

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**REGIONAL**

**DEVELOPMENT AND INTEGRATION PROGRAM OF THE  
SALTO GRANDE REGION**

**(RG-L1126)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: Ady Beitler (TIN/CAR), Project Team Leader; Julieta Abad (TSP/CAR), Alternate Project Team Leader; Ignacio Estevez (INT/INL); Alejandra Radl (INT/INL); Federica Gómez (TIN/CUR); Denise Obara (CSC/CSC); Verónica Adler (HUD/CUR); Zachary Hurwitz (VPS/ESG); Cristina Celeste (LEG/SGO); Juan Carlos Lazo (VPC/FMP); Roberto Laguado (VPC/FMP); Laura Dadomo (CSC/CAR); Yasmin Esteves (INT/TIN); Margarita Gomez (INT/TIN); and Christian Volpe (INT/INT).

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## CONTENTS

### PROJECT SUMMARY

I.	PROJECT DESCRIPTION AND RESULTS MONITORING .....	1
	A. Background, problem addressed, and rationale.....	1
	B. Objectives, components, and costs .....	12
	C. Key results indicators .....	14
II.	FINANCING STRUCTURE AND MAIN RISKS .....	14
	A. Financing instruments .....	14
	B. Environmental and social safeguard risks.....	15
	C. Fiduciary risks .....	15
	D. Other program risks.....	15
III.	IMPLEMENTATION AND MANAGEMENT PLAN .....	16
	A. Summary of implementation arrangements .....	16
	B. Summary of arrangements for monitoring results .....	18

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) – Summary
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

LINKS
<b>REQUIRED</b>
1. <a href="#">Multiyear execution plan and annual work plan</a>
2. <a href="#">Monitoring and evaluation plan</a>
3. <a href="#">Environmental and social management report (ESMR)</a>
4. <a href="#">Procurement plan</a>
<b>OPTIONAL</b>
1. <a href="#">Program economic analysis</a>
2. <a href="#">Integration and productive development in the Salto Grande region</a>
3. <a href="#">Tourism development in the Salto Grande region</a>
4. <a href="#">Streamlining of coordinated border management in the Salto Grande region</a>
5. <a href="#">Specifications for reconditioning of Concordia airport, airside</a>
6. <a href="#">Evaluation of Concordia airport project: final report</a>
7. <a href="#">Draft program Operating Regulations</a>
8. <a href="#">Challenges in the horticultural and industrial forestry sectors in the Salto Grande region</a>
9. <a href="#">Instruments for trade and tourism services promotion in Uruguay</a>
10. <a href="#">The Bank's sector knowledge and lessons learned</a>
11. <a href="#">Complementarity potential for the tourism sector in the binational region</a>
12. <a href="#">Tourism-related institutions in the Salto Grande binational region</a>
13. <a href="#">Financial evaluation of the Entre Ríos provincial government</a>
14. <a href="#">Multisector fund for production and tourism</a>
15. <a href="#">Safeguard policy filter (SPF) and safeguard screening form (SSF) for classification of projects</a>

## ABBREVIATIONS

ABC	Argentinean Blueberry Committee
ATER	Agencia Tributaria de Entre Ríos [Entre Ríos Tax Authority]
CAFESG	Comisión Administradora para el Fondo Especial de Salto Grande [Administration Commission for the Salto Grande Special Fund]
CDR	Country development result
DGFyCO	Dirección General Fiscalización y Control de Obras [General Directorate of Works Inspection and Oversight]
DGFPIP	Dirección General de Financiamiento para la inversión Pública [General Directorate of Financing for Public Investment]
DNM	Dirección Nacional de Migraciones [National Migration Office]
EEA	Estación Experimental Agropecuaria [Experimental Agricultural Station], INTA
EFM	Estadísticas del Fondo Multisectorial [Statistics of the Multisector Fund]
ESMR	Environmental and social management report
INDEC	Instituto Nacional de Estadística y Censos [National Statistics and Census Institute], Argentina
INE	Instituto Nacional de Estadísticas [National Statistics Institute], Uruguay
INTA	Instituto Nacional de Tecnología Agropecuaria [National Agricultural Technology Institute]
IRR	Internal rate of return
MIOPyV	Ministry of the Interior, Public Works, and Housing
MPIyS	Ministry of Planning, Infrastructure, and Services of the Province of Entre Ríos
NPV	Net present value
OPP	Oficina de Planeamiento y Presupuesto [Office of Planning and Budget], Uruguay
PEU	Program execution unit
TFF	Tarjeta de facilitación fronteriza [border facilitation card]
TVF	Tránsito vecinal fronterizo [local border traffic]
UEPEX	Unidades Ejecutoras de Proyectos con Financiamiento Externo [Execution Units for Projects with External Financing]

## PROJECT SUMMARY

### REGIONAL DEVELOPMENT AND INTEGRATION PROGRAM OF THE SALTO GRANDE REGION (RG-L1126)

Financial Terms and Conditions				
<b>Borrower:</b> Province of Entre Ríos of the Argentine Republic			<b>Flexible Financing Facility<sup>(a)</sup></b>	
<b>Guarantor:</b> Argentine Republic			<b>Amortization period:</b>	25 years
<b>Executing agency:</b> Ministry of Planning, Infrastructure, and Services (MPlyS) of the Province of Entre Ríos			<b>Disbursement period:</b>	5 years
			<b>Grace period:</b>	5.5 years <sup>(b)</sup>
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	LIBOR-based
<b>IDB (Ordinary Capital):</b>	50 million	100%	<b>Credit fee:</b>	<sup>(c)</sup>
			<b>Inspection and supervision fee:</b>	<sup>(c)</sup>
<b>Total:</b>	50 million	100%	<b>Weighted average life:</b>	15.25 years <sup>(d)</sup>
			<b>Currency of approval:</b>	U.S. dollar
Project at a Glance				
<b>Program objective/description:</b> The program objective is to contribute to greater competitiveness of the productive sectors and tourism services in the Salto Grande region. The specific objectives are: (i) to raise the productivity of the productive sectors participating in the program, (ii) to better position the Salto Grande region as a tourist destination, and (iii) to improve the connectivity of the Salto Grande region, so that it can attract larger numbers of domestic and foreign tourists.				
<b>Special contractual conditions precedent to the first disbursement of the loan proceeds:</b> (i) approval and entry into force of the program Operating Regulations ( <a href="#">optional link 7</a> ) on the terms agreed upon with the Bank; (ii) creation of the program execution unit and appointment of its members; and (iii) signature and entry into force of the agreement between the borrower and the Ministry of the Interior, Public Works, and Housing (MIOPyV) for program Component 3 (see paragraph 3.5). See also Annex B of the environmental and social management report (ESMR) ( <a href="#">required link 3</a> ) for the environmental contractual condition precedent to the first disbursement of loan proceeds.				
<b>Special contractual conditions for execution:</b> (i) Prior to starting execution of Component 2, the borrower will: (a) provide evidence that authorizations have been obtained from the relevant national authorities in Argentina's airport sector, and local legal requirements have been met; and (b) provide evidence that the agreement with the Concordia municipal government for execution and maintenance of the Concordia airport has been signed and has entered into force; and (ii) prior to issuing the solicitation for the Concordia airport reconditioning project works, the borrower will provide evidence that the relevant authorities have partially approved the preliminary design for the works at the Phase 1 level (see paragraph 3.6). See also Annex B of the ESMR ( <a href="#">required link 3</a> ) for the environmental and social special contractual conditions for execution.				
<b>Exceptions to Bank policy:</b> None.				
Strategic Alignment				
<b>Challenges:<sup>(d)</sup></b>	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>	
<b>Crosscutting themes:<sup>(e)</sup></b>	GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input type="checkbox"/>	

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

<sup>(d)</sup> The original weighted average life may be shorter depending on the signature date of the loan contract.

