DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

PROGRAM TO IMPROVE MUNICIPAL MANAGEMENT

(AR-L1016)

LOAN PROPOSAL

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution and loans approved	http://opsgs1/ABSPRJ/tentativelending.ASP?S=AR&L=en
Information available in the RE1/SO1 technical files	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=905170
Procurement plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=913894

ABBREVIATIONS

AWP	Annual work plan
CSP	Convenio subsidiario de préstamo [subsidiary loan agreement]
ICB	International competitive bidding
LFRF	Federal Fiscal Responsibility Act
NCB	National competitive bidding
OR	Operating Regulations
PFMP	Programa de Fortalecimiento Municipal de la Provincia [Provincial Program for Municipal Strengthening]
PTI	Poverty targeted investment
SEQ	Social equity enhancing
UEC	Central Executing Unit
UEP	Provincial Executing Unit
UEPEX	Sistema de Administración y Control Financiero para las Unidades Ejecutoras de Préstamos Externos [Financial Management and Control System for External Loan Executing Units]

PROJECT SUMMARY

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Financial Terms and Conditions[1]				
Borrower: Argentine Republic			Amortization period:	25 years
Guarantor: Argentine Republic			Grace period:	5 years
Executing agency: Ministry of the Interior and participating provincial governments			Disbursement period:	5.5 years
Source	**Amount**	**%**	Interest rate:	Variable
IDB (Ordinary Capital)	72 million	90%	Inspection and supervision fee:	0%
Local	8 million	10%	Credit fee:	0.25%
Total	80 million	100%	Currency:	U.S. dollars from the Single Currency Facility

Project at a Glance
Project objective: The general objective of the program is to strengthen the management capacity of municipal governments, so they can more effectively meet local needs. **Special contractual conditions:** See paragraphs 3.4, 3.9, and 3.19. As conditions precedent to the first disbursement: (i) the Program Coordinator and members of the Technical Group of the Central Executing Unit will have been selected under terms of reference agreed upon with the Bank; and (ii) the program Operating Regulations will be approved and in effect. As a special execution condition for Component 1, the Ministry of the Interior and the province will enter into a subsidiary loan agreement prior to any disbursement related to projects of the respective province. **Exceptions to Bank policies**: None. **Project consistent with country strategy**: Yes [X] No [ ] **Project qualifies as**: SEQ [X] PTI [ ] Sector [ ] Geographic [ ] Headcount [ ] **Procurement**: Consistent with Bank policies. **Verified by CESI on**: 21 December 2006.

1 The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1%, of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Background

1.1 The Government of Argentina is interested in strengthening the capacity of municipal governments so that they can more effectively carry out their responsibilities to provide public services and promote local social and economic development. This interest led to a request for Bank support for a Program to Improve Municipal Management, as described in this document. The program would develop new methodologies and procedures to strengthen municipalities, bearing in mind the specific features of Argentina's institutional framework. The proposal is all the more timely because of the need to help the municipalities apply the principles of public management and transparency established by the Federal Fiscal Responsibility Act of August 2004 (Law 25917, known by its Spanish-language acronym, LFRF).

B. Description of the municipal sector

1.2 Argentina is a federal country, composed of three levels of government: the Nation, the Provinces and the Municipalities. The country has a total of 2,198 municipalities, exhibiting a wide variety in terms of their size, availability of resources, productive potential, and legal status. The average population of the municipalities is 18,000 (according to 2001 data), but size varies from those with fewer than 100 people to those with more than a million, such as Cordoba (in the province of the same name), and La Matanza (in the Province of Buenos Aires). Nor do all the municipalities have the same legal status, because their powers are defined in the provincial constitutions which, in many cases, distinguish between municipal governments (56% of the total) and other forms of local government of lower rank, such as the *comunas*, municipal commissions, and government councils (*juntas de gobierno*).

1.3 **Main expenditure responsibilities.** Argentina has decentralized public spending to the subnational level in a manner comparable to that of many advanced countries. This has to do more with the dimension of provincial spending then the importance of municipal budgets. Total spending by the municipalities accounts for only 8.3% of consolidated public sector spending, and this figure drops to 4.5% if targeted transfers are excluded. Nevertheless, municipal spending is extremely important for urban functions, and represents 86% of total spending on lighting, cleaning, garbage collection, storm sewers, traffic control, etc. The remaining social services, including health and education, are essentially provided by the provincial and national levels, although the municipalities have taken on growing responsibilities for social development and assistance, where they now account for 24.4% of total spending (see Table I.1).

Table I.1
Breakdown by level of government in consolidated public expenditure (2004)

Purpose/Function	Total public expenditure (*)	Public expenditure (%)			
		National	Provincial	Municipal	Total
TOTAL EXPENDITURE	**129,496**	**50.1**	**41.5**	**8.4**	**100**
I. Government operations	**25,213**	**38.6**	**48.8**	**14.6**	**100**
II. Social expenditure	**84,988**	**51.1**	**41.5**	**7.4**	**100**
II.1 Education, culture and S&T	18,726	19.9	77.1	3.0	100
II.2 Health	19,507	50.0	43.4	6.6	100
II.3 Water and sewage	602	14.1	85.9	0.0	100
II.4 Housing and urban development	1,685	1.2	98.8	0.0	100
II.5 Social development and assistance	6,312	25.6	50.0	24.4	100
II.6 Social security	28,275	78.9	21.1	0.0	100
II.7 Labor	6,491	91.4	8.6	0.0	100
II.8 Other urban services	33,902	0.0	14.1	85.9	100
III. Economic services	**11,713**	**49.2**	**43.5**	**7.3**	**100**
IV. Public debt service	**7,581**	**77.7**	**21.6**	**0.7**	**100**

(*) In millions of current pesos.
Source: A. Porto, with data from the National Office of Consolidated Public Expenditure. Ministry of Economy, 2005.

1.4 **Composition of municipal expenditure.** Over the period 1993-2000, the most important items of municipal expenditure were personnel, at 54.4%; other current expenses, at 30.7%; and investment, at 14.3%. These figures do not reflect the impact of the 2001 crisis, which brought cutbacks in municipal investment, thereby generating greater pressure for social assistance outlays.[1] As might be expected, these percentages vary greatly: (i) in three provinces, municipal payroll costs exceed 70% (Catamarca, Chaco, La Rioja); (ii) in five provinces, municipal payroll costs are below 50% (Buenos Aires, Cordoba, La Pampa, San Luis, Santa Fe); (iii) in two provinces, municipal capital spending is less than 10% of the total (Chaco and La Rioja); and (iv) only four provinces have municipal investment rates exceeding 20% (Cordoba, Chubut, Salta and San Luis). In general, there is ample opportunity to improve the management of municipal expenditure and, as will be discussed below, this will require the strengthening of municipal governments.

1.5 **Sources of municipal revenues.** The main sources of municipal revenues are intergovernmental transfers (43%); revenues from charges, duties and contributions (54%); and municipal taxes (3%). Debt levels are low and relatively under control. The municipalities finance on average 51.1% of their spending from their own revenues, but this figure varies from 71% in Chubut to 6% in La Rioja. Generally

[1] According to the study on "Local Government Organizations and Finance in Argentina" (Shaw, 2006), investment accounted for only 10% of municipal expenditure during the crisis.

speaking, municipalities are highly dependent on intergovernmental transfers, reflecting in some cases their weak taxation potential and in others the inefficiency of their tax administrations (see Table 1.2).

Table I-2 Municipal revenues and expenditures (data by province)

5% - 25%	25% - 50%		50% - 75%
Santiago del Estero (18.3)		La Pampa (40.1)	Chubut (71.2)
San Juan (18.8)	Santa Fé (49.5)	Corrientes (30.1)	Buenos Aires (60.2)
			Córdoba (55.6)
Jujuy (18.0)	Santa Cruz (49.1)	Tucumán (32.6)	Entre Ríos (52.5)
Catamarca (17.7)	San Luis (38.2)	Tierra del Fuego (30.1)	Neuquén (52.6)
Formosa (17.3)	Salta (44.7)	Mendoza (29.5)	
La Rioja (6.5)	Misiones (40.4)	Chaco (33.8)	
	Río Negro (41.1)		**Average (51.1)**

Source: Ministerio del Interior.

