

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**ARGENTINA**

**INSTITUTIONAL STRENGTHENING OF THE MINISTRY OF  
ECONOMY AND FINANCE**

**(AR-L1124)**

**LOAN PROPOSAL**

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1.	Plan of activities for the first disbursement and the first 18 months of implementation <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327073">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327073</a>
2.	Monitoring and evaluation arrangements <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327077">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327077</a>
3.	Procurement plan <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327537">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327537</a>
<b>OPTIONAL</b>	
1.	Safeguard Screening Form <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36140930">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36140930</a>
2.	Economic impact analysis <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327050">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327050</a>
3.	Itemized budget <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327082">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327082</a>
4.	Diagnostic assessment of the economic policy-making function <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327065">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327065</a>
5.	Knowledge activities fund (KAF) guidelines <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327069">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327069</a>
6.	Methodological note on the EPQI and EPISP indices <a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327506">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=36327506</a>

## ABBREVIATIONS

AGN	Auditoría General de la Nación [Office of the Auditor General]
BAPIN	Banco de Proyectos de Inversión Pública [Public Investment Project Database]
CQS	Selection based on consultants' qualifications
DGAJ	Dirección General de Asuntos Jurídicos [Legal Affairs Bureau]
EPISP	Economic Policy Impact on Sector Policies index
EPQI	Economic Policy-making Quality Indices
GDP	Gross domestic product
KAF	Knowledge activities fund
MECON	Ministry of Economy and Finance
MEP	Multiyear execution plan
NCB	National competitive bidding
PEU	Program execution unit
QCBS	Quality- and cost-based selection
SPE	Secretaría de Políticas Económicas [Department of Economic Policy]
UAI	Unidad de Auditoría Interna [Internal Auditing Unit]
UEPEX	External loan execution system

## PROJECT SUMMARY

### ARGENTINA

### INSTITUTIONAL STRENGTHENING OF THE MINISTRY OF ECONOMY AND FINANCE (AR-L1124)

Financial Terms and Conditions				
Borrower: Argentine Republic Executing agency: Ministry of Economy and Finance (MECON)			Amortization period:	25 years
			Grace period:	4 years
			Disbursement period:	4 years
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	Interest rate:	LIBOR-based
IDB (OC)	13,000,000	72.2	Inspection and supervision fee:	*
Local	5,000,000	27.8	Credit fee:	*
Total	18,000,000	100	Currency:	U.S. dollars from the Single Currency Facility of the Bank's Ordinary Capital
Project at a Glance				
<b>Project objective and description:</b> The program's general objective is to increase the influence of economic policy on medium- and long-term sector policies. The specific objectives are to: (i) improve the economic policy-making process by strengthening related technical capabilities; and (ii) improve coordination between MECON and the sector ministries in the development of medium- and long-term sector policies. The program will have four components: (i) knowledge management; (ii) information management; (iii) contingent liability and case management; and (iv) institutional coordination and alignment.				
<b>Conditions precedent to the first disbursement of the loan proceeds:</b> No conditions precedent to the first disbursement are planned.				
<b>Special conditions for program execution:</b> For the disbursement of resources for the following outputs: (i) component 1, output 2: Technical training program; (ii) component 1, output 4: Knowledge activities fund (KAF); and (iii) component 1, output 5: Young professionals scholarship program, the following requirements will be met: (i) evidence that the Department of Economic Policy (SPE) has approved the corresponding operating regulations, with the Bank's no objection; and (ii) evidence that the corresponding management committees (paragraph 3.2) are in operation. These conditions do not apply to contracting of the component 1 coordinator or of the consulting services needed to develop the operating regulations in question.				
<b>Exceptions to Bank policies:</b> None				
<b>Procurement:</b> Program procurements will adhere to the Bank policies set forth in documents GN-2349-9 and GN-2350-9 of March 2011.				
<b>Project consistent with country strategy:</b> <div style="display: flex; justify-content: space-around; width: 100%;"> <span>Yes <input checked="" type="checkbox"/> [ X ]</span> <span>No <input type="checkbox"/> [ ]</span> </div>				
<b>Project qualifies as:</b> <div style="display: flex; justify-content: space-around; width: 100%;"> <span>SEQ <input type="checkbox"/> [ ]</span> <span>PTI <input type="checkbox"/> [ ]</span> <span>Sector <input type="checkbox"/> [ ]</span> <span>Geographic <input type="checkbox"/> [ ]</span> <span>Headcount <input type="checkbox"/> [ ]</span> </div>				

\* The credit 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 applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## **I. DESCRIPTION AND RESULTS MONITORING**

### **A. General background**

- 1.1 After the 1998-2002 crisis, Argentina's economy began to rebound, with average annual GDP growth rates on the order of 8% (2003-2008), higher investment, lower unemployment, and an improvement in the external accounts. This enabled the country to weather the slowdown of 2009 and resume economic growth. The Argentine government believes that current macroeconomic conditions are a solid basis for medium- and long-term planning. While the sector ministries have begun to take steps in that direction, the plans developed thus far appear to take little account of national economic policy parameters. Insofar as the fiscal viability of sector plans depends in large part on those factors, the weak link between sector planning and medium- and long-term economic programming casts uncertainty over the potential success of the plans.
- 1.2 Law 26,338 and its subsequent amendments give the Ministry of Economy and Finance (MECON) broad economic policy responsibilities within the Executive, from developing economic strategies and managing the entire budget spending cycle to monitoring and managing public expenditure and investment accounts, among others. MECON is organized into five departments, which are responsible for the formulation and monitoring of economic policy and public investment (Department of Economic Policy); financial and debt management (Finance Department); budget, treasury, and accounting systems (Treasury Department); consumer protection (Domestic Commerce Department); and the management of legal and administrative processes (Legal and Administrative Department) (optional electronic link 4).
- 1.3 The challenge of medium- and long-term policy programming affects every department of MECON, but it has a particular impact on the functions of the Department of Economic Policy (SPE), which include formulating economic programming strategies, developing macroeconomic guidelines for fiscal programming, and supervising and monitoring public investment. For this reason, the program focuses primarily (though not exclusively) on the SPE's capabilities. The SPE's sphere of responsibility, as set out in Decree 1359/2004, as amended, encompasses three general areas: (i) management of the economic policy cycle: formulation, monitoring, and evaluation; (ii) generation of information and knowledge on economic processes and conditions; and (iii) supervision and monitoring of public investments. The SPE is organized around two key missions: economic coordination management, through the Office of the Undersecretary for Economic Coordination, and economic programming, through the Office of the Undersecretary for Economic Programming. The former office breaks down into the National Public Investment Directorate (responsible for supervision and monitoring of national public investment, including the Public Investment Project Database (BAPIN)) and three directorates whose functions are to monitor the foreign sector, coordinate production policies, and analyze and monitor public expenditure and social programs. The later office breaks down into the National

Directorate for Regional Economic Programming and the National Directorate for Macroeconomic Programming.

