

**PROGRAM OF INSTITUTIONAL SUPPORT, FISCAL REFORM AND
INVESTMENT PLANNING FOR THE CITY OF BUENOS AIRES**

(AR-0218)

EXECUTIVE SUMMARY

BORROWER: Government of the City of Buenos Aires (GCBA)

GUARANTOR: The Argentine Republic

EXECUTING AGENCY: Secretaría de Hacienda y Finanzas [Department of Finance (SHF) of the GCBA]

AMOUNT AND SOURCE: IDB: US\$200 million (OC)
Local counterpart funding: US\$200 million
Total: US\$400 million

FINANCIAL TERMS AND CONDITIONS: Amortization period: 20 years
Disbursement period: 4 years
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%
Currency: U.S. dollars from the Single Currency Facility.

OBJECTIVES: The general objective of the program is to contribute to the economic development of the city of Buenos Aires, by establishing a framework of medium- and long-term fiscal and financial sustainability, maintaining an adequate fiscal balance through action on both the expenditure and the revenue sides; strengthening and upgrading the GCBA's public administration by: (i) enhancing the efficiency and transparency of its management functions, and (ii) encouraging the participation of civil society through decentralization and strengthening of the legislative body; and supporting the investment program to ensure satisfactory quality and coverage of public services.

DESCRIPTION: To achieve the stated objectives, the program will comprise a modernization subprogram for the GCBA, consisting of six components, and an investment plan support subprogram for the GCBA.

1. Modernization subprogram for the GCBA (US\$71 million). This subprogram consists of strengthening and development in six key areas, that will enable the GCBA to: (i) increase

administrative efficiency and effectiveness and enhance transparency in and streamline the management of public resources (through the strengthening of entities responsible for tax and financial administration in the GCBA); (ii) implement a modern and effective human resource management system by strengthening the Directorate of Human Resources Management; (iii) increase transparency and effectiveness in the procurement of goods and services, by strengthening the Directorate of Procurement and Contracting; (iv) allocate investment resources more effectively by strengthening the investment system; (v) expand the decentralization process through increased social participation; and (vi) strengthen the technical capacity of the recently constituted legislature.

2. Subprogram of support for the investment plan (US\$322.6 million). This subprogram will finance up to 15% of annual investments under the GCBA's multiyear investment plan. This plan has been discussed and the following general criteria agreed upon: (i) fiscal consistency: the level of annual investment will be consistent with the goals of fiscal surplus and basic maintenance of infrastructure; (ii) private sector participation: works that can be performed by the private sector will be awarded under concessions; and (iii) transparency and cost effectiveness: all works and service contracts will be conducted under bidding procedures agreed with the Bank.

The GCBA has agreed to undertake a series of actions under the program, even where the Bank is not directly involved in financing them. Such actions constitute the so-called agreement on fiscal and financial reforms and goals (ARMFIF): (i) to meet annual fiscal goals relating to expenditures, resources and revenues; (ii) to create a stabilization and socioeconomic development fund (FEDES) and earmark resources for it; (iii) to bring private capital into the municipal bank, Banco de la Ciudad; and (iv) to carry out the debt restructuring program. Fulfillment of these actions will be monitored yearly for the release of financing resources for the following year.

**ENVIRONMENTAL
AND SOCIAL REVIEW:**

The main recommendation of CESI was that an environmental impact study be conducted for the "City and River" project. This has been done (see paragraphs 3.31 to 3.34).

BENEFITS:

The program is expected to contribute to achieving: (i) a sounder fiscal position, and the adoption of measures for maintaining it over time; (ii) better accessibility and quality of public goods and services provided to the community; (iii) greater efficiency in the allocation of public expenditure in general and of social expenditures in particular; and (iv) more effective provision of services, more streamlined procedures and better administration in the executive and legislative branches.

One expected benefit of the program will be to establish balanced budget in the medium and long terms. The program aims to create conditions for reducing the city's debt, over the medium term, to levels compatible with long-term budgetary balance. During the execution period, the ratio of debt to current resources is expected to be reduced from about 40% in 1997 to 28% by 2001. In addition, a 14% increase in the level of current resources is planned for the period of the program, thereby ensuring that the resources needed to set up FEDES will be available. In addition, the city payroll is expected to be reduced by 6% and personnel costs are expected to fall by about 3% over the course of the program.

These actions in the fiscal area and the administrative reforms reflecting greater transparency and effectiveness in the procurement process and investment system, together with the decision to absorb private capital into Banco de la Ciudad, will put the city on a solid and sustainable fiscal footing. This is expected to lead to a substantial improvement in the city's access to domestic and international capital markets, by improving its risk rating by specialized agencies, which in turn will complement the Bank's strategy towards the provinces.

**POVERTY-TARGETING
AND SOCIAL
CLASSIFICATION:**

This program is defined as a modernization of the State program and cannot be classified as poverty-targeted pursuant to the terms of paragraph 2.15 of the Eight Replenishment document (document AB-1704).

RISKS:

The measures agreed in the 1993 Fiscal Pact call for replacing the business turnover tax, depending upon agreement on a substitute. This measure could affect the revenue levels and the fiscal position of the GCBA. Nevertheless, with the measures that the program will take to strengthen and improve management of the Department of Revenues, which are largely designed to reduce evasion rates for other

taxes, the impact of this potential reduction in the city's revenues should be mitigated.

The investment of private capital in Banco de la Ciudad has become an urgent necessity for consolidating the GCBA's fiscal situation. There is a risk that the legislature may not pass the capitalization act. If the relevant law is not approved, it has been agreed that the GCBA will submit a financial and administrative framework for Banco de la Ciudad acceptable to the Bank.

The proposed new personnel systems run the risk of being held up if there is no consensus among the key players in the process. To mitigate this risk, the program calls for a series of steps to disseminate information to agents and employees.

Implementing a complex program of this type always carries the risk of suboptimal execution and failure to achieve planned objectives and goals. The proposed central executing unit (UEC) will play a preponderant role in mitigating this risk. As designed, the UEC will be chaired by the Secretary of Finance, to give it maximum decision-making status, and its professional staff makeup will go a long way to ensuring satisfactory execution.

**EXCEPTIONS TO
BANK POLICY:**

The Argentine Nation will be the guarantor of the loan; however, it only guarantees the payment of the loan, including interest and fees, but not the local contribution or the obligations to make such contribution, which are the responsibility of the GCBA.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

In support of the priorities established by the national government and pursuant to the guidelines of the Eighth Replenishment, the Bank's action will focus on three basic areas: (i) reducing poverty and raising living standards by providing employment and expanding service coverage; (ii) raising the productivity and competitiveness of national output; and (iii) deepening and consolidating the modernization of the State and extending this to the provinces and municipalities.

In particular, this program will contribute to management efficiency and will support financial and fiscal sustainability, while ensuring a suitable level of quality and coverage for GCBA services. In this regard, it is consistent with the Bank's strategy of continuing to support the Provinces directly, by designing programs to balance their

budgets and support their reform process. The 1998-99 operations program calls for conducting operations with the Provinces of Neuquén, San Luis and La Rioja and expressions of interest have been received from the Provinces of Corrientes and Misiones.

**PROCUREMENT OF
GOODS AND
SERVICES:**

In this project, international competitive bidding will be conducted for purchases in the amount of US\$350,000 and up for goods; US\$5 million and up for construction works; US\$50,000 and up for individual consultants, and US\$200,000 and up for contracts with consulting firms (paragraphs 3.25, 3.27 and 3.28).

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement

1. Create a stabilization and socioeconomic development fund (FEDES) (paragraph 2.38).
2. Demonstrate to the Bank's satisfaction that the UEC has been established as the unit responsible for program execution (paragraph 3.3).
3. Present and implement the Operating Regulations (paragraph 3.11).

Condition precedent to the first disbursement relating to the component for strengthening the legislative branch:

1. Presentation of the project defined for this component (paragraph 2.29).

Other contractual provisions

Suitable conditions will be agreed upon to ensure proper monitoring and evaluation of the program, particularly fulfillment of the ARMFIF, which constitutes a clause on which financing of the investments is conditional (paragraphs 3.20 to 3.22), submission of financial statements (paragraph 3.29) and the use of Bank procedures for procurement of goods and services and the contracting of consulting services (paragraphs 3.25 to 3.27). The contract will stipulate that the GCBA, as a condition precedent to signing of the loan contract, must present models of the semiannual reports relating to monitoring of program execution to the Bank.

I. FRAME OF REFERENCE

A. Characteristics of the City of Buenos Aires

1. Land area, population and basic infrastructure

- 1.1 The city is located at the mouth of the River Plate. It covers an area of 199.5 square km, and has 28 electoral wards. Its eastern and northeastern limits run along the River Plate for 18 km, and to the south it is bounded for 14 km by the Riachuelo River. To the west and northwest the city has a boundary with the Province of Buenos Aires. The city was founded in 1580, and became the federal capital of Argentina in 1880. Today it remains the seat of the national government, and it is the country's foremost financial and commercial center. The City of Buenos Aires accounts for 26% of national GDP. The productive structure is similar to that of the world's other great cities: most important are its financial and insurance establishments, which account for 33% of total economic output; this is followed by commerce, restaurants and hotels, with 22%; manufacturing industries, 17.5%; and other services, approximately 17.5%. These four sectors represent more than 90% of city-generated GDP, which in 1996 amounted to about US\$75.997 billion, placing it in second position among the country's economic regions, after the Province of Buenos Aires.
- 1.2 The city's population exceeds 3 million (representing 8.7% of the country's population). The unemployment rate stands at around 13%, which is lower than the rate of 16.1% for the country's urban areas as a whole. The city also has a high literacy rate (88.3% of the population over 10 years of age, compared with 86.3% nationally). Its mortality rate is about 14.3 per thousand, compared with a 1994 level of 22 per thousand for the country as a whole. Lastly, it has the country's highest life expectancy, at an average of 72.7 years compared with a national average of 71.9 years.

2. Economic situation

- 1.3 The city's economy must be considered in the broader context of the national economy of Argentina, since it acquired its autonomous political status only in mid-1996. During the 1970s and 1980s, the Argentine government carried out a series of economic plans intended to stabilize the economy and to encourage real growth, efforts that initially met with only limited success. The city undertook a variety of measures to reduce its fiscal deficit. That deficit reflected the erosion of its tax base as a result of economic recession, the abrupt drop in municipal tax collections, and the loss of fiscal revenues in real monetary terms, attributable to the effects of inflation between the date of assessment and date of collection of municipal taxes. In addition, it cut back on its investment programs significantly.

- 1.4 Since introduction of the convertibility plan in 1991, Argentina has seen a significant reduction in its inflation rate, its GDP has grown and there has been a major inflow of foreign currency, all of which has had a favorable impact on the city's economy.
- 1.5 The Argentine economy was able to cope successfully with the so-called "tequila effect" in 1995 and the first months of 1996. While GDP declined by 4.6% in 1995, this lost ground was made up in 1996, when growth was 4.3%. Recovery continued and strengthened in 1997, when the economy showed that it could weather the "Asia effect" by growing at 8.4%. There is no doubt that the 1995-1997 period was a difficult time for economies all over the region, and in Argentina's case it meant major fluctuations in tax revenues, capital outflows and higher financial costs, against which the government took timely corrective measures. Yet the fact remains that the economic fallout from these developments was less severe in the city of Buenos Aires than in other parts of the country.