1.6 **Municipal taxes.** Although the taxation powers of municipalities are recognized in the majority of provincial constitutions and municipal charters, in practice such taxes are limited to the automobile tax (in one-half of the provinces), the urban realty tax (in seven provinces) and, on an exceptional basis, the tax on gross incomes. In fact, the allocation of taxing powers to municipalities differs substantially among the provinces. Those with the greatest degree of tax decentralization are: (i) Chubut, where the municipalities are responsible for the urban and rural property tax, the automobile tax, and the tax on gross incomes; (ii) Corrientes, Chaco, Formosa, Salta, Santa Cruz and Tierra del Fuego, where the municipalities may collect the urban property and automobile tax; and to a lesser extent (iii) Catamarca, Cordoba, Jujuy, Misiones and Neuquen, where the municipalities are entitled to collect only the automobile tax.

1.7 Some provincial governments are currently pursuing revenue decentralization programs, which generally involve the transfer of certain tax collection responsibilities to the municipalities. One example is the Province of Buenos Aires, which has delegated collection of the rural property tax, and is in the process of transferring responsibility for the automobile and gross income taxes. A noteworthy aspect of these decentralization programs is that, in general, they include incentives to the municipalities by letting them keep a portion of the taxes they collect.

1.8 **Service charges and duties.** Service charges, the granting of rights and licenses, account on average for more than half of municipal revenues in Argentina. The charges cover a wide variety of public services, primarily street lighting, cleaning, inspection and supervision, safety and hygiene, road maintenance and improvements, sanitary services, use of public spaces, and others. In many cases, the design of these charges and duties could be improved to avoid distortions,

double taxation, jurisdictional competition, and other aspects that affect the sources of revenue. Another major challenge in tax administration is the need for updated taxpayer registries and integrated systems for collecting various taxes, in light of the shortcomings frequently observed in these aspects.

1.9 **Transfers.** Transfers to the municipalities are usually defined in the constitutions of each province or in laws on revenue sharing with provinces, and are financed with transfers that the provinces receive from the national government, and by a percentage of the provinces' own revenues. On average, municipal transfers account for 16% of the two sources mentioned (transfers from the national government and provincial taxes), with a minimum of 3% in the province of La Pampa and a maximum of 23% in Tierra del Fuego. Population is the distribution criterion most widely used by the provinces to distribute transfers among the municipalities. This rule is usually supplemented by the distribution of tax revenue sharing resources in equal portions between the province's municipalities. In general, there is a great variety of criteria used for distributing provincial transfers to the municipalities (up to 15 different types in some provinces), which impedes resource programming and financial management by institutions that, in most cases, have little planning capacity.

1.10 **Federal Fiscal Responsibility Act.** Argentina has a Federal Fiscal Responsibility Act in place since August 2004 (LFRF, Law 25914), representing an important step in establishing a fiscal regulatory framework for subnational governments. This Act establishes general rules for fiscal performance and transparency in public management, including: (i) the requirement to publish fiscal information and adopt financial administration systems that will facilitate external control and monitoring of fiscal performance; (ii) limits on the growth of public spending; (iii) provisions to improve the programming of tax revenues; (iv) the requirement to observe financial balance in executing budgets; and (v) control over indebtedness, through the establishment of quantitative ceilings and new authorization procedures. Given the federal character of Argentina, the Act is binding only on the national government and on those provincial governments that subscribe to it by approving their respective laws.[2] Enforcement of these new rules at the municipal level is done under the same subscription procedure, and supervision lies with the provincial governments. This situation means that provincial initiatives to strengthen municipal management acquire greater importance, particularly on issues of financial and tax administration, and transparency.

C. Diagnostic assessment and main challenges in municipal strengthening

1.11 Given the great differences in the municipal systems of the 24 provinces, and the lack of centralized information on the municipal sector, the data presented here come from an assessment prepared on the basis of available secondary information, and on case studies performed during the preparation of this program in the

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[2] As of mid-2006, more than 80% of the provinces had subscribed to the LRF.

provinces of Buenos Aires, Chubut, Salta and Formosa.[3] The analysis focused on: (i) municipal management problems arising from provincial-municipal relations and/or requiring large-scale solutions; and (ii) the most significant aspects of the municipal management problem.

1. Challenges and opportunities for improving municipal administrations through large-scale solutions

1.12 Given the close interrelationship between provincial and local administrations, several aspects of the municipal problem would benefit from technical and regulatory intervention by the provinces. The main contributions the provinces can make toward such improvement, in key areas of municipal management, are: (i) to improve the municipal regulatory framework, including municipal charters, the revision of tax codes, and the modernization of policies and rules governing urban development, among others; (ii) to develop and implement province-wide systems to facilitate municipal management, while ensuring an adequate flow of information to other levels of government; (iii) to develop municipal tax administration and tax registry systems that are linked with the provincial systems; and (iv) to support land use and municipal investment planning systems. Generally speaking, the provinces lack adequate capacity to provide technical assistance to the municipalities, and this translates into actions that are uncoordinated, with limited coverage, and of little effectiveness.

1.13 In terms of financial management, although 65% of the provinces already have integrated financial management systems within their governments, very few municipalities have adopted them, or have compatible systems. In this context, several provinces are already in a position to support the municipalities in modernizing their financial administration, through one of the following approaches: (i) adapting provincial systems to the needs of the municipalities (as has been done with the Integrated Financial Management and Control System in Formosa); (ii) expanding the coverage of the integrated systems previously developed by the municipalities (such as the Municipal Financial Administration Reform System, RAFAM, of Buenos Aires Province); and/or (iii) developing new systems for the municipalities that would follow a common regulatory framework defined at the provincial level (as in Chubut and Salta).

1.14 Similarly, the municipal governments could benefit from provincial experience and technical capacities in areas where they are now very weak, and where there are advantages in large-scale solutions, such as geographic information systems, property registries, tax administration systems, information and communication

[3] These provinces were selected using a classification that served as the basis for the Federal Tax Sharing Act, in effect until 1984, and which is still used in academic work (Porto, Disparidades Regionales y Federalismo Fiscal, 2004). This classification was constructed using as variables housing quality, automobiles per capita, and quality of human resources, and classifies the provinces in four groups: (i) advanced; (ii) special or low-density; (iii) intermediate; and (iv) lagging. The provinces selected for the assessment are taken from each of these categories and include: Buenos Aires, Salta, Formosa and Chubut.

technologies, and e-government programs. In general, the foundations are there for this to happen, since the country has been investing steadily in modernizing the provincial governments through various programs that have developed systems that could be adapted and transferred to the municipalities. A recent study by the Ministry of the Interior on progress in modernizing provincial governments indicates that 65% already have integrated financial management systems, 80% have recently modernized their property registries, and more than 50% have made significant improvements to their tax administration systems.[4]

2. Specific challenges facing municipal governments

1.15 The field studies conducted in the provinces of Buenos Aires, Salta, Formosa and Chubut (25 local governments in all)[5] indicate that, beyond the need to support the municipalities in modernizing their fiscal and tax administration systems, there are a series of municipal management improvement projects that have not been carried out for lack of technical capacity or financing. The areas prioritized by the municipalities themselves include, in all cases: (i) improving and streamlining municipal procedures in such areas as establishing a business, issuance of driver's licenses, building permits, payment of taxes, etc.; (ii) modernization of information and communication technologies used by the municipalities; (iii) development of e-government strategies and solutions; (iv) preparation of municipal development plans; (v) improving the capacity to prepare projects, particularly local development projects; and (vi) performing upgrades to municipal buildings and facilities, particularly to improve service to the public. In addition, in the larger municipalities their management improvement needs tend to be more sophisticated, including such aspects as geographic information systems, management information systems, urban development master plans, etc.

1.16 One indicator that illustrates the need for management improvement in the municipalities is the availability of websites and the kind of information they publish. The data in Table I.3 indicate that: (i) municipalities in the less-advanced provinces are lagging far behind technologically, a situation that is particularly critical in the province of Formosa; (ii) in general, fewer than 20% of the municipalities with websites publish budgetary information, and this affects public perceptions as to the transparency of local government; (iii) generally, the public has no access to the tax payment schedule or to online municipal taxpayers' guides; (iv) fewer than 10% of the municipalities have portals that include information on strategic or municipal development plans; and (v) the practice of publishing municipal calls for tender is not yet widespread. The fact that the most frequently

[4] The data on government management systems at the subnational level come from the study on "Situation of Central Reforms in Argentine Provinces" produced by the Ministry of the Interior, 2005.

