

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**ARGENTINA**

**CONDITIONAL CREDIT LINE (CCLIP) AND MULTISECTOR  
PREINVESTMENT PROGRAM III**

**(AR-L1035)**

**LOAN PROPOSAL**

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Electronic Links and References	
Basic socioeconomic data	<a href="http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata">http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata</a>
Status of loans in execution and loans approved	<a href="http://ops.iadb.org/approvals/pdfs/ARen.pdf">http://ops.iadb.org/approvals/pdfs/ARen.pdf</a>
Tentative lending program	<a href="http://opsgs1/ABSPRJ/tentativelending.ASP?S=AR&amp;L=EN">http://opsgs1/ABSPRJ/tentativelending.ASP?S=AR&amp;L=EN</a>
Information available in the COF/CAR technical files	<a href="http://ops33.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=1056819">http://ops33.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=1056819</a>
Procurement plan – Annex II	<a href="http://idbdocs/WS Docs/getDocument.aspx?DOCNUM=1105412">http://idbdocs/WS Docs/getDocument.aspx?DOCNUM=1105412</a>

## **ABBREVIATIONS**

ACSA	Common Administrative Services Section
AWP	Annual work plan
BAPIN	Investment Project Pipeline ("Bank")
CCLIP	Conditional Credit Line for Investment Projects
DNIP	National Public Investment Directorate
DNPOIC	National Directorate for Projects with International Lending Agencies
ICAS	Institutional Capacity Assessment (Report)
ICB	International competitive bidding
MEYP	Ministry of Economy and Production
OR	Operating Regulations
PMP	Multisector Preinvestment Program
PNIP	National Public Investment Plan
PROPEF	Project Preparation and Execution Facility
SNIP	National Public Investment System
SPE	Economic Policy Secretariat
TOR	Terms of reference
UNPRE	Preinvestment Unit

## PROJECT SUMMARY

### ARGENTINA

### CONDITIONAL CREDIT LINE (CCLIP) AND MULTISECTOR PREINVESTMENT PROGRAM III (AR-L1035)

Financial Terms and Conditions <sup>1</sup>																
<b>Borrower:</b> Argentine Republic			<b>Amortization period:</b>	25 years												
<b>Executing agency:</b> Economic Policy Secretariat of the Ministry of Economy and Production, through the Preinvestment Unit (UNPRE)			<b>Grace period:</b>	5 years												
<b>Source</b>	<b>Program</b>	<b>Line</b>	<b>Disbursement period:</b>	5 years												
IDB (Ordinary Capital)	US\$ 20 million	US\$60 million	<b>Interest rate:</b>	Variable												
Local	US\$ 5 million	To be determined for each operation	<b>Inspection and supervision fee:</b>	0%*												
Total	US\$ 25 million	US\$60 million	<b>Credit fee:</b>	0.25% on undisbursed amounts												
			<b>Currency:</b>	U.S. dollars from the Single Currency Facility												
Project at a glance																
<p><b>Project objective:</b>  <i>The objective of the conditional credit line</i> is to help the Argentine government improve the allocation of public investment funds in support of the country's economic and social development, consistent with the strategy and the priority areas agreed on with the national authorities. The CCLIP will finance the following expenditure categories: (i) consulting services and technical assistance; (ii) training; (iii) travel, per diems and logistical expenses; (iv) IT systems and equipment for the project cycle; and (v) program administration and supervision.</p> <p><i>The objective of the first individual loan operation</i> is to enhance the return on public investments at the national, provincial and municipal levels through general and specific preinvestment studies and building capacity to manage the project cycle in the regional and local context. <b>Expected outcomes:</b> (i) feasibility studies prepared under the program will result in approved investment projects in the amount of US\$1.728 billion; (ii) a monitoring system and a methodology for quantifying the impact of the studies and drawing lessons learned; and (iii) a culture that recognizes the importance of the project cycle (number of subnational governments with regulations governing their public investment systems). The first operation is structured in three areas of activity <b>to achieve these outcomes:</b> (i) preinvestment studies; (ii) management and evaluation of studies; and (iii) building capacity to manage the project cycle and disseminate the program locally.</p> <p><b>Special contractual conditions:</b>  <i>Conditions precedent to the first disbursement:</i> (i) entry into force of the program Operating Regulations as agreed with the Bank (paragraph 3.13); and (ii) annual work plan (AWP) for the first year of the operation (paragraph 3.14).</p> <p><i>Special execution conditions:</i> (i) The AWP for the following year will be presented to the Bank within 30 days before the end of the preceding year (paragraph 3.14); (ii) establishment and implementation of a continuously updated roster of qualified consultants during the first year of the program (paragraph 3.19); (iii) establishment of a program monitoring and evaluation system during the first year (paragraph 3.23); and (iv) hiring of new personnel for UNPRE during the first six months (paragraph 3.9).</p> <p><b>Exceptions to Bank policies:</b>  None.</p> <p>For the second and subsequent operations under the CCLIP: Consistent with Bank policy (document GN-2246-4 of 6 December 2006) fulfillment of the established criteria must be verified (paragraph 3.31).</p>																
<table style="width: 100%; border: none;"> <tr> <td style="width: 30%;">Project consistent with country strategy:</td> <td style="width: 15%;">Yes [ X ]</td> <td style="width: 15%;">No [ ]</td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>Project qualifies as:</td> <td>SEQ [ ]</td> <td>PTI [ ]</td> <td>Sector [ ]</td> <td>Geographic [ ]</td> <td>Headcount [ ]</td> </tr> </table>					Project consistent with country strategy:	Yes [ X ]	No [ ]				Project qualifies as:	SEQ [ ]	PTI [ ]	Sector [ ]	Geographic [ ]	Headcount [ ]
Project consistent with country strategy:	Yes [ X ]	No [ ]														
Project qualifies as:	SEQ [ ]	PTI [ ]	Sector [ ]	Geographic [ ]	Headcount [ ]											

Procurement: In accordance with Bank policies.  
Verified by CESI on: 16 March 2007

- <sup>1</sup> 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. Introduction**

- 1.1 The Ministry of Economy and Production, through its Preinvestment Unit (UNPRE) has executed two multisector preinvestment programs financed by the Bank since 1993 (loans 740/OC-AR and 925/OC-AR). Those programs have provided catalytic support for the country's investment project cycle. As a result there have been improvements in both the quality and the quantity of investment projects, backed by studies to ensure their economic, financial, institutional, environmental, and technical feasibility. Those two programs have shown themselves to be the best alternatives for the problems to be addressed, by prioritizing projects that optimize the use of public investment funds at the national, provincial and municipal levels.
- 1.2 Based on the two previous programs with the Bank, the national authorities recognize the recurrent nature of project preparation and prioritization support activities, and they have therefore requested that the Bank's new instruments be used to provide more efficient and timely funding for preinvestment studies. This request is based on the continuing demand for the financing of preinvestment studies for submission to the executing unit (UNPRE).<sup>1</sup> Consequently, a Conditional Credit Line for Investment Projects (CCLIP) is proposed for that agency. The credit line would be for US\$60 million, and the first operation, US\$20 million.

### **B. The sector**

#### **1. Growth and performance of public and private investment**

- 1.3 The Argentine economy is now into its fourth consecutive year of growth, having overcome the crisis that was sparked by the end of the convertibility system. In 2006 GDP grew by 8.8%, and similar performances were observed from 2003 to 2005. Growth is expected to remain strong in 2007, although it is likely to begin converging towards a rate more consistent with long-term sustainability. According to the latest official data from the Ministry of Economy, cumulative growth in GDP from 2003 to the end of 2006 was 35.8%.
- 1.4 The sound performance of the economy, however, cannot be measured solely by these four years of continuous growth and the associated social recovery. This period of economic growth has also been marked by fiscal discipline (with primary and financial surpluses), a systematic reduction in debt, external surpluses on the trade and current accounts, and the buildup of international reserves reflecting prudent monetary policy.
- 1.5 **The main challenge facing the government**, beyond preserving macroeconomic stability, is to lay the foundations for sustained growth with equity and social

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<sup>1</sup> To date, applications for studies received by UNPRE that could not be covered under loan 925/OC-AR (PMP II) total US\$5 million (paragraph 1.37).



inclusion over the medium and long terms. This objective **is directly related to the volume, return and efficiency of public investment.**

- 1.6 The new, post-devaluation macroeconomic context has sparked greater levels of public and private investment in productive and social development. The renewal and expansion of the private sector's productive base and the increase and upgrading of public infrastructure are helping to maintain economic growth and to raise living standards.
- 1.7 Total investment as a percentage of GDP was 14.3% in 2003; 17.6% in 2004; and 19.8% in 2005. Over this time, total investment rose on average by 31.8% a year. A significant portion of this increase flows from the decision to expand public investment as a complement to growing private investment, and to avoid bottlenecks in the country's infrastructure. Thus, the share of public investment in total capital spending has been rising steadily in the last three years. The following table shows growth and investment indicators.

