

**INTEGRATED DEVELOPMENT PROGRAM FOR LARGE URBAN AREAS
IN THE ARGENTINE INTERIOR**

(AR-0151)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: The Argentine Republic

EXECUTING AGENCY: The Ministry of the Interior (MINTER)

AMOUNT AND SOURCE: IDB: US\$260 million (OC)
Local counterpart funding: US\$260 million
Total: US\$520 million

FINANCIAL TERMS AND CONDITIONS: Amortization period: 20 years
Commitment period: 3 years
Disbursement period: 5 years
Grace period: 5 years
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%
Currency: US\$ from the Single Currency Facility

OBJECTIVES: The program's objective is to contribute to the integrated economic development of the five largest metropolitan areas in the interior - Córdoba, La Plata, Mendoza, Rosario, and Tucumán - by boosting their efficiency and competitiveness.

To attain that objective, the program will support:
(i) the establishment of a consultative mechanism between the municipalities in an urban area in order to identify, prioritize, and implement actions to resolve common problems; (ii) major administrative and fiscal reforms of the participating municipalities, through the reorganization of their administrative structures and reform of their tax codes; (iii) introduction of sector reforms and sector investment projects agreed upon by the mayors of the municipalities in each metropolitan area; (iv) enhancement of the quality of human resources in the participating municipalities; and (v) strengthening of investment management and control in municipalities in the metropolitan areas through their participation in the program.

DESCRIPTION: The program will include subprograms for reforms, investments, and technical assistance, as described below:

1. Reform subprogram (US\$100 million)

Financing will be provided for the costs of implementing: (a) major reforms to improve the efficiency and competitiveness of each municipality in an urban area, including: (i) reforms to municipal tax codes taking into account the direct charge to the beneficiary based on consumption and ability to pay, the services provided by the municipalities, and their cost and efficiency; (ii) administrative reforms, including determining the complement of staff needed for its operation as well as the hiring system and the reassignment of staff; and (iii) legal changes to facilitate private investments, that include deregulation and more expeditious business licensing; and (b) reforms in the sectors with the highest metropolitan impact, including: (i) deregulation, privatization, and outsourcing of services; and (ii) changes in regulations governing areas such as land use, roads, urban transportation, and residential, industrial, and hazardous waste.

2. Investment subprogram (US\$382.4 million)

Financing will be provided under this subprogram for sector investment projects that: (i) obtain economies of scale in the delivery of public services common to several municipalities in the same metropolitan area; (ii) provide positive spin off with respect to the main problems of the metropolitan area; and/or (iii) make it possible to prepare and/or implement a joint plan for territorial, economic, and social development. The sector projects will have to comply with specific economic, technical, financial, and environmental criteria and demonstrate that they do not have access to existing sources of financing. Sector reforms dependent on investments are to be carried out as the works are being built. Urban transportation, roads, parks and green areas, collection, treatment and final disposal of industrial and hospital waste, roads, and storm drainage are areas that have initially been identified.

3. Technical assistance subprogram (US\$15 million)

This subprogram will fund: (i) training for nearly 35,000 municipal and town government workers that are needed for effective implementation of the program reforms and investments; (ii) the strengthening of the Instituto Federal de Asuntos Municipales [Federal Municipal Affairs Branch] (IFAM) established in 1993 as part of the Ministry of the Interior.

CESI APPROVAL:

The environmental impact assessment (EIA) was made available for public consultation on April 18, 1997, and sent to the PIC on October 1, 1997. The environmental and social impact report (ESIR) was approved by the Environment and Social Impact Committee on October 17, 1997, and sent to the Public Information Center (PIC) on October 21, 1997. The corresponding recommendations are found in paragraphs 3.37 to 3.39.

BENEFITS:

The program is based on a comprehensive, integrated development strategy for large urban areas in the interior which seek to acquire the competitiveness to position themselves in a global economy. Their successful introduction will improve the quality of life of their residents, providing good quality urban services, spurring production, and mitigating the main environmental problems. The program will also support municipal independence through greater administrative and fiscal efficiency and fostering inter-municipal cooperation by consensus without creating an urban bureaucracy.

The added benefits of the program arise from more efficient allocation of municipal resources and a reduction in the city cost of metropolitan areas through more efficient delivery of public services and elimination of rules and barriers that restrict private economic activity and obstruct free market competition. Other benefits will be obtained from metropolitan investments.

The program will: (i) achieve economies of scale in the delivery of public services that are common to several municipalities in the same region and positive side effects for a given municipality deriving from solutions to the main problems in its region; (ii) lay the groundwork for outsourcing, concession, or privatization of public services; (iii) permit municipal tax codes to establish direct links between the costs of services and taxes; and (iv) prepare strategic development plans that take in all public and private stakeholders and civil society, which will boost municipal capacity to

define and implement policies on the metropolitan level arrived at by consensus.

The program is also designed to enhance the quality of municipal human resources which will lead to greater efficiency and institutionalization of the inter-municipal coordination process. This series of actions is intended to achieve a permanent improvement in the institutional capacity of municipalities to promote economic growth and improve the quality of life in their metropolitan areas.

**POVERTY TARGETING
AND SOCIAL
CLASSIFICATION:**

The program cannot be considered to focus on poor sectors as called for in paragraph 2.15 of the Eighth Replenishment document (AB-1704). Nor can it be classified in the category of social equity and poverty reduction as specified in paragraph 2.13 of the same document.

RISKS:

Introduction of central and sector reforms requires specific provincial legislation and there is a risk that the reforms may be delayed if the legislation is not passed on time, thereby affecting the program's objectives and targets. However, this risk will be mitigated by the fact that these urban areas account for over one half of GDP and the provincial population and the provinces will be guarantors of the subsidiary loans from the executing agency to the metropolitan areas.

The program is intended to meet the needs of the five largest metropolitan areas in the interior to reform their municipal governments and make investments under a simple institutional scheme which only requires the municipalities in each urban area to agree on their priorities and sign a commitment to obtain program funds. An inherent risk in this scheme is that, once the financing is available, the municipalities may encounter delays in fulfilling the institutional requirements for the transfer of funds, a situation that would hold up the program. To minimize this risk, in designing the program, a matrix was developed for building a consensus and prioritizing reforms and investments. This was tried and completed with the 73 beneficiary municipalities and the corresponding adhesion agreements were negotiated with them in advance. This agreement expresses the intention of the municipalities to take part in the program and establishes a comprehensive framework for implementation in each urban area including the introduction of an inter-municipal coordinating mechanism.

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

The Bank's three-pronged strategy in Argentina is to: (i) **reduce poverty** and improve the standard of living through job creation and better services; (ii) **boost the productivity** and competitiveness of sectors that produce tradable goods; and (iii) continue with **reform of the State** and the decentralization of services to the provinces and municipalities.

The proposed program meshes with the country strategy since it gives priority to efficient management and the coordination of activities in metropolitan areas in the interior, and to financing for basic infrastructure which on account of its importance will improve competitiveness and create jobs.

Unlike a municipal program that only considers local priorities, this program will be the Bank's first experience in dealing with metropolitan problems in which all the stakeholders are involved. A consensus will be reached on common problems and least cost solutions. The program will be designed so that financing for reforms and investments foster and entrench mechanisms for consensus building and cooperation among municipal mayors in order to find comprehensive and shared solutions to the problems of a given metropolitan area which must be worked out together, cutting across traditional political, legal, and institutional boundaries.

Moreover, a mechanism for building consensus among the mayors of the municipalities will be introduced in order to improve the competitiveness of the cities in each metropolitan area. It will also encourage fiscal improvements through reform of each municipality's tax code and more effective investment and operating and maintenance mechanisms which, over the medium-term, could be extended to other metropolitan areas in the country.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement

1. Implementation of the operating regulations (paragraph 3.10).
2. Signature of at least one set of agreements formalizing the approval of a project (paragraph 3.10).
3. Establishment of the program executing unit (paragraph 3.4).

4. Presentation of the annual operating plan for the first year to the Bank's satisfaction (paragraph 3.41).

Other contractual clauses

1. **Training:** Within six months after the loan contract is signed, the borrower will begin training under the technical assistance component (paragraph 3.42).
2. **Monitoring:** During the program and for two years thereafter, the borrower will present annual reports to the Bank on the program's results (paragraph 3.40). Two months after the loan contract is signed, the borrower will present models for the annual reports to the Bank (paragraph 3.40).
3. **Audits:** The annual monitoring reports, including compliance with the operating regulations, are to be audited by an independent firm of outside experts (paragraph 3.54).
4. **Inspection and supervision of works,** including environmental aspects, will be the responsibility of the metropolitan area concerned and will be performed by individual consultants or specialized firms, when the metropolitan area does not have the capacity (paragraph 3.32).

The loan contract will also contain conditions regarding the presentation of the annual operating plans and annual program monitoring and evaluation.

**PROCUREMENT
OF GOODS &
SERVICES:**

In accordance with Bank policies, international competitive bidding will be used when loans denominated in foreign exchange are used for contracts costing more than the equivalent of US\$5 million for works, US\$350,000 for equipment and goods, US\$500,000 for courses, US\$200,000 for consulting firms, and US\$50,000 for individual consultants. The Bank will review by sampling and conduct an ex post review of the documentation and procedures used in awarding contracts for works, goods, courses, and consulting services in amounts below the thresholds specified above.

EXCEPTIONS TO BANK None
POLICY:

I. FRAME OF REFERENCE

A. Government structure and decentralization

1. The federal government

- 1.1 The Argentine Republic has three levels of government: federal, provincial (23 provinces plus the federal district), and municipal (about 1,100 cities and 821 towns).

