

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES

(AR-O0008)

LOAN PROPOSAL

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| 6. Perfil nacional de riesgo catastrófico: Informe nacional para Argentina [National Catastrophic Risk Profile: National Report for Argentina], IDB, 2016 |

ABBREVIATIONS

| | |
|---------------|--|
| ARL | Automatic Redirection List |
| BCRA | Banco Central de la República Argentina [Central Bank of the Argentine Republic] |
| CCF | Contingent Credit Facility for Natural Disaster Emergencies |
| CONAE | Comisión Nacional de Actividades Espaciales [National Commission for Space Activities] |
| DPYPEESA | Dirección de Programas y Proyectos Especiales con Enfoque Sectorial Amplio [Office of Special Programs and Projects with a Sector-wide Approach] |
| ENSO | El Niño–Southern Oscillation |
| FONAE | Fondo Nacional de Emergencias [National Emergency Fund] |
| FONGIR | Fondo Nacional para la Gestión Integral del Riesgo [National Fund for Integrated Risk Management] |
| ICAS | Institutional Capacity Assessment System |
| IDRM | Integrated disaster risk management |
| IGN | Instituto Geográfico Nacional [National Geographic Institute] |
| iGOPP | Index of Governance and Public Policy in Disaster Risk Management |
| IMF | International Monetary Fund |
| INDRM Program | Integrated Natural Disaster Risk Management Program |
| INPRES | Instituto Nacional de Prevención Sísmica [National Seismic Prevention Institute] |
| MAPS | Methodology for Assessing Procurement Systems |
| NDFRTPs | Natural Disaster Risk Finance and Transfer Programs |
| OVE | Office of Evaluation and Oversight |
| PNRRD | Plan Nacional para la Reducción del Riesgo de Desastres [National Plan for Disaster Risk Reduction] |
| POAGIR | Programa Operativo Anual para la Gestión Integral del Riesgo y la Protección Civil [Annual Work Program for Integrated Risk Management and Civil Protection] |
| SAOCOM | Satélite Argentino de Observación con Microondas [Argentine Satellite for Microwave Observation] |
| SIFEM | Sistema Federal de Emergencia [Federal Emergency System] |
| SINAGIR | Sistema Nacional para la Gestión Integral del Riesgo y la Protección Civil [National System for Integrated Risk Management and Civil Protection] |
| SPC | Secretaría de Protección Civil [Civil Protection Department] |
| UNDP | United Nations Development Programme |
| WAL | Weighted average life |

PROJECT SUMMARY

ARGENTINA CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES (AR-O0008)

| Financial Terms and Conditions ^(a) | | | | |
|--|---------------|-------------------------------------|--|---|
| Borrower: Republic of Argentina | | | Flexible Financing Facility ^(b) | |
| | | | Amortization period: | 25 years ^(c) |
| Executing agency: The borrower, acting through its Ministry of Finance | | | Grace period: | 5.5 years ^(c) |
| | | | Original WAL: | 15.25 years ^(c) |
| Source | Amount (US\$) | % | Disbursement period: | 5 years ^(d) (e) |
| IDB (Ordinary Capital): | 300 million | 100% | Interest rate: | LIBOR-based |
| | | | Inspection and supervision fee: | (f) |
| Total: | 300 million | 100% | Commitment fee: | (f) |
| | | | Currency of approval: | U.S. Dollars from the Bank's Ordinary Capital |
| Project at a Glance | | | | |
| Project objective/description: The project's objective is to contribute to cushioning the impact of a severe or catastrophic natural disaster on the public finances by increasing the availability, stability, and efficiency of contingent financing for emergencies created by these types of events. The operation also seeks to improve the country's integrated disaster risk management by fostering improvements in the five strategic areas of the Integrated Natural Disaster Risk Management (INDRM) Program: (i) governance and development of the governing framework; (ii) risk identification and awareness; (iii) risk reduction; (iv) disaster management; and (v) financial risk management. | | | | |
| Special condition for general eligibility to request disbursements: The Operating Regulations have been approved and entered into force on the terms previously agreed upon with the Bank (see paragraph 3.3). | | | | |
| Special contractual conditions precedent to each disbursement: (i) the Bank has verified that an eligible event has occurred, as defined in the Operating Regulations ; (ii) the INDRM Program previously agreed upon with the Bank is in execution to the Bank's satisfaction; and (iii) the borrower has submitted one or more disbursement requests within 90 days after the occurrence of an eligible event, indicating the amount(s) of such disbursement(s) and whether the disbursement(s) will be drawn from the resources of the regular lending program, from undisbursed Automatic Redirection List (ARL) loan balances, or from a combination of the two sources. In the case of ARL loans, the request will identify the loan(s) in question and the respective amount to be used (see paragraph 3.5). | | | | |
| Exceptions to Bank policy: None. | | | | |
| Strategic Alignment | | | | |
| Challenges: ^(g) | SI | <input type="checkbox"/> | PI | <input type="checkbox"/> |
| | | | EI | <input type="checkbox"/> |
| Crosscutting themes: ^(h) | GD | <input checked="" type="checkbox"/> | CC | <input checked="" type="checkbox"/> |
| | | | IC | <input type="checkbox"/> |

^(a) Financial terms and conditions of the contingent loan, in accordance with the Contingent Credit Facility for Natural Disaster Emergencies (document GN-2502-2, paragraph 4.7) approved by the Bank's Board of Executive Directors pursuant to Resolution 27/09 and amended pursuant to Resolution DE-96/12 (document GN-2667-2).

^(b) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(c) The amortization periods, weighted average life (WAL), and grace periods run from the date of each disbursement of the financing.

^(d) At the Bank's discretion, the drawdown period (disbursement period) may be extended for up to five additional years at the borrower's request. In the event of an extension, the commitment fee collection periods will run from the effective date of the extension.

^(e) Loan disbursements will be subject to the availability of sufficient resources from the ARL or from the Bank's regular lending program with Argentina, as applicable, at the time of the disbursement request (see paragraph 2.5).

- (f) The commitment fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the relevant policies. The Bank will only charge a commitment fee on the amounts disbursed from the regular lending program (i.e., resources other than those from the ARL). In such cases, the commitment fee will accrue retroactively, starting 60 days from the signature date of the loan contract and ending on the date of the respective disbursement(s), and it will be calculated based on the amount of the respective disbursement(s). The fee in effect on the date of the disbursement request will apply.
- (g) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (h) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. Argentina's vulnerability to natural disasters and climate change

- 1.1 Argentina is highly exposed and vulnerable to natural disasters. Given where the country and its main urban areas¹ are located geographically, Argentina is exposed to a large number of natural hazards of severe or catastrophic magnitude: mainly flooding and, less frequently but still significantly, earthquakes and volcanic eruptions.² In terms of flooding, the major events to which the country is exposed are generally tied to the El Niño–Southern Oscillation (ENSO) phenomenon. The main effects of the ENSO are observed in the River Plate basin, where heavy precipitation resulting from the climate phenomenon in the area of the main rivers (Paraná, Paraguay, and Uruguay) frequently causes them to burst their banks and flood.³ According to recent estimates, 30% of the combined GDP of the Province of Buenos Aires and the Autonomous City of Buenos Aires⁴ is generated in areas prone to flooding.⁵ Two other provinces that have significant populations and frequently experience severe flood events are Santa Fe and Córdoba, due to their proximity to the Paraná and Salado rivers. In addition, 70% of the populations of Formosa, Chaco, and Santiago del Estero are highly exposed to flood risk.
- 1.2 In terms of seismic risks, the convergence of the Nazca and South American plates (where the eastern edge of the Nazca plate sinks into the Earth's mantle underneath the South American plate) creates an area of high seismic activity along the country's western border. Historical records indicate that most seismic activity in the country is in the Cuyo and Northwestern regions. Within the Cuyo region, the provinces of Mendoza and San Juan have experienced the highest number of tremors with focal depths of less than 70 km,⁶ and the most devastating earthquakes in the country. Although seismic activity has been less frequent in the Northwestern region, some areas—particularly the capitals of Jujuy and Salta—are considered to be highly exposed. In the southeastern part of the country, only a limited number of tremors have had an epicenter within national borders, and many of these have been volcanic in origin.
- 1.3 Over the last 50 years, 58 severe flooding events were reported in the country, affecting 14 million people (EM-DAT International Disaster Database, 2018). Among the most serious, in terms of both the human impact and economic losses, were when the Paraná and Uruguay rivers flooded in 1982 and 1983, affecting more than 6 million people and causing US\$1.8 billion in damages (1.6% of 1983 GDP). Another high-impact event occurred in 2003 in the Province of Santa

¹ Urban areas account for 91% of Argentina's population, which is concentrated in large cities exposed to flood risk. See *Inundaciones Urbanas en Argentina*, Bertoni et al., 2004.

