

**WATER SECTOR REFORM FOR MENDOZA
PRIVATIZATION AND ESTABLISHMENT OF A REGULATORY AUTHORITY**

(TC-94-06-03-05)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Ministry of the Environment, Urban Development, and Housing of the Province of Mendoza (MMAUV)

BENEFICIARY: MMAUV

OBJECTIVES: To implement a program for institutional restructuring of the water and sanitation sector focused on reorganizing the institutional framework for water and sanitation service in the Province of Mendoza, which includes transferring operations to the private sector and strengthening the regulatory capacities of the public sector, while ensuring the expansion of the system and promoting adequate administration, conservation, and protection of water resources, which are crucial for the development of the region.

DESCRIPTION: The program provides for the use of MIF funds to support the implementation of two subprograms as follows: a subprogram I, Establishment and institutional strengthening of the water and sanitation regulatory agency, Ente Provincial de Agua y Saneamiento [Provincial Water and Sanitation Authority] (EPAS), to include: (a) design and establishment of the organizational structure of EPAS; (b) design and implementation of the rate system, standards for quality control and administration of water resources policies; (c) design and implementation of the information systems and purchasing of the necessary equipment; and (d) training of EPAS personnel; and a subprogram II for the conversion of Obras Sanitarias Mendoza [Mendoza Sanitation Works] (OSM) into a corporation with private-sector participation, to include: (a) a valuation of existing OSM assets, to be transferred to an incorporated successor company; (b) preparation of the bylaws and registration of the new company; (c) drafting of the concession agreement; (d) guidelines for governing the transfer of administration to the private sector; (e) design of the employee stock ownership program; and (f) preparation of the public stock offering (operator and private investors).

FINANCING: MIF: US\$1,260,000

MODALITY: Subprogram I, the components of subprogram II relating to the share ownership program and to the concession agreement (items (ii) and (iii) of paragraph 4.1), and program supervision and evaluation will be disbursed as a grant (US\$795,000). The components of subprogram II relating to preparing the company for privatization (items (i), (iv) and (v) of paragraph 4.1) will be financed on the basis of contingent recovery of expenses incurred (US\$465,000).

**ENVIRONMENTAL
CLASSIFICATION:** The Environment Committee, at its meeting of October 18, 1994, classified this as a Category II operation.

I. COUNTRY ELIGIBILITY

- 1.1 Argentina was declared eligible for all MIF financing facilities by the Donors Committee on November 30, 1993.

II. PROJECT DESCRIPTION

A. Background

- 2.1 During the past four years, the Argentine government has taken major steps toward strengthening public finances, implementing economic reform, bringing inflation under control, restoring domestic and international credibility, and reestablishing economic growth. These steps consisted of the liberalization of domestic and international trade, deregulation, alignment of the tax system and improved efficiency of tax administration, and restructuring and privatization of nearly all state-owned enterprises, including water and sanitation services, thus opening up new areas to private investment.
- 2.2 Water supply and sewer service in Argentina have historically been the responsibility of the public sector. In accordance with the new economic policy, the national government decided to privatize [National Sanitation Works] Obras Sanitarias de la Nación, the company in charge of providing water and sewer service in the Buenos Aires area. Prior to the privatization, the national government consolidated the legal and regulatory framework for the water and sewerage sector in metropolitan Buenos Aires and established a regulatory authority whose responsibilities include approval of five-year investment plans, review of rate structures and levels, and monitoring of compliance. The concession was granted in May 1993 to the private consortium "Aguas Argentinas," headed by Lyonnaise des Eaux-Dumez.
- 2.3 Owing to the importance of provincial participation in water and sanitation services in Argentina, the IDB, via loans 621/OC-AR and 855/SF-AR, is financing jointly with the World Bank a global program designed to grant credit to the provincial and municipal water and sanitation utilities. This program is currently being implemented and includes financial assistance for improving the operations of Obras Sanitarias Mendoza [Mendoza Sanitation Works] (OSM), the government-owned company responsible for water and sanitation services in the province of Mendoza. The proceeds of this program will not be enough to cover all of the activities being financed under the present operation.
- 2.4 The province of Mendoza has approximately 150,000 km² of semi-desert land which, owing to careful administration of the water resources, currently accommodates 1,415,000 inhabitants (56% in

Greater Mendoza, 11% in San Rafael, 6% in San Martín and 18% in rural areas). Water and sewerage services are provided mainly by OSM and complemented by a network of over 100 small independent operators. Approximately 72% of the population receives water service (55% provided by OSM), but only 37% has access to sewerage service (33% provided by OSM).