**At Constant 1993 Prices (GDP & Investment in \$ millions)**

Year	GDP		Public and Private Investment			Public and Private Investment as % of GDP			Investment Growth %		
	GDP	GDP Growth	Public	Private	Total	Public	Private	Total	Public	Private	Total
1993	236,505		4,005	41,064	45,069	1.69	17.00	19.06			
1994	250,308	5.84%	4,485	46,746	51,231	1.79	18.68	20.47	1.1	12.6	13.7
1995	243,186	-2.85%	3,761	40,767	44,528	1.55	16.76	18.31	-1.4	-11.7	-13.1
1996	256,626	5.53%	3,138	45,346	48,484	1.22	17.67	18.89	-1.4	10.3	8.9
1997	277,441	8.11%	4,493	52,555	57,047	1.62	18.94	20.56	2.8	14.9	17.7
1998	288,123	3.85%	4,691	56,090	60,781	1.63	19.47	21.10	0.3	6.2	6.5
1999	278,369	-3.39%	4,662	48,454	53,116	1.67	17.41	19.08	0.0	-12.6	-12.6
2000	276,173	-0.79%	3,105	46,397	49,502	1.12	16.80	17.92	-2.9	-3.9	-6.8
2001	263,997	-4.41%	2,937	38,812	41,750	1.11	14.70	15.81	-0.3	-15.3	-15.7
2002	235,236	-10.89%	1,722	24,811	26,533	0.73	10.55	11.28	-2.9	-33.5	-36.4
2003	256,023	8.84%	3,108	33,551	36,659	1.21	13.10	14.32	5.2	32.9	38.2
2004	279,141	9.03%	4,748	44,532	49,280	1.70	15.95	17.65	4.5	30.0	34.4
2005	304,764	9.18%	6,807	53,651	60,458	2.23	17.60	19.84	4.2	18.5	22.7

Source: Economic Policy Secretariat of the Ministry of Economy and Production (latest available data).

- 1.8 During the 1990s, public investment (national and provincial) as well as private investment performed erratically, reflecting the trend of the economic cycle and the impact of external shocks. Total investment (public and private combined) at constant 1993 prices fell in 1995 and then rose for several years, peaking in 1998 at \$60.781 billion; thereafter it declined steadily to a trough of \$26.533 billion in 2002. Since that year investment has been on the rise, and stood at \$60.458 billion equivalent in 2005.

- 1.9 In short, public investment has risen in recent years, accounting for 11% of total investment in 2005, as a complement to the efforts of the private sector. Not only is this public share the greatest since 1993, but it also represents the greatest public investment in absolute terms during that period. With respect to the composition of investment, 80% has occurred at the provincial level and 20% at the national. Nevertheless, the national government has been financing the bulk (approximately 75%) of provincial investment. The authorities are aware that growth depends not only on increasing the funds devoted to investment but also on the returns that such investment produces in the respective sectors. It is for this reason that they have requested support from the Bank, using the instruments in the proposed program, for preinvestment studies as the basis for improving decisions on public investment projects.

## **2. The National Public Investment Plan 2007-2009**

- 1.10 The National Public Investment Plan (PNIP)<sup>2</sup> prioritizes projects for achieving the following objectives: (i) economic growth and export capacity; (ii) enhancing social equity; (iii) fostering balanced regional development; and (iv) strengthening government management in the social sectors (health, education and social development).
- 1.11 The PNIP 2007-2009 calls for investment of US\$4.4 billion in 2007, 36.4% of which would be real direct investment and 63.6% would constitute capital transfers to the provinces. The plan proposes real direct investment of US\$3.06 billion over the period 2008-2009; on this basis, applying the 2007 ratio of capital transfers to the provinces, total investment in 2008-2009 would be US\$8.262 billion. Thus, total investment for the period 2007-2009 would amount to US\$12.662 billion.
- 1.12 Sectoral structure of proposed investment in the PNIP. Investment funds are allocated as follows: transportation, 33.2%; housing and urban development, 26.7%; energy, fuel and mining, 12.9%; social support and assistance, 7%; education and culture, 6%; water and sewerage, 5.8%; other sectors, 8.4%. The national government has developed a National Public Investment System and a Project Pipeline ("Project Bank") for assigning priority to potential projects. Both of these instruments are being promoted at the regional and local levels.

## **3. National Public Investment System and Project Pipeline**

- 1.13 The National Public Investment System (SNIP) was created by Federal Law 24354 of 29 August 1994, and its regulations were issued on 22 May 1995 by means of Executive Decree 720/95. The objectives of the SNIP are to formulate and implement the National Public Investment Plan each year and to keep a permanently updated inventory of public investment projects. Responsibility for the SNIP lies with the National Public Investment Directorate (DNIP), which is part of the Economic Policy Secretariat (SPE) of the Ministry of Economy and Production.

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<sup>2</sup> For further information on the content and scope of the plan, consult the following SPE webpage: [http://www.mecon.gov.ar/peconomica/basehome/plan\\_inversion\\_publica/1texto2007-2009.pdf](http://www.mecon.gov.ar/peconomica/basehome/plan_inversion_publica/1texto2007-2009.pdf)

The primary task of the DNIP is to evaluate alternative projects and programs and establish priorities among them, and thereby assist in the selection of operations that will: (i) be included in the national budget, and (ii) require external financing.

- 1.14 Since 2002, using the SNIP, the National Public Investment Plan has been formulated with a multiyear (three-year) horizon, and includes funds earmarked for investment by provincial governments. The Project Pipeline (BAPIN), which is part of the SNIP, contains computerized and standardized information on investment programs and projects at various stages of design and operation (idea, profile, prefeasibility, feasibility, in execution, and completed).
- 1.15 To be included in the BAPIN, projects must meet the project cycle methodology requirements, and preinvestment studies are critical for moving projects through that cycle.<sup>3</sup> UNPRE has played an important role in producing these studies, through its multisector preinvestment program. The studies are approved and prioritized by a technical committee of the Economic Policy Secretariat, of which the DNIP Director is an active member.
- 1.16 At this time, the updated BAPIN inventory contains more than 5,500 projects and programs at various stages of the investment cycle (67% of projects at the idea stage; 9% profiled; and 24% at the prefeasibility stage).<sup>4</sup> The projects and programs included in it are those that have an impact on the national budget and/or assets.
- 1.17 The national government intends to continue strengthening SNIP operations. To this end it has earmarked financing for a module to provide information for evaluating the physical and financial progress of investment projects, with funds from loan 1575/OC-AR (for strengthening the Economic Policy Secretariat), with a view to linking the BAPIN and the National Budget Office's Financial Information System (SIDIF), and to develop methodologies for evaluating the impact of investment projects.
- 1.18 At the same time, the Bank is working to strengthen results-based management in the national government. Measures include those under: (i) the Financial Administration Sector Program (loan 1720/OC-AR), which has a component for consolidating management by results and financial administration, by strengthening the system for programming and evaluating the physical and financial aspects of budget performance, medium-term budget programming, and the drafting of jurisdictional budget proposals; and (ii) the program to implement the external pillar of the Medium-term Action Plan for Development Effectiveness (PRODEV),

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<sup>3</sup> The degree of readiness of projects in the BAPIN is determined by its basic studies: (i) the project profile, with basic information on objectives, components, activities and the overall budget for the proposed initiative; (ii) prefeasibility, including studies of economic, technical, financial, environmental and institutional viability to demonstrate that the intervention would have a 75% chance of viability if implemented, with an indication of any further studies needed; and (iii) feasibility, including all the preinvestment studies demonstrating the project's viability, depending on its sector.

<sup>4</sup> The projects in the BAPIN have logical frameworks for visualizing their progress, as well as assumptions and means of verification.

the objective of which is to help the country lay the basis for strengthening results-based management. The Bank has also worked with the World Bank on the joint Country Financial Accountability Assessment (CFAA), which analyzes financial administration systems and practices with a focus on such issues as the budgetary process, financial reporting, debt management, and control systems. All of these efforts are complementary and will lead to better control and allocation of public funds.

