

## MULTISECTOR PREINVESTMENT PROGRAM

(AR-0069)

### EXECUTIVE SUMMARY

**BORROWER AND GUARANTOR:** The Argentine Republic

**EXECUTING AGENCY:** The Secretaría de Programación Económica [Economic Programming Department] of the Ministerio de Economía y Obras y Servicios Públicos [Ministry of the Economy and Public Works and Services]

**AMOUNT AND SOURCE:**

IDB:	US\$ 5 million (OC)
	US\$19 million (FSO)
Local contribution:	US\$ 6 million
Total:	US\$30 million

**TERMS AND CONDITIONS:**

Amortization period:	OC: 20 yrs.; FSO: 25 yrs.
Disbursement period:	3 yrs. (for both sources)
Interest rate:	OC: variable; FSO: 4%
Inspection and supervision:	1% (both)
Credit fee:	0.75% (OC)*

\* There is no credit fee on the loan made with FSO resources in local currency.

**OBJECTIVES:** The program would support economic and social development in Argentina by financing general and specific preinvestment studies in order to prepare priority public sector projects that are consistent with the Bank's strategy in the country, and to carry out institutional strengthening activities in connection with project preparation.

**DESCRIPTION:** The program would consist of two subprograms: under subprogram A on preinvestment studies, specific studies would be done primarily to prepare for projects that are presently or will be part of the operations program that the country and the IDB have agreed upon, and general studies to develop guidelines for identifying and developing new projects and studying investment-planning related matters or to correct specific problems; subprogram B, institutional strengthening, would focus on activities needed to prepare the projects for the operations

program and, in general, on getting the national public investment system to function properly.

**ENVIRONMENTAL  
CLASSIFICATION:**

The Environmental Management Committee, at its meeting of August 31, 1992, classified this as a Category III operation.

**BENEFITS:**

The proposed preinvestment program will strengthen the Sistema Nacional de Inversiones Públicas [National Public Investment System] by establishing the guidelines for modernizing its system and increasing its capacity to prioritize and program public investments. The program will provide resources to prepare better studies and will put together the background information needed for the Bank to examine the projects already included in the operations program. It will also provide resources for preparing other projects to be included in the programming planned by the country and the Bank in the years to come.

**RISKS:**

For the Secretaría de Programación Económica [Economic Programming Department], which is the unit in charge of executing this operation, this will be its first experience in managing a program of this nature. The program's general coordination will be the responsibility of a new unit, which is to launch the program and execute the tasks devised to strengthen the National Public Investment System. To minimize the risk involved in this new scheme of operations, the design of the proposed unit, the functions that have been assigned to it and the procedures that will be used to execute and coordinate the program have been carefully reviewed. The number and qualifications of the required staff have been determined, as have the activities that must be carried out to strengthen the Economic Programming Department, the Secretaría de Hacienda [Treasury Department] and the other units that will have a hand in preparing and carrying out public investment projects.

**PROCEDURE FOR  
SELECTING AND  
HIRING CONSULTING  
SERVICES:**

Given the flexibility of the Bank's standard procedures for executing the proposed program it is recommended that the mechanism used be the one that allows the greatest latitude in selecting and hiring consulting services. The necessary provisions have been included in the Operating Regulations and both the borrower and executing agency have agreed that the Bank's approved procedures will be followed, as explained in paragraphs 3.21 and 3.25 herein. In examining the background information compiled to support this recommendation, the immediate provisions

and similar provisions on this subject were examined, as was the way similar Bank-approved operations had been handled.

**THE BANK'S  
STRATEGY IN THE  
COUNTRY:**

For the near term, the Bank's strategy in the country is to support consolidation of economic stability, modernize the public sector and its institutions, debureaucratize and deregulate economic activity and eliminate obstacles to investment. Starting in 1993, the Bank will support execution of investment projects that have a medium- and long-term impact, to increase the productive sector's efficiency and competitiveness, to protect and preserve the environment, to develop agriculture and improve the social services available in education, health and sanitation.

## I. FRAME OF REFERENCE

### A. Economic activity in general

#### 1. Recent economic situation

- 1.1 The government is putting into practice a growth model that would deregulate and open up the economy to achieve stability and foster recovery and sustained growth in the Argentine economy. The model is premised upon structural reform of the State to promote decentralization and deregulation of the public administration, financial reorganization of the provincial governments, privatization of public enterprise and elimination of the restrictions imposed by excessive regulation. At the same time, efforts are under way to eliminate controls and subsidies on prices, salaries, interest rates and exchange rate; it has also been established that the monetary base is to be backed up by foreign-currency and gold reserves at a fixed exchange rate. <sup>1/</sup>
- 1.2 The premise of the reform is that to control inflation and renew growth one has to begin by eliminating public sector deficit, restoring financial markets and eliminating uneven allocation of resources. To that end, laws have been approved that, taken together, constitute the legal framework of the State's structural transformation policies, coupled with measures to deregulate and open up the economy, to promote more efficient allocation of resources and stimulate private investment.
- 1.3 In this context, public sector reform has been evident in the reduction of spending and fiscal deficit, especially at the national government level. The increased competition from imports and a stable local currency that virtually eliminates any exchange risk have created a climate conducive to lower inflation rates. The fact that expectations have changed, capital is being repatriated and holdings are being kept in local currency and deposits in dollars, have all served to bring down interest rates and expand credit.
- 1.4 The government's economic development strategy has had the support of the IMF, with which an extended financing facility has been negotiated for the 1992-1994 period, with policy objectives to help correct structural weaknesses. Thus, the improvement in the fiscal situation has enabled the government to begin negotiations with commercial banks to reduce the external debt.

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<sup>1/</sup> The provisions governing the "monetary base" appear in the Convertibility Law approved in March of 1991. This law also prohibits the Central Bank from financing the fiscal deficit.

## 2. Economic policy

- 1.5 The government is trying to encourage more private-sector participation in the country's economic development by establishing a set of policies that will help integrate the Argentine economy into the international economy and by promoting private-sector participation in managing and administering production support infrastructure. The government's intention is evident in the reforms made in the following areas: (i) the financial sector, by mobilizing savings, allocating them more efficiently, instituting reforms in the Central Bank, strengthening the bank examiner functions and consolidating the banking system to scale down its size and operating costs, and (ii) the business sector, to open up the economy more by realigning relative prices, eliminating restrictions, establishing a new tariffs scheme, and fostering development of foreign trade by eliminating withholdings and taxes on exports and reducing subsidies.
- 1.6 The government's program involves institutional and financial reorganization of the government's role in health, education and social security, to reverse the decline and slippage in these services and provide emergency assistance to population groups hurt by the economic adjustment and reform process. Environmental matters will also be given special attention to prevent, curb and/or reverse any adverse impact on the environment.
- 1.7 In the health sector, central and provincial-level policy reforms will continue, the physical infrastructure will be rehabilitated and operational coordination will be improved. In the educational sector, the system will be made more equitable and efficient by improving the quality of education, striving to strengthen educational institutions and rehabilitating the school infrastructure. In the near term, efforts in the social security system will be focused on improving collections; the additional revenues raised will be used to increase retirement benefits and pensions; later, the system will be overhauled entirely. As for the environment, a new legal and institutional framework will be instituted to adequately address environmental control.

## 3. Medium-term economic prospects

- 1.8 The macroeconomic adjustment and structural change program has laid the bases for sustained economic growth with greater price stability. The official forecasts for the 1992-1994 period indicate that the main goals are to keep inflation in line with the rate of inflation worldwide, to maintain an annual economic growth rate of 6.5% and to continue measures to eliminate restrictions caused by excessive State regulation. The structural reform program will continue to expand and move ahead, especially with the privatizations, deregulation and economic openness. Some problems that will continue to be addressed are the limitations created by the revenue-sharing agreement with the provinces, tax reform that

will replace the traditional income tax system with a new system, and a complete overhaul of the social security system.

- 1.9 Because of the fixed exchange rate, economic deregulation and decontrol will slow down the improvement in competition. Accordingly, it is crucial that the government press for the adoption of measures that trigger an influx of capital with which to maintain the Convertibility Program - which requires large sums of external resources - and for additional investment financing. The most important immediate task is to regularize the situation of the external debt and thus restore confidence in the financial market and ensure a steady flow of capital to supplement the financing that the country will need to conduct its priority projects.
- 1.10 The Argentine economy in the 1980s was very unstable, subject to such high inflation that society and the government started to think in the short term; decisions and measures were calculated to get from one day to the next. In this climate, the planning horizon became significantly shorter and with the attendant uncertainty, any plan involving more than a one-year time frame was set aside; even plans with shorter time frames were not reliable. This weakened the planning function of the Planning Department of the Office of the President of the Republic. The Bank's own programming was not immune to this situation and the pattern of loan approvals was very irregular, with large sums one year and nothing the next. Some of the loans approved under these circumstances ceased to be priorities and had to be canceled or completely reformulated.
- 1.11 Therefore, the Argentine government has decided that the Secretaría de Programación Económica [Economic Programming Department] (SPE) (the former Planning Department of the Office of the President of the Republic) will be made a unit of the Ministry of the Economy and Public Works and Services, where it will be responsible for evaluating public investment projects and programs and providing advice on their priority. This, combined with the economic stability that has been achieved since April 1991, has meant that planning now has a longer time frame. At the same time, the Bank has also programmed its activities in the country more systematically, as evidenced by what the country and the programming mission agreed upon in March 1992, illustrated in tables I and II of this document.
- 1.12 In recent years, the institutional mechanisms for planning and programming investments have become weaker and have not had the financial resources needed to prepare the investment projects. This has delayed preparation of the studies needed to substantiate the financing requests submitted to the Bank. For the immediate future, at least, those financial constraints are expected to persist.

- 1.13 The purpose of the proposed program is to provide what will be needed, both financially and institutionally, to carry out the preinvestment studies, mainly those required for preparation of the projects already included or to be included in the Bank's operations program. The project planning and preparation process will also be bolstered by expanding the planning horizon and strengthening the SPE's capacity. The resources of this program will be combined with US\$5 million in funds from the line of credit under the Facility, approved in September 1992 to help complete preparation of those projects that either have or soon will have an approved profile II summary (among these, the municipal investments program, the transportation sector investments program and the Reconquista River clean-up). This line of credit will also finance the activities needed to get each operation started.

B. The Bank's operations program 2/

- 1.14 Because the country is in the midst of a transition from instability to stability and economic growth, the Bank's strategy should be carried out by stages, in tandem with the country's economic development program. Accordingly, the idea is to help reform the public sector, increase efficiency and competitiveness in the productive sector and improve the delivery of social services.
- 1.15 The short-term goal is to consolidate economic stability, modernize the public sector, deregulate and debureaucratize economic activity and remove barriers to investment. Starting in 1993, support will be provided to carry out investment projects to increase competitiveness and efficiency in the productive sector, to protect and preserve the environment, to develop agriculture and to improve social services in education, health and sanitation. Chapter II herein describes the sectoral problems and the projects for which studies could be added to the program initially.
- 1.16 Therefore, except for the programs to develop projects and the future loan program, the loans programmed for the near term are rapid-disbursement, sector-specific loans. In late 1991 the Bank approved a public sector reform program and, in March 1992, another program to reorganize the national electric power companies to ready them for privatization. An operation is being prepared to reform the investment sector and reorganize provincial finances, and if the necessary approvals are obtained to increase the resources for fast-disbursing loans, an operation would be processed involving guarantees for renegotiation of the debt with commercial banks.
- 1.17 Starting in 1993, once the present situation is corrected and economic stability consolidated, the program will turn its

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2/ See 1992-1994 operations program table.

attention to the medium-term strategy with investment projects in: the social sectors (programs involving investments and reforms in education and health, reform of the social security system, municipal social investments, water supply and sewerage systems in urban shanty towns and rural sanitation), to offset and address the effects of the reforms in the public sector; the productive sectors (multisector credit I and II, agricultural development, technological modernization, manpower retraining and investments in the transportation sector) to stimulate private investment; and the environmental sector (relocation and environment in Yaciretá, the Reconquista River clean-up, and environmental sanitation for Greater Buenos Aires) to reverse and prevent the environmental degradation caused by the lack of resources and the policy vacuum.