[5] The municipios studied were: (i) in the Province of Buenos Aires: Berisso, Ensenada, General La Valle, Rojas, Patagones, General Villegas, Junín, and Chivilcoy; (ii) in Salta the municipios of Salta Capital, Tartagal, Orán, Rosario de la Frontera and Metán; (iii) in Formosa the municipios of Formosa Capital, Herradura, and Colorado; and (iv) in Chubut the municipios of Comodoro Rivadavia, Trelew, Puerto Madryn, Esquel, Rawson, Sarmiento, Trevelin, Rada Tilly, and Gaiman.

published information relates to tourism and social affairs is an indicator that municipal e-government is underdeveloped in Argentina, and in general suggests that support is needed for instruments to enhance transparency in municipal affairs.

Table I.3
Web Applications in the Municipios of Selected Provinces

	Province	Buenos Aires	Salta	Chubut	Formosa	Total Muestra
	Total Municipios	**134**	**59**	**45**	**54**	**233**
Web		98	13	8	0	**106**
	Budget	19	0	3	0	**22**
	Budget information	14	0	4	0	**18**
	Tax calendar	22	2	2	0	**24**
	Procedures guide	52	1	7	0	**59**
Information	Legislation	22	3	4	0	**26**
	Strategic Plan	10	2	1	0	**11**
	Tourist Information	65	13	7	0	**72**
	Social Action	64	2	6	0	**70**
	Public Tenders	26	0	5	0	**31**

Source: IDB, based on a survey of municipal web pages between March and September 2006.

1.17 The information gathered in the 25 municipalities studied also showed acute needs for strengthening in strategic and urban planning. While all the municipalities examined have some kind of land-use rule, none of them has a master plan that is less than five years old. This is a major weakness that affects the efficiency of municipal investments, since they are not made within an orderly context or a medium-term vision. As well, the practice of promoting local development is still inefficient, and there is little municipal cooperation with the private sector and with civil society organizations to take advantage of the local production potential.

D. Experiences and lessons learned

1.18 The Bank has supported municipal development and decentralization in Argentina through various operations over the last 20 years. Typically, these operations have involved three major fields of intervention: (i) improving the framework of intergovernmental fiscal relations (decentralization and fiscal coordination); (ii) institutional strengthening for municipal governments; and (iii) the financing of investments for which local governments are responsible. The results of these operations reveal a common pattern of satisfactory execution in terms of investments, but scarce results in the other two fields.

1.19 The last municipal operation financed by the Bank through the Ministry of the Interior was the “Municipal Reform and Development Program”. That program was approved in 1998, for US$250 million, and included investment in local strengthening. The operation was not successful, as the funds were not spent, and this resulted in the cancellation of the program and reallocation of the funds to other

projects. The reasons behind this outcome were that: (i) the program was approved when the country was in an economic crisis, and this substantially reduced the borrowing capacity of the municipalities and of the provinces, which were the sub-borrowers; (ii) there were excessive delays in program startup, because of changes in the federal administration, and the priorities of the new government; (iii) the municipalities had trouble coming up with the heavy counterpart contribution required by the program (50% of the total cost); and (iv) the provincial governments were not sufficiently involved in program management, which reduced their incentive to provide guarantees to the municipalities. These facts represent important lessons that have been taken into account in the design of the present operation. Specifically, in the new operation, the provinces have not only been actively incorporated into the design phase but they have been assigned a central function in execution; the municipal contributions have been substantially reduced (10% of project cost); special attention has been given to improving the instruments that the participating entities and the Bank will use for monitoring and oversight of the operation; and there has been significant progress in the design of specific projects, which will favor their prompt execution.

1.20 Other related programs recently financed by the Bank for the municipal sector include the Municipal Social Investment Program (830/OC-AR, which is 98% executed) and the Large Urban Areas Program (1068/OC-AR, 65% executed). These two operations are focused primarily on physical investments and social services, and the lessons learned thus relate to problems in finding effective forms of intergovernmental cooperation and the need to emphasize institutional strengthening activities from the outset. The Bank is also accumulating experience in strengthening the financial management of the provincial governments, which is essential for promoting similar reforms in the municipalities. Specifically, the Bank is financing the Program of Productive Institutional Strengthening and Provincial Fiscal Management (1588/OC-AR), which includes funding for the development or consolidation of financial administration systems that, with additional support, could also be applied in the municipalities.

1.21 The lessons learned from the Bank's municipal programs, as incorporated into the design of this operation, indicate that: (i) institutional strengthening programs must be targeted at concrete and priority needs of the beneficiary municipalities, which must participate actively in their design and execution (see paragraph 2.3); (ii) it is important to generate a framework for intergovernmental cooperation between the provinces and municipalities, not only for the technical benefits this would produce but also because it will contribute to the political feasibility of institutional strengthening initiatives (see paragraph 1.26); and (iii) in the design of the operations special attention must be paid to incentives for the municipalities to participate in strengthening activities, given their preference for physical investment (see paragraph 3.15 and 3.16).

E. Interagency coordination

1.22 The identification phase for this program included follow-up and contact with other government entities and multilateral agencies to ensure that there would be adequate coordination and complementarity of efforts. Specifically, this operation not only complements other Bank programs for modernizing subnational governments (in particular program 1588/OC-AR mentioned in paragraph 1.20) but it is closely articulated with the most recent operations approved by the World Bank. Specifically, the comprehensive strengthening of municipal governments is complementary to the following programs financed by the World Bank: (i) the Basic Municipal Services Program (2006), which is financing works and preinvestment studies in areas of municipal jurisdiction; (ii) the Subnational Government Modernization Program (2005), which includes a component for integrating provincial and municipal property registries; and (iii) the National Program for Urban Solid Waste Management (2006), which includes funding to improve the regulatory framework and provide technical assistance in this field.

F. Country and Bank strategies

1.23 The government is pursuing a broad spectrum of economic, social and institutional reforms. In the field of institutional modernization, the country strategy includes strengthening the technical capacity of government at all three levels (national, provincial and municipal) through rationalization of rules and regulations; adoption of the principles of fiscal responsibility; improved transparency in public policies; strengthening the operational and technical capacity of the civil service; and expanding the capacity to program, monitor and evaluate government management. The country's strategy is consistent with that of the Bank, which includes institutional strengthening for better governance and fiscal sustainability as one of its priority areas of intervention.

G. The Bank's sector strategy

1.24 The program is consistent with the Bank's Subnational Development Strategy (document GN-2125-3 of May 2001), which recommends support to local governments so that they can become key players in the development process. In particular, the strategy recommends acting on the conditions that determine the performance of municipal governments, including: (i) intergovernmental fiscal relations; (ii) subnational financing mechanisms; (iii) local governance; and (iv) institutional, financial and service delivery capacity. All these areas, to a greater or lesser degree, are addressed in this program.

H. Program strategy

1.25 The strategy of the program is to take action on the variables that influence the efficiency and quality of municipal government management, with particular attention to improving the technical services that the provinces offer the municipalities, and reinforcing the incentives for the municipalities to strengthen themselves. To achieve this, the program will actively promote the development of

provincial capacities to support municipal development, and the transfer of management instruments to the municipalities. On the other hand, the municipalities will be encouraged to adopt and develop instruments to improve their capacities in terms of finance, tax administration, internal management, administrative services to the public, and strategic and urban planning.

1.26 The operational strategy of the program is to agree with the provinces on broad programs of institutional development (called Provincial Programs for Municipal Strengthening and known by their Spanish-language acronym, PFMP) that will encourage the provinces to develop their own capacity to support the municipalities, and the instruments available to them for this, and will allow capacity building activities to be negotiated with the municipalities, based on a commitment to performance targets. At the same time, the strategy includes broad participation by municipal governments in identifying specific projects for institutional modernization. This means that the operating strategy combines strengthening the cooperation the provinces provide the municipalities, with greater efficiency in the allocation of resources, flowing from municipal participation in defining their own strengthening projects.

1.27 This is a pilot program, planned for implementation in six provinces at different levels of development, in approximately 15 municipalities per province. If the program is successful (and if the country so requests), it could be followed by a larger-scale operation that might use the instruments of the Bank's new financing framework (CCLIP, Conditional Credit Line for Investment Projects, or PDL, Performance-Driven Loan, etc.). To generate the conditions for this to occur, the present program pays special attention to: (i) establishing a management and follow-up system that will involve the central, provincial and municipal governments; (ii) documenting the lessons learned and good practices in municipal strengthening; and (iii) using the interim and final valuations to review those aspects that serve as conditions for applying the Bank's financing instruments.

II. THE PROGRAM

A. Objectives

2.1 The general objective of the program is to strengthen the management capacity of municipal governments, so that they can more effectively meet local needs.

2.2 To achieve this objective, the program will develop and implement replicable mechanisms to strengthen municipalities in internal administration, finance, taxation, property registries, services to the public, electronic government, urban planning, local economic development, and other areas.