3. Institutional situation

- 1.6 The reform of the national constitution approved on December 15, 1994, established a new autonomous system for the GCBA, which called for direct election of the city's head of government and changed the status of the city from a municipality to a Gobernación, the equivalent of a province. The current city administration took office in August 1996. The City of Buenos Aires (CBA) is now engaged in an in-depth process of institutional reform, one that involves increasing the degree of autonomy and decentralization of all of its political and administrative institutions. These reforms will have economic and financial implications for the CBA.
- 1.7 The transfer of services to the autonomous city will mean greater resource needs. Nevertheless, the national Constitution establishes that there will be no transfer of authority, services or functions without the respective allocation of resources approved by congressional act.
- 1.8 The process of institutional regularization of the GCBA is progressing as planned. To date (i) the city's new constitution has been approved, (ii) its executive branch has been structured and is in full operation, and (iii) elections have been held for the city legislature. It remains to complete the setting up of the judiciary and the control bodies. The justice issue is a complex one: while the transfer of ordinary courts has been partially completed, the handover of the other judicial areas is still under discussion.
- 1.9 Beginning in August 1996, the GCBA undertook a series of reforms in both the fiscal and financial administration area and that of government administration, with the result that the city now enjoys a more solid economic framework and a more efficient approach to

resource management. Similarly, the city has been among the entities making the greatest progress in privatization (with only one major privatization remaining to be completed, that of Banco de la Ciudad), and it has transferred its retirement pension fund to the central level. The major challenges now facing the GCBA are: (i) to expand its own resources, in the context of the tax reform transition; (ii) to enhance the efficiency of both current and capital expenditure; (iii) to improve the quality of services; (iv) to improve its debt profile; (v) to provide for better medium-term planning of public investment, and (vi) to strengthen its management mechanisms. The proposed program is aimed at consolidating the reforms undertaken and meeting the challenges still facing the GCBA.

B. Fiscal and financial administration reforms

1. The fiscal situation

- 1.10 The GCBA, together with the provinces of La Pampa, San Luis, Mendoza and Buenos Aires, finds itself in a relatively sound fiscal and financial situation. Nonetheless, as in those provinces, the GCBA must take steps to ensure its fiscal soundness over the medium and longer term, and to modernize its financial management. The following table shows the trend of the city's revenues and expenditures over the past four years:

TABLE I-1

GCBA: Revenues and expenditures (1992-1997) (Millions of constant pesos at 12/31/96)				
	1993	1994	1995	1996
Revenues	2,741.6	2,747.0	2,581.0	2,573.1
- Current	2,738.0	2,344.7	2,579.3	2,568.8
- Capital	3.6	2.3	1.7	4.3
Expenditures	3,158.9	2,960.4	2,784.2	2,991.3
- Current	2,900.6	2,707.2	2,557.8	2,712.0
- Capital	258.3	253.2	226.4	279.3
Current savings (deficit)	(162.6)	(362.5)	21.5	(143.2)
Total surplus (deficit)	(417.3)	(213.3)	(202.8)	(418.2)
- % of revenues	(15.2)	(0.8)	(0.8)	(16.2)

- 1.11 During the last few fiscal years, the city ran a deficit on its overall balance. One of the major causes of this deficit was the transfer of responsibility for hospital and education spending from the national government to the city, with no offsetting transfer of resources. The fiscal deficit recorded in 1997 shows a sharp reduction with respect to the 1996 fiscal year, as a result of the CGBA's strategy of strengthening its fiscal situation through a

series of measures linking expenditure to actual availability of funds. Projections show a surplus beginning in 1998.

- 1.12 Another problem that stands out from the above table is the fluctuations in current revenues: these rose slightly in 1994 over 1993, then dropped by 7% in 1995, declined somewhat further in 1996, and rose again in 1997 by 13%. These fluctuations are primarily a reflection of changes in the national economy and of certain political decisions in 1994 consistent with reducing the business turnover tax on industrial activity and other activities such as construction.
- 1.13 The city relies for its revenues on the business turnover tax (a tax on the gross amount of sales), the property tax, automobile license fees, tolls, revenues from concessions, and revenue-sharing payments from the national government. The GCBA is aware of and is addressing problems in its tax collection system that result from the current limitations faced by the Dirección General de Rentas y Empadronamiento Inmobiliario (DGRyEI) [Department of Revenues and Property Registration], the institution responsible for tax collection, and that flow from the gradual replacement of the business turnover tax by an excise tax, pursuant to the 1993 *Pacto Fiscal*. It is estimated, for example, that in 1996 there was a shortfall in collections of the business turnover tax of the order of 35% (some US\$760 million), in comparison with the tax potential, of 25% (some US\$138 million) in the case of property taxes, and 20% (about US\$59 million) in the automobile tax. The proposed program will help to strengthen the tax collection and control systems and thereby lead to more efficient and productive management of the city's finances.
- 1.14 With respect to budget execution for 1997, the city's total revenues amounted to US\$2,880,800,000 of which about 92.4% was generated locally, and 7.6% corresponded to revenue-sharing from the national government and other sources. Total expenditures by the city amounted to US\$2,975,500,000 of which current expenditures accounted for 92%, and capital spending 8%. Of current expenditures, payments to personnel represented 61% (US\$1.67 billion).
- 1.15 The city's annual budget for the 1998 fiscal year amounts to approximately US\$3 billion, and represents the third largest budget in the country, after the federal government and the Province of Buenos Aires. The major items of expenditure are health, education, and capital expenditures relating to maintenance of the roads system, extension of the city's subway lines, installation and improvement of traffic signals and public lighting, and maintenance of hospitals, schools and other public works.

2. The debt situation

- 1.16 The GCBA's debt at the end of 1996 stood at US\$1.1 billion. Nearly all of this debt was short term, and 45% was concentrated in Banco de la Ciudad. Interest payments in 1996 were US\$146 million, and amortization US\$390 million. Since installments due in the first half of 1997 amounted to US\$490 million, a restructuring of the debt to a longer repayment term was urgently called for. In this regard, the authorities have taken a first step by placing a city-guaranteed, ten-year bond on the international market for US\$500 million; of this amount US\$400 million will be used to refinance the debt and US\$100 million will go to capitalizing Banco de la Ciudad. Four series of bonds were issued in the second quarter of 1997. The first was in the amount of US\$250 million for 10 years at 11.25% interest. The second was issued in Argentine pesos for the equivalent of US\$150 million for seven years at 10.5% interest. The other two series were issued in Italian lira for the equivalent of US\$100 million for terms of seven and eight years and interest of 10% and 9.5%, respectively. These issues were rated by Moody's (B1) and Standard and Poor's (BB).
- 1.17 This project will make it possible for the CBA gradually to improve its rating and to strengthen its track record, which it was lacking when it issued the above-mentioned bonds, inasmuch as goals have been set in terms of fiscal reform, institutional reform, transparency, debt restructuring, and the absorption of private capital into Banco de la Ciudad. To evaluate the impact of the program, the contracts with the international rating companies provide for an annual rating of the CBA.
- 1.18 Having completed its first refinancing, the GCBA has now prepared a debt restructuring plan with a view to replacing its short-term debt with long-term debt, and at the same time reducing its cost. The IDB has reviewed that plan and considers it consistent with the objectives set out. One of the most significant features of the plan, in terms of enlisting private capital participation in Banco de la Ciudad, is that the GCBA has programmed reductions in its debt with that bank and intends eventually to eliminate it entirely. In fact there has already been major progress towards the above objectives: in 1997, the portion of the city's debt held by Banco de la Ciudad dropped by more than 50% from its level of the previous year (from US\$496 million to US\$226 million); the average maturity of the total debt was extended from two to eight years; and the average interest rate was reduced from 15% to 13%. In addition to the reported debt, there is a non-callable cross debt between the federal government and the city, estimated at between US\$1.3 and US\$1.5 billion. In order to regularize that debt, a bilateral commission has been set up, and is expected to arrive at an agreement for compensatory settlement on both sides.

3. The investment system

- 1.19 Public investment has been characterized by the absence of sectoral strategies, overall evaluation guidelines, and properly prepared projects. Moreover, the distribution of available resources with no planning or coordination has led to a significant fall in the productivity indicators for municipal public investment over the last several years. Since it took office, the present administration has been attempting to improve financial programming and administration, with particular regard to the investment system. In this respect, the approach has been to formulate a medium-term investment program that would be defined and planned on the basis of a proper investment policy, and would include principles of economic rationality, linked directly to the needs of the city's inhabitants, and aimed at optimizing the allocation of resources, so as to secure more efficient administration of public expenditure.
- 1.20 As a result of this effort, the GCBA has drawn up an investment program for the period 1998-2000, known as the three-year plan, which represents a major attempt to rationalize decisions about what to finance. Investment selection has been squarely based on the availability of resources and the prioritization of projects. Notwithstanding the progress that has been made, however, there is an urgent need to strengthen the investment programming system of the City of Buenos Aires (SIPRIN), so as coordinate investment programming more systematically, increase the rates of return on investments, optimize the use of resources, and have a portfolio of viable, high-priority projects.
- 1.21 The multiyear plan calls for investments of US\$1.115 billion to overcome infrastructure shortages and operational problems that limit the city's development potential or affect the quality of life of its people, by focusing investments on services and facilities that will: (i) enhance the city's operating efficiency; (ii) improve the quality of life of its inhabitants; and (iii) protect the environment. The distribution of funding among sectors over the three-year period is as follows: education US\$83.5 million; health US\$78.2 million; culture US\$62.2 million; environment and urban development US\$364.2 million; road improvements US\$172.3 million; subways US\$327.8 million; other, US\$26.8 million.
- 1.22 The city government is making efforts to ensure that projects that offer the greatest financial returns, particularly those related with the subway system, are undertaken with private sector support (it has been agreed that the subway works will not be eligible for Bank financing). Consequently, the city's tax revenues and its long-term borrowings are being devoted primarily to sectors that do not offer a sufficiently high return to attract private financing, but that have a high economic rate of social return, such as education, health, environment and culture.

C. Administrative reforms

- 1.23 Its newly acquired autonomy presents the City of Buenos Aires with a challenge that will require a thorough reform in terms of revising, adapting and streamlining management procedures and mechanisms, by incorporating modern administrative techniques into the various areas of government. In this respect, the current administration has made significant efforts at revision, modernization and reorganization, consistent with its new institutional status, and has identified a number of key areas that require Bank support to improve their management: human resources, procurement and contracting, decentralization and city property administration.

1. Human resources

- 1.24 At the present time, the GCBA has approximately 99,000 public employees, of whom 79,000 are working in the areas of education and health, and the remaining 20,000 in the central government services. Total personnel costs represent 61% of the 1997 budget.
- 1.25 The current administration's policy with respect to staffing generally is to exercise better control and supervision in order to enhance labor performance, contain the size of the payroll, and produce greater overall productivity. This policy has already led to some cuts in the payroll (by about 1%) and to lower rates of absenteeism.
- 1.26 Yet despite the progress achieved to date, the analysis that was conducted revealed that: (i) structures are oversized, with functions and units that are obsolete and responsibilities that overlap; (ii) there is a mismatch between employees' knowledge and capabilities and the skills required for their jobs, especially at the management level; (iii) labor is highly irremovable (thanks to rigid regulations and the lack of management tools for reassigning staff); (iv) personnel policies are inadequate (pay and promotions are not based on merit and capabilities, there is no performance appraisal system, etc.); (v) there is a great institutional weakness in personnel management and no proper information systems. The proposed program will provide for institutional strengthening to help the GCBA overcome the problems identified in this analysis.