² Fifty-five percent of the natural disasters recorded over the last 75 years were from flooding, 5% from earthquakes, and 4% from volcanic eruptions.

³ *Inundaciones urbanas en Argentina*. Bertoni et al., 2004.

⁴ These two areas account for 46% of the population and over 50% of national GDP.

⁵ *Staying afloat: Flood risk in Argentina*. Swiss Re, 2016.

⁶ The severity of seismic movements depends on the depth of their point of origin. The shallower the focus, the more damage an earthquake can inflict.

Fe, where overflows along the Salado River flooded several cities, affecting more than 160,000 people and causing damages of approximately US\$1 billion (0.7% of GDP for that year). In 2013, large areas of Ciudad de La Plata—capital of the Province of Buenos Aires—were flooded after heavy rainfall, affecting approximately 350,000 people and causing estimated losses of US\$1.3 billion.⁷ Most recently, flooding in 2015 and 2016 affected more than 200,000 people in eight provinces situated in the watersheds of the Paraná, Paraguay, and Uruguay rivers, causing losses in excess of US\$4.9 billion.⁸

- 1.4 Although intense seismic movements have been infrequent, there have been five major earthquakes in the last 75 years, with a devastating impact on the exposed population and economic activities. The most significant historic events include: (i) the San Juan earthquake in 1944, which registered IX on the Modified Mercalli Intensity Scale and killed nearly 10,000 people (out of a population of 90,000);⁹ (ii) the 1948 earthquake, with an epicenter in the eastern part of the Province of Salta, which was the most devastating ever to strike the Northeastern region given the physical damage in the provinces of Salta and Jujuy; and (iii) the 1985 earthquake originating in the Province of Mendoza, which registered VIII on the Modified Mercalli Intensity Scale, affecting 45,000 people and causing substantial physical damage in several departments in the Greater Mendoza area.¹⁰
- 1.5 In terms of volcanic activity, the section of the Andean mountain range that crosses Argentina harbors numerous active volcanoes. According to Argentina's National Geographic Institute (IGN), there are 37 active volcanoes located in the provinces of Jujuy, Salta, Catamarca, Mendoza, Neuquén, Río Negro, Chubut, and Santa Cruz. The main volcanic phenomenon affecting the country is ashfall, which can bury large agricultural areas beneath thick layers of ash, cause forest fires, and lead to respiratory and eye problems in humans and animals. Over the last decade, the Chaitén (2008), Puyehue-Cordón Caulle (2011), and Calbuco (2015) volcanoes have all erupted, affecting different parts of the country. The repercussions of the Puyehue-Cordón Caulle Volcanic Complex eruption were particularly serious, affecting livestock, electricity and water supplies, the communications network, and ground and air transportation.¹¹

⁷ Argentina: Floods. Disaster Relief Emergency Fund. International Federation of the Red Cross, 2013.

⁸ Valoración de los efectos del evento climático. Economic Commission for Latin America and the Caribbean (ECLAC), 2017.

⁹ Documento país 2012: Riesgo de desastres en la Argentina, United Nations Development Programme (UNDP), 2012.

¹⁰ Informe sobre el terremoto de Mendoza del 26 de enero de 1985. National Seismic Prevention Institute (INPRES), 1985.

¹¹ Impacts of the June 2011 Puyehue-Cordón Caulle volcanic complex eruption on urban infrastructure, agriculture, and public health, Wilson et al., 2012.

- 1.6 Argentina's high exposure to natural hazards, combined with a variety of socioeconomic factors tied to rapid and underregulated urbanization and highly concentrated production, exacerbate this vulnerability and the risks of severe impacts on the population and economic activity due to these natural disasters. An IDB study estimated that a 100-year event would cause losses of 1% of GDP, while a 500-year event would inflict losses of 9% of GDP.¹²
- 1.7 **Climate change.** The recurrence of extreme climate phenomena in the country could intensify due to the effects of climate change.¹³ Episodes of heavy precipitation, as well as major floods in the River Plate basin, have become increasingly frequent.¹⁴ Several severe floods have been recorded along the River Paraná since the early 1980s after more than a decade without events of this magnitude. Recent climate projections suggest that these trends will continue or intensify in all of Argentina's regions in a scenario of a moderate rise in the global average temperature.¹⁵ In the Northeastern and Northwestern regions, the risk of flooding is expected to increase. Similarly, spring flooding caused by rainfall will be more frequent in the Cuyo region, while events in Greater Buenos Aires will affect an increasingly large area. The risk of floods due to rising sea levels is also expected to increase, particularly in coastal areas of the River Plate.¹⁶ The same time, the frequency of extreme ENSO events is expected to rise.¹⁷ Climate model projections also point to an increase in high temperatures throughout most regions in the country, as well as more intense and/or prolonged periods of drought.¹⁸
- 1.8 **Gender and natural disasters.** Disasters have a disproportionate impact on the most vulnerable groups—particularly women, who have different levels of vulnerability in managing risks and coping with disasters.¹⁹ Recent studies corroborate that natural disasters affect women more, particularly in developing countries.²⁰ The evidence also indicates that integrating gender issues into public policies and interventions helps to improve disaster risk management. In Argentina, women are more vulnerable to disasters due to the income gap, their higher share of low-productivity jobs, and their lower participation in decision-making spheres.²¹ Mainstreaming gender in the design and

¹² Perfil nacional de riesgo catastrófico: Informe nacional para Argentina. IDB, 2016.

¹³ Nationally Determined Contribution: Argentina, 2016.

¹⁴ Spatial and temporal variability of the frequency of extreme daily rainfall regime in the La Plata basin during the twentieth century. Penalba and Robledo, 2009.

¹⁵ Cambio climático: Variabilidad pasada y una prospectiva de las amenazas de acuerdo a los escenarios futuros. Documento país 2012: Riesgo de desastres en la Argentina, UNDP, 2012.

¹⁶ Climate change in Argentina: Trends, projections, impacts and adaptation. Barros et al., 2014.

¹⁷ See: ENSO and Greenhouse warming, Cai et al., 2015; and Continued increased of extreme El Niño frequency long after 1.5°C warming stabilization, Wang et al., 2017.

¹⁸ Third National Communication (TNC) of the Republic of Argentina to the United Nations Framework Convention on Climate Change (UNFCCC). Ministry for the Environment and Sustainable Development, 2015.

¹⁹ Making disaster risk reduction gender-sensitive. United Nations Office for Disaster Reduction, 2009.

²⁰ See: The legacy of natural disasters: The intergenerational impact of 100 years of disasters in Latin America, Caruso, 2017; and Discovering the differential and gendered consequences of natural disasters on the gender gap in life expectancy in Southeast Asia, Murillo and Tan, 2017.

²¹ Aportes para el desarrollo humano en Argentina 2011. UNDP, 2011.

implementation of disaster risk management policies remains a challenge, which is why the gender issue was included as a guiding principle and strategic pillar in the National Plan for Disaster Reduction and Civil Protection 2018-2023 (PNRRD).

2. Financial vulnerability to severe or catastrophic natural disasters

- 1.9 Challenges in terms of economic reform, adverse external financial shocks, and the prolonged drought²² experienced by the country in early 2018 have contributed to the slowing of economic activity. The economy will contract 2.6% this year, after growing 2.9% in 2017. Projected annual inflation is 47.5% for end-of-year 2018. The Argentine peso was highly volatile in 2018 and depreciated around 45% between January and mid-November. On the fiscal front, a primary deficit of 2.6% of GDP is expected this year.
- 1.10 The Argentine government has responded quickly to this state of affairs, adjusting its macroeconomic policy framework and garnering the support of the international community. The priorities include accelerating fiscal consolidation, restoring external equilibrium, and stabilizing prices. The stand-by arrangement with the International Monetary Fund (IMF) is especially important for implementation of the government's financial program and also leaves fiscal headroom for social policies to compensate for any social costs from the stabilization process. The IMF stand-by arrangement was initially agreed for US\$50 billion over a 36-month period, but this was modified in September when Argentina faced increased financial volatility. The new program increases the IMF funding by US\$7.1 billion and frontloads disbursements. The government has committed to achieve balance in the primary fiscal accounts in 2019 and a surplus of 1.1% of GDP in 2020.
- 1.11 In this context, a natural disaster of catastrophic magnitude would constitute a substantial contingent fiscal liability for the country,²³ putting pressure on public expenditure and complicating the government's efforts to achieve a more robust fiscal position. For example, in the event of floods similar in magnitude to those experienced in 1982 and 1983 (see paragraph 1.3), the government's fiscal position could be weakened by the extraordinary public spending necessitated by the disaster. In addition, according to an analysis by the IDB, an earthquake in Greater Mendoza measuring 6.6 on the moment magnitude scale would generate losses of 1.9% of 2017 GDP.²⁴ It is therefore critical that the Government of Argentina take steps to improve its financial management of natural disaster risks and strengthen its fiscal resilience.