- 1.2 As part of a strategy to strengthen federalism, the national government has been promoting decentralization to achieve better balance and transparency in public spending, more effective public investments, more substantial and efficient mobilization of resources, and a better-focused subsidy system. The municipalities are becoming more important in the public apparatus under this policy, and in the last decade the larger cities in particular have been building up their functions and tax collection capacity.

ARGENTINE CONSTITUTION

Article 1. The Argentine Nation adopts a representative, republican federal system as its form of government.

Article 5. Each province will frame its own constitution under the representative, republican system, in accordance with the principles, declarations, and guarantees of the national constitution, to guide its administration of justice, its municipal system, and primary education.

Article 123. Each province establishes its own constitution in accordance with article 5, guaranteeing municipal independence and regulating its scope and contents on the institutional, political, administrative, economic, and financial levels.

2. Allocation of income and expenditures

- 1.3 The consolidated spending of the nonfinancial public sector accounted for nearly 27% of Argentina's GDP in 1994. The federal government's share was 55%, with the provinces and municipalities accounting for the remaining 45%. Although these percentages could be taken as indications that Argentina is highly decentralized, decentralization has flowed mainly from the federal to the provincial levels. In comparison with Brazil, where municipalities account for close to 20% of spending, the figure for Argentine municipalities is still small (8%).
- 1.4 The responsibilities of the three levels of government are shown in the following table.

**Table I-1
Responsibilities**

Federal	Federal and provincial	Provincial and municipal	Municipal
Defense External relations National highways Trade regulation Mail	Higher education Health care Economic development Justice, security, housing Freight and passenger terminals Social security Electricity and gas	Basic education Comprehensive schools Health care Sanitation Regional and local roads Firefighting	Markets Cemeteries Land use Solid waste collection Public lighting Drainage Parks, housing

- 1.5 The federal government's share of spending by the nonfinancial public sector has shrunk owing to the transfer of education, health care, and other social programs to the provinces. The provinces have transferred some of those responsibilities to the municipalities, although to a lesser extent, as can be seen in the following table.

Table I-2

Spending by sector and level of government

Sector	Federal		Provincial		Municipal		Total
	1980	1995	1980	1995	1980	1995	
Basic education	33.7	0.4	63.7	96.5	2.6	3.2	100.0
Higher education	83.9	78.0	16.1	22.0	-	-	100.0
Health care	14.8	12.7	75.3	73.7	10.0	13.6	100.0
Sanitation	32.4	7.9	67.6	92.1	-	-	100.0
Housing	13.5	6.5	75.4	69.6	11.1	23.9	100.0
Social welfare	65.9	16.2	34.1	83.8	-	1.5	100.0
Urban services	-	-	3.6	6.7	96.4	93.3	100.0
Total	70.7	54.2	25.0	38.5	4.3	7.5	100.0

- 1.6 In 1994, the provinces were responsible for close to 39% of public spending and the municipalities for 8%, and collected 21% and 4% of all taxes, respectively. In the provinces the balance was financed through: (i) federal-provincial tax sharing; (ii) appropriations from the revenue department for specific purposes; (iii) occasional federal transfers to finance fiscal deficits; (iv) loans; and (v) delays in paying employees and suppliers to the detriment of the quality and coverage of public services. In the municipalities, the balances were financed from the same sources as in the provinces, except that they did not receive tax-sharing or occasional provincial transfers. Therefore, the municipalities place pressure on the fiscal deficits of the provinces and, in

turn, on the federal government. The municipalities have been introducing new taxes to cover the prices of services which have been increasing out of all proportion to their costs, which makes for inefficient allocation of funds and investments, with an impact on what could be called the "city cost".

B. The federal government's strategy for the sector

1.7 Globalization of the economy, regional integration under MERCOSUR, and more advanced technologies for the production of goods and services are posing formidable challenges for cities, such as the loss of their traditional economic base, the growth of poverty, environmental degradation, and competition with other cities to attract investments and create jobs.

Participation by the three levels of government in tax collection (1995)
%

Tax	Federal	Provincial	Municipal	Total
Income	100.0	-	-	9.4
Social security	77.5	22.5	-	27.0
Property	14.3	64.6	21.1	6.0
Consumption	74.1	21.8	4.1	47.0
Business	100.0	-	-	4.5
Other	74.5	15.8	9.7	6.2
Total	75.0	21.2	3.8	100.0

1.8 To tackle these challenges and benefit from globalization, cities must equip themselves with modern urban and social infrastructure to improve the quality of life at competitive prices. They should focus on education and labor skills, the quality of the habitat and the environment, and the services required by the new economy. These services are essential for private sector activities, since they are used by companies as inputs, apart from being consumed directly by individuals. Their supply, which is a public sector responsibility, will influence the nature of private business in a city (structure, efficiency, costs, etc.) and its location within it. Urban policies and planning should therefore focus on these public sector activities, which are important both in themselves and for their influence on the location of private investment.

1.9 Faced with a scenario of transition and uncertainty, the municipalities in large urban areas in the interior and the federal government are aware of the need for change in how policies of priority are defined and implemented. All public and private stakeholders and municipalities must share responsibility if metropolitan areas are to be competitive, and more efficient.

1.10 The preparation and content of the strategic development plan for Córdoba, summarized in Annex I-1, is an example of this change in approach to urban policy. The instruments developed under the present program will also support the efforts of municipalities to live up to their growing responsibilities in the process of adapting to the globalization of their city.

- 1.11 The federal government is implementing a strategy to support these changes as one component of federal reform, whose main objective is to set the stage for the cities to compete in attracting and internally generating private investment.
- 1.12 To implement the strategy, the government has established a policy to enhance municipal capacity to attend to social demands and services and to facilitate economic development. The policy also seeks to boost local competitiveness by tailoring income to financial requirements for basic infrastructure. The policy requires efficient spending with a direct ratio between the costs of services and the respective tax burdens. It also calls for cooperation among the municipalities in an urban area.
- 1.13 As an integral part of the strategy, the federal government reached a **federal fiscal pact** with the provinces in August 1993 on employment, production, and growth. Through rationalization of the provincial and municipal tax codes (the tax on gross income is eliminated, for example) and elimination of obsolete and unnecessary regulations, the pact seeks to reduce costs on the subnational level thus promoting private economic activity.
- 1.14 The following factors have been identified that could help to improve the competitiveness and development of cities and their areas of influence: (i) standards for the types, quality, and coverage of services; (ii) environmental quality necessary for international competitiveness; (iii) city cost (obsolete and unnecessary regulations, rates, tariffs, and taxes); (iv) land use; (v) labor costs and skills; (vi) inter-municipal agreements; and (vii) services for companies such as support for identifying new markets and new technologies for microenterprises to improve product quality, etc.
- 1.15 To move forward in this process, reforms must be made to municipal tax codes, investment financing structure, and urban services, with a view to more efficient spending and reforms to remove restrictions on commercial and productive activities, barriers to free market competition, and rules that hamper access by microentrepreneurs to commercial and economic activities. Municipal government reform is particularly relevant with respect to the rationalization of spending, changes to the tax system, and

Strategic plan

A strategic plan, like a corporate plan, includes a vision of the future and strategy decisions in terms of investments, types and quality of services, and city price structure. The strategic plan is therefore a set of broad objectives and actions that arise from discussion and consensus among the various stakeholders in the development of a city — the public and private sectors, NGOs, universities, and civil society. Its implementation is a shared responsibility that transcends local government. The tool calls upon governments to work more closely with the community in order to convert it into a proactive co-manager of economic and social development, which strengthens democracy and local autonomy.

inter-municipal coordination in implementing metropolitan policies and investments.

- 1.16 During the policy dialogue between the Bank and the country, it was determined that the federal government can, through a program such as the one proposed here, provide adequate initiatives for investment and reform projects to obtain gains in efficiency and reductions in the "city cost".

C. The large urban areas in the interior

1. Characteristics

- 1.17 Apart from Greater Buenos Aires, with a population of close to 12 million (39% of the country's urban population), there are 15 urban areas with populations of over 200,000 in the interior, which group together about 86 municipalities and towns. They produce close to 30% of Argentina's GDP. Argentina's urban structure is shown in the following table:

Table I-3
Urban structure

	Number of municipalities	%	Population (millions)	%
Greater Buenos Aires	20	1.8	12.0	39.0
Urban areas with populations over 200,000	86	7.8	9.2	30.0
Rest of the country	986	90.4	9.8	31.0
Total	1,100	100.0	31.0	100.0

- 1.18 Since it is necessary to create incentives to implement the proposed strategy on a scale that ensures its viability and impact, the federal government has decided to work initially with the five metropolitan areas listed below, owing to their economic (close to 20% of national GDP) and demographic (close to 18% of the total population) importance. Owing to its complexity, Greater Buenos Aires, which would need a program of its own, has been excluded for the time being.

Table I-4
Urban areas

Urban area	Population (millions)	Number of municipalities	GDP	
			% province	% country
Córdoba	1.4	8	52.5	3.8
La Plata	1.1	6	20.0	6.0
Mendoza	0.8	7	50.0	1.3
Rosario	1.4	21	60.0	4.7
Tucumán	0.7	7	53.0	0.9
Total	5.4	49	-	16.7

1.19 These large urban areas, which have grown up in the interior through a process of population concentration and economic development, face challenges that the municipal governments are unable to solve given their current jurisdictional limitations. The country's institutional, legal, and political framework does not allow for an intermediate level (metropolitan government) to shoulder the responsibilities. Addressing these challenges will demand a consensus and cooperation among municipal government leaders in a metropolitan area.

1.20 Argentina had one lone experience in metropolitan planning. The Greater Rosario government, established in 1969 as an independent entity in the province of Santa Fe, was an integral part of the provincial planning system, linked to the federal planning system. Although the government drew up a medium- and long-term development plan, it did not obtain active participation by municipal and town governments and was unable to take concrete actions owing to difficulties in coordination. It was dissolved in 1976.