<sup>(e)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

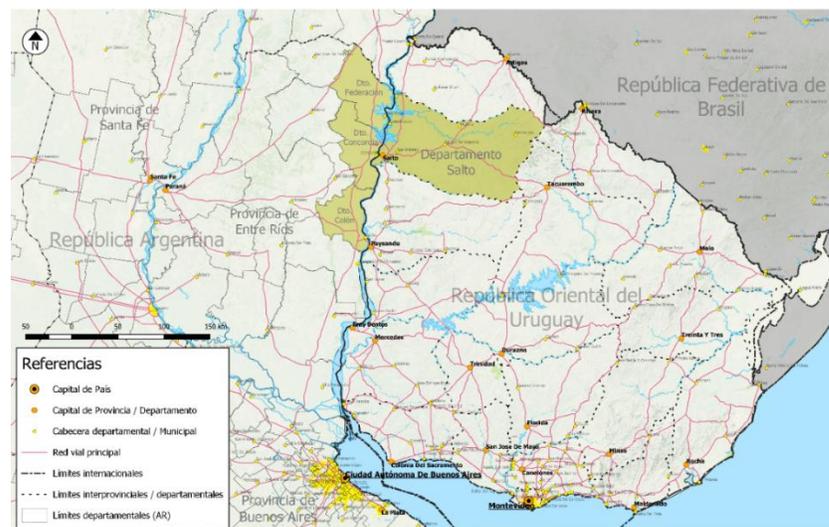
<sup>(f)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 **Context.** The Salto Grande binational region<sup>1</sup> encompasses the departments of Concordia and Federación in the Province of Entre Ríos, Argentina, as well as the Department of Salto in Uruguay. The binational ties go back to the nineteenth century and culminated in development of the Salto Grande hydroelectric complex on the Uruguay River with a dam connecting the cities of Concordia and Salto. Construction of the dam began in 1946 with the creation of the Salta Grande Joint Technical Committee<sup>2</sup> and began operating in 1982.
- 1.2 The Uruguay River serves as a unifying element of the binational region, which also has a distinctive natural environment, unique cultural features, and a shared history that provides a common identity.
- 1.3 **Program target area.** The target area encompasses the departments of Concordia, Federación, and Colón in the Province of Entre Ríos (Argentina) and the Department of Salto (Uruguay). This binational region spans 24,072 square kilometers<sup>3</sup> and has a population of 454,033.<sup>4</sup>

Map 1.1. Program target area<sup>5</sup>



- <sup>1</sup> The concept of “region,” from a geographical standpoint, refers to spatial uniformity and homogeneity. Alejandro Benedetti, 2008.
- <sup>2</sup> The Salta Grande Joint Technical Committee was created under an agreement between Argentina and Uruguay to develop the hydroelectric potential of the Salto Grande region. The agreement was ratified pursuant to Law 13,213 of 2 July 1948 and Law 12,517 of 13 August 1958, respectively.
- <sup>3</sup> This includes 9,909 square kilometers in Argentina and 14,163 square kilometers in Uruguay.
- <sup>4</sup> Argentina’s National Statistics and Census Institute (INDEC) and Uruguay’s National Statistics Institute (INE).
- <sup>5</sup> Prepared by the project team using SIG-COSIPLAN, Military Geographical Service (Uruguay), National Geographical Institute (Argentina), and Google Terrain©.

- 1.4 **Connectivity.** The region is connected to Argentina's main cities via National Routes 14 and 18. Uruguay's Route 3 connects the binational region to Montevideo. The dam made it possible to connect the Argentine and Uruguayan rail networks, although this connection has scarcely been used since 2012. The ports on the river are inactive. A similar situation exists at the Concordia and Salto airports, which have not seen regular flight service since 2013. A total of 1,441,058 passengers crossed the Salto Grande bridge in 2017, up 82% from 2009.<sup>6</sup>
- 1.5 **Social profile.** The binational region has 454,033 inhabitants<sup>7</sup> and high rates of unemployment and poverty. Forty-two percent of Concordia's population lives below the poverty line, and 7.8% below the extreme poverty line, and its unemployment rate in the fourth quarter of 2017 was 4.2%.<sup>8</sup> Salto's unemployment rate was 9.5% in 2014.<sup>9</sup> As Uruguay's second-largest city in terms of population, Salto has an unemployment rate above the national average (7.8% in 2016), while 7.76% of its residents live in poverty and 49.4% have at least one unmet basic need. Of the departments located along the Uruguayan coast, it has the highest percentage of unskilled labor (30%).<sup>10</sup>
- 1.6 **Economic activities.** This is an agricultural region, with an intensive rural structure based on growing vegetables, fruits (primarily citrus and blueberries), and forest crops. Entre Ríos recorded US\$1.134 billion in exports in 2017, or 1.9% of the national total. The province's gross regional product in 2014 was 124.973 billion Argentine pesos, or 2.7% of the national total (19.6% primary sector, 19.7% secondary, and 60.8% tertiary).<sup>11</sup> Salto's regional GDP in 2015 was 2.8% of the national total at US\$1.492 billion<sup>12</sup> (22.1% primary, 21.5% secondary, and 56.4% tertiary). The region's tourist attractions are headlined by the hot springs flowing from the Guaraní Aquifer.
- 1.7 All four departments, as described below, share a productive matrix and sector-related problems. While opportunities to promote productive complementarity have not been identified, actions can certainly be taken to benefit enterprises in the binational region as part of a joint effort to boost productivity. The situation is different in the tourism sector: Despite a focus on the hot springs, efforts can be coordinated to develop various attractions on either side of the border. These can be complemented by greater sector knowledge in both countries.
- 1.8 **Binational coordination.** In 1975 Argentina and Uruguay formed the Uruguay River Administrative Commission, based primarily on the Uruguay River Border Treaty. The 1991 implementation of Mercosur strengthened trade and accelerated integration processes. Cultural ties dating back to 1920 have included the

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<sup>6</sup> [National Immigration Office \(DNM\), Ministry of the Interior, Public Works, and Housing \(MIOPyV\) of Argentina.](#)

<sup>7</sup> Including 187,448 in Concordia, 74,086 in Federación, 80,510 in Colón, and 111,989 in Salto. [INDEC](#) and [INE](#).

<sup>8</sup> INDEC. [Incidencia de la pobreza y la indigencia en 31 aglomerados urbanos.](#)

<sup>9</sup> Ministry of Labor and Social Security of Uruguay.

<sup>10</sup> [Leal, J. et al. \(2013\).](#)

<sup>11</sup> INDEC, 2014.

<sup>12</sup> INE Uruguay.

- organization of [Carnival celebrations](#), [marathon races](#), and the Binational Tourism Race, which has been jointly coordinated by Universidad de la República (in Salto) and Entre Ríos National University since 2005. Also noteworthy are the coordinated efforts by the public safety agencies of Salto and Concordia.
- 1.9 **Identification of the problem.** Economic integration of the binational region is lagging, and enterprises have been unable to become globally competitive or develop modern value chains and distribution chains.<sup>13</sup> Lowering logistical costs will require addressing bottlenecks caused by poor highway networks, ineffective transportation regulations and services, including weak customs services and a lack of coordination at the border.<sup>14</sup>
- 1.10 **Low competitiveness in the productive and tourism sectors.** Some of the factors hindering further development of the agroindustrial sector in the binational region are a lack of openness to new markets, the need for new and improved crop varieties and species, and the absence of value aggregation and innovation in local production. Moreover, tourism is limited by a failure to develop the region as a tourist destination, a lack of air travel connectivity, and inefficient border control procedures. Both sectors are also lacking statistical data and instruments to promote entrepreneurship and exports.
- 1.11 The low competitiveness in the productive and tourism sectors in the binational region is due to the following problems: (i) low productivity of the citrus sector; (ii) high costs of doing business in the blueberry sector; (iii) low output of the vegetable sector; (iv) limited aggregation in the chain of the industrial forestry sector; (v) little development of the region as a tourist destination; and (vi) poor connectivity.
- 1.12 **Low productivity of the citrus sector.** The binational region is the leading source of citrus production in both countries. It produces oranges, tangerines, and, to a lesser extent, lemons and grapefruit for domestic, industrial, and export markets. In 2017 Entre Ríos produced 23% of the national total, with 54% of this area used for oranges, 42% for tangerines, and the remaining 4% for grapefruit and lemons.<sup>15</sup>
- 1.13 Citrus yields in Entre Ríos province, however, are below the national average (approximately 15%).<sup>16</sup> Productivity in orange farming has fallen from 21.6 tons per hectare to 17.6 in the past 10 years. A similar drop has occurred in the number of tons harvested, from 739,000 to 600,000 tons, with the share of the national total slipping from 23.6% in 2007 to 18% in 2017. Corrientes province, meanwhile, increased its share from 7% to 17% over the same period.<sup>17</sup>

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<sup>13</sup> IDB Institutional Strategy (2016-2019), page 8.

<sup>14</sup> Integration and Trade Sector Framework Document (document GN-2715-6), paragraph 2.36.

<sup>15</sup> [Informe de actividad citrícola](#), 2018. Federcitrus.

<sup>16</sup> [Concordia Experimental Agricultural Station \(EEA\) of the National Agricultural Technology Institute \(INTA\)](#) and [Argentine Citrus Federation \(Federcitrus\)](#).

<sup>17</sup> [Informe de actividad citrícola](#), 2007. Federcitrus.