B. Description

2.3 The program calls for coordinated actions at all three levels of government (national, provincial and municipal), to strengthen the capacity of municipal governments. The first component will finance Provincial Programs for Municipal

Strengthening (known by their Spanish-language acronym, PFMP), which will include: (i) activities by the provinces to better enable them to support the municipalities and develop management instruments that require large-scale solutions; and (ii) institutional development projects identified by the municipalities themselves in urban planning, processing windows, project preparation, and other areas. The program will also support activities by the Ministry of the Interior to promote, strengthen and monitor the municipal sector. Each participating province and municipality will identify and execute, with the support of the Bank and the Ministry of the Interior, a series of actions under the components described below.

2.4 **Component 1. Improving municipal management.** This component includes initiatives of two kinds:

2.5 **Subcomponent 1. Provincial projects for municipal strengthening**. This subcomponent will finance projects to be executed by the provinces in the areas of: (i) improving the provincial policy framework for the municipal sector; (ii) developing and implementing public administration systems; and (iii) technical assistance in municipal administration and sector monitoring. Specifically, the following activities, among others, will be eligible under this subcomponent:

a. Technical assistance to improve the framework of provincial policies for the municipal sector. This may include, among other activities, technical studies, the preparation of proposals for administrative reforms, and consultation for improving the province's legal, operational, and municipal policy framework. Some of the priority regulatory instruments to be modernized include municipal charters, tax codes, the establishment of leagues of municipalities, transfer systems, and guiding principles of public management as applied at the municipal level.

b. Development and assistance in implementation of standardized systems for integrated financial management, tax administration, property registries, e-government, and others areas that require large-scale solutions. In addition, funding will be provided to develop information systems and connectivity infrastructure to facilitate intergovernmental communication (province-to-municipalities and municipality-to-municipality), particularly in the less densely populated provinces where the need is greatest.

c. Strengthening of technical assistance services in municipal administration and sector monitoring. This includes funding for: (i) strengthening the provincial body responsible for technical assistance to the municipalities; (ii) developing and/or strengthening provincial information systems for tracking the fiscal and administrative performance of municipalities; and (iii) training in municipal management for provincial officials (with special attention

to the areas addressed in the Fiscal Responsibility Act and the inclusion of municipalities in provincial development strategies).

2.6 **Subcomponent 2. Municipal management projects.** This subcomponent will finance projects to strengthen municipal management, as identified and prepared by the participating municipalities to meet their specific needs. The following types of activities will be eligible, among others:

a. **Modernization of municipal management systems**. This includes funding for the development, training and implementation of management systems. Investments in the following systems will be eligible for financing, among others: (i) financial management and tax administration; (ii) property registries; (iii) management information systems and management-for-results systems; (iv) human resource management; (v) municipal services administration; and (vi) preparation of specific projects for municipal modernization.

b. **Modernization of administrative services and service to the public**. This includes funding for reengineering and introducing systems that will streamline the procedures most widely used by the local population. Some of the procedures eligible for financing will include: (i) business authorizations, (ii) issuance of driving licenses, (iii) building permits, and (iv) payment of taxes. Funds are also included for e-government projects, computerization (and online processing) of municipal transactions and administrative services, establishment of toll-free telephone lines for handling complaints, and initiatives to promote transparency and accountability in municipal government.

c. **Strengthening of municipal development planning.** This includes: (i) steps to improve municipal development planning instruments (preparation of strategic plans, urban development master plans, and preparation of municipal investment plans); (ii) modernization of urban development regulations; (iii) environmental education programs; (iv) preparation and evaluation of investment projects identified in municipal plans; (v) technical assistance for the development of initiatives to improve and/or outsource municipal services and (iv) local development projects.

d. **Improvement of municipal facilities and equipment.** This includes the upgrade, rehabilitation, re-equipping and/or construction of buildings and facilities for municipal operations, as part of the management improvement activities described above. In particular, priority will be given to projects for building "one-stop" service centers where the main transactions required by citizens and businesses can be processed.

2.7 **Component 2. Support to the municipal sector.** This component includes actions of the Ministry of the Interior to support municipal development through: (i) documenting and disseminating best practices in municipal management, including an annual, nationwide event involving local governments, leagues of municipalities, academic institutions and others; (ii) studies and initiatives that will contribute to dialogue for improving intergovernmental fiscal relations, provincial-municipal cooperation, and the municipal regulatory framework; and (iii) development and implementation of a portal for the municipalities, with useful information and services to improve their management.

2.8 **Program coordination and management.** Under this heading are resources for: (i) support to the Central Executing Unit (UEC) for the program; (ii) program promotion and technical assistance to provinces that request it; (iii) financing of preinvestment studies for the provinces and municipalities; (iv) establishment of an information system for program monitoring and evaluation, which will include a baseline and program evaluations; and (v) external audit of the program.

C. Dimensioning and costs

2.9 The total cost of the program will be US$80 million. Of that amount, US$72 million will come from the loan proceeds, and US$8 million from the local contribution.[6] The program is dimensioned on the basis of a sample of four PFMPs prepared for the provinces of Buenos Aires, Chubut, Formosa and Salta. These programs include the costs of "provincial projects for municipal strengthening" and the estimated cost of the "specific municipal projects". To arrive at the total, it has been assumed that the program will cover approximately 6 provinces. Added to this are the estimated costs for the projects under component 2, and the resources required for general program management, both of which will be covered by the Ministry of the Interior.

[6] The local contribution under component 2 and the program coordination and monitoring activities will be the responsibility of the Ministry of the Interior. The local contribution under component 1 will be provided by the provinces and/or municipalities, as established in the corresponding subsidiary loan agreements.

Table II-1. Program Cost Table
(in US$ millions)

Category	IDB	Local	Total	%
1. Direct costs	**66.40**	**7.30**	**73.70**	**92.1**
1.1 Component 1. Improving municipal management	**65.18**	**7.18**	**72.35**	**90.4**
1.1.1 Provincial initiatives	35.00	4.00	39.00	**48.8**
1.1.2 Municipal initiatives	30.18	3.18	33.35	**41.7**
1.2 Component 2. Sector monitoring	**1.23**	**0.13**	**1.35**	**1.7**
1.2.1 Municipal portal	0.73	0.08	0.80	**1.0**
1.2.2 Studies and events	0.50	0.05	0.55	**0.7**
2. Program coordination and monitoring	**3.60**	**0.70**	**4.30**	**5.4**
2.1 Support to the UEC	2.40	0.70	3.10	**3.9**
2.2 Technical assistance and preinvestment support	0.50		0.50	**0.6**
2.3 Monitoring and evaluation system	0.30		0.30	**0.4**
2.4 Audit	0.40		0.40	**0.5**
3. Finance charges	**2.00**		**2.00**	**2.5**
TOTAL	**72.00**	**8.00**	**80.00**	

III. EXECUTION AND FINANCING MECHANISMS

A. Borrower, executing agency, and execution mechanism

3.1 The **borrower** will be the Argentine Republic, and the **executing agency** the Ministry of the Interior, acting through its Central Executing Unit (UEC). The **subexecuting agencies** will be the **provincial governments**, acting through their Provincial Executing Units (UEPs), and the participating **municipal governments**, which will execute their own projects directly. The responsibilities of each of these institutions are described below.

1. Ministry of the Interior: Central Executing Unit

3.2 The Central Executing Unit (UEC) is already established[7] and has broad experience in executing externally financed programs. Its structure is as follows: each program has a coordinator and a specialized technical group. These are supported by a shared administrative area with specialists in procurement, finance and accounting, information systems, and legal affairs. The UEC was evaluated using the Institutional Capacity Assessment System (ICAS) methodology, and was found to possess the capacity to execute this type of operation. Consequently, the overall execution mechanism will be maintained from previous projects with a technical group consisting of a coordinator and specialized technical staff formed will to execute the program. In addition, UEC staff with experience in executing previous

[7] The UEC was established in 1991 under Decree 202/91, as part of the Federal Ministry of the Economy. In 1992 it was moved to the Ministry of the Interior, pursuant to Decree 1732/92.

programs with subnational governments and who are currently performing satisfactorily will be retained.[8]

3.3 The UEC will be the central body responsible for coordinating the program and for execution of component 2. Among the UEC's main functions are: (i) to provide technical support to the provinces and municipalities participating in the program; (ii) to generally manage the program and supervise execution of the subsidiary loan contracts signed by the provinces with the national government; (iii) to evaluate and approve projects submitted by the provinces and municipalities, and forward them for the Bank's no objection; (iv) to supervise and monitor execution of the program in each of the participating provinces; and (v) to verify compliance with regulatory and procedural instruments of the program, agreed with the Bank and the provinces.