2. Methodological aspects, building consensus, and setting priorities

1.21 Considering the experience of the Greater Rosario government and given the spill-over effects and economies of scale that result from working with the set of municipalities in a metropolitan area, 1/ it will be necessary to obtain the consensus of local governments and civil society regarding the common and specific problems they face in order to determine the reforms and investments required in each area for economic and social

1/ Sectors with spill-over effects include industrial and hospital waste collection and disposal and sectors in which economies of scale can be achieved include urban transport.

development. The following studies and tools will be developed for this purpose:

- a. **Comprehensive diagnostic study** to identify and quantify:
(i) the institutional and financial reforms required in municipal and town governments; (ii) sector reforms and investments that would benefit the area as a whole and not just a particular municipality; and (iii) the technical assistance (consulting services and training) required for each metropolitan area.
- b. **Prioritization of actions and coordination of interests.** The wide variety of institutional and sector reform and investment options pinpointed in the diagnostic studies mean that the municipalities and towns must reach a consensus regarding priorities for the actions to be carried out in their regions. To facilitate the process, a matrix was prepared reflecting the views of the mayors of different municipalities regarding problems, actions (central and sector reforms and investments), the difficulty of implementing them, their impact, schedule, and estimated costs.
- c. **Programming of activities.** To learn the specific nature of the reforms and investments, their objectives, costs, and timing, ways of measuring their impact and means of verification, matrices were designed setting out actions, indicators, benchmarks, costs, and timing for prioritized reforms on which a consensus had been reached. For investments, the matrix shows the type of work, eligibility criteria, costs, and execution mode and schedule.

3. Identification and analysis of problems

- 1.22 The diagnostic studies mentioned above indicate that the urban areas face the following common problems: (i) lack of coordination among the municipalities in a metropolis and among the sectors within a municipality; (ii) inefficient financial administration which leads to higher costs; (iii) low tax revenues since the system contains a large number of taxes, rates, and tariffs and does not consider equity in the internalization of benefits or the ability to pay; (iv) lack of integrated information systems which hampers proper control of income and expenditures and disclosure of that information to the public; and (v) a very slow process of achieving the municipal autonomy provided for in article 123 of the 1994 constitution, which makes it difficult to boost the efficiency of municipal governments or increase the competitiveness of a metropolitan area. Table I-5 shows some of the indicators of the main items influencing the cost per city:

TABLE I-5
Administrative and regulatory taxes imposed on the city cost

	CÓRDOBA	TUCUMÁN	MENDOZA	ROSARIO	LA PLATA
<u>Municipal Tax Code</u>					
- Number of duties and taxes (maximum 5)	15	20	17	19	15
- Tax rate (on gross income compared with fiscal revenue)	50	60	20	60	60
<u>Administration</u>					
- High number of staff (over 6/1000 inhabitants)	5.6	12	14	11	12
- Personnel expenses (over 50% of current revenue)	51	80	60	55	52
What a small entrepreneur must pay to start up a business (share of initial investment)	40	45	35	40	40

- 1.23 The same studies identified specific problems in the different metropolitan areas, some of which are presented below.

a. Córdoba

- 1.24 The main problems that restrict economic and social development in this zone are: (i) the high cost of licensing businesses; (ii) maladjustments between the urban management plan and the strategic plan; (iii) outdated legislation regulating traffic and transit systems which makes it impossible to expand services and leads to high operating and maintenance costs and long travel times; (iv) inefficiency in the public passenger transportation system; and (v) lack of an integrated system for the collection, treatment, and final disposal of industrial and hazardous waste.

b. Tucumán

- 1.25 The zone faces the following problems: (i) outdated legislation governing traffic and urban transportation associated with an obsolete road system that is extremely costly to operate and maintain and on which travel times are long; and (ii) flooding owing to instability of the banks of rivers and canals.

c. Mendoza

- 1.26 The zone faces serious problems with: (i) flooding owing to insufficient infrastructure for handling storm runoff and silting; (ii) traffic congestion because of insufficient roads and lack of coordination among the municipalities; (iii) incompatibility between urban development plans and building codes and

environmental legislation and major differences between municipal codes, which makes them difficult to enforce; and (iv) fragmented municipal information systems and little or no disclosure of results.

d. Rosario

- 1.27 The main problems in this area are: (i) the absence of a system to treat solid, industrial, residential, and hospital waste; (ii) the procedures for licensing businesses are complicated and costly; (iii) there are no property information systems for the effective collection of municipal taxes; (iv) road access; and (v) infrastructure unable to cope with present requirements in terms of passenger and freight transport and outdated urban traffic and transportation legislation makes travel time long and the system extremely costly to operate and maintain.

e. La Plata

- 1.28 The main difficulties in this area are: (i) uncoordinated and overlapping transportation system, for high costs and long travel times; and (ii) obsolete water and sewer systems that pollute water courses and degrade the soil and environment.

D. The Bank's strategy and justification for its participation

- 1.29 The Bank's three-pronged strategy in Argentina is to: (i) **reduce poverty** and improve the quality of life through job creation and better services; (ii) **boost the productivity** and competitiveness of sectors that produce tradable goods; and (iii) **press ahead with reform of the State** and the decentralization of services to the provinces and municipalities.
- 1.30 The program proposed here dovetails with the above strategy, since it gives priority to efficiency in management and coordination of the activities of the municipalities in the large urban areas in the interior and financing for basic infrastructure, since these aspects are important for boosting productivity and creating jobs.
- 1.31 The additionality that the Bank can offer through its participation in this program will be to establish a mechanism whereby mayors can reach agreement by consensus on solutions to common problems that affect the competitiveness of the municipalities in a metropolitan area. It will also encourage fiscal improvement through reform of each municipality's tax code and more effective investment and operating and maintenance mechanisms which, over the medium-term, could be extended to other urban areas in the country.

E. Experience of the Bank and other lending agencies

- 1.32 In November 1994, the Bank approved an operation worth US\$210 million for a municipal development and social investment program (loans 830/OC-AR and 932/SF-AR) which includes financing for works of priority.
- 1.33 Unlike a municipal program that only considers local priorities, the proposed program will be the Bank's first experience in dealing with metropolitan problems in which all the stakeholders are involved. A consensus will be reached on common problems and least cost solutions. The program will be designed so that financing for reforms and investments fosters and entrench mechanisms for consensus building and cooperation among municipal mayors in order to find comprehensive and shared solutions to the problems of a given metropolitan area which must be worked out together, cutting across traditional political, legal, and institutional boundaries.

II. PROGRAM DESCRIPTION

A. Objectives

- 2.1 The program's objective is to contribute to the integrated economic development of the five largest metropolitan areas in the interior - Córdoba, La Plata, Mendoza, Rosario, and Tucumán - by boosting their efficiency and competitiveness.
- 2.2 To attain that objective, the program will support:
 - a. Central reforms to improve the administrative and fiscal efficiency of the municipalities, through the redesign of their administrative structures, including the rationalization of staff, and reform of their tax codes.
 - b. Introduction of sector reforms and sector investment projects agreed upon by the mayors of the municipalities in each metropolitan area.
 - c. Enhancement of the quality of human resources in the participating municipalities.
 - d. Strengthening of investment management and control in municipalities in metropolitan areas through their participation in implementing the program.

B. Description

- 2.3 The program will include the subprograms for reform, investments, and technical assistance, described below:
 1. Reform subprogram (US\$100 million)
- 2.4 Financing will be provided for the costs of implementing:
 - (a) central reforms to improve the efficiency and competitiveness of each municipality in a given metropolitan area, including:
 - (i) reforms to municipal tax codes taking into account the direct charge to the beneficiaries based on consumption and ability to pay, the services provided by the municipalities, and their cost and efficiency; (ii) reforms of the new organizational structure of municipal governments in the conurbation (including determining the number of staff it needs to function as well as the hiring system that will be used) and the reassignment of staff estimated in the previous restructuring plan by seeking to attain a ratio of nearly 8 employees per thousand inhabitants as well as a ratio of permanent full-time staff to total staff of 60%; and (iii) legal changes to facilitate private investments, such as deregulation and more expeditious business licensing; and (b) reforms in the sectors with the highest metropolitan impact, including: (i) deregulation,

privatization, and/or outsourcing of services; and (ii) changes in regulations governing areas such as land use, roads, urban transportation, and waste disposal.

- 2.5 This component will also finance consulting services to prepare the reforms.

2. Investment subprogram (US\$382.4 million)

- 2.6 This subprogram will finance sector investment projects that: (i) obtain economies of scale in the delivery of public services common to several municipalities in the same metropolitan area; (ii) provide positive spin offs for a municipality in relation to the main problems of the metropolitan area; and/or (iii) make it possible to prepare and/or implement a joint plan for territorial, economic, and social development. The sector projects will also have to comply with specific economic, technical, financial, and environmental criteria and demonstrate that they do not have access to existing sources of financing. Sector reforms dependent on investments are to be implemented when the first investment operation in the sector begins. Urban transit, roads, parks and green areas, collection, treatment and final disposal of industrial and hospital waste, and storm drainage are areas that have initially been identified. It will also finance the preparation and evaluation of the investments selected.

- 2.7 Program funds to finance these two components will be transferred to the metropolitan municipalities through subloans on similar terms and conditions to the prospective IDB loan. The local counterpart resources will come from the municipal governments concerned.