- 1.14 The Department of Salto has 3,719 million citrus plants (48% of the national total)<sup>18</sup> on 8,238 hectares (44.7% of Uruguayan land used for this sector). Crop yields in 2016, however, were comparable to those of Entre Ríos province.<sup>19</sup>
- 1.15 Productivity in this sector is low because, among other factors: (i) the varieties being farmed are not those in greatest demand in international markets, nor do they have the highest yields;<sup>20</sup> and (ii) use of modern productive processes and new technologies (e.g., crop coverings, automatic irrigation,<sup>21</sup> humidity control, disease treatment methods) is limited. Modernization could also reduce the risk of frosts<sup>22</sup> and the threat of the Huanglongbing virus,<sup>23</sup> which limit the expansion of small-scale farmers.<sup>24</sup>
- 1.16 **High costs of doing business in the blueberry sector.** At 1,040 hectares (38% of the national total), Concordia accounts for the largest blueberry farming area in northwestern Argentina.<sup>25</sup> Uruguay, meanwhile, has 370 hectares devoted to blueberry production, mostly along the coast (Salto and Paysandú).<sup>26</sup> The binational region produces 10,000 tons per year, which are exported primarily to the United States and Europe. While Concordia's average yield is above Argentina's national average (7.7 and 6.2 tons per hectare, respectively),<sup>27</sup> growth has been limited. The amount of land farmed fell by 35%, from 4,200 to 2,750 hectares, between 2007 and 2016.<sup>28</sup> A similar drop occurred in Uruguay, where 850 hectares were being farmed in 2008.<sup>29</sup>
- 1.17 This drop is the result of decreasing profit margins due to external and internal factors. Peru has increased its production by 1,800% between 2014 and 2017,<sup>30</sup> staking its position as the leading competitor in the southern hemisphere thanks to lower labor costs and tax burdens, which allow for higher rates of return.
- 1.18 The high cost of doing business in the sector stems from: (i) high logistical costs associated with a highly perishable and markedly seasonal product, as well as a lack of air travel infrastructure and cold storage;<sup>31</sup> (ii) low levels of domestic

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<sup>18</sup> [Invierta en Salto](#).

<sup>19</sup> [Anuario estadístico \(2017\)](#).

<sup>20</sup> The new varieties are navel (M7, Witkrans, Carnika) and Valencia (Benny, Ruby, Lavalle, Alpha) oranges. Concordia Citrus Association.

<sup>21</sup> In 2016, 44% of the hectares used for citrus production were under irrigation, 64% by drip irrigation. [Censo Provincial Citrícola de Entre Ríos](#).

<sup>22</sup> Late-blooming varieties can be incorporated to minimize this risk. [United Nations Food and Agriculture Organization](#).

<sup>23</sup> This virus in citrus fruit is caused by the Candidatus liberibacter asiaticus bacteria and transmitted by the Diaphorina citri vector. [INTA](#).

<sup>24</sup> Ninety-two percent of farmers in Entre Ríos are small-scale producers. [Censo Provincial Citrícola](#).

<sup>25</sup> The 59 producers are using an average of 17.6 hectares each. Argentinean Blueberry Committee (ABC). [Uruguay XXI, 2014](#).

<sup>26</sup> [Uruguay XXI, 2014](#).

<sup>27</sup> Concordia EEA-INTA, 2016.

<sup>28</sup> [ABC](#).

<sup>29</sup> [Uruguay XXI, 2014](#).

<sup>30</sup> Argentina increased its blueberry production by 6% to 7% (from 16,000 to 17,000 tons) between 2014 and 2017. [ABC and USDA](#).

<sup>31</sup> Maritime transport takes two weeks longer, on average, than in Chile and Peru.

- consumption, despite awareness campaigns;<sup>32</sup> (iii) varieties in low demand in international markets;<sup>33</sup> and (iv) a failure to incorporate technological improvements in production, packaging, and cold storage.<sup>34</sup>
- 1.19 This lack of development in the horticultural sector in Concordia vis-à-vis Salto stems mainly from a failure to adopt modern farming techniques. In the industrial forestry sector, the lack of added value is primarily caused by limited technical capacities for business management and limited access to technological innovation. These problems are detailed in [optional link 8](#).
- 1.20 **Little development of the binational region as a national and international tourist destination.** Tourism centered around hot springs in Entre Ríos began in 1994. Sixteen hot spring resorts are now in operation, eight of them in the Salto Grande region,<sup>35</sup> which average 118,429 tourists per month.<sup>36</sup> Neither Concordia nor Federación, however, is among Argentina's leading locales in terms of availability of hotel and hotel-like facilities.<sup>37</sup> Salto, meanwhile, lacks infrastructure for boating and water activities in both the Uruguay River and the Salto Grande reservoir. Problems include a lack of dredging and signage on the river, a lack of complementary activities, and a lack of publicity.<sup>38</sup> The hot springs of Río Hondo, in the Argentine province of Santiago del Estero, are a tourist destination similar to the binational region, as the hot baths are their main attraction and the number of visitors rose 35% after an airport opened in 2012.<sup>39</sup> The Iguazú waterfalls on the Argentina-Brazil border are another tourist destination located in a border area. Joint efforts have resulted in greater air travel connectivity, increased investment in infrastructure, and the promotion of innovative tourism products. This led to a 50% increase in tourism between 2013 and 2017,<sup>40</sup> including a significant share of international tourists.
- 1.21 Tourism in the binational region is highly seasonal, with peaks in January, February, and July.<sup>41</sup> Concordia, for example, averaged 9,500 tourists during these months in 2017, compared to only 6,000 (36% fewer) in June (off-season).
- 1.22 Hotel ratings in the region are low, and available lodging options lack quality certifications. The aforementioned destinations have a limited number of certified

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<sup>32</sup> [Mejor con arándanos](#). Consumption per capita was 54% lower in 2016 than in 1996. [Cadena de Arándanos. Informe Ejecutivo 2017, Argentine Ministry of Agroindustry](#).

<sup>33</sup> Higher-demand varieties and certified-organic crops command higher prices on average.

<sup>34</sup> [Buenos Aires Technology Institute](#).

<sup>35</sup> One in the city of Chajarí, one in Federación, three in Concordia, one in Colón, one in Villa Elisa, and one in San José.

<sup>36</sup> Social and Demographic Analysis Unit. Statistics and Census Administration of the Province of Entre Ríos.

<sup>37</sup> [Oferta de Alojamiento Turístico 2015, Argentine Ministry of Tourism](#).

<sup>38</sup> Ministry of Tourism and Sports, Uruguay. (2013) Tourism and water demand study for the Uruguay River and other nearby rivers.

<sup>39</sup> INDEC hotel occupancy survey, 2010-2017.

<sup>40</sup> National Park Administration.

<sup>41</sup> Visitors to hot springs resorts: Colón 168,586, Concordia 80,763, Federación 588,463 (2016), and Salto 353,000 (2017). Statistics and Census Administration of the Province of Entre Ríos.

- spaces available, with 10,045 hotel spaces in Colón, 2,521 in Concordia, 5,275 in Federación,<sup>42</sup> and 12,000 in Salto.
- 1.23 While there are many high-potential tourist attractions<sup>43</sup> (aside from the hot springs), these attractions are undeveloped, are ineffectively promoted, and lack critical infrastructure and services ([optional link 11](#)). Coordination between sector-specific institutions in the binational region is also lacking ([optional link 12](#)).
- 1.24 In summary, the main causes of the lack of tourism development in the binational region are associated with poor management of both the public and private sectors. These causes can be categorized as follows: (i) limited development of a wider range of tourist attractions and activities; (ii) poor quality of tourism services; (iii) a lack of tourism-related binational cooperation for development of a regional framework and integrated tourism circuits; and (iv) the lack of statistical data for public policy decision-making in the sector. Infrastructure for commercial flights is also lacking, making it difficult for tourists to visit the region.
- 1.25 **Poor connectivity.** International tourists have a limited presence in the binational region, as more than 90% of visitors are from the respective countries and arrive by land. The reasons for this are related to a lack of physical connectivity: (i) a lack of commercial flights at the Concordia airport; (ii) a lack of technological equipment to streamline procedures at the border facility; and (iii) a lack of water and land crossings between Salto and Concordia.
- 1.26 **Concordia airport.** Located 10 kilometers outside the city of Concordia, Comodoro Peirrestegui Airport serves domestic air travel and is part of the National Airport System.<sup>44</sup> The municipal government of Concordia is responsible for managing and operating it through the Airport Operations Unit and airport management. The airport sits on a 94-hectare property. The passenger terminal has 257 square meters of covered space. The asphalt runway is 1,600 meters long and 30 meters wide, and planes may use it in either direction.<sup>45</sup> The airport has not had regular commercial flights since 2013 due to operational restrictions on infrastructure, equipment, and available services.<sup>46</sup> It currently handles general aviation traffic,<sup>47</sup> with an annual volume of 2,000 passengers.

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<sup>42</sup> Department of Tourism and Culture of the Province of Entre Ríos. Certified spaces under Regulation 117/10, Resolution 026.

<sup>43</sup> Culture, sports, nature, business, and rural attractions.

<sup>44</sup> The National Aviation System was created by Presidential Decree 375/1997 and consists of 56 airports, 38 of which are concessioned out to private operators. The other 18 airports are operated by provincial or municipal governments or by joint entities (public-private).