- 2.5 The government of Mendoza, through the MMAUV, has set up a reform program focused on reorganizing the institutional framework for water and sanitation service in the province, which includes transferring operations to the private sector and strengthening the regulatory capacities of the public sector. The principal objectives set by the government with the reform program are to provide more efficient, affordable sanitation services; to ensure the necessary investments for expansion of the system; and to promote adequate administration, conservation, and protection of water resources which are crucial for the development of the region.
- 2.6 After careful analysis of different ways of attracting private investment in OSM, which included a World Bank-financed seminar in water privatization, the province's executive branch proposed what was considered the most appropriate procedure to follow, in view of the peculiarities of water supply in the region, and this proposal was approved by Congress by consensus. The procedure would be to obtain actual financing for the increased coverage through private investment, thus enabling users and citizenry to take part in this initiative through the usual mechanisms of corporate law in order to find new ways of achieving social objectives by economic means.
- 2.7 The legal framework for the reform program was established by Law 6044, which was approved by the provincial Congress in August 1993. Its provisions include: (a) creating EPAS, a new agency to regulate services under the Ministry of the Environment, Urban Development, and Housing, and defining its responsibilities; (b) setting guidelines for the concession system, rights and obligations of the concessionaire, and protection of the obligations and rights of users; and (c) converting OSM into a corporation called Obras Sanitarias Mendoza S.A., to be created with OSM assets.
- 2.8 The services regulated by Law 6044 include the production, distribution, and marketing of the water supply and disposal of effluent, it being established that the supply must be provided in conditions that ensure continuity, regularity, quality, and general and mandatory coverage so as to meet user needs and protect the environment. The law extends to all small non-OSM operators currently providing service - who will have a period to come into line with the stipulated requirements - and to all operators established in the future.
- 2.9 The law also refers to preserving the quality of water resources and endeavoring to ensure that the process of issuing quality standards essentially respects the necessary unity of the water cycle, watershed management, and preservation of the ecosystem of

which water resources is a part, and seeking its integral, rational, and efficient utilization within the framework of sustainable development.

B. Objectives

- 2.10 The Government of Mendoza is asking for MIF assistance, through the Technical Cooperation Facility, to implement an 18-month program aimed at the institutional restructuring of the province's water and sanitation sector through private sector participation.
- 2.11 The program to be financed by the MIF aims at: (a) promoting the expansion of services; (b) ensuring that the operation of all services conforms to quality and efficiency standards; (c) providing incentives for the rational and efficient use of water resources; (d) protecting public health and the environment; (e) establishing a regulatory system that guarantees quality and continuity of sanitation services; (f) encouraging more investments so as to ensure a reasonable and equitable system of rates; and (g) adequately protecting the rights of the users. This program therefore complements the program financed by the IDB under loans 621/OC-AR and 855/SF-AR, which are currently providing funds for the institutional restructuring of OSM.

C. Activities

- 2.12 The program was designed to include all the activities required to ensure its adequate implementation and long-term sustainability. Annex I presents a table summarizing the activities to be carried out, the amounts of time envisioned to complete them and the expected results. Prior to the first disbursement, the beneficiary will submit to the Bank a plan and updated schedule of activities.

D. Subprogram I: establishment and institutional strengthening of EPAS

1. Frame of reference

- 2.13 Law 6044 concerning the Mendoza water sector reform program makes a distinction between the government's responsibility as regulator and controller of public utilities and its operational functions. This distinction is consistent with the provincial government reform process which has as its purpose adapting the institutional framework to the need for greater community participation in managing public affairs.
- 2.14 In regard to water resources, state activity calls for special intervention because management is closely linked with the inhabitants' quality of life, especially in connection with public health and preservation of the environment. In the Mendoza program where private participation is being sought in operating the system, regulation is even more important because of the need for acceptable coverage and quality in all populated areas, which requires

the concessionaire to invest in areas of diverse private profitability and where private and corporate profitability differ. Therefore, regulatory and supervisory capacity calls for a great deal of economic and technical cohesion and effective supervisory capacity that is focused on the quality of services, products and installations, and better enforcement capacity.