- 1.19 Lastly, to ensure an adequate flow of feasible investment projects to meet the country's growth needs, the national government is seeking to make use of the Bank's new financing instruments and has asked for a conditional credit line (CCLIP) to help consolidate and pursue the preparation and analysis of investment projects as an essential component of the UNPRE project cycle.

#### **4. The investment cycle for provincial and municipal governments**

- 1.20 The federal government is moving ahead with further decentralizing basic government functions. In this context, Law 24.049 was enacted governing the transfer of health, education and other social programs to the provinces. Supplementary agreements have now been negotiated on joint federal-provincial efforts to secure economic stability and growth, including monthly financial transfers (the "federal tax sharing" system).
- 1.21 From 2002 to 2005 regional meetings were held to convey the decision to introduce the SNIP at the regional level, and the provinces were invited to join that system by signing an undertaking in which they would establish a system similar to and compatible with the national one within their respective jurisdictions, and designate a counterpart office.<sup>5</sup> For its part, the Ministry of Economy and Production undertook to install the BAPIN system and pay for the computer equipment needed to run it at the decentralized level. The Bank is supporting this effort through loan 1575/OC-AR (Institutional Strengthening of the Economic Policy Secretariat).
- 1.22 Despite progress in streamlining the investment process at the provincial and municipal levels, there is a need to consolidate their existing systems. The following table summarizes the main challenges and the actions being taken to standardize public investment management methodologies and procedures.

Challenges	Current and future actions
<b>Establish a Project Pipeline in each province</b> to provide the authorities with: (i) a database on investment projects at various stages of the cycle, so as to pursue viable projects that are deemed priority for the local development strategy; (ii) information on the public works requirements of the province's	The DNIP is supporting this objective, with partial funding provided under loan 1575/OC-AR.

<sup>5</sup> To date, the national government has signed agreements with 23 provinces: Buenos Aires, Catamarca, Ciudad de Buenos Aires, Córdoba, Corrientes, Chaco, Chubut, Entre Ríos, Formosa, Jujuy, La Rioja, Mendoza, Misiones, Neuquén, Río Negro, Salta, San Luis, San Juan, Santa Cruz, Santiago del Estero, Santa Fe, Tierra del Fuego and Tucumán.

Challenges	Current and future actions
agencies and municipios; (iii) the ability to monitor projects in execution; and (iv) regular, reliable and standardized information on current investment projects.	
<b>Link the provincial BAPIN with the national one in order to</b> (i) facilitate national funding or financing from international lending agencies for investment projects of interest; and (ii) share information on project performance and impact through a remotely accessed data system.	The DNIP is supporting this objective, with partial funding provided under loan 1575/OC-AR.
<b>Provide for interaction among the provincial project pipelines</b> as a source of ideas and consultation, at least with neighboring provinces, for better strategic planning at the regional level.	This activity would be supported once the provincial project pipelines are established, with possible financing from the CCLIP.
<b>Integrate the municipios into the provincial system, and thus into the national system.</b>	This activity would be for the future, with possible financing from the CCLIP.
<b>Guarantee a flow of general and specific preinvestment studies</b> that will constitute the project pipelines and serve to rationalize public investment spending and to move the project cycle forward.	This activity has been funded under loan 925/OC-AR and would be pursued with the proposed operation through UNPRE.
<b>Provide the offices administering the public investment systems at the subnational level with personnel trained</b> in project identification, formulation and evaluation, so they can provide training and advice to the offices initiating projects.	This activity is planned for financing with the proposed operation, through UNPRE.
<b>Promote the exchange of experience and best practices.</b> Periodic national, regional and ad hoc meetings to exchange ideas and proposals on the investment cycle.	This activity is planned for financing with the proposed operation, through UNPRE.

## C. Bank strategy and involvement

### 1. Bank strategy

- 1.23 The CCLIP and its first multisector preinvestment program will support two of the three current strategic action areas: (i) strengthening the environment for boosting investment and productivity; and (ii) enhancing governance and fiscal sustainability.

### 2. Bank experience

#### a. The Multisector Preinvestment Program I (PMP I, loan 740/OC-AR)

- 1.24 The PMP I was approved by the Bank on 13 January 1993 for US\$24 million, and execution was completed in October 1999. The program consisted of two subprograms: (i) preinvestment studies, and (ii) institutional strengthening. The first subprogram absorbed 90% of the loan funds. Both components achieved their targets.
- 1.25 Under PMP I, preinvestment studies were financed that resulted in a total of US\$1.531 billion in projects considered and approved by the Bank between 1994 and 1997. The cost of the preinvestment studies for projects financed by the Bank

did not exceed 1% of project costs, a level that is considered reasonable in light of experience with similar undertakings.

**b. The Multisector Preinvestment Program II (PMP II, loan 925/OC-AR).**

- 1.26 The PMP II was approved by the Bank on 17 April 1996, for US\$25 million, with a government counterpart contribution of US\$7 million, bringing the total to US\$32 million for the second stage. The contract was signed on 10 September 1996, and the loan was declared eligible on 18 June 1997. The disbursement period will expire on 31 December 2007; to date, loan funds are 68% disbursed, and 100% committed.
- 1.27 The objective of PMP II was to enhance the productivity of public investment in terms of the country's economic and social development. It had two components: (i) preparation of general and specific preinvestment studies for public agencies at the federal, provincial and municipal levels (the program's beneficiaries); and (ii) assistance with organization and consolidation of the SNIP, including support for provincial governments' investment systems. The indicator established for measuring achievement of these objectives under component 1 was that feasibility studies should be prepared for investment projects totaling US\$500 million by the end of the operation. For component 2, the indicator was that the institutional capacity of the SPE should be strengthened and that public investment systems compatible with the SNIP should be established and in operation in three provinces. Both of these indicators were satisfied, as detailed below.
- 1.28 **Achievement of objectives.** The program is achieving its development objective, in light of deliverables thus far. Under component 1, preinvestment studies, a total of 454 general and specific studies have been approved and executed to date for a total of US\$21.7 million. This number includes studies in the amount of US\$1.6 million relating to eight specific sector Bank projects that have involved investments totaling US\$2.4756 billion. Another 57 studies have been financed and have produced government investments of up to US\$330 million at the national and provincial levels. The sectoral distribution of the studies is as follows: productive development, 26%; government administration, 25%; infrastructure, 19%; urban development, 11%; environment, 10%; and social development, 8%. By level of jurisdiction, the breakdown was national, 51%; provincial, 22%; and municipal, 27%. Lastly, 295 beneficiary entities participated in the program, and 910 consultants were contracted.
- 1.29 The preinvestment studies linked to the Bank's operating program with the country relate to the following loans: (i) Public Financial Administration Sector Program (loan 1720/OC-AR) for US\$500 million; (ii) Support for Fiscal Balance and Social Management (loan 1295/OC-AR) for US\$400 million; (iii) Support for the "Plan Familias" program I (loan 1669/OC-AR) for US\$700 million; (iv) Tourism Sector Competitiveness (loan 1648/OC-AR) for US\$33 million; (v) Norte Grande Road Infrastructure Program (AR-L1014) for US\$600 million; (vi) Norte Grande Water

Resources Management (AR-L1015) for US\$160 million; (vii) Lending Program for Productive and Job Development in the Province of San Juan (AR-L1022) for US\$32.6 million; and (viii) Provincial Agricultural Services Program – PROSAP (loans 899/OC-AR 1 and 2), now in execution, with preinvestment studies for investments totaling US\$50 million.

- 1.30 Under component 2, for institutional strengthening of the executing agency, the planned activities have been completed and the goals and objectives have been achieved, both for the National Public Investment System (SNIP) and for the Economic and Regional Programming Secretariat (today the Economic Policy Secretariat). Specifically, the component has supported implementation of the SNIP computerized information system, including the BAPIN; preparation of the National Public Investment Plan 2003-2005; and advisory services and training for SPE staff to perform related functions. With respect to instituting provincial investment systems compatible with the national one (SNIP), the project has supported installation, configuration and startup of the SNIP computerized system in the provinces of Buenos Aires, Córdoba and Mendoza. With these compatible systems in place, it is now possible to exchange information on financing requirements and funding sources for investment projects, and to build them into the corresponding national investment plans.
- 1.31 **Expected versus actual results.** Apart from the delays in program execution occasioned by the national crisis, program execution has been relatively normal, with few deviations from the original budget. Indeed, additional funding was freed up following the devaluation, which reduced the costs of consulting services. Consequently, there has been no discrepancy between planned and actual outcomes.
- 1.32 **The factors explaining the program's sound execution include:** (i) the institutional placement of the Preinvestment Unit gave it ready access to decisions on economic policy priorities, which provided useful guidance on projects and on beneficiary entities' needs and even those of the Bank; (ii) the UNPRE coordinators and technical staff had experience in dealing with consulting services; (iii) the working teams' makeup was stable, composed of members with years of experience in the formulation, execution and evaluation of investment projects; and (iv) the Bank's teams offered coaching in preparing the terms of reference and in carrying out the studies, for projects slated for Bank financing.
- 1.33 A project completion report will be prepared as part of the operation's wrap-up, and will provide greater detail on the outcomes of PMP II. Nevertheless, Section F (Lessons Learned) identifies some areas in which the new operation must strive to improve program performance even further. The program technical files contain a more detailed report on the outcomes from PMP II.