2. Procurement and contracting

- 1.27 Since the new government of the City of Buenos Aires took office, it has taken a series of steps to improve procurement and calls for tender. These steps include the following: broader participation by bidders, substantial improvement in the timeliness of payments to suppliers, introduction of a consolidated account system in the Treasury, increased transparency, signing of agreements with the Sindicatura General de la Nación [Comptroller General of the Nation] for the provision of benchmark prices, elimination of the

audit functions of the Contaduría General (General Accounting Office], and preparation of tables showing responsibilities and amounts earmarked for procurement and contracting. Yet despite this progress, a survey conducted in the various purchasing and contracting areas showed the need to strengthen the administration responsible for these areas, in order to ensure continuing efficiency, effectiveness and transparency in the procurement and contracting process.

- 1.28 Among the problems detected by that survey were the following: (i) excessive decentralization of procurement; (ii) time-consuming bidding processes and obsolete bureaucratic rules; (iii) little integration among the various departments of the GCBA; (iv) lack of access to electronic communications and networks; (v) operational problems in some of the control agencies; (vi) difficulties in obtaining reference prices in some cases; and (vii) scarcity of highly qualified professionals in the information technology area. These aspects will be addressed under the proposed program.

3. Decentralization plan

- 1.29 The GCBA has launched the development of a decentralization plan, with a view to reversing the city's excessive degree of functional concentration. This initiative responds to a legal imperative (recognized in the city's own constitution) that flows from a generalized perception that the municipal administration is too remote from the citizenry, and has little understanding of social needs, public demands, and differences between the city's districts. Decision-making and procedures are now highly centralized, and there is a very low degree of citizen participation or consultation with neighborhood groups.
- 1.30 The GCBA has set up 16 management and participation centers (CGPs) that support the decentralization process, established on the basis of the former neighborhood councils. These centers have begun to operate as government agencies in the delivery of some services and to resolve resident complaints, through citizen participation and consensus-building. The decentralization program would be aimed at formulating scenarios of the future subdivision of the city and proposing the organizational models of some of the specific experiences.

4. Administration of public properties

- 1.31 The city owns 6,156 properties that are devoted to various uses: health, education, parks and public squares, culture, housing, recreation centers, depots, public offices, etc. Recently obtained information ^{1/}, although incomplete and suffering from some

^{1/} First version of the consolidated properties census, Properties Administration Directorate, April 1998.

methodological deficiencies, suggests some preliminary conclusions: (i) the use of 17% of these properties is unknown; (ii) 12% of properties are in a state of disrepair, while 70% are in fair condition; (iii) information on lot sizes and built-on sites is incomplete; and (iv) there are serious problems with ownership titles.

- 1.32 This area requires implementation of a comprehensive program of building use and repair, under which the usage and availability of city properties would be rationalized and a large number of them could be sold off. In this way, instead of representing a net drain on the maintenance budget as at present, they could produce genuine revenues that could be devoted to other purposes.

D. The city legislature

- 1.33 With the 1994 constitutional reform, the city was endowed with a legislative branch similar to that of a province. At the end of November 1997 legislative elections were held for deputies at the national and subnational levels; for the first time deputies were elected to the new legislature of the CBA, which took up its functions in December. The city congress will require support for its new organization and its new mandates and expanded responsibilities, if it is to be able to conduct its parliamentary activities smoothly and effectively. The *Auditoría General* [Office of the Auditor General] of the GCBA, which is to report to the new parliament, is not yet operational, and the proposed program will provide funding for institutional strengthening in this regard.

E. Strategy and justification for the Bank's participation

- 1.34 The Bank's operating strategy in Argentina focuses on three basic areas: (i) reducing poverty and raising living standards by providing employment and expanding the coverage of services; (ii) raising the productivity and competitiveness of national output; and (iii) deepening and consolidating modernization of the State and extending this process to the provinces and the municipalities.
- 1.35 The characteristics of the program proposed in this document relate in particular to the strategy for supporting economic and social development at the provincial level, contributing to management efficiency, and supporting financial and fiscal sustainability that can assure a suitable level of quality and coverage of GCBA services.
- 1.36 In addition, the proposed program is consistent with the policy of the national government and the Bank of providing direct support to the provinces in the reforms that they must undertake, within the guidelines of the national economic program, with a view to improving their fiscal revenues, proceeding with privatization of public enterprises, and rationalizing public expenditure. Success

in these reforms will allow subnational entities greater access to local and international capital markets.

- 1.37 The Bank and the national government have worked out a strategy for action with the provinces, which consists of two kinds of operations: (i) direct loans to subnational entities that can demonstrate their creditworthiness and financial capacity, and that are making progress under a structural reform program; and (ii) national programs and technical cooperation operations to strengthen and provide institutional support for the remaining provinces and municipalities in order to place them on a more solid financial footing.
- 1.38 In late 1996 the Bank approved the first direct loan to the Province of Buenos Aires (about 30% of this loan has been disbursed) and it is about to approve an operation for the Province of Mendoza. The two operations already prepared and the one proposed in this document are similar in their objective of balancing fiscal accounts and supporting reforms. The differences between them have to do with the targeting of a portion of the financing, which is tailored to the particular characteristics of each province and the progress of their reforms. In the case of Buenos Aires Province, part of the funding was directed to privatizing its public enterprises, and in the case of Mendoza the focus is on privatization and on enhancing the efficiency of social expenditure. The proposed program will not only fund support for the reforms undertaken by the city, but will also finance a portion of its investment program, which fell behind in recent years because of the lack of long-term financial planning.
- 1.39 The Bank's current strategy is to continue to support the Provinces directly, by designing programs to balance their budgets and support the reform process. As part of the operations program for 1998/99, operations are planned in the Provinces of Neuquén, San Luis and La Rioja, and indications of interest have already been received from the Provinces of Corrientes and Misiones. In addition, a reimbursable technical cooperation program is being prepared to provide institutional support to six of the less developed provinces.

F. Experience of the IDB and the World Bank

- 1.40 This would be the Bank's first direct operation with the GCBA. The city, however, is the beneficiary of several operations that are currently under way: (i) Financial reform and economic development program for the provinces of Argentina (IDB loan 619/OC-AR for US\$200 million, with IBRD cofinancing), which was approved in March 1991. This is a multisector program to provide institutional support for administrative and fiscal reforms in the provinces, and investment financing. The loan is 100% committed and about 75% of it has been disbursed; the amount earmarked for the GCBA was US\$749,000, of which US\$533,000 has been disbursed. Execution was

initially slow, but is now proceeding at a normal pace. (ii) The education reform and investment program (PRISE), loan 845/OC-AR for US\$300 million, which was approved in December 1994 but for several reasons did not begin activities until 1997. The program is providing support for improving the quality and coverage of preprimary and basic general education nationwide. To date about 70% of the funding has been committed, and 30% has been disbursed. GCBA's share is US\$10 million, and the city is currently taking the steps needed to be eligible to participate in the program. (iii) Matanza-Riachuelo environmental program (1059/OC-AR), for US\$250 million, approved in November 1997, of which the GCBA is to execute US\$35 million. This program is in the initial stages of execution. The GCBA is performing satisfactorily in the projects on which execution has moved forward.

- 1.41 The World Bank financed the second provincial development project (IBRD loan 3877/AR), approved in April 1997, for US\$225 million. It covers all of the country's provinces. More than half of its resources will be devoted to physical investments, and the rest will go to cover the expenses of fiscal administration, property registration and project evaluation. The GCBA's allocation is US\$2 million, and execution of the works is now beginning.
- 1.42 Flood protection program (IBRD loan 4117/AR - Eximbank, approved in 1995 for US\$200 million from the IBRD and US\$120 million from the EXIM-Japan). This program is intended to protect lives and property for 5.5 million people, and to ensure the normal and full conduct of economic activities and the uninterrupted functioning of communication and transport routes in the flood plain of the Paraná, Paraguay and Uruguay Rivers. The initial allocation for the city of Buenos Aires is US\$6.5 million. All the programs with the IBRD are being executed satisfactorily.

II. THE PROGRAM

A. Objectives

- 2.1 The general objective of the program is to contribute to the economic development of the city of Buenos Aires, by establishing a framework of medium- and long-term fiscal and financial sustainability, maintaining an adequate fiscal balance through actions on both the expenditure and revenue sides; strengthening and upgrading the GCBA's public administration by: (i) enhancing the efficiency and transparency of its management functions, and (ii) encouraging the participation of civil society through decentralization and strengthening of the legislative body; and supporting the investment program to ensure satisfactory quality and coverage of public services.

B. Description

- 2.2 To achieve these objectives, the program will consist of a modernization subprogram for the GCBA, which will be composed of six components, and a subprogram of support for the GCBA investment plan.

1. Modernization of the GCBA (US\$71 million)

- 2.3 This subprogram will finance the costs of implementing reforms and institutional strengthening (contracting consultants and purchasing equipment) in the areas of tax and financial administration, introducing reforms in the human resource management area, procurement and contracting systems, investment system, the decentralization program, and support to the legislative body. The terms of reference, list of equipment and details on the activities planned are to be found in the Bank's technical files. The goals and expected results, as well as the means of verification, are described in the logical framework for the program (Annex II-1).

1.1 Fiscal and financial support (US\$8.5 million)

- 2.4 The objective of this component is to enhance the efficiency and effectiveness of the GCBA's tax and financial management, and thereby help achieve and maintain a balanced budget over the medium and long terms. The component will be used primarily to finance modernization and institutional strengthening initiatives, and is divided into two subcomponents:

(i) Financial administration system (US\$2 million)

- 2.5 This subcomponent is aimed at improving the functioning of the central financial administration system, by reinforcing the directorates responsible for cash management (treasury), the

accounting function, budget planning, and public credit. As part of this subcomponent, support will also be provided for the Sindicatura General [Comptroller General] of the Autonomous City of Buenos Aires, an entity reporting to the executive branch that is responsible for internal, budgetary, financial, economic, equity, legal and managerial control. With local counterpart funding, the GCBA will introduce a rationalization program for municipally owned properties. The executing agency for this component will be the Subsecretaría de Hacienda y Finanzas [Finance Branch].

- 2.6 The central purpose is to redefine and/or reinforce the functions, powers and responsibilities of managers in line areas (health, education, public works etc.) and encourage more effective management by modifying administrative procedures to meet two essential requirements: to return decision-making to the line areas, and to incorporate technological advances in information technology (a single data center) and communications.
- 2.7 **Expected results:** (i) a draft Administration Law; (ii) systems for budget preparation, budget execution and payment orders for the departments; (iii) personnel trained in information technology; (iv) availability of financial information for use in decision-making and in preparing the financial statements; (v) a budget system that will allow results to be evaluated; (vi) a more efficient and effective treasury system; (vii) a public credit system that will facilitate debt management; (viii) regulatory guidelines for each system; (ix) resolutions establishing each apex institution; and (x) rationalization of the use of the GCBA's municipal properties.
- (ii) Strengthening of the Revenues and Property Registration Directorate (DGRyEI) (US\$6.5 million)
- 2.8 The subcomponent is aimed at modernizing and reinforcing the DGRyEI of the GCBA, for it to effect structural changes that will provide it over the medium term with a modern structure, efficient procedures and trained personnel capable of planning, directing, executing and controlling activities relating to the taxes that it administers. The direct executing agency will be the DGRyEI itself.
- 2.9 The program will primarily conduct activities in the following areas: (i) organizational development; (ii) registry and collection procedures; (iii) supervision and inspection; (iv) information systems; (v) training; and (vi) taxpayer assistance.
- 2.10 **Expected results:** (i) optimizing the organizational structure of the DGRyEI; (ii) broadening the taxpayer base; (iii) developing a management control system that allows for the formulation, execution and evaluation of the directorate's strategic plans; (iv) expanding the coverage and productivity of supervisory and

inspection activities; (v) training personnel in matters relating to tax legislation, procedures, supervision and inspection, information systems, and taxpayer assistance; and (vi) on the basis of the GCBA's strategic guidelines, developing a policy for external communications and for providing decentralized assistance to help taxpayers meet their responsibilities.