- 1.4 Most of the SPE's work involves compiling, processing, and analyzing economic data. The

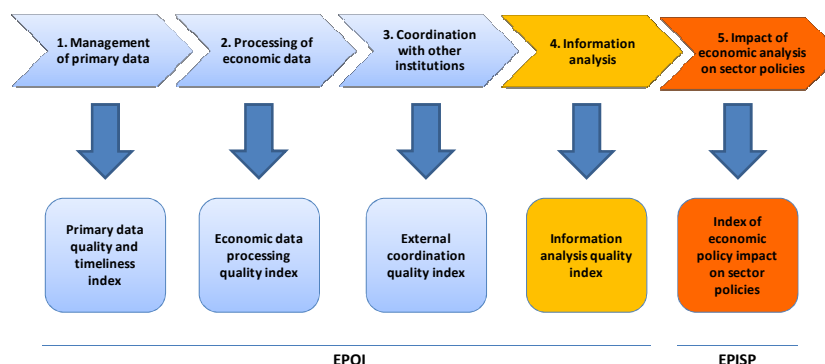
resulting knowledge goes into databases, reports, and documents that are provided to economic and other government authorities or are published

for reference purposes. The SPE's substantive output therefore consists of expert knowledge, which, expressed in the form of policy recommendations or findings, constitutes an input for decision-making processes. The intangible nature of this output makes it methodologically difficult to design a project to improve the quality of the knowledge inputs provided by MECON. The Institutional Capacity of the State Division has therefore developed a methodology for creating impact and outcome indicators geared to the specific nature of the processes being targeted by this program (optional electronic link 5). Under this methodology, the Economic Policy-making Quality Indices (EPQIs) are measured for all the technical units of the SPE, to obtain evidence regarding the expert knowledge generation process referred to above, allowing for an aggregate approach to the problem. These indices correspond to the links in the value chain within the SPE (Figure 1), reflecting the collection, processing, and coordination process preparatory to information analysis, i.e. generation of the findings and/or recommendations that guide economic policy decision-making. The Economic Policy Impact on Sector Policies (EPISP) index, in turn, gauges how the findings of the economic analyses performed by the SPE are absorbed by the ministries in charge of sector policies and how they influence those policies.<sup>1</sup>

## B. The problem to be addressed and its causes

- 1.5 The minimal influence that medium- and long-term economic programming is having on the development of sector policies of a similar scope is due largely to

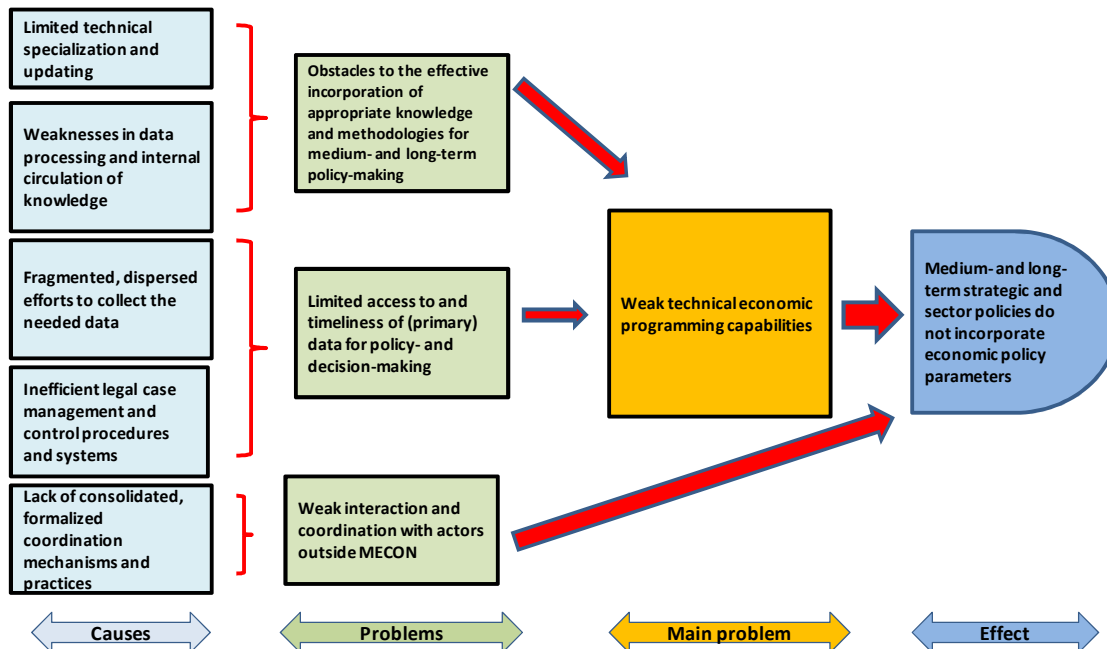
Figure 1: Value-adding process within the SPE



<sup>1</sup> The steps followed in this methodology were: (i) construction of indicators for each value-adding subprocess (22 for the EPQI and 7 for the EPISP index); (ii) establishment of a (qualitative) scale for each indicator; (iii) development of tools (questionnaires); (iv) administration of the questionnaires by a mixed panel of experts from inside and outside the unit or agency being observed; and (v) computation of the composite indices (Figure 1). This type of methodology has been utilized by the Bank in the civil service area and was applied to establish indicators and targets in projects CH-L1008 and UR-L1026. A similar methodology is currently being used in operation AR-L1002.

inadequate technical capacities (relating to information analysis for the purpose of developing economic policy recommendations) and insufficient interagency coordination by MECON. Other crosscutting factors within Argentina's executive branch, such as difficulties with personnel selection and retention (leading to high staff turnover, for instance), are also recognized as influencing the problem in question. Given their scale and crosscutting nature (they apply to the civil service as a whole), however, they cannot be addressed with a specific program such as this, although some outputs will help to lessen their potential effects on MECON. Figure 2 summarizes the analysis of the causes of this problem. Drawing upon the EPQI indices (paragraph 1.4) and other diagnostic information (optional electronic link 4), the evidence relating to the central problem and its causes is analyzed below.

**Figure 2: Cause-and-effect analysis of the central problem**



- 1.6 First, as regards the weakness of technical capabilities for economic programming, the information analysis quality index for economic policy (which assesses availability and use of tools and methodologies for complex economic analysis, as well as the quality attributes of the documents and information resulting from this analysis) yielded an average value of 4.85 points for the SPE overall out of a possible 10 (10 indicating full availability and frequent use of effective analysis tools and methodologies). This score reflects an intermediate level of development in terms of technical capabilities for information analysis and development of policy recommendations.



1.7 Two causal factors are associated with these weak technical capabilities:

- a. Obstacles to the effective incorporation of appropriate knowledge and methodologies for policy-making. These obstacles are: (i) limited specialization and updating in fields of knowledge relating to economic policy and the proper toolsets for modeling and design; and (ii) weak internal circulation of the knowledge generated within the SPE. With regard to the first obstacle, only 46.2% of SPE employees with university training studied at the postgraduate level, and only 26% of professional staff have attended specialized courses on relevant topics or tools (see Table 1 for the number of courses as a percentage of total number of employees). With regard to the second obstacle, the SPE has no policies or rules for knowledge management (generation, storage, and circulation), procedures for appropriating external expert knowledge, or a shared information repository.

**Table 1 – Specialized studies in economics and related fields, by directorate**

	No.	%(*)
<b>Office of the Undersecretary for Economic Coordination</b>		
National Public Investment Directorate	5	41.7
Productive Policies Coordination Directorate	0	0.0
Directorate for Analysis of Public Expenditure and Social Policies	4	28.6
Foreign Economic Policy Directorate	0	0.0
	3	21.4
<b>Office of the Undersecretary for Economic Programming</b>		
National Directorate for Macroeconomic Programming	30	136.4
National Directorate for Regional Economic Programming	7	22.6
National Preinvestment Directorate	7	22.6
National Directorate for International Lending Agency Projects	7	13.7
<b>SUBTOTAL SPE</b>	<b>58</b>	<b>25.9</b>

(\*) % of all staff having completed studies

Source: Education survey

- b. Weaknesses in terms of: (i) quality, access, and timeliness of data (mainly primary data) for policy- and decision-making; and (ii) data processing at the SPE. Regarding the first weakness, the SPE's units scored an average of 5.40 on the primary data quality and timeliness index (which rates how timely, up-to-date, relevant, and sound the data are), reflecting an intermediate quality of primary data. Factors contributing to this situation are fragmented efforts to gather the needed information, with mechanisms for requesting and receiving information not sufficiently institutionalized, as well as the SPE's limited access to external databases. Regarding the second weakness, the SPE's units scored an average of 4.63 (out of 10) on the economic data processing quality index (which rates the capture, organization, and storage of basic data), revealing an intermediate level of processing quality. Deserving special mention are access to, and the quality of, information relating to the State's contingent liabilities. The way in which lawsuits involving the State are resolved can potentially have a very significant impact on fiscal accounts. Consequently, having reliable, current information on the developments in and prospects concerning those lawsuits is an essential requirement for

economic programming. MECON does not have that type of information regarding the liabilities associated with cases in which it is involved. The explanation for this lies in limited institutional supervision of the actions taken by attorneys in the Legal Affairs Bureau (DGAJ); unclear, inefficient work processes; and the lack of information systems that provide timely updates on the status, progress, and likely outcome of current legal cases. As a result of these weaknesses, the rate of success of cases decided at the appellate level is estimated at only 30.7%.