- 2.15 In order to regulate and control water and sanitation services in the province of Mendoza, Law 6044 provides for the creation of a regulatory authority under the MMAUV.

2. Specific objectives

- 2.16 The specific objective of this subprogram is to create and strengthen the EPAS as a new regulatory authority. The functions assigned to it include: (a) defining the standards and regulations for the sector; (b) supervising the implementation of the investment plans; and (c) controlling the rate system as well as the regulations and quality applicable to preservation of water resources.

3. Specific activities

- 2.17 In order to achieve the specific objective, the MIF funds will be used to carry out the activities described below:
- a. hiring consultants to support the establishment and start-up of the activities of the regulatory agency, including: (i) design and implementation of proposals for institutional and organizational structure, as well as the operating and administrative procedures; (ii) design and implementation of the proposed operating policy for quality control; (iii) design and implementation of the personnel policy for the executive, professional, technical and administrative levels; (iv) design and implementation of a personnel training program; (v) preparation of a financial plan and the initial budget for starting up activities; and (vi) design and implementation of an appropriate information system to assist the agency in carrying out its regulatory and supervisory responsibilities.
 - b. financing the equipment required by EPAS in aspects connected with quality control and the information systems;
 - c. hiring consultants with expertise in regulatory frameworks in the water and sanitation sector in order to assist EPAS in complementing the regulatory framework, with special attention to the development of a program for adapting water management laws and regulations, including: (i) plans for harmonizing the water laws; (ii) regulating the quality of sources and effluents; and (iii) proposal for application and supervision of regulations;

- d. hiring consultants to design proposals for setting up technical guidelines for service, including: (i) development of the rate policy; (ii) design of a program for auditing the operators; (iii) design and implementation of a system of surveys for quality control; and (iv) preparation of a model contract for regulating the concession of smaller systems and helping to implement these contracts;
- e. hiring consultants to help organize the community participation plan, taking into account: (i) design and implementation of a policy for communication, education, and awareness; (ii) development of procedures for handling administrative complaints; and (iii) preparation of the system to be used for public hearings;
- f. conducting a workshop in Mendoza on regulation of water and sanitation services that will try to promote a sharing of experiences among those responsible for regulation and sanitation service who are involved in privatization in countries such as Argentina, Chile, Colombia, Brazil, Venezuela, Peru and Mexico.

E. Subprogram II: conversion of Mendoza Sanitation Works into a corporation with private-sector participation

1. Frame of reference

- 2.18 Law 6044 governs the process of converting OSM from a provincial government-owned company to a corporation whose sole corporate purpose will be to provide water and sanitation service in the areas served by the former company, and grants the new corporation a concession to use the resources and provide sanitation services. It also establishes the way in which the private-sector contributions will be incorporated for the purpose of developing the corporation's investment plan, which will be carried out through the capital stock increase procedure.
- 2.19 The process of converting OSM, as defined by Law 6044, includes the following phases:
 - a. conversion of OSM into a public corporation (OSM) created with OSM assets including: (i) a technical valuation of the company; and (ii) financial evaluation of the company;
 - b. preparation of the bylaws of the new company, specifying the procedures for stock distribution (51% for the province of Mendoza, 20% for the operator chosen, 10% for the employees and 19% to be awarded through a public offering) and handling of legislative approval of the valuation and bylaws;
 - c. design and implementation of the share ownership program (10% of the stock);

- d. preparation of the concession agreement between the province of Mendoza and OSM;
- e. selection of the private operator including preparation of the bidding conditions and definition of the selection criteria, as well as the rules for transferring management to the private sector;
- f. preparation and signature of the administrative management agreement with the chosen operator; and
- g. design and implementation of a public stock offering (19% of the stock), specifying the rights and obligations of minority shareholders.

2. Specific objectives

- 2.20 Design and implementation of the institutional transformation of OSM, the government-owned company that currently provides sanitation service in the province of Mendoza, and its conversion to a corporation so as to open the way for incorporating human, technological, and financial resources that will make it possible to meet the goals of adequate quality and coverage.