3.4 The specific responsibilities of the program coordinator and members of the technical group are described in the program Operating Regulations (OR). **As a condition precedent to the first disbursement, the Program Coordinator and the six members of the Technical Group will have been selected to the Bank's satisfaction**.

2. Provincial government: Provincial Executing Units

3.5 The provincial executing units (UEPs) will serve as subexecuting agencies for the program. These units are generally part of the provincial department of economy or department of the interior. The UEPs will be responsible for: (i) preparation, execution, and supervision of their respective programs for municipal strengthening; (ii) management, execution, and supervision of projects under provincial responsibility; and (iii) providing technical assistance to the municipalities for replicating good practices. The UEPs must also undertake technical monitoring of the municipal projects within their jurisdiction, prepare the corresponding annual work plans (AWP), and ensure overall monitoring for the program in the province.

3.6 The basic structure of the UEPs, as indicated in the program OR, will include a provincial coordinator supported by operations, financial management, and procurement areas. The operating costs of the UEPs will be covered by the provincial governments, and may be partially financed by the program, if the institutional assessment shows this to be necessary.

3. Responsibilities of the municipalities

3.7 The municipalities will be responsible for the design and execution of their projects, in accordance with the contracts signed with their province. The municipalities will

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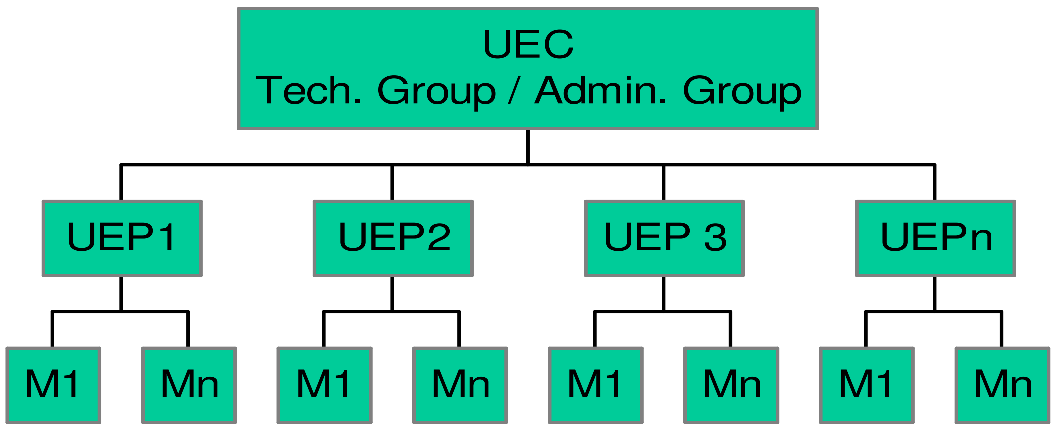
[8] It was agreed that eight consultants who are now providing services and who were contracted in accordance with Bank procedures under the Large Urban Areas Program will be kept on for this project. Those consultants are as follows, by area: 1. Management: coordinator; 2. Technical: municipal project preparation and evaluation specialist; urban planning and strategy and facilities improvement specialist; and project management specialist; 3. Financial/administrative: procurement specialist; disbursement specialist; accounting specialist; and information systems specialist.

have to appoint a manager for project execution under the program. Execution of these projects will follow the Bank's procurement procedures and other rules established in the OR. The program execution mechanism is presented below:

Program Execution Mechanism



B. Documents governing the program

3.8 The program will be governed by the rules established in the following documents: the loan contract between Argentina and the Bank; the program Operating Regulations (OR); the subsidiary loan agreements (CSPs) entered into between the Ministry of the Interior and the participating provincial governments; and the provincial-municipal agreements.

3.9 Program execution will be governed by the OR, the preliminary version of which has been prepared and agreed upon jointly with the executing agency. The OR may be amended only with the Bank's no objection. **As a condition precedent to the first disbursement, the OR will have been approved by the Ministry of the Interior on terms agreed upon with the Bank**.

3.10 The relationship between the provincial governments and the Ministry of the Interior will be established through subsidiary loan agreements (CSPs). These will state the specific conditions to be met by the parties in the preparation, financing, execution and monitoring of the respective PFMP. A preliminary version of these agreements has been prepared and agreed upon between the Bank and the executing agency.

3.11 The relationship between the provincial governments and the municipalities will be governed by the provincial-municipal agreements. These will include at least the following: (i) the commitments of the provincial government; (ii) the commitments of each municipality as regards execution, monitoring and compliance with agreed management targets; and (iii) the form and manner for transfer of resources. A

model of these agreements has been prepared and agreed upon between the Bank and the executing agency.

C. Provincial and municipal eligibility criteria

3.12 **Provincial eligibility.** To be eligible to participate in the program, the provinces must satisfy two criteria: they must have subscribed to the Federal Fiscal Responsibility Act and/or met the criteria set by it, and they must have sufficient borrowing capacity. Initially, an invitation to participate in the program will be sent to the four provinces in the sample which, in addition to meeting the criteria indicated, have already presented their expressions of interest to the Ministry of the Interior, and have projects prepared.[9] The executing agency will select the other participating provinces, in principle on the same criteria as used in the sample. Based on the order in which eligible projects are presented, this should result in the participation of provinces with different levels of development.[10]

3.13 **Municipal eligibility.** All municipalities of a province that has signed a CSP are eligible to participate in the program, depending on the scope of the municipal strengthening programs of each province. For municipally initiated projects (i.e. those identified and executed by the municipalities themselves), municipalities with the financial capacity to ensure the sustainability of the projects will be eligible. Priority will be given to municipalities presenting projects that have demonstration effects that can be replicated, or high impact in improving the management and delivery of community services. Each province's selected municipal projects will be proposed in its PFMP, setting out the reasons for the selection and ensuring equal opportunity among municipalities.

D. Allocation, transfer of resources, and project financing

3.14 **Allocation of resources among provinces.** The following factors will be taken into account in distributing component 1 resources among interested provinces: (i) the scope of the activities and projects included in the proposed PFMP; (ii) the development classification of the provinces; and (iii) the readiness of specific projects. The program will start with the following maximum allocations: (i) US$30 million for advanced provinces; (ii) US$20 million for intermediate provinces; and (iii) US$15 million for less developed or low-density provinces.

3.15 **Transfer of funds to the provinces and municipalities**. The national government will transfer the loan proceeds to the participating provinces in the following

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9 The four provinces in the sample (Buenos Aires, Chubut, Salta and Formosa) that have already submitted letters of interest have the following profiles: (i) one is at an advanced level of development; (ii) one is low-density (or special); (iii) one is at an intermediate level of development; and (iv) one is lagging in its development.

10 According to the classification used, the provinces are distributed as follows: (i) "advanced": Buenos Aires, Santa Fe, Córdoba and Mendoza; (ii) "special": Chubut, Santa Cruz, La Pampa and Rio Negro; (iii) "intermediate": San Juan, San Luis, Entre Ríos, Neuquén, Tucumán, and Salta; (iv) "lagging": La Rioja, Catamarca, Corrientes, Jujuy, Misiones, Chaco, Santiago del Estero, and Formosa.

manner: (i) 80% will be transferred in the form of reimbursable subsidiary loans; and (ii) 20% will be transferred as a nonreimbursable national contribution. The subsidiary loans to provinces will carry the same terms as the Bank loan to the national government. The subsidiary loans will include financing for the entire PFMP, and will be guaranteed by the funds that each province receives from the federal government under the tax revenue sharing arrangements. The federal government will therefore have full control to enforce guarantees as necessary.

3.16 Each province will set the financial terms under which the funds it receives are to be passed on to the municipalities—whether reimbursable or nonreimbursable—but in no event will these terms be less favorable than those set in the financing received from the federal government. When the provinces decide to transfer funds to the municipalities in local currency, the financial terms of the subloans must be approved by the executing agency with the Bank's no objection. Similar to the arrangement between the federal and provincial governments, these subloans will be guaranteed with the tax revenue sharing resources that the municipalities receive from the province.

3.17 **Project financing.** Program funds will be used to finance provincial initiatives (subcomponent 1.1) and municipal projects (subcomponent 1.2) consistent with the scope of the municipal strengthening program of each province and the corresponding agreements. In all cases, financing for activities under subcomponent 1.1 will be the responsibility of the provincial government. All municipal projects will be eligible for financing with a 20% subsidy, except for building improvements.

