meet program targets, in accordance with the special contractual clauses agreed on with the Bank. The **midterm evaluation** will be performed **two and a half years** into the program, or when 50 percent of the funds have been disbursed, whichever comes first, or sooner, if so agreed by the borrower and the Bank. That mission will decide on the reallocation of any remaining program funds, in accordance with the provisions of paragraph 3.10. The **final evaluation** will take place six months prior to the conclusion of program execution. It will be performed by specialized consulting services to be hired with program funds. The terms of reference will be agreed to by the borrower and the Bank, duly taking into account the information generated by the system of indicators for monitoring program outcomes, so that this evaluation can serve as input for the subsequent preparation of the project completion report.

3.33 The assessment of the program's impact will be performed three years after conclusion of its execution. The SSRP will finance the performance of an **ex post evaluation** of the program. This evaluation will be performed by specialized

consulting services whose terms of reference will be agreed upon by the SSRP and the Bank during the midterm and final evaluation missions. These terms must ensure the adoption of a method of analysis appropriate to verify the impact outcomes set forth in the logical framework on enhancing provincial business environments through program actions.

3.34 **Monitoring indicators**. The program's Logical Framework matrix sets forth, in general, a series of indicators that will be used to monitor and evaluate the degree of progress for each of the interventions under the two projects in the program.

3.35 For project "A": "*Institutional strengthening of the provincial public sectors linked to the productive sectors"*, the indicators presented herein will be more specific or broken down further as progress is made in formulating the program since the participating provinces have prioritized different productive activities. With respect to the institution-strengthening and/or development projects prepared by each province wishing to participate in this project, the Logical Framework matrix for each project will be prepared with the respective indicators, and the baseline values and targets to be achieved will be established. At first, until the end of the project "A" formulation phase, six provinces will be involved. These provinces comprise the indicative sample for the provincial projects eligible for financing with program funds. The criteria for measuring effectiveness (i.e., cost-effectiveness) applicable to the various components of project "A" were defined based on this sample. These indicators will be monitored through the semiannual progress reports agreed upon with the executing agency.

3.36 Similarly, for project "B": "*Strengthening of relations between the federal government and the Provinces"*, the indicators presented herein will be more specific or broken down further as the diagnostic assessement by province of whether or not there is an IFDS is completed. As a result, there will be work towards the implementation of the IFDS or towards the standardization of data for the existing financial management systems to make them compatible with the national system. This situation undoubtedly will require the proposed indicators to be adjusted. With respect to the other two components of project "B", the indicators have been established, and there will be no major adjustments until project preparation is finalized. The indicator values will be reviewed when the program startup mission is conducted.

3.37 **Purpose and impact indicators**. Since this is a program, indicators have been established for the Purposes of the two projects, for the program Purpose and for its Goal. An effort was made to use existing indicators in order to minimize the costs and complexity and ensure the effectiveness of the indicators. Nonetheless, two indicators constructed specifically for the program will be used.

3.38 The first is the Inclusion of Relatively Less Developed Provinces Index (IRLDPI). This index was formulated by the project team. It basically includes, measures, and weighs the factors that determine whether a province is relatively less developed

province compared to the national average. It will be used at the program Purpose level. The second indicator is an Institutional Capacity Index (ICI) for public or mixed (public-private) agencies or departments that are beneficiaries of the institution-strengthening or development projects. It will be used at the project "A" Purpose level and to measure progress in project "B", component (b). The ICI was prepared based on the data from the survey carried out as part of program preparation in the provinces comprising the indicative sample (see paragraph 4.8), and of the diagnostic assessment of the DNCFP's institutional capacity. Subsequently, as new provinces are incorporated in project "A", there will be a survey of baseline data for each of the provincial public entities directly involved in executing the various projects, and the corresponding ICIs will be prepared.

3.39 The survey of the data necessary for the construction of both indicators will be carried out together with the tasks necessary for the inclusion of new provinces in project "A". The Institutional Capacity Index will periodically measure the increase/ decrease in the installed institutional capacity at the level of provincial governments that interact with the productive sector. Initially, like the IRLDPI, it will be a joint task carried out by the UCEN consultants and DNREP's staff, and then will become a routine DNREP activity. Changes in these indexes will be monitored periodically, and readings will depend on each specific project. The ICI as well as the other indicators will make it possible to conduct a midterm evaluation of the program.

3.40 With respect to the program Goal, the program will work with existing indicators that reflect the impact of the program on macroeconomic and policy variables over the medium and long terms. This in no way impedes the use of other macro variables or the performance of an ad hoc evaluation during the impact assessment.