3. Specific activities

- 2.21 In order to achieve the specific objective, MIF resources will be used for hiring Argentine and foreign consultants to carry out the activities described below:
 - a. Hiring of a firm of specialized consultants to appraise the net worth of the government-owned company Mendoza Sanitation Works (OSM S.E.) as of 12/31/93, for transfer to the corporation to be formed, considering its technical specifications, condition, remaining service life and economic potential; and analysis, discussion and economic evaluation of the company's 30-year investment plan. These activities have already been carried out by Arthur Andersen and associates, and that consulting firm was hired according to Bank procedures (see paragraph 5.3).
 - b. Preparation of the bylaws of the corporation to be created from OSM S.E., whose sole corporate purpose will be to provide water and sanitation services in the areas served by the old company, and approval of the bylaws by the provincial legislature before the corporation is created and registered. The corporate bylaws have already been prepared using local resources.
 - c. Design and implementation of the share ownership program which will establish the way in which 10% of the concessionaire corporation's capital stock will be transferred to employees who have chosen to participate in the program.

- d. Drafting of the agreement providing for: (i) the concession of water rights or use of water resources; (ii) the concession of water and sanitation services and the use of water plants, effluent treatment, distribution networks, and other property resulting from the conversion of OSM; and (iii) the transfer of OSM assets, its personnel and any other obligations that may be set forth.
- e. Development of the criteria to be used in selecting a company specialized in managing water and sanitation services, with experience in operating systems of equal or greater size and complexity, which is to be done on the basis of declarations of interest expressed by signing-up on a special registry.
- f. Preparation of the "management and technical assistance" agreement, which will govern the conditions in which the private operator will manage the services under concession and purchase the shares.
- g. Contracting of an investment bank to design and implement a strategy for carrying out the process of increasing the capital stock of the concessionaire, by distributing the shares among the beneficiary of the management agreement and minority private investors.

4. Status of implementation

- 2.22 The process of converting the company began with the enactment of Law 6044 in August 1993 and entails a sequence of activities. As of October 1994, the following advances have been made: valuation of assets, quantification of the investment plan, drafting of the concessionaire company's bylaws and their presentation to the legislature, and opening of a registry of parties interested in functioning as operators.
- 2.23 In accordance with the provisions of the bylaws sent to the provincial legislature for approval, the operator is to be selected by local and international public invitations to bid, through which it will be granted the management and technical operation of the concessionaire company, and the sale of all the corresponding classes of stock.
- 2.24 As part of the promotional activities associated with selecting the operator, international presentations were made to explain the process to service operators, investment banks, and consulting firms.

III. EXECUTING AGENCY

- 3.1 The program will be executed under the responsibility of the MMAUV, whereby two working groups have been organized to develop subprograms I and II as specified: (a) to create EPAS, a team consisting of ministry advisors on institutional and environmental aspects; and (b) to convert and capitalize OSM, a team consisting of the top company officials. The entire process will be supervised directly by the ministry.

IV. BUDGET

- 4.1 The project cost of each component is presented below.

| PROJECT BUDGET | Grant | Contingent |
|--|------------------|------------|
| Subprogram I: Establishment and institutional strengthening of EPAS | | |
| (i) Organization of EPAS | 140,000 | |
| (ii) Purchase of equipment | 140,000 | |
| (iii) Laws and regulations | 50,000 | |
| (iv) Setting policies for service | 120,000 | |
| (v) User participation | 50,000 | |
| (vi) Regulation workshop | 30,000 | |
| (vii) Contingencies | 80,000 | |
| Total subprogram I | 610,000 | |
| Subprogram II: Conversion of OSM | | |
| (i) Valuation of OSM assets and design of investment plan | | 245,000 |
| (ii) Implementation of share ownership program | 70,000 | |
| (iii) Preparation of concession agreements | 65,000 | |
| (iv) Drafting of bidding conditions for selection of operators | | 40,000 |
| (v) Process of capitalization by minority shareholders | | 180,000 |
| Total subprogram II | 135,000 | 465,000 |
| Supervision | 36,000 | |
| Evaluation | 14,000 | |
| Subtotal | 795,000 | 465,000 |
| TOTAL | 1,260,000 | |

| SUMMARY BUDGET (in US\$ equivalent) | |
|--|-----------|
| BUDGET CATEGORY | MIF |
| 1. <u>Consulting firms</u> | |
| 1.1 Fees | 425,000 |
| 2. <u>Individual consultants</u> | |
| 2.2 Fees | 645,000 |
| 3. <u>General support</u> | |
| 6.3 Equipment | 140,000 |
| 4. <u>Supervision and evaluation</u> | |
| 8.2 Fees | 50,000 |
| TOTAL | 1,260,000 |