²² According to the Central Bank of the Argentine Republic (BCRA), the drought—which affected soybean and maize harvests—will have a direct negative impact on GDP of approximately 0.75 percentage points in 2018. [BCRA, 2018](#).

²³ Recent empirical evidence indicates that severe floods have a substantial impact on public finances (see Types of natural disasters and their fiscal impact. Koetsier, 2017). In the case of Argentina, almost all of those contingent liabilities fall on the government, meaning that financing for extraordinary public expenditures resulting from the emergency management of catastrophic national disasters represents a significant risk to the public finances.

²⁴ Perfil nacional de riesgo catastrófico: Informe nacional para Argentina. Evaluación probabilística del riesgo sísmico en el Gran Mendoza. IDB, 2016.

3. Natural disaster risk management in Argentina

- 1.12 The first significant steps toward a regulatory and institutional framework for integrated disaster risk management (IDRM) in Argentina were taken in 1999 with the creation of the Federal Emergency System (SIFEM) (Decree 1,250/99). This system, which operated until 2016, was a mechanism for interagency coordination that focused on emergency or disaster management—particularly the crisis response phase. In practice, the SIFEM served as a tool for the federal government to coordinate assistance to provincial or municipal governments in the event of emergencies. However, the SIFEM was only partially implemented, and this prevented the development of a coordinated national IDRM strategy.²⁵
- 1.13 Prior to 2015, and despite initial efforts, the country had no law or institutional framework to address IDRM issues and establish a system to integrate risk management policies, principles, strategies, and actions across the three levels of government (central, provincial, and municipal). The existing legislation was aimed at managing disasters and emergencies after specific events, so the approach was more reactive than proactive. In response, the National System for Integrated Risk Management and Civil Protection (SINAGIR) was created under Law 27,287, which reflects the priorities and goals of the United Nations Sendai Framework for Disaster Risk Reduction 2015-2030.²⁶
- 1.14 The law also established both the National Council for Integrated Risk Management and Civil Protection (a decision-making body that coordinates risk prevention and reduction activities, as well as emergency management) and the Federal Council for Integrated Risk Management and Civil Protection (responsible for coordination with the provinces and the implementation of national risk management policies at the local level). The National Council is chaired by the Office of the Cabinet Chief and supported by the Civil Protection Department in the Ministry of Safety. The Federal Council consists of one representative from the executive branch of the national government, one from each province, and one from the Autonomous City of Buenos Aires. The law also created the National Fund for Integrated Risk Management (FONGIR), to finance risk prevention and mitigation actions, and the National Emergency Fund (FONAE), to finance and execute emergency response actions.
- 1.15 The IDRM diagnostic assessment for Argentina is documented in the Integrated Natural Disaster Risk Management (INDRM) Program (see paragraph 2.7). The INDRM Program includes a matrix identifying activities to help the country achieve improvements in the five strategic areas of risk management. These activities will be monitored using indicators established and agreed upon between the Bank and the country on an annual basis. Argentina's main achievements and challenges in key aspects of IDRM are as follows:

²⁵ The country's legal and regulatory framework. Documento país 2012: Riesgo de desastres en la Argentina, UNDP, 2012.

²⁶ [Sendai Framework for Disaster Risk Reduction 2015-2030](#), adopted at the Third United Nations World Conference on Disaster Risk Reduction, held in Sendai (Japan) on 18 March 2015.

- 1.16 **Governance and development of the governing framework.** Following creation of the SINAGIR, its implementing regulations were approved in May 2017 (Decree 383/2017). Among other things, these establish: (i) a Network of Scientific and Technical Bodies for integrated risk management, to manage the information requirements for risk management; (ii) arrangement of the country into civil protection regions, to assist in the preparation of regional and provincial public policies and facilitate the coordination of actions; (iii) definition of components of the operational process for integrated risk management, including risk identification, mitigation, prevention, and response management; (iv) composition of the SINAGIR task forces, the procedure for convening them, and the actions under their purview; (v) development of the PNRRD and its respective annual work plans; and (vi) the operations of the funds for disaster prevention and management (FONGIR and FONAE, respectively). In terms of getting the SINAGIR up and running, the following were approved at the first annual meeting of the National Council in April 2018: (i) the PNRRD for the period 2018-2023, which establishes guiding principles, sets objectives and targets, and specifies the institutional stakeholders and their responsibilities; and (ii) the 2018 Annual Work Program for Integrated Risk Management and Civil Protection (POAGIR).
- 1.17 Further progress in this area could involve regulatory modernization to coordinate IDRM policies with related crosscutting policies such as water resources or climate change adaptation. It would also be necessary to improve the monitoring and evaluation system for the PNRRD with a view to identifying the most effective and efficient actions for reducing the country's vulnerability to natural disasters. Given the importance of promoting this new disaster risk management policy at the federal level, continued efforts are necessary to increase the number of provinces in the SINAGIR. Sixteen provinces are currently part of the system, and this is expected to rise to 20 by 2023.
- 1.18 **Risk identification and awareness.** In terms of the allocation of sector responsibilities in risk identification, the responsible institution under current rules is the Ministry of Safety, acting through the Civil Protection Department. This entity is also responsible implementing the PNRRD for 2018-2023. Current efforts are focused on increasing the number of local governments that have risk maps. By the end of 2018, at least 100 municipios in provinces belonging to the SINAGIR are expected to have risk maps. To facilitate preparation of the maps, a national team was created to provide technical skills to provincial and local governments. The Civil Protection Department has also created a manual to provide guidance for the preparation of risk scenarios and their spatial representation. With respect to risk awareness, one of the PNRRD targets is to increase the amount of information regarding postdisaster damage and assessment both qualitatively and quantitatively. Another achievement in this area is Law 27,287, creating the National Disaster Risk Management Information Center and formalizing the network of scientific and technical bodies. Additionally, the Ministry of Environment and Sustainable Development created the Climate Change and Sustainable Development Department, responsible for creating risk maps that include the impact of climate change at the national level. Nonetheless, the country faces the challenge of continuing to expand the coverage of probabilistic disaster risk assessments for municipios and the different sectors in which critical infrastructure

is concentrated. Equally important will be regulations establishing territorial and sector responsibilities for risk identification.

- 1.19 **Disaster risk reduction.** The National Fund for Integrated Risk Management (FONGIR) was created using funds from the central government budget (Decree 383/2017), to finance disaster risk reduction projects. The regulations implementing this fund represent significant progress, as they will enable the disaster risk reduction targets set in the PNRRD to be met. Perhaps the main challenge is to increase the number of provincial governments that adopt and implement disaster risk reduction plans consistent with their needs and the national strategy. The PNRRD target is for 20 provinces to institute disaster risk reduction plans by 2023, and for at least 10 local management plans incorporating disaster risk considerations to be prepared by 2019. Application of the Index of Governance and Public Policy in Disaster Risk Management (iGOPP)²⁷ showed that Argentina needs to strengthen the rules governing preventive measures to be adopted by public entities to reduce the vulnerability of essential buildings or critical infrastructure. Additionally, the level of resources dedicated to disaster risk reduction activities in the sectors is very low.
- 1.20 **Disaster management.** The Civil Protection Department is responsible for coordinating human resources and materials for the mitigation, response, and recovery phases. In terms of emergency preparedness, one of the country's main achievements in recent years has been the approval of interagency information management protocols to support emergency preparedness in the following cases: (i) the River Plate basin; (ii) urban flash floods; (iii) floods downstream from dams; and (iv) seismic events within national borders. The PNRRD acknowledges that challenges remain in this area and establishes IDRM-related social information, education, communication, and participation as a major area of strategic focus, to develop a culture of risk prevention and mitigation. Plan targets include: (i) strengthening local early warning systems using available channels and technologies; (ii) developing a strategy for raising awareness that takes gender issues into account; (iii) incorporating IDRM issues in educational venues; and (iv) harmonizing and disseminating educational content. Preparation and response training is also needed, together with emergency drills at the provincial level. Provincial and municipal civil defense agencies also need strengthening.
- 1.21 **Financial risk management.** The recent creation of FONAE is an important step in the financial planning and management of contingent public liabilities stemming from natural disasters in the country. Yet Argentina lacks a comprehensive financial protection strategy for managing these risks, nor does it have financial instruments to provide ex ante coverage (such as contingent loans or insurance) for the extraordinary expenditures necessitated by natural disaster emergencies. Additionally, the financial protection subindex of the iGOPP shows a score of 12% for Argentina—below the regional average of 20% and far below the leading country in the area of financial protection (Mexico, 66%). Given the country's

²⁷ The [iGOPP](#) measures whether a country satisfies the legal, institutional, and budgetary conditions for implementing a public policy of disaster risk management on a scale of 0% (minimum) to 100% (maximum). It was developed by the IDB between 2012 and 2014, and as of 2018 has been applied in 20 countries. Six countries are in the process of administering the iGOPP.

vulnerability and the magnitude of the financing needs that could arise due to a severe or catastrophic event, the Government of Argentina has requested the Bank's support to reduce the adverse impact of disasters on the public finances by providing a contingent loan that would provide rapid access to liquid financial resources for managing such emergencies.