### **3. Other preinvestment activities (PROPEF)**

- 1.34 The Bank is also financing preinvestment activities through the Project Preparation and Execution Facility (PROPEF). A project preparation line of credit for Argentina was approved in 1993 in the amount of US\$5 million (PPF/003-AR), and

it was subsequently expanded to US\$30 million. To date, 10 operations have been approved totaling US\$13.9 million, including five operations in the last four years totaling US\$4.28 million.<sup>6</sup>

- 1.35 The existence of multisector preinvestment programs and the credit line for project preparation and execution (PROPEF) as preinvestment instruments in the country reflects the complementary and independent nature of these instruments for supporting the project cycle. Specifically, the preinvestment programs are financing all the initial stages of the project cycle, starting with the general study and continuing through prefeasibility and feasibility studies to the engineering designs and bidding documents. In addition, the programs are financing institutional strengthening and the development of public investment systems at the various levels of government. At the same time, the PROPEF credit line supports the work of completing the preparation of specific projects, by financing supplementary studies and the steps needed to trigger the first disbursement and begin project execution.

#### **D. Program strategy and dimensioning**

- 1.36 **Strategy.** The proposed program will stress the importance and optimization of preinvestment funds and studies for making better public investment decisions that will contribute to the government's objectives of achieving sustained growth with equity and social inclusion over the medium and long terms. The studies to be financed will therefore have to be compatible with national priorities and strategies towards this objective. Specifically, they will contribute to optimizing the efficiency and productivity of social capital and infrastructure; strengthening science and technology linkages (public sector, private sector, universities); promoting export diversification and development and international competitiveness; developing energy and services infrastructure; and promoting regional, local and sector development, taking advantage of local resources while respecting the parameters of environmentally sustainable development.
- 1.37 **Dimensioning.** The size of the operation takes into account, first, the resource administration and absorption capacity of UNPRE and of the entities that will benefit from the studies, as well as the current demand for program resources.<sup>7</sup> As well, it reflects the need to fund feasibility studies for the projects and programs that will form part of the Bank's programming with the country. To date, the executing agency has received applications totaling US\$5 million for studies in the following sectors: environment, 13%; infrastructure, 47%; productive development, 38%; and

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<sup>6</sup> The PROPEF operations approved are: (i) AR-L1002 relating to loan 1588/OC-AR, Strengthening Production-related Provincial Institutions and Fiscal Management (US\$350,000); (ii) AR-L1017 relating to loan 1777/OC-AR, Development of a Satellite System and Applications Based on Earth Observation (US\$1.5 million); (iii) AR-L1031, relating to the Water and Sanitation Program (US\$180,000); (iv) AR-L1033, SME Competitiveness (US\$1.5 million); and (v) AR-L1046, Norte Grande Competitiveness Program (US\$750,000).

<sup>7</sup> The program technical files contain the list of studies proposed for financing (demand).



government administration, 2%. The national and provincial governments will be undertaking public investment projects with approximately **US\$12.662 billion in financing over the next three years**. Depending on their nature, the feasibility studies will account for 1% to 3% of the investment cost: using a conservative estimate, then, there will be a need for approximately US\$127 million for preinvestment studies during this period. The program would cover 14% of this need.

**E. Lessons learned**

- 1.38 The experience gained from the previous multisector preinvestment programs and the analysis of the various indicators of the current program's performance point to the following aspects for consideration in the new operation.
- 1.39 **Commitment and disbursement periods.** The commitment and disbursement periods should be longer than those set for PMP II, because preinvestment activities involving government entities at the subnational levels take more time. It is proposed, therefore, that four years should be allowed for committing funds, and five years for disbursing them (paragraph 3.30).
- 1.40 **Beneficiaries' management capacity.** If studies are financed for municipal governments without evaluating their management capacity, this can place a heavy burden on UNPRE's technical and finance/accounting units, virtually doubling the work time involved. It can also take longer to carry out the studies. Consequently, it is important to ensure that potential program beneficiaries have the minimal management capacities in place (paragraphs 2.10 and 3.13).
- 1.41 **Selection and contracting of services.** The procedure followed in PMP II for selecting and contracting consulting firms proved quite slow and ineffective. The problems were such that in the end almost all of the studies had to be done by individual consultants, and this placed heavy demands on UNPRE's technical and administrative staff. The new operation should apply the Bank's new procurement policies so as to speed the selection and contracting process, eliminate prequalification, and allow firms to be hired from shortlists, using continuously updated sector-specific rosters of qualified consultants (paragraphs 3.15 and 3.19). In addition, similar studies will again be grouped for contracting as a lot.
- 1.42 **The study implementation cycle.** The "critical path" inherent in the process or full cycle for studies, from formulating the request to completing the study, is now very long: it involves the successive phases of preparing the terms of reference, signing the basic agreements, obtaining commitments from beneficiaries, preparing the contracts, signing them, and monitoring and approving the reports. The process should be shortened by eliminating redundant steps (paragraphs 3.13 and 3.19).
- 1.43 **Impact of the studies.** There needs to be a stronger link between the output from the studies and actual implementation of the suggestions, recommendations and conclusions flowing from them, as they relate to implementation of related programs, changes and amendments to rules and standards, development and

execution of the investment projects, budgetary provisions of the beneficiary entities, etc. There should be some provision in the stages prior to execution of the preinvestment studies that will commit the beneficiary entity to carry out the investments or activities that the studies will define. This aspect should be included in the Operating Regulations (paragraphs 2.10, 3.13 and 3.23).

- 1.44 ***Political cycles and priorities.*** A certain discontinuity has been observed in the use of studies and the implementation of the investments or activities flowing from them, as a result of changes in the national, provincial or municipal authorities responsible for the beneficiary entities. The new operation should have mechanisms to ensure that the studies to be financed will be part of strategic guidelines at the municipal level, and in the case of provinces, that the investment planning authority has stated its no objection (paragraph 3.13).

**F. Rationale for and pertinence of a CCLIP**

- 1.45 As explained earlier, the executing agency has satisfactorily implemented two programs with the Bank, achieving their development objectives while observing the conditions in the loan contract and the Bank's disbursement and procurement policies. It is therefore considered eligible for the CCLIP, which is designed to provide continuous access to credit for activities of a recurrent nature (documents GN-2246-1 to GN-2246-4).

## **II. THE PROGRAM**

**A. Objective of the CCLIP and of the first individual loan operation**

- 2.1 **The objective of the credit line** is to help the Argentine government improve the allocation of public investment funds in support of the country's economic and social development, consistent with the strategy and the priority areas agreed on with the national authorities.
- 2.2 **The objective of the first individual loan operation** is to enhance the return on public investments at the national, provincial and municipal levels through general and specific preinvestment studies and the building of capacity to manage the project cycle in the regional and local context. The general and specific studies will contribute to: (i) optimizing the efficiency and productivity of social capital; (ii) upgrading and expanding road, energy and services infrastructure; (iii) regional, local and sector-specific productive development; (iv) developing the country's exports and international competitiveness; (v) integrating scientific and technological developments into production; and (vi) environmentally sustainable exploitation of natural resources.
- 2.3 The operation's design incorporates adjustments to reflect the country's current socioeconomic situation and the experience gained during previous stages, as described in the section on lessons learned (paragraphs 1.39 to 1.44).