V. DISBURSEMENTS

- 5.1 The disbursements will be made according to Bank procedures. It is estimated that it will take 18 months to implement all the project components, with the final disbursement expected in month 24.
- 5.2 In regard to the funds transferred on a contingent recovery basis and allocated according to criteria presented in paragraph 10.2, relating to financing methods involving indebtedness for the province, it will be recommended that, prior to the disbursement of the resources thus identified, a law be passed authorizing such indebtedness and repayment of the funds received.

Recognition of retroactive expenditures

- 5.3 As mentioned in paragraph 2.21, some project activities have already been completed and reported to the Bank, keeping in mind the sequential nature of the process. For this reason, and in accordance with Bank policy for recognition of retroactive payments, it is proposed that resources from the technical-cooperation funding, up to a maximum of US\$300,000, be used to reimburse expenses made after the date on which the application for financing was submitted. After the financing is approved, the beneficiary

will submit the necessary documentation to verify that Bank procedures have been followed and to qualify it for reimbursement.

VI. MONITORING

- 6.1 Extremely close supervision is required in each and every phase, not only to verify consistency from a technical standpoint, but also to see to it that the interests of the parties involved (provincial government, operator, private investors, and users) maintain adequate balance and the necessary appeal. On this basis, each document and/or its drafting criteria is being closely monitored and supervised - a process that will continue until the conclusion of the program.
- 6.2 The executing agency will be required to prepare and submit to the Bank semi-annual progress reports to permit adequate monitoring of the program. The reports will describe: (a) the status of the water sector reform process, with specific reference to: (i) the completion of the EPAS organizational plan and the hiring of all of the consultants to set up EPAS, activities which must be completed within six months; and (ii) the progress of the activities mentioned in subparagraphs 2.21 (c), (d), (e), and (f); (b) the status of planned program activities, and the measures taken by the executing agency on the basis of such activities; and (c) briefly recommendations from consultants financed with MIF funds. They may also include, with approval by the MIF Office, recommendations on any redistribution of funds among the budget items without changing the financing method. Within six months of completion of the program, the executing agency will submit a final report, summing up the principal activities carried out under the program, the consultants' recommendations, and the actions taken on the basis of the work financed by the program.
- 6.3 In addition to assigning the monitoring tasks to the bicameral legislative committee, the MMAUV selected other control agents, whose activities are not remunerated, in order to guarantee the transparency and acceptability of the actions taken.

VII. FEASIBILITY AND RISKS

- 7.1 It is expected that the principal beneficiaries of the project will be the users, who will see a quantitative and qualitative increase in the supply of an essential service and will have clear-cut, enforceable rules for safeguarding their rights; at the same time, the proposed system will benefit society as a whole through its contribution to the preservation and sustained use of a scarce and very valuable resource in the program area.

- 7.2 The technical assistance will be aimed at meeting the specific objectives of each subprogram, while promoting ongoing contact with representatives of the beneficiary groups and seeking to optimize the appealing aspects of the process and to minimize the risks through monitoring and supervisory activities.
- 7.3 One risk of the operation may be related to the procedure chosen by the province to attract private investors. Under Law 6044, the provincial government has proposed a plan whereby the province would keep 51% of the stock in the new OSM. Upon signing the administrative management agreement, the private operator will acquire 20% of the stock and will be able to acquire another 19% in the public stock offering. The option of maintaining provincial control of the new company is related to the decision to have a regulatory agency already organized and running which can protect the interests of the province and the users before giving up the government's majority share.
- 7.4 The decision to maintain 51% under provincial control introduces a degree of uncertainty about private investors' interest in participating as minority shareholders in the new company. In order to ensure that the private operator has control of the company and to reduce the risk of investor disinterest, the bylaws of the new company guarantee the private operator 4 of the 7 seats on the company's board of directors.