<sup>45</sup> The airport has a National Weather Service station (24 hours) and a YPF AV/JET aircraft fueling station (7:00 a.m. to 9:00 p.m.), both of which operate year-round. The Argentine Air Navigation Company provides air travel services from 8:00 a.m. to 4:00 p.m.

<sup>46</sup> Comodoro Pierrestegui Airport is able to receive commercial flights on small aircraft (20 passengers) not available in the fleets of local airlines that operate midsize jets (Boeing 737 or Embraer 190) that cannot land at Concordia due to the current length of the runway. Other operational restrictions include the location of the platform and control tower; unpaved turn pads; the lack of rescue service, fire extinguishers, and airport security; and inadequate and deficient navigation aids.

<sup>47</sup> Noncommercial aviation (flights on aircraft weighing less than 5,600 kilograms).

- 1.27 **Argentina's domestic air travel market** has significant growth potential. Current availability of seats on domestic flights, relative to the population, trails that of countries with lower income per capita.<sup>48</sup> The market had a very homogenous business model up until 2017, with three full-service carriers operating midsize jets.<sup>49</sup> In 2018, however, airlines using new business models began to enter the Argentine market. The appearance of low-cost operations,<sup>50</sup> with their lower fares, opens up air travel to a new segment of travelers. The entry of regional airlines could also help develop the domestic air travel market.<sup>51</sup>
- 1.28 **Entre Ríos (in Argentina) and the departments of Salto and Paysandú (in Uruguay) have poorly developed air travel markets.** Entre Ríos is the Argentine province with the lowest availability of seats on regular commercial flights. This is partly due to its proximity to Buenos Aires and strong roadway connectivity. Concordia, however, has clear growth potential in view of the lengthy travel times to Buenos Aires (five hours) and the provincial capital Paraná (3.5 hours), which is the site of the nearest airport with regular commercial flights. More than 400,000 people can travel to Concordia by land in less than 1.5 hours, which suffices to make domestic air travel financially viable. Salto and Paysandú have constraints similar to Concordia's. Their airports have poor infrastructure, and it takes five to seven hours to travel to Carrasco Airport in Montevideo, the nearest airport with regular commercial flights ([optional link 6](#)).
- 1.29 Recent developments in Argentina's domestic air travel market, changes in traffic at local airports similar to Concordia's, and its appealing location pose an opportunity for development. To take advantage of this opportunity, the airport's infrastructure needs to be renovated to meet international safety standards and allow for regular commercial passenger flights.<sup>52</sup> Comodoro Pierrestegui Airport will provide the population in the area of influence with a new alternative for travel and will facilitate tourist access to the region, thereby strengthening binational tourism circuits. The availability of air travel also spawns economic benefits that are not directly measurable: it impacts private-sector investment decisions and is good for business by fostering frequent direct contact with customers.<sup>53</sup>

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<sup>48</sup> Peru, Colombia, Brazil, and Mexico.

<sup>49</sup> Aerolíneas/Austral, Andes Líneas Aéreas, and LATAM.

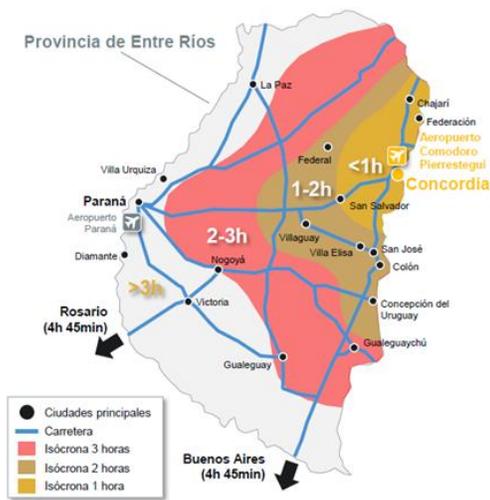
<sup>50</sup> Flybondi and Level are now operating domestic flights, Norwegian, Jetsmart, and Lasa will begin operating in October 2018.

<sup>51</sup> Avian Líneas Aéreas S.A. (local subsidiary of Avianca) secured the concession to operate regular service on three routes, including Concordia. [Resolution 280-E/2017](#) and [Resolution 373/2018](#).

<sup>52</sup> This will allow for smaller volumes of cargo in the holds of passenger aircraft operating at the airport.

<sup>53</sup> The Economic and Social Benefits of Air Transport (2004). Air Transport Action Group.

**Table 1.1: Hinterland of Concordia airport<sup>54</sup>**



**Distancia y tiempos de viaje desde Aeropuerto de Concordia**

Se muestran los departamentos con más de 15.000 habitantes

	Población (censo 2010)	Distancia (km)	Tiempo			
Lado argentino	Concordia	185.592	10	10min	<1h	
	Federación	68.736	55	0h 50min		
	Chajarí	45.848	70	0h 55min		
	San Salvador	17.357	55	0h 55min		
	Colón	~315mil habitantes	62.160	135	1h 30min	1-2h
	Federal	25.863	120	1h 35min		
	Villaguay	48.965	130	1h 45min		
	Concepción del Uruguay	82.729	160	1h 50min	2-3h	
	Guauguaychú	109.461	220	2h 25min		
	Guauguay	51.883	290	3h 00min		
	Nogoyá	39.026	255	3h 00min		
	La Paz	66.903	255	3h 10min	>3h	
	Paraná	339.930	280	3h 15min		
	Diamante	46.361	300	3h 30min		
Victoria	35.767	300	3h 40min			
Lado uruguayo	Salto	~130mil habitantes	131.775	25	30min	<1h
	Paysandú	118.797	145	1h 40min	1-2h	

- 1.30 **Lack of technological equipment at the Concordia-Salto border facility.** The border facility is an international crossing point in northwestern Entre Ríos province.<sup>55</sup> Officials from both countries conduct integrated border control activities (entering or leaving Uruguay) at this facility. Mostly locals and, to a lesser extent, tourists use this crossing. A trip from one town square to the other—only 4.6 kilometers in a beeline—requires traversing 39 kilometers and takes one to two hours to complete, depending on traffic at the border facility. This crossing is also used by cargo vehicles carrying goods between Argentina, Bolivia, Chile, Paraguay, and Uruguay. Seventy-five percent of the trucks using this crossing are either coming from or heading to Paraguay.<sup>56</sup>
- 1.31 Immigration, customs, and phytosanitary control efforts are currently conducted at the central building, which means that travelers must exit their vehicles and enter the facility to complete the procedures. Some of the facilities are outdated and poorly maintained. To address this concern, the National Architecture Administration of the Ministry of the Interior, Public Works, and Housing (MIOPyV) has preawarded a contract for comprehensive refurbishment of the border facility. This includes expanding the two existing service booths and building new ones so that passengers do not have to get out of their vehicles to complete border control procedures.
- 1.32 Argentina and Uruguay have an agreement to implement the Local Border Traffic system, known by its Spanish-language acronym, TVF.<sup>57</sup> The TVF card allows people to use a streamlined procedure separate from other categories of migration

<sup>54</sup> IDB, ALG.

<sup>55</sup> This crossing was elevated to the category of “border facility” by [National Decree 68/2017](#).

<sup>56</sup> Investment Program to Improve Territorial Integration between Argentina y Uruguay. Andean Development Corporation, 2015.

<sup>57</sup> The TVF is based on a MERCOSUR operational agreement between Argentina and Uruguay. Resolution CMC 18/99 and Resolution CMC 14/00.

- to visit the counterpart city across the border for up to 72 hours.<sup>58</sup> Current border control procedures at the Concordia-Salto crossing do not allow TVF cardholders to enjoy the benefits of streamlining, however, because the authorities are unable to provide preferential treatment.
- 1.33 Refurbishment of the border facility will make it possible to conduct immigration checks from service booths and open up exclusive lanes<sup>59</sup> for TVF cardholders<sup>60</sup> and tourists. These works, however, need to be complemented and optimized by strengthening the TVF system and implementing technology in the integrated control area.<sup>61</sup>
- 1.34 **Limited interurban connections between Concordia and Salto.** Local residents and tourists alike experience difficulties crossing from one city to the other and traveling to tourist attractions because the Salto Grande international bridge<sup>62</sup> is 20 kilometers from either city, the availability of public bus service is limited,<sup>63</sup> and boat service across the Uruguay River is unavailable. Numerous studies have been conducted on the possibility of building a bridge for local traffic between the two cities, but changes in the urban structure and current demand for transportation require new feasibility analyses in order to propose technical alternatives for such a crossing. (see paragraph 1.2)
- 1.35 **Request.** The Argentine Republic and the Eastern Republic of Uruguay requested that the Bank conduct a comprehensive program to address these problems. Argentina requested financing for this program, and Uruguay officially joined the request in a memorandum dated 11 October 2017 from the finance minister to the Bank's Representative in Uruguay. For actions related to development of production and tourism, Uruguay will use its own resources, and the Office of Planning and Budget (OPP) and the Municipal Government of Salto will coordinate efforts using the instruments described in [optional link 9](#).
- 1.36 **Intervention strategy.** This regional program will provide technical and financial-support tools for training, knowledge transfer, technological innovation, and business development to the region's productive and tourism sectors in order to make them more competitive. These actions will be carried out in the departments of Concordia, Federación, and Colón in Entre Ríos province—the borrower for the operation—and coordination mechanisms will be established with Uruguay so that the program's initiatives may benefit Salto department ([optional link 9](#)). The program will include establishing an export and investment promotion agency in

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<sup>58</sup> TVF cardholders are residents of the cities adjacent to the border crossing, in this case Concordia and Salto.