1.2 Human resources strengthening (US\$52 million)

- 2.11 This component is intended to enhance the capacity to formulate and implement human resource policies in keeping with the requirements and social priorities of the government's program, and to lay the basis for a more flexible and efficient administration. It includes three subcomponents, covering not only the structural and regulatory dimensions of change, but also addressing the performance of the public officials who must manage the process. The executing agency for this component will be the Human Resources Management Directorate (DGARH).

(i) Managing organizational change (US\$5 million)

- 2.12 The objective is to introduce a new management model, consistent with the component's objectives. To this end, the regulatory system will be amended in accordance with such principles as merit, flexibility and work quality/productivity; a management level will be strengthened within the public employee category; and an organizational diagnosis will be undertaken with a view to preparing improvement plans in strategic administrative units.
- 2.13 **Expected results:** (i) to have at least 42 organizational analyses and "improvement plans" up and running; (ii) to secure approval by the respective area of the GCBA of a revised labor policy framework that will include a career planning system and a system of management positions; and (iii) placement of qualified managers in units identified as critical.

(ii) Strengthening capacity in the human resource management areas (US\$5 million)

- 2.14 The proposed objective is to strengthen the capacity of the DGARH within the Finance Department, and of the decentralized units responsible for personnel functions, in order to design personnel policies that will be consistent with organizational objectives, and to identify, integrate and improve the basic functions, products and processes of the DGARH's human resources administration (including in particular the processes for payment of wages and salaries, leave management, recruitment and selection, training and performance evaluation, as well as regulating the disciplinary system and controlling absenteeism) and other relevant organizational areas. To this end, the personnel function will be equipped with a human resources information system that will

provide the necessary information and control mechanisms. The new management systems should help to reduce dysfunctional behavior such as absenteeism.

- 2.15 **Expected results:** (i) a new personnel structure up and running, and covering all areas of administration, staffed by professionals with the skills required for the new functions; (ii) central human resource processes that have been redefined, optimized, formalized and documented, and are in regular daily use within the organizational units, replacing the previous ones; (iii) a new and flexible human resources information system in place and providing systematic, relevant and reliable information necessary for personnel management; and (iv) at least a 20% reduction in absenteeism.

(iii) Reassignment and Employability Center (CERE)
(US\$38 million)

- 2.16 The objective is to create an entity to analyze, assess and manage the operational and financial aspects of personnel movements resulting from reassignment, training, and upgrading, and from the introduction of early departure incentives.
- 2.17 This activity will be aimed primarily at staff in the central administration, and will be divided into three areas relating to the types of employees who are subject to policies for: (i) relocation and re-assignment: for dealing with staff who are to be redeployed according to needs; (ii) reallocation, retraining and skills upgrading: for staff who are to be subject to retraining and upgrading; and (iii) early departure: for staff who may accept incentives to leave the service early (primarily through voluntary pensioned retirement). Thanks to this activity, the function of staff reassignment, reorientation and skills upgrading should be institutionalized. Expenditures related to early departures will be covered by local counterpart funding.
- 2.18 **Expected results:** (i) approximately 3,200 early retirements; (ii) approximately 1,200 early departures; (iii) reduction of substitutes by approximately 2,200; (iv) reduction in long-term leave by 300 cases; (v) 6% reduction in total payroll; and (vi) 3% reduction in personnel costs, not counting costs generated by the establishment of new institutions pursuant to the city's constitution.

1.3 Strengthening the Procurement and Contracting Directorate (US\$1.8 million)

- 2.19 The general objective of this component is to raise the existing level of transparency, efficiency and speed of the system for contracting and procuring goods, services and works needed in GCBA management, incorporating the latest technological and

organizational tools as necessary. The executing agency for this component will be the Procurement and Contracting Directorate.

- 2.20 This objective will be achieved by means of: (i) establishment of an electronic bidding system, in which all procurement and bidding requirements of the GCBA's various agencies would be handled electronically, in addition to conventional information network mechanisms. The system will operate over the Internet, and will allow domestic and international suppliers alike to participate; (ii) review of rules and regulations to assess which ones are compatible with a more efficient procurement system, and which ones should be discarded as obsolete; (iii) review of the structure and operations of the regulatory and control bodies; (iv) training in new procurement procedures for employees responsible for purchasing and bidding processes; and (v) creation of a code of ethics relating to the general principles of conduct that should govern public officials.

- 2.21 **Expected results:** (i) an electronic system up and running for processing purchases and contracting; (ii) elimination of obsolete rules and creation of new ones as necessary; (iii) more efficient regulatory and control bodies; (iv) a greater number of trained staff in the directorate; and (v) a code of ethics for public servants.

1.4 Strengthening of the investment system (US\$5.7 million)

- 2.22 This component will focus on strengthening and implementing the investment programming system of the City of Buenos Aires (SIPRIN) in order to allow for the systematic programming of investments, enhance the rates of return on those investments, optimize the use of resources, and develop a portfolio of projects that are comparatively homogenous and of similar quality. Funding of this component is expected to lead to a substantial improvement in the efficiency of public investment (in terms of its socioeconomic return). The executing agency for this component will be the Budget Planning Directorate.
- 2.23 Support will be provided through SIPRIN for updating a public investment project bank, with annual preparation of a multiyear public investment plan and the establishment of a preinvestment fund that will ensure that the city has resources available to pay for formulating and evaluating project preparation studies.
- 2.24 **Expected results:** (i) improvement of the current investment system; (ii) a regulatory and operating framework for SIPRIN; (iii) operational reinforcement of SIPRIN; (iv) strengthening the project bank; (v) methodologies for conducting ex post evaluations; and (vi) presentation of an annual investment plan that will serve as the basis for identifying investments with the GCBA for financing under the proposed program.

1.5 Decentralization (US\$2 million)

- 2.25 This component will support the process of decentralizing the GCBA, by means of the following activities: (i) defining a new divisional structure for the city; (ii) pursuing the identification of areas that could be delegated to the management and participation centers (CGPs) and the steps necessary to give effect to their decentralization; (iii) redesigning the internal and external organizational structure of the decentralized entities, to adapt them to the new distribution of functions; (iv) setting up coordination mechanisms that will allow decentralization to function smoothly; (v) reducing obstacles to communications between neighbors and promoting citizen participation user committees; (vi) establishing tools to promote a shared strategic vision of the city's future; and (vii) coordinating participation by the various areas of the government. The executing agency for this component will be the Department of Finance.
- 2.26 **Expected results:** (i) alternative scenarios for the geographic subdivision of the city; (ii) a management information system adapted to the geographic divisional structure selected; (iii) functional and physical programming of the resources that are judged necessary for the resulting *comunas* (districts); (iv) specific legislation as a basis for developing decentralization alternatives; (v) 16 management and participation centers up and running; (vi) instruments for coordination between the central government and the *comunas*; (vii) five agreements between the central agency and the *comunas*, defining evaluation indicators, management control considerations, objectives and goals, and incentive mechanisms; (viii) user committees in operation in the eight CGPs; (ix) an opinion survey among users; (x) analysis of the results of that survey and implementation of any pursuant recommendations; (xi) institutions and agencies for managing the strategic plan in operation; and (xii) proposed strategies submitted to the Strategic Planning Council by the city government.

1.6 Assistance to the legislative branch (US\$1.5 million)

- 2.27 This component includes institutional support to the recently constituted city legislature to ensure establishment of a modern, effective and efficient decision-making body. The executing agency for this component will be a unit to be created in the legislature.
- 2.28 Its specific objectives are: (i) to promote establishment of an administrative infrastructure that will provide support to the legislative body in preparing policy decisions and exerting control over the executive; and (ii) strengthening the Office of the Auditor General of the GCBA as a potential instrument of external control. Since the parliament has only recently begun to function,

the submission of a final design for this component will be a condition precedent to disbursement of funds under this component.

- 2.29 In summary, the financing of this subprogram will be aimed at the following categories of investment:

TABLE II-1

In US\$000										
CATEGORIES	Training		Consultants		Equipment		Departures	TOTAL		GRAND TOTAL
FUNDING SOURCE	IDB	GCBA	IDB	GCBA	IDB	GCBA	GCBA	IDB	GCBA	
Fiscal and financial support	1,100	-	4,800	500	2,100	-	-	8,000	500	8,500
Human resources	1,000	-	7,900	-	5,100	-	38,000	14,000	38,000	52,000
Procurement & contracting	90	-	1,100	300	310	-	-	1,500	300	1,800
SIPRIN	70	-	4,830	400	400	-	-	5,300	400	5,700
Decentralization	365	-	1,255	300	80	-	-	1,700	300	2,000
Legislative body	1,000	-	1,000	500	500	-	-	2,500	500	3,000
TOTAL	3,625	-	20,885	2,000	8,490	-	38,000	33,000	40,000	73,000

- 2.30 As the above table indicates, the loan will be used to finance 45% of the GCBA modernization subprogram, covering essentially the costs of training, external consultants (90%) and equipment. Local counterpart funding for this subcomponent will cover the costs of reassignment and employment services for voluntary departures, downsizing and employee retraining.

2. Subprogram of support for the investment plan (US\$322.6 million)

- 2.31 This subprogram is intended to help overcome the infrastructure deficiencies that affect living conditions in the city and impede its operational efficiency. Resources of this subprogram will be used to finance infrastructure works in an amount equal to up to 15% of annual investments, primarily within the four economic sectors of the GCBA's three-year investment plan (i.e. education, health, culture, and urban development and environment). The plan has been discussed and includes the following agreed general criteria: (i) fiscal consistency: the level of annual investments will be consistent with the goals of fiscal surplus and basic maintenance of social infrastructure; (ii) private sector participation: concessions will be awarded for works that can be performed by the private sector; and (iii) transparency and cost

effectiveness: all works and service contracts will be let under bidding procedures agreed with the Bank.

- 2.32 The "time slice" approach has been selected as the most appropriate mechanism for financing infrastructure works, since the city has to undertake so many projects of differing scope and complexity, and in so many economic sectors. It was more preferable and efficient to focus on upgrading the city's investment systems to help prioritize investments and set specific project criteria.
- 2.33 In principle, all of the economic sectors covered by the Plan are eligible for financing with resources of the program, provided there is no duplication of existing sources of financing, and that the agreed technical and sectoral criteria are met (see paragraph 3.16). The table below provides a summary of the Three-Year Plan, plus projections for an additional year.

TABLE II-2

MULTIYEAR INVESTMENT PLAN (plus projection for one year) (US\$000)				
Sector	1998	1999	2000	2001
Education	24,064	31,000	28,570	28,000
Health	18,204	30,000	30,000	30,000
Culture	25,031	23,850	13,299	6,000
Environment	95,457	126,017	142,736	103,000
Roads, lighting and traffic signals	53,709	64,890	53,705	50,000
Subways	60,167	100,745	167,000	150,000
Other sectors	12,358	6,545	8,000	5,000
Total	288,990	383,047	443,310	372,000

- 2.34 The distribution by source of financing is shown in the table below.