**B. Description of the CCLIP and the first individual loan operation**

- 2.4 The CCLIP will finance the following categories of expenditure: (i) consulting services and technical assistance; (ii) training; (iii) travel, per diems and logistical expenses; (iv) IT systems and equipment for strengthening the project cycle; and (v) program administration and supervision. It will also expand the range of beneficiaries so that conditional and contingent financing can be provided for studies relating to public-private initiatives that will have significant spillover in the public sector or will generate social benefits. Lastly, it will support the development of provincial and municipal investment systems, with emphasis on the preinvestment stage, including the establishment of subnational preinvestment units and the introduction of management by results.
- 2.5 The first individual loan operation under the CCLIP will include the following three components:
- 1. Preinvestment studies (US\$18.2 million, 73%).**
- 2.6 Purpose. The purpose of this component is to finance preinvestment studies at the national, provincial and municipal levels that will be consistent with the strategy and priority areas agreed on with the national authorities, and that will: (i) reflect global, regional, sector and local objectives and policies; (ii) display continuity or tie-ins with other governmental development efforts; or (iii) allow implementation, start-up and operation of the IDB pipeline with Argentina for 2007-2009.
- 2.7 Activities. This component includes funding for consulting services and technical assistance to carry out preinvestment studies in the following categories: (i) *specific studies* (prefeasibility, feasibility and final designs); and (ii) *general studies*, including sector and regional studies, master plans and local development plans, and studies relating to competitiveness and productivity, that will facilitate the identification and prioritization of specific projects for deciding on the timing and advisability of pursuing investment initiatives.
- 2.8 Expected outcome: (i) the program will finance 14% of preinvestment needs for investment projects totaling US\$12.662 billion over the next three years, recognizing that, depending on the nature of the project, the cost of the feasibility study will be 1% to 3% of the capital cost; and (ii) feasibility studies prepared under the program will result in approved investment projects in the amount of US\$1.728 billion (i.e. 80% of the resources financed will contribute to investment programs).
- 2. Management and evaluation of studies (US\$1.2 million, 5%)**
- 2.9 Purpose. To help beneficiary entities identify project ideas, manage preinvestment studies, and monitor and evaluate them.
- 2.10 Activities. This component will finance consulting services and technical assistance for: (i) preparing terms of reference (TORs); (ii) monitoring and evaluating the

preinvestment studies;<sup>8</sup> and (iii) ex post evaluation of the impact of selected studies on investment.

- 2.11 Expected outcome: (i) the quality and standard content of applications for financing studies (subsidiary agreements and facilitation agreements, TORs) will meet requirements; (ii) the studies will be properly completed on time (programmed time/actual time); (iii) the impact of selected studies will be quantified and lessons learned.

**3. Building capacity for managing the project cycle, and local outreach (US\$550,000, 2%)**

- 2.12 Purpose. To help train professional staff at the beneficiary entities, develop the supply of high-quality local consulting services, publicize the program, and promote a culture relating to prioritization of strategic projects and to the project cycle.
- 2.13 Activities. This component will finance consulting services and training for: (i) preparation of a sustainable regional training plan, including the content and scope of the proposed project cycle management modules, covering ex post evaluation and the submission of financing applications to UNPRE; (ii) financing for at least 24 general and specific training courses at the provincial and local levels, and at least five regional courses for exchanging experience; and (iii) 10 outreach seminars on the program.
- 2.14 Expected outcome: (i) stimulate the demand for eligible preinvestment studies (studies approved/studies submitted); (ii) help instill a culture that recognizes the importance of the project cycle (number of subnational governments with regulations governing their public investment systems); and (iii) generate a supply of consulting services to meet the demand for experts at the local and regional level (participation by qualified consultants outside of the capital, as part of UNPRE's consultants roster).

**4. Administration and supervision (US\$1.7 million, 7%)**

- 2.15 As with the previous operations, this component will finance the structure and operations of the Preinvestment Unit (UNPRE). Existing professional and administrative staff will be retained and reinforced: (i) a coordinating consultant and a consultant for monitoring and supervising training activities will be added to the Programming and Control Area; (ii) the Technical Area will receive a consultant to help analyze local initiatives. Funding is also included for upgrading the unit's computer equipment.

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<sup>8</sup> During PMP II, weaknesses were detected in some beneficiary entities, which lacked personnel trained in the preparation of terms of reference, the selection and contracting of consultants, and the management of studies. To overcome these problems, management consultants will be financed for beneficiaries identified by UNPRE.

### C. Cost, financing and execution period

- 2.16 The amount of the CCLIP will be US\$60 million. The first individual loan under the credit line will be for US\$20 million. The CCLIP will be executed over a period of 15 years, and the first individual loan in five years. The local contribution to the first individual operation will be US\$5 million. The table below shows overall cost estimates for PMP III and the proposed financing, by investment category.

Total Program Cost and Financing (in US\$000)				
Investment category	Bank	Local	Total	%
<b>1. Preparation of preinvestment studies</b>	<b>17,900</b>	<b>373</b>	<b>18,273</b>	<b>73.1</b>
1.1 Specific studies	15,700	310	16,010	64.0
1.2 General studies	2,200	63	2,263	9.1
<b>2. Management support and evaluation of studies</b>	<b>1,000</b>	<b>200</b>	<b>1,200</b>	<b>4.8</b>
<b>3. Building capacity for managing the project cycle and local outreach</b>	<b>500</b>	<b>50</b>	<b>550</b>	<b>2.2</b>
<b>4. Administration and supervision (UNPRE)</b>	<b>200</b>	<b>1,500</b>	<b>1,700</b>	<b>6.8</b>
<b>5. Associated costs (audit and evaluation)</b>	<b>400</b>	<b>0</b>	<b>400</b>	<b>1.6</b>
<b>SUBTOTAL</b>	<b>20,000</b>	<b>2,123</b>	<b>22,123</b>	<b>88.5</b>
<b>6. Financing costs</b>	<b>0</b>	<b>2,877</b>	<b>2,877</b>	<b>11.5</b>
6.1 Interest	0	2,758	2,758	11.0
6.2 Credit fee	0	119	119	0.5
6.3 Inspection and supervision	0	0	0	0.0
<b>TOTAL</b>	<b>20,000</b>	<b>5,000</b>	<b>25,000</b>	<b>100</b>
% Financing / Program	80	20	100	

## III. EXECUTION

### A. Borrower and executing agency

- 3.1 **The borrower** for the program will be the Argentine Republic, and the **executing agency** will be the Economic Policy Secretariat (SPE) of the Ministry of Economy and Production, through its Preinvestment Unit (UNPRE).
- 3.2 By Decree 25/2003, the SPE has the following main functions: (i) to set objectives and plan economic policy; (ii) to evaluate the economic impact of current policies, plans and programs; (iii) **to issue rules for implementing the National Public Investment System and set priorities for allocating resources**; (iv) to ensure that the main thrust of economic policy is consistent with other national government policies; (v) to have input into relations and negotiations with international, bilateral and multilateral lending agencies; (vi) to help monitor national fiscal programming and assess its impact on the real economy; and (vii) to design training and technical assistance programs for national, provincial and municipal executing agencies in applying economic policy more effectively.

- 3.3 **Institutional structure.** Decree 25/2003 also establishes the operating structure of the SPE. It comprises two branches (the *Subsecretarías* of Economic Programming and Economic Coordination) and three directorates (covering projects with international lending agencies, macroeconomic policy coordination, and public investment). In addition, Decree 1022 of 17 May 1993 created the Preinvestment Unit (UNPRE), which implemented loans 740/OC-AR and 925/OC-AR under the Multisector Preinvestment Program with the Bank.
- 3.4 **Levels of authority, staffing and financial resources of the SPE.** The senior authority of the SPE is the Secretary, who reports directly to the Minister. The Secretariat has three other levels of authority: the undersecretaries (at the political decision-making level), the national directors (heading the directorates) and the division chiefs (operating units), one of whom is the UNPRE Director. At the time of this report, the SPE has a staff of 206, of whom 114 are permanent employees, 81 are under contract, and 11 are trainees.
- 3.5 **The UNPRE** has a General Coordination Office and two sections: (i) Technical Coordination, and (ii) Programming Coordination and Control. **The General Coordination Office** is headed by a director with the following functions: (i) to direct and coordinate the work of UNPRE in reviewing proposals for studies and activities to be financed under PMP III; (ii) to control and supervise overall progress and that of each component of the preinvestment programs; (iii) to assign tasks to the respective areas; and (iv) to be the interface with the Bank for program activities. **The Technical Coordination Section** has six officers and is headed up by a technical coordinator, with the following functions: (i) to analyze and revise proposals for studies and activities submitted by beneficiary entities for funding under the program and advise the UNPRE Director on their submission to the Technical Committee for approval; (ii) to work with the UNPRE Director in determining the technical, economic and institutional eligibility of the proposed studies; (iii) to control and approve progress reports and final reports submitted by the beneficiary entities; (iv) together with the Programming and Control Coordinator, to prepare documentation on the studies for submission to the Technical Committee; and (v) to provide guidance, assistance and supervision for the entities concerned in preparing the TORs for the studies submitted to secure funding under the program. The recently created **Programming Coordination and Control Section** has six officers, with the principal functions of: (i) planning program activities and preparing the program's annual work plans; (ii) planning, coordinating and supervising training activities and identifying needs in the beneficiary entities in light of established policies; (iii) working with the Technical Coordination Section to prepare and monitor the annual budget for the program; (iv) tracking program performance and execution indicators and fulfillment of the procurement plan; (v) developing a system to monitor program activities and produce the required reports; (vi) updating the UNPRE webpage, including information required by the beneficiary entities and the Bank; (vii) identifying the technical assistance and institutional strengthening needs of the beneficiaries; (viii) defining and establishing methodologies for effective and efficient

coordination and cooperation within and among organizations, including development of a "single window"; (ix) monitoring the studies to be financed; and (x) defining and establishing information methodologies and/or systems for evaluating more accurately the regional and/or sector impact of the preinvestment studies.