4. Natural disaster risk finance and transfer programs

- 1.22 Since 2005, the Bank has been working on developing an integrated risk management strategy as part of the Bank's Action Plan for Improving Disaster Risk Management 2005-2008 (document GN-2339-1). In 2008, the strategy's finance approach was approved, and operational development began.²⁸ The objective of the finance approach is to support borrowing member countries in the design and implementation of Natural Disaster Risk Finance and Transfer Programs (NDRFTPs). These programs include a combination of financial instruments and facilities to improve preventive planning and provide broader, more stable, and more efficient coverage of the risk of extraordinary public financial outlays.
- 1.23 The NDRFTPs proposed by the Bank always assume the existence of budgetary and financial constraints, meaning that no single instrument can effectively cover all levels of risk. Inevitably, a menu of instruments will need to be used that can be adapted to cover specific portions of the risk, depending on the likelihood of occurrence and the magnitude of the expected impact of the disasters.²⁹
- 1.24 Accordingly, in designing the NDRFTPs, public outlays resulting from less severe disasters that occur frequently should be covered either by directly budgeted resources or by reserve funds created for this purpose. On top of that, disasters that are less likely to occur but are of severe or catastrophic magnitude—which usually require much higher extraordinary expenditures—should be financed through long-term contingent debt and risk transfer instruments such as insurance and/or catastrophe bonds (“cat bonds”), as these are more efficient in economic terms. Lastly, these programs acknowledge that there are events for which ex ante financial coverage is fiscally unsustainable, since although such events occur very infrequently, the losses they produce are extremely high, as is the financial cost of covering them on an ex ante basis.³⁰
- 1.25 **Potential benefits.** The benefits of focusing on this type of ex ante financing program for the emergency phase have been proven to be greater than their potential costs. Governments generally face a liquidity gap during such events, as spending rises, revenue drops, and it becomes increasingly difficult and more expensive to borrow. In narrowing this gap, the NDRFTPs allow countries to obtain more efficient coverage in terms of both direct costs and the savings yielded by timely resource availability.

²⁸ Integrated Disaster Risk Management and Finance Approach. Discussion Paper (document GN-2354-7).

²⁹ Natural Disasters Financial Risk Management: Technical and Policy Underpinnings for the Use of Disaster-linked Financial Instruments in Latin America and the Caribbean. IDB, 2010. [IDB-TN-175](#).

³⁰ The Management of Catastrophe Risk Using Pooled Insurance Structures. Pollner, 2001.

- 1.26 Stated another way, ex ante financial coverage for the emergency phase of high-magnitude disasters partly reduces the risk of even worse scenarios in terms of a disaster's impact on the public accounts by providing rapid access to finance for the costs of emergency response. This has been verified in studies by the Bank³¹ and other multilaterals such as the IMF,³² which confirm that having financial coverage to ensure liquidity in the case of severe events ensures more stable long-run economic growth than if such coverage is not in place. This is because resources are readily available to meet emergency needs, thus eliminating the need to finance unbudgeted extraordinary expenditures from the public accounts.

5. The operation within the Bank's sector and country strategies

- 1.27 **The Bank's actions and support in the sector.** The Bank has recently assisted the Government of Argentina in improving natural disaster risk management and emergency response through technical cooperation project ATN/LA-15934-AR, "Integrated Management Plan for Drainage and Flood Control in the Arroyo Medrano River Basin," and loan operation 3688/OC-AR, "Emergency Program for an Immediate Response to the Flooding in Argentina," which sought to address the flooding in 2015-2016 by supporting the government's efforts to restore road and water infrastructure and public buildings in affected areas, together with basic services such as water and electricity.
- 1.28 The Bank is also executing the US\$1 million technical cooperation project ATN/OC-16645-AR, "Support for Formulation of the Disaster Risk Management Program in Provinces and Municipios," under which risk studies and the design of intelligent risk prevention solutions are planned for highly vulnerable municipios.
- 1.29 At the same time, the Bank has been supporting the country through loan operation 1777/OC-AR, "Program for the Development of a Satellite System and Applications Based on Earth Observation (PROSAT)," which has provided partial financing for the Argentine Satellite for Microwave Observation (SAOCOM). This satellite, successfully launched on 7 October 2018, represents a technological milestone for Argentina and for Latin America and the Caribbean as a whole. SAOCOM will be part of a unique constellation of satellites known as SIASGE (Italo-Argentine Satellite System for Emergency Management), which will allow near real-time observation of the Earth and the generation of useful data for improving production decision-making processes and emergency management.³³ SAOCOM is the most important project of Argentina's National Commission for Space Activities (CONAE), involving technical specialists and experts belonging to specialized institutions and firms from at least seven countries.

³¹ [Disaster Risk Management](#). Freeman et al., 2003.

³² Natural Disasters: Mitigating Impact, Managing Risks. Laframboise and Loko, 2012.

³³ SAOCOM has been designed to provide information such as maps of soil moisture, water coverage, earth movements, etc. in any meteorological conditions, as the microwave frequency used is able to penetrate through clouds. This ability is especially important because the area encompassing the provinces of Entre Ríos, Santa Fe, and Córdoba and part of La Pampa and Buenos Aires is covered by clouds 60% of the time. The information generated by SAOCOM may be used for different purposes, such as monitoring crops in the agricultural sector, detecting oil spills at sea, and monitoring water coverage during floods.

- 1.30 **Good practices and lessons learned.** With nine loans approved under the Contingent Credit Facility for Natural Disaster Emergencies (CCF), the lessons learned have been incorporated into the preparation of each one, introducing changes in the design of new operations. This process has also been followed for this operation. The main changes and improvements have been with respect to developing coverages, refining methodologies for calculating loan triggers, and establishing CCF Operational Guidelines (document GN-2502-3), applicable generally across all such active operations to ensure their efficient and effective supervision and execution. All these enhancements have also been fully reflected in the operating regulations for each loan.
- 1.31 In terms of experience with disbursements under CCF loans, Ecuador was the first country to receive a disbursement after an earthquake in April 2016. The epicenter of the earthquake, which measured 7.8 on the moment magnitude scale, was located on the coast of Ecuador between the provinces of Esmeraldas and Manabí; it affected 7.4% of the country's population and economic activity and put pressure on the public finances (loan 3670/OC-EC). The Bank disbursed US\$160 million to the country five business days after the event. As indicated in the "Country Program Evaluation: Ecuador 2012-2017," prepared by the Office of Evaluation and Oversight (OVE),³⁴ the main lessons learned from the implementation of this instrument are as follows: (i) the Bank succeeded in transforming its financial strategy from a reactive one (ex post) into a preventive one (ex ante); (ii) the parametric design of the coverage was efficiently implemented, with an estimate of losses and disbursements linked to the eligible event produced quickly, and the crisis situation successfully managed by the Bank's team; (iii) as the first organization to respond to the earthquake, the Bank played an important role in the dialogue with the government and in coordinating the different sector agencies; and (iv) the Bank financed eligible public expenditures of an extraordinary nature in order to address the crisis and initial rehabilitation needs, while also making other, complementary resources available to the government through an Immediate Response Facility (3751/OC-EC), a multisector loan (3906/OC-EC) to support reconstruction in the energy sector and early warning systems, and a technical cooperation operation (ATN/JF-15752-EC) to improve the seismic resilience of infrastructure and strengthen institutional capacities.
- 1.32 **Strategic alignment of the operation.** The operation is aligned with the IDB Group's country strategy with Argentina 2016-2019 (document GN-2870-1), particularly the strategic objective of fostering of environmentally sustainable solutions and support for climate change-related disaster risk management. It is included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2). It is also consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and aligned with the crosscutting area of climate change and environmental sustainability within the climate change adaptation strategy, as it will increase the ex ante financial coverage available to the country in the event of a severe or catastrophic natural disaster. All resources under the operation are available to support the country's lending envelope for

³⁴ [Country Program Evaluation: Ecuador 2012-2017](#). OVE, 2017.

climate change adaptation. As a result, 100% of the operation resources are considered to be financing for climate change adaptation under the [joint methodology of the multilateral development banks for estimating climate finance](#). These resources contribute to the IDB Group's target of increasing the financing of climate-change related projects to 30% of total approvals by the end of 2020.