TABLE II-3

INVESTMENT FINANCING (US\$000)				
	1998	1999	2000	2001
IBRD	9,000	9,000	3,000	
IDB/IN EXECUTION	8,500	17,000	15,500	7,500
PROPOSED IDB PROGRAM	35,000	35,000	35,000	35,000
SUPPLIERS	60,000	34,575	42,810	16,000
TREASURY	176,490	272,528	351,000	318,000
TOTAL	288,990	383,047	443,310	372,000

- 2.35 Agreement on fiscal and financial reforms and goals (ARMFIF). The GCBA has agreed to undertake a series of actions as part of the program, even though the Bank will not be involved in financing them specifically. Performance of these actions will be reviewed each year in order to free up financing resources for the following year. ARMFIF has set the following conditions: (i) to meet semiannual fiscal goals relating to expenditures, resources and deficit; (ii) to create a stabilization and socioeconomic development fund (FEDES) and provide resources for it; (iii) to bring private capital into Banco de la Ciudad; and (iv) to carry out the debt management plan. The specific goals for measuring performance under each of these conditions are set out in paragraph 3.20 of chapter III.
- 2.36 Fiscal goals: The fiscal goals to be agreed upon will be based on the projections shown in the following table:

TABLE II-4

Fiscal and financing goals 1997/2001 in millions of dollars					
ITEM	1997	1998	1999	2000	2001
I. Current revenues	2,877.8	3,047.1	3,159.2	3,222.4	3,286.8
Tax revenues	2,440.4	2,597.6	2,698.4	2,752.4	2,807.2
Nontax revenues	155.4	178.1	182.6	186.2	189.9
Other	282.0	271.4	278.2	283.7	289.4
II. Current expenditures	2,739.0	2,735.8	2,749.6	2,712.1	2,695.7
Personnel	1,709.0	1,708.0	1,691.0	1,674.1	1,657.4
Transfers	241.6	236.2	236.2	236.2	236.2
Others	657.0	654.2	687.1	687.1	687.1
Interest on the debt	131.4	137.4	135.3	114.7	115.0
III. Current balance (I-II)	138.8	311.3	409.6	510.3	591.1
IV. Capital revenues	3.0	5.0	5.0	5.0	5.0
V. Capital expenditures	1/ 236.5	315.0	404.6	464.3	450.0
VI. Total revenues (I+IV)	2,880.8	3,052.1	3,164.2	3,227.4	3,291.8
VII. Total expenditures (II+V)	2,975.5	3,050.8	3,154.2	3,176.4	3,145.7
VIII. Financial balance (VI-VII)	-94.7	1.3	10.0	51.0	146.1

1/ Includes US\$100.0 million in capitalization — Banco de la Ciudad.

- 2.37 The stabilization and socioeconomic development fund (FEDES): FEDES is a fiscal stabilization fund that will be used to smooth out cyclical fluctuations in the city's revenues. Diminishing cyclical effects allows for better budget programming and enhances the efficiency of expenditure. FEDES resources will be provided from revenues in excess of projections that result from investment income and expenditure reductions. FEDES will be set up essentially along the lines of funds created for the provinces of Buenos Aires and Mendoza (see technical files). Creation of FEDES will be a condition precedent to the first disbursement of the Bank's financing.
- 2.38 Banco de la Ciudad: The GCBA has proposed that Banco de la Ciudad be converted into a corporation with private-capital investment. To this end it has drafted and submitted to the legislature a bill transforming the legal statute of Banco de la Ciudad from a decentralized agency of government to a corporation and authorizing it to raise private risk capital to consolidate its financial position. The bill includes the authorization needed to contract an investment bank to act as financial advisor on the future operation. Under its current structure, Banco de la Ciudad earned

a profit of US\$12 million in its 1997 fiscal year. As well, it is achieving significant growth in its accounts and transactions, and is building up a growing and stable client base that will allow it to increase its earnings from sound business transactions.

- 2.39 Debt management plan: The debt management plan includes the following elements: reducing the total level of debt, and eliminating entirely the debt with Banco de la Ciudad; reducing short-term debt, in particular to suppliers, and replacing short-term debt with long-term debt, in accordance with the following goals:

TABLE II-5

DEBT GOALS								
	1996	1997	1998	1999	2000	2001	2005	2010
I - Stock (US\$ millions)	1,099.4	1,165.9	1,046.6	966.5	925.4	936.5	805.8	686.9
- Banco de la Ciudad (%)	45.5	19.4	10.7	3.7	0.0	0.0	0.0	0.0
- Nat/Internat. markets (%)	2.1	44.5	61.8	71.7	79.4	84.7	90.0	90.0
- Remainder (%)	52.4	36.1	27.5	24.7	20.6	15.3	10.0	10.0
II - Stock/Curr. Revenues (%)	36.7	37.8	32.9	29.5	27.4	27.3	20.8	15.2
Average term (years)	2	8	10	13	16	15	17	15

C. Sizing

- 2.40 The following factors have been taken into account in sizing the program:
- The cost of the modernization subprogram is based on the needs identified by the consultants and on the equipment necessary for undertaking the reforms outlined in each of the components. Initial terms of reference and consulting person-month requirements have already been worked out for each component. The equipment lists have also been drawn up for each component, consistent with planned activities.
 - For the investment subprogram, the GCBA's multiyear investment plan has been taken as the basis, representing an average annual amount of approximately US\$372 million. The analytical study recommended that financing be provided for up to 15% of the annual investment plan each year, taking into account the investments presented in the multiyear plan, the executing capacity of the GCBA, and the monitoring of commitments with respect to fiscal and financial reforms and goals (ARMFIF) agreed with the GCBA.

D. Cost and financing

- 2.41 The estimated total cost of the program amounts to the equivalent of US\$400 million. The following table provides a breakdown of this amount, together with the proposed financing sources:

TABLE II-6

COST AND SOURCES OF FINANCING (US\$000)				
INVESTMENT CATEGORY	IDB	LOCAL	TOTAL	%
I. ADMINISTRATION	400	2,000	2,400	0.6
1.1 Administration	0	2,000	2,000	0.5
1.2 Auditing	400	0	400	0.1
II. DIRECT COSTS	197,600	196,500	394,100	98.5
2.1 Modernization subprogram	31,500	40,000	71,500	17.9
2.1.1 Fiscal and financial support	8,000	500	8,500	2.1
2.1.2 Human resources	14,000	38,000	52,000	13.0
2.1.3 Procurement/contracting	1,500	300	1,800	0.5
2.1.4 Investment system	5,300	400	5,700	1.4
2.1.5 Decentralization	1,700	300	2,000	0.5
2.1.6 Legislature	1,000	500	1,500	0.4
2.2 Investment subprogram	166,100	156,500	322,600	80.6
III. FINANCIAL COSTS	2,000	1,500	3,500	0.9
3.1 Credit fee	0	1,500	1,500	0.4
3.2 Inspection and supervision	2,000	0	2,000	0.5
TOTAL	200,000	200,000	400,000	100.0
Percentages (%)	50	50	100	

- 2.42 The Bank's financing will consist of a loan of US\$200 million, charged to the Bank's ordinary capital, representing 50% of the total cost of the program. The Bank will finance 44% of the costs of the modernization subprogram; 50% of the costs of the investment subprogram; inspection and supervision fees and costs associated with external auditing of the program. The borrower will finance all costs associated with voluntary departures and reassignment of employees; incremental costs associated with creation of the UEC; and financing costs relating to the Bank's credit fee.
- 2.43 All of the local counterpart funding will come from the GCBA budget. In the case of the investment subprogram, the Bank will finance up to 15% of the annual investment plan presented by the GCBA. In this sense, the counterpart funding for the program will be much greater than that shown in the table of costs.

III. PROGRAM EXECUTION

A. Borrower and guarantor

- 3.1 The borrower will be the Government of the City of Buenos Aires, and the guarantor will be the Argentine Republic.

B. Executing agencies and program coordination

- 3.2 The Secretaría de Hacienda y Finanzas of the GCBA [Department of Finance] will be responsible for execution of the program, through the central executing unit (UEC) created for program execution and coordination. The UEC will be headed by the Secretary of Finance and the appropriate technical personnel. The Bank's technical files contain details on the structure of the UEC.
- 3.3 The UEC will be responsible for guiding, assessing, approving and monitoring all components of the program. As well, it will be responsible for aspects relating to administration, accounting, finance and review of bidding and procurement procedures and for relations with the Bank. To formalize the UEC's status as executing agency for the program, and as a condition precedent to the first disbursement, the borrower must demonstrate to the Bank's satisfaction that the UEC has been created as the unit responsible for program execution, with all the appropriate legal attributes. The Department of Finance will be directly responsible for monitoring compliance with the ARMFIF.
- 3.4 Direct execution of each of the components will be in the hands of the various departments or directorates, according to the following outline:
1. Modernization subprogram
- 3.5 Five of the six components of this subprogram will be executed by divisions of the Department of Finance: fiscal support, human resources administration, procurement and contracting, and investment systems. For the fiscal support component, the part relating to tax administration will be executed by the Revenues and Property Registration Directorate (DGRyEI), which will be responsible for reviewing and approving work plans. The activities related to financial administration will be carried out by the Subsecretaría de Hacienda y Finanzas [Finance Branch]. The component for strengthening human resources will be executed by the Human Resources Management Division. The component for procurement and contracting will be executed by the Procurement and Contracting Directorate. The component for strengthening of the investment system will be executed by the Finance Branch. The component for decentralization of management will be executed by the Finance Department. The component involving the legislative branch will be

executed by the Office of the Vice President of the Legislature. Both will be coordinated by the UEC.

- 3.6 The Bank's analysis has shown that all of the entities indicated above have adequate personnel and institutional capacity to carry out the activities of their respective components, in coordination with the UEC.

2. Investment subprogram

- 3.7 The specific projects under this subprogram will be executed by the appropriate department for the sector (education, urban development, culture, etc.). Those departments will be responsible for preparation of the specific projects, readying the bidding documents, and physical execution of the works, as well as for their maintenance. The bulk of the works will be executed by the Production and Services Department, which has ample capacity for executing infrastructure works.

C. Status of program preparation

- 3.8 To date, the components of the modernization subprogram, including their objectives, goals, expected results, costs and preliminary terms of reference, have been defined in detail. This means not only that the subprogram has been sized, but that a good start has been ensured for implementing the support activities for the planned institutional reforms and strengthening. The only component that has yet to be defined in detail is support for the legislature. Eligibility of that component for financing under the program will therefore require the Bank to give its nonobjection.
- 3.9 With respect to the investment subprogram, the multiyear plan and the 1998 budget have been approved by the legislature. The Bank has had the opportunity to review that plan and has found it to be consistent with the proposed fiscal goals. As well, the investments included in it have been selected under proper planning and prioritization criteria, taking due account of resource availability, and with broad community participation. The projects to be financed during the first year of program execution have already been identified, and the required technical support documentation is ready, all of which ensures that the investment plan can be executed in a timely manner.

D. Execution standards

- 3.10 Execution of the program will basically be adapted to the requirements, standards and operating, technical and financial procedures established in: (i) the stipulations to be set out in the prospective loan contract; (ii) the rules set out in the Operating Regulations; (iii) the terms of reference, timetable and costs of the modernization subprogram; and (iv) the detailed works

in the GCBA's multiyear investment plan. Presentation and implementation of the Operating Regulations will be a condition precedent to the first disbursement.