<sup>59</sup> Passengers at the Colón-Paysandú crossing (105 kilometers to the south) do not have to exit their vehicles. The number of people using this crossing increased 185% between 2009 and 2017, compared to 82% at the Concordia-Salto crossing.

<sup>60</sup> The TVF system was implemented at La Quiaca-Villazón (Jujuy province) and Aguas Blancas-Bermejo (Salta province). [National Migration Office, Argentina](#).

<sup>61</sup> An integrated surveillance system with license plate readers and closed-circuit cameras was implemented at the Iguazú-Foz do Iguazú border facility (Argentina-Brazil), with positive results. MIOPyV, Argentina.

<sup>62</sup> Located above the crest of the dam.

<sup>63</sup> Only two bus companies provide a total of four daily trips between the two cities.

- Entre Ríos; creating a regional brand to provide a common identity for local products and tourism services, thereby promoting the development of integrated tourism circuits; establishing a Multisector Fund to encourage entrepreneurial initiatives; implementing technology platforms to collect and process statistical data on these sectors; and supporting technical studies for better design of public policies in the province. In addition, the Concordia airport will be renovated, a feasibility study of a new local bridge for local traffic between Concordia and Salto will be conducted, and technological equipment will be installed at the Concordia-Salto border facility to enhance the region's connectivity and facilitate commerce.
- 1.37 **Beneficiaries in the Salto Grande region.** In Argentina: (i) productive sector: 1,878 citrus farmers,<sup>64</sup> 59 blueberry farmers,<sup>65</sup> 43 vegetable farmers,<sup>66</sup> and 291 industrial forestry establishments;<sup>67</sup> and (ii) tourism sector: 908 hotels and restaurants<sup>68</sup> and 2,211 commercial establishments.<sup>69</sup> In Uruguay: (i) productive sector: 150 citrus farmers, 11 blueberry farmers,<sup>70</sup> and 400 vegetable farmers;<sup>71</sup> and (ii) tourism sector: 65 hotels and restaurants.<sup>72</sup> Other beneficiaries: (i) users of the Concordia-Salto border facility: 1.48 million people per year on average;<sup>73</sup> and (ii) TVF cardholders: 299,437 residents of Concordia and Salto; and (iii) residents of the Salto Grande binational region: 454,033 people.<sup>74</sup>
- 1.38 **National initiatives.** The program is aligned with the [objectives of Argentina's national government](#), and specifically with “development of infrastructure,” the “national agreement on production,” and “modernization of the State.” It is also consistent with the Strategic Land Use Plan of the Province of Entre Ríos,<sup>75</sup> which identified the region as a target for development.
- 1.39 In Uruguay, the program is aligned with the National Development Strategy, known as [Uruguay 2050](#), which lays the basis for leading the country toward sustainable development by prioritizing the productive matrix and regional development.
- 1.40 **Evidence on the intervention's effectiveness.** Empirical evidence shows that tourism can be an effective tool for accelerating regional development and cohesiveness.<sup>76</sup> Experiences in tourism-based regional integration have achieved

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<sup>64</sup> Three in Colón, 241 in Concordia, and 1,634 in Federación. Concordia EEA-INTA, 2017.

<sup>65</sup> Office of Microeconomic Programming of Argentina's Ministry of Finance, provincial production reports, March 2018.

<sup>66</sup> Federal Investment Council.

<sup>67</sup> Office of Microeconomic Programming, 2018.

<sup>68</sup> Entre Ríos Tax Administration.

<sup>69</sup> Entre Ríos Tax Administration.

<sup>70</sup> <https://www.colibri.udelar.edu.uy/jspui/handle/123456789/422>.

<sup>71</sup> <https://www.saltoemprende.com.uy/salto-horticola>.

<sup>72</sup> [Leal, J. \(2014\)](#).

<sup>73</sup> [National Migration Office, Argentina](#).

<sup>74</sup> INDEC (Argentina) and INE (Uruguay). See footnote 7 for distribution by department.

<sup>75</sup> Territorial Strategic Plan of the Province of Entre Ríos. Desired Territorial Model. Avance 2010. Provincial Government of Entre Ríos.

<sup>76</sup> [Brida, J. et al. \(2009\)](#).

satisfactory results in various regions of Europe,<sup>77</sup> and an evaluation of the Bank's Sustainable Tourism Development Program for the Province of Salta (loan [2835/OC-AR](#)) found that the number of tourists tripled between 2002 and 2012, spurred by the number of air travel arrivals to the province (from 33% to 50% of all visitors).<sup>78</sup> A Bank study estimates an average 15% impact on growth in exports from enterprises assisted by export and investment promotion agencies in six countries in the region.<sup>79</sup> As for the use of grant financing for business development, multiple Bank projects provide lessons on cofinancing, how to train exporters, and attract investment, and quality systems for exporting.<sup>80</sup> This program calls for an impact evaluation to generate evidence on the intervention. Investment in integration infrastructure has been proven to help reduce transportation costs and make an economy more globally competitive.<sup>81</sup> Empirical evidence from Latin America shows that improvements to transportation infrastructure and a 1% ad valorem reduction in domestic transportation costs can increase exports by an average of 5%.<sup>82</sup> Airport infrastructure is also a major part of economic integration because of its potential role in spurring tourism.<sup>83</sup> Air travel, moreover, is at the heart of international business and tourism.<sup>84</sup>

- 1.41 **The Bank's sector knowledge and lessons learned.** The Bank has conducted multiple operations and has extensive knowledge of binational integration programs and the sectors addressed by this program—production, tourism, airports, coordinated border management, and regional projects—as described in [optional link 10](#). In terms of the implementation of funds for business development, this program was based on the experience of the operations of the Integration and Trade Sector.<sup>85</sup> The Bank has experience in the supervision of multisector projects,<sup>86</sup> where the Transport Division tracks the processes of works contracting and execution in coordination with other areas. The same working arrangement will be used for this operation.
- 1.42 **Strategic alignment.** The program is aligned with the IDB Group country strategy with Argentina 2016-2019 (document GN-2870-1) in terms of its objectives of improving Argentina's export integration levels and profile and improving infrastructure for investment and inclusion, as well as with the IDB

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<sup>77</sup> [LRDP Ltd, \(2003\)](#).

<sup>78</sup> [Castillo, V. et al. \(2017\)](#).

<sup>79</sup> [Volpe \(2010\)](#).

<sup>80</sup> Loans [2583/OC-ES](#), [1117/SF-NI](#), [2244/BL-NI](#), [2094/OC-GU](#), [1916/BL-PR](#), [2239/OC-AR](#), and [1318/OC-GU](#).

<sup>81</sup> [Krugman, P. et al., \(1996\)](#).

<sup>82</sup> [Moreira, Mesquita, et al., \(2013\)](#).

<sup>83</sup> An ex post evaluation of the program to upgrade the Busuanga airport in the Philippines (KOICA, 2013) found that the number of hotels, restaurants, and vacation resorts increased by a factor of 1.5 between 2010 and 2012 and that tax revenues increased by a factor of 2.3 between 2006 (before the upgrade) and 2012.

<sup>84</sup> Oxford Economics, Economic Benefits from Air Transport in the Caribbean Islands.

<sup>85</sup> In the case of loans [1318/OC-GU](#) and [2583/OC-ES](#), a return of US\$9.89 and US\$7.20, respectively, is reported for each dollar invested in business development activities.

<sup>86</sup> Loans [3169/OC-AR](#), [3835/OC-AR](#), [3780/OC-AR](#), and [AR-L1285](#).

country strategy with Uruguay 2016-2020 (document GN-2836) in terms of its objective of supporting an integrated and coordinated policy for international positioning. It is also aligned with the Update to the Institutional Strategy 2010-2020 (document AB-3008) in terms of the following development challenges: (i) economic integration, by helping to promote exports and create a regional brand and by enhancing connectivity through airport reconditioning and reduction of travel times at the border crossing; and (ii) productivity and innovation, by establishing a grant facility that includes instruments for promoting competitiveness and incorporating process and product innovation in the region's enterprises.