- 1.8 Second, regarding insufficient coordination with external (sector) agencies, the score on the external coordination quality index (which rates various facets of interaction between the SPE and agencies outside MECON) averaged 4.42 points out of a possible 10, indicating an intermediate level of development in terms of institutional capabilities for interagency coordination as well. The diagnostic assessment (optional electronic link 4) found that weaknesses in interagency coordination were rooted in the lack of institutionalized coordination mechanisms (only one SPE unit has formally approved mechanisms for communication and information flows with agencies outside MECON); the absence of clear incentives for sector agencies to coordinate with MECON; and deficiencies in MECON's own work and supervision processes. (Regarding the last point, the diagnostic assessment indicates that neither coordination-related work processes nor mechanisms for monitoring information- and knowledge-sharing with outside agencies are properly identified and described at the SPE. Both situations hinder external as well as internal coordination).

### **C. Rationale and intervention strategy**

- 1.9 The (adverse) impact of the central problem lies in that the various sector ministries do not incorporate economic policy assumptions, priorities, and parameters deriving from MECON's analysis efforts into their medium- and long-term plans, which significantly undermines the plans' fiscal viability and sustainability and thereby jeopardizes their effectiveness. The EPISP index (which gauges the extent to which the sector ministries absorb the knowledge and information offered by the SPE as well as the quality of the technical cooperation relationship) was calculated for four sector ministries (Planning, Science and Technology, Labor, and Agriculture). The two items in the EPISP index that specifically refer to the ultimate impact of economic policy parameters on medium- or long-term sector plans yielded an average score of 3.25 points (of a maximum of 10), indicating a low impact (Annex II).<sup>2</sup> Also, none of the five sector plans recently developed or in development (industry, tourism, territorial development, science and technology, and energy) directly referenced macroeconomic information provided by the SPE. Nevertheless, as shown in the preceding paragraphs, there is potential for improvement in the quality of the technical work and coordination capacity of the

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<sup>2</sup> Item 3 (inclusion in sector plans of information provided by the SPE and its relevance) and item 6 (influence of the SPE's input on sector analysis and diagnostics).

SPE, which if realized, would help significantly to mitigate the adverse impact in question. The program seeks to tap that potential with a strategy based on: (i) knowledge and information management (to improve the process of knowledge generation); and (ii) strengthening of interagency coordination (with outputs that will help create positive incentives to encourage effective coordination—paragraph 1.16).<sup>3</sup>

- 1.10 The outcomes of this strategy will be: (i) a stronger economic policy-making process (as a consequence of the improvements relating to knowledge and information management);<sup>4</sup> and (ii) improved coordination between MECON and the sector ministries in the development of medium- and long-term policies. The expected impact is that economic policy will have a greater influence on the formulation of sector policies, with the latter incorporating the parameters of the former.<sup>5</sup> The program will directly benefit the relevant departments of MECON (chiefly the SPE) and the agencies involved in the targeted sectors. The population as a whole will benefit indirectly.
- 1.11 The proposed impact and outcomes of the program are consistent with the country strategy update for the 2009–2011 period (document GN-2570), which identifies institution-strengthening for better governance and fiscal sustainability as a priority area for Bank action. The operation is included in the 2011 country program.

#### **D. Objectives, components, and costs**

- 1.12 The program's general objective is to increase the influence of economic policy on medium- and long-term sector policies. The specific objectives, aligned with the expected outcomes (paragraph 1.9), are to: (i) improve the economic policy-making process by strengthening related technical capabilities; and (ii) improve coordination between MECON and the sector ministries in the development of medium- and long-term sector policies. The program will have four components. Table 2 illustrates how the components, problems to be addressed (paragraphs 1.5 to 1.8), and expected outcomes (paragraph 1.10) of each line of action line up. It also shows the outputs that the program will produce under each component.

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<sup>3</sup> The coordination projects under component 4 are to include additional incentives linked to the budget management of the ministries in question.

<sup>4</sup> This outcome is based on two intermediate outcomes: (i) economic policy-making will incorporate appropriate knowledge and methodologies for medium- and long-range planning; and (ii) economic policy-making will use information of sufficient quality and timeliness.

<sup>5</sup> Economic parameters are the indicators or variables determined periodically by MECON for use in macroeconomic projections and in economic policy decisions in general.

<b>Table 2: Lines of Action</b>			
<b>Lines of action (components)</b>	<b>Problems addressed</b>	<b>Expected outputs</b>	<b>Associated outcomes</b>
1. Knowledge management	Weak technical capabilities: obstacles to the effective incorporation of appropriate knowledge and methodologies for economic policy-making	<ul style="list-style-type: none"> <li>• SPE knowledge management policies</li> <li>• Technical training program for staff</li> <li>• Virtual knowledge environment</li> <li>• Knowledge activities fund</li> <li>• Young professionals scholarship program</li> </ul>	Stronger technical capabilities for economic policy-making
2. Information management	Weak technical capabilities: limited access to and timeliness of information for policy- and decision-making (also relating to the management of legal cases involving MECON)	<ul style="list-style-type: none"> <li>• SPE information management policies</li> <li>• SPE data repository</li> <li>• Upgrades to MECON information systems</li> </ul>	
3. Contingent liability and case management		<ul style="list-style-type: none"> <li>• Reengineering of legal consultation processes</li> <li>• Reengineering of trial management processes</li> <li>• Legal case management system</li> <li>• Case-file management system</li> <li>• Legal training plan for the DGAJ</li> </ul>	
4. Institutional coordination and alignment	Insufficient coordination with outside agencies, specifically sector agencies	<ul style="list-style-type: none"> <li>• Coordination projects with selected sectors</li> <li>• Training plan for sector agencies</li> <li>• Projects to improve MECON's internal management</li> </ul>	Improved coordination between MECON and sector ministries

- 1.13 **Component 1. Knowledge management.** This component seeks to improve the technical quality of the knowledge generation process at the SPE, with a focus on the tools used in policy planning and analysis and in acquiring the needed specialized knowledge. The following activities are planned: (i) development of SPE knowledge management policies; (ii) implementation of a technical training program in relevant areas for professional staff (postgraduate and refresher courses), to be run by a management committee consisting of SPE staff; (iii) development and implementation of a virtual knowledge environment for providing access to relevant information and for sharing the findings of reports and studies; (iv) creation of a Knowledge Activities Fund (KAF) to fund activities, expert technical advisory services, and studies related directly to SPE priorities, to be run by a management committee consisting of SPE managers (optional electronic link 6); and (v) implementation of a scholarship program for young professionals (outside MECON), to encourage their involvement in economic policy-making and introduce them to MECON's technical work, with the program

managed by the same committee referred to under point (ii).<sup>6</sup> As a condition for implementation of, and disbursement of Bank resources for, activities (ii), (iv), and (v), the SPE will approve specific operating regulations with the Bank's no objection, and the corresponding management committees will be in operation. The expected outputs of the component's activities are described in Table 3.