1. Modernization subprogram

- 3.11 Execution of the components of the modernization subprogram will be governed on the basis of the projects for each component. As noted earlier, physical execution of each individual component will be performed by the departments and/or directorates as identified. The corresponding units will be responsible for preparing the bidding documents for contracting consultants and purchasing equipment, and presenting them to the central executing unit (UEC), which will review them for consistency with the agreements negotiated with the Bank. The UEC will also be responsible for approving the projects submitted so that the corresponding unit may publish the bidding documents. At the same time that it approves the projects, the UEC will send the Bank a summary with basic data on each project, using the format to be agreed between the parties.
- 3.12 For contracts in excess of US\$200,000, in the case of consulting firms, and US\$50,000 in the case of individual consultants, the UEC will submit all the bidding documentation to the Bank for approval in advance. For projects that fall below these limits, the Bank will conduct an ex post check for compliance with Bank procedures and will examine any irregularities in the course of its periodic reviews, and will have the exclusive right to withdraw financing for any project found deficient in this respect.
- 3.13 Requests for disbursement under this subprogram will be submitted to the Bank by the UEC, and will be met with resources of the revolving fund on an expenditure reimbursement basis, like any specific project.

2. Investment subprogram

- 3.14 Physical execution of the investment subprogram will be performed by the respective departments for each sector, on the basis of annual works plans agreed with the Department of Finance and the Bank. To facilitate review and ensure that the departments comply with Bank standards for the procurement of goods and services, and with the eligibility criteria set out in the Operating Regulations, during the quarter previous to each year the UEC will agree in principle with the Bank to the list of specific projects to be financed under the program. The Budget Planning Directorate will participate actively in this regard. Projects for the first year have already been reviewed by the project team and have been found consistent with the agreed criteria. A list of these works and their cost is provided in Annex III-1. It should be noted that the works for 1998 will commence as of the month of June.

a. Eligibility criteria

3.15 The eligibility criteria for specific projects in the four economic sectors are set out in detail in the program's Operating Regulations. By way of example, some of the major criteria for projects in each sector are described below:

(i) Urban development and environment sector

- Analysis of alternative locations and/or technologies that meet the objectives identified for the sector.
- Determination of the maintenance system.
- Economic and cost-benefit analysis of alternatives, with an EIRR of 12% or greater.
- Submission of an environmental impact assessment for each project.

(ii) Health sector

- Analysis of effectiveness scenarios with respect to coverage of the target population, quality of care, equity of access.
- Economic assessment (cost effectiveness).
- Focus on care for marginalized groups; cost recovery for groups that can pay for services.
- Submission of an environmental impact assessment for each project.

(iii) Education sector

- As a minimum, compliance with the criteria agreed in loan 845/OC-AR (PRISE).
- Enrollment shortfall criterion; design efficiency criterion.
- Cost per m2 per school; students per class.
- Submission of an environmental impact assessment.

(iv) Culture sector

- Management improvement plan (strengths and weaknesses); annual operating plan (cost-output criterion).
- Use of alternative financing sources (private sector).
- Submission of an environmental impact assessment for each project.

b. Procedures

3.16 To begin the sequence of procedures, the technical unit of the respective department will decide on the projects that are to make

up its annual investment plan, and will undertake to prepare the documentation for procurement or contracting of goods and services. The department will follow normal procedures for processing contracts or purchases through the GCBA's Budget Planning Directorate. Once approval is obtained, it will carry out the contracting and/or procurement as authorized and execution will begin.

- 3.17 Once the annual investment plan is in execution, the UEC will analyze the projects and the level of progress of the various works, and will select those that are to be submitted for IDB approval as eligible for financing under the program. The UEC will request supporting documentation from the respective department for each project selected, review it for compliance with agreed criteria, and authorize disbursement of financing for it, either from the program's revolving fund, or from its own resources, for subsequent reimbursement.
- 3.18 On an ex post basis, the IDB will inspect the documentation supporting the payments made and monitor fulfillment of the agreed procedures in the relevant agencies and assess the physical progress of the works. If it finds no irregularities, it will confirm the repayments made to the date of inspection. If it finds errors, it will notify the UEC to make the appropriate deductions from future applications and/or to substitute other eligible expenditures.

c. ARMFIF conditions

- 3.19 As noted earlier, the Bank will conduct annual reviews of compliance with ARMFIF conditions, in order to release funds for the following year. The goals to be reviewed by the Bank will be the following:

Fiscal goals: (i) personnel expenditures must not exceed the annual levels stipulated in Table II-4 (projections) and in no case may they exceed the 1997 level; (ii) current revenues may not be less than that shown in Table II-4; (iii) the annual level of investment must be consistent with the total projected financial performance and with the agreed debt management plan; and (iv) the other goals indicated in Table II-4 must be met.

FEDES: (i) ensure that the GCBA has earmarked up to 5% of current revenues as of December 31 1998; (ii) ensure that the GCBA has transferred up to 10% of current revenues as of December 31 1999; and (iii) ensure that the GCBA maintains the level at 10% of current revenues.

Bringing private capital into Banco de la Ciudad: if the GCBA does not demonstrate to the Bank that it has incorporated private capital by December 31, 1998, it must within 90 days present a financial and administrative framework plan for Banco de la Ciudad,

agreed upon with the IDB, to authorize disbursement of the investment subprogram in 1999 and thereafter.

Debt management plan: (i) in no case may the stock of debt exceed 45% of current revenues; (ii) the debt with Banco de la Ciudad must be reduced in accordance with the goals of the plan (Table II-2). In all cases, the debt stock will be understood to be net of financial assets credited to FEDES.

E. Program monitoring

- 3.20 For ease of monitoring and control of the investment subprogram, the borrower will present to the Bank each year, at the same time as it goes to the legislature, the draft annual budget of the GCBA, showing the works that are to be performed during the coming year and indicating those that would be eligible for Bank financing. After the budget is approved by the legislature, it will be forwarded to the Bank. At this time as well, the criteria for the various sectors indicated and currently in force in the Operating Regulations will be reviewed, together, together with the annual percentage of Bank financing on the basis of the disbursement schedule.
- 3.21 Additionally, on an annual basis, the Bank will review compliance with the conditions of the agreement on fiscal and financial reforms and goals (ARMFIF), as a condition for releasing funds for the following year's investment subprogram. For greater control and efficiency, the Bank will review the fiscal situation on a semiannual basis, so as to give the GCBA sufficient time to make any required adjustments before the annual review.
- 3.22 During execution of the program and for two additional years, the borrower must submit to the Bank, through the executing agency, semiannual reports on the results of the program, within 90 days after the close of each calendar year, distinguishing between activities under the modernization subprogram and the investment subprogram, including maintenance plans and showing that the funds earmarked for them are available.

F. Execution and disbursement periods

- 3.23 The program will be executed over a period of 42 months, allowing four years for disbursement of the funds, beginning in both cases from the date the loan contract comes into force, in accordance with the following schedule:

TABLE III-1

DISBURSEMENT SCHEDULE (in US\$ millions)						
SOURCE/YEAR	1	2	3	4	TOTAL	%
IDB	47	53	55	45	200	50
GCBA	47	53	55	45	200	50
Total	94	106	110	90	400	100

G. Procurement of goods and services

1. Goods and works

- 3.24 International competitive bidding will be mandatory for purchases exceeding \$350,000 for goods and US\$5 million for construction works. These limits are considered reasonable in light of similar projects in Argentina, where foreign bidders participate only when the amounts are greater than these figures. Bidding for amounts below these limits will be conducted in accordance with national legislation. When Bank funds are used, there must be no restriction on participation by bidders from Bank member countries.
- 3.25 The project team has given its approval for publication of the general procurement notice (GPN) for the program and the specific notices for the various activities. Annex III-1 presents the procurement plan for the program.
- 3.26 Given the large number of works and in order to speed up execution and make Country Office supervision easier, it is recommended that supervision of the tendering process for works and goods be conducted as follows: (i) the supervision of the first two tendering processes for each sector (health, education, culture, and environment) will be conducted on an ex ante basis, which is the normal method indicated in Annex B to the prospective loan contract; and (ii) if the parties agree, supervision of subsequent tendering processes will be conducted ex post for contracts above US\$2 million for works and US\$200,000 for goods. These thresholds will be reviewed annually.

2. Consulting services

- 3.27 The selection and contracting of consulting services will be conducted in a manner consistent with the procedures and policies of the Bank. The contracting of services of consulting firms for amounts of US\$200,000 or more will be conducted through international competitive bidding. Nevertheless, given the great number of consulting services required by the program, and with a view to expediting their execution and facilitating the supervisory task of the Bank's Country Office, it is recommended that the

requirement for prior consultation with the Bank be maintained only for the selection and contracting of services exceeding US\$50,000 in the case of individual consultants, and US\$200,000 in the case of consulting firms. Contracts involving amounts below these limits would be reviewed by sampling ex post basis. If it is found that the agreed procedures were not followed, the expenditures in question would not be eligible for Bank financing.

H. Revolving fund

- 3.28 Given the characteristics of the program and the variety of activities that are expected to be financed, it is recommended that a revolving fund be set up, equal to 5% of the amount of the prospective loan.

I. Accounting and audit

- 3.29 The UEC will keep records of expenditures under the program, consistent with the accounting plan approved by the Bank. The program's financial statements will be audited each year by an independent firm of auditors acceptable to the Bank, and during program execution will be presented to the Bank's satisfaction within 120 days after the close of the fiscal year to which they relate, pursuant to the stipulations of the loan contract. The audit will be paid for with resources of the loan, in order to ensure that the Bank has a suitable involvement in this activity and will be contracted out through fully transparent procedures.

J. Cost recognition

- 3.30 For purposes of cost recognition, the GCBA has identified the costs borne beginning on January 1, 1998, in the amount of US\$10 million, relating to infrastructure works under the investment subprogram and US\$8 million under the Employee Reassignment and Employability Center subcomponent of the human resources strengthening component. During the analysis mission, the project team verified that these contracts and outlays were made in accordance with procedures substantially similar to the Bank's. Consequently, it is recommended that the sum of up to US\$18 million be recognized as local counterpart funding under the program.

K. Ex post evaluation

- 3.31 In accordance with the Bank's policy, the borrower was consulted and expressed its interest in conducting an ex post review of the program. During the first program review meeting, the GCBA and the Bank will agree upon the methodology for preparing the ex post evaluation report on the program's results. That report will be based on the indicators and verification measures set out in the logical framework, and on the data compiled during the periodic evaluations of the program.

L. Environmental aspects

- 3.32 The program was considered by the CESI/TRG on November 17, 1997, and the following recommendations were made:
- a. Support the Government of the City of Buenos Aires in preparing definitive terms of reference for the environmental impact study of the "City and River" project, given its dimensions and the fact that it will be the first project financed under the program. That project includes urban development of the southern portion of the city.
 - b. Supervise performance of the study and assess results during execution in order to prepare a final report that meets the Bank's requirements.
 - c. For other investment projects under the proposed program, there must be assurances that the environmental impact will be taken into account for all works.
 - d. The project team must satisfy itself as to the institutional capacity of the Environment Section.
- 3.33 The Bank assisted in the preparation of the terms of reference and the environmental impact study of the "City and River" project was performed by a consulting firm financed under the preinvestment fund (740/OC-AR). The Bank's Country Office was involved in its preparation. The final report was reviewed and approved to the Bank's satisfaction.
- 3.34 The investment project selection criteria include a requirement to undertake an environmental impact assessment for each specific project.
- 3.35 The project team is satisfied that the Environment Section has sufficient institutional capacity and suitable staff to oversee the conduct of the environmental impact studies. In addition, the section is being reinforced with funding from the Matanza Riachuelo program (1059/OC-AR).