VIII. COMPLIANCE WITH THE PROJECT ELIGIBILITY CRITERIA

- 8.1 General criteria of project eligibility. The proposed financing for restructuring and privatizing the water sector is compatible with the MIF's overall purpose, which is to increase private investment and expand the private sector, thus accelerating growth and socioeconomic development. In addition, the experience gained by implementing the program in Mendoza can facilitate and stimulate the establishment of an appropriate legal and regulatory framework for private-sector investment in water service companies in other Argentine provinces and in other countries of the region.
- 8.2 Project eligibility criteria. The proposal is compatible with the criteria for granting financing under the Technical Cooperation Facility, article 3, sections 2 (c) and (d), of the MIF agreement, which establishes that loans will be made to governments to finance consulting services required in order to create and/or strengthen the regulatory agencies, and to give advice on the design and implementation of the privatization programs.

IX. COMPATIBILITY WITH THE BANK'S PROGRAM IN THE COUNTRY

- 9.1 The Bank's strategy in the country includes providing financing to modernize the government, improved quality and availability of social services, and increased competitiveness of the nation's economy. The current project, which is aimed at improving efficiency in social services through the privatization of OSM, is compatible with three elements of that strategy.

X. AVAILABILITY OF MIF RESOURCES

- 10.1 Funding method. Subprogram I, components (ii) and (iii) of subprogram II, and the costs of supervision and evaluation are expected to be financed through a grant on the basis of the following points: (i) Argentina was declared eligible for all types of financing under the MIF by the Donors Committee in November 1993; (ii) Argentina's compatibility with the eligibility criteria for obtaining loan funds at the country level (article 3, section 5 (b), of the MIF agreement) is specified in the country eligibility memorandum; (iii) the proposed project will have a major catalytic impact on the flow of investment funds as required in article 3, section 5 (a), of the MIF agreement, and its objective is to create conditions conducive to expanding private investment in the water and sanitation sector. The components relating to drafting the concession agreement and to the share ownership program of subprogram II are also proposed as a grant when (i) they do not generate income for the government and will be carried out irrespective of private investor participation; and (ii) since the proposed mechanism is consistent with similar loans made under other MIF projects (Jamaica: employee stock ownership program; Colombia: energy regulatory commission; and Jamaica: public utilities regulatory agency).
- 10.2 The remaining components of subprogram II (evaluation of assets and design of the investment plan, preparation of the bidding conditions for awarding the management and technical operation and sale of all stock to the operator, and the public stock offering to users and the general public) are expected to be financed on a contingent recovery basis (article III, section 5 (e), of the MIF agreement), since the placement of the stock mentioned in paragraph 2.19 (g) is expected to generate the necessary income for

repayment. 1/ The beneficiary will reimburse the aforementioned amount within 60 days of the offering to the public of the shares referred to in paragraph 2.19 (g). The validity of these criteria was confirmed by the Donors Committee at its meeting on March 30, 1994 (MIF/GN-23).

1/ It is important to note that, according to the provisions of article 54 of Law 6044, the objective of incorporating the private-sector contributions is to capitalize the corporation in order to develop the investment plan, and in no case will the funds obtained revert to the provincial treasury.

PROGRAM SYNOPSIS

| MIF - FACILITY I - ARGENTINA: PRIVATIZATION OF WATER SERVICES IN MENDOZA | | |
|--|---|---|
| General project objective: To increase investment in the water and sanitation service and its efficiency | | |
| Specific project objective: To establish a regulatory authority (EPAS), prepare OSM for transfer to private operators, and capitalize the concessionaire corporation | | |
| Subprograms | Activities to be carried out | Expected results |
| Establishment of EPAS | Hiring of consultants to assist in organizing and defining the internal policies of EPAS and to train employees | Plan in 3 months |
| | Purchase of the equipment necessary for EPAS operations | Procurement completed in 8 months |
| | Hiring of consultants to complete the adaptation of laws and regulations | Preparation 6 months/ implementation 6 months |
| | Hiring of consultants to assist with regulation of service | Plan in 3 months |
| | Hiring of consultants to design and implement the community participation plan | To be completed in 6 months |
| | Conducting of a workshop in regulation | To be completed in 8 months |
| Conversion of OSM | Technical evaluation of OSM | Completed |
| | Financial evaluation of OSM | Completed |
| | Preparation of the bylaws of the OSM corporation | Completed |
| | Approval of the bylaws by the provincial legislature | In process |
| | Hiring of consultants to help prepare the concession agreement | In preparation for completion in 60 days |
| | Hiring of consultants to help develop the criteria for selection of the service operator | To be prepared in 90 days |
| | Hiring of consultants to prepare the "management and technical assistance" agreement | To be prepared in 90 days |
| | Design and implementation of the Share Ownership Program | Will be completed in 180 days |
| | Contracting of an investment bank to help implement a strategy to increase the concessionaire's capital stock | Will be completed in 240 days |