- 1.33 The operation is also aligned with the crosscutting theme of gender equality and diversity, as it will mainstream the gender perspective in the country's disaster risk management through the activities planned under the INDRM Program. Given that disasters have a disproportionate impact on women (see paragraph 1.8), efforts in the first year will focus on integrating the gender perspective into the country's institutional framework by preparing a manual good practices in this area, as part of the activities under the INDRM Program.³⁵ During the period of coverage, the Bank will provide support to the country under technical cooperation operation ATN/OC-16932-RG, "Promoting Gender Equality through Development Programs in IDB Member Countries," to continue activities in this area.
- 1.34 The operation is also aligned with the Corporate Results Framework 2016-2019 (document GN-2727-6), as it will contribute specifically to the auxiliary indicator, "Countries that have improved disaster risk management." Lastly, the project is consistent with the Disaster Risk Management Policy (document GN-2354-5) and the Climate Change Sector Framework Document (GN-2835-5), as it will assist the public sector in the use of financial instruments by identifying practices to spread the risk associated with managing uncertainty within the public sector.

B. Objectives, components, and cost

- 1.35 The project's objective is to contribute to cushioning the impact of a severe or catastrophic natural disaster on the public finances by increasing the availability, stability, and efficiency of contingent financing for emergencies created by these types of events. The operation also seeks to improve the country's integrated disaster risk management by fostering improvements in the five strategic areas of the Integrated Natural Disaster Risk Management (INDRM) Program: (i) governance and development of the governing framework; (ii) risk identification and awareness; (iii) risk reduction; (iv) disaster management; and (v) financial risk management.³⁶
- 1.36 **Sole component.** The proposed operation has a single, US\$300 million component to structure ex ante financial coverage that is stable, efficient, and quickly accessible, such that any extraordinary expenditures that could be expected to arise during emergencies caused by severe or catastrophic natural disasters can be made in a timely manner. To gauge the extent of the country's financial needs in the face of emergencies caused by severe or catastrophic natural disasters, the Bank analyzed the exposure, vulnerability, and historical impact of natural disasters in the country. This analysis determined that the loan

³⁵ The activities for the first year were identified and agreed upon between the country and the Bank, and are specified in the matrix of indicators for the INDRM Program for 2019.

³⁶ Special attention will be paid to gender equity as a crosscutting theme in the INDRM Program, particularly in the areas of disaster management and governance/development of the governing framework.

amount is the maximum allowed for CCF loans, which is the lesser of US\$300 million or 2% of a country's GDP (document GN-2667-2).³⁷ The potential beneficiaries are, generally, Argentina's entire population and, specifically, the affected population that receives emergency assistance under the proposed coverage. The Bank also plans to provide technical assistance to the government in executing the INDRM Program for the life of the loan, including activities under technical cooperation program ATN/OC-16645-AR, "Support for Formulation of the Disaster Risk Management Program in Provinces and Municipios."

C. Key results indicators

- 1.37 In line with the operation's objective, the expected outcomes are: (i) improved financial management of risks arising from natural disasters through an increase in stable and efficient contingent financing to cover extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters; and (ii) an effective national policy for integrated natural disaster risk management that incorporates gender considerations.
- 1.38 The following indicators will be monitored, to verify improvements in the country's financial risk management: (i) an increase in the ex ante financial coverage available to the country; (ii) the change in the differential between the financial cost of this loan and that of Argentina's long-term sovereign bond; and (iii) the speed of access to resources if an eligible event occurs. The effectiveness of the national disaster risk management policy will also be monitored through satisfactory execution of the INDRM Program and the gender issues addressed in it.
- 1.39 **Economic analysis.** The [project economic analysis](#) uses cost-effectiveness analysis to evaluate a scenario in which the full value of the contingent loan is used as a consequence of a catastrophic event. The net present value of the financing costs for the IDB loan were compared with the costs of issuing bonds, subject to the following assumptions: (i) LIBOR rate set for the IDB loan; and (ii) bonds with a 10-year maturity at a rate based on the country's current risk premium on the international sovereign debt market. Both net present values were calculated using a discount rate of 12%. The results show that the cost of the contingent loan provided by the Bank is 72.3% of the cost of issuing debt. This makes it a considerably more efficient option, not only in terms of financial costs but also the speed with which the funds may be accessed.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The proposed operation will be configured as a Bank investment loan of up to US\$300 million, provided through the Contingent Credit Facility for Natural Disaster Emergencies (CCF) (documents GN-2502-2 and GN-2667-2). All disbursements will be drawn from the Bank's Ordinary Capital (OC). The funds will come from either the regular lending program, from available undisbursed

³⁷ According to projections published by the IMF, 2% of Argentina's GDP in 2018 would be US\$9.509 billion.

balances of investment loans already approved and identified in the Automatic Redirection List (ARL),³⁸ or from a combination of these two options.

- 2.2 Contingent loans under the CCF have specific financial terms and conditions (described in the Project Summary) to fully support the country at the critical time of an emergency caused by severe or catastrophic events, when the public finances are hit by the one-two punch of needing additional resources to make extraordinary expenditures and revenues falling off without warning due to a decrease in economic activity. The specific terms and conditions include the following: (i) the amortization period, weighted average life, and grace period run the date of each disbursement of the financing; (ii) the Bank will only charge a commitment fee on amounts disbursed from resources of the regular lending program (i.e. non-ARL resources). In such case, the commitment fee will accrue retroactively from 60 days after the signature date of the loan contract to the date of the respective disbursement(s) and will be calculated based on the amount of the respective disbursement(s) using the fee in effect on the date of the disbursement request; and (iii) the resource drawdown period (disbursement period) is five years, and may be extended for up to five additional years at the Bank's discretion and at the borrower's request. In the event of extension, the amortization period, the weighted average life, and grace period will be calculated as of the effective date of such extension.
- 2.3 **Eligible events.** This loan will initially provide coverage for floods and earthquakes based on the parameters of intensity and affected population contractually agreed between the country and the Bank and specified in the Coverage Model (Annex I to the [Operating Regulations](#)). However, at the borrower's formal request and with the Bank's concurrence, coverage may be developed in the future for new risks to be included in the Coverage Model.³⁹
- 2.4 The Operating Regulations will include specific details on the parametric triggers for determining disbursement eligibility and the methodology for calculating the maximum amount of coverage based on the intensity and percentage of the country's total population affected by each eligible event.
- 2.5 Disbursements of the financing will be contingent on the availability, at the time of a disbursement request, of sufficient resources from the ARL or the Bank's regular lending program with Argentina, as applicable. If sufficient resources are not available at the time of the disbursement request, the Bank may disburse resources up to the maximum amount of available resources. If no resources are available, the Bank will not be obligated to make any disbursements for so long as the lack of available resources persists. Once the Bank has determined that this condition no longer applies, it will notify the borrower.

³⁸ The ARL includes the Bank's outstanding investment loans with the country with undisbursed balances that could be automatically redirected in the event of a disaster (document GN-2502-2, paragraph 3.13). In consultation with the borrower, the ARL will be periodically updated to include new loans.

³⁹ For example, volcanic eruptions could be added to the coverage. The main criteria to be considered in determining the parameters for the new risks to be covered will be hazard studies and maps, distribution of the country's population, and vulnerability.

- 2.6 **Disbursement limits per event.** The maximum disbursement amount for each eligible event will be the lesser of: (i) the available undisbursed balance of this contingent loan; and (ii) the maximum amount resulting from application of the Coverage Model to the declared eligible event.
- 2.7 **Integrated Natural Disaster Risk Management (INDRM) Program.** The CCF establishes that all the Bank's borrowing member countries are eligible to receive financing through the facility, provided that they have an INDRM Program in place that is satisfactory to the Bank. The objective of the INDRM Program is to promote the effective development of national policy on integrated disaster risk management, thereby strengthening the general governance framework for these risks, their identification and reduction, disaster management, and the financial management of disaster risks. During preparation of this operation, the project team carried out a diagnostic assessment of disaster risk management in Argentina. Based on the country's significant achievements, particularly in relation to the passage of Law 27,287 on the National System for Integrated Risk Management and Civil Protection (SINAGIR) and enactment of its associated regulations, the Bank assesses that the country has a satisfactory INDRM Program meeting the CCF requirement.
- 2.8 To maintain coverage under the loan, the country must execute the INDRM Program to the Bank's satisfaction by making progress toward the general targets set in the plan for the period 2019-2024, as agreed upon between the Bank and the Government of Argentina during the preparation of this operation. To track progress toward these targets, annual progress indicators are established for each strategic area of the INDRM Program.⁴⁰ The first progress monitoring exercise will be conducted 12 months after the loan contract has entered into force, based upon the indicators established for that purpose (see Table 1, Annex II of the [Operating Regulations](#)). Satisfactory execution will be determined based on significant progress by the country in relation to all of the agreed progress indicators. In coordination with the government, new progress indicators will be established for the subsequent verification periods, as appropriate.