IV. VIABILITY AND RISKS

A. Institutional viability

4.1 The national Ministry of Economy and Production, through the Provincial Relations Branch (SSRP), will be responsible for the execution and technical coordination of the program. For execution, a national coordination and execution unit (UCEN) will be created within the SSRP. Its design will be appropriate for fulfilling the responsibilities assigned to it. The basic human resources staffing it can come from the national technical execution unit (UTEN) for the PROPEF operations 1353/OC-AR and 1570/OC-AR in execution, which include funds to strengthen execution capacity for the initial program tasks, including training activities for the formulation and evaluation of projects and Logical Framework workshops targeting the provinces, particularly those that were not part of the indicative sample for preparing the program.

4.2 The institutional viability of the program has been analyzed at various levels, with an analysis made from the SSRP to the DNCFP, and a component to strengthen its capacity was devised, as described earlier. With respect to the provincial entities that will execute the projects for the indicative sample, their institutional capacity was analyzed according to an adaptation of the ICASA[6] method. The result obtained based on the analysis on average indicates that the entities have a basic capacity (i.e., 60 percent of the optimal 100 percent).

4.3 The structure of the UTEN was also analyzed to determine the additional capacity necessary to meet the demands of the program. With this capacity increase, the UTEN will become the UCEN. For this step to be possible, it would be advisable to establish an action plan using the ICAS[7] method, which will specify the minimum conditions that this unit must meet to have such capacity. Completion of these actions will be part of the conditions precedent to the first disbursement of program resources.

4.4 For execution of the project "B" componenent for strengthening the SSRP, it will use its own capacity and specialized consulting services. The strengthening of the DNCFP and DNREP will be executed with staff from those offices or consultants hired by the UCEN specifically for that purpose. This is appropriate because it contributes to the sustainability of program activities.

4.5 With respect to the provincial jurisdictions, the participation of technical staff belonging to the project areas in the Provincial Technical Groups (GTPs) is

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6 Institutional Capacity Analysis and Development System (ICASA). See project technical files.

7 Institutional Capacity Assessment System (ICAS), a method developed by the Disbursements and External Audits Office (ROS/DAU).

provided for. This implies the involvement of those engaged in execution of the projects, with the support and coordination of the UCEN. While the UCEN centralizes contracting and payments, it will strive to achieve all possible contributions to various execution activities, such as in identifying consulting firms and preparing terms of reference. As stated in paragraph 3.3(c), it is expected that the technical staff will work on this full time and will be part of the permanent structure of the participating provincial institutions that are beneficiaries of the program.

B. Socioeconomic viability

4.6 **Project "A".** The socioeconomic viability analysis for project "A" was performed considering the impact of an indicative sample of "A" projects on public-expenditure savings in the provinces where they will be executed. The sample comprises 16 projects that target strategic sectors and respond to private-sector demand detected in the diagnostic assessments financed under the PROPEF program (1353/OC-AR). The method used for this assessment was based on the determination of the cost-efficiency ratio for each project. This ratio was established by dividing the present value of the investment, operating, and maintenance costs by the number of project beneficiaries—entrepreneurs/producers.

4.7 The expected beneficiaries were identified and quantified bearing in mind specific components of the projects that lead to broader coverage of beneficiaries. That is, they introduce institutional innovations and develop organizational schemes for public-private links intended to improve the provision of support services and regulation of the productive sectors strategic to the economy of the provinces participating in the program.

4.8 The following table shows the findings of the socioeconomic evaluation of the indicative sample for "A" projects, broken down by province and indicating the number of beneficiaries, the investment cost, the cost-efficiency ratio and the net present value (NPV) of the estimated public-expenditure savings or the corresponding net earnings (NE). A discount rate of 12 percent was used for the NPV and the conservative assumption of a five-year earnings flow period was assumed. With respect to beneficiaries, the participation of microenterprises and small businesses was estimated at 64.4 percent on average for all the projects taken together. The table also includes the Institutional Capacity Indexes (ICI) from the evaluation performed at each institution contemplated in each project in the sample. Considering that the optimal ICI is 100 percent, the project ICIs are likely to improve by up to 10 percent on average, as indicated in the program Logical Framework.