3. Technical assistance subprogram (US\$15 million)

- 2.8 This subprogram will include funds to train municipal executives and employees and to strengthen the Instituto Federal de Asuntos Municipales [Federal Municipal Affairs Branch] (IFAM) established in 1993 as part of the Ministry of the Interior.

a. Training (US\$12 million)

- 2.9 The aim is to enhance the technical and operational skills of municipal employees to enable them to effectively implement the program's reforms and investments.
- 2.10 Financing will be provided for approximately 1,140 courses and 20 seminars to be attended by 35,000 people including leaders (10%), managers (30%) and municipal employees (60%). The courses will cover areas directly linked to central reforms and sector investments and reforms such as: (i) fiscal and administrative reform; (ii) municipal management; (iii) regulatory frameworks;

- (iv) public investment planning, execution, and supervision; and
- (v) systems for information, monitoring, and evaluation.

b. Institutional strengthening of IFAM (US\$3 million)

- 2.11 The purpose is to consolidate IFAM's technical and operating capacity to enable it to act more effectively as national regulator, supervisor, and evaluator of technical assistance for municipalities. The areas in IFAM that are most closely linked to training for municipal employees will be upgraded. These areas include management, contracting, supervision, and evaluation of training courses and other technical events, follow-up on trainees, services, relations with clients and the community as a whole, information systems, and the establishment and maintenance of up-to-date registers of training institutions.
- 2.12 The funds will be used to hire 48 person/months of consulting services in the areas mentioned, purchase computer equipment and other technical materials, and pay for the printing, copying, and distribution of information to the municipalities and the general public.

c. Scale

- 2.13 The following factors were considered in determining the scale of the program:
 - a. Central and sector reforms and investments in infrastructure costing approximately US\$882 million were estimated for the five metropolitan areas using the matrices for programming and consensus and investments and reforms, which contain a thorough diagnosis of each area's needs. Projects complying with the eligibility criteria (paragraphs 3.25 to 3.30) will be selected.
 - b. The studies and designs for the projects in year one (central and sector reforms and works) were reviewed for three metropolitan areas (Córdoba, Tucumán, and Mendoza) to confirm that they conformed to the methodologies established in the terms of reference (Table IV-1) agreed upon with the Bank for technical, economic, financial, and environmental analyses.
 - c. To ensure implementation of the central reforms through the incentive of investment financing, the works undertaken in year one may not cost more than US\$60 million. The total cost of first year projects for the three metropolitan areas under consideration would be US\$139 million.
 - d. The theoretical borrowing capacity of the municipalities was determined on the basis of provincial constitutional and legal regulations, total annual municipal revenue, and existing loan commitments. The total borrowing capacity of the

municipalities in the five metropolitan areas is US\$2 billion. However, given the status of their current accounts and the impact of the program on current savings through the reforms and the program's cost recovery mechanism, borrowing capacity should be reduced to around US\$1.4 billion, and the program would therefore represent about 35% of the borrowing capacity of the five regions.

- e. Consideration was also given to the institutional capacity of the Ministry of the Interior's central executing unit (reporting to the Interior Secretariat) and of the municipalities in the five metropolitan regions to carry out this program, as gauged by six similar programs financed by the IBRD and the IDB, totaling US\$1,715 million.

2.14 The following table summarizes the data for each metropolitan area.

Table II-1
Scale (US\$ millions)

Urban area	First year projects	Project scale	Real borrowing capacity <u>2/</u>	Theoretical borrowing capacity <u>3/</u>
Greater Córdoba	Reforms: 5.0	Reforms: 15.0	500.0	670.0
	Works: 44.0	Works: 190.0		
	Total: 49.0	Total: 205.0		
Greater Tucumán	Reforms: 15.0	Reforms: 43.6	115.0	131.0
	Works: 20.0	Works: 84.8		
	Total: 35.0	Total: 128.5		
Greater Mendoza	Reforms: 10.0	Reforms: 53.6	160.0	197.0
	Works: 45.0	Works: 118.5		
	Total: 55.0	Total: 172.1		
Greater Rosario		Reforms: 17.5	350.0	527.0
		Works: 103.7		
		Total: 121.2		
Greater La Plata		Reforms: 0.3	290.0	381.0
		Works: 254.1		
		Total: 254.4		
Total	139.0	881.2	1,415.0	2,006.0

2/ Based on the project team's analysis.

3/ Based on provincial constitutional and legal provisions.

D. Cost and financing

- 2.15 The total estimated cost of the program comes to the equivalent of US\$520 million, as per the categories and sources of financing shown in the following table.

Table II-2
Costs and sources of financing
(US\$ millions)

Category	IDB	Local	Total	%
1. Reform subprogram	50.0	55.0	105.0	20.2
1.1 Central reforms	40.0	42.5	82.5	15.9
1.2 Sector reforms	10.0	12.5	22.5	4.3
2. Investment subprogram	187.4	200.0	387.4	74.5
3. Technical assistance subprogram	15.0	0.0	15.0	2.9
3.1 Strengthening for IFAM	3.0	0.0	3.0	0.5
3.2 Training	12.0	0.0	12.0	2.4
4. PEU supervision, audits, and support	5.0	5.0	10.0	1.9
Subtotal	257.4	260.0	517.4	99.5
5. Inspection and supervision	2.6		2.6	0.5
Total	260.0	260.0	520.0	100.0
Percentage	50.0	50.0	100.0	

- 2.16 The Bank's financing will consist of a loan for US\$260 million from the ordinary capital for one half of the cost of the program.
- 2.17 The local contribution of US\$260 million equivalent will come from the municipal budgets, guaranteed by provincial co-funding. To determine the local contribution for the program, account was taken of the borrowing and financial capacity of the metropolitan areas and the availability of provincial funds. 4/

4/ The Argentine government is arranging cofinancing equivalent to US\$150.8 million from EXIMBANK of Japan. A decision is expected in early 1998.

III. PROGRAM EXECUTION

A. The borrower

- 3.1 The borrower will be the Argentine Republic, which will designate the Ministry of the Interior (MINTER) as the executing agency. MINTER will carry out the program through its Interior Secretariat, to which the central executing unit is attached.

B. The executing agencies

1. The central executing unit of the Ministry of the Interior

- 3.2 The central executing unit (CEU) is in charge of six programs being financed by the IDB and the IBRD for a total of US\$1,715 million. Its internal organization is matrix-based, with each program coordinated by an officer and supported by specialized professionals from the sector divisions for infrastructure and investments, fiscal affairs, financial information, information systems, and training. This staff participates in steering, evaluating, approving, and monitoring the projects financed under each program administered by the CEU.
- 3.3 There is a technical area that looks after the strictly the administrative, accounting, financial, bidding and procurement review, and legal aspects of all the CEU's programs.
- 3.4 The CEU will be responsible for the administration, coordination, supervision, and evaluation of this program and for liaison with the Bank. To formalize the CEU as the program's executing unit with all the necessary legal powers, **as a condition precedent to the first disbursement, the borrower must demonstrate to the Bank's satisfaction that the CEU has been made responsible for implementing the program.**

2. IFAM

- 3.5 The IFAM, established by executive decree established on November 8, 1993, as part of the Ministry of the Interior, will be the executing agency for the technical assistance subprogram. IFAM will be responsible for identifying municipal demand for training and technical assistance, developing and helping to improve the management capacity of municipal governments to modernize their administrative systems and optimize their ability to manage public policies, and to contract, supervise, and evaluate the training and technical assistance courses for municipalities.

3. Metropolitan areas

- 3.6 The municipalities in the metropolitan areas will be responsible for implementing the central reforms. They will use the inter-municipal coordination mechanism described below to prepare and implement the investment projects and sector reforms on the metropolitan level.

C. Rules for execution

- 3.7 A process for building consensus among the different mayors in defining priorities (reforms and investments) consistent with national government objectives of encouraging local autonomy was designed during program preparation. However the process must be institutionalized through an inter-municipal coordination mechanism that will ensure its continuity during program implementation and operation.
- 3.8 The mechanism must be: (i) **politically feasible** without creating an intermediate authority between the provincial governor and the mayors; and (ii) **flexible**, to take account of the specific nature of each metropolitan area and streamline program execution.
- 3.9 The rules for execution are set forth in the adhesion agreement (AA) and the subsidiary loan agreements (SLA) to be signed by each municipality and town in a metropolitan area participating in the program (described in paragraphs 3.16 to 3.18).
- 3.10 The program will be implemented in accordance with the operating, technical, and financial requirements, rules, and procedures established in: (i) the loan agreement; (ii) the operating regulations; (iii) the terms of reference, schedules, and costs of technical assistance; (iv) the AAs; and (v) the SLAs. **Implementation of the operating regulations** and signature of a set of agreements formalizing approval of a project (central reforms, sector reforms, or works) by a metropolitan area will constitute conditions precedent to the first disbursement.

1. Coordination mechanisms for the municipalities in a metropolitan area

- 3.11 This mechanism operates on three levels: (i) policy, (ii) technical planning, and (iii) operations.

a. Policy level

- 3.12 Composed of the council of mayors, whose functions are to: (i) reach a consensus on the policies required to implement the program; (ii) determine priorities for reforms and works; (iii) define each municipality's share of the cost of the program; (iv) establish the institutional scheme necessary to implement the

program including metropolitan sector committees, temporary project executing units, and sector regulators and operators, and ensure their continuity after the program is completed; (v) prepare municipal by-laws to allow for implementation of the reforms, execution of the works, and the operation, maintenance, and administration of services (outsourcing, concessions, or privatization); (vi) approve the strategic plan for the metropolitan area; and (vii) monitor the program on the metropolitan level.

b. Technical planning level

- 3.13 Composed of metropolitan sector committees made up of municipal department heads, with the following functions: (i) prepare sector policies; (ii) prepare the strategic plan; (iii) implement the sector reforms; (iv) prepare the feasibility studies; (v) establish the sector's institutional and financial mechanism; and (vi) monitor the temporary executing units and sector regulators and operators.

c. Operating level

- 3.14 This involves execution of the works and regulation of sector operations. Temporary executing units will be established for the different works (which could be a sector department with stronger execution capacity in one of the municipalities) and will cease to operate as executing units upon completion of the work. The sector regulatory and operating entities will be established under sector reforms, which will often require outsourcing, concession, or privatization of metropolitan services (transportation, solid waste collection and treatment). Other services such as education, health care, and transit provided by public agencies will require coordination and monitoring on the metropolitan level, and therefore sector operating agencies must be established for that purpose.
- 3.15 This mechanism is illustrated in the following diagram.