C. Sistema Nacional de Inversiones Públicas [National Public Investment System] (SNIPU)

- 1.18 In recent years, there has been no investment programming system for the Argentine public sector that would coordinate activities in the various sector units and make the system fully consistent with economic and social policy for the sake of well-formulated and well-evaluated projects that can be executed with the limited amount of resources available each year. To help correct these shortcomings, the Economic Programming Department of the Ministry of the Economy and Public Works and Services has been instructed to coordinate, in conjunction with the Ministry's Treasury Department, the operation of the Sistema Nacional de Inversiones Públicas [National Public Investment System] (SNIPU).
- 1.19 Accordingly, a number of measures have to be taken to continue and complete the rationalization and modernization of activities associated with public investment programming and improving the way SNIPU operates. SNIPU's operations and administration will be examined to determine what measures will be taken, their scope and how to implement them.
- 1.20 These activities would be carried out with a view to the regionalization and decentralization of the Argentine public administration and as part of the plan for institutional strengthening to be financed with resources from the program under consideration (see subprogram B).

D. Preinvestment activities

- 1.21 To energize its investment program, the Argentine government needs investment projects substantiated by well prepared studies. To strengthen SNIPU, it has given the Economic Programming Department the job of coordinating preparation and evaluation of those projects that will require financing to prepare their studies. The SPE is designing an institutional setup to handle the operational and administrative aspects of preinvestment properly and thus be



able to raise and channel financial resources for preparing studies and conducting institutional strengthening activities.

- 1.22 For its part, in its loans to finance projects, the Bank has included resources with which to prepare the studies needed to develop future operations, among others in the programs on: health infrastructure rehabilitation (516/OC), urban development (514/OC), electric power in the provinces (632/OC) and a national water supply and sewer system (621/OC). The financial reorganization and economic development program for the Argentine provinces (619/OC) includes resources to finance the preinvestment needed to prepare projects.
- 1.23 However, these resources do not suffice to provide a proper financial mechanism with which to identify, devise, prepare and execute investment projects. The proposed multisector preinvestment program and the support from the conditional revolving credit line charged against the PPF will help establish that financing mechanism for the public sector. As for the private sector, the Bank is processing a multisector global credit program (AR-0055) soon to be submitted to the Board of Executive Directors; its resources will be channeled through the banking system and may be used to finance, among other things, preinvestment studies.

#### E. Consulting services

- 1.24 The Economic Programming Department has compiled the regulations relative to selection and hiring of national consulting services and, on that basis, has put together a set of regulations to govern selection and hiring henceforth. They are compatible with the Bank's own policies and procedures on this subject, contain no restrictions regarding consulting services retained from member countries of the Bank, and stipulate a method for qualifying and selecting those services which was reviewed and found to be acceptable.
- 1.25 Government offices, which routinely use consulting services for a variety of tasks, have records of consulting firms or individual consultants. Those records indicate that such services are in adequate supply and are even increasing as more and more activities once performed directly by the State become privatized. The Argentine Chamber of Consultants has files on firms experienced in a variety of disciplines, while the IDB, the IBRD, PAHO and the UNDP have a directory of consulting services in the country. Therefore, there should be no difficulty securing these services during the program's execution.

## II. THE PROGRAM

### A. Objective

- 2.1 The program will support Argentina's economic and social development by financing general and specific preinvestment studies to prepare priority, public sector projects compatible with the Bank's strategy in the country, and by strengthening institutions for project preparation.

### B. The program's description and preparation

- 2.2 The program consists of two subprograms: subprogram A, preinvestment studies, would feature specific studies largely related to projects that are or will be part of the operations program agreed upon between the country and the IDB, and general studies to develop the guidelines for identifying and formulating new projects and to study investment-planning related issues or to correct specific problems; subprogram B, institutional strengthening, would focus on supporting the activities needed to prepare the projects for the operations program and, overall, would be aimed at helping to get the national public investment system functioning properly.
- 2.3 The country and the Bank have coordinated efforts to begin execution of the program as soon as possible, once it has been approved by the Board of Executive Directors. The preliminary terms of reference for the selected studies, based on the short- and medium-term programming agreed upon in March 1992, have been examined and adjusted and some 70% have already been approved, and are in the technical file for the program. Therefore, there is every reason to believe that the selection and hiring of consulting services would get underway immediately. While the program would begin by financing the selected studies, those studies needed to prepare any projects agreed upon for future programming exercises would be added.

#### 1. Subprogram A: Preinvestment studies

##### a. Specific studies

- 2.4 The specific studies carried out would help prepare the projects eventually selected to receive Bank financing and in support of: the social sectors, by improving social infrastructure by reorganizing, rehabilitating and expanding social services and activities to raise the standard of living of the population; the productive sectors, by helping to modernize the productive infrastructure, while promoting growth and diversification of exports, agricultural development, and establishing export corridors useful for integration with neighboring countries, and the environmental sector, by assisting the country's efforts to

restore natural resources and eliminate pollution, conserve soils, forests and other natural resources. A brief description of the problems in each sector for which projects will be prepared, the studies and their characteristics are described below.

(1) Social sectors

- Health

- 2.5 Health and service levels have deteriorated in recent years largely because of budgetary cuts, which had a sizable impact on the ability to preserve the health infrastructure and quality of service. The system's efficiency is compromised by duplication, a lack of coordination between subsystems and by the absence of any clear distribution of responsibilities among the various institutional levels, resulting in misuse of available resources. The government is reorganizing the sector as part of the federalization of services, so that health resources can be used to maximum advantage.
- 2.6 In support of these health related activities, the Ministry of Health and Social Action will conduct a health sector investment and reform program. Preparation of this program will begin with an analysis of the sector and a number of prefeasibility studies on projects that have already been identified; for this purpose, available funds from the loan financing the health infrastructure rehabilitation program (516/OC-AR) would be used. The funds from the preinvestment program would be used to finance the prefeasibility studies for the remaining projects and the feasibility studies and final designs necessary for all projects. These studies include the following: institutional development, rehabilitation of physical and functional infrastructure works, rehabilitation of health laboratory equipment and research centers.

- Education

- 2.7 The education sector has experienced a significant cut in resources, which has adversely affected the quality of education, the real salaries of teachers, and the physical condition of the schools. The government is reorganizing the educational system as part of the federalization effort, taking into account the economic reorganization, regional integration and external openness. Here, the plan is to review the role of each actor within the educational system and the scope of the federal education system to update curricula and properly train the human capital the country needs. This review would also determine the scope and nature of the subsidy in higher education, which is considered regressive; it would identify systems for financing education that consider the limited resources available, especially in the provinces, and would promote regulations and standards for private sector participation.

- 2.8 The operations program includes one loan for an education investment and reform program that would help the country institute the planned structural reform and whose purpose would be to improve the quality, fairness and efficiency of the educational system. The feasibility study that the Ministry of Education would carry out would determine what measures and investments would be needed to raise the quality of education, improve the sector's institutional structure, and improve the material infrastructure at the national, national-provincial and provincial levels. 3/

- Urban development

- 2.9 The administrative reform is intended to have the provinces shoulder a greater share of the responsibility by decentralizing decision-making and execution of government administrative functions both at the national, provincial and municipal levels. The new National Revenue Sharing Law creates a more efficient redistribution of transfers to the provinces and thereby helps them reorganize their finances, which account for much of the national fiscal deficit. The Secretaría de Vivienda and Calidad Ambiental [Housing and Environmental Quality Department] is conducting studies on how efficiently provincial public services are operating in order to determine which services can be transferred to municipal governments, the financial situation of those municipal governments and the help they will need to take over these services.
- 2.10 In support of these measures, the objectives of the municipal social investment and development program would be as follows: improve the living conditions of the municipal population by supplying, reconditioning and/or expanding basic urban services, ensuring that they are properly operated and maintained, and help institutionally strengthen the municipal governments so to upgrade their technical, administrative and financial performance. The Housing and Environmental Quality Department would prepare an analysis of the existing situation in each province, which would identify the public services already transferred to municipal governments and those that the provinces would transfer in the medium term. This program would need resources from the

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3/ The Operational Program agreed upon with the country includes two operations (technological modernization and manpower retraining) that, while they support the productive sectors, actually come under the education sector. These operations are in the final planning stages and the studies needed to prepare them would be financed with program resources.

preinvestment program to complete the sample of projects that is to be submitted to the Bank when this operation is examined. 4/

(ii) Productive sectors

- Agriculture

2.11 Though production of the major crops (wheat, corn, sorghum, sunflower and soybeans) has increased in the last two decades, the institutional services in the agricultural sector are generally weak and plagued by such chronic problems as inadequate taxes on its exports, controlled domestic prices and declining international prices for agricultural commodities, an unstable exchange rate and a poor transportation and marketing infrastructure. The sector has been unable to use the country's comparative advantages because, apart from the problems already mentioned, capital, inputs and the use of irrigation resources have been in short supply. Hence, the sector's future depends on the adoption of policies and the execution of measures that remove these restrictions, promote investment and help establish the transportation and storage infrastructure needed for the agricultural sector to operate efficiently.

2.12 One of the activities that the government has planned is an agricultural development program, which would be conducted by the Secretaría de Agricultura, Ganadería y Pesca [Agriculture, Livestock and Fisheries Department]. The program's objective would be to improve essential provincial farm services (animal health, plant health, research and development, trade promotion, irrigation, etc.). It would be part of the provincial reform process being assisted under the Programa de Saneamiento Financiero y Desarrollo Económico de las Provincias Argentinas y de Modernización de los Servicios Agropecuarios [Program for Financial Reorganization and Economic Development of the Argentine Provinces and Modernization of Agricultural Services] (PROMSA). The project's feasibility study would be financed with funds from the preinvestment program.

- Transportation

2.13 The transportation system is in poor condition. The port and harbor system is antiquated, costly, and the water too shallow, particularly for purposes of grain and containerized cargo. The highway and railway systems need to be modernized to meet the growing transportation and shipping needs that opening up the economy and increasing trade within MERCOSUR will create. For that reason, private sector participation is being encouraged and

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4/ Preparation of the necessary project sample is already in progress with funds included in loan 514/OC-AR, which is financing urban development project preparation.

measures are being taken to bring about the needed improvements. Concessions have already been awarded for certain stretches of highway (those where traffic is heaviest) to improve, operate and maintain them, and concessions are in the process of being awarded to operate and maintain, by means of adequate investments, railway and railway services. Congress is studying a bill that would pave the way for greater private sector participation in port management and administration.

- 2.14 To support these activities, studies would have to be conducted to prepare a transportation corridor program which the Dirección Nacional de Vialidad [National Highway Bureau] would execute to improve the roads linking centers of production with ports and with border crossings and/or distribution and consumption centers, with a view to increasing competitiveness and accomplishing the economic program's objectives and goals. Under this project, the activities planned would improve, recondition and maintain highways in order to equip infrastructure to handle the main system's present and projected demand, whether the stretches be within national, provincial or municipal jurisdiction. These actions include bridges and access roads to cities, ports, centers where cargo is either transferred and/or unloaded and loaded and intermodal transfer points.

(iii) Environment

- 2.15 The increasing environmental degradation, attributable to the lack of conservation and pollution-control measures in most of the country's ecosystems, manifests itself in the form of water and wind erosion, excessive salt content of the soil and soil drainage, desert encroachment, deforestation, sedimentation in rivers and reservoirs, air pollution and the potential contamination of water tables, among other problems.
- 2.16 This sector does not have a proper regulatory framework at the national level; the existing environmental legislation is fragmented, scattered, inadequate and out of synchrony with provincial policy, which creates duplication of effort and legal contradictions and errors, all indicative of what little capacity there is to accomplish environmental control objectives.
- 2.17 To improve the situation, the country and the Bank are putting together an environmental institutional development project, slated to be submitted to the Bank's Board of Executive Directors in 1993 and calculated to reinforce the technical and operational capacity of the Secretaría de Recursos Naturales y Ambiente Humano [Natural Resource and Human Environment Department] and of other federal, provincial and municipal agencies. Under this program, staff training activities would be conducted and the environmental data system improved.