- 3.6 Lastly, the SPE has a Common Administrative Services Section (ACSA), headed by a coordinator, with a staff of 12, including six professionals. Its main functions are: (i) to prepare and update the charts of accounts; (ii) to keep accounting, financial and administrative records on programs; (iii) to maintain a system of contract administration and document archives; (iv) to prepare financial statements for the programs; (v) to organize documentation for contracting consulting services and procurement; (vi) to make payments for consulting services and procurement for the programs; and (vii) to assist the general coordinators of the projects implemented within the SPE.

## **B. Organization of execution**

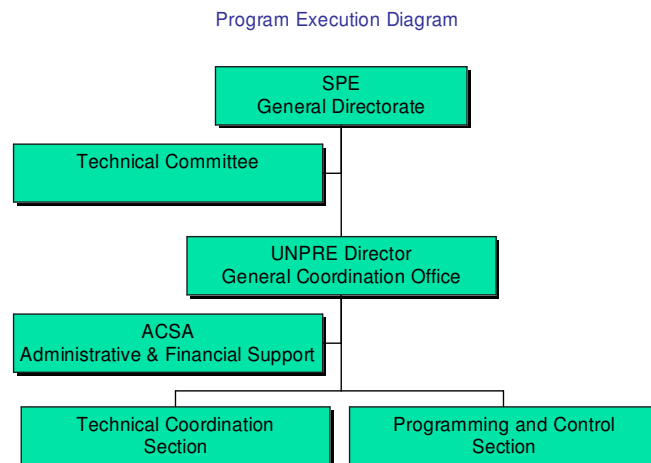
### **1. Execution structure**

- 3.7 The SPE will provide overall management for the program and will supervise UNPRE which, as in the two previous operations, will coordinate and administer the program.
- 3.8 The director of the National Directorate for Projects with International Lending Agencies (**DNPOIC**), as Alternate National Director, will approve the annual work plan, the annual financial statements, and proposals for improving program execution. The SPE will also continue to rely on a **technical committee**<sup>9</sup> to evaluate and approve all studies proposed for financing under the program, and to ensure that applications for financing are consistent with the program's objective, that their scope, purpose and amount are in line, and that there are no similar studies already done. Simplified procedures, geared to the amounts involved, will facilitate the Technical Committee's consideration of initiatives submitted by UNPRE.
- 3.9 **UNPRE** will prepare the AWP, assess funding applications for studies and activities, advise the beneficiary entities on procedures, and provide follow-up for operations approved and under way. It will also prepare annual budgets and monitor use of the funds, ensuring compliance with established program procedures for selecting and contracting consultants, and approving their reports. UNPRE will be reinforced with three consultants in the areas of programming and control, training, and technical matters to ensure efficient program execution. **The consultants are to be hired during the first six months of execution** (paragraph 2.15).

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<sup>9</sup> This committee will consist of the following SPE officials: (i) the Secretary of Economic Policy or his/her delegate, who will chair the committee; (ii) the National Directors of Public Investment, Projects with International Lending Agencies, Macroeconomic Programming, and Regional Economic Programming; and (iii) the Coordinator of the Preinvestment Unit, who will serve as secretary to the committee.

- 3.10 The Common Administrative Services Section (**ACSA**) will supply UNPRE with the necessary administrative services, keeping accounting, financial and administrative records, managing and making payments, maintaining and filing support documentation on transactions, preparing disbursement requests for the Bank, and compiling the annual financial statements. It will also disseminate disbursement and accounting control procedures. As with PMP II (loan 925/OC-AR), all payments for services contracted by the beneficiary entities will be centralized in the ACSA.
- 3.11 As in the previous programs, the beneficiary entities will handle selection and contracting processes for consulting services in the context of financing the agreed studies and activities, using procedures set out in the subsidiary agreements. UNPRE will continue to supervise these processes, and will send them to ACSA for recording and payment. The institutional procurement needs of UNPRE will be channeled through ACSA.
- 3.12 The following table summarizes the program execution scheme:



## 2. Program Operating Regulations

- 3.13 This operation will be governed by Operating Regulations (OR) similar to those used in the second program, amended to reflect lessons learned (paragraphs 1.38 to 1.44). The OR will include: (i) selection criteria for the studies; (ii) requirements for submitting applications for funding; (iii) criteria for the selection and contracting of consultants; (iv) use of resources; (v) financial management methods; (vi) execution period; and (vii) the characteristics of program monitoring and control. They will also include the subsidiary agreements and the facilitation agreements. The OR will incorporate new arrangements to facilitate the study implementation cycle, relating primarily to the procurement of goods and services and to the capacity of the beneficiary entities to monitor work on the studies. Specifically, there will now be a general requirement, for accessing funding for



studies, that the beneficiary entities form a counterpart team to monitor the study, and appoint a technical representative as an interlocutor. For beneficiaries that, because of their size and/or institutional capacity, encounter difficulties in establishing such teams, the program may pay for the specific consulting services needed to strengthen their management capacity, through components 2 and 3. Finally, to ensure that the studies financed are useful and relevant, a further requirement has been added: (i) in the case of municipal governments, study proposals must demonstrate that they are consistent with local development strategies; and (ii) in the case of the provinces, the study must have the investment planning body's no objection. **As a condition precedent to the first disbursement, the executing agency will provide evidence to the Bank that the OR agreed on with the Bank are in effect.** The OR are available in the program technical files.

### **3. Annual work plans**

- 3.14 To ensure proper programming for the operation, UNPRE will prepare annual work plans (AWP). They will consist of a report and a plan of activities for the calendar year, including: (i) a forecast of the number of activities, their execution schedule and their cost; (ii) the program objectives and targets for the period; (iii) financing needs for the period, indicating the major milestones for meeting objectives; and (iv) the procurement plan for the following 18 months. **As a condition precedent to the first disbursement, the AWP will be submitted for the first year of the operation.** The AWP for subsequent years will be presented to the Bank within 30 days before the end of the preceding year. **As a special contractual condition for program execution, the executing agency will submit to the Bank the AWP's for the subsequent years.**

### **C. Procurement**

- 3.15 The program calls for the procurement of goods and consulting services. These activities will be handled in accordance with the Bank's Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-7) and Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-7). The procurement plan includes contracts for the first 18 months of the program.
- 3.16 *Procurement of goods.* International competitive bidding (ICB) will be mandatory for the procurement of goods in amounts exceeding the equivalent of US\$500,000. For lesser amounts, national competitive bidding (NCB) will apply, and for amounts less than the equivalent of US\$100,000, the shopping method may be used.
- 3.17 *Consulting services.* For the contracting of consulting services in amounts less than the equivalent of US\$500,000, the shortlist may consist solely of national firms.

- 3.18 *Review by the Bank.* In light of the satisfactory experience with PMP II,<sup>10</sup> the Bank will apply the ex post review procedure, on a sampling basis, for all procurements and service contracts financed by the program below the ICB threshold of US\$500,000. If during its review the Bank finds that a contract was not awarded in accordance with agreed procedures, the contract will be declared ineligible for financing. Procedures will be reviewed in accordance with Appendix 1 of document GN-2350-7.
- 3.19 To facilitate the selection and contracting of consulting services, which will be handled in a decentralized manner by the beneficiary entities, it has been agreed that UNPRE should compile and continuously update sector-specific rosters of qualified individual consultants and consulting firms. **Those rosters will be in place by the end of the first year of the program.**
- 3.20 *Procurement plan.* Consistent with Bank policies, the borrower will present a procurement plan for the Bank's approval and review, covering a period of 18 months and including estimates of contract costs, sources of financing, grouping of processes, contracting methods for each process, and applicable procedures for Bank reviews. The borrower will also present, annually or as necessary, an update of this plan for a period of 18 months, for the Bank's review and approval. Annex III-1 contains the procurement plan for the first 18 months.