- 1.14 **Component 2. Information management.** This component aims to improve the availability, access, and circulation of information at and between the SPE's units, thereby improving the inputs provided for decision-making. The following activities are planned: (i) development and approval of SPE information management policies and procedures; (ii) design and implementation of a shared data repository to link the databases run by the different SPE units; and (iii) upgrades of other MECON information management systems that are involved in the processing of information for economic policy-making (Public Investment Project Database (BAPIN), MECON's external loan execution system (UEPEX), etc.). The expected outputs of these activities are described in Table 3.
- 1.15 **Component 3. Contingent liability and case management.** This component's actions and outputs will enable MECON to have reliable, current information on the contingent liabilities associated with lawsuits involving the State through more effective tracking and more efficient management of the suits in which MECON is directly involved. Information useful for economic programming will thus be generated on contingent liabilities and their fiscal impact and on lawsuits and the related case files (rulings). The following activities are planned: (i) improvement in the quality of information on liabilities by reengineering trial management processes; (ii) improvement in the quality of information by reengineering legal consultation processes; (iii) design and implementation of a legal case management system that allows for effective control and monitoring of how cases are managed, providing timely, high-quality information on liabilities; (iv) design and implementation of a system for case-file tracking within the DGAJ; and (v) implementation of a legal training plan for DGAJ staff. The expected outputs of these activities are described in Table 3.
- 1.16 **Component 4. Institutional coordination and alignment.** This component seeks to create tools and incentives for improved coordination between MECON and outside (sector) agencies, so that economic policy will exert a stronger influence on sector policy-making. To encourage such coordination, the component will also include actions to improve MECON's work processes and monitoring of internal outputs. The following activities are planned: (i) design and execution of policy

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<sup>6</sup> The purpose of this action is to strengthen technical capabilities for economic programming by involving (at least temporarily) academically high-performing young professionals in the work of the SPE's different units. This will also serve to form a group of professionals interested in remaining involved in economic policy-making in the future, whether at MECON or at other national or subnational agencies. To strengthen their interest, the proposed action provides not only a scholarship but also a stipend that will enable recipients to work at least half time at the SPE (or in related units at one of the four sector ministries with which it will be coordinating under component 4) while they are completing their postgraduate studies.

coordination projects involving the SPE and the ministries in charge of the selected policy sectors (under the projects, collaboration activities between MECON and the four sector ministries will focus on the development of strategic sector plans that not only effectively incorporate economic policy parameters but also draw on the knowledge and information generated by the SPE);<sup>7</sup> (ii) implementation of a training plan for staff from the selected sector agencies, to lay the groundwork for better understanding and improved technical dialogue between those agencies and MECON, and to create incentives to cooperate with MECON; and (iii) design and execution of projects to improve MECON's internal management (with regard to defining coordination-related work processes and mechanisms for oversight of information-sharing with other departments or agencies). In order to generate an effective learning process and ensure that the SPE acquires coordination capacities through the program, it has been decided that activities (i) and (ii) will target four sector policies: territorial development, science and technology, agrifood and agroindustry, and employment. These sector policies were selected because efforts have already been made in the first three cases to prepare a medium-term plan, and in the fourth case, there is a significant impact on social inclusion policies, which are a government priority. The learnings generated by these four experiences may be expanded to other sectors either during or after program execution. An Economic Policy Impact on Sector Policies (EPISP) index baseline has been calculated for each of these areas,<sup>8</sup> following the methodology described under optional electronic link 6. The outputs resulting from the component's activities are described in Table 3.

## **E. Key results indicators**

- 1.17 Two impact indicators will be used: (i) the number of sector plans that incorporate economic policy parameters; and (ii) the value of two items in the EPISP index that are directly related to the impact of economic policy parameters on the selected sector policies. For outcomes, the EPQI indices relating to the quality of analysis and the quality of external coordination will be applied. For the intermediate outcomes, the EPQI indices relating to the quality of data processing and to the quality of primary data will be used, along with another set of indicators described in the results matrix (Annex II).

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<sup>7</sup> The projects will include the following: (i) generation of knowledge (studies, dissemination seminars) regarding the economic facets of the sector policies in question; (ii) improvement of economic and sector data processing (identification of the type of economic and sector data needed by MECON and the ministry in question, review and improvement of computation methods, establishment of quality and data aggregation standards, establishment of procedures for communicating information, development of appropriate economic analysis methods for sector data); (iii) awareness-raising among government authorities (as to the results of the economic and sector analysis and the decisions based thereon, which take the form of sector plans); and (iv) assistance from MECON with decision-making regarding medium- and long-term sector policies (i.e., with the formulation of the sector plans).

<sup>8</sup> When each specific coordination project is approved, the index will be recalculated so that the baseline reflects the situation at the exact time when each project begins.

- 1.18 A cost-effectiveness analysis showed that the scenario resulting from implementation of this program is more cost-effective than the without-program scenario. Looking at the program's outcome indicators, the information analysis quality index shows that the with-program scenario is 1.15 times more efficient and the external coordination quality index shows it to be 4.12 times more efficient (optional electronic link 2: Economic impact analysis).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Cost and financing

- 2.1 This operation will be financed by an investment loan. Of the total cost of US\$18 million, the Bank will finance US\$13 million (72.2%) with Ordinary Capital resources, and the remaining US\$5 million (27.8%) will be covered by the local counterpart contribution. Table 3 presents a breakdown of program costs by component and by output (see the itemized budget table under optional electronic link 3: Itemized budget). Although the program places strong emphasis on technical assistance activities, many of the activities included under components 2 and 3 are investment activities for the development of information systems and supporting technology (26.8% of the total program budget is allocated to these activities).

Table 3: Program Budget				
Cost categories	IDB	LOCAL	TOTAL	%
<b>Component 1. Knowledge management</b>	<b>6,982,000</b>	<b>366,000</b>	<b>7,348,000</b>	<b>40.8</b>
1P1. Knowledge management policies	32,400	24,000	56,400	
1P2. Technical training program for staff	1,320,400	48,000	1,368,400	
1P3. Virtual knowledge system	82,400	180,000	262,400	
1P4. Knowledge activities fund (KAF)	4,726,400	114,000	4,840,400	
1P5. Young professionals scholarship program	820,400	0	820,400	
<b>Component 2. Information management</b>	<b>1,152,600</b>	<b>1,937,400</b>	<b>3,090,000</b>	<b>17.2</b>
2P1. Information management policies	90,500	24,000	114,500	
2P2. SPE shared data repository	1,016,600	428,000	1,444,600	
2P3. Upgraded MECON information systems	45,500	1,485,400	1,530,900	
<b>Component 3. Management of contingent liabilities</b>	<b>1,590,000</b>	<b>1,117,500</b>	<b>2,707,500</b>	<b>15.0</b>
3P1. Reengineering of trial management processes	40,500	196,000	236,500	
3P2. Reengineering of legal consultation processes	40,500	172,000	212,500	
3P3. Legal case management system	1,428,000	182,500	1,610,500	
3P4. DGAJ internal case-file management system	0	238,000	238,000	
3P5. Legal training plan for the DGAJ	81,000	329,000	410,000	
<b>Component 4. Institutional coordination and alignment</b>	<b>3,089,000</b>	<b>48,000</b>	<b>3,137,000</b>	<b>17.4</b>
4P1. Coordination projects with selected sectors	2,111,000	0	2,111,000	
4P2. Training plan for sector agencies	569,500	48,000	617,500	
4P3. Projects to improve MECON's internal management	408,500	0	408,500	
<b>Program management</b>	<b>0</b>	<b>1,176,000</b>	<b>1,176,000</b>	<b>6.5</b>
<b>Monitoring and evaluation</b>	<b>186,400</b>	<b>0</b>	<b>186,400</b>	<b>1.0</b>
<b>Audits</b>	<b>0</b>	<b>30,000</b>	<b>30,000</b>	<b>0.2</b>
<b>Contingencies</b>	<b>0</b>	<b>325,100</b>	<b>325,100</b>	<b>1.8</b>
<b>TOTAL</b>	<b>13,000,000</b>	<b>5,000,000</b>	<b>18,000,000</b>	<b>100</b>
%	72.2	27.8	100.0	

## **B. Program risks**

- 2.2 An analysis of program risks conducted with MECON authorities and officials, following the Bank's methodology, showed this to be a medium risk program. Three risks stand out. First is the possibility that the complexity of interagency coordination will adversely affect program execution. To mitigate this risk: (i) top authorities at MECON and in the sectors with which it will be coordinating during program implementation will be directly involved; and (ii) component 4 includes outputs that will serve as incentives for the sector ministries to make the effort to coordinate with MECON (see outputs 4P1 and 4P2 in Table 4). A second risk is that weak buy-in by MECON mid-line managers and staff into program activities will undermine achievement of the expected outcomes. To mitigate this risk: (i) professionals with skills suited to dialogue within the organization will be hired as component coordinators; (ii) meetings will be held (at least every six months) with SPE managers to obtain feedback on the program; (iii) some managers will participate in different program execution bodies (KAF and scholarship committee); and (iv) MECON's intranet will include a space for information to be shared on program developments. Lastly, a third risk lies in how slowly financial statements are prepared and presented. To address this risk, component 4 resources will be used to improve the work processes of the SPE's Área Común de Servicios Administrativos [General Administrative Services Unit], as they relate to the preparation of financial statements, so these can be audited on time by the Office of the Auditor General (AGN).