- 1.43 The program is also aligned with the IDB Infrastructure Strategy: Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), by contributing to improve the quality of transportation infrastructure and fostering private-sector engagement. This regional program meets the four criteria set in the Guidelines for the Classification and Validation of Operations Eligible for the GCI-9 Regional Cooperation and Integration Lending Priority (document GN-2733). The program is consistent with: (i) the Integration and Trade Sector Framework Document (document GN-2715-6), by lowering the costs of doing business, including airport inefficiencies at the airport and at land border crossings; (ii) the Transportation Sector Framework Document (document GN-2740-7), by contributing to improved infrastructure coverage, capacity, quality, and connectivity, as well as related transportation services; and (iii) the three dimensions of success identified in the Tourism Sector Framework Document (document GN-2779-7): (a) tourism-generated economic benefits increase over time; (b) the share of economic benefits captured by the local population rises over time; and (c) the region's natural and cultural heritage assets are exploited in a sustainable manner by the tourism sector. The operation is included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2).

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

- 1.44 **Program objective.** The program objective is to contribute to greater competitiveness of the productive sectors and tourism services in the Salto Grande region. The specific objectives are: (i) to raise the productivity of the productive sectors participating in the program, (ii) to better position the Salto Grande region as a tourist destination, and (iii) to improve the connectivity of the Salto Grande region, so that it can attract larger numbers of domestic and foreign tourists.
- 1.45 **Component 1. Integration and productive development (US\$8 million).** This component will provide financing for activities in Argentina including: (i) design and implementation of the export and investment promotion agency in the Province of Entre Ríos as part of the structure of the Department of Production; (ii) design of a regional brand for local products and tourism services in both countries; (iii) design of a Multisector Fund to make productive chains and tourism services more competitive; (iv) generation of technical inputs to enhance sector knowledge, including sector studies, production methods, binational tourism circuits, and technology platforms to collect and process statistical data on production and tourism; and (v) procurement for the tourism sector in Entre Ríos province: tourist information centers and accommodations for tourists with disabilities.

- 1.46 **Multisector fund.** This fund will provide grant financing on a rolling basis to encourage changes in business development in the region for entrepreneurial projects ([optional link 14](#)). The fund, in the amount of US\$4 million consisting entirely of program resources, will grant a nonreimbursable contribution of up to 50% of the total cost of the business project. In the event that the project involves firms located in Uruguay or contributes to increase business activities between Argentina and Uruguay, the fund contribution for Argentine firms may be up to 60%. The resource allocation criteria will be determined during program execution by the decision-making agencies that make up the institutional structure of the fund (see paragraph 3.3). Operation of the fund will be addressed in the program Operating Regulations ([optional link 7](#)).
- 1.47 The Government of Uruguay will pursue activities in the area of productive and tourism development in coordination with the actions described in Component 1 (see paragraph 1.35). For this, the Office of Planning and Budget (OPP) and the Municipal Government of Salto have identified the following programs: the “Avanza Salto Hortícola” project for local competitiveness of fruit and vegetable growers, Entrepreneurship Support Program, Local Competitiveness Program II, and the “Salto 2030” and “Un Salto al Interior” projects ([optional link 9](#)).
- 1.48 **Component 2. The region’s connectivity (US\$38 million).** This component will finance reconditioning of Concordia’s Comodoro Pierrestegui Airport to allow for regular commercial flight operations, including: (i) rehabilitation of the existing 1,600-meter runway and extension of this runway to 2,000 meters, including an antiblast zone and resistant layer in the runway end safety area; construction of a taxiway and aircraft parking platform; procurement and installation of daytime and nighttime signage; improvement of the airport access road and construction of a new parking lot; and a perimeter road and fence; and (ii) construction of a new passenger terminal and control tower; equipment; and water supply and treatment systems. As the property is under municipal jurisdiction, no procurement of land should be needed. Financing will also be provided for technical supervision of the airport works (for a detailed description of these works, see [optional link 5](#)) and the feasibility study for the new bridge for local traffic between Concordia and Salto.
- 1.49 **Component 3. Integrated border coordination (US\$2 million).** This component will finance activities including: (i) the TVF local border traffic system and the border facilitation card (TFF) for tourism operators; (ii) technological equipment for the Concordia-Salto border facility, including (a) an integrated surveillance system with real-time imaging and video backup; (b) license plate readers in the border facility’s access lanes; (c) scanners with a document management platform based on facial and fingerprint recognition; (d) traffic lights for the border facility’s access lanes; (e) barriers with TVF and TFF card readers; and (f) a technology platform for processing data and making it available to oversight agencies; (iii) renovation of signage and signals; furnishings for checkpoint booths and the main building; LED indoor and outdoor lighting; and (iv) a feasibility study for extension of the Colón-Paysandú free trade zone to the Concordia-Salto Border facility.
- 1.50 **Program management and administration (US\$2 million).** Financing will be provided, as a charge against program administration, for items including: (i) administrative costs related to the establishment and operation of the program

execution unit; (ii) external financial audits; and (iii) the final and ex post evaluation of the program.

- 1.51 **Cost and financing.** The estimated cost of the program will be US\$50 million, to be financed from the Bank's Ordinary Capital resources.

**Table 1.2: Program cost and financing**

Investment component	IDB (US\$ million)	%
Component 1: Integration and productive development	8	16
Component 2: The region's connectivity	38	76
Component 3: Integrated border coordination	2	4
Program management and administration	2	4
<b>Total</b>	<b>50</b>	<b>100</b>

### C. Key results indicators

- 1.52 The **Results Matrix** (Annex II) includes all impact, outcome, and output indicators associated with program components that will contribute to the following results: (i) increased annual exports/sales of citrus and blueberry farmers participating in the program; (ii) increased annual sales of tourism sector enterprises participating in the program, and an increase in the number of certified hotel spaces; and (iii) enhanced connectivity of the region as a result of the airport reconditioning and shorter wait times at the border facility.
- 1.53 **Economic viability of the program.** A classic financial approach was used in the cost-benefit analysis to calculate the net present value (NPV) and internal rate of return (IRR). Whereas the cost is the present value of the financial cost of making payments, the benefits required projecting the program-related increase in sales of goods and services. In the base-case scenario, the program is economically viable with an NPV greater than US\$7 million and an IRR of 18%. These numbers remained positive in the sensitivity analysis, demonstrating that the outcomes are robust ([optional link 1](#)). A socioeconomic evaluation of the Concordia airport reconditioning project was also done and yielded an IRR of 7.9% using a 12% social discount rate. The sensitivity analysis showed a positive IRR of 7.3% in the event of a 10% reduction in operational revenues and up to a 10% increase in investment costs. The program is also expected to yield additional benefits in terms of productive development and connectivity for the region ([optional link 6](#)).

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 The program will be structured as a specific investment loan with a disbursement period of five years.
- 2.2 The financial evaluation of the Province of Entre Ríos found that it possesses the financial capacity to assume the commitments associated with the external financing and bear the financial costs of the program ([optional link 13](#)).

**Table 2.1: Projected disbursements (US\$)**

<b>Investment component</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
I. Integration and productive development	980,512	1,785,560	1,961,925	1,787,502	1,484,502
II. The region's connectivity	7,623,000	15,188,500	15,188,500	-	-
III. Integrated border management	25,000	63,000	1,912,000	-	-
IV. Program management and administration	550,275	663,025	246,400	201,400	338,900
<b>Total</b>	<b>9,178,787</b>	<b>17,700,085</b>	<b>19,308,825</b>	<b>1,988,902</b>	<b>1,823,402</b>
<b>Percentage</b>	<b>18.4%</b>	<b>35.4%</b>	<b>38.6%</b>	<b>4.0%</b>	<b>3.6%</b>

## **B. Environmental and social safeguard risks**

- 2.3 Due to the nature of the program activities, environmental impacts are expected to be primarily local and short-term, subject to standard mitigation measures for this type of operation. The main foreseeable adverse impacts are related to the reconditioning, lengthening of the runway (to 2,000 meters), and entry into operation of Comodoro Pierrestegui Airport, which could generate minor environmental impacts on bird fauna and an increase in noise. Minor environmental impacts are also possible in relation to airport construction and operation (Component 2), as well as installation of signage for tourism and three prefabricated tourist information centers (Component 1). Thus, in accordance with Directive B.3 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation is classified as category "B." Disaster risk is regarded as moderate, stemming primarily from potential risks related to water, aircraft accidents, and fires.
- 2.4 Given the operation's scale, as per Directive B.5 of Operational Policy OP-703, an [environmental and social evaluation and the associated environmental and social management plan](#) were prepared, including evaluations and proposals for specific mitigation measures related to bird fauna, noise, and natural disasters. As per Directive B.6 of Operational Policy OP-703, the executing agency conducted a public consultation with a satisfactory outcome.

## **C. Fiduciary risks**

- 2.5 As stated in Annex III, the institutional capacity assessment of the Ministry of Planning, Infrastructure, and Services (MPLYs) of the Province of Entre Ríos, using the Institutional Capacity Assessment System (ICAS), and given the fiduciary team's experience on active operations, yielded an execution capacity acceptable to the Bank with a medium level of risk. The risk identified was a lack of experience with the Bank's procurement procedures, which could lead to delays in program execution. Mitigation measures are described in Annex III, paragraph 3.1.