#### **D. Monitoring and evaluation**

##### **1. Inspection and supervision**

- 3.21 The project will be monitored and evaluated against the success indicators in the Logical Framework, using the means of verification identified there. Fulfillment of the targets established in the AWP will also be evaluated. These two instruments will be used for monitoring and evaluating the operation. The Logical Framework for the program is found in Annex III-2.
- 3.22 The SPE, through UNPRE, will monitor each component and conduct general supervision of the project, based on the annual plans prepared for each component and consolidated in the AWP. Regular monitoring and evaluation meetings will be held for this purpose.
- 3.23 UNPRE will establish a system of monitoring, control and evaluation during program execution, and this will be publicly available on the UNPRE website (<http://www.mecon.gov.ar/UNPRE>). It will include the current status of the studies under way and a detailed profile of each; the outcomes of the studies completed in the previous six months, indicating whether they resulted in investment; progress in the component for training and management of studies; possible changes in the structure of UNPRE during the six-month periods; and studies planned for the

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<sup>10</sup> During PMP II, the Bank reviewed on an ex post basis a sample of contracts under US\$100,000 with consulting firms, and of contracts under US\$50,000 with individual consultants. PMP II did not involve any significant procurement of goods.

following six months, with a justification for each. **This system will be in operation by the end of the first year of execution.**

- 3.24 The beneficiary entities will have the responsibility of selecting and contracting consulting services, approving reports, directly supervising work on each study, delivering their results on time, and reporting to UNPRE on the use made (actions and investments) of the study's recommendations. Once approved by the beneficiary entity and UNPRE, and considered by the technical committee, a sample of these reports will be reviewed by the Bank on an ex post basis.
- 3.25 Prior to the last disbursement, the executing agency will submit to the Bank, through UNPRE, a report describing each of the studies financed and their outcomes, a detailed list of investment projects undertaken or rejected, the results of training activities, the performance of the consultants in terms of contractual compliance and the quality of the services received, information for measuring the program's contribution to the development of domestic consulting services, and the program's contribution to the analysis of environmental considerations.

## **2. Financial statements and audit**

- 3.26 The financial statements for the operation will be prepared by ACSA at the close of each fiscal year, and audited by an independent firm of auditors acceptable to the Bank. The audited financial statements will be submitted for the Bank's consideration within 120 days after the close of the fiscal year.

## **3. Midterm evaluation**

- 3.27 When 50% of funds has been disbursed, the Bank's project team, together with the executing agency, will conduct a midterm evaluation to measure progress and impacts against the indicators in the logical framework, and to propose any corrective measures needed. The midterm evaluation will cover, among other aspects: (i) the relevance of project activities for achieving the objectives defined; (ii) the results of the studies in terms of investment projects financed; (iii) the functioning of the system for monitoring the impact of program activities; (iv) the quality and content of the TORs prepared by the beneficiary entities; (v) the increase in the supply of local consulting services; (vi) the functioning of the training system; (vii) the capacity of UNPRE to administer and execute the program; (viii) recommended adjustments to the items and components of the operation needed to achieve the project's objectives; and (ix) the feasibility, scope and need for an ex post evaluation. Depending on the program's results, this midterm evaluation will also verify fulfillment of the criteria for triggering the subsequent operation under the CCLIP.

## **4. Ex post evaluation**

- 3.28 During program execution, the executing agency will prepare and keep available a series of reports: AWP's, consultants' reports, ad hoc evaluations, progress reports, and the results of monitoring the indicators in the logical framework. These reports will be available for use in an ex post evaluation of the program. During the project

team's analysis mission the executing agency expressed its interest in conducting an ex post evaluation, funded by the CCLIP. At the time of the midterm evaluation, TORs will be prepared for the ex post evaluation.

**E. Revolving fund**

- 3.29 To facilitate program disbursements a revolving fund will be established with up to 5% of the Bank's financing. UNPRE will submit semiannual reports on the status of the revolving fund, in accordance with Bank policies.

**F. Execution period, disbursement schedule, and conditions for subsequent operations**

- 3.30 The funds from the Conditional Credit Line for Investment Projects (CCLIP) will be disbursed over a period of 15 years, and the first loan under the line will be disbursed over five years. Funds for the first operation will be committed in a period of four years. The following table shows the disbursement schedule for the first loan under the line:

Disbursement Schedule (US\$000)						
Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	3,642	4,358	4,000	4,000	4,000	20,000
Local	548	794	1,004	1,216	1,438	5,000
<b>Total</b>	<b>4,190</b>	<b>5,132</b>	<b>5,004</b>	<b>5,216</b>	<b>5,438</b>	<b>25,000</b>
%	17	21	20	21	21	

- 3.31 **Subsequent operations.** The following criteria will need to be met in order to process the second and subsequent operations under the CCLIP: (i) the operation must fit with the development objectives of the credit line; (ii) it must be included in the country program; (iii) the executing agency must have the institutional structure and capacity for effective results-based management of the project; (iv) 75% of the funds from the previous loan under the line must be committed and/or 50% of the funds disbursed; (v) the audited financial statements must have been delivered on time; and (vi) there must be an efficient system for monitoring and evaluating the outputs financed.
- 3.32 To ensure an orderly transition from one CCLIP operation to the next, and between loan 925/OC-AR and the first operation under the CCLIP, there will be a provision to transfer the financing commitments assumed in the previous operation for financing from the new one, and the "old" one will be closed out, so as not to have two programs in execution at the same time, and in order to simplify administrative and financial costs.

**G. Recognition of expenditures against the local counterpart contribution**

- 3.33 It has been agreed that the Bank will recognize as part of the local contribution an amount of up to US\$200,000 in consultant contracting and equipment procurement expenses for the program incurred after 22 September 2006 until the date the

Bank's Board of Executive Directors approves the loan, provided those expenditures meet requirements substantially the same as those established in the loan contract.

#### **IV. FEASIBILITY AND RISKS**

##### **A. Institutional feasibility**

- 4.1 As discussed in Chapter 1, UNPRE has successfully executed two successive programs with the Bank. An analysis of that performance shows that the program is highly feasible from an institutional standpoint. First, the external consultants' evaluation of the previous stages (Outcome Evaluation Reports) and the Bank's own internal evaluations (Project Completion Report–draft) have highlighted UNPRE's execution capability.
- 4.2 The satisfactory execution of the previous stages indicates clearly that the executing agency has the institutional capacity. However, that capacity is asymmetrical, and is concentrated at the central levels of government. This asymmetry introduces two risks. The first relates to management weaknesses in the beneficiary entities. The executing agency's commitment to help develop those capacities, through components 2 and 3 of the program, will reduce this risk. The second risk lies in the high turnover rate among the authorities involved. This could impede the effective assimilation of skills, and the progress of the program. The risk will be reduced by ensuring continuity in the technical teams, which will be strengthened at the local and regional levels as part of the first CCLIP operation.
- 4.3 Project preparation included an Institutional Capacity Assessment (ICAS) of both UNPRE and ACSA. That assessment analyzed the following systems: (i) activities and components programming system; (ii) administrative organization system; (iii) personnel administration system; (iv) goods and services administration system; (v) financial administration system; (vi) internal control system; and (vii) external control system.
- 4.4 The ICAS found no significant shortcomings in UNPRE or ACSA, and noted that "UNPRE has sufficient institutional capacity to execute any type of operation with the Bank, as demonstrated in the two programs executed to date." Nevertheless, the following activities have been agreed on to improve project execution: (i) the programming and control area will be strengthened by hiring a consultant in accordance with TORs agreed on with the Bank; (ii) a system for monitoring and processing UNPRE documents will be established, together with a "single entry window"; (iii) a consultants' roster will be compiled to help manage procurement by the beneficiary entities under the program; and (iv) a system will be established for impact monitoring, control and evaluation of activities financed by the program. The program technical files contain the report on the Institutional Capacity Assessment of the executing agency.