IV. PROGRAM JUSTIFICATION, VIABILITY AND RISKS

A. Justification

- 4.1 The program has been designed to provide support for the GCBA's institutional and fiscal reforms, and in particular to help reinforce and complete the measures initiated in 1996. The Bank's participation in the program will contribute to improving the city's fiscal health over the medium and longer term, and will ensure its financial viability in the short term. The proposed goals relating to a balanced budget, current savings, levels and efficiency of public expenditure and investment, debt levels and profile, creation of the stabilization fund, progress in bringing private capital into Banco de la Ciudad, and the program's other components all address key issues that arose during discussions with the CBA in preparation of the program.
- 4.2 The benefits of the program will flow from its contribution to sustaining the GCBA's fiscal balance, by increasing its resources and enhancing their management, both in terms of resource administration and tax collection, reducing tax arrears and evasion, and cutting the costs of tax administration. On the other hand, the strengthening of the procurement and contracting systems, and the SIPRIN system, will lead to greater transparency and efficiency in the earmarking of resources for the CBA's investments. The human resources component will result in more efficient management and hence a more rational allocation of those resources.
- 4.3 In addition, the planned activities in the fiscal area will help to generate growing current savings, achieve a fiscal surplus and gradually pay down the debt. Together with the decision to bring private capital into Banco de la Ciudad, these measures will make it possible to establish a solid and sustainable fiscal framework. On this foundation, in turn, a significant improvement in access to domestic and international capital markets is expected, thanks to improved risk ratings by the specialized agencies, in line with the Bank's strategy at the provincial level.
- 4.4 The decentralization component will allow the city to improve the quality and accessibility of various public services, and will encourage citizen participation. Strengthening the legislative body will help this new institution to establish a foundation on the basis of which to carry out the responsibilities assigned to it under the city's new constitution.
- 4.5 Lastly, the investment subprogram will provide the city with the funding needed to ensure a minimum level of rehabilitation and new basic social infrastructure that will be required over the coming

years to service its population and to keep up with the planned rate of economic growth.

- 4.6 The plan to base financing for the investment program on a time-slice approach is justified in light of the city government's efforts to date in organizing its investment program, as reflected in the multiyear plan. The entire focus has been devoted to producing a medium-term capital spending program that is based on an investment policy planning process, one that incorporates principles of economic rationality in the design of projects and relates them to the needs of the city's inhabitants, so as to optimize the allocation of resources.
- 4.7 The methodology used in the design of the multiyear plan may be considered in keeping with modern investment planning systems, as discussed in the preceding section. This involves the establishment of mechanisms for identifying projects, for justifying them by means of studies to determine their costs and benefits, for ranking them according to priorities established by the authorities on the basis of political and economic criteria, and for allocating funds to those projects that best meet these criteria and priorities.
- 4.8 A notable feature of this strategy is the emphasis that has been given to projects intended to rehabilitate sectors of the city that have traditionally been overlooked, such as the southern zone, and to revitalize areas of great social importance, such as the integration of the city's riverbanks. As well, priority has been given to projects for addressing such complex problems as public transit and the environment, education and health, that pose a constant challenge to cities like Buenos Aires where demands are growing steadily.
- 4.9 On the basis of the points set out above, the Bank believes that the focus at this stage should be to reinforce and upgrade the planning process with suitable criteria, on the general premise that the GCBA has sufficient expertise and capacity to prepare and execute specific projects. In this respect, the time-slice approach is appropriate and will meet this objective by providing gradual and progressive support to the investment planning process.

B. Program viability

1. Technical and institutional viability

- 4.10 The program's technical feasibility is based on the fact that the city has professional staff experienced in project execution and administration, and well equipped to handle the various kinds of projects that make up this program. It also has access to professional staff of the central government who have experience in managing reforms. Provision has been made for technical assistance and strengthening of the various areas of the government to cope

with the increased level of activity that execution of the program will imply.

- 4.11 With respect to the GCBA internal control system, the Sindicatura General (Office of the Comptroller General) of the City of Buenos Aires is already in place and functioning, with its own legal status and administrative and financial autonomy. It was created by Decree 139 of September 11, 1996. It is now the institution responsible for ensuring proper government management, and it exercises an active and permanent role in terms of internal budgetary control, the keeping of financial, economic, property, legal and management accounts, ensuring that government decisions are reasonable and transparent, and supervising and inspecting compliance and enforcement of procedural rules and regulations. The project analysis mission verified that accounts are up to date and are properly kept, but found certain areas that require strengthening, to be provided under the program.
- 4.12 In accordance with the constitution, the GCBA legislature has control over the public purse and is responsible for creating the Auditoría General [Office of the Auditor General] of the City of Buenos Aires, as the external control body for the public sector. Because the legislature, which took up its duties in December 1997, has not yet approved the law creating the Auditoría General, there is currently an agreement with the National Auditor General's Office, which reports to the National Congress, whereby that office is performing the activities of external control for the GCBA.
- 4.13 The program has been accorded priority at the highest political level. Since it first took office, the Executive Branch has shown a strong commitment to reform, and it has actively been seeking to promote a strategy of consensus among the various political forces. Both of these factors augur well for the program's institutional viability. The GCBA intends to run a participatory government and to bring government closer to the city's neighborhoods. The principles guiding its management are those of austerity, solidarity, quality of life, transparency, efficiency, and participation.
- 4.14 The proposed format for administration of the program has been designed in a manner consistent with the institutional and financial capacity of the GCBA. The creation of a coordinating unit, with its structure as planned, will ensure satisfactory execution of the various components of the program. As well, the departments and other entities that will be in charge of physical execution of those components are considered to have the capacity for such tasks. In the case of units with limited or little experience, they will be reinforced through the contracting of consultants and technical support staff.
- 4.15 The coordinating unit for the program will be made up of professional personnel contracted specifically for this purpose,

who will be devoted full-time to that work. This arrangement will guarantee the unit's technical quality and its independence of judgment and action with respect to the other departments and divisions involved in the program.

2. Financial viability

- 4.16 In determining the financial viability of the program, the GCBA's capacity to provide counterpart funding has been analyzed, as well as its ability to repay the loan. The counterpart funds represent less than 2% of the city's current revenues, and no problem is expected with respect to making them available.
- 4.17 With respect to amortization and servicing of the loan, this will represent about 0.5% of current revenues at their present level. It should be noted that the city's total annual debt service now amounts to 4.9% of current revenues. Moreover, thanks to the debt restructuring program the stock of debt is on a downward track and will not be allowed to exceed 45% of current revenues. There should therefore be no problem with respect to repayment of the debt to the Bank.

3. Viability of the investment projects

- 4.18 For each of the sectors, criteria have been agreed governing technical, economic, financial and environmental eligibility that will ensure the viability of the investment projects to be financed with resources of the program, in accordance with the Operating Regulations. As well, the investments to be financed under the program will be those included in the three-year investment plan, and they will subject to a yearly review. It should also be noted that the eligibility criteria referred to above will be reviewed each year and updated as necessary.
- 4.19 During the analysis mission, the projects to be financed during the first year were reviewed with respect to their design and their costs, and to ensure that they comply with the criteria agreed in the Operating Regulations. For example, the mission reviewed the "City and River" project, which calls for development and rehabilitation of the southern zone of the city. That project will be executed over a period of three years, at a total cost of US\$95 million. It is considered to be technically, financially, economically and environmentally feasible. The supporting documentation is the Bank's technical files.

C. Benefits

- 4.20 The program is expected to result in: (i) a greater degree of fiscal health and adoption of measures to place these results on an durable footing; (ii) greater availability and quality of the public goods and services offered to the community; (iii) greater efficiency in the allocation of public spending in general and, in

particular, of social expenditure; and (iv) greater effectiveness in the provision of services and more streamlined administrative procedures.

- 4.21 One expected benefit of the program is that conditions for reducing the stock of debt over the medium term will be created. During the execution period the ratio of debt to current revenues is expected to decline from 38% in 1997 to 27% in 2001. This will be accomplished in two ways: (i) a budget policy that will call for surpluses over the entire life of the program, with savings rising each year to a level of 18% of current revenues by the year 2001, compared with 4.8% in 1997; (ii) a debt restructuring that will involve extending maturities and reducing interest costs.
- 4.22 The primary benefits that will flow from reform of the financial administration are: (i) a modern legal and regulatory framework, uniform and comprehensive, for all aspects of public financial management; (ii) substantive management information that will provide an analysis of costs and rates of execution for government programs; and (iii) greater transparency in the handling of public funds, by combining all payment accounts into a single consolidated treasury account, thereby avoiding the difficulty of controlling a multitude of separate accounts.
- 4.23 The expected benefits of the human resources component are: (i) there will be a legal framework for the implementation of personnel policies that will promote performance consistent with the needs of public services and the new government lines of action; (ii) personnel units will have the capacity to manage human resource administrative and information systems, thereby allowing greater transparency in personnel management, and facilitating the introduction of new personnel policies, the assessment of their results, and their redesign as necessary; and (iii) there will be processes in place for reassigning staff and reducing absenteeism, which will help both to contain personnel costs and to allocate greater resources to areas of priority for the city. There will also be a set of plans for improving certain strategic management units, headed by capable individuals.
- 4.24 The expected benefits of the decentralization component are: (i) a new geographic division adapted to the city's needs; (ii) a new, decentralized administrative model that offers enhanced service accessibility and quality and that will allow for a greater degree of citizen participation and control; (iii) lower transportation costs and less pollution, and (iv) time savings for commuters.

D. Program risks

- 4.25 The measures agreed in the 1993 *Pacto Fiscal*, in particular the replacement of the business turnover tax, could affect the revenue levels and the fiscal position of the GCBA. Nevertheless, with the measures that the program will initiate to strengthen and improve

management of the Revenues Property Registration Directorate, which are largely designed to reduce evasion rates for other taxes, the impact of this potential reduction in the city's revenues should be substantially mitigated.

- 4.26 The transformation of Banco de la Ciudad from an autarkic institution to a corporation has become an urgent necessity for consolidating the GCBA's fiscal situation. It is possible that the legislature may not approve its capitalization. If the relevant law is not approved, the GCBA will have to work out a financial and administrative framework for Banco de la Ciudad acceptable to the IDB.
- 4.27 The proposed new personnel systems, as well as the decentralization project, run the risk of having a low impact and of being held up if there is no consensus among the key players in the process. To mitigate this risk, the program calls for a series of steps to disseminate information to agents and employees.
- 4.28 Implementing an innovative and complex program of this type (time slice) always carries the risk of suboptimal execution and failure to achieve planned objectives and goals. In this respect, the proposed central executing unit (UEC) will have a preponderant role in the program's success. As designed, the UEC will be chaired by the Secretary of Finance and Credit, to give it maximum decision-making status, and its professional staff makeup will go a long way to ensuring satisfactory execution.