B. Environmental and social safeguard risks

- 2.9 Under Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703, document GN-2208-20), this operation does not require classification. No adverse environmental or social impacts are foreseen, because any resources disbursed under this loan can only be used to finance extraordinary public expenditures incurred during an emergency, and the Ministry of Finance (as executing agency) guarantees compliance with the country's environmental and social legislation in the use of such resources. Moreover, the loan contract will include a list of the types of expenditures ineligible for financing with the loan proceeds (negative list).

⁴⁰ These will include indicators relating to gender issues in disaster risk management.

C. Fiduciary risks

- 2.10 **Execution of the resources during the emergency phase.** There is a medium risk that delays in coordinating efforts will prevent the funds disbursed in response to an eligible event from being used in a timely manner, to comply with the CCF rule that all disbursements be executed during the emergency phase (established as 180 calendar days after the day on which the eligible event began). To mitigate this, the Bank will provide technical support to the Ministry of Finance (as project executing agency) and the Civil Protection Department at the Ministry of Safety (as subexecuting agency) to improve execution capacity during emergency preparation and response.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Argentine Republic, acting through the Ministry of Finance. The executing agency will be the Ministry of Finance, acting through the Office of Special Programs and Projects with a Sector-wide Approach (DPYPEESA), which reports to the Office of the Undersecretary for International Financial Relations. The loan proceeds will be disbursed to the Ministry of Finance. DPYPEESA will be responsible for: (i) ensuring general project coordination; (ii) processing and submitting disbursement requests to the Bank; (iii) coordinating compliance with requirements concerning monitoring, evaluation, and documentation of the use of the loan proceeds; and (iv) ensuring that the objectives and terms and conditions of the loan are met. The Ministry of Safety, acting through the Civil Protection Department, will be the project subexecuting agency and will (i) coordinate the response to emergencies declared by the National System for Integrated Risk Management and Civil Protection (SINAGIR); (ii) deliver the associated reports on the use of resources to the executing agency, and (iii) coordinate the activities planned in the Integrated Natural Disaster Risk Management (INDRM) Program.
- 3.2 **Interagency coordination arrangements.** The SINAGIR is the national system for coordinating the disaster risk management policies and actions of agencies of the central and provincial governments, the Autonomous City of Buenos Aires, and the municipios. It is comprised of the National Council and the Federal Council. The National Council, chaired by the Office of the Cabinet Chief, is the decision-making body that coordinates the activities of central government agencies in this area, responsible for declaring disaster emergencies and approving risk reduction, crisis management, and recovery plans. Coordination between the project executing and subexecuting agencies will therefore be carried out under the umbrella of the National Council, on which both agencies are represented. The Federal Council is a forum for coordination between the national government and the provinces. Its main responsibilities include coordinating actions for prevention, early warning, emergency response, rehabilitation, and recovery at the provincial and municipal levels.

- 3.3 **Special contractual condition for general eligibility to request disbursements.** Given the contingent nature of the operation, certain general eligibility conditions must be met to request disbursements. **As a special contractual condition for general eligibility to request disbursements, the [Operating Regulations](#) have been approved and entered into force on the terms previously agreed upon with the Bank.** The Operating Regulations contain all of the operational provisions concerning supervision and administration of the loan, as well as disbursement requests and use of the resources. The Operating Regulations will include: (i) the Coverage Model, which includes the characteristics of the parametric triggers and how they operate (Annex I); (ii) the INDRM Program, which establishes the indicators for monitoring the program (Annex II); and (iii) the Automatic Redirection List (ARL) (Annex III).
- 3.4 If the Bank determines that execution of the INDRM Program is unsatisfactory during the drawdown period for the loan proceeds, it may suspend eligibility for disbursements under the operation, if the country fails to institute the measures considered necessary by the Bank in a timely manner. The Bank will periodically monitor and annual evaluate progress in implementing the INDRM Program. If, based on these evaluations, the Bank determines that the INDRM Program is not being executed satisfactorily, the borrower will be notified of the specific actions it must take within a maximum period of 90 days following the date notice is given, in order to remain eligible to receive loan disbursements under the operation. If, after this period has lapsed, the Bank finds that the recommended corrective actions were not carried out completely and adequately, the Bank may then formally notify the borrower of suspension of eligibility to receive disbursements under the loan until the defects in question are fully remedied.
- 3.5 **Special contractual conditions precedent to each disbursement. The specific contractual conditions that must be met prior to each disbursement are as follows:** (i) the Bank has verified that an eligible event has occurred, as defined in the [Operating Regulations](#); (ii) the INDRM Program previously agreed upon with the Bank is in execution to the Bank's satisfaction (see paragraph 2.7); and (iii) the borrower has submitted one or more disbursement requests within 90 days after the occurrence of an eligible event, indicating the amount(s) of such disbursement(s) and whether the disbursement(s) will be drawn from the resources of the regular lending program, from undisbursed ARL loan balances, or from a combination of the two sources. **In the case of ARL loans, the request will identify the loan(s) in question and the respective amount to be used.** The Operational Guidelines for the Contingent Credit Facility for Natural Disaster Emergencies (CCF) (document GN-2502-3), approved by the Bank in 2014, established these contractual conditions as standard for the execution of contingent loans.
- 3.6 Each disbursement under this loan will be made in accordance with the financial terms and conditions stated in the Project Summary, regardless of whether the resources are drawn in whole or part from the regular lending program, the loans included in the ARL, or a combination of the two sources.

- 3.7 **Eligibility of expenditures.** The loan proceeds may be used to finance extraordinary public expenditures incurred during emergencies resulting from eligible events, provided that such expenditures: (i) are legal under the laws of the Argentine Republic; (ii) are directly related to the natural disaster emergency for which the financing has been provided; and (iii) involve procurements and payments that are verifiable, documented, clearly recorded, and appropriately dimensioned and priced. Some examples of eligible types of expenditures are: (i) emergency sanitation equipment; (ii) vaccines and medications; (iii) foodstuffs for the affected population; (iv) temporary shelter equipment and facilities; and (v) temporary rehabilitation of infrastructure and restoration of basic services. Expenditure eligibility is limited by the negative list to be included in the loan contract.
- 3.8 The Bank will recognize up to 100% of the amount of eligible expenditures effectively incurred and paid by the borrower from the day on which the eligible event began and up to 180 calendar days immediately thereafter. In all procurement-related matters, this operation will be governed by the rules established in the document creating the CCF (document GN-2502-2). The borrower will apply its own national laws on the procurement of goods, works, and services for extraordinary fiscal expenditures in the event of a natural disaster (see Annex III).
- 3.9 **Justification of the use of resources.** The borrower, acting through the Ministry of Finance, will justify the use of disbursed loan proceeds through a written declaration of proper use, to be submitted to the Bank within 365 calendar days after the onset of the eligible event for which the Bank has disbursed the contested resources. If necessary, as established in document GN-2505-2, the Bank reserves the authority to conduct subsequent audits of the expenditures incurred. The findings of any such audits may constitute grounds for the Bank to request reimbursement of any amounts determined to have been ineligible for financing.
- B. Summary of arrangements for monitoring results**
- 3.10 During the loan disbursement period, the Bank will periodically monitor progress, to determine whether the INDRM Program is being executed satisfactorily based on the indicators established for such purpose (see [monitoring and evaluation plan](#)). These evaluations will occur at least once a year. If it finds that the IDRM Program is not being executed satisfactorily, the Bank, after exhausting the preventive remedies promptly recommended to the country, may notify the country that the Bank is temporarily suspending its eligibility to receive loan disbursements until the country demonstrates to the Bank's satisfaction that it has remedied the defects in question. Nevertheless, pursuant to document GN-2502-2, paragraph 4.25, once the Bank has granted initial eligibility to receive disbursements under this loan, such eligibility will remain in force for the duration of the loan disbursement period unless the Bank delivers a formal notification of eligibility suspension to the country.