- 4.5 The institutional analysis also included a program risk perception assessment<sup>11</sup> covering three areas: (i) fiduciary and operational performance; (ii) development effectiveness; and (iii) quality safeguards. The overall risk classification of the program was 20.38%, which indicates a moderate degree of risk according to the established scale.<sup>12</sup> The principal risk factors identified include: (i) elections during project execution may affect key personnel or priorities; (ii) bureaucratic implementation procedures; (iii) failure to consult stakeholders; (iv) turnover of key officials assigned to implementation; (v) complex execution mechanism and procurement procedures; and (vi) weaknesses in financial and budgetary programming.
- 4.6 Special attention was paid to these risk factors in the design of the present program. With respect to factors (i), (iii) and (iv) safeguards have been introduced in the Operating Regulations to give continuity to the initiatives financed, and to ensure there is a critical mass of trained officials who can work on the program. Factors (ii), (v) and (vi) will be mitigated through the program's new execution procedures, and application of the Bank's new procurement policies.

## **B. Benefits**

- 4.7 The program will contribute to the process of setting priorities for public investment projects in order to maximize the impact of funds earmarked for investment in the coming years. Funding will be provided for studies to establish the feasibility of investment projects and to ensure that they represent the best alternative for resolving the problems to be addressed.
- 4.8 The program will also support further decentralization of the SNIP, to ensure that it can respond effectively in terms of formulation and annual management of the National Public Investment Plan. At the same time, technical capacities for formulating and prioritizing investment projects will be strengthened in all three levels of the public sector (national, provincial, and municipal).
- 4.9 Furthermore, the program will provide training in project identification, analysis, evaluation, and dissemination and will thereby help to foster a culture based on planning and adoption of project cycle criteria in investment decisions at the regional and local levels.
- 4.10 Lastly, the program will facilitate Bank activities in the country through the preparation of studies relating to projects in the work program agreed with Argentina, which amount to some US\$8 billion over the period 2007-2009.

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<sup>11</sup> This exercise involved members of the Federal Auditor General's Office, the DNPOIC, the Head of the Cabinet of Ministers, UNPRE, ACSA, and the IDB.

<sup>12</sup> Very low (.00 –.06) ; low (.06 –.13); moderate (.13 –.30); high (.30 –.55); very high (.55 –1.00).

**C. PTI/SEQ classification**

- 4.11 Given the nature of the activities that the program will finance, the benefits of which will redound to the population in general, this operation does not qualify as a poverty-targeted investment or as a social equity enhancing project.

**D. Social and environmental impact**

- 4.12 The proposed program will have no direct effects on the environment, either positive or adverse, for it will be financing preinvestment studies and training. However, the projects that may result from the studies could have a wide variety of environmental impacts, given the broad geographic and sectoral coverage of the operation. To mitigate this risk, all studies to be financed will include the obligation for the beneficiary entity to comply with all provisions of Argentine legislation on the protection of the environment and natural resources, as well as with the Bank's policies and procedures relating to the assessment of environmental impacts and natural disasters. This requirement was observed in the preceding programs and is reflected in the OR.
- 4.13 From a social standpoint, by improving the SNIP the program will promote investment in projects that maximize economic and social benefits, and it is therefore expected to have a positive social impact.

**ARGENTINA**  
**MULTISECTOR PREINVESTMENT PROGRAM III AND CCLIP (AR-L1035)**

**LOGICAL FRAMEWORK**

SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>Goal</b>			
To improve the allocation of public investment funds in support of the country's economic and social development, consistent with the strategy and the priority areas agreed on with the national authorities.	The public investment systems at the three levels of government have a greater number of projects supported by feasibility studies.	UNPRE web page <a href="http://www.mecon.gov.ar/UNPRE">http://www.mecon.gov.ar/UNPRE</a>	The authorities are interested in developing and promoting the use of systems to streamline public investment.
<b>Purpose</b>			
To enhance the return on public investment at the national, provincial and municipal levels by increasing the number of investment projects that have feasibility studies.	Financing of 14% of preinvestment studies needed to ensure profitability for a total expected investment volume of US\$12.662 billion over 3 years and/or 9% of the needs for studies for an amount of US\$20 billion in 5 years	UNPRE web page <a href="http://www.mecon.gov.ar/UNPRE">http://www.mecon.gov.ar/UNPRE</a> National and regional BAPIN consultations	The authorities are committed to giving priority to investment projects backed by preinvestment studies that will ensure their feasibility.
<b>Components</b>			
1. Preinvestment studies produced at the national, provincial and municipal levels that are consistent with the strategy and the priority areas agreed on with the national authorities	Feasibility studies prepared by the program ensure the return of investment projects amounting to US\$1,728,000 by the end of the program	UNPRE web page <a href="http://www.mecon.gov.ar/UNPRE">http://www.mecon.gov.ar/UNPRE</a> with detailed results for studies financed	There is the political will needed to ensure that public investment plans include the projects that have feasibility studies.
2. Beneficiary entities strengthened in their capacity to manage and follow through on preinvestment studies	2.1. The content and scope of the TORs for preinvestment studies presented by beneficiary entities meet UNPRE standards (60% in the first year and 10% increments in each subsequent year)	UNPRE web page <a href="http://www.mecon.gov.ar/UNPRE">http://www.mecon.gov.ar/UNPRE</a>	There is a willingness to implement the methodological tools developed.
	2.2. Studies completed properly and on	UNPRE web page	There are no external factors that



SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	time (programmed time/actual time)	<a href="http://www.mecon.gov.ar/UNPRE">http://www.mecon.gov.ar/UNPRE</a>	would delay the field studies.
	2.3. Introduction of a system for monitoring the impact of investment studies beginning in year 2.	UNPRE web page <a href="http://www.mecon.gov.ar/UNPRE">http://www.mecon.gov.ar/UNPRE</a>	UNPRE can count on the beneficiary entities to feed information into the system.
3. Professional staff of the beneficiary entities and providers of consulting services at the provincial and municipal levels trained in identifying, prioritizing, preparing and evaluating projects	3.1. 250 provincial and municipal officials and consultants trained in the project cycle by the end of the program (50 per year)	List of officials and consultants taking the courses, and their evaluation of the courses	Officials and experts are interested in taking the training programs.
	3.2. A culture recognizing the importance of the project cycle has been strengthened at the subnational level (number of subnational governments with regulations governing their public investment systems).	Semiannual monitoring and evaluation reports from UNPRE with details on results achieved.	
	3.3. There are an additional 460 experts offering consulting services at the local and regional level to meet demand (the newly developed roster of consultants includes qualified consultants based outside the capital).	UNPRE roster of consultants and proportion of local consultants performing studies at the subnational level.	There is a sufficient supply of professional services to perform the work.

# DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## PROPOSED RESOLUTION

### Argentina. Conditional Credit Line (CCLIP) Multisector Preinvestment Program

The Board of Executive Directors

#### RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary with the Argentine Republic, to establish a Conditional Credit Line (CCLIP) for a Multisector Preinvestment Program, hereinafter referred to as the "Credit Line", of up to the sum of US\$60,000,000, chargeable to the resources of the Single Currency Facility of the Ordinary Capital of the Bank.

2. That the establishment and utilization of the Credit Line shall be carried out in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects established by Resolution DE-58/03 of July 16, 2003 and amended by Resolution DE-10/07 of January 31, 2007; and (b) the specific provisions set forth in document GN-2246-4.

3. That the approval of individual operations, chargeable to the Credit Line, shall be subject to, with the exception of the first of such operations, the satisfactory performance of the previous program or programs financed under the Credit Line.

4. That the amounts authorized to finance individual operations chargeable to the Credit Line shall be granted as individual loans subject to the usual financial terms and conditions applicable to financing from the resources of the Single Currency Facility of the Bank's Ordinary Capital, in force at the time that the individual operation is approved, which shall be specified in the executive summary of the corresponding loan proposal.

5. That the Bank may only sign an agreement or agreements with the Argentine Republic to grant financing for the first individual operation after the Credit Line agreement or agreements between the Argentine Republic and the Bank enter into force.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION

Argentina. Individual Loan \_\_\_\_/OC-AR to the Argentine Republic  
Utilization of the resources of the Conditional Credit Line to support  
Investment Projects established by Resolution DE-\_\_\_\_/\_\_\_\_  
Multisector Preinvestment Program III

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to utilize the resources of the Conditional Credit Line to support Investment Projects approved pursuant to Resolution DE-\_\_\_\_/\_\_\_\_, by entering into such contract or contracts as may be necessary with the Argentine Republic, as Borrower, for the purpose of granting financing for an individual operation for cooperating in the execution of the multisector preinvestment program III. Such financing will be in the amount of up to US\$20,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.