Table IV-1

Province/Project	Beneficiaries		Cost (US$)	Cost/ Benefit	NPV (NE)	ICI (%) (baseline)
	Total	(%)				
Tucumán						
Creation of Productive Development Institute	8,423	75	328,272	39	2,165,066	59.5
Catamarca						
Ministry of Production (Prod. Service Center)	8,042	75	113,304	14	3,563,821	59.5
Economic Development Agency	1,339	60	99,537	74	25,277	67.6
Tourism Secretariat	336	60	137,412	409	2,285,033	61.9
Corrientes						
Ministry of Production, Labor, and Tourism	11,357	75	122,295	11	3,328,968	64.3
Correntino Institute for Water and the Environment	5,566	75	210,253	38	1,406,220	62.4
Tourism Branch	581	60	135,869	234	1,124,026	63.3
Formosa						
Ministry of Production	8,011	80	192,092	24	1,989,598	61.9
Economic Development Agency	3,145	60	90,526	29	200,711	67.6
Ministry of Tourism	8,011	60	92,967	156	195,082	56.7
Chubut						
Tourism Secretariat	4,104	60	165,992	40	7,821,837	61.0
Environmental Protection Office	290	70	46,089	159	351,377	58.1
Competitivity forums	291	60	155,345	533	1,383,791	64.8
Tierra del Fuego						
Special Customs Area Commission	402	40	114,137		135,064	66.2
Fueguino Tourism Institute	530	50	210,130	396	587,863	65.7
Sustainable use of peat	98	70	233,483	2,391	96,531	60.0
TOTAL	**53,113**	**64.4**	**2,447,703**	**46**	**26,660,265**	

4.9 In order to assess the sensitivity of NPV to the flow of public-expenditure savings estimated for the sample projects, the following assumptions were made: (i) 10 percent cumulative annual increase in recurring costs; (ii) 50 percent decrease in the estimated time frame for the incorporation of beneficiaries; and (iii) the combined effect of (i) and (ii). The results obtained, which are shown in the following table, yield the conclusion that while the projects analyzed are economically viable, the dimension of their version for execution must be appropriate to ensure their viability. With the PROPEF 1570/OC-AR program it will be ensured that the projects for execution satisfy the technical and economic viability criteria in accordance with the content of the project preparation guide annexed to the OR.

Table IV-2

Province/Project	**NPV NE**	**Sensitivity**		
		1	**2**	**3**
Tucumán				
Creation of Productive Development Institute	2,165,066	1,915,670	554,599	514,364
Catamarca				
Ministry of Production (Prod. Service Center)	3,563,821	2,014,269	936,631	-9,197
Economic Development Agency	25,277	6,520	1,406	-10,043
Tourism Secretariat	2,285,033	1,539,788	597,777	125,673
Corrientes				
Ministry of Production, Labor, and Tourism	3,328,968	549,924	213,492	-3,587
Correntino Institute for Water and the Environment	1,406,220	1,166,737	350,908	184,849
Tourism Branch	1,124,026	788,501	288,084	72,588
Formosa				
Ministry of Production	1,989,598	739,816	514,735	66,018
Economic Development Agency	200,711	107,675	48,955	-7,832
Ministry of Tourism	195,082	104,673	47,639	-7,546
Chubut				
Tourism Secretariat	7,821,837	739,816	514,735	66,018
Environmental Protection Office	351,377	107,675	48,955	-7,832
Competitivity Forums	1,383,791	104,673	47,639	-7,546
Tierra del Fuego				
Special Customs Area Commission	135,064	43,096	31,823	-22,031
Fueguino Tourism Institute	587,863	317,921	144,911	-19,858
Sustainable use of peat	96,531	48,578	10,772	-18,129
TOTAL	**26,660,265**	**17,210,254**	**6,223,039**	**2,187,012**

4.10 **Project "B".** The economic viability of the IFDS projects was analyzed taking into account the cost estimate for replication or standardization of the system from the Province of Río Negro. The technical features of this already operational system permitted an estimate of average cost to replicate or standardize it in 21 provinces (excluding Río Negro and Córdoba, which already receives Bank financing) and the City of Buenos Aires. This cost was estimated at approximately US$415,000 per IFDS project to be financed by the program. PROPEF (1570/OC-AR) funds will be used to prepare the specific IFDS projects for execution for eight provinces. The cost will be verified at that time and the lowest-cost technical solutions for replication and standardization to be financed by the program will be determined. Such solutions will explicitly consider the retrofitting costs and the costs of connectivity necessary to make their execution feasible. IFDS projects will be declared eligible in accordance with the provisions of the OR.