- 3.11 No later than two years following each disbursement, the Bank, at its sole discretion may determine through independent external audits, without cost for the borrower, whether the declared eligible expenditures were proper. If, as a result of any such audits, the Bank detects that the disbursed funds have been used to finance ineligible expenditures, it may require the borrower to immediately rectify the situation or reimburse the contested amounts. Monitoring and evaluation of the operation will be conducted according to the [monitoring and evaluation plan](#).

| Development Effectiveness Matrix | | |
|--|--|---|
| Summary | | |
| I. Corporate and Country Priorities | | |
| 1. IDB Development Objectives | Yes | |
| Development Challenges & Cross-cutting Themes | -Gender Equality and Diversity -Climate Change and Environmental Sustainability | |
| Country Development Results Indicators | -Countries that have improved disaster risk management (#)* | |
| 2. Country Development Objectives | Yes | |
| Country Strategy Results Matrix | GN-2780-1 | The operation is aligned with the strategic objective of "fostering of environmentally sustainable solutions and support for climate change-related disaster risk management." |
| Country Program Results Matrix | GN-2915-2 | The intervention is included in the 2018 Operational Program. |
| Relevance of this project to country development challenges (If not aligned to country strategy or country program) | | |
| II. Development Outcomes - Evaluability | Evaluable | |
| 3. Evidence-based Assessment & Solution | 7.4 | |
| 3.1 Program Diagnosis | 3.0 | |
| 3.2 Proposed Interventions or Solutions | 1.7 | |
| 3.3 Results Matrix Quality | 2.7 | |
| 4. Ex ante Economic Analysis | 10.0 | |
| 4.1 Program has an ERR/NPV, or key outcomes identified for CEA | 2.2 | |
| 4.2 Identified and Quantified Benefits and Costs | 3.3 | |
| 4.3 Reasonable Assumptions | 1.0 | |
| 4.4 Sensitivity Analysis | 2.2 | |
| 4.5 Consistency with results matrix | 1.4 | |
| 5. Monitoring and Evaluation | 8.5 | |
| 5.1 Monitoring Mechanisms | 2.5 | |
| 5.2 Evaluation Plan | 6.0 | |
| III. Risks & Mitigation Monitoring Matrix | | |
| Overall risks rate = magnitude of risks*likelihood | Low | |
| Identified risks have been rated for magnitude and likelihood | Yes | |
| Mitigation measures have been identified for major risks | Yes | |
| Mitigation measures have indicators for tracking their implementation | Yes | |
| Environmental & social risk classification | B.13 | |
| IV. IDB's Role - Additionality | | |
| The project relies on the use of country systems | | |
| Fiduciary (VPC/FMP Criteria) | Yes | Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding. |
| Non-Fiduciary | | |
| The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions: | | |
| Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project | | |

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The objective of the program is to help cushion the potential impact that severe or catastrophic natural disasters could have on the country's public finances through an increase in the availability, stability and efficiency of contingent financing for the attention of the emergencies caused by floods and earthquakes. The diagnosis clearly identifies, based on empirical evidence, the country's vulnerability to floods and earthquakes and the country's need to improve its financial management of disaster risk and strengthen its fiscal resilience.

The logic of the proposed intervention is clear. Not all outcome indicators are specific enough to meet SMART criteria.

The program has a cost-effectiveness analysis and a monitoring and evaluation plan in accordance with the DEM Guidelines. The evaluation seeks to compare ex post the ex ante financial provision against the non-provision of coverage (cost for the country to borrow at the time of the disaster), when the disaster occurs.

RESULTS MATRIX

| | |
|---------------------------|---|
| Project objective: | The project's objective is to contribute to cushioning the impact of a severe or catastrophic natural disaster on the public finances by increasing the availability, stability, and efficiency of contingent financing for emergencies created by these types of events. The operation also seeks to improve the country's integrated disaster risk management by fostering improvements in the five strategic areas of the Integrated Natural Disaster Risk Management (INDRM) Program: (i) governance and development of the governing framework; (ii) risk identification and awareness; (iii) risk reduction; (iv) disaster management; and (v) financial risk management. |
|---------------------------|---|

EXPECTED IMPACT

| Indicators | Unit of measure | Baseline | | Year 1 | Year 2 | Year 3 | Year 4 | End of project | Source/Mean of verification | Comments ² |
|--|-----------------|----------|------|--------|--------|--------|--------|-----------------|-----------------------------|--|
| | | Value | Year | | | | | | | |
| Expected impact: Cushion the impact of a severe or catastrophic natural disaster on the public finances of the Argentine Republic | | | | | | | | | | |
| Ex ante financial coverage as a percentage of maximum probable expenditure ¹ during emergencies resulting from natural disasters of catastrophic magnitude. | % | 0 | 2018 | 28 | 25 | 24 | 23 | 22 ² | Ministry of Finance | The indicator measures Argentina's ex ante financial coverage as a percentage of maximum probable expenditure on response to emergencies resulting from natural disasters of catastrophic magnitude. |

¹ Calculation of maximum probable expenditure during emergencies is based on the occurrence of a 100-year catastrophic event.

² This amount assumes that no severe or catastrophic event occurs during the coverage period of the contingent loan; however, it is adjusted for inflation and exchange rate variations.

EXPECTED OUTCOMES

| Indicators | Unit of measure | Baseline | | Year 1 | Year 2 | Year 3 | Year 4 | End of project | Source/Mean of verification | Disburse-ment indicator (Yes/No) | Comments |
|--|-----------------|------------------|------|---------------------|---------------------|---------------------|---------------------|---|--|----------------------------------|--|
| | | Value | Year | | | | | | | | |
| Expected outcome 1: Improved financial management of risks arising from natural disasters through an increase in stable and efficient contingent financing to cover extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters. | | | | | | | | | | | |
| # 1A: Availability and stability: Increase in the country’s contingent financial coverage for dealing with extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters. | | | | | | | | | | | |
| Amount of contingent financing coverage available to the country. | US\$ million | 0 | 2018 | 300 | 300 | 300 | 300 | 300 | Ministry of Finance | No | The indicator shows the total amount of contingent financing available to the country for dealing with emergencies caused by disasters. |
| # 1B: Financial cost: Contingent financing coverage is cost-efficient. | | | | | | | | | | | |
| Differential between the spreads over LIBOR of the IDB loan and of Argentina's long-term sovereign commercial external debt. | Basis points | 263 ³ | 2018 | Spread differential | Spread differential | Spread differential | Spread differential | Greater than or equal to 150 | IDB Finance Department Thomson Reuters Ministry of Finance | No | This indicator compares the financial cost of the IDB loan with that of Argentina's long-term sovereign commercial external debt. |
| Cost of financing if an eligible event occurs: differential between the spreads over LIBOR of the IDB loan and of Argentina's long-term sovereign commercial external debt. ⁴ | Basis points | N/A ⁵ | 2018 | | | | | Reduction in the financial cost of emergency extraordinary expenditures financed with sovereign debt. | IDB Finance Department Thomson Reuters Ministry of Finance | Yes | The financial cost of the IDB loan will be compared with the that of Argentina's long-term sovereign commercial external debt in the months immediately before and after the eligible event. |

³ See [project economic analysis](#).

⁴ If no market information is available on Argentina's long-term sovereign commercial external debt, the interest rate will be estimated based on the country's credit rating (B+ according to Standard & Poor's last review). The project team would be responsible for calculating the rate using Thomson Reuters as a data source.

⁵ The baseline will be the cost differential before the eligible event and will then be compared with the trend in the differential after the event has occurred.

| Indicators | Unit of measure | Baseline | | Year 1 | Year 2 | Year 3 | Year 4 | End of project | Source/Mean of verification | Disbursement indicator (Yes/No) | Comments |
|---|--|-----------------|------|--------------|--------------|--------------|--------------|--|--|---------------------------------|--|
| | | Value | Year | | | | | | | | |
| # 1C: Speed of access: Contingent financial coverage is efficient in terms of the speed with which the country is able to access loan proceeds to cover potential emergency expenditures. | | | | | | | | | | | |
| Speed of access to resources if an eligible event occurs. | Days | 90 ⁶ | 2018 | 30 | 30 | 30 | 30 | 30 | IDB Finance Department Ministry of Finance | Yes | The indicator will measure the number of days between the date the country sends a request for verification of eligibility and the date the Bank delivers notification that the loan proceeds are available to the country. |
| Expected outcome 2: An effective national policy for integrated natural disaster risk management. | | | | | | | | | | | |
| Execution of the Integrated Natural Disaster Risk Management (INDRM) Program. | Execution status: Satisfactory or unsatisfactory | Satisfactory | 2018 | Satisfactory | Satisfactory | Satisfactory | Satisfactory | The INDRM Program has been executed in a manner satisfactory to the Bank. | Environment, Rural Development and Disaster Risk Management Division (CSD/RND) | Yes | “Satisfactory” indicates that the country has made significant progress with respect to the progress indicators agreed upon each year between the Bank and the country. |
| Number of gender issues addressed in the INDRM Program. | Execution status | 0 | 2018 | 1 | 1 | 1 | 1 | The main gender issues in disaster risk management have been addressed in the INDRM Program. | Environment, Rural Development and Disaster Risk Management Division (CSD/RND) | No | The Bank will promote activities to address gender issues in the INDRM Program. The activities for the first year were identified and agreed upon between the country and the Bank and are listed in the INDRM Program matrix of indicators for 2019. ⁷ Gender-related issues and activities will be updated each year during the supervision missions. |

⁶ The value is the average time taken to authorize and process a sovereign bond issue on the international market for a country that performs such transactions intermittently. The baseline may be subject to revision based on future bond issues.

⁷ See [monitoring and evaluation plan](#) and [Annex II of the Operating Regulations](#).