- Environmental sanitation

- 2.18 The lack of potable water and sewerage is a major problem in certain neighborhoods of metropolitan Buenos Aires that are near rivers that have little capacity to absorb waste materials, and in smaller urban centers as well; in some rural areas the situation is even worse, as the water supply is contaminated. To reverse the situation, the agencies that provide these services must be strengthened both institutionally and financially and mechanisms must be created to encourage the private sector to make investments to lower and/or prevent environmental pollution.
- 2.19 It is in this context that the Greater Buenos Aires environmental sanitation program would be carried out, which would include works for water supply systems, sanitary sewerage and drainage systems, flood control and depollution of waterways, thereby increasing these services' present coverage. To determine what the first phase of the program would involve, investment priorities would be determined. In addition, feasibility studies would be carried out to develop alternatives, compare them, propose those with the lowest economic cost, the least environmental impact and greatest social impact, and develop the corresponding final designs.
- 2.20 Something similar to what has happened in Greater Buenos Aires has developed in other urban locales in the country (Córdoba, Rosario, Mendoza and others), where shanty towns have sprung up, populated largely by low-income squatters, and with no infrastructure, especially water supply and sanitary sewerage systems. In some cities, the lack of drainage is a serious environmental problem and water resources are totally polluted.
- 2.21 The government plans to carry out a project on water supply and sewerage systems in urban shanty towns, for which a set of prefeasibility studies would be carried out to identify environmental sanitation projects (water supply, sanitary sewerage and drainage) for each city's shanty towns, prepare preliminary proposals on technical solutions, estimates of direct costs, operating costs and maintenance costs. Technical-economic alternatives would be suggested and compared, and the least costly alternative would be selected.
- 2.22 The program would also involve a number of projects on ecology and natural resources in the urban setting, including a study on urban forestry to plant trees and create parks in the city, a feasibility study on the Parque Las Américas as a public park, with recreational equipment and a populated sector with housing and services, and the feasibility study for the Nature Park and Costanera Sur Ecological Preserve, looking at how best to use the park and preserve it at the same time.

b. General studies

- 2.23 Modernization of the state will require better public investment planning and programming, to provide an effective tool to promote policies and programs, that make room for private sector participation and manage the public sector's resources and investments properly. To that end, measures would be taken to improve the way SNIPU operates. A study to determine what has to be done would be carried out and coordinated by the Economic Programming Department. This study, the preliminary terms of reference whereof have been examined by the IDB and the relevant adjustments made, would be a diagnostic study of SNIPU, would help to determine what has to be done to strengthen SNIPU, the properties of the methodological tools and their dissemination, and the training needed to consolidate the system and organize it. For that, the study would examine the present structure, the distribution of functions and how they interrelate, and how SNIPU operates at the present time.
- 2.24 The Buenos Aires solid waste management and industrialization program involve important measures that the Buenos Aires municipal government wishes to carry out to improve environmental quality in Greater Buenos Aires. To that end, it has requested financing to carry out a study to identify a possible project to improve the treatment and final disposal of the urban solid waste and eventual industrial use.
- 2.25 The mining development study is responsive to the government's proposal and to the Bank's own approach in that it involves activities intended to create a climate conducive to private investment. Hence, the sector's real potential has to be determined, as must its priority, the laws and rules governing investment, the policy changes, tangible goals, strategies and programs of action in order to get the nation's rich mineral deposits into production as soon as possible.
- 2.26 The Secretaría de Minería [Mining Department] would coordinate the study, elaborating upon the subjects listed above and analyzing the advantages and disadvantages of the Argentine mining sector, the highway and energy infrastructure available, domestic costs, markets, legal and institutional aspects, available information, etc., to outline a long-range national program for the sector's full and orderly development and to serve as the basis for bringing about private investment.

c. Other studies

- 2.27 The program includes an additional sum of resources to be used to finance the studies needed primarily for the projects that the



country and the Bank have agreed 5/ and/or may eventually agree to include in the Bank's pipeline or that have some other source of financing, and/or to complete preparation of under-funded projects (project funds, technical cooperation funds or funds from the Project Preparation Facility). The new studies added to the program would be selected according to the criteria established in the Operating Regulations (Annex III-1), as described below.

d. Consulting services and support activities

- 2.28 When this operation was examined, it was found that while some studies are well underway, if all the information required to qualify for the program is to be completed, then advisory services will be needed for additional and/or highly specialized work and/or work on new topics where experience is lacking. Training activities will soon be needed as well, to ensure that the program is launched efficiently. With that in mind, resources have been included in the program to respond to these needs.

2. Subprogram B: Institutional strengthening

- 2.29 The program would finance activities to reinforce SNIPU and the agencies that execute and coordinate public-investment related activities, to help them operate more effectively. These activities, calculated to identify, prepare, prioritize, program and execute investment projects, would be determined through a preliminary analysis of the situation, as discussed earlier. To carry out the identified activities as soon as possible, the diagnostic study would have to be concluded within one year of the signing of the loan contract. 6/ This institutional strengthening would make for better execution of the Bank's operations program since problems detected in the agencies that operate and administer the preinvestment program would be corrected.
- 2.30 The Economic Programming Department's capacity to plan and prioritize projects would be improved, as would the ex ante and ex post project evaluation techniques, 7/ project monitoring and control systems, and organization and operation of a public investment projects data bank. A Preinvestment Unit would be created, and the professionals in charge of the program and the staff of the executing units or units associated with the public

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5/ These are the projects included under the recently agreed upon Operational Program as "Possible operations for 1994," such as: rural sanitation, stage VI; multisector credit program, II; and social security reform.

6/ See Appendix III, Recommendations.

7/ As part of these activities, a study will be carried out to find qualitative and quantitative indicators by which to measure the direct and indirect effects on projects or programs that target women.

sector's "projects area" would be trained. The Treasury Department's capacity to coordinate preparation and execution of projects and manage their budgets would be reinforced by improving and/or developing and circulating instruments for monitoring projects and tracking budgets.

- 2.31 The diagnostic study would be used to determine what measures would have to be taken to improve SNIPU's operation. These activities would, in principle, be geared to strengthening the central structure and the sector and provincial programming units; improving institutional relations and consolidating an effective linkage between the investment process and the Nation's budget; reviewing guidelines and parameters for sector programming; developing methods and procedures to use investment resources properly; creating and instituting a project data bank with computerized data mechanisms, and providing training in how SNIPU operates.

C. Preliminary environmental classification of the projects

- 2.32 The studies financed in order to prepare the projects would be based on terms of reference; in some cases considerable progress has been made in developing those terms of reference, and the projects to which they refer are those initially included in the program. The new projects whose preparatory studies will need to be financed will be classified as they are added to the program. These projects, identified initially, now have the following preliminary classification and would be given their final classification once the studies have supplied the needed information:

Projects in Category III:

- Greater Buenos Aires environmental sanitation and the study of the Costanera Sur Ecological Preserve.
- Water supply and sewerage systems in urban shanty towns
- Municipal social investments
- Agricultural development.
- Health investments and reform
- Shipping corridors

Projects under Category II:

- Education investments and reform
- General studies
- Institutional strengthening activities

Projects under Category I:

- The ecology and natural resource projects: Urban tree planting and Las Américas Park

D. The program's cost and financing

- 2.33 Resources from the revolving line of conditional credit charged against the PPF and the project-preparation funds included in specific loans already being executed, were factored in when determining the program's cost and financing. Most of the program's resources will be used to carry out the studies necessary to prepare the projects agreed upon with the country for eventual financing in 1993-1995. In arriving at the figure, the sums needed to finance the institutional support activities related to project preparation and public investment programming have been considered, as have the expenses that will be incurred in executing the program. In addition, some 30% of the proposed financing would be for studies and institutional strengthening measures, which are to be identified and defined in the immediate future.
- 2.34 The program's total cost would be the equivalent of US\$30 million. The Bank financing would be a sum equivalent to US\$24 million, in other words 80% of the total. Of that, US\$19 million would be in local currency from the Fund for Special Operations and US\$5 million in foreign currencies from the Bank's ordinary capital. The Argentine government would supply the balance, which is the equivalent of US\$6 million. The proposed financing, a combination of FSO and OC funds, lowers the total financial cost to the country and facilitates any foreign consulting services that may be needed.

E. Program components

- 2.35 The components of the program, its executing agencies and its tentative costs, which will be finalized once the definitive terms of reference for each study have been approved, appear in the following table. The technical file for the program provides more details on each study or institutional strengthening activity.

PROGRAM COMPONENTS (Equivalents in US\$ thousands)		
PROGRAM COMPONENTS	ESTIMATED COSTS	% TOTAL
<b>I. SUBPROGRAM A: PREINVESTMENT STUDIES</b>	<b>25,260</b>	<b>84.2</b>
<b>1. SPECIFIC</b>	<b>16,000</b>	<b>53.3</b>
Health investment and reform program	1,800	6.0
Education investment and reform program	1,000	3.3
Municipal social investments	2,200	7.3
Agricultural development	2,000	6.6
Shipping corridors program	1,000	3.3
Greater Buenos Aires environmental sanitation <sup>1/</sup>	4,500	15.0
Water/sewerage systems in urban shanty towns	2,000	6.6
Ecological and natural resource projects		
Costanera Sur Ecological Preserve	500	1.6
Urban tree planting	500	1.6
Las Americas Park	500	1.6
<b>2. GENERAL</b>	<b>1,500</b>	<b>5.0</b>
Analysis, SNIPU	300	1.0
Buenos Aires municipal solid waste management/ industrialization	1,000	3.3
Mining development	200	0.6
<b>3. OTHER STUDIES</b>	<b>6,760</b>	<b>22.5</b>
<b>4. CONSULTING SERVICES</b>	<b>1,000</b>	<b>3.3</b>
<b>II. SUBPROGRAM B: INSTITUTIONAL STRENGTHENING</b>	<b>3,000</b>	<b>10.0</b>
<b>1. SNIPU</b>		
Economic Programming Department	1,500	5.0
Treasury Department	500	1.6
Other agencies	1,000	3.3
<b>III. PREINVESTMENT UNIT</b>	<b>1,500</b>	<b>5.0</b>
<b>IV. INSPECTION AND SUPERVISION</b>	<b>240</b>	<b>0.8</b>
<b>TOTAL</b>	<b>30,000</b>	<b>100.0</b>

<sup>1/</sup> This includes prioritization of investments, feasibility studies and final designs for the first phase.

### III. PROGRAM EXECUTION

#### A. Framework

- 3.1 The program would supply financial resources to prepare studies and conduct institutional strengthening activities and would be executed by the Secretaría de Programación Económica [Economic Programming Department] (SPE) of the Ministry of the Economy and Public Works and Services, through its Preinvestment Unit (UNPRE).
- 3.2 UNPRE would be created in the SPE's Dirección Nacional de Inversión Pública y Financiamiento de Proyectos [National Public Investment and Project Financing Bureau], prior to the first disbursement of the loan under consideration. 8/ The Unit would handle the country's planned preinvestment activities; as such, it would be in charge of executing, coordinating and administering the program and would see to it that the studies are properly conducted. UNPRE's creation and consolidation, which would be done with financial support from the program, would be another step in organizing the functions involved in project preparation and would better equip the SPE to develop the public investment program.
- 3.3 The organizational structure proposed for UNPRE, which is appropriate to the assigned tasks, consists of a General Coordination Office with a technical area that would prepare the annual program, advise beneficiary institutions on procedures to follow, evaluate requests and monitor operations; an accounting-financial area that would prepare the budgets and annual financial statements, circulate the disbursement and accounting-control procedures and advise beneficiary institutions in how to prepare charts of accounts to control resources; and a legal office to see to it that the terms of the contract entered into with the IDB and the country's present rules and regulations relative to the activities that the program's execution would involve are duly observed.
- 3.4 The national bureau would be responsible for the program's general direction and in that capacity would supervise UNPRE and approve the annual program of activities, loan requests, annual financial statements and proposals to improve program execution. The national bureau would be advised by a technical committee 9/, which is to be created prior to the first disbursement from the

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8/ See Appendices I and II, proposed resolutions.