COORDINATION MECHANISM

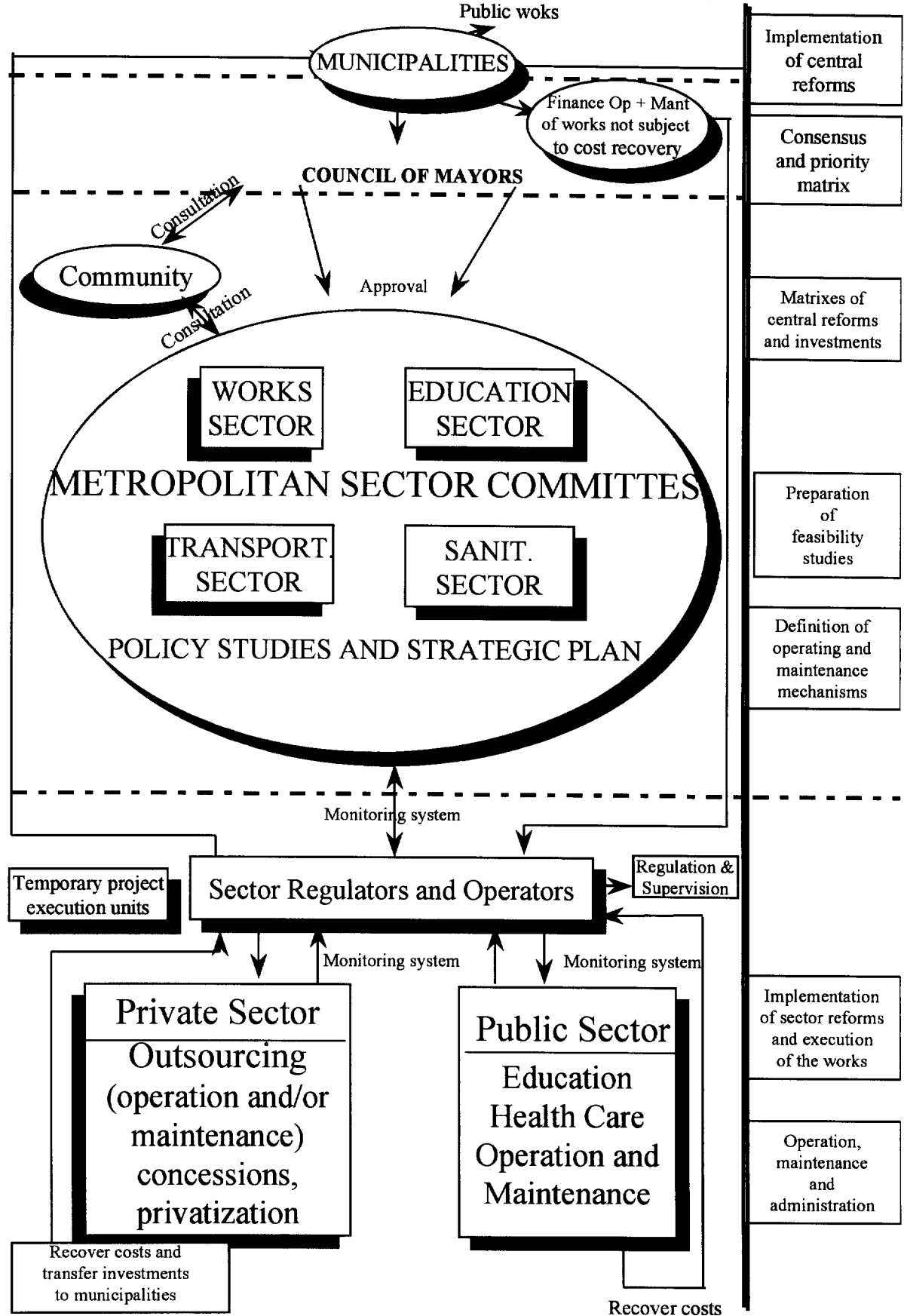
Recovery Inv. costs (betterment levies, taxes, etc.)

Public works

Policy level

Technical
planning
level

Operating
level



2. Agreements required

3.16 The following legal instruments are required to implement the execution mechanism.

a. Commitment agreements (AAs)

3.17 AAs will be signed by all the municipalities in a metropolitan area expressing their intention to participate in the program. These agreements, which define the general framework for program execution in each metropolitan area, should be accompanied by instruments to implement the inter-municipal coordination mechanism, matrices of consensus on reforms and investments, the program's operating regulations, the draft SLA, and the program for year one.

b. Subsidiary loan agreements (SLAs)

3.18 The government will transfer funds to the municipalities in the urban areas on similar terms to the principal loan agreement on the basis of SLAs for each subproject (central reform, sector reform, and works) financed under the program. The agreements will be guaranteed by the provincial governments and will include the conditions established in the operating regulations. These agreements should be accompanied by:

- (i) Municipal by-laws and/or provincial laws authorizing:
 - borrowing by municipalities and towns;
 - provincial co-participation as a guarantee of the local counterpart and, when necessary, operating, maintenance, and administration costs for the projects financed under the program;
 - a special account for each subproject in the area in which disbursements of the IDB loan and the local counterpart funding are to be deposited.
- (ii) The institutional mechanism necessary for execution, operation, maintenance, and administration (definition of temporary project executing agencies and regulators and operators, their missions and functions).
- (iii) The mechanism for financing the reforms and works, including operating and maintenance costs.
- (iv) Studies, documents, and bidding conditions demonstrating that the reforms and works requiring program funds comply with the eligibility criteria established in the operating regulations.

(v) The physical and financial schedules for the works and reforms.

(vi) The goals to be achieved with the reforms.

D. Execution and commitment periods

- 3.19 The term for program execution will be three years and the term for disbursement will be five years, reckoned in each case from the effective date of the loan agreement.

E. Operating regulations

- 3.20 The operating regulations include the mechanism for allocating resources, eligibility criteria for metropolitan areas, sectors, and projects, model agreements and bidding conditions for goods and services, and the regulations governing training and technical assistance. The main operating regulations provide for:

1. Distribution of program funds

a. To the metropolitan areas

- 3.21 The proceeds from the prospective Bank loan will be assigned and transferred to the metropolitan areas based on: (i) the cost of the project (central and sector reforms and works); (ii) the borrowing capacity of the participating municipalities and towns; and (iii) financial capacity to provide the local contribution. Furthermore, no one metropolitan area may take more than 40% of the loan proceeds.

b. Among the municipalities in a metropolitan area

- 3.22 The funds will be assigned to each municipality as provided in SLAs for financing a project in any area.