3.18 **Reallocation of funds.** Once the funds have been allocated to finance projects in the selected provinces, any remainder will be reallocated among the interested provincial jurisdictions. Similarly, funds may be reallocated from jurisdictions that fail to commit 50% of the resources slated in their PFMP by the second year of execution. Any such reallocations will be made by the UEC with the Bank's no objection, as agreed in the annual program evaluation meetings.

E. Formalization of provincial and municipal participation

3.19 **The provinces will enter into a subsidiary loan agreement (CSP) with the national government for the transfer of funds from the loan. Signature of the prospective agreements will be a special execution condition for each of the respective PFMPs (component 1).** The agreement will incorporate a technical annex with a tentative list of projects in the PFMP. The UEC will provide technical assistance to the UEPs so they can join and participate in the program in a timely and effective manner. The model subsidiary agreement to be used in the program is included as an annex to the OR.

3.20 Each participating municipality will sign an agreement with its province, including an annex of municipal strengthening projects to be financed, with their execution timetable and financial arrangements. This agreement will also include the type and frequency of the reports to be delivered by the municipality to the respective UEP.

Finally, the participation agreement will require the municipality to appoint a project execution team. The agreements will make specific provision for inspection by the province, the UEC, the external auditors, and the Bank. A model provincial-municipal agreement is included as an annex to the OR.

F. Preparation and evaluation of municipal strengthening projects

1. Project formulation and preparation

3.21 The provincial government units responsible for municipal strengthening will formulate (with help from their UEPs) the provincially initiated projects that will form part of the PFMP. These units will promote the projects among potential beneficiaries in the province, and will provide technical assistance as required to the municipalities in formulating their own projects.

3.22 In formulating and preparing the provincially initiated projects (subcomponent 1.1), the UEP will use its own resources and/or draw upon technical and financial support from the UEC. If the province contracts consulting services, it may ask the UEC to recognize this as an eligible expenditure, provided that the contracting procedures are substantially similar to those in the loan contract. A similar procedure will apply to projects prepared by the municipalities (subcomponent 1.2), where the UEP will be asked to recognize expenditures. Project preparation costs recognized against the loan proceeds may not exceed 1.5% of the total project cost.

2. Project evaluation and approval

3.23 The PFMP for each province will be evaluated and approved by the UEC, and submitted to the Bank for its no objection. In principle, no participating municipality may be allocated more than 30% of total PFMP funding. Any exception must be agreed upon with the Bank.

3.24 Evaluation of the projects under subcomponent 1.1 will be done by the UEC technical group, supported as necessary by short-term consultants. In all cases, each project must carry the technical approval of the UEC and the Bank's no objection, as necessary. The first two projects in each province under subcomponent 1.1 will be submitted to the Bank for its prior no objection. Subsequent projects will merely have to be reported to the Bank, except as the Bank may determine in its sole discretion that prior review is warranted.

3.25 Projects under subcomponent 1.2 will be evaluated initially by the UEPs. The UEP will submit for UEC approval the first project of each kind (see the classification in paragraph 2.6), except as the UEC may determine in its sole discretion that prior review is warranted, as well as projects that require financing of more than US$100,000, which has been set as the discretionary limit. In all cases, each municipal project must be covered by an evaluation report by UEP technical staff and, as appropriate, the UEC technical group. The evaluation will confirm that the projects have the content identified in the project guidelines. The UEP will notify the municipalities formally that their projects have been accepted or rejected, indicating the grounds for any rejection.

G. Component 2 execution. Sector monitoring

3.26 The activities under this component, as listed in paragraph 2.7, will be executed by the executing agency through the UEC. These activities relate to the contracting of consulting services, studies, procurement of goods and equipment, and training courses, workshops and seminars. When contracting for systems, their operating and maintenance needs must be specified. As part of the operational strengthening of the UEC, funding is provided to cover travel and accommodation for the technicians and consultants who must visit the participating provinces.

3.27 Any participating institution may propose studies to the UEC, which will review them for relevance and merit, and submit them for the Bank's no objection with full terms of reference, expected outcomes, and costs.

3.28 The Bank may agree to recontract experienced personnel assigned to other programs in the UEC, whose "continuity of service" would be useful for the program.

H. Procurement

1. Procurement of goods and works

3.29 The rules and procedures for the procurement of goods and works during program execution will be consistent with those of document GN-2349-7 ("Policies for the procurement of goods and works financed by the Inter-American Development Bank") and in the loan contract, which will take precedence in case of any discrepancy. All goods and works to be procured under the program must be included in the procurement plans included in the respective AWPs approved by the Bank. All prequalification, preselection, bidding, or tender documents must specify the selection procedures to be used.

3.30 Goods with an estimated cost of US$350,000 or more will be procured by international competitive bidding (ICB); those with an estimated cost of US$100,000 or more, by national competitive bidding (NCB); and those under US$100,000, by the shopping method. Except as the Bank may determine otherwise in writing, each contract for the procurement of goods with an estimated cost of more than US$350,000 equivalent will be subject to prior review. However, the Bank will conduct prior review of the first bidding process.

3.31 Works with an estimated cost of more than US$5 million will be procured by ICB; those with an estimated cost of at least US$350,000 but less than US$5 million, by NCB; and those under US$350,000, by a competitive process of invitation and selection, based on three valid bids. Except as the Bank may determine otherwise in writing, each contract for the procurement of works with an estimated cost of more than US$5 million equivalent will be subject to prior review. However, the Bank will conduct prior review of the first bidding process.

2. Procurement of consulting services

3.32 Consulting services will be selected and contracted in accordance with policies and procedures established in document GN-2350-4 ("Policies for the selection and contracting of consultants financed by the Inter-American Development Bank") and in the loan contract, which will prevail in case of discrepancy. The consulting services to be contracted for the program will be included in the procurement plan and in the respective AWPs approved in advance by the Bank.

3.33 Consulting services with an estimated cost of US$300,000 or more will be procured by ICB. National contracting procedures will be used for procurements under this amount, consistent with document GN-2350-4. In such event, the short list may comprise entirely national firms. Except as the Bank may determine otherwise in writing, each consulting firm contract with an estimated cost of US$300,000 equivalent or more will be subject to prior review. However, the Bank will conduct prior review of the first bidding process.

3.34 The UEC will be responsible for enforcing these procedures and ensuring that the UEPs and the municipalities adhere to them.

I. Recognition and reimbursement of expenditures

3.35 **Retroactive financing**. Consistent with Operational Policy OP-504 and given the program's progress, the loan proceeds may be used to reimburse program expenditures incurred on or after 1 April 2006, provided that they were incurred during the 18 months prior to the date on which the operation is approved by the Board of Executive Directors of the Bank. Up to US$10 million may be used for retroactive financing, provided that the procurement procedures have complied with conditions substantially similar to those established in this document.

3.36 **Recognition of expenditures as part of the local contribution**. Likewise, program expenditures incurred on or after 1 April 2006 may be recognized as part of the local contribution, provided that they were incurred during the 18 months prior to the date on which the operation is approved by the Board of Executive Directors of the Bank. Up to US$2 million may be so recognized, provided that the procurement procedures have complied with conditions substantially similar to those established in this document.

J. Financial management of execution

1. Responsibilities and records

3.37 The UEC will be responsible for financial management of the program, including coordination and supervision of the use of loan proceeds by the provinces and municipalities. The UEC will ensure that the UEPs use the Financial Management and Control System for External Loan Executing Units (UEPEX) of the Ministry of Economy and Production. The UEC and the UEPs will keep accounts of program execution, using a chart of accounts approved by the Bank.

3.38 The UEC will maintain an accurate and complete filing system, compatible with the UEP records. Each UEP will in turn make its records compatible with those of the municipalities. The Bank and the external auditors will have access to those files during inspection visits, ex post reviews, or whenever they so request.

2. Loan disbursement procedures

3.39 The UEC will maintain a bank account denominated in dollars, in which the Bank will deposit the loan proceeds. The UEC will also maintain a current account denominated in Argentine pesos, from which it will make all payments under the program. This latter account will receive the counterpart contributions from the national government and the funds transferred from the loan account, converted into pesos, as needed to make short-term payments. The UEC will prepare and submit disbursement requests to the Bank in accordance with Bank rules and procedures.

3.40 Given the decentralized nature of the program, a revolving fund of up to 10% of the total Bank loan proceeds will be established. The UEC will present semiannual status reports on the revolving fund, and will periodically prepare and send to the Bank supporting documentation and/or requests relating to the revolving fund.