9/ This committee will consist of the following authorities from the Economic Programming Department: the National Director of Public Investments and Project Financing, who will preside, the Director of Public Investments, the Director of Project Financing, and the General Coordinator of the Preinvestment Unit, who will serve as the committee's Secretary.

eventual loan. <sup>10/</sup> The committee would help ensure that the studies to be financed are included in the approved annual program and that the terms of reference make the necessary allowance for analysis of technical, economic, institutional, and financial, and environmental factors. It would give its authorization for the necessary studies and reports to be carried out and would propose any operational changes needed to improve program execution.

- 3.5 It is important to point out that to prepare the program, the SPE formed a group of professionals, supervised by one of its main advisors. This group, which would constitute UNPRE's core staffing, would be increased with the addition of sector specialists, on an as-needed basis, and supported by a suitable training program. <sup>11/</sup> UNPRE would be partly financed (fees, travel expenses, operating expenses, etc.) with resources from the local contribution and, prior to the first disbursement of the loan, <sup>12/</sup> would have a general coordinator, two area coordinators, four professionals and three secretaries.

B. Operations processing

- 3.6 The procedures that would be used to select, evaluate, approve and monitor the operations would be detailed in a procedural handbook, which UNPRE would prepare as part of the program's Operating Regulations. The basic guidelines and other factors that have to be taken into account when preparing this handbook have been examined and the view is that they adequately cover everything related to processing these operations.
- 3.7 The processing would involve the following steps: (i) the beneficiary institution would submit its request to UNPRE; (ii) UNPRE would review the proposal, present it to the Technical Committee for approval and secure IDB clearance; (iii) if the request is approved, the beneficiary institution would prepare supporting information, with the final terms of reference, and submit that information to UNPRE; (iv) UNPRE would analyze it and submit it to the Bank for examination; (v) once IDB clearance has been obtained, the consulting services would be selected and hired, following the procedures described below.

C. Operating Regulations

- 3.8 The program's execution would be governed by a set of Operating Regulations that would include, inter alia, the following: the criteria for selecting the studies; the requirements for purposes of analyzing the proposals submitted; the criteria used to select

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<sup>10/</sup> See Appendices I and II, proposed resolutions.

<sup>11/</sup> Under this program, officials in charge of project preparation in the beneficiary institutions will also receive training.

<sup>12/</sup> See Appendices I and II, proposed resolutions.

and hire consulting services; the use of resources; the method used to effect remittances, and the features of program monitoring and control (see Annex III-1).

### 1. Criteria for selecting studies

- 3.9 The studies included in the program must be compatible with the government's priorities and with the criteria stipulated in the Operating Regulations. In general, the criteria would be as follows: (i) general studies would examine problem sectors, subsectors and priority areas with a view to finding solutions. Each study would define and analyze the technical, economic, environmental and social parameters and explain their practical consequences and how the study's findings might be applied; (ii) prefeasibility studies would have to pinpoint technical, financial, institutional and other types of problems and possible solutions; (iii) the feasibility studies must be preceded by a preliminary study showing that the project can produce a positive economic rate of return and is technically, environmentally, financially and institutionally viable, and that all aspects that need to be examined more carefully have been identified. If, however, the general study shows that the information needed for the project's feasibility study is already available, then the preliminary study may not be required; and (iv) the final engineering designs would be prepared once it has been demonstrated that the project is technically, economically, <sup>13/</sup> environmentally, financially and institutionally feasible.

### 2. Environmental impact

- 3.10 For proper handling of environmental issues and to have the legal and institutional system in place to deal with them, the Natural Resource and Human Environment Department was created (1991) as part of the General Secretariat of the Office of the President. This department is to create a national environmental system to ensure that this issue is dealt with coherently by steering public and private sector support toward common environmental objectives nationwide. To put together this system, the legal and institutional structures in place in the country will have to be made compatible, and for that there will be Bank support. <sup>14/</sup>

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<sup>13/</sup> An investment project will be regarded as economically feasible when its demonstrated internal rate of economic return, at efficiency prices, is at least 12% and is shown to be the alternative that gets the highest net present value at a discount rate of 12%.

<sup>14/</sup> Management is studying the environmental institutional development project (AR-0065) to submit it to the Board of Executive Directors in 1992.

- 3.11 On August 31, 1992, the Environmental Management Committee classified the multisector preinvestment program as a Category III operation and preliminarily classified those projects for which studies will be conducted, as shown in chapter II. It has been determined that the studies financed under the program should include an environmental impact evaluation to identify problems that could occur and propose solutions to prevent, control and curb negative environmental effects and improve environmental quality. All studies financed under the program would involve an obligation on the part of the beneficiary institution to comply with all provisions of Argentine law on environmental and natural resource protection, as well as the Bank's own procedures and policies relative to evaluation of environmental impact and natural disasters.

### 3. Women's participation

- 3.12 The country has been creating institutional mechanisms to promote women's development. The Consejo Coordinador de Políticas Públicas para la Mujer [Women's Public Policy Steering Council] is a unit of the Office of the President of the Nation and coordinates with the SPE on activities in this area. During the program's execution, a study on the development of Argentine women would be conducted; the terms of reference for that study are being prepared with resources from a Bank technical cooperation operation. The SPE is planning a study to establish qualitative and quantitative indicators to measure the direct and indirect effects that projects or programs have on women as target groups.
- 3.13 For its part, the impact and benefits that the eventual projects have for women as a target group would be properly addressed when executing the operation. Hence, the review made of the terms of reference prepared for the studies that are to be financed with program resources would check to make certain that they include the necessary elements to study the socioeconomic factors to determine what actions need to be taken to ensure that women participate fully.

### 4. Transfer of program resources and disbursements

- 3.14 The program's resources would consist of funds from the proposed loans under consideration and counterpart funds obtained in due course from the national government. For the purpose, an agreement would be entered into (see models in Appendices A and B of the Operating Regulations) according to IDB approved guidelines. At least one of these agreements must be executed before the first disbursement of either loan. <sup>15/</sup> The funds will be deposited in an SPE account with the Central Bank and be distributed to national government agencies as nonreimbursable remittances and to

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<sup>15/</sup> See Appendices I and II, proposed resolutions.



other public sector (provincial, municipal governments, autonomous) agencies as contingent transfers.

- 3.15 In the case of contingent transfers, an agency would receive an amount sufficient to cover up to 70% of the cost of the studies. The agreements shall set forth the scope of contingency for repayment to the National Treasury.
- 3.16 For each fiscal period, beneficiary institutions would advise UNPRE of the amount of resources that they would need in order to pay consultants during that year. UNPRE would ensure that the terms and conditions have been observed and would review the supporting documentation for each disbursement that a beneficiary institution requests. If it finds everything in order, the unit would ask the Central Bank to transfer the resources to the Banco de la Nación to credit them to the beneficiary institution's account, whereupon that institution would pay for its consulting services.

#### 5. Disbursements timetable

- 3.17 The proposed program is closely tied in with the projects included in the Bank's operations program, so that the pace at which its resources are disbursed is crucial. Since review of the preliminary terms of reference for most of the studies is well underway and a number of Bank missions have helped develop the nature and scope of the advisory services required to prepare those studies, full disbursement of the resources should take no more than three years. What follows is a preliminary timetable for disbursement of the resources, presented in thousand dollar equivalents:

	Year 1	Year 2	Year 3	Total	%
IDB resources	5,600	12,800	5,600	24,000	80
Government contribution	1,400	3,200	1,400	6,000	20
Total	7,000	16,000	7,000	30,000	100
Percentage for each year	23.3	53.4	23.3	100.0	

#### 6. Use of program resources

- 3.18 The program's resources would be used to hire the consulting services needed to conduct the studies and carry out institutional strengthening activities that are consistent with the terms of the eventual loan contract and the Operating Regulations. In keeping with Bank policy, program resources would not be used to finance the general and administrative expenditures of the Ministry of Economics and Public Works and Services, its offices or the

beneficiary institutions, except for those expenditures specifically incurred in operating the executing unit. 16/

3.19 Given the preliminary estimated cost of the projects for which advance studies would have to be done and SNIPU's institutional capacity, the maximum amount of program resources used to finance one study should not exceed US\$3 million. However, in cases in which a larger sum can be justified for a study, UNPRE will request IDB approval once it has a favorable recommendation from the technical committee. The necessary supporting information will be attached.

3.20 The program must have resources to conduct training activities and to hire supporting consulting services to conduct the additional and/or highly specialized work and/or work in new areas that the project's preparation may require. Therefore, it would be stipulated that up to the equivalent of US\$750,000 of the program's total resources could be used for these purposes. UNPRE need not obtain IDB clearance to use these resources for operations involving sums of less than US\$30,000, although the agreed upon procedures for selecting and hiring consulting services must always be followed.

7. Criteria and procedures for selecting and hiring consulting services

3.21 To ensure the technical know-how and experience needed to conduct the studies, the terms of reference would be observed when selecting consulting services. Beneficiary institutions would be responsible for selecting and hiring the services and would use IDB standards, which would appear as Annex B of the loan contract and Appendix C of the Operating Regulations.

3.22 Since the Bank's support would largely be in the form of a local currency loan charged against the Fund for Special Operations, representing 79.2% of the financing, the bulk of the consulting services are expected to be national in origin. However, the agreed upon regulations are intended to guarantee that there will be no restrictions against hiring consulting services from other IDB member countries.

3.23 Given the source and currencies of the eventual financing, the possibility of simplifying the procedures for selecting and hiring consulting services was examined. The immediate provisions were studied, as were similar provisions in effect, the way this situation has been handled in similar IDB-approved operations. Given the participating institutions' present institutional capacity and the reinforcement they would receive and the fact that the procedures agreed upon with the Bank would also be followed, it

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16/ See Appendix IV of the normative documents.

was decided to recommend that a mechanism be included to allow more latitude in selecting and hiring consulting services.

- 3.24 Hence, the following provisions will be added to the Operating Regulations, apart from those stipulated in the regulations for selecting and contracting consulting services, which will be attached as Annex B of the loan contract:

In the case of studies involving sums up to the equivalent of US\$100,000, fully financed with resources from Loan ----/SF-AR and/or the local counterpart contribution.

- Before it selects the consulting firm or individual consultant, the beneficiary institution will provide UNPRE with the preliminary terms of reference. UNPRE will review the documents presented and submit them to the IDB for approval.
- When requesting disbursements, the beneficiary institution will submit to UNPRE, and the latter to the IDB: (i) in the case of consulting firms, the selection procedures used, a short list with no less than three (3) but no more than six (6) selected firms, a report summarizing the technical proposals <sup>17/</sup> and an authentic copy of the signed contract; and (ii) in the case of individual consultants, the procedures followed, the names of the experts selected, and their resums, and an authentic copy of the signed contract. Whichever the case, if any of the background information stipulated herein is not approved, the study will be ineligible to receive program resources.

In the case of studies whose total cost is up to the equivalent of US\$30,000, regardless of the source of the program funds that finance it, UNPRE need not have the Bank's prior approval but must nevertheless follow the agreed-upon procedures, which it will demonstrate at the time it requests disbursements, otherwise program resources may not be used to finance these studies.

- 3.25 The contracts that beneficiary institutions and consultants enter into must stipulate: (i) the currency in which fees will be paid, in keeping with Bank procedure. Fees may be paid in local currency when the resources used from the Bank financing are in local currency; (ii) the obligations of each supplier of consulting services where information is concerned; and (iii) that the final payment agreed upon in the contract shall be paid only when the beneficiary institution, UNPRE and the Bank have accepted the final report.

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<sup>17/</sup> For consulting services costing up to the equivalent of US\$30,000, UNPRE need not require that the consulting firms submit technical proposals.