2. Eligibility criteria

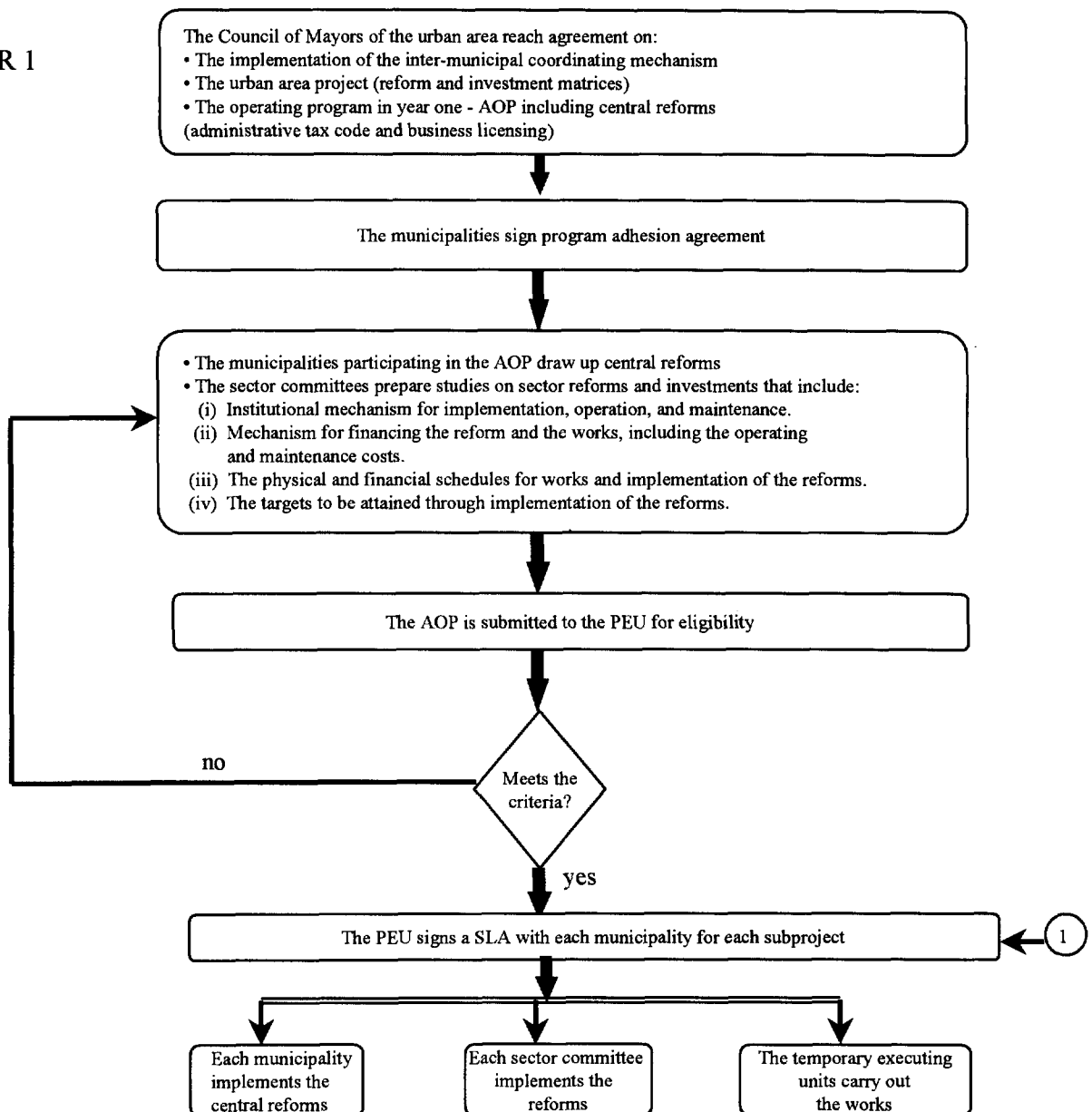
a. For metropolitan areas

- 3.23 Córdoba, Tucumán, Mendoza, Rosario and Mar del Plata will be eligible for the program. They will be required to comply with the following conditions: (i) have implemented the coordination plan and signed the corresponding AA; (ii) have authorization from their municipalities to borrow; (iii) have authorization for automatic withholding of the provincial share of the local counterpart and, if necessary, funds to cover the operating, maintenance, and administrative costs of program projects; and (iv) be observing the clauses of previous SLAs signed under the program.

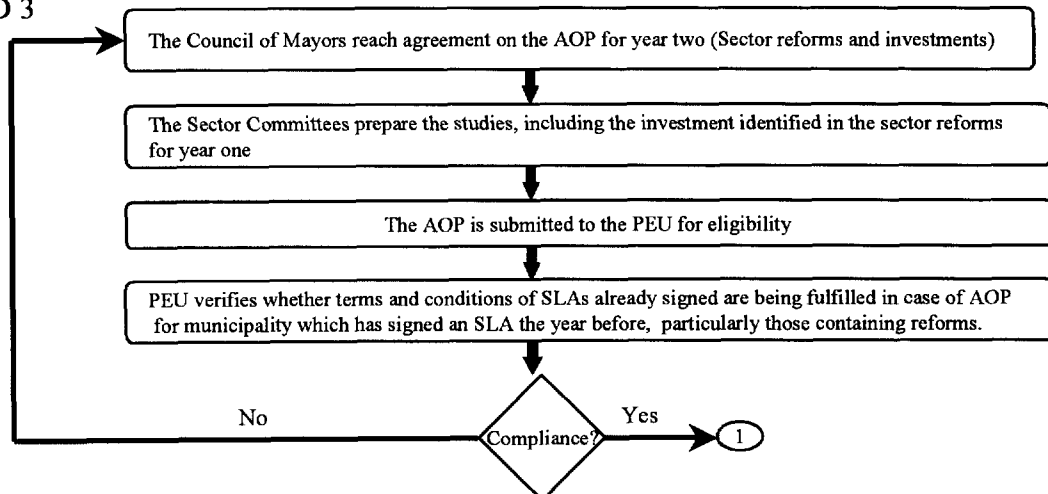
b. For projects

- 3.24 The program will support a process to identify and achieve common objectives in each metropolitan area by financing reforms and investments. Therefore the program contains the following requirements: (i) metropolitan objectives agreed upon by consensus; (ii) clearly identified linkages between reforms and investments in a given sector, including a timetable for executing the works and introducing the reforms; and (iii) annual program reviews to define the content of the projects for the following year.
- 3.25 Each metropolitan area project will consist of a series of central and sector reforms and investments legally agreed on by the municipalities, which will be eligible after the AA and SLAs for the first year of the project are signed together with the corresponding sector reforms.
- 3.26 The central reforms will begin to be introduced in year one and the sector reforms will be adopted as contracts are awarded for the works during that year, with the reforms having to be implemented when the first investment operation in the sector commences.
- 3.27 In addition, the investments identified as necessary for introducing a sector reform must begin in the year shown in the investment plan designed to carry out the reform.
- 3.28 In subsequent years of the program, in order to enter into a new SLA, a municipality must demonstrate that progress has been made in the central and sector reforms and works, as measured by the targets set in the SLAs of previous years.
- 3.29 Lastly, for an investment to be eligible, it must comply with the technical, economic, financial, and environmental criteria established in the program operating regulations and obtain the CEU's nonobjection.
- 3.30 Program execution is outlined in the schematic diagram.

YEAR 1



YEARS 2 AND 3



3. Cost recovery mechanisms

- 3.31 The rates, tariffs, betterment levies, and taxes charged should, generally, be enough to cover operating, administration, maintenance, and investment costs (to the extent possible depending on the socioeconomic situation of the population). When the beneficiaries of a project cannot be clearly identified or when a breakdown is not justified, the general revenues of the municipalities in the metropolitan area will be used as the recovery mechanism. In such cases it must be demonstrated that the works will not cause a deficit in the municipalities' current accounts.

4. Inspection and supervision of the works

- 3.32 The metropolitan area concerned will be responsible for inspection and supervision of the works, which covers environmental considerations. Individual consultants or specialized firms will be used for inspections and supervision in the case of urban areas which do not have the capabilities of doing so on their own. The costs incurred may be recognized as part of the cost of the works.

F. Environmental considerations

- 3.33 When CESI examined profile II for this operation, it recommended that an ESIR be prepared. The CEU has prepared an EIA which was made available for public consultation in the five metropolitan areas on April 18, 1997.
- 3.34 The impact of the program on the urban environment and population will be highly positive, including: (i) an improvement in public health indicators through the construction of storm drainage systems and the collection and final disposal of solid residential, commercial, industrial, and hazardous waste; (ii) benefits for the public affected by resettlement and urban development through improvements in sanitation, health, and housing conditions; (iii) control of erosion and sedimentation through the reclamation of degraded areas and the construction of parks and storm drainage systems; (iv) socioeconomic improvement through road construction and paving and public transportation projects; and (v) better environmental protection through inter-municipal cooperation so that solution can be found to common environmental problems (i.e. waste collection and disposal).
- 3.35 The program will also improve the environmental balance in each metropolitan area since the reform and investment proposals are intended to correct structural problems and the solutions chosen for the investment projects will seek to ensure sustainability of the works and the quality of life.

- 3.36 The main negative environmental impacts of the projects in the sample will be temporary and easily mitigated. They include: (i) the removal of plant cover; (ii) unsuitable location of works; (iii) pollution of surface water and in some cases of the water table; (iv) dust, noise, and public inconvenience; (v) production of sewage, liquid waste, construction waste; and (vi) work-related accidents.
- 3.37 Environmental protection measures are summarized in the environmental eligibility criteria and the terms of reference for evaluating environmental impact which have been prepared in draft form for each sector potentially eligible for financing. They include: ensuring compatibility with the strategic development plan for the metropolitan area; avoiding works in ecologically fragile areas used for water supply; planting trees and rehabilitating the land; treating liquid waste prior to its release into receiving bodies and not jeopardizing other water uses; suitably treating and disposing of solid and liquid waste generated during the construction and operating stages; complying with the guidelines contained in resettlement plans; involving the public affected by each project; and including the necessary clauses for mitigating or preventing negative impact during construction in the bidding conditions.
- 3.38 The sector eligibility criteria and terms of reference form part of the program's environmental control system (PECS). The PECS is a sequential project environmental evaluation mechanism applied during the cycle, from the prefeasibility stage to the design and monitoring stages. Institutional organization is crucial to ensuring its effectiveness. Accordingly, the CEU and the executing agencies will be provided with the resources and skills needed to evaluate, propose alternatives, and monitor application of the environmental safeguards and recommendations contained in the EIAs and other measures linked to implementation of the PECS.
- 3.39 The procedures and instruments contained in the PECS have been included in the operating regulations to ensure that the program will be carried out in environmentally sustainable conditions. The CEU will report on compliance with environmental eligibility requirements, the results of the PECS, and environmental monitoring of the program in the annual reports.

G. Program monitoring

- 3.40 During the program and for two years thereafter, the borrower will present annual reports to the Bank through the executing agency within 90 days after the close of each calendar year. The models for these reports must be presented to the Bank's satisfaction within two months after the effective date of prospective loan agreement.

- 3.41 Based on the annual progress reports, the executing agency and the Bank will review the program during the first quarter of each year. The reviews will serve to establish the annual operating plan (AOP) for the following year. Both the annual reviews and the AOPs should be based on the operating regulations, the logical framework (Annex III-2), and the benchmarks (Annex III-3). **Presentation of the AOP for year one will be a condition precedent to the first disbursement.**

H. Execution of the technical assistance component

- 3.42 IFAM will be responsible for training, contracting goods and services for its own institutional strengthening, preparing monitoring reports on the results and submitting them to the CEU for consideration, and keeping the necessary accounting and financial records. **The borrower will begin training activities within six months after the effective date of the prospective loan agreement.**
- 3.43 Approximately 68% of the funds under this component will go to pay the training institutions that are awarded the contracts, and about 32% will be used for the procurement of equipment and other educational materials, travel, per diems, and other expenses linked to the courses offered. Six months after the prospective loan agreement is signed, the borrower will begin awarding contracts for the courses to be offered in year one.