3.41 Each UEP will open a special account in Argentine pesos, in which the counterpart funds for the provincial projects and the loan proceeds transferred by the UEC will be deposited in accordance with the subsidiary loan agreement signed between the province and the national government. This special account will be used to make payments for the provincial projects, as well as transfers to the municipalities to cover expenses approved by the UEP. The UEP will be responsible for the funds disbursed to the municipalities. When UEP transfers funds to the municipalities, they must open a special account in pesos in which only program funds will be deposited.

K. Program supervision and evaluation

3.42 The UEC and the UEPs will be responsible for the technical, physical, and financial aspects of the program at the national and provincial levels, respectively. A monitoring and evaluation system will be established for such purpose and will be operational within six months after program eligibility. Given the importance of this system, the UEC and the UEPs in the sample have already begun to train their staff in working with the UEPEX project management system, use of which is mandatory for all externally financed programs by order of the Ministry of Economy and Production.

3.43 Financing for this system's introduction is included under the program's coordination and management item. The system is expected to function as follows: (i) the municipal governments will have information and indicators for measuring outcomes from their specific projects, and will report to the UEPs on progress achieved; (ii) the UEPs will monitor the municipalities and advise the UEC of the outcomes achieved in their own projects, in terms of the scope indicated in their

respective PFMPs; and (iii) the UEC will be responsible for the entire monitoring system, using information supplied by the UEPs. The indicators used in the system may vary from province to province, but must include those in the program logical framework. The terms of reference for establishing the monitoring and evaluation system will be agreed upon between the UEC and the Bank.

3.44 The program baseline is partially available for the four provinces in the sample, and will be completed by the end of the first year of program execution on the basis of information on the projects in the PFMPs of the provinces signing the corresponding CSPs. The commitment to establish the provincial baseline will be set out in the respective CSPs.

3.45 Two evaluations of the program will be conducted as part of the program monitoring and evaluation system: a midterm evaluation, to be done two-and-a-half years after program start or once 50% of the loan proceeds have been disbursed, whichever occurs first; and a final evaluation, to be done within the six months prior to the end of program execution. Both evaluations will be performed under a specialized consulting engagement, contracted with the loan proceeds. The terms of reference for these evaluations will be agreed upon between the executing agency and the Bank, taking into account the indicators in the Logical Framework and all of the information generated by the program's monitoring and evaluation system.

3.46 The UEC will contract an independent firm of auditors for the external audit of the project, consistent with Bank policies, to be selected in accordance with document AF-200. The audit will also have an operational element, covering execution procedures at the central, provincial and municipal levels, compliance with the Operating Regulations, and other relevant matters.

IV. VIABILITY AND RISKS

A. Institutional viability

4.1 **Institutional capacity and experience of the Central Executing Unit (UEC)**. The institutional capacity of the UEC was assessed during the program preparation phase, and it was found to have sufficient organization and experience to execute this program.[11] The UEC has performed satisfactorily in executing the Large Urban Areas Program (loan 1068/OC-AR), but the assessment revealed the need for strengthening in the specific technical areas covered by this program, and consultants will be contacted for such purpose.

4.2 **Institutional capacity of the provincial executing units (UEPs)**. The institutional capacity of the UEPs of the sample provinces has been assess: all have experience in financing projects with external resources. The provinces of Buenos Aires and Salta have received direct financing from the Bank, and the provinces of Chubut and Formosa have participated in federal programs financed by the Bank. In all

[11] Institutional Evaluation Analysis of the UEC and UEPs. Tomas Rodrigo, 2006.

cases, the UEPs have the necessary staffing to provide the administrative and financial services needed for the new operation, and to handle the corresponding procurement. Nonetheless, all proposals under the provincial programs for municipal strengthening (known by their Spanish-language acronym, PFMP) will have to include an institutional capacity assessment of the respective UEP so that, if necessary, additional strengthening can be financed. The UEPs will also receive technical support from the UEC (through the technical group) in formulating and executing their projects, as well as from the provincial government bodies responsible for municipal relations.

4.3 **Stakeholder consultations**. The content and scope of the program activities were identified through field studies and consultations with the entities involved. Specifically, component 1 activities are the result of thorough consultations with the provincial governments and with the authorities and technical staff of a sample of 25 municipal governments. In addition, the program designers were in constant contact with the provincial governments during the preparatory work, to facilitate the design of their projects and ensure their sense of ownership of the proposed activities. In all cases, the sample provinces have repeatedly confirmed their interest in participating in the program.

B. Financial viability

4.4 The program's financial viability was evaluated against two factors: (i) availability of local counterpart funds; and (ii) ways of improving the program's financial terms so as to encourage provincial and municipal governments to participate.

4.5 **Availability of counterpart resources**. The UEC already has funds earmarked in the 2007 budget for implementing this program. The provincial governments in the sample have already taken steps to achieve similar allocations in their own budgets.

4.6 **Facilitating municipal access to financing**. The lessons learned from previous municipal programs show that institutional strengthening activities are not always successful because the authorities do not give sufficient priority to the needed investments, and because the great majority of municipalities have difficulty in making the 50% local contribution that was required. The project team has therefore given close attention to structuring a system of financial incentives that will encourage municipal participation. The system is structured as follows: (i) a federal contribution of 20% of the financing for modernizing municipal management; (ii) the provincial governments have financial responsibility for municipal improvement projects that require large-scale solutions (for example, integrated financial management systems), and this in practice reduces their cost to the municipalities; and (iii) the 90/10 financing ratio substantially reduces the required provincial and municipal contribution in the short term. This type of financing thus offers an incentive for the provinces and municipalities to participate in the program, while strengthening intergovernmental cooperation.

C. Economic and technical viability

4.7 The analysis of the program's technical and economic viability is based on a sample of specific projects for which detailed profiles have been prepared. The technical analysis of those profiles suggests the following conclusions: (i) the proposed investments are consistent with the program's design and the eligible areas of financing (relevance); (ii) the projects have been identified by the provinces and municipalities themselves, and thus respond to real needs (demand-driven); (iii) the proposed scope of the program is consistent with the execution capacities and the responsibilities of the entities involved (absorption capacity); (iv) the technical solutions and municipal management instruments indicated in the projects are appropriate to project objectives, users, and local conditions (technologically appropriate); (v) the provincial projects are for the most part based on technological solutions that are already proven as to their effectiveness and efficiency (good practices); and (vi) the provincial governments have the experience and the technical capacity to support project implementation (lower execution risk).

4.8 The economic feasibility analysis indicates that the program will produce various benefits. Specifically, the provincial initiatives (subcomponent 1.1) will generate fiscal savings because: (i) they will implement solutions at the municipal level that have already been developed and tested at the provincial level, which means that a significant portion of the preinvestment work has already been done (as in the case of the integrated financial management and tax administration systems developed at the provincial level); (ii) the adoption of innovative electronic procurement mechanisms will produce savings of up to 25% against the procurement budget approved at the beginning of the fiscal year; and (iii) the integrated financial management systems will make for better programming and execution of expenditure, which will enhance suppliers' likelihood of being paid, and induce them to improve the contract conditions they offer the municipalities.

4.9 On the revenue side, program initiatives will produce, among other things: (i) an increase in municipal tax collection of up to 100%, through updating of the municipal tax registries; (ii) an increase in payments of taxes and charges through the adoption of electronic payment systems and improved taxpayer services, thereby facilitating voluntary compliance; and (iii) support for the establishment of leagues of municipalities that will help the smaller municipalities address some of their problems of scale so that they can leverage greater funding for their projects. The following table provides a sample of the kinds of projects that the program will finance:

Table IV-1 Selection of Municipal Management Improvement Projects

Project name	Type	Coverage	Expected benefits	Cost (US$)
1. Integrated municipal admin. system (RAFAM-II)	Provincial-Buenos Aires	60 Municipalities	Greater transparency and better decisions	5,000,000
2. Basic municipal financial management system	Provincial-Chubut	15 Municipalities	Idem	700,000
3. Comuna strengthening and equipment program	Provincial-Chubut	20 Comunas	Idem	400,000
4. IFMS development & implementation - Municipal	Provincial -Formosa	15 Municipalities	Idem	
5. E-Government – Formosa municipalities	Provincial -Formosa	27 Municipalities 10 Comunas	Reduced communication and procedures costs	1,000,000
6. E-Government and Connectivity – Salta municipalities	Provincial-Salta	59 Municipalities	Idem	6,800,000
7. Building modernization and equipment	Municipal-Chubut	Esquel	Better service to public	3,000,000
8. Cadastre modernization and building improvements	Municipal -Chubut	Comodoro R.	Greater revenues	1,200,000
9. Building modernization and improvements	Municipal -Salta	Tartagal	Better service to public	2,000,000
10. Urban development master plan	Municipal -Chubut	Esquel	More efficient investment	200,000
			Total	**20,300,000**

Source: Project sheets -UEC Ministry of the Interior.