## 8. Operations monitoring

### a. Supervision and evaluation

- 3.26 The beneficiary institutions would directly supervise each study's preparation. For their part, UNPRE and the IDB would oversee the studies' progress. Upon completion of each study, the beneficiary institution and UNPRE would examine a draft of the final report and express their views within a period of 60 days. If there are observations, the consultant would introduce the necessary changes in the draft, and with that produce the definitive version of the final report. This report, once approved by the beneficiary institution, UNPRE and the technical committee, would be submitted to the IDB for study and approval.
- 3.27 During the program's execution, UNPRE would submit to the IDB semiannual reports that include the following: (i) the progress of the studies under way; (ii) a detailed profile of each study; (iii) the findings of the studies completed during the previous six months; and (iv) any changes that may have occurred within UNPRE's structure, staffing and operations in the reported six-month period and those planned for the next six months, with a justification of each.
- 3.28 The beneficiary institutions would submit to UNPRE an evaluation of the studies carried out, the terms of which would be established by UNPRE in accordance with the requirements for preparing the program's ex post evaluation, which would be conducted within one year following the final loan disbursement. This ex post evaluation would cover the following: (i) a description of each study financed and its findings; (ii) a detailed list of the investment projects either carried out or rejected as a result of the study, indicating the amount and source of financing of each project and the socioeconomic benefits that each was expected to produce; (iii) a description of the performance of the consulting services in their relations with the beneficiary institutions, indicating whether the terms of the contracts were fulfilled and the quality of the consulting services received; (iv) data with which to measure the program's contribution to national consulting; and (v) the program's contribution to the analysis of environmental matters. 18/

### b. Accounting

- 3.29 Beneficiary institutions would be required to keep separate accounts of all expenditures made with program resources. The accounting of these expenditures would be done in accordance with the chart of accounts that UNPRE would provide. Each beneficiary

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18/ See Appendix IV, Annex A. The program.

institution would submit to UNPRE, semiannual accounting statements prepared according to the models that UNPRE provides to them.

- 3.30 The program's financial statements would be prepared by UNPRE at the end of each fiscal year and audited by an independent firm of auditors acceptable to the Bank. Those financial statements are to be submitted to the Bank within 120 days following the close of each fiscal year.

#### IV. JUSTIFICATION AND RISKS

##### A. Justification

###### 1. General justification

- 4.1 The program is responsive to the need to have resources for timely and proper preparation of projects and to modernize the instruments used to prioritize and program investments, and to improve efficiency in allocating resources to finance public investments. The operation has been designed to conform to the country's economic development policies and strategy, the strategy and priority areas of the Seventh Replenishment and the Bank's Operating Procedures and the operations program agreed upon by the country and the Bank. At the same time, the program is flexible enough to meet any new needs that may arise in future.
- 4.2 The program gives preference to projects in the social, productive and environmental sectors that are responsive to government policies on decentralization and regionalization and that will require support for their preparation. Resources would, therefore, be provided to carry out studies for the projects already included in the Bank's operations program or about to be added and that have no other source of funding to complete their preparation. The program also includes resources with which to conduct studies needed to prepare future projects.
- 4.3 Initially the program is planning to carry out specific studies in preparation for six of the projects that the IDB may finance during the 1993-1995 period. There are also three general studies, two of which could lay the groundwork for projects that the Bank might eventually finance, and a third study to examine the National Public Investment System with a view to improving its operations.
- 4.4 The country and the Bank have worked together to select the studies and prepare the respective terms of reference to ensure that they suit the program's purposes. The preliminary terms of reference of the studies selected have been reviewed by the Bank and specific adjustments have been suggested to ensure that all elements are there for the analyses routinely done in preparing projects. The activities are far enough along that the procedures for selecting and hiring the consulting services needed to conduct the selected studies can begin rapidly.
- 4.5 Moreover, there will be activities to strengthen the National Public Investment System designed to improve the methods used to prepare and execute projects and guidelines and instruments to be used to prioritize and program investments. One such activity would be a study of the functions and responsibilities of institutions that participate in this process. The institutional

support will target the investment areas of the Economic Programming Department and Treasury Department - both units of the Ministry of the Economy and Public Works and Services - and the sector and provincial investment programming units that need to be upgraded.

- 4.6 An institutional structure has been defined and regulations and procedures have been developed to ensure that the executing unit created to operate and administer the program will run smoothly. This unit's operations, which would be financed with resources from the local contribution, would have institutional support from other areas and institutions active in preinvestment in the country.
- 4.7 In conclusion, the proposed program is justified because it answers the need to strengthen the National Public Investment System, by determining the guidelines for its modernization and improving its capacity to prepare public sector investment projects by carrying out better quality studies. The operation will also conduct the studies necessary for projects already planned in the Bank's operations program and will provide resources for preparation of other projects that will be added in future operations programs.

## 2. Distributional impact

- 4.8 The selected studies complement the efforts aimed at generating operations that foster benefits that accrue to low-income groups, in keeping with the guidelines of the Bank's seventh replenishment. The Greater Buenos Aires environmental sanitation program, the municipal social investments program, the health reform and investment program and the education reform and investment program are expected to generate benefits that, for the most part, favor these groups. It was agreed that the benefits to these groups have to be measured, so that the program involves an obligation to make the relevant analyses in the studies carried out, using the Bank's methods.

## 3. Women's development

- 4.9 The institutional mechanisms to promote women's development in Argentina are relatively new and still need to be consolidated. Therefore, matters relative to the effects and benefits that potential projects may mean for women as a target group are to be properly addressed. Accordingly, when reviewing the final terms of reference prepared for the studies to be financed, measures would be taken to ensure that socioeconomic factors are examined to determine what measures must be adopted to ensure women's broad-based participation.

## B. Risks

- 4.10 Argentine government agencies do not all have the same capacity to identify, prepare and execute investment projects. There are

experienced agencies that require little or no help to conduct these activities, while others will need to rebuild their investment preparation and programming areas and will need help in preparing and executing the studies for which they are responsible. In the case of the Economic Programming Department, which will be responsible for execution of this operation, this will be its first experience in handling a preinvestment program.

- 4.11 It is important to note that a new organizational structure is being suggested for the program's overall coordination. That new organizational structure must launch the program and perform the activities to strengthen the National Public Investment System. To minimize any risk that the new institutional organization might imply, a careful examination has been made of the design of the proposed organization, its functions and responsibilities, and the procedures that would be used to execute and coordinate the program. The volume and caliber of the personnel required have been determined, as have the areas and activities that would be carried out to strengthen the Economic Programming Department, the Treasury Department and other executing agencies that play a role in preparing, programming and executing public investment projects.



**A R G E N T I N A**

**MULTISECTOR PREINVESTMENT PROGRAM**

**(AR-0069)**

**OPERATING REGULATIONS**

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## **I. PURPOSE AND DEFINITIONS**

### **A. PURPOSE**

- 1.1 These Regulations establish the requirements for use of resources of the preinvestment program partially financed with Inter-American Development Bank resources under loan xxxxx, which shall be executed by the Secretaría de Programación Económica [Economic Programming Department] of the Ministry of the Economy and Public Works and Services of the Argentine Republic.

### **B. DEFINITIONS**

- 1.2 Whenever reference is made in these Regulations to any of the following terms, it shall be understood as follows:

1. BORROWER AND GUARANTOR: the Republic of Argentina.
2. BANK or IDB: Inter-American Development Bank.
3. MINISTRY: Ministerio de Economía y Obras y Servicios Públicos [Ministry of the Economy and Public Works and Services].
4. PROGRAM: the combination of the two subprograms that together constitute the project: subprogram A, preinvestment studies, and subprogram B, institutional strengthening.
5. BENEFICIARY INSTITUTIONS: public sector institutions participating in the program.
6. EXECUTING AGENCY or DEPARTMENT or SPE: The Secretaría de Programación Económica [Economic Programming Department] of the Ministry of the Economy and Public Works and Services.
7. TECHNICAL COMMITTEE: organ charged with seeing to it that the program is properly operated and administered.
8. NATIONAL BUREAU: the Dirección Nacional de Inversión Pública y Financiamiento de Proyectos [National Public Investment and Project Financing Bureau], which is part of the Economic Programming Department, and where the Preinvestment Unit will be set up.
9. UNIT or UNPRE: the Preinvestment Unit in charge of handling the program.
10. TECHNICAL AREA: that area of the Unit that is in charge of the technical side of the program.

11. FINANCIAL AND ACCOUNTING AREA: that part of the Unit that is in charge of the program's accounts and finances.
12. LOAN CONTRACTS: contracts that the Argentine Republic has entered into with the IDB for financing of the program.
13. AGREEMENT: agreement that the Economic Programming Department and the program's beneficiary institutions enter into.
14. PROGRAM RESOURCES: the combination of funds from the IDB loan and the resources of the local contribution.

## II. OBJECTIVES

- 2.1 The basic objective of the program is to help promote Argentina's economic and social development by providing financing with which to conduct general and specific preinvestment studies and activities that will institutionally strengthen the Economic Programming Department and other pertinent technical bodies, so as to ensure that resources are allocated to the priority sectors in the government's development strategy.

## III. STUDIES TO BE FINANCED

- 3.1 The studies that will be financed with program resources are either general or specific in nature, as described below:
  1. General studies
- 3.2 Basic, general studies that are either regional and/or sectoral in scope, involve research aimed at identifying possible programs and projects, and an overall measurement of the investment requirements.
- 3.3 Preliminary studies designed to consider a number of alternatives from the technical, environmental, financial, economic and institutional standpoints, in order to make a decision as to whether and when a program, project or group of projects should be analyzed in more detail or at greater length.
- 3.4 Studies geared toward research into specific technological processes or the adaptation of those processes to the country, within the context of a national technology transfer and adaptation policy.
- 3.5 Studies aimed at institutionally strengthening agencies that either contribute to or participate in the evaluation or preparation projects and economic policy formulation and execution.

2. Specific studies

- 3.6 Prefeasibility studies for a preliminary determination of the best alternatives for an investment project in terms of technical, financial, economic, environmental and institutional viability. This must include preliminary estimates of economic indicators for the various project alternatives.
- 3.7 Feasibility studies to elaborate upon the analysis made of the alternatives found in the prefeasibility study already conducted. This will include a thorough economic evaluation of the project, calculation of the internal rate of economic return, its net present value at a discount rate of 12%, and a sensitivity analysis.
- 3.8 The final engineering designs - with figures, plans and technical specifications - needed to execute an investment project whose feasibility has been duly established.
- 3.9 Additional studies on a project and/or the bidding documents, in order to improve their presentation or complete the information that national or foreign financial institutions require.

IV. CRITERIA FOR SELECTING STUDIES AND  
INSTITUTIONAL STRENGTHENING ACTIVITIES

- 4.1 All of the studies to be funded with program resources must be compatible with government-established national plans and priorities. Studies shall be included in the program once they receive SPE approval and IDB clearance.

1. General studies

- 4.2 The general studies being proposed shall concern sectors, sub-sectors and/or priority areas that have either specific or general problems that need to be examined to determine what actions can be taken to correct them. To use the program's resources to maximum advantage, once adequate information is available an analysis will be done for a preliminary determination of the technical, economic, environmental and social parameters, which the proposed study would elaborate upon. Each proposal shall explain the anticipated consequences and how the proposed study's expected findings might be applied.

2. Specific studies

- 4.3 The following shall be taken into account for each type of specific study:

- (a) **Prefeasibility study:** the prerequisite for this type of study is that it must preliminarily identify the problems to be solved and suggest alternative solutions. For each solution suggested, the prefeasibility study shall contain information as its estimated costs and benefits, its beneficiaries, technical, environmental, financial or institutional problems and any other relevant aspect.
- (b) **Feasibility study:** the prerequisite for this type of study is that a preliminary (prefeasibility) study must have shown that the project has the potential to produce an economic return, is technically, environmentally, financially and institutionally viable, and that all aspects to be analyzed at greater length have been identified. However, if the findings of a general study clearly show that the project does produce an economic return and is technically, environmentally, financially and institutionally viable, no prefeasibility study may be required.
- (c) **Final engineering designs:** the prerequisite for this type of study is that a proper feasibility study demonstrate that the project is technically, environmentally, economically, financially and institutionally feasible. For an investment project to be considered economically feasible, it must be shown to produce an internal rate of economic return of at least 12% and to be the alternative that maximizes net present value calculated at a discount rate of 12%.