I. Other aspects of program execution

1. Procurement of goods and services

a. Goods

- 3.44 International competitive bidding will be compulsory for contracts valued at more than US\$350,000 for goods and US\$5 million for construction works. It has been found that foreign bidders are only attracted by similar projects in the country in amounts above those thresholds. Bidding on contracts in lesser amounts will be governed by local legislation. When loan proceeds in foreign exchange are used, no restrictions may be placed on participation by suppliers from the Bank's member countries.
- 3.45 The procurement plan for program goods and works is given in Annex III-4.

b. Consulting services

- 3.46 Consulting services will be procured in accordance with the Bank procedures. However, in view of the large quantities of consulting services required for the program, and to expedite execution and facilitate supervision by the Country Office, it is recommended

that the Bank demand prior consultation only in cases of individual consulting contracts valued at more than US\$50,000 and contracts for consulting firms valued at more than US\$200,000. The general terms of reference for each group of services will be approved by the Bank in advance.

c. Courses

- 3.47 International competitive bidding will be compulsory for contracts valued at more than US\$200,000. Contracts for lesser amounts will be governed by local legislation.

2. Disbursements

- 3.48 In view of the nature of the operation, the volume of transactions that will take place as a result of the central and sector reforms and the procurement of goods and services, and the fact that this is a global program, an efficient and rapid mechanism will be required to expedite the disbursement process.
- 3.49 Disbursements will be made in accordance with Bank procedures. In the event that the revolving fund needs to be replenished and reimbursements of payments made, the executing agency will only be required to present the disbursement request to the Country Office, together with the forms "breakdown of payments" and "control of disbursements and local contributions". The executing agency will retain the supporting documentation.
- 3.50 The executing agency will ensure that the information given in the breakdown of payments form is duly substantiated with the justification normally required by the Bank. The executing agency will retain the originals and/or copies of contracts, orders, invoices, receipts, payment vouchers, supplier certificates, certificates of origin, and other documents supporting the information provided in the breakdown of payments form. The documentation should be duly identified, properly filed, and available for review by the Bank and external auditors. The documentation should be kept in an active file, in a place designated by the executing agency, for a period of not less than five years after disbursement in full of the loan.
- 3.51 During its inspection visits, the Country Office will review a sample of the supporting documentation. When technical and/or financial inspections are performed, a random check will be made to ensure that the supporting documentation is available, and that the sums shown in the reimbursement requests have been used as required in the loan agreement. If discrepancies are found, a larger percentage will be verified and the executing agency will be asked to make the necessary deductions from future requests.

3. Revolving fund

- 3.52 Given the nature of the program and the variety of activities to be financed, it is recommended that a revolving fund be established equivalent to 5% of the prospective loan.

4. Audits

- 3.53 The program financial statements are to be submitted annually, commencing in the year in which the program begins and continuing thereafter until the program has been executed, within the first four months after the end of each fiscal year, certified by an independent firm of external auditors.
- 3.54 Monitoring reports on the program will also need to be presented, within the first three months of each year, audited by independent external experts, showing compliance with the terms of the operating regulations.

5. Status of program preparation

- 3.55 The program has been prepared on the basis of agreements between the mayors of the municipalities in a metropolitan area with regard to common problems, solutions, and the definition of projects for the first year. The programs for Greater Córdoba, Greater Tucumán and Greater Mendoza have been defined and scaled for year one. Terms of reference have been approved for preparation of the reforms and investments and for consultants, who are already at work. Taken together, these instruments will allow for rapid progress in preparing the projects already defined for year one.

6. Ex post evaluation

- 3.56 An ex post evaluation of the program is recommended. The Bank will have the data contained in the annual reports and these may be used for the evaluation.

IV. JUSTIFICATION, FEASIBILITY, AND RISKS

A. Justification

- 4.1 The program is based on a comprehensive, integrated development strategy for large urban areas in the country's interior which seek to acquire the competitiveness necessary to position themselves in a global economy, by improving the quality of life of their residents, providing good quality urban services, spurring production, and mitigating the main environmental problems. The program will also support municipal independence by improving administrative and fiscal efficiency and fostering inter-municipal cooperation by consensus.
- 4.2 The added benefits of the program arise from more efficient allocation of municipal resources and a reduction in the city cost of metropolitan areas through more efficient delivery of public services and elimination of rules and barriers that restrict private economic activity and obstruct free market competition. The benefits will lead to increased economic activity through savings in costs, with a positive impact on job creation, savings, and larger private-sector investments. The program benefits stem from metropolitan investments which are required to have an economic internal rate of return (EIRR) of at least 12%.
- 4.3 The program will: (i) achieve economies of scale in the delivery of public services that are common to several municipalities in the same region and positive spin off effects for a given municipality that derive from solutions to the main problems in its region; (ii) lay the groundwork for outsourcing, concession, or privatization of public services; (iii) permit municipal tax codes to establish direct links between the costs of services and taxes; (iv) prepare strategic development plans that include all public and private stakeholders and civil society, which will boost municipal capacity to define and implement policies on the metropolitan level arrived at by consensus; and (v) eventually link the municipalities to financial and capital markets in order to raise long and medium term financing.
- 4.4 The program is also designed to enhance the quality of municipal human resources which will lead to greater efficiency and institutionalization of the inter-municipal coordination process. This series of actions is intended to achieve a permanent improvement in the institutional capacity of municipalities to promote economic growth and improve the quality of life in the metropolitan region.

B. Program feasibility

1. Economic feasibility

a. Reforms and competitiveness in a globalized economy

- 4.5 As mentioned in chapter I, the municipalities in metropolitan areas in the interior and the Argentine government are aware of the need to change how priorities are established and implemented. All public and private stakeholders and municipalities must share responsibility if metropolitan areas are to be competitive, which also demands more effective local government.
- 4.6 The central and sector reforms to be financed under the program are crucial for the economic feasibility of the actions to be carried out by the municipalities in a metropolitan area, since they will lead to a change in rules that hamper private initiative and to greater transparency for taxpayers with respect to price versus the quality of services, under a mechanism for indicating preferences that will ensure efficient allocation of local funds ("local public choice").
- 4.7 The inter-municipal coordination mechanism will allow for metropolitan investments that ensure economies of scale and adequate treatment of externalities. Financing for strategic plans will force governments to work more closely with the community to convert it into a proactive co-manager of economic and social development, in a demand driven process that achieves objectives and mechanisms that take account of real demand by the different segments of civil society.

b. Investments and the city cost

- 4.8 To face the challenges and benefit from the process of globalization, cities must equip themselves with modern urban and social infrastructure to improve the quality of life at competitive prices. They should focus on education and labor skills, urban roads and transport, the quality of the habitat and the environment, and the services required by the new economy. These services are essential for private sector activities, since they are used by companies as inputs, as well as being consumed directly by families, adversely affecting costs and increasing productivity, employment, savings, and private investment. Their supply, which is a public sector responsibility, but not necessarily provided by the latter will influence the nature of private business in a city (structure, efficiency, costs, etc.) and its location within it. Urban policies and planning should therefore focus on these public sector activities, which are important both in themselves and for their influence on other activities.

2. Institutional and financial feasibility

- 4.9 The institutional mechanism for implementing the program involves the different municipalities in a metropolitan area, which is not an obstacle or problem for execution, since an inter-municipal coordination mechanism has been established that clearly assigns responsibilities to each of the participants. The responsibilities are established in the AA, the SLAs, and the program's operating regulations. The technical assistance component will enable the metropolitan areas to carry out the program on schedule.
- 4.10 The CEU, whose main function is to support the metropolitan areas and supervise program execution, has extensive experience in managing projects financed by multilateral lending agencies, and its staff, organization, and control systems are appropriate for carrying out this program.
- 4.11 The municipalities will have sufficient funds for the program's reforms and investments and to repay the subloans, through cost recovery mechanisms and savings from the sector and central reforms. In addition, the counterpart funds and operating and maintenance costs will be guaranteed by the municipalities with provincial co-participation.

3. Project feasibility

- 4.12 Since (i) there is demand for investments that satisfy the sector objectives in each metropolitan area; (ii) the eligibility requirements are reasonable, including an EIRR of at least 12% for all works; and (iii) there is expertise in the country and the CEU with respect to project preparation and evaluation, it is likely that the investment projects presented will be eligible for financing under the operating regulations.
- 4.13 Studies and designs for projects (central and sector reforms and works) for year one for three metropolitan areas (Córdoba, Tucumán, and Mendoza) were reviewed during the analysis mission and it was found that they complied with the program's objectives, the methodologies established agreed upon with the Bank for the technical, economic, financial, and environmental analysis, and existing formulation capacity in the metropolitan areas.
- 4.14 The types of benefits and the preliminary EIRR for first year projects are presented below.

Table IV-1
Works program for year one

Area	Cost (US\$ millions)	Benefits	EIRR
I. Córdoba			
A. Roads			
Southeast	14.6	- Reduction in travel time and in vehicle operating and maintenance costs	20%
Coast	9.4	- Reduction in travel time and in vehicle operating and maintenance costs, and appreciation of property values	28%
B. Transportation			
Total control of transportation systems	18.0	- Reduction in travel time and in fleet operating and maintenance costs	23%
C. <u>Parks and green areas</u>			
East park	2.0	- Willingness to pay	28%
II. Tucumán			
<u>Roads</u>			
East-west corridor	20.0	- Reduction in travel time and in vehicle operating and maintenance costs, and rise in property values	30%
III. Mendoza			
<u>Roads</u>			
Ring road	45.0	- Reduction in travel time and in vehicle operating and maintenance costs, and appreciation of property values	25%

4.15 The operating regulations also state that every work to be financed must be declared eligible by the CEU. The Bank will review progress and compliance by the CEU with the operating regulations each year, prior to initiating bidding for the year's works.

C. Program risks

4.16 Introduction of certain central and sector reforms requires specific provincial legislation and there is a risk that the reforms may be delayed if the legislation is not passed in time, thereby affecting the program's objectives and targets. However this risk will be mitigated by the fact that these urban areas account for over one half of GDP and the provincial population in the main poles of development and the provinces will be guarantors of the subsidiary loans between the executing agency and the metropolitan areas.