C. Financial viability

4.11 Program financial viability was analyzed considering the budget impact during its execution, for the national budget as well as for the budgets of the participating provinces. The growth in expenditure that the implementation of the projects would cause was also analyzed to ensure sustainability.

4.12 With respect to the execution period and considering that the total cost of the program will be financed with Bank funds (60 percent) and with counterpart funds from the national government (40 percent), with no repayment obligation for the participating Provinces, the financial viability of execution will be determined by a sufficient and timely national budget contribution. In this respect, considering the scope of the program and its execution period, the result is an average of US$2.4 million per year to cover the counterpart expenditures. This amount is not significant with respect to the national budget. Thus the financial viability of the program execution is not expected to present any foreseeable risks.

4.13 With respect to the participating Provinces, and bearing in mind the foregoing with respect to program financing, no budget problems for execution have been identified. Moreover, while the execution of the projects will in some cases cause incremental costs for provincial governments, it should be noted that by their very nature their execution will qualitatively improve human-resources training and equipment, which will not generate significant additional costs later, as was evident from the indicative sample of projects analyzed. It should be noted that in some of these cases, establishment or strengthening of development agencies, direct support from the private sector, and the potential sale of services by such agencies may help to generate funds to bolster their sustainability. The UCEN evaluation of the projects should take into account the budget impact of their execution, as indicated in the OR. In summary, under these circumstances, the scale of the program is considered financially viable.

D. Social and environmental impact

4.14 "A" projects, by their very nature, will have positive impacts, as was the case for the projects in the sample analyzed, which will entirely finance the training of human resources, standards, and databases at environment- and tourism-related public institutions, taking into account the recommendations of the Committee on Environment and Social Impact in this respect. Nevertheless, in those cases which, because of the specific features of some projects, it is expected that execution will have an indirect negative impact on the environment, the corresponding environmental impact study must be performed and the pertinent mitigation measures incorporated into the project cost structure. This would be the case for projects that by improving regulations on the use of natural resources, make viable the increased orderly exploitation of these resources. For example, the sample includes the case of the sustainable use of peat. The OR include the obligation to perform the environmental impact study in accordance with the Bank's

environment policy, but the projects to strengthen environmental agencies will also include the training necessary to improve environmental standards and enforce them appropriately.

4.15 With respect to type of beneficiary, paragraph 4.7 indicated the potential impact that "A" projects could have by enhancing institutional services for low-income entrepreneurs/producers. With respect to the IFDS "B" projects, by their very nature they have no negative environmental impact. Rather, it is believed that the improvements in the mechanisms for access to data will foster a positive perception among the business sector and citizens at the provincial level.

E. Benefits and impacts

4.16 The nature of the program benefits refers primarily to the benefits deriving from the enhanced institutional capacity, processes, and management systems associated with the various components of projects "A" and "B". The net aggregate economic benefits of the projects constitute the baseline for measuring the principal direct benefit of the program. In this sense, the direct and indirect impacts will be measured according to the criteria set forth in the foregoing section and in all cases the results are expressed in estimated public savings for the provinces where the projects are executed. This US$26.7 million in savings, just from the "A" projects in the six provinces analyzed, would practically cover the entire cost of the program. Considering service to all 19 relatively less developed provinces, this savings could even triple and thus reaffirm the economic viability of the program.

F. Risks

4.17 The sustainability of a framework of economic policies favorable to the ongoing recovery of the Argentine economy as well as to the maintenance of the fiscal and financial discipline of the provincial governments are two aspects that if not achieved will become the principal risks of the program. At least over the short term there are indications that such continuity will be maintained. Another fundamental factor for the success of the program is that the national and participating provincial authorities assure and sustain their political commitment and resources to support the actions for institutional change that the program would implement. One additional critical factor will be the active participation of the provincial private sectors. The design of the program is in this sense fundamental to offset the possible risks of not fulfilling these premises. On the one hand, the design of project "A" takes into account private-sector needs. On the other, the criteria for eligibility and allocation of funds, as well as the decentralization of technical responsibility of the Provinces for the formulation of projects, indicated in paragraphs 3.11 and 3.15, are sufficient incentives to create a sense of ownership in the participating Provinces that will help mitigate the risk of a lack of commitment and/or actual interest of the provincial governments. Lastly, the risk of the sustainability of the improvements to institutional capacity that the program would produce may be mitigated by ensuring that specialists from the permanent

structures of the program beneficiary entities participate in its execution as indicated in paragraph 3.3, subparagraphs (b) and (c).