3. Common requirements for all studies

4.4 In addition, depending on the nature of the project, the studies will include evaluations of the following:

- (a) **Environmental impact:** To pinpoint problems that could arise, propose solutions and quantify investments needed to prevent, control or curb negative environmental impacts or improve the quality of the environment, and establish the risks of and impacts from potential natural disasters.
- (b) **Women's participation:** The studies must include what will be needed to determine, as the project is being prepared, what activities must be carried out to ensure women's participation.
- (c) **Distributional impact:** All studies conducted during the program's execution shall include an analysis of the distributional impact.

#### 4. Institutional strengthening

- 4.5 The institutional strengthening activities will be carried out in those agencies involved in preparing and carrying out the studies already included or soon to be included in the program. To perform these activities, the problem or problems that the projects seek to correct must be identified, solutions to those problems proposed, and a determination made of the consulting services that will be required, the cost of the activities to be carried out and a timetable for execution.

#### 5. New studies

- 4.6 The SPE and the IDB have agreed upon a list of studies already identified and selected for initial inclusion in the program. However, because some studies related to forthcoming projects that either the IDB or some other source might eventually finance have not yet been identified and because the government's investments priorities and/or the programming agreed upon with the Bank might change, some studies may have to be replaced and others added. The new studies, which must be selected according to the criteria established in these Regulations, will be included in the program once they have SPE approval and IDB clearance.

### V. BENEFICIARY INSTITUTIONS

- 5.1 The beneficiary institutions under the program shall be all public sector agencies.

### VI. USE OF PROGRAM RESOURCES

- 6.1 The program resources shall be used to hire consulting services recruited from IDB member countries and needed in order to conduct the studies and the institutional strengthening activities, in accordance with these Regulations.
- 6.2 The maximum amount of financing from the program's resources that can be used for a single study shall be the equivalent of US\$3 million. The foregoing notwithstanding, in well substantiated cases wherein a given study will require more than the maximum allowable sum, IDB approval shall be required. Accordingly, the executing agency shall send the duly analyzed, relevant information to the IDB, with said agency's own favorable recommendation.
- 6.3 Up to the equivalent of US\$1 million of the program's total resources may be used to conduct activities in support of project preparation and execution, training, and to hire the supporting consulting services to carry out additional and/or highly specialized work, and/or work on new issues. IDB advance approval shall not be required to use these resources when the operations in



question involve sums of less than US\$30,000; however, IDB procedures shall be followed when retaining consultants.

- 6.4 Program resources may not be used to finance the general and administrative expenditures of the Ministry of Economics and Public Works and Services, of the Economic Programming Department, of the National Public Investment and Public Financing Bureau, or of the beneficiary institutions.

#### VII. FINANCING METHOD

- 7.1 The resources assigned to this program shall, for the purposes indicated in section III above, be awarded according to the following method:
- National government agencies shall receive the resources as nonreimbursable remittances.
  - Other agencies shall receive resources on a quota basis, to finance up to 70% of the cost of the studies.

#### VIII. CONTENT AND PROCESSING OF REQUESTS

- 8.1 The content of the requests and their processing shall be governed by the provisions of the procedural handbook that UNPRE shall make available to the beneficiary institutions and whose chief characteristics are as follows:

1. Requests for studies and institutional support activities

- 8.2 Participating public institutions shall apply for program resources with the SPE's Preinvestment Unit. Basically, those requests shall contain a description of the study or service to be provided, its scope and objectives, the preliminary text of the terms of reference, an itemized cost estimate and an estimated timetable for executing and monitoring that study or service and an explanation of the findings that the study is expected to produce.
- 8.3 The Technical Committee, based on its analysis and the information reported, shall approve the proposed study or institutional strengthening activity before submitting it to the IDB for consideration.
- 8.4 Once eligibility has been established by the Technical Committee and the IDB, the Unit shall so inform the applicant institution so that the latter may prepare and submit its final proposal. The Unit's technical area will make a technical-economic verification of the final documents and put the case, and its opinion, to the director. The final proposals approved by the Unit shall be submitted to the IDB for study. A rejected proposal shall be

returned to the applicant institution with a detailed explanation of the reasons why the proposal was denied. Beneficiary institutions whose proposals are approved shall be so advised once the IDB's reply has been received.

2. Requests for support activities and consulting services

8.5 When requesting financing for support activities and consulting services, beneficiary institutions must supply the following basic information:

- (a) A detailed description of the work to be performed.
- (b) The program of activities.
- (c) The budget and the timetable.
- (d) The dates scheduled for the works to begin and end.
- (e) The number and type of professionals who will be detailed to the program.
- (f) The number, frequency and content of progress reports.
- (g) The format in which the final report is to be submitted.
- (h) The selection procedure that will be used.

IX. SUBSIDIARY AGREEMENTS

9.1 Once authorization to conduct the studies has been obtained, the beneficiary institutions shall enter into an agreement with the SPE, patterned after those that appear in appendixes A and B of these Regulations, as the case may be. Said agreement shall include the following clauses, among others:

- (a) The beneficiary institution shall allow and cooperate with IDB and UNPRE supervision of the consulting services and shall supply UNPRE with the reports that it requests pursuant to the provisions of the IDB loan contract. If as a result of this supervision it is found that the studies are not being conducted in accordance with the terms of the agreement signed, the beneficiary institution shall, within a period not to exceed 60 days following the respective communication, take the necessary measures to remedy the problems detected. If these problems persist beyond that sixty-day time period, disbursement of the resources assigned for the study in question shall be suspended.
- (b) In the event of a failure to comply with the clauses of the agreement between the parties, the disbursements provided for under that agreement shall be suspended. If noncompliance goes uncorrected for 45 days beyond notification of non-compliance, the undisbursed resources provided for in the agreement shall be canceled.
- (c) The contracts that the beneficiary institutions enter into with consultants shall stipulate the latter's obligation to

comply with all applicable provisions of Argentine law on protection of the environment and natural resources and with the IDB's established procedures and policies for evaluating environmental impact and the risks and impact of potential natural disasters.

- (d) The agreements between the executing agency and beneficiary institutions other than the national government shall define the content and scope of the contingency referred to in paragraph 7.01, in a manner satisfactory to the Bank.

**X. SELECTING AND HIRING CONSULTING SERVICES**  
**(Consulting Firms and/or Individual Consultants)**

- 10.1 The beneficiary institutions shall be responsible for selecting and hiring consulting services. These activities shall be carried out in keeping with the IDB's routine procedures in this regard, which appear as Appendix C of these Regulations (Annex B of the eventual loan contracts).
- 10.2 The consulting services must be selected for the know-how and experience to perform the functions stipulated in the terms of reference. Neither the borrower, executing agency nor beneficiary institutions may introduce any provisions or conditions that would restrict or impair the participation of consulting services from other IDB member countries.
- 10.3 The procedure for publishing advertisements for selecting and hiring consulting services shall be governed by the following conditions:
  - (a) If plans call for the costs of consulting services to be financed fully or partly out of loan /OC-AR, the provision in Annex B of the loan contract shall be followed;
  - (b) If plans call for the costs of consulting services to be financed out of loan /SF-AR and/or out of local counterpart funds, the publication of advertisement of the invitations for bids shall be confined to Argentina.
- 10.4 To select and hire consulting firms, the beneficiary institution shall present the documentation to UNPRE, which shall review it and submit it to the IDB for approval. The following are the appropriate steps in this process:

Studies financed either in whole or in part with OC resources and studies involving sums of over US\$100,000, financed in local currency.

a. Before a selection is made.

Selection and hiring procedures.

Preliminary terms of reference that describe the work the firm will perform and give a cost estimate.

Short list (no less than three but no more than six)

b. Before negotiations begin

Report summarizing technical proposals.\*\*

c. Before contract is signed

Final version of negotiated contract.

d. When disbursements requested.

An authentic copy of the signed contract.

Studies involving up to US\$100,000 financed in full with FSO resources and/or the local contribution in local currency.

a. Before a selection is made

Preliminary terms of reference that describe the work the firm will perform and give a cost estimate.

b. UNPRE may forego this step.

c. UNPRE may forego this step.

d. When disbursements requested

Selection procedures

Short list (no more than three but no less than six)

Report summarizing the technical proposals\*\*

An authentic copy of the signed contract.

If any of the documents described under point d fails to receive approval, the study shall not be financed with program resources.

\*\* In the case of consulting services costing up to the equivalent of US\$30,000, UNPRE need not require that consulting firms present technical proposals.

10.5 To select and hire individual consultants, the beneficiary institution shall submit the following to UNPRE: the selection process; the preliminary terms of reference; a cost estimate and the schedule for the services that shall be provided; the names of the experts selected, detailing their nationality, domicile, academic

background, professional experience and command of languages, and the model contract that will be used to hire the experts.

- 10.6 For studies costing up to the equivalent of US\$30,000 which are to be financed with either of the program resources, UNPRE need not require advance Bank approval, but it shall always adhere to the agreed procedures, which it shall demonstrate at the time it requests the respective disbursements. Failure to comply with the agreed procedures shall mean that the study will not be financed with program resources.
- 10.7 The contracts between the beneficiary institutions and the purveyors of consulting services shall stipulate: (i) the currencies in which fees shall be paid, according to Bank procedure. The fees may be paid in local currency when the resources used come from the Bank's local-currency financing; (ii) the reporting obligations of each purveyor of consulting services, and (iii) that the final payment agreed to in the contracts shall be paid only when the corresponding final report has been accepted by the beneficiary institution, UNPRE and the Bank.

## XI. DISBURSEMENTS

- 11.1 The program resources that UNPRE shall administer shall be the funds from IDB loan ..... and the counterpart funds obtained through the Ministry's National Budget and Treasury Bureau. Both funds shall be deposited, as needed, in an account that the Central Bank is to open in the name of the Economic Programming Department.
- 11.2 During the fiscal periods in which the program is in progress, the beneficiary institutions shall advise UNPRE of the amount of resources that will be needed pay consulting fees that year.
- 11.3 Before each disbursement, UNPRE shall check to see that all agreed terms and conditions are being fulfilled and shall review the pertinent supporting documents. If those documents are in order, UNPRE shall issue instructions to have the Central Bank credit the corresponding sum to the account that the beneficiary institution is to have opened with the Banco de la Nación for these purposes, so that the latter can then make the corresponding payment.

## XII. OPERATIONS MONITORING

### 1. Supervision

- 12.1 The beneficiary institutions shall be responsible for immediate supervision of the studies' preparation. UNPRE and the IDB shall oversee the progress made in preparing the studies under the program. Once a study is completed, the beneficiary institution and UNPRE shall examine the draft of the consultant's final report

and express their opinion within 60 days. The final version of the report submitted by the consultant shall take into account the comments made by UNPRE and the beneficiary institution and, once approved by the Technical Committee, shall be submitted to the IDB for study.

12.2 During the program's execution, UNPRE shall submit semiannual reports to the IDB containing, *inter alia*, the following information:

- (a) the status of the studies in progress, with a detailed profile of each;
- (b) the findings of the studies completed during the previous six (6) months, and
- (c) any changes that have been made in the structure, staffing and operational activities of UNPRE in the six months examined in the report and those planned for the following six months, with a justification of each.

## 2. Accounting

12.3 Each beneficiary institution shall be required to carry separate books in which all expenditures made with program funds are entered. Said expenditures shall be classified according to the chart of accounts agreed upon with the Unit in each case.

12.4 Every six months, each beneficiary institution shall send to UNPRE accounting statements prepared according to the models agreed upon with the Unit.

12.5 The program's financial statements shall be prepared by the Unit's financial and accounting area at the end of each fiscal year and be certified by a firm of independent auditors acceptable to the Bank. The audit reports shall be submitted to the Bank within 120 days of the close of each fiscal year.