OUTPUTS

| Indicator | Unit of Measure | Baseline | Year 1 | Year 2 | Year 3 | Year 4 | End of project |
|--|-----------------|----------|--------|--------|--------|--------|----------------|
| Sole component: Bank contingent financing to cover extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters. | | | | | | | |
| Available financial coverage | US\$ million | 0 | 300 | 300 | 300 | 300 | 300 |

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Argentina

Project number: AR-O0008

Project name: Contingent Loan for Natural Disaster Emergencies

Executing agency: Ministry of Finance

Fiduciary team: Teodoro Noel (FMP/CAR) and Roberto Laguado (FMP/CAR)

I. EXECUTIVE SUMMARY

- 1.1 The operation will consist of a Bank investment loan of up to US\$300 million granted through the Contingent Credit Facility for Natural Disaster Emergencies (CCF) (documents GN-2502-2 and GN-2667-2).
- 1.2 The operation is aligned with the IDB Group's country strategy with Argentina 2016-2019 (document GN-2870-1), particularly the strategic objective of fostering environmentally sustainable solutions and support for climate change-related disaster risk management. It is included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2).
- 1.3 This loan will have a disbursement drawdown period of five years, running from the effective date of the loan contract. This period may be extended for up to five additional years at the Bank's discretion and at the borrower's request.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The project executing agency will be the Ministry of Finance. The subexecuting agency will be the Ministry of Safety, acting through the Civil Protection Department (SPC).
- 2.2 The fiduciary systems used for project execution will be the budget system, through the eSIDIF integrated financial information system and the UEPEX information and accounting system.
- 2.3 Argentina's country procurement system has been approved by the Bank for use in operations, given its compliance with international standards (the Methodology for Assessing Procurement Systems (MAPS) of the Organization for Economic Cooperation and Development). Contracting processes involving the shopping method for goods and services, as well as individual consulting services, may be executed in accordance with the regulations of Decree 1,023 and with the support of the electronic system (the information system of the National Contracting Office, AR_COMPRA). These approvals have been in implementation since 2012, and a new MAPS diagnostic assessment is planned with a view to expanding the scope of approvals and modifying procurement execution arrangements under the Strategy for Strengthening and Use of Country Systems (document GN-2538).

Significant progress has been made in Argentina's system with respect to the digitization of processes to improve transparency and effectiveness, as well as strengthening of the National Contracting Office and the creation of open-ended databases.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The executing agency has experience in executing IDB loans. No institutional capacity assessment was done for the executing agency, since it is currently executing loans 2754/OC-AR and 3759/OC-AR.
- 3.2 Since the execution arrangements for the project call for the SPC's involvement as subexecuting agency, an institutional capacity assessment was done for the SPC.
- 3.3 The SPC was assessed using the Bank's Institutional Capacity Assessment System (ICAS), which looks at three areas: planning, execution, and control.
 - a. **Planning.** The evaluation focused on the planning functions for which the SPC is responsible. The ICAS tool yielded a finding of "satisfactory development" in this area.
 - b. **Execution and control.** The evaluation focused on the functions of the General Administration Directorate (DGA) at the Ministry of Safety. The DGA provides assistance across all departments in the Ministry of Safety. In this case, the ICAS assessment, which had been conducted previously as part of the preparation of the Federal Security Program (loan 4113/OC-AR), yielded a finding of "medium development" for the DGA in the areas of execution and control. In the area of execution, the analysis also included Banco Nación, which will act as fiduciary agent responsible for treasury activities and functions under the execution arrangements for this operation.
- 3.4 There is a medium risk that delays in coordinating efforts will prevent the funds disbursed in response to an eligible event from being used in a timely manner, to comply with the CCF rule that all disbursements be executed during the emergency phase (established as 180 calendar days after the day on which the eligible event began). To mitigate this, the Bank will provide technical support to the Ministry of Finance and the Civil Protection Department at the Ministry of Safety to improve execution capacity during emergency preparation and response.
- 3.5 In addition, although the expenditures that may be financed with the proceeds of this operation are defined broadly, there is a low risk that some expenses may be rejected due to failure to meet the eligibility criteria (e.g., insufficient information on the type of expenditure, etc.). If necessary, the Bank reserves the authority to conduct subsequent audits of the expenditures incurred. The findings of any such audits may constitute grounds for the Bank to request reimbursement of any amounts determined to have been ineligible for financing. Likewise, there is a low risk of loss of eligibility for disbursements under the loan if the level of execution of the Integrated Natural Disaster Risk Management (INDRMP) Program is declared unsatisfactory during the loan drawdown period. In such a scenario, the Bank may suspend disbursement eligibility for this operation.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 To streamline contract negotiations by the project team and, principally, the Legal Department, the agreements and requirements to be included in the Special Provisions, as applicable, are stated below. They may be updated or modified during program execution, as applicable, once documented and authorized by the Bank.
- 4.2 **Management of disbursements.** The financial management agreements and requirements are determined by document GN-2502-2, and are summarized below:
- a. Requests for the disbursement of loan proceeds will be submitted within 90 days after the occurrence of an eligible event, specifying the amounts requested for disbursement.
 - b. If an eligible event occurs, and pursuant to the provisions of the CCF, the country may choose to draw the amounts disbursed under the loan from any of the following sources of Bank resources: (i) funds from the regular lending program; (ii) funds from the undisbursed balances of a list of investment loans previously approved by the Bank and identified and agreed upon with the country in the loan contract for the operation (Automatic Redirection List); or (iii) a combination of the two sources.
 - c. Once the special contractual conditions precedent to each disbursement have been met, the borrower may obtain up to 100% of the requested amount as an advance of funds. The funds will be credited by the Bank to the account designated by the borrower in the National Treasury.
 - d. The exchange rate to be used for accounting purposes will be the rate stipulated in Article 4.10(b)(i) of the loan contract.
- 4.3 **Financial supervision.** The borrower will justify the use of disbursed loan proceeds through a written declaration of proper use, to be submitted to the Bank within 365 calendar days after the onset of the event that gave rise to the emergency. The Bank will recognize up to 100% of the amount of eligible expenditures actually incurred and paid by the borrower during a period of up to 180 calendar days after the start date of the event.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements for procurement establish the rules governing the execution of all planned procurements under the project.
- 5.2 **Procurement execution.** As established in document GN-2502-2, CCF loans enjoy a waiver with regard to the Bank's policies and procedures for procurement of goods and services. Instead, the borrower will apply its own rules and regulations on procurement of goods and services for extraordinary fiscal expenditures in the event of a natural disaster, as dictated by applicable local regulations and administrative law.

- 5.3 Loan proceeds under the CCF may only be used for expenditures deemed eligible for the operation (as defined in the loan contract). As part of the justification of use of the disbursed resources, the borrower will provide a descriptive list of expenditures and events considered eligible for the operation, meeting the requirements that they: (i) are legal under the laws of the Argentine Republic; (ii) are directly related to the natural disaster emergency for which the financing has been provided; and (iii) involve procurements and payments that are verifiable, documented, clearly recorded, and appropriately dimensioned and priced.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

A. Programming and budget

- 6.1 The executing agency's budget has programmatic categories and other classifications by object of expenditure (line items): personnel costs, consumer goods, nonpersonnel services, fixed assets, transfers, financial assets, debt service and reduction of other liabilities, and other expenditures. Depending on their economic nature, the items may be current expenditures, capital expenditures, or short-term investments. The internal sources of financing may be the national treasury, own funds, specific earmarks, and internal transfers. External financing includes external transfers and credits.
- 6.2 The execution unit will be responsible for the preparation and programming of the annual budget and all processing for its consolidation and approval. In the event that items need to be expanded or reallocated, the execution unit will request changes and obtain approval for them. The budget appropriations are executed by means of quarterly and monthly commitment obligations, allocated by the National Budget Office (Ministry of Finance).

B. Accounting, information systems, and reporting

- 6.3 Accounting will be on a cash basis following International Financial Reporting Standards, where applicable, in accordance with established country criteria.

C. Internal control and internal audit

- 6.4 Law 24,156 on Financial Administration and Control Systems of the National Public Sector establishes the General Accounting Office (SIGEN) as the apex agency for the control system, responsible for technical and functional coordination of the internal audit units of each jurisdiction of the national public administration.

D. External control: external financial audit and project reports

- 6.5 No later than two years following each disbursement, the Bank, at its sole discretion may determine through independent external audits, without cost for the borrower, whether the declared eligible expenditures were proper and complied the procedures of Argentina's Public Contracting Act.

E. Execution mechanism

- 6.6 Details of program execution are given in paragraphs 3.1 and 3.2 of the loan document.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Argentina. Loan AR-O0008 to the Argentine Republic
Contingent Loan for Natural
Disaster Emergencies

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 Argentine Republic, as borrower, for the purpose of granting it a contingent loan for natural disaster emergencies. Such contingent loan will be for the amount of up to US\$300,000,000 from the resources of the Bank's Ordinary Capital, subject to the availability of resources from the regular lending program with the Argentine Republic or from the Automatic Redirection List, as the case may be, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2018)