## **C. Social and environmental risks**

- 2.3 The Environmental and Social Impact Review Committee (ESR) classified the program as a category "C" operation. Because the focus of the program is on support for institution-strengthening and system development (consulting services, training, and equipment), no social or environmental risks are anticipated.

# **III. IMPLEMENTATION AND MANAGEMENT PLAN**

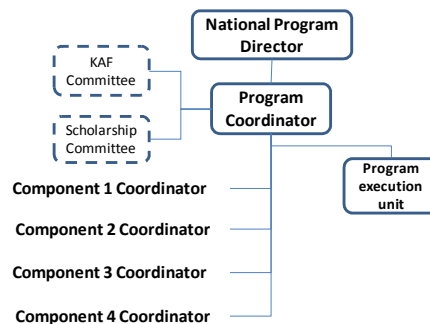
## **A. Summary of implementation arrangements**

- 3.1 **Conditions precedent to the first disbursement:** No conditions precedent to the first disbursement are envisioned.
- 3.2 **Special conditions for program execution:** For the disbursement of resources for the following outputs: (i) component 1, output 2: Technical training program; (ii) component 1, output 4: Knowledge activities fund; and (iii) component 1, output 5: Young professionals scholarship program, the following requirements will be met: (i) evidence that the Department of Economic Policy (SPE) has approved the corresponding operating regulations, with the Bank's no objection; and (ii) evidence that the corresponding management committees (paragraph 1.13) are in operation. These conditions do not apply to contracting of the component 1



- coordinator or of the consulting services needed to develop the operating regulations in question.
- 3.3 The borrower will be the Argentine Republic, and the executing agency will be the Ministry of Economy and Finance (MECON), acting through the SPE.
- 3.4 The program's multiyear execution plan (MEP) was developed for the operation's entire execution period of 48 months (required electronic link 1 and optional link 3).
- 3.5 Strategic management of the program will fall to the Secretary of Economic Policy, who will play the role of National Director. The National Director will: (i) make decisions regarding overall program implementation, overseeing the achievement of its objectives; (ii) approve the annual MEP and budget updates; and (iii) appoint a General Program Coordinator. The General Program Coordinator will be responsible for the program's technical and administrative management. His/her main duties will include to: (i) manage program implementation; (ii) represent the program and interact with the Bank; (iii) appoint coordinators and direct their work; (iv) propose any necessary changes to the MEP and the program budget to the National Director; (v) prepare the procurement plan and send it to the Bank for approval; (vi) send semiannual progress reports to the Bank; and (vii) lead the activities of the program execution unit (PEU). The General Coordinator will serve on the KAF management committee and on the scholarship committee.
- 3.6 Each component will have a Technical Coordinator, who will: (i) propose a component annual work plan consistent with the MEP to the General Program Coordinator; (ii) propose terms of reference for hiring consultants to the Program Coordinator; (iii) supervise compliance with the terms of reference and the technical quality and results of consulting services; and (iv) together with the PEU, schedule any necessary procurements. The terms of reference for hiring the component coordinators will require the Bank's no objection.
- 3.7 The PEU will be headed up by the General Program Coordinator and will assist the component coordinators in carrying out the necessary administrative and financial tasks. Its responsibilities include to: (i) open and maintain separate, specific bank accounts for managing the loan proceeds and the local counterpart funds; (ii) manage the allocation of counterpart funds; (iii) process disbursement requests; (iv) keep accounting, financial, and administrative records for the program; (v) keep a system for contract administration and for filing supporting documentation for

**Figure 4: Program Implementation**



expenditures; (vi) prepare program financial statements for subsequent audit by an independent auditing firm or public accounting firm acceptable to the Bank; (vii) manage processes to procure goods and contract consultants together with the component coordinators; and (viii) issue payments for consulting services and goods. The PEU will include a financial specialist, a procurement specialist, and four technical assistants to help manage the components.

- 3.8 **Fiduciary agreements and requirements.** The main fiduciary measures to be applied to the proposed operation were agreed upon and are described in the annex on fiduciary agreements and requirements (Annex III). They mainly concern: (i) the exchange rate to be used; (ii) audits; (iii) procurement methods and thresholds (as stipulated in the Bank's policies and procedures, set forth in documents GN-2349-9 and GN-2350-9 of March 2011); (iv) the procurement plan, using the Procurement Plan Execution System (SEPA); and (v) the financial supervision plan. Up to US\$200,000 in expenditures will be retroactively recognized against the loan and up to US\$100,000 against the local counterpart contribution. These expenditures must have been incurred prior to the loan approval date, must be consistent with the program objectives, and must follow the procurement procedures set out in the Bank's policies.

**B. Summary of monitoring and evaluation arrangements**

- 3.9 Monitoring of program execution will focus on: (i) completion of scheduled activities; and (ii) achievement of output and outcome indicators (Annex II). The PEU will have a monitoring and evaluation specialist. MECON and the Bank agree that the results matrix, the MEP, project monitoring reports, and all the specific agreements relating to data collection tools as reflected in the monitoring and evaluation plan (see required electronic link 2) will be used regularly to monitor the operation.
- 3.10 Data for monitoring of the results matrix indicators will come from: (i) monitoring of the Economic Policy-making Quality Indices (EPQI): with the same methodology used to establish the baseline (paragraph 1.4), two EPQI measurements will be taken, yielding information on outcome indicators 1 and 2 and intermediate outcome indicators 1.1 and 2.1; (ii) a training survey: keeping the methodology applied for the diagnostic assessment used in the design, a questionnaire will be administered to obtain information on indicators 1.2 and 1.3; (iii) monitoring of the Economic Policy Impact on Sector Policies (EPISP) index, applied to the component 4 coordination projects (paragraph 1.16) by a panel of experts according to the established methodology; (iv) the legal case tracking system, which will provide information for the monitoring of indicator 2.3; and (v) semiannual progress reports, which will provide information on outcome indicator 2, intermediate outcome indicators 1.4 and 2.2, and the output indicators.
- 3.11 A midterm and a final program evaluation (required electronic link 2) will be conducted when 50% and 90% of the resources have been disbursed, respectively. The purpose of the evaluations will be to determine the extent to which targets have

been met, make recommendations, propose corrective measures, and identify lessons learned. They must address: (i) adherence to the MEP; and (ii) progress toward meeting the impact, outcome, and output targets. Consultants hired with resources from the Bank's contribution will perform the evaluations. The terms of reference for these consulting services will require the Bank's no objection.

- 3.12 For purposes of the program evaluation as it relates to impact indicator 1, a working description of what will be considered to be "sector plans" has been developed (required electronic link 2). The final evaluation will also include an ex post cost-effectiveness analysis, in order to determine whether the impacts and the program costs are equal to or less than those set out in the ex ante economic analysis, and, in any event, if they are less than the values estimated for the scenario without the Bank program. This will entail replicating the cost-effectiveness analysis model applied in the study referred to in paragraph 1.18.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Lending to support regional cooperation and integration.		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	The project contributes to the Bank’s outputs: (i) Public financial systems implemented or upgraded, and (ii) Municipal and other subnational governmetns supported.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2570	Modernization of the State and institutional strengthening, with emphasis on the subnational areas of government.	
Country Program Results Matrix	GN-2617	The project is included in the 2011 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Evaluable	Weight	Maximum Score
	6.8		10
3. Evidence-based Assessment & Solution	6.2	25%	10
4. Ex ante Economic Analysis	7.0	25%	10
5. Monitoring and Evaluation	6.6	25%	10
6. Risks & Mitigation Monitoring Matrix	7.5	25%	10
Overall risks rate = magnitude of risks*likelihood	Low		
Environmental & social risk classification	C		
III. IDB’s Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury, Internal Audit, External Control, Accounting and Reporting. Procurement: Information System, and Shopping Method.	
The project uses another country system different from the ones above for implementing the program	Yes	The project will use the "Pregao eletronico".	
The IDB’s involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.			