## 3. Evaluation

12.6 Upon completion of the studies and institutional support activities, the beneficiary institutions shall submit to the Preinvestment Unit a report detailing the findings of the studies and the results of the recommended improvements, with their comments; every six months, until execution is completed, they shall submit a report on the improvements instituted as a result of any institutional strengthening activities carried out. The Unit will check to make certain that the beneficiary institutions' reports contain the information needed to prepare the program's ex post evaluation within one year following the date of the final disbursement from the IDB loan.

12.7 The program's ex post evaluation shall include the following information:

- (a) Preinvestment studies. A description of the studies financed; current data on the findings of those studies; a detailed list of investment projects either carried out or denied as a result of those studies, indicating the sum involved, the source of financing, and a description of the socioeconomic benefits expected from the projects;
- (b) Consulting services. Information on the performance of the consulting firms in their dealings with the program beneficiaries, to include, as a minimum, information on contract performance, the quality of the consulting work and the program's contribution to national consulting services;
- (c) Environmental matters. Data on how the program contributed to the study of environmental matters in the course of preparing the preinvestment studies; and
- (d) Institutional strengthening. A description of the activities conducted, the problems to be corrected, the measures suggested to solve them, the degree to which the pertinent measures have been instituted, the benefits accrued as of the time of the evaluation, and the benefits expected to accrue by the time all the recommended measures have been implemented.

#### XIII. FINAL PROVISIONS

13.1 These Regulations may be amended by written agreement of the parties. Any matter not provided for in this document shall be governed by the provisions of the loan contract between the Bank and the Argentine Republic. In the event of some discrepancy between the loan contract and the provisions of these Regulations, the provisions of the loan contract shall prevail.

APPENDIX "A"

MODEL AGREEMENT FOR REMITTANCES TO  
FEDERAL GOVERNMENT AGENCIES  
(ALLOCATIONS)

In Buenos Aires, this ..... day of ..... in the year 199X, the party of the first part, the Economic Programming Department of the Ministry of the Economy and Public Works and Services (hereinafter the SPE), represented by Mr./Ms. ...., whose legal status is certified in Decree No. ...., domiciled for purposes of this agreement at ..... of this city, and the party of the second part, the (name of the beneficiary institution), represented by Mr./Ms. ...., whose legal personality is certified in ...., domiciled at ..... of this city:

CONSIDERING:

- a) That on ....., 199X, the Argentine Republic and the Inter-American Development Bank, hereinafter called the "IDB", entered into loan contract No. .... (hereinafter the "loan contract") for execution of a preinvestment program (hereinafter the "program") consisting of the following subprograms: (i) subprogram A to strengthen the public sector agencies involved in programming and/or executing investment projects, and (ii) subprogram B to finance preinvestment studies;
- b) That under clause .... of the loan contract, the program will be executed by the SPE;
- c) That under clause .... of the loan contract, the SPE shall submit to the Bank, for its approval, the model Agreement to be entered into with the beneficiary institutions under subprogram B, and
- d) That under clause .... of the loan contract, before any resources are budgeted for allocation to the beneficiary institutions, those institutions and the SPE shall sign an agreement for execution of the preinvestment study and/or the institutional reinforcement activities,

have agreed as follows:

Clause One: The parties do hereby agree that the (beneficiary institution) shall receive, through the SPE, resources from the program which are to be used in their entirety to carry out the studies detailed in Annex I of the present Agreement. Each study's total cost and its source of financing shall be specified in that Annex.



or alternatively:

Clause One: Under this agreement the parties agree that the (beneficiary institution) shall receive, through the SPE, program resources that are to be used, in their entirety, to strengthen the (name of institution) in the following areas: ..... This institutional strengthening shall be performed in keeping with the terms of reference attached to this Agreement as Annex I.

Clause Two: The studies are to be carried out in accordance with the program's Operating Regulations, which appear as Annex II of this Agreement. For that purpose the (beneficiary institution) shall hire consulting services according to the procedures stipulated in Annex B of the loan contract, which appears as Annex II of this Agreement.

or alternatively:

Clause Two: To perform the activity stipulated in Clause One, the (beneficiary institution) shall hire consulting services, in keeping with the procedure stipulated in Annex B of the loan contract, which appears as Annex II of this Agreement.

Clause Three: The time period for carrying out these studies (or strengthening activities) shall be stipulated in Annex III of this Agreement, while the timetable for disbursements shall be set forth in Annex IV thereof.

Clause Four: The consulting services shall be coordinated by the (bureau, department, etc., as appropriate) of the beneficiary institution.

The foregoing notwithstanding, to comply with Clause ... of the Special Provisos to loan contract No. ..., it is hereby stipulated that the (beneficiary institution) shall submit semiannual reports to the SPE, containing the following information: (specify) ...

Clause Five: All documents that must be submitted to the IDB in connection with the performance of this agreement and the corresponding disbursement requests, shall be submitted to the Preinvestment Unit of the Ministry's Economic Programming Department, with all the necessary supporting documents, and will then be forwarded to the IDB for processing and for the corresponding disbursement. Disbursements shall be handled in keeping with the IDB's established procedures.

Clause Six: The (beneficiary institution) shall provide all necessary facilities for the IDB and the Preinvestment Unit to oversee the consulting services and will provide the Preinvestment Unit with the reports required of it under the terms of the loan contract. If said oversight finds that the studies are not being carried out in accordance with the

terms of this Agreement, the SPE shall suspend any further disbursements of the resources assigned to the study in question.

Clause Seven: The (beneficiary institution) agrees to carry out the studies that are the subject of this Agreement in accordance with the provisions stipulated herein, in the Operating Regulations mentioned earlier, and in the loan contract.

Clause Eight: With IDB authorization, this Agreement may be amended at the request of one of the parties and with both parties' written agreement.

Clause Nine: Should any discrepancies in interpretation arise between the provisions of the present Agreement and those of the loan contract, the provisions of the loan contract shall prevail.

Clause Ten: In the event of a failure to comply with the clauses of this Agreement, the SPE shall suspend the disbursements provided for herein. If that noncompliance is not corrected within 45 days of the date of the notification, the Economic Programming Department shall cancel the balance of the resources not disbursed under this Agreement.

ECONOMIC PROGRAMMING DEPARTMENT

BENEFICIARY INSTITUTION

APPENDIX "B"

MODEL AGREEMENT FOR REMITTANCES TO  
NONFEDERAL GOVERNMENT AGENCIES  
(MUNICIPAL AND PROVINCIAL GOVERNMENTS)

In Buenos Aires, this ..... day of ..... in the year 199X, the party of the first part, the Economic Programming Department of the Ministry of the Economy and Public Works and Services (hereinafter the SPE), represented by Mr./Ms. ...., whose legal status is certified in Decree No. ...., domiciled for purposes of this agreement at ..... of this city, and the party of the second part, the (name of the beneficiary institution), represented by Mr./Ms. ...., whose legal personality is certified in ....., domiciled at ..... of this city:

CONSIDERING:

- a) That on ....., 199X, the Argentine Republic and the Inter-American Development Bank, hereinafter called the "IDB", entered into loan contract No. .... (hereinafter the "loan contract") for execution of a preinvestment program (hereinafter the "program") consisting of the following subprograms: i) subprogram A to strengthen the public sector agencies involved in programming and/or executing investment projects, and ii) subprogram B to finance preinvestment studies;
- b) That under clause .... of the loan contract, the program will be executed by the SPE;
- c) That under clause .... of the loan contract, the SPE shall submit to the Bank, for its approval, the model Agreement to be entered into with the beneficiary institutions under subprogram B, and
- d) That under clause .... of the loan contract, before any resources are budgeted for allocation to the beneficiary institutions, those institutions and the SPE shall sign an agreement for execution of the preinvestment study and/or the institutional reinforcement activities,

have agreed as follows:

Clause One: The parties do hereby agree that the (beneficiary institution) shall receive, through the SPE, resources from the program which are to be used in their entirety to carry out the studies detailed in Annex I of the present Agreement. Each study's total cost and its source of financing shall be stipulated in that Annex. The transfer of resources shall be done on a quota basis. Should the beneficiary institution receive external financing to execute the project, it shall make every possible effort to have the expenses of the study or studies

recognized as part of the cost of the project(s) and to have them reimbursed in the first disbursement of the eventual loan. Once the reimbursement has been received, the full amount shall be returned to the National Treasury.

or alternatively:

Clause One: Under this agreement the parties agree that the (beneficiary institution) shall receive, through the SPE, program resources that are to be used, in their entirety, to strengthen the (name of institution) in the following areas: ..... This institutional strengthening shall be performed in keeping with the terms of reference attached to this Agreement as Annex I.

Clause Two: The studies are to be carried out in accordance with the program's Operating Regulations, which appear as Annex II of this Agreement. For that purpose the (beneficiary institution) shall hire consulting services according to the procedures stipulated in Annex B of the loan contract, which appears as Annex II of this Agreement.

or alternatively:

Clause Two: To perform the activity stipulated in Clause One, the (beneficiary institution) shall hire consulting services, in keeping with the procedure provided for in Annex B of the loan contract, which appears as Annex II of this Agreement.

Clause Three: The time period for carrying out these studies (or strengthening activities) shall be stipulated in Annex III of this Agreement, while the timetable for disbursements shall be set forth in Annex IV thereof.

Clause Four: The consulting services shall be coordinated by the (bureau, department, etc., as appropriate) of the beneficiary institution.

The foregoing notwithstanding, to comply with Clause ... of the Special Provisos to loan contract No. ..., it is hereby stipulated that the (beneficiary institution) shall submit semiannual reports to the SPE, containing the following information: (specify) ...

Clause Five: All documents that are to be submitted to the IDB in connection with the performance of this agreement and the corresponding disbursement requests, shall be submitted to the Preinvestment Unit of the Ministry's Economic Programming Department, with all the necessary supporting documents, and will then be forwarded to the IDB for processing and the requested disbursement. Disbursements shall be handled according to the IDB's established procedures.

Clause Six: The (beneficiary institution) shall provide all necessary facilities for the IDB and the Preinvestment Unit to oversee the consulting services and will provide the Preinvestment Unit with the reports required of it under the terms of the loan contract. If said oversight finds that the studies are not being carried out in accordance with the terms of this Agreement, the SPE shall suspend any further disbursements of the resources assigned to the study in question.

Clause Seven: The (beneficiary institution) agrees to carry out the studies that are the subject of this Agreement in accordance with the provisions stipulated herein, in the Operating Regulations, and in the loan contract.

Clause Eight: With IDB authorization, this Agreement may be amended at the request of one of the parties and with both parties' written agreement.

Clause Nine: Should any discrepancies in interpretation arise between the provisions of the present Agreement and those of the loan contract, the provisions of the loan contract shall prevail.

Clause Ten: In the event of a failure to comply with the clauses of this Agreement, the SPE shall suspend the disbursements provided for herein. If that noncompliance is not corrected within 45 days of the date of notification, the Economic Programming Department shall cancel the balance of the resources not disbursed under this Agreement.

ECONOMIC PROGRAMMING DEPARTMENT

BENEFICIARY INSTITUTION

PROPOSED RESOLUTION<sup>1</sup>/

ARGENTINA. LOAN /OC-AR TO THE ARGENTINE REPUBLIC

Multisector Preinvestment Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Argentina, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a multisector preinvestment program, hereinafter referred to as the "Program". This financing shall be subject substantially to the following conditions:

1. Amount and currencies: Up to US\$5,000,000, or its equivalent in other currencies, except that of Argentina, which are part of the ordinary capital resources of the Bank, to pay for services originating in the member countries of the Bank and for such other purposes as may be specified in the loan contract. Payments of amortization and interest shall be made in the currency or currencies specified by the Bank, in a quantity equivalent to the corresponding amount owed, calculated in units of account in terms of dollars of the United States of America, in accordance with provisions to be included in the loan contract.
2. Source of funds: The ordinary capital resources of the Bank.
3. Guarantee: The general responsibility of the Borrower.
4. Credit fee: 0.75% per annum on the undisbursed portion of the financing, commencing to accrue 60 days after the date of the loan contract and payable in dollars of the United States of America on the same dates as the interest.