## **D. Other program risks**

- 2.6 **Public management and governance.** A low level of political commitment and/or engagement by certain important institutions has been identified and could have

- an adverse impact on the program's success. The agreements described in paragraph 3.3 are proposed, to address this risk.
- 2.7 **Sustainability.** Since the costs of maintaining the airport infrastructure can be high, once the airport is operating ([optional link 6](#)), the Provincial Government of Entre Ríos will enter into an agreement with the Municipal Government of Concordia to ensure provincial resources for such purpose, if necessary (see paragraph 3.3). Additionally, the borrower will provide information on maintenance status during program execution and through the fifth year after the completion of the airport works.
- 2.8 **Macroeconomic risks.** Argentina faces macroeconomic risks associated with significant needs for public and external financing and a high current account deficit. This scenario may affect the fiscal space allocated to the disbursements under the operation during execution. As mitigation measures, the government has secured a standby arrangement with the International Monetary Fund that meets short-term needs for public and external financing and requires a commitment to fiscal consolidation and reduction of financial vulnerabilities. Although Uruguay faces macroeconomic risks related to current conditions in the region, no liquidity problems are expected, and Uruguay's Emerging Market Bond Index (EMBI) rating is relatively low and stable.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Province of Entre Ríos of the Argentine Republic. The guarantor of the borrower's financial obligations will be the Argentine Republic. The executing agency will be the Ministry of Planning, Infrastructure, and Services of the Province of Entre Ríos (MPIyS).
- 3.2 **Program execution unit (PEU).** A PEU within the executing agency will have core staff with the following qualifications: technical and project management, planning and monitoring, procurement, financial administration, social and environmental management, and legal. The PEU's responsibilities will be established in the program Operating Regulations ([electronic link 7](#)).
- 3.3 The specific institutional arrangements for execution are as follows:
- a. **Component 1.**<sup>87</sup> (i) A technical committee coordinated by the MPIyS will be formed, consisting of officials from the Department of Tourism and Culture and the Department of Production, to conduct decision-making processes for a shared technical foundation for the program; (ii) the Multisector Fund will be managed and operated using the following institutional structure: (a) the project management unit for the fund will consist of the territorial development team of the Administration Commission for the Salto Grande Special Fund

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<sup>87</sup> The specific institutional arrangements for the execution of Component 1 will be established in the program Operating Regulations ([optional link 7](#)).

(CAFESG),<sup>88</sup> whose members will help prepare, evaluate, and monitor entrepreneurial initiatives; and (b) the Resource Allocation Committee, whose composition and work will be established in the program Operating Regulations ([optional link 7](#)); and (iii) an agreement will be entered into between the Province of Entre Ríos and the municipal governments in the departments of Colón, Concordia, and Federación in the program target area. Coordination with Uruguay will be through the Office of Planning and Budget (OPP) and the Municipal Government of Salto (see paragraph 1.35).

- b. **Component 2.** An agreement will be entered into between the Province of Entre Ríos and the Municipal Government of Concordia to execute the work and to operate and maintain Comodoro Pierrestegui Airport.<sup>89</sup>
  - c. **Component 3.** An agreement will be entered into between the MIOPyV and the MPlyS of the Province of Entre Ríos to execute Component 3. The funds will be executed through the executing agency, acting through the PEU with technical guidance from the MIOPyV's National Border Technical Office. The agreement will also require the Province of Entre Ríos to transfer the assets procured under Component 3 to the national government.
- 3.4 **Program Operating Regulations** ([optional link 7](#)). The program Operating Regulations describe the criteria and procedures for program execution, particularly for procurement processes and other matters related to execution of the Multisector Fund. Any change to the Operating Regulations will require the Bank's no objection.
- 3.5 **Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) approval and entry into force of the program Operating Regulations** ([optional link 7](#)) **on the terms agreed upon with the Bank; (ii) creation of the PEU and appointment of its members; and (iii) signature and entry into force of the agreement between the borrower and the Ministry of the Interior, Public Works, and Housing (MIOPyV) for program Component 3.** The first condition is necessary to ensure smooth execution of the program, as it contributes to the internal organization of the executing agency. The second condition is regarded as essential to assure the Bank that the executing agency will have a team in place to begin program execution. The third condition is justified by the importance of formalizing the national-level technical support of the MIOPyV and the borrower's commitment to transfer the assets financed by the loan to the national government under Component 3.
- 3.6 **Special contractual conditions for execution:** (i) Prior to starting execution of Component 2, the borrower will: (a) provide evidence that authorizations have been obtained from the relevant national authorities in Argentina's airport sector, and local legal requirements have been met; and (b) provide evidence that the

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<sup>88</sup> The CAFESG was formed in 1998 to manage the fund created by contributions from the operating surplus of the Salto Grande hydroelectric complex. Its responsibilities include the evaluation and execution of regional productive development projects.

<sup>89</sup> The following institutions are part of the national airport sector: Ministry of Transportation, National Airport System Regulatory Agency, National Civil Aviation Administration, Airport Security Police Force, and Argentine Air Navigation Company.

agreement with the Concordia municipal government for execution and maintenance of the Concordia airport has been signed and has entered into force; and (ii) prior to issuing the solicitation for the Concordia airport reconditioning project works, the borrower will provide evidence that the relevant authorities have partially approved the preliminary design for the works at the Phase 1 level. These conditions are regarded as essential to ensure that the borrower is authorized to enter the property where the Concordia airport is located, as well as to begin the airport reconditioning works in accordance with the requirements of local legislation in Argentina.

- 3.7 **Disbursements.** The executing agency, acting through the PEU, will submit the request for disbursements, estimating the loan proceeds necessary for execution of the components according to the annual work plan ([required link 1](#)) and procurement plan ([required link 4](#)). The loan will be disbursed in the form of advances of funds with a frequency determined according to the financial programming. Disbursement requests will be subject to ex ante financial review.
- 3.8 **Recognition of expenditures.** The Bank may retroactively finance, as a charge against the loan proceeds, up to US\$100,000 (0.2% of the proposed loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred on or after the project profile approval date of 6 July 2018, but under no circumstances more than 18 months prior to the loan approval date. The design activities eligible for retroactive financing are associated with: (i) the profile of crossborder traffic at the Concordia-Salto border facility; and (ii) gathering of information on the productive and tourism sectors in Colón, Concordia, and Federación (Components 1 and 3).

## **B. Summary of arrangements for monitoring results**

- 3.9 Financial statements and eligibility of program expenditures will be audited on an annual basis by an independent audit firm acceptable to the Bank, to be commissioned by the executing agency. The program's audited financial statements will be delivered to the Bank within four months after the end of each fiscal period, in accordance with the procedures and terms of reference previously agreed upon with the Bank.
- 3.10 The targets and progress indicators jointly determined with the executing agency (see Annex II) will be used for program monitoring and evaluation. This monitoring will track: (i) progress of program activities and procurement processes; (ii) performance of the executing agency; (iii) budget for the following fiscal period; and (iv) execution timetable and performance indicators.
- 3.11 The program monitoring and evaluation process will be coordinated by the executing agency. The PEU will have effective systems for: (i) compiling periodic information on physical and financial progress; and (ii) keeping relevant information on program activities and resources accessible and up-to-date. The following instruments will be used for program monitoring: (i) multiyear execution plan and annual work plan ([required link 1](#)) and procurement plan ([required link 4](#)); (ii) six-monthly progress monitoring reports; (iii) loan review report; (iv) audited financial statements; and (v) project completion report.

- 3.12 The matching and difference-in-differences methodology based on longitudinal data on enterprises are proposed for the impact evaluation of the Multisector Fund. Synthetic control or theoretical attribution is proposed for other program interventions ([optional link 2](#)).