The Project is evaluable.

The objective of this operation is to contribute to the financial sustainability of municipal social security systems in 50 municipalities in Brazil. For this the intervention will support the strengthening of the management of "local social security schemes of municipalities" and support the development of social security policies at the national level. The project contributes to the Bank the following products: Municipal governments and other sub-national governments supported, as well as public financial systems implemented or upgraded. The project is aligned with the Country Strategy and is included in the Country Program Document for 2011.

The project is consistent between diagnosis, project description and the results matrix, suggesting a sound vertical logic, although some indicators are not SMART, and there is not enough empirical evidence on the relative contribution of structural and institutional factors to municipal and local social security deficits.

The project has a cost benefit analysis which does not include sensitivity analysis and where some of the assumptions cannot be empirically checked.

## RESULTS MATRIX

**General objective of the program:** To increase the influence of economic policy on medium- and long-term sector policies.

### EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Intermediate measurements						Targets		Source/ Means of verification	Comments
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
EXPECTED IMPACT: Medium- and long-term sector policies will incorporate economic policy parameters.													
1. Number of sector plans that incorporate economic policy parameters (in selected sectors) <sup>1</sup>	Plans	0	2011		2013		2014		2015	4	2016	Sector plans: economic framework section	The use of parameters validated by the SPE will be verified. <sup>2</sup>
2. Economic Policy Impact on Sector Policies (EPISP) index: value of items 3 and 6. <sup>3</sup>	Value of items	3.25	2011		2013		2014		2015	5.75	2016	Administration of EPISP questionnaire	Index = $\sum P_i/n$ , with $P_i$ being the score on items 3 and 6, and n being the number of items. <sup>4</sup>

<sup>1</sup> The four plans included under the program are: (i) Territorial Development, (ii) Science and Technology, (iii) Employment, and (iv) Agrifood and Agroindustry. It was verified that preliminary versions of the first and fourth plans exist but do not incorporate economic policy parameters. No preliminary versions of the other two plans exist as yet. The baseline is therefore considered to be zero.

<sup>2</sup> See paragraph 3.9 of the Monitoring and Evaluation Plan, included as required electronic link 3 in the POD.

<sup>3</sup> The index provides a measure of how the results of the economic analysis performed by the SPE are absorbed by the ministries in charge of sector policies. For this program—as indicated in paragraph 1.16 of the POD—the index was calculated for the following ministries: Ministry of Federal Planning, Public Investment, and Services; Ministry of Science, Technology, and Productive Innovation; Ministry of Labor, Employment, and Social Security; and Ministry of Agriculture, Livestock, and Fishing. The final impact indicator includes only two of the items that make up the EPISP (item 3: inclusion in sector plans of information provided by the SPE and its relevance; and item 6: influence of the SPE's input on sector analysis and diagnostics), since they are the ones most directly related to the ultimate impact of economic policy parameters on medium- and long-range sector plans.

<sup>4</sup> See the methodological note on the EPQI and EPISP indices, included as optional electronic link 6 in the POD.

**Specific objectives:** (i) to improve the economic policy-making process by strengthening related technical capabilities; and (ii) to improve coordination between MECON and the sector ministries in the development of medium- and long-term sector policies.

### EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline		Intermediate measurements						Targets		Source/ Means of verification	Comments
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 1: Strengthened technical capabilities for economic policy-making													
1. Information analysis quality index for economic policy <sup>5</sup>	Index value	4.85	2011		2013	7.35	2014		2015	8.58	2016	Administration of EPQI questionnaire <sup>6</sup>	Index = $\sum P_i/n$ , with $P_i$ being the score for descriptors 11, 12, 13, 14, 19, 20, 21, and 22 on the EPQI questionnaire and n being the number of descriptors.
EXPECTED OUTCOME 2: Improved coordination between MECON and the sector ministries with regard to medium- and long-term sector policies													
2.External coordination quality index <sup>7</sup>	Index value	4.42	2011		2013	7.26	2014		2015	8.72	2016	Administration of EPQI questionnaire <sup>8</sup>	Index = $\sum P_i/n$ , with $P_i$ being the score for descriptors 15, 16, 17, and 18 on the EPQI questionnaire and n being the number of descriptors.
3. Number of coordination mechanisms with the selected sectors in effective use. <sup>9</sup>	Number	0	2011		2013	4	2014		2015	8	2016	Program progress reports	

<sup>5</sup> The index assesses the availability and use of tools and methodologies for complex economic analysis, variable modeling capabilities, as well as the quality attributes of the documents and information resulting from analysis and verification.

<sup>6</sup> See the methodological note on the EPQI and EPISP indices, included as optional electronic link 6 in the POD.

<sup>7</sup> The index assesses the quality of interaction between the SPE and agencies outside MECON.

<sup>8</sup> See the methodological note on the EPQI and EPISP indices, included as optional electronic link 6 in the POD.

<sup>9</sup> A coordination mechanism in effective use is (i) a mechanism for coordination between MECON and another public agency based on a specific methodology (formal opinions, meetings, formal approval, etc.); (ii) agreed on and formally approved by MECON and the agency in question (by means of the appropriate procedural instrument for the level of coordination); and (iii) that has been used at least twice a year since its creation.

## INTERMEDIATE OUTCOMES

Indicators	Unit of measure	Baseline		Intermediate measurements						Targets		Source/ Means of verification	Comments
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
INTERMEDIATE OUTCOME 1: Economic policy-making incorporates the appropriate knowledge and methods for medium- and long-range planning.													
1.1 Economic data processing quality index <sup>10</sup>	Index value	4.63	2011		2013	7.06	2014		2015	8.31	2016	Administration of EPQI questionnaire <sup>11</sup>	Index = $\sum \text{Pi}/n$ , with Pi being the score for descriptors 7, 8, 9, and 10 on the EPQI questionnaire and n being the number of descriptors.
1.2. Percentage of SPE professional staff with postgraduate studies in a field relevant to their work	Percentage	46.2	2011		2013		2014		2015	70.0	2016	Training survey	= (SPE STAFF WITH POSGRADUATE STUDIES/ALL SPE STAFF) * 100
1.3. Percentage of SPE professional staff with specialization studies in a field relevant to their work	Percentage	25.9	2011		2013	50.0	2014		2015	60.0		Training survey	= (SPE staff with SPECIALIZATION STUDIES /all SPE staff) * 100
1.4. Number of visits by SPE staff to the virtual knowledge system	Number of visits per month	0	2011		2013		2014	150	2015	400	2016	Program progress report	
INTERMEDIATE OUTCOME 2: Economic policy-making incorporates information of sufficient quality and timeliness													
2.1. Primary data quality and timeliness index <sup>12</sup>	Index value	5.40	2011		2013	7.25	2014		2015	8.01	2016	Administration of EPQI questionnaire <sup>13</sup>	Index = $\sum \text{Pi}/n$ , with Pi being the score for descriptors 1, 2, 3, 4, 5, and 6 on the EPQI questionnaire and n being the number of descriptors.

<sup>10</sup> The index gauges the quality of the collection, organization, and storage of the information that serves as a basis for economic analysis.

<sup>11</sup> See the methodological note on the EPQI and EPISP indices, included as optional electronic link 6 in the POD.

<sup>12</sup> The index gauges how timely, up-to-date, relevant, and sound the primary data are that serve as a basis for economic analysis.

<sup>13</sup> See the methodological note on the EPQI and EPISP indices, included as optional electronic link 6 in the POD.