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<sup>1</sup>/ The provisions contained in this Appendix I and in Appendices II, III and IV, shall become final only when the Board of Executive Directors has approved the loan proposal.

5. Amortization: The Borrower shall amortize the loan in a period of 20 years from the date of the loan contract, by means of semiannual, consecutive, and, insofar as possible, equal installments. The first installment shall be paid on the first interest payment date, six months after the date scheduled for the last disbursement of the financing.
6. Interest: The Borrower shall pay interest semiannually on the daily outstanding balances of the loan. The first payment shall be made six months after the date of the loan contract. The Bank shall determine the rate of interest to be applied during the life of the loan, in accordance with the lending rate policy of the Bank.
7. Disbursement: The term for disbursement of the financing shall expire three years after the effective date of the loan contract.
8. Special conditions:
  - (a) The execution of the program and the utilization of the resources of the loan shall be performed in their entirety by the Borrower, through the Secretaría de Programación Económica of the Ministerio de Economía y Obras y Servicios Públicos, hereinafter referred to as "SPE" or "Executing Agency".
  - (b) The resources of the loan, together with the resources of Loan /SF-AR, shall be used to participate in the execution of the Program, the total cost of which is estimated at the equivalent of US\$30,000,000. Consequently, the loan contracts shall contain the appropriate provisions to ensure that such additional resources as may be necessary, in addition to the two loans, for the complete execution of the Program shall be duly provided, in an amount estimated at the equivalent of US\$6,000,000, in accordance with a schedule of investments satisfactory to the Bank.
  - (c) Prior to the first disbursement of the financing, the Borrower shall present, to the Bank's satisfaction, evidence that:
    - (i) it has created the Preinvestment Unit "UNPRE" and the Technical Committee "CT", in accordance with guidelines previously agreed upon with the Bank;
    - (ii) it has put into effect the Operating Regulations of the Program previously agreed upon with the Bank; and

- (iii) it has entered into a subsidiary participation agreement, with at least one beneficiary institution, on terms substantially similar to those set forth in the model previously agreed upon with the Bank.
- (d) The resources of the Program shall not be used to finance general and administrative expenditures of the Borrower or the Beneficiary Institutions.
- (e) The Bank shall establish such inspection procedures as it deems necessary to assure the satisfactory execution of the Program, and the Borrower shall extend all cooperation which is required for the most effective accomplishment of this purpose. From the amount of the financing, the sum of US\$50,000 shall be allocated for credit to the general income accounts of the Bank to meet expenses of general inspection and supervision.



PROPOSED RESOLUTION<sup>1/</sup>

ARGENTINA. LOAN NO. /SF-AR TO THE ARGENTINE REPUBLIC  
Multisector Preinvestment Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Argentina, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a multisector preinvestment program, hereinafter referred to as the "Program". This financing shall be subject substantially to the following conditions:

1. Amount and currencies: Up to US\$19,000,000 equivalent in Argentine pesos, which are part of the Bank's Fund for Special Operations, to pay for services originating in the member countries of the Bank and for such other purposes as may be specified in the loan contract. Payments of amortization and interest shall be made in Argentine pesos.
2. Source of Funds: The Bank's Fund for Special Operation.
3. Guarantee: The general responsibility of the Borrower.
4. Amortization: The Borrower shall amortize the loan in a period of 25 years from the date of the loan contract, by means of semiannual, consecutive and, insofar as possible, equal installments. The first installment shall be paid on the first interest payment due date, six months after the date scheduled for the last disbursement of the financing.
5. Interest: 4% per annum payable semiannually on daily principal amounts outstanding. The first payment shall be made six months after the date of the loan contract.
6. Disbursement: The term for disbursement of the financing shall expire three years after the effective date of the loan contract.

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<sup>1/</sup> The provisions contained in this Appendix II and in Appendices I, III and IV shall become final only when the Board of Executive Directors has approved the loan proposal.

7. Special conditions:

- (a) The execution of the Program and the utilization of the resources of this loan shall be performed in their entirety by the Borrower, through the Secretaría de Programación Económica of the Ministerio de Economía y Obras y Servicios Públicos, hereinafter referred to as "SPE" or "Executing Agency".
- (b) The resources of the loan, together with the resources of Loan /OC-AR, shall be used to participate in the execution of a Program, the total cost of which is estimated at the equivalent of US\$30,000,000. Consequently, the loan contracts shall contain such provisions as the Bank deems appropriate to ensure that such additional resources as may be necessary, in addition to the two loans, for the complete execution of the Program shall be duly provided, in an amount estimated at the equivalent of US\$6,000,000.
- (c) Prior to the first disbursement of the financing, the Borrower shall present, to the Bank's satisfaction, evidence that:
  - (i) it has created the Preinvestment Unit "UNPRE" and the Technical Committee "CT", in accordance with the guidelines previously agreed upon with the Bank;
  - (ii) it has put into effect the Program Operating Regulations previously agreed upon with the Bank; and
  - (iii) it has entered into a subsidiary participation agreement with at least one beneficiary institution, on terms substantially similar to those of the model previously agreed upon with the Bank.
- (d) The Program resources may not be used to finance either general expenses or administrative expenses of the Borrower or the Beneficiary Institutions.
- (e) The Bank shall establish such inspection procedures as it deems necessary to ensure the satisfactory execution of the Program and the Borrower shall extend all cooperation which is required for the most effective accomplishment of this purpose. From the financing, the equivalent of US\$190,000 in Argentine pesos shall be allocated for credit to the general income accounts of the Bank to meet expenses of general inspection and supervision.

RECOMMENDATIONS

- A. It is recommended that the following conditions, to be met to the Bank's satisfaction, be included in the loan contracts, in addition to those set forth in the proposed resolutions:
1. Unless the Bank expressly authorizes it, the resources of the Program may not be used to finance studies, the cost of which exceeds US\$3,000,000 equivalent.
  2. The Borrower may use up to the equivalent of US\$1,000,000 out of the resources of the Program to: (i) carry out supporting activities for the preparation and execution of projects and training activities; and (ii) engage supporting consulting services to carry out complimentary or very specialized works.
  3. The Borrower, through the Executing Agency, shall submit to the Bank, no more than one year after the date of the signature of the loan contract, the assessment of the institutional strengthening of the National Public Investment System, in accordance with terms of reference and guidelines previously agreed upon with the Bank.
  4. During the execution of the Program and 60 days after the end of each calendar semester, the Borrower, through the Executing Agency, shall submit to the Bank semiannual progress reports that shall include:
    - (i) the status of preinvestment studies being done out of Program resources and a detailed profile of each one of them;
    - (ii) the results of the studies, paid out of the Program resources, that had been completed within the preceding semester; and
    - (iii) such changes as may have taken place in the structure, staffing and operating activities of the UNPRE, during the six preceding months, and such changes as are expected to be made in the next semester, accompanied by a justification thereof.
  5. One year after the last disbursement of the financing, the Borrower, through the Executing Agency, shall submit to the Bank an ex post evaluation report on the results of the Program. That report shall be drawn up on the basis of the methodology agreed upon with the Bank and in accordance with the guidelines set forth in Section VI of Appendix IV.

6. During the execution of the Program, the Borrower shall submit to the Bank the annual financial statements of the Program, audited by an independent public accounting firm acceptable to the Bank.
- B. The loan contracts shall contain an annex substantially similar to Appendix IV, The Program, of this document.

ANNEX A

THE PROGRAM

I. Object

- 1.01 The object of the Program is to grant financing for: (a) drawing up general and specific preinvestment studies to provide for the preparation of priority public sector projects in keeping with IDB strategy in the country; and (b) undertaking the institutional strengthening activities associated with project preparation.

II. Description

- 2.01 The Program shall comprise two subprograms. Subprogram A, to provide funding for general and specific preinvestment studies and to carry out supporting activities and supporting consulting work. Subprogram B, to provide for institutional strengthening of the National Public Investment System "SNIPU". The Program beneficiaries shall be public sector institutions.
- 2.02 The resources of the Program shall be used to engage: (a) consulting services for the undertaking of institutional strengthening activities and preinvestment studies, general as well as specific, for the preparation of priority government projects; and (b) activities and supporting consulting work for such purposes as have been set forth in Recommendation A.2 of Appendix III.

III. Total Cost of the Program and Financing Plan

- 3.01 The estimated cost of the Program is the equivalent of US\$30,000,000, in accordance with the following investment categories and sources of financing:

(equivalent in US\$ thousands)

<u>Investment Categories</u>	<u>B A N K</u> <u>OC</u>	<u>FSO</u>	<u>LOCAL</u> <u>CONTRIBUTION</u>	<u>TOTAL</u>	<u>%</u>
<u>Subprogram A:</u>					
Preinvestment Studies	4,950	16,310	4,000	25,260	84.2
<u>Subprogram B:</u>					
Institutional Strengthening	--	2,500	500	3,000	10.0
<u>Preinvestment Unit</u>	--	--	1,500	1,500	5.0
<u>Inspection and Supervision</u>	<u>50</u>	<u>190</u>	<u>--</u>	<u>240</u>	<u>0.8</u>
T O T A L	<u>5.000</u>	<u>19.000</u>	<u>6.000</u>	<u>30.000</u>	<u>100.0</u>
PERCENTAGE	16.7	63.3	20.0	100.0	

#### IV. Criteria for the selection of studies

- 4.01 The studies to be funded out of the Program resources shall be consistent with the national plans and priorities established by the Government of Argentina, and shall meet the requirements set forth in Appendices I, II and III and in the Program Operating Regulations, to which reference is made in paragraph 8(c)(ii) of Appendix I and paragraph 7(c)(ii) of Appendix II. Studies for the Program shall be submitted to the Bank in order to secure its non-objection through the UNPRE in accordance with the provisions in the Regulations.
- 4.02 Assessment of the environmental impact of the studies. As part of the general and specific studies, to which reference is made in Section II, and according to the nature of the project, an assessment of the environmental impact shall be included to identify the problems which the project might create; to propose solutions to those problems and to recommend such investments and other actions as may be necessary to prevent as well as to control or mitigate any adverse environmental impacts, as the case may be, and to improve the quality of the environment as well. The subsidiary participation agreements to be entered into for the execution of studies to be funded out of the Program shall include obligations on the part of the beneficiaries: (i) to comply with all applicable provisions of Argentine legislation on protection of the environment and natural resources; and (ii) to carry out the studies in accordance with the guidelines agreed upon with the Bank, prior to the initiation of each study, with respect to the

assessment of the environmental impacts and of the risks and impacts of any natural disasters.

V. Selection and contracting of consulting services

- 5.01 In the selection and contracting of consulting services financed in whole or in part with the resources from the financing: (a) the procedures agreed upon with the Bank shall apply, and (b) no conditions or stipulations may be established that would restrict or prevent the participation of consultants from the Bank's member countries.
- 5.02 With respect to consulting services financed with resources of the local counterpart, the Bank reserves the right to review and approve, prior to the Borrower proceeding with the corresponding hire, the names and background of the firms or individual consultants selected, the terms of reference, and the agreed fees.

VI. Ex post evaluation

- 6.01 The ex post evaluation report called for in Recommendation A.5 of Appendix III shall include the following information:
- (a) A description of the preinvestment studies financed out of the Program resources; updated information on the results of such studies and a detailed list of investment projects carried out or refused as a result of those studies, which shall include an indication of the amount and source of financing as well as a description of the socio-economic benefits expected from the projects;
  - (b) Information on the performance of the consulting companies in their relations with the Program beneficiaries, and including, at least, data on the performance of the contracts and on the quality of the consulting work;
  - (c) Data on the contribution of the Program to the analysis of environmental issues in the preparation of preinvestment studies;
  - (d) A description of the institutional strengthening activities carried out, indicating the problems expected to be resolved and actions recommended for the solution thereof, the extent of performance of said actions, the benefits achieved at the time of the evaluation and the benefits expected to be achieved upon completion of the recommended actions; and
  - (e) An estimate of the contribution of the Program to the development of the national consulting work.