DETAILED BUDGET

| Subprogram I - Establishment and institutional strengthening of EPAS | | MONTHS | APPROX. US\$ |
|---|--|---------------|-------------------------|
| 1. | Organization of EPAS | 6 months | 140,000 |
| 1.1 | Proposed structure | 2 months | 30,000 |
| 1.2 | Operating proposal: quality control policy | 2 months | 20,000 |
| 1.3 | Proposed personnel policy | 2 months | 20,000 |
| 1.4 | Design and implementation of personnel training | 4 months | 50,000 |
| 1.5 | Management of financial resources | 2 months | 20,000 |
| 2. | Equipping of EPAS | 6 months | 140,000 |
| 2.1 | Completion of existing laboratories | 6 months | 80,000 |
| 2.2 | Development and implementation of an information system | 6 months | 60,000 |
| 3. | Water management laws and regulations | 4 months | 50,000 |
| 3.1 | Plans for harmonizing water laws | 2 months | 10,000 |
| 3.2 | Regulating the quality of sources and effluents | 4 months | 30,000 |
| 3.3 | Proposal for application and supervision of regulations | 2 months | 10,000 |
| 4. | Setting the regulations for water and sanitation service | 3 months | 120,000 |
| 4.1 | Development of the rate policy | 3 months | 35,000 |
| 4.2 | Design of a program for auditing operators | 3 months | 20,000 |
| 4.3 | Design and implementation of surveys | 2 months | 35,000 |
| 4.4 | Small systems concession agreements and participation in implementation | 3 months | 30,000 |
| 5. | User participation | 4 months | 50,000 |
| 5.1 | Design and implementation of communication, education and awareness policy | 3 months | 30,000 |
| 5.2 | Development of procedures for administrative complaints | 2 months | 10,000 |
| 5.3 | Development of procedures for public hearings | 2 months | 10,000 |

ANNEX II

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| Subprogram I - Establishment and institutional strengthening of EPAS | | MONTHS | APPROX. US\$ |
|---|--|---------------|-------------------------|
| 6. | Service regulation workshop | | 30,000 |
| 7. | Contingencies | | 80,000 |
| | Subtotal subprogram I | | 610,000 |
| | Subprogram II - OSM conversion | | |
| 1 | Evaluation of OSM assets | completed | 245,000 |
| 2 | Preparation of concession agreement | 2 months | 65,000 |
| 3 | Preparation of bidding conditions for selection of operators | 2 months | 40,000 |
| 4 | Drafting of management agreement and capitalization of the corporation | 6 months | 180,000 |
| 5 | Implementation of stock ownership program | 6 months | 70,000 |
| | Subtotal subprogram II | | 600,000 |
| | Supervision | | |
| 1 | Professional staff and transportation | 3 months | 36,000 |
| | Evaluation | | |
| 1 | Consultant and transportation | 15 days | 14,000 |
| | TOTAL | | 1,260,000 |

PROPOSED RESOLUTION

ARGENTINA. PROGRAM FOR THE WATER SECTOR REFORM IN MENDOZA:
PRIVATIZATION AND ESTABLISHMENT OF A REGULATORY ENTITY

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Province of Mendoza of the Republic of Argentina and to take such additional measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT- with respect to a technical cooperation for a water sector reform program in Mendoza.

2. That up to the amount of US\$1,260,000 is authorized for the purpose of this resolution, chargeable to resources of the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That up to US\$795,000 of the above-mentioned sum is to be provided on a nonreimbursable basis, and up to US\$465,000 is to be provided on a contingent recovery basis.