2.2. Percentage of lawsuits filed against the State during the year regarding which the DGAJ is informed and capable of monitoring the amounts being sought.	Percentage	0	2011		2013		2014	100	2015	100	2016	DGAJ case tracking system <sup>14</sup>	= (suits filed against the State during the year regarding which the DGAJ is informed and capable of monitoring the amounts claimed / total suits filed against the State during the year) * 100
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### OUTPUTS

Output • Milestones	Unit of measure	Baseline 2011	2012	2013	2014	2015	Target 2016
<b>Component 1: Knowledge management</b>							
1. Knowledge management policies and processes implemented at the SPE	Policy	0		1			1
2. Technical training program for MECON staff on economic policy issues under way	Plan	0		1			1
• Regulation approved and management committee formed	Regulation	0	1				1
3. Virtual knowledge system installed and in use	System	0		1			1
4. Knowledge activities fund (KAF) up and running	Fund	0	1				1
• Regulation approved and management committee formed	Regulation	0	1				
5. Young professionals scholarship program up and running	Program	0	1				1
• Regulation approved and management committee formed	Regulation	0	1				

<sup>14</sup> Entry of a lawsuit into the DGAJ case tracking system will necessarily mean inclusion of up-to-date information on both the amount being sought and the resolution of the case in the courts (legal case management).



Output • Milestones	Unit of measure	Baseline 2011	2012	2013	2014	2015	Target 2016
<b>Component 2: Information management</b>							
6. Information management policies and processes implemented at the SPE	Policy	0		1			1
7. Shared data repository and associated tools implemented at the SPE	Tool	0			1		1
8. MECON information systems supporting economic policy management updated and improved	System	0		2	2		4
<b>Component 3: Contingent liability and case management</b>							
9. Reengineered trial management processes in place	Process	0		1			1
10. Reengineered legal consultation processes in place	Process	0		1			1
11. Legal case management system implemented and being used by the DGAJ	System	0				1	1
12. DGAJ internal case-file management system implemented and being used	System	0			1		1
13. DGAJ legal training plan approved and being implemented	Plan	0		1			1
<b>Component 4: Institutional coordination and alignment</b>							
14. Policy coordination projects with selected sectors implemented	Project	0				5	5
• Projects developed and approved	Approval	0	3	2			
15. Training plan for sector agencies with which MECON is coordinating in place	Plan	0		1			1
16. Projects to improve internal management at MECON completed	Project	0				2	4

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**EXECUTING AGENCY:** Ministry of Economy and Finance (MECON)

**PREPARED BY:** Gustavo Sierra (CAR), Gumersindo Velásquez (CAR), and Maximiliano Marqués (consultant)

### **I. EXECUTIVE SUMMARY**

- 1.1 The evaluation used the project risk management methodology, taking into account that the executing agency would be MECON, acting through the Department of Economic Policy (SPE), which has the experience and installed capacity to execute loans partially financed with Bank resources.
- 1.2 Supervision of loans currently being executed by MECON identified certain weaknesses and fiduciary risks that were included in the risk mitigation matrix. The country's fiduciary management systems were evaluated in the fiduciary note to the country strategy, while the executing agency's systems were evaluated using the procedures mentioned in section I.1, and were found to be adequate but in need of strengthening.
- 1.3 The program does not involve cofinancing from other multilateral agencies. There are no subexecuting agencies.

### **II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY**

- 2.1 The executing agency's fiduciary systems are considered satisfactory but will require some strengthening measures, which will be included in the risk mitigation matrix.

### **III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES**

- 3.1 The program's fiduciary risks were analyzed using the Bank's project risk management methodology, according to which the fiduciary risks were identified and rated and the program risk mitigation matrix was developed. The program's fiduciary risk was determined to be medium, and individual risks and their corresponding mitigation measure were identified. No irremediable, high-impact risks that would prevent effective program implementation were found.

### **IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACTS**

- 4.1 *Conditions precedent to the first disbursement:* No general conditions precedent are envisioned, but for the disbursement of resources for outputs 1P2 (component 1, output 2: Technical training program), 1P4 (component 1, output 4: Knowledge activities fund), and 1P5 (component 1, output 5: Young professionals scholarship program), the following requirements will be met: (i) approval by the SPE of the

operating regulations for each activity, with the Bank's no objection; and (ii) operation of the corresponding management committees. These conditions do not apply to contracting of the component 1 coordinator or to the consulting services needed to develop the operating regulations in question.

4.2 *Agreed exchange rate:*

1. *Reimbursement of expenditures incurred:* exchange rate indicated in Article 3.06(a) of the General Conditions in effect on the first business day of the month corresponding to the payment date.
2. *Rendering of accounts (advance of funds):* exchange rate used to convert disbursed funds from the loan currency into local currency.
3. *Counterpart funds:* exchange rate indicated in Article 3.06(a) of the General Conditions in effect on the first business day of the month corresponding to the payment date.
4. *Disbursements in currencies other than United States dollars and Argentine pesos:* In cases of direct payment and letter of credit guarantee reimbursement, the loan currency equivalent will be determined based on the amount actually disbursed by the Bank.

- 4.3 The executing agency will submit annual program financial statements audited by a firm of independent auditors acceptable to the Bank or by the national audit agency.

## V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

### 1. Procurement execution

- 5.1 The Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9) of March 2011 and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9) of March 2011 will apply. It has also been agreed with the executing agency that the Procurement Plan Execution System (SEPA) will be used for the administration and management of procurement planning under the program.
- a. **Procurement of works, goods, and nonconsulting services:** Contracts for works, goods, and nonconsulting services<sup>1</sup> under the program that are subject to international competitive bidding will be executed using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding will be carried out using country bidding documents agreed upon with the Bank. The review of procurement technical specifications during the preparation of selection processes is the responsibility of the program's

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<sup>1</sup> Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document [GN-2349-9](#)) paragraph 1.1: Nonconsulting services are treated as goods.

sector specialist. The procurement plan to be submitted by the executing agency will identify the selection processes to be conducted using direct contracting.

- b. **Selection and contracting of consultants:** Contracts for consulting services under the program will be executed using the standard request for proposals agreed upon with the Bank. The procurement plan will identify the selection processes to be conducted using direct contracting.
- **High-priority studies for the knowledge activity fund:** Up to three external technical entities with recognized expertise in economics and economic policies will be selected to conduct the high-priority studies. The selection process will be “Selection Based on the Consultants’ Qualifications (CQS)” as set out in the Bank’s policy on consulting services in document GN-2350-9, and time-based contracts will be used. The terms of selection will establish a table of daily fees (including salary, social security contributions, overhead, and utilities) for the consulting services, as well as a mechanism for making adjustments where necessary.
  - **Selection of individual consultants:** In cases identified in the approved procurement plans, the contracting of individual consultants may be publicized through local or international notices in order to assemble a shortlist of qualified individuals, as established in document GN-2350-9, section V, paragraphs 5.1 to 5.4. Approval by the General Program Coordinator of a performance evaluation showing at least satisfactory results will be sufficient for the purposes of renewing service contracts. The executing agency will provide the Bank with a list of consultants who are performing tasks under the program financed by loan 1575/OC-AR and who will continue those activities under the new program; the single-source selection procedure may be applied in these cases, in accordance with section V, paragraph 5.4(a), of the aforementioned policies.
  - **Training:** The procurement plan identifies the procurement processes applicable to the program components that include training services, which are contracted as consulting or nonconsulting services.
- c. **Recurrent expenditures:** Recurrent expenditures or operating and maintenance expenditures required to implement the program will include: per diem, traveler’s insurance, office rental, stationery, office expenses, and other expenses inherent to daily program operation. These will be financed by the program under the annual budget approved by the Bank. Recurrent expenses also include the cost of consultants hired to assist the executing agency during the program execution period. Operating expenses do not, however, include salaries for public sector officials.
- d. **Advance procurement/Retroactive financing:** The maximum amounts of retroactive financing accepted by the Bank for the operation will be US\$200,000 of the loan and US\$100,000 of the counterpart contribution. These

amounts will be accepted provided that the procedures followed are comparable to the procedures set out in the Bank's policies.

- e. **Domestic preference:** For contracts subject to international competitive bidding, bids offering goods originating in the country will receive a price preference<sup>2</sup> equivalent to 15%.
- f. **Other:** The program will also finance: (i) scholarships for postgraduate studies and specialization courses and studies; and (ii) per diem and related expenses for international experts providing training or technical advisory services.