4.17 As an incentive to encourage participation by the provinces, the province of Córdoba has expressed satisfaction with the program and submitted an opinion of the State Attorney General ensuring that

only one decree from the province's executive branch would be needed to guarantee the subloans.

- 4.18 The program is intended to meet the needs of the five largest urban areas in the interior to reform their municipal governments and make investments under a simple institutional scheme which requires only that the municipalities in each region agree upon their priorities and sign a commitment to obtain program funds. There is an inherent risk that once the financing is available, the municipalities will encounter delays in fulfilling the institutional formalities for the transfer of funds, which would hold up execution. To diminish this risk, the program has developed a matrix for agreements regarding reforms and investments and priorities which was tested with the 73 beneficiary municipalities. The municipalities have also pre-negotiated the corresponding adhesion agreements.

CORDOBA'S STRATEGIC PLAN

Strategy	Objective
I. The imbalances created by urban development require urban renewal programs to integrate urban development, environmental, social, and economic policies.	<p>I.1 To balance the development of the different urban, rural, and metropolitan spaces by establishing priorities for the urban road network to improve accessibility, and a policy for zoning human settlements and economic activities.</p> <p>I.2 To develop a safe and efficient transportation system.</p> <p>I.3 To revitalize the city core and strengthen new centers.</p> <p>I.4 To establish serviced areas for economic activity.</p> <p>I.5 To optimize urban land resource use.</p> <p>I.6 To ensure integrated and efficient management of urban infrastructure.</p> <p>I.7 To establish management mechanisms for achieving each of the individual objectives.</p>
II. The phenomenon of globalization and greater urban integration demands stronger comparative advantages and competitiveness to attract new activities and investments.	<p>II.1 To boost urban economic development through organized, joint work by municipal governments and public and private institutions.</p> <p>II.2 To diversify the economic base of the city and its metropolitan area.</p> <p>II.3 To structure the city as a physical- and telecommunications node and a regional distribution center.</p> <p>II.4 To foster new specialized activities involving highly skilled services, focussing preferably on SMBs.</p>
III. The increasing importance of the environmental dimension for improving the quality of life, and growing demands of international markets for environmentally-friendly production mean that Cordoba should establish socioenvironmental conditions that will allow it to position itself as one of the most attractive metropolitan areas in the Southern Cone.	<p>III.1 To reduce current levels of pollution and environmental degradation.</p> <p>III.2 To establish a sustainable environmental policy for urban development.</p> <p>III.3 To heighten environmental sensitivity and awareness for responsible participation.</p>

Strategy	Objective
<p>IV. Implementing local measures to achieve high economic growth rates in the city is not sufficient to eradicate poverty. An active and comprehensive social policy is required, whose priorities are established by consensus among the main stakeholders.</p>	<p>IV.1 To improve opportunities for access to property through urban development, services, and low-cost housing plans.</p> <p>IV.2 To maintain equity through the fair distribution of educational services.</p> <p>IV.3 To implement job training programs.</p> <p>IV.4 To encourage health promotion and protection.</p> <p>IV.5 To promote channels through which all stakeholders in society can participate.</p> <p>IV.6 To develop a cultural strategy.</p> <p>IV.7 To promote civic awareness.</p> <p>IV.8 To promote interaction between governments, grassroots and intermediate organizations, and the general public.</p> <p>IV.9 To achieve more efficient coordination of public institutions.</p> <p>IV.10 To define urban poverty indicators in a timely fashion, based on consensus.</p>

INTEGRATED DEVELOPMENT PROGRAM FOR LARGE URBAN AREAS IN THE INTERIOR

(AR-0151)

LOGICAL FRAMEWORK

		Indicators	Means of Verification	Assumptions
GOAL	To contribute to the integrated economic development of urban areas by improving their efficiency and competitiveness.	- Ratio between the unemployment rate of the five urban areas and the national level less in 2007 than in 1997 as measured annually.	INDEC	The provinces have modified their constitutions to conform to article 123 and in accordance with article 5 of the National Constitution, and, if necessary, its laws, decrees, and regulations to ensure autonomy to permit proper execution by municipal administration.
		- Ratio of GDP growth in the five metropolitan areas to the national rate higher in 2007 than in 1997, as measured annually.	INDEC	
		- Ratio between private per capita investment in the five metropolitan areas and figures for the national level higher in 2007 than in 1997, measured annually.	INDEC	

		Indicators	Means of Verification	Assumptions
Purpose	To improve management efficiency on the municipal and inter-municipal levels in the 5 metropolitan centers of Cordoba, Tucumán, Mendoza, Rosario, and La Plata	<ul style="list-style-type: none">- Level of satisfaction of the citizens in the five metropolitan areas higher in 2004 than in 1998, measured biannually.- Percentage of family income spent on tariffs, rates, taxes, and betterment levies in the five metropolitan areas higher in 2004 than in 1998, measured biannually.- Achieve current per capita savings that is sustainable over the program horizon, measured annually.	<p>Citizen surveys</p> <p>Permanent household survey and INDEC</p> <p>Budget performance</p>	The institutional and legal framework defined by the federal and provincial governments is suitable for program execution.

		Indicators	Means of Verification	Assumptions
Components	I. REFORMS Central reforms - Tax reforms - Administrative reforms - System for licensing businesses - Service sector reforms II. INVESTMENTS (works) III. TECHNICAL ASSISTANCE - Training - Strengthening of IFAM	- Tax code amended and introduced in accordance with program objectives. - Administrative reforms introduced in accordance with program objectives. - Reform of the system for licensing businesses in effect. - Reform implemented in accordance with metropolitan sector objectives. - Works executed and in operation in accordance with metropolitan sector objectives. - Courses offered and employees trained in accordance with program objectives. - IFAM strengthened to identify municipal demand for training, and to contract, supervise, and evaluate training courses.	Official gazette Official gazette Official gazette Official gazette Annual progress reports Annual progress reports Annual progress reports	Continuity of municipal development policies in the five metropolitan areas

		Indicators	Means of Verification	Assumptions
Activities	I. REFORMS <ul style="list-style-type: none"> - Approval of the terms of reference for the reforms in accordance with program regulations. - Approval of consulting services in accordance with program regulations. <p>Approval of the final report by the consultants.</p>	<p>Terms of reference approved</p> <p>Contracts signed</p> <p>Letter of nonobjection from the Country Office</p>	<p>Progress reports</p> <p>Progress reports</p> <p>Progress reports</p>	<p>The bidding process is proceeding according to plan.</p> <p>The budget allows for cost overruns.</p>
	II. INVESTMENTS <ul style="list-style-type: none"> - Support the metropolitan areas in preparing the terms of reference - Approve the bidding conditions in accordance with program regulations. - Verify bidding procedures. - Verify compliance by the metropolitan areas and subprojects with the eligibility requirements. - Approve bidding procedures, including awards and contracting. - Disbursement process in accordance with program mechanisms 	<ul style="list-style-type: none"> - Budget 	<p>Annual progress reports</p>	<p>The bidding process is proceeding according to plan.</p> <p>The budget allows for cost overruns.</p>

		Indicators	Means of Verification	Assumptions
	III. TECHNICAL ASSISTANCE a. Training <ul style="list-style-type: none"> - Approval by the executing unit of the annual program proposed by IFAM. - Approval by the executing unit of the contracting procedures. - Strengthening of IFAM - Approval of the terms of reference for the reforms in accordance with program regulations. - Approval of consulting services in accordance with program regulations. General program monitoring	Budget	Annual progress reports	The bidding process is proceeding according to plan.

**INTEGRATED DEVELOPMENT PROGRAM FOR LARGE URBAN AREAS
IN THE INTERIOR
(AR-0151)
Benchmarks**

Component	Targets
1. REFORMS 1.a Central reforms a.1 Tax code a.2 Administrative reforms a.3 Business licensing	All of the municipalities and towns eligible for a project must have introduced the reforms prior to the end of the third year of the program.
1.b Sector reforms b.1 Strategy plan b.2 Roads and transit b.3 Waste b.4 Drainage b.5 Health care b.6 Parks and green areas b.7 Transportation	All of the eligible metropolitan areas must have approved their strategy plans prior to the end of the third year of the project. All of the sector reforms identified in the feasibility studies for the investment component must be implemented in accordance with the timetables contained in the studies by the end of the fifth year of the program.
2. INVESTMENTS	All of the works must be contracted prior to the end of the third year of the program.
3. TECHNICAL ASSISTANCE 3.1 Training 3.2 Strengthening of IFAM	Number of people trained: Year 1. 6,000 Year 2. 12,000 Year 3. 18,000 The training programs must be completed prior to the end of the third year of the program. Actions to strengthen IFAM must be implemented prior to the end of the first year of the program.

PROCUREMENT PLAN

MAIN PROGRAM PROCUREMENT	FINANCING		METHOD OF BIDDING	YEAR
	IDB (%)	LOCAL (%)		
1. Investments in infrastructure and equipment. Cost US\$382.4 million	48	52	ICB (90%) LCB (10%)	1998-2001
2. Reforms. Cost US\$100 million	50	50	ICB (40%) LCB (60%)	1998-2000
3. Training courses. Cost US\$12 million	100	-	ICB (80%) LCB (20%)	1998-2001
4. Consulting services. Cost US\$15 million	50	50	ICB (85%) LCB (15%)	1998-2001

PROPOSED RESOLUTION

**ARGENTINA. LOAN /OC-AR TO THE REPUBLIC OF ARGENTINA
(Integrated Development Program for the Large Urban Areas of the Argentine Interior)**

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 Republic of Argentina, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a project for the integrated development of large urban areas of the Argentine interior. Such financing will be for the amount of up to two hundred and sixty million dollars of the United States of America (US\$260,000,000), 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.