D. Social and environmental impact

4.10 The program will have positive indirect social and environmental impacts, as it will strengthen the institutional capacity of municipal governments in such areas as: (i) improving municipal and urban planning systems and instruments (preparation of master plans), which will contribute to more orderly urban growth, prevent natural disasters through better land-use, improve the use of natural resources, and facilitate the planning of investments in municipal services and infrastructure; (ii) improved mechanisms for citizen participation through the introduction of municipal e-government and strengthening of planning systems; and (iii) revision/reengineering of municipal business registration and licensing procedures so as to take account of environmental aspects. In addition, the program includes the possibility of financing environmental education campaigns for the local public, and training for municipal officials in natural resource and environment administration.

E. Expected outcomes and benefits

4.11 The participating municipal governments will be the principal beneficiaries of the program. Progress will be measured by the increase in municipal capacities in financial administration, urban and municipal planning, transparency of information, and provision of administrative services to the public. In turn, the provincial governments will be instrumental in achieving these objectives and will also improve their own management systems with respect to tax revenue sharing with the municipalities, fiscal information systems, and the capacity to provide technical assistance to municipal governments. As a general outcome, the program is expected to produce greater effectiveness and efficiency in the use of municipal resources, which will be of direct benefit to local populations.

F. SEQ and PTI classification

4.12 This operation does not qualify as a poverty-targeted investment (PTI), but does qualify as a social-equity enhancing (SEQ) program, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

G. Risks

4.13 **Incentives for municipal and provincial participation in the program**. A key aspect of projects of an institutional kind is that they must contain adequate incentives, both for the beneficiary entities to participate, and for the effective implementation of the planned organizational and administrative measures. In the present case, the federal contribution is a central element of the incentives to participate in the program, to which may be added the following aspects: (i) at the provincial level, the program will finance projects of mutual provincial and municipal interest; and (ii) at the municipal level, the program covers projects to improve the management of municipal services and to rehabilitate/upgrade municipal facilities, in accordance with needs defined by the municipalities themselves.

4.14 **Control over the implementation and quality of the planned municipal systems**. It is important to recognize and mitigate several risks: (i) the technical solutions may not be adequate to municipal needs; (ii) municipalities may have difficulty in absorbing and sustaining the methodologies and systems; and (iii) the priorities of participating entities might change. To reduce the first risk, standardized solutions will be developed at the provincial level, where there are already proven systems that can be adapted to the needs of the various kinds of municipalities within their jurisdiction. The second risk (absorption problems) will be reduced by improving or strengthening the technical support that the provinces provide the municipalities. The third risk (change in provincial priorities) will be mitigated by the advanced stage of preparation of the sample PFMPs, which are expected to begin execution before the elections scheduled for late 2007. As well, the degree of subsidy provided by the program offers an incentive for continued pursuit of projects.

4.15 **Replicability of specific projects**. The program will not only support the generalized application of management instruments and methodologies developed by the provinces, but will also promote the dissemination and exchange of experience on projects originating in the municipalities. Other programs of this kind have lacked such dissemination and funds have therefore been included here to develop a system for the dissemination of good municipal practices.

PROGRAM TO IMPROVE MUNICIPAL MANAGEMENT (AR-L1016)
LOGICAL FRAMEWORK

Narrative summary of objectives	Indicators	Means of verification	Assumptions
Goal To improve the institutional performance of municipal governments.	**Impact** • Three years after program completion, participating municipalities show greater transparency and efficiency in their principal systems of internal management and service to the public.	Program monitoring and evaluation system (including information from surveys).	The provinces maintain political support for the program within their respective jurisdictions. The country suffers no major macroeconomic shocks.
Purpose To strengthen the management capacity of municipal governments in the areas of finance, internal management, administrative services, and planning.	**Outcome** By program end, at least one public service office in 45 participating municipalities (year 3: 25 municipalities) has shortened processing times by no less than 20% with respect to the base year. By the end of the execution period, at least 70% (year 3: at least 50%) of managers in participating municipal governments recognize that the management instruments introduced by the program facilitate decision-making. By program end, at least 70% (year 3: at least 50%) of technical staff of participating municipal governments recognize that organizational and/or regulatory changes made via the PFMP are improving performance of institutional functions and responsibilities.	Program Monitoring and Evaluation System. Surveys in participating municipalities directed at administrative service users, managers, technical staff and supervisors of municipal services (Intendentes).	Provincial governments transfer funds to the municipalities under the conditions and timing needed to achieve program objectives. Changes in provincial and municipal administrations do not alter the priority assigned to the program or place in risk the accords indicated in the Subsidiary Agreements.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
	By program end, 70% (year 3: at least 50%) of supervisors of municipal services (Intendentes) recognize and improvement in the technical assistance provided by the provincial governments, resulting in the availability of new or improved management tools.		
Component 1 **1.1 Provincial Projects for Municipal Strengthening** *Improve local management and provincial advisory services and technical assistance for municipal governments.*	**Products** **By program end:** • 6 provinces (year 3: 4 provinces) are satisfactorily implementing their PFMPs. • At least 3 provinces have reviewed and improved the provincial rules governing various aspects of municipal government, or have assisted the municipalities in reviewing their own rules. • 4 Provinces have developed or improved integrated financial management systems (IFMS) and supported their introduction in at least 60 municipalities (year 3: at least 30 municipalities receive technical assistance for IFMS implementation). • 100% of participating provinces (year 3: at least 50%) have electronic portals with information and services for municipalities. • 300 municipal officials have been trained (100 at the management level and 200 at the operating level) in management issues and administrative techniques specific to municipal governments (year 3: 150 officials trained).	For the entire component: Reports based on the program monitoring system of the UEC. Information published at Web Sites of participating municipalities.	Municipal governments maintain their commitment to adopt strengthening mechanisms/instruments offered by the provincial governments. Municipal governments take the actions agreed in the Agreements and maintain their commitment to program objectives.

Narrative summary of objectives	Indicators	Means of verification	Assumptions
1.2 Municipal Management Projects *Execute municipally initiated strengthening projects.*	• 90 municipalities (year 3: 45 municipalities) have signed agreements with the provinces to participate in the program. • 60 municipalities (year 3: 30 municipalities) have new or improved integrated financial management systems up and running. • 30 municipalities are introducing or improving their Internal Management Systems in the program areas. • 30 municipalities (year 3: 20 municipalities) have updated and computerized their property registries and/or have an improved tax administration system for better revenue planning. • 50 municipalities (year 3: 30 municipalities) have *e-government* projects underway and have new or improved Web portals with: (i) published budgets; (ii) rules and ordinances; (iii) procedural guides for the public; and (iv) information on municipal projects and investments. • 50 municipalities have redesigned two important procedures (driver's license, tax payments, business authorizations, etc.). (year 3: 50 procedures improved). • 20 Municipalities (year 3: 10 municipalities) have updated strategic plans and/or urban development plans. • 25 Municipalities have upgraded buildings and facilities as part of their institutional modernization programs.		

Narrative summary of objectives	Indicators	Means of verification	Assumptions
Component 2 Sector monitoring.	**By program end:** • Municipal Portal of the Ministry of the Interior and database available for disseminating good practices implemented (year 3: portal in place). • 4 events (year 3: 2 events) have been held to disseminate good practices and available technological solutions for improving municipal management. • 1 international seminar conducted on municipal management issues. • 2 studies financed by the program have been published.	Program Web site. Reports based on the program monitoring system of the UEC.	The municipal-provincial and provincial-UEC information exchange protocols established in the Framework Agreements are implemented in a timely manner.
Component 1 activities Improved municipal management 1.1 Provincial initiatives/projects. 1.2 Municipal projects.	Budget of US$73.7 million executed	PPMR	
Component 2 activities Municipal sector monitoring: 2.1 **Municipal Portal** 2.2 Studies and events	Budget of US$1.35 million executed	PPMR	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION

Argentina. Loan /OC-AR to the Argentine Republic
Municipal Management Improvement 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 Argentine Republic, as Borrower, for the purpose of granting it a financing aimed at cooperating in the execution of a municipal management improvement program. Such financing will be in the amount of up to US$72,000,000, from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.