## 2. Table of thresholds (US\$ thousands)

Works			Goods <sup>3</sup>			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International advertisement	100 % national shortlist
≥ 5,000,000	< 5,000,000 ≥ 350,000	< 350,000	≥ 500,000	< 500,000 ≥ 100,000	< 100,000	> 200,000	<500,000

Thresholds for ex post review			
Consulting services			
Works	Goods	Consulting firm services	Individual consultant
< 5,000,000	< 500,000	< 200,000	< 50,000

Note: The established thresholds for ex post review are applied on the basis of the executing agency's fiduciary execution capacity and may be modified by the Bank to the extent that this capacity changes.

## 3. Main procurements

Activity	Type of bidding	Estimated date	Estimated amount
<b>1. GOODS</b>			
Data repository. Hardware	NCB	August 2012	447,600
Data repository. Software	NCB	August 2012	400,000
Upgrade of information systems for SPE management. Hardware	NCB	January 2013	375,000
Integrated case management system. Hardware	NCB	June 2014	365,000
Integrated case management system. Purchase of licenses	NCB	June 2014	350,000
SPE internal management tools. Development of tracking system for SPE outputs and deadlines. Software	NCB	August 2012	200,000
<b>2. NONCONSULTING SERVICES</b>			
File digitization	NCB	January 2015	353,000
<b>3. CONSULTING SERVICES</b>			
Knowledge activities fund – High-priority studies	CQS	September 2012	200,000
Knowledge activities fund – High-priority studies	CQS	December 2012	200,000
Knowledge activities fund – High-priority studies	CQS	March 2013	100,000
Data repository. Database development and ICT implementation	QCBS	July 2012	288,000
Integrated case management system. System design and implementation	QCBS	July 2012	360,000
Internal case management system. Evaluation, design, and implementation	QCBS	July 2012	132,000

<sup>2</sup> Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (document GN-2349-9), Appendix 2, and the loan contract.

<sup>3</sup> Includes nonconsulting services.

#### **4. Procurement supervision**

Procurements will be subject to ex post review. Ex post review visits will take place every 12 months. Ex post review reports will include at least one physical inspection visit,<sup>4</sup> selected from the procurement processes subject to ex post review. It should be noted that at least 10% of the reviewed contracts will be subject to physical inspection during the program.

#### **5. Special provisions**

- a. **Measures to reduce the likelihood of corruption:** See the provisions set forth in documents GN-2349-9 and GN-2350-9 concerning prohibited practices (lists of businesses and individuals ineligible to work with multilateral agencies).

#### **6. Records and files**

- 5.2 The program execution unit (PEU) will maintain a central filing system with the relevant procedures.

### **VI. FINANCIAL MANAGEMENT**

#### **1. Programming and budget**

- 6.1 Law 24,156, regulated by Decree 1,344/07, provides the primary legal basis for the budgetary process. The National Budget Office is the lead agency for the national public budget system and is responsible for preparing the annual consolidated public sector budget. The national budget includes programmatic categories and other classifications by expenditure purpose, namely: personnel expenses, consumer goods, nonpersonnel services, fixed assets, transfers, financial assets, debt service and payments on other liabilities, and other expenses. Depending on their economic nature, items are classified as current expenditures, capital expenditures, or financial application of funds. Furthermore, internal financing sources include the national treasury, own resources, specific appropriations, and internal transfers. External financing includes external transfers and external loans. No problems are expected in terms of budget management, timeliness of local counterpart contributions, or system delays affecting execution. The operation currently in execution is included in the national budget, while the new operation will be included for the 2012 fiscal year. There are no special agreements for program programming and budget.

#### **2. Accounting and information systems**

- 6.2 The executing agency will use UEPEX as its financial management system. Cash basis accounting will be used and the International Financial Reporting Standards will be followed when applicable in accordance with established national criteria. The following financial reports will be required: (i) financial execution plan for up

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<sup>4</sup> The inspection verifies the existence of the procurement, leaving quality and compliance with specifications to be verified by the sector specialist.

to 180 days following a request for an advance of funds; (ii) audited annual financial statements; and (iii) other reports required by the fiduciary specialists.

### **3. Disbursements and cash flow**

- 6.3 The loan proceeds requested from the Bank in the form of advances of funds will be deposited in a special peso-denominated operating account exclusively for the program, from which program expenses and investments will be paid as planned or funds will be transferred to subexecuting agencies. The executing agency will maintain rigorous and proper control over the use of advances, with mechanisms designed to verify and reconcile available balances in the executing agency's records with the equivalent balances in the Bank's records (LMS1 report).
- 6.4 Loan proceeds will be disbursed in the form of advances. Accounts will be rendered when 80% of the advanced funds have been spent or when there is a special need for funds based on the financial plan, covering a maximum of 90 days, to be presented each time an advance is requested. The agreed exchange rate is reflected in paragraph IV(b) of this report. The following must be provided for a disbursement request: the disbursement request form, the execution status, and the financial plan for the next 90 days. The financial management specialist may request additional information, namely: (i) an itemized list of commitments; and (ii) the project's estimated physical and financial progress reports. The frequency and period to be covered by an advance may not exceed 90 days. For the rendering of accounts, the following information must be submitted to the Bank: (i) disbursement request form with certifications; (ii) project execution status; (iii) reconciliation of Bank resources; (iv) itemized statement of payments; and (v) other reports that help to demonstrate the program's progress. The rendering of accounts will not be required to be accompanied by supporting documents for expenditures or payments, but this does not imply Bank approval of expenditures incurred. The original supporting documents for all expenses must be available for Bank review upon the Bank's request. The conditions precedent to the first disbursement are described under section IV of this report.
- 6.5 The program will use e-Disbursements, the Bank's online system that allows the executing agency to electronically prepare and send disbursement requests to the Bank, reducing transaction costs by enabling the Bank to review and process the requests remotely.

### **4. Internal control and internal audit**

- 6.6 The national internal control agency is the Sindicatura General de la Nación [General Accounting Office]. Internal audits of the executing agency are handled by the Internal Auditing Unit (UAI). This unit, which reports directly to the Minister, is charged with performing audits and making recommendations pursuant to the powers vested in it by Law 24,156 (Financial Management and Control Systems Act of 30 September 1992). MECON's UAI will perform internal audits for the program.

## **5. External control and reports**

- 6.7 The national external control function is exercised by the Office of the Auditor General (AGN), which is an agency of, and provides assistance to, the National Congress in overseeing the status of public sector accounts. The AGN has performed several external audits of projects receiving Bank financing. With regard to Article 7.03 of the General Conditions, regarding program financial statements, the executing agency may choose to have an independent public accounting firm acceptable to the Bank audit its financial statements during the execution period. The independent auditing firm or the AGN will be engaged in accordance with the provisions of document AF-200, and the respective cost may be chargeable to the loan if a consulting firm is hired.

## **6. Financial supervision plan**

- 6.8 The initial financial supervision plan, based on fiduciary capacity and risk assessments conducted on the basis of onsite and desk reviews of the program, identifies the scope of operational, financing, and accounting actions, compliance and legal considerations, frequency, and responsible parties.

## **7. Execution mechanism**

- 6.9 Strategic management of the program will fall to the Secretary of Economic Policy under MECON, who will play the role of National Program Director and appoint a General Program Coordinator, who in turn will be responsible for technical as well as administrative program operation. Each component will have a component coordinator. The General Program Coordinator will be a member of the Knowledge Activities Fund (KAF) Management Committee and of the Scholarship Committee, guiding their respective activities.
- 6.10 The program execution unit (PEU) will be headed up by the General Program Coordinator and will assist the component coordinators in carrying out the necessary administrative and financial tasks for program coordination, in due coordination with MECON management. Its main responsibilities include to: (i) open and maintain separate, specific bank accounts for managing the loan proceeds and the local counterpart funds; (ii) manage the allocation of counterpart funds; (iii) process disbursement requests; (iv) keep accounting, financial, and administrative records for the program and supporting documentation for transactions; (v) keep a system for contract administration and for filing supporting documentation for expenditures; (vi) prepare program financial statements for subsequent audit by an independent auditing firm or public accounting firm acceptable to the Bank, which will conduct annual audits of the financial statements; (vii) manage processes to procure goods and services and contract consultants in close coordination with the component coordinators; and (viii) issue payments for consulting services and goods. The PEU will include a financial specialist, a procurement specialist, and four technical assistants to help manage the components.