SUMMARY OF MAIN GOALS

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ustainability over the medium	<ol style="list-style-type: none"> 15% increase in collections Establishment of FEDES and transfer of resources to the fund of up to 10% of current revenues 3% reduction in personnel expenditures Rationalization of investments: 80% of investments selected with cost-efficiency criteria Absorption of private capital into Banco de la Ciudad Cost reduction as a result of increased transparency 	<ul style="list-style-type: none"> Annual budget performance Law establishing FEDES and budget Annual budget performance Implementation of SIPRIN Law submitted to legislature Increase in the number of solicitations for competitive bids as a percentage of total procurement and increased number of participants in the bids. Reduced costs of contracted services. 	<ul style="list-style-type: none"> New revenue sharing law does not affect revenues negatively Favorable economic situation Compensatory settlement of the Nation has a neutral or positive impact

**LOGICAL FRAMEWORK
PROGRAM OF INSTITUTIONAL SUPPORT, FISCAL REFORM
AND INVESTMENT PLANNING FOR THE CITY OF BUENOS AIRES
(AR-0218)**

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>to the socioeconomic of the City of Buenos Aires establishing a framework of long-term fiscal and financial</p>	<p>Fiscal situation of the CBA</p> <p>Level and composition of CBA revenues and expenditures (diminishing personnel costs)</p> <p>Resources available in the stabilization and socioeconomic development fund (FEDES) (equivalent to 5% and 10% of current revenues for 1998 and 1999 respectively)</p> <p>Gradual reduction of the stock of the city's debt as a percentage of current revenues</p> <p>Indicators for monitoring the reform program</p>	<p>Status of budget execution</p> <p>Publication of official fiscal statistics</p> <p>Program monitoring reports</p>	<p>City government is committed to p permanent support for the program</p> <p>Strengthening of the CBA's tax ad is reflected in rising levels of city r</p> <p>Macroeconomic indicators used fo projections are maintained</p> <p>The settlement of the debt with the has not been taken into account in calculation of projections</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ACTIVITIES ORGANIZATION SUBPROGRAM TECHNICAL AND FINANCIAL SUPPORT INSTRUMENT Municipal administration system Budget system Accounting system that allows efficient management of resource administration Debt management system computerized and in Accounting system that allows uniformity, and consolidation of the city's	Preparation and use of an annual budget and multiyear estimates and projections Greater accountability for entities responsible for expenditure Gradual implementation of single account system Semiannual report on CBA's debt CBA balance sheet General chart of account Procedures manual General public accounting plan Statement of current revenues and expenditures Statement of source and acceptance of funds Inventory and sale of properties	Annual draft budget law Program monitoring reports Quarterly report to legislature Semiannual report on debt Accounting document beginning on 1/1/1999. Semiannual report quantifying progress in rationalization in the use of municipal properties	Continuity and sustainability of institutional and fiscal reforms Political support and resources available for planned activities Activities executed within planned time frames Management hierarchy responds to requirements for implementing the reforms Existence and availability of qualified consultants

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Organizing and strengthening the Tax Administration and Property Registration Administration (DGRyEI)</p> <p>Structure and organization of the Tax Administration</p> <p>Expansion of the taxpayer base</p> <p>Implementation of a management control system for monitoring and evaluating the performance of the DGRyEI</p> <p>Improvement of the coverage and productivity of audit activities</p> <p>Training of personnel</p> <p>Implementation of a communication policy, on the basis of CBA's guidelines, of a communications strategy</p>	<p>Tax collection levels</p> <p>Operating costs of DGRyEI/tax collection</p> <p>Noncompliance rate in submitting tax returns (distinguishing between large- and small/medium-scale taxpayers)</p> <p>Noncompliance rate in paying tax (distinguishing between large- and small/medium-scale taxpayers)</p> <p>Number of active taxpayers</p> <p>Level of tax debt</p> <p>Collections realized through inspection and audit activities</p> <p>Number of preventive inspections</p> <p>Volume of taxpayer complaints (differentiating between those accepted and rejected)</p> <p>Number of detected violations of the ethics code</p> <p>Results of periodic staff appraisals</p> <p>Percentage of officials participating in training activities</p> <p>Survey results on public satisfaction with services provided by DGRyEI</p>	<p>Semiannual reports on implementation includes the following:</p> <p>Organization, staffing levels and mobility of DGRyEI personnel. Organizational and operating manuals</p> <p>Statistical reports on tax collection and inspection/audits</p> <p>Management reports for DGRyEI</p> <p>Output statistics from supervision and audit section and reports on violations and penalties</p> <p>Content, timing and coverage of training programs</p> <p>Review of personnel policy and administration manuals and codes.</p> <p>Statistics on staff remuneration and mobility</p> <p>Opinion survey on services provided by DGRyEI</p>	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
RESOURCES COMPONENT			
Component on managing organizational change			
Analysis and implementation of reform plans for each institutional unit	Analyses and reform plans in operation	Action plans to improve this area, showing responsibility centers, timetables and specific results. Progress reports	
Review of the labor framework	Draft general personnel regulations, career planning system, management positions system	Submitted to the legislature	
Review of the management style	New managers in place in identified units	Number of contracts under the new contractual model for new managers in critical areas	
Component on strengthening management area			
Reorganization of the human administration function	New operating structure in place throughout the administration, with professional staff capable of performing their new responsibilities	Manuals on structure and functions. List of required skills covered in new model, quantitatively and qualitatively	
Formalization of new work	New processes in daily use in organizational units in place of previous ones	Employees trained in the use of new processes and manuals, computer support software and training courses conducted	
Human resources information system	New human resources information system in full operation, providing the necessary support to personnel management	Computerized system in use	
Attendance control	Absenteeism reduced by 20%	Absenteeism indicator	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Component for creation of the ment and Employability</p> <p>nnel structure within CBA</p> <p>REMENT AND ACTING COMPONENT</p> <p>f an electronic processing urement and contracts</p> <p>ol agencies</p> <p>ng for officials</p> <p>f a code of ethics for officials</p> <p>MENT SYSTEM COMPONENT</p> <p>amming and execution of ent</p> <p>engthening of the coordination</p> <p>ation</p> <p>for the city</p>	<p>Proposal with alternative scenarios submitted to the legislature</p> <p>Basic model. 16 Management and Participation Centers (CGPs) in operation</p> <p>Redesign of central agency functions and at least 5 "contracts" in place between the CGPs and the central units</p> <p>User Committees in operation in at least 8 CGPs. Opinion surveys conducted and analyzed</p> <p>Plan organization division. Strategy proposals presented in the Strategic Planning Council</p>	<p>Approximately: 3,200 early retirements; 1,200 early departures; reduction of substitute workers by 2,200; reduction of long-term leave by 300 cases</p> <p>Number of bids and purchase orders placed by electronic means</p> <p>Assessment of processing time for bids received</p> <p>Number of officials trained. Number of inquiries and visits to leading international centers and databases for procurement and purchasing processes</p> <p>Proposed text of a code of ethics. Degree of dissemination of text.</p> <p>Project bank in operation Establishment of preinvestment fund</p> <p>Documentation of proposals and supplementary information</p> <p>Documentation for the model and operating reports. Management and opinion indicators</p> <p>Contract monitoring reports</p> <p>Opinion survey reports. Activity reports from the User Committees</p> <p>Activity reports from the Strategic Planning Council</p>	<p>Data on payment of separation allowances and DGARH data</p> <p>Reports on performance of the Procurement and Contracting Directorate</p> <p>Number of projects in bank semiannual reports</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
MENT SUBPROGRAM the operation of priority the CBA's multiyear investment	Degree of execution of investment plan Projects approved Bidding documents approved Disbursements processed	Multiyear investment plan Semiannual review of investment plan Semiannual monitoring reports on approved projects; bidding documents approved and disbursements made	Competitive bidding procedures c on schedule Fulfillment of project selection crite

CITY OF BUENOS AIRES
Procurement plan and
multiyear Investment Program

Project: "Buenos Aires and the River"

Name of Project	Investment (\$000)			Total Investment	Bidding
	1998	1999	2000		
Urban development and environment sector					
TRIANGULODEL ESTE PARK	2,750	0	6,400	9,150	ICB
MIRADOR PARK (1)	2,180	2,184	0	4,364	LCB
CIUDAD UNIVERSITARIAPARK (1)	490	0	12,950	13,440	ICB
CARRITOS AREA - STREET/WALKWAY/PARK(1)	3,615	0	0	3,615	LCB
CARRITOS AREA - EXTENSIONS AND PLAZAS (1)	1,500	0	0	1,500	LCB
RAMBLA COSTANERA NORTE - STAGES 1 TO 5	1,896	2,944	792	5,632	LCB
FISHERMANS' PIER	40	805	-805	40	LCB
PLAYON MIRADOR	92	0	0	92	LCB
PASEO ESPIGON DOREGO (COMPLETED)	0	0	0	0	LCB
ACCESS TO CLUB DE PESCADORES	150	0	0	150	LCB
RAMBLA COSTA SALGUERO	250	0	0	250	LCB
COCONOR PARK	852	1,420	0	2,272	LCB
PUNTA CARRASCO PARK	1,100	0	0	1,100	LCB
NEW PASEO COSTANERA SUR	500	2,000	3,308	5,808	ICB
ECO. RES. - ESPIGON RAMBLA- COYPOS	1,903	435	0	2,338	LCB
ECO. RES. - FAMILY RELOCATIONS	300	100	0	400	LCB
ECO. RES. - FURNISHINGS	500	0	0	500	LCB
ECO. RES. - EQUIPMENT	375	125	0	500	LCB
ECO. RES. - RECREATION INFRASTRUCTURE	210	210	0	420	LCB
LABOCA - SHANTIES (DEMONSTRATION)	1,128	372	0	1,500	LCB
LABOCA - SHANTIES (REMAINDER)	1,650	11,940	2,910	16,500	ICB
RIVERBANK PROTECTION	0	14,178	12,322	26,500	ICB
URBAN FURNISHINGS	1,332	668	0	2,000	LCB
CALLE LATERAL AVENIDA CANTILO	2,100	0	0	2,100	LCB
Studies					
EFFECT OF RIVER ON SHORELINE (*)	0	0	50	50	
ENVIRONMENTAL IMPACT	150	0	0	150	
SOCIOECONOMIC IMPACT	50	0	0	50	
RIVERBANK PROTECTION	450	0	0	450	
SUBTOTAL	25,583	37,381	37,827	100,871	
Cultural sector					
Rehabilitation of rehearsal stages	1,422	610	0	2,032	LCB
Air conditioning system	1,750	750	0	2,500	LCB/ICB
Fire defense system	1,500	0	0	1,500	LCB/ICB
Other rehab., remodelling works	4,651	2,891	0	7,542	LCB
Stage reconst. & mechanization	350	5,360	8,699	14,409	ICB
SUBTOTAL	8,673	8,811	8,699	27,983	
Education sector					
New construction	3,268	7,898	7,898	19,064	LCB
Expansions	1,183	1,073	0	2,256	LCB
Major rehabilitations	5,731	6,285	6,285	18,300	LCB
125 school plan	6,600	8,875	8,875	24,350	LCB
Misc. new works		2,900	2,900	5,800	LCB
Minor repairs		1,237	0	1,237	LCB
SUBTOTAL	16,782	28,268	25,958	71,007	
Consulting services	10,000	12,000	4,000	26,000	LCB/ICB
Equipment	1,000	1,625	0	2,625	LCB/ICB
SUBTOTAL	11,000	13,625	4,000	28,625	
TOTAL	53,018	88,260	78,584	228,488	

(*) Study completed

PROPOSED RESOLUTION

ARGENTINA. LOAN /OC-AR
TO THE CIUDAD DE BUENOS AIRES

(Program for Institutional and Fiscal Reform Support and
Investment Plan of the City of Buenos Aires)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Ciudad de Buenos Aires, as Borrower, and the Nación Argentina, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of a program for institutional and fiscal reform support and investment plan of the City of Buenos Aires. Such financing will be for the amount of up to two hundred million dollars of the United States of America (US\$200,000,000), which are part of the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.