

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

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

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### **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			
Works		Goods	Consulting services
< 5,000,000		< 500,000	< 200,000
			Individual consultant < 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.