Development Effectiveness Matrix		
Summary		RG-L1126
<b>I. Corporate and Country Priorities</b>		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration	
Country Development Results Indicators	-Public agencies' processing times of international trade of goods and services * -Professionals from public and private sectors trained or assisted in economic integration (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Airports built or upgraded (#)* -Tourism destinations benefited by projects aimed at increasing tourism expenditure, local and social inclusion and/or improving environmental management (#)* -Cross-border and transnational projects (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	Argentina (GN-2870-1) y Uruguay (GN-2836)	Argentina: Development of business services and public goods to enhance integration and innovation. Uruguay: Priority area of integral and coordinated international insertion; Strategic objective of diversification of export markets.
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
<b>II. Development Outcomes - Evaluability</b>		
3. Evidence-based Assessment & Solution	Evaluable	
3.1 Program Diagnosis	7.7	
3.2 Proposed Interventions or Solutions	2.4	
3.3 Results Matrix Quality	2.3	
4. Ex ante Economic Analysis	3.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	7.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	3.0	
4.4 Sensitivity Analysis	0.0	
4.5 Consistency with results matrix	0.0	
5. Monitoring and Evaluation	1.0	
5.1 Monitoring Mechanisms	8.9	
5.2 Evaluation Plan	2.5	
<b>III. Risks &amp; Mitigation Monitoring Matrix</b>		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B	
<b>IV. IDB's Role - Additionality</b>		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Accounting and Reporting.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

*The program for the development and integration of the Salto Grande region (RG-L1126) has as objective to contribute to the increase of the competitiveness of the productive sectors and tourist services of the Salto Grande Region. The specific objectives are: (i) to increase the productivity of the productive sectors that participate in the program; (ii) improve the positioning of the Salto Grande region as a tourist destination; and (iii) improve the connectivity of the Salto Grande Region in order to attract more national and international tourists. The program has three components: (i) Integration and Productive development seeks to improve the productivity of the productive and tourism sectors of the region, (ii) Connectivity of the region where the rehabilitation of Comodoro Pierrestegui Airport in Concordia will be financed, and (iii) Integrated border coordination seeks to make the process of passage more efficient at the Border Center. The executing agency for this loan is the Ministry of Planning, Infrastructure and Services of the Province of Entre Rios (MPlyS) in Argentina.*

*The diagnosis of the program identifies as main problems: the low productivity, the scarce development of the binational region as a tourist destination, the lack of air connectivity, and efficiency in border control procedures. Given the lack of information that the region has, in some cases there is a lack of evidence and quantification of the determinants of some of the problems identified, therefore in some cases is difficult to justify the need for some of the solutions in the productive area.*

*The economic analysis suggests positive net benefits that arise mainly from gains obtained by: (i) the increase in exports from the productive sectors benefited by the program, and (ii) an increase in tourism spending. However, some technical aspects must be clarified about the assumptions used for the calculation of benefits/costs and sensitivity analysis.*

*Given the lack of relevant evidence for the effectiveness of this type of programs, the project includes an impact evaluation for component I based on a non-experimental methodology. Additionally, to evaluate the results of components II and III, a before and after analysis and theoretical attribution analysis will be implemented. A more detailed explanation of the sources, and the temporality of the data that will be used to carry out the evaluation are needed. The M & E plan provides the financial costs associated with each of the products and includes a budget to monitor them.*

## RESULTS MATRIX

<b>Program objective:</b>	To contribute to greater competitiveness of the productive sectors and tourism services in the Salto Grande region. The specific objectives are: (i) to raise the productivity of the productive sectors participating in the program, (ii) to better position the Salto Grande region as a tourist destination, and (iii) to improve the connectivity of the Salto Grande region, so that it can attract larger numbers of domestic and foreign tourists.
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## EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Base year	Final target	Target year	Means of verification	Comments
<b>Impact 1:</b> Increased competitiveness of productive sectors							
<b>Indicator 1</b> Percentage change in annual exports <sup>1</sup> of citrus and blueberry farmers participating in the program (cumulative)	Index	100	2017	120	2029	Statistics of the Multisector Fund (EFM) Entre Ríos Tax Authority (ATER): tax base declared by taxpayers	<b>Target:</b> See outcome 1, indicator 1.
<b>Impact 2:</b> Increased competitiveness of tourism services							
<b>Indicator 1</b> Percentage change in annual sales of tourism sector (hotels and restaurants) (cumulative)	Index	100	2017	143	2029	ATER	<b>Meta:</b> See outcome 2, indicator 1.

<sup>1</sup> Exports are to be interpreted broadly as sales with origin in the Salto Grande region and destination in another country or sales to another province.

### EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Base year	Target year	Final target	Means of verification	Comments
<b>Outcome 1:</b> Increased productivity of enterprises participating in the program							
<b>Indicator 1</b> Percentage change in annual exports of citrus and blueberry farmers participating in the program	Annual index	100	2017	2023	102.6	EFM and ATER	<b>Target:</b> 2.6% annual growth from program year 4 onward. Based on IDB study. <sup>2</sup> Exports and destinations have grown at a rate of 13.9% and 18.5%, and higher rates between 2002 and 2006 at the enterprises supported by the Exportar Foundation. <b>Baseline:</b> Citrus = AR\$1,300,980,000 for 1,878 farmers; and blueberries = AR\$846,530,000 for 59 farmers. <sup>3</sup>
<b>Outcome 2:</b> Better positioning of tourism enterprises participating in the program							
<b>Indicator 1:</b> Percentage change in annual sales of tourism sector enterprises participating in the program	Annual index	100	2017	2023	105.2	EFM and ATER	<b>Target:</b> 5.2% annual growth from program year 4 onward. Based on the impact evaluation of IDB operation 2835/OC-AR. <sup>4</sup> <b>Baseline:</b> Hotels and restaurants <sup>5</sup> = AR\$621,820,000 for 908 enterprises.
<b>Indicator 2</b> Certified spaces at hotels, hotel-like facilities, and others	Number	17,841	2016	2023	19,920	SCyT statistics	<b>Target:</b> 5.7% annual growth in spaces. Source: see outcome 2, indicator 1. Establishments certified in accordance with Regulation 117/10 and Resolution 026 of the SCyT. <b>Baseline:</b> Colón: 10,045; Concordia: 2,521; and Federación: 5,275.

<sup>2</sup> Volpe (2010), Odyssey in international markets: an assessment of the effectiveness of export promotion in Latin America and the Caribbean, IDB, p. 54.

<sup>3</sup> ATER. Based on sworn statements of individuals and corporations in the province (both tax-paying and tax-exempt).

<sup>4</sup> Castillo, V., L. Figal Garone, A. Maffioli, and L. Salazar (2017). "The causal effects of regional industrial policies on employment: a synthetic control approach." Regional Science and Urban Economics 67. 25-41.

<sup>5</sup> ATER.

Indicators	Unit of measure	Baseline	Base year	Target year	Final target	Means of verification	Comments
<b>Outcome 3:</b> Enhanced connectivity of the Salto Grande region							
<b>Indicator 1:</b> Passengers arriving by air	Number	0	2017	2023	45,000 annual passengers	Statistics of the Argentine Air Navigation Company	<b>Target:</b> Based on estimated demand of new airport; <a href="#">optional link 6</a> .
<b>Indicator 2:</b> Minutes of wait time at the border facility	% change	ND	2018	2023	25% reduction	Statistics from oversight agencies	<b>Target:</b> The reduction in wait time achieved at the Puerto Iguazú–Foz de Iguazú border crossing with similar technology in March 2018 (National Migration Office of Argentina). <b>Baseline:</b> To be determined prior to program eligibility. Contributes to CDR <sup>6</sup> 5.

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<sup>6</sup> CDR = country development result.

### OUTPUTS

Outputs	Unit of measure	Base-line	Base year	Year					Final target	Means of verification	Comments
				1	2	3	4	5			
<b>Component 1</b>											
<b>Output 1:</b> Entre Ríos investment and export promotion agency formed.	Number	0	2017	0	0	1	0	0	1	Operations manual of the agency, organizational structure, and reassignment of staff from the Department of Production	The operational tools are in place to meet its objective. Contributes to CDR 25.
<b>Output 2:</b> Spots on the province's direct trade missions abroad.				6	6	6	6	6	30	Reports from Department of Production	Spots means staff and/or business leaders receiving financing to attend missions. Contributes to CDR 22.
<b>Output 3:</b> Salto Grande regional brand created.				0	0	1	0	0	1	Dissemination instruments	The participatory design and dissemination process has been completed. Contributes to auxiliary CDR 16.
<b>Output 4:</b> Studies conducted to set standards for local products to use the regional brand.				0	0	4	3	3	10	Final report on each study	
<b>Output 5:</b> Regional brand dissemination campaigns designed and implemented.	Number	0	2017	0	0	1	1	1	3	PEU report	
<b>Output 6:</b> Multisector fund up and running.				1	0	0	0	0	1	Multisector Fund operations manual	The fund has been designed and implemented.
<b>Output 7:</b> Campaign to promote Multisector Fund instruments conducted.				1	1	1	1	0	4	PEU report	This program is for ongoing promotion of business development services.

Outputs	Unit of measure	Base-line	Base year	Year					Final target	Means of verification	Comments
				1	2	3	4	5			
<b>Output 8:</b> Statistical data platform for the productive sector up and running.				0	0	1	0	0	1	Online information system	
<b>Output 9:</b> Statistical data platform for productive sector up and running.				0	0	1	0	0	1		
<b>Output 10:</b> Consulting engagement for design of binational tourism circuits completed.				0	0	1	1	1	3	Consultant's final report	Binational tourism circuits structured.
<b>Output 11:</b> Consulting engagement for evaluation of binational value chains completed.				0	1	2	0	0	3		Application of the IDB's value chain risk methodology to three chains.
<b>Output 12:</b> Technical and environmental study completed for new drilling of hot spring in Federación.				0	0	1	0	0	1	Study final report	
<b>Output 13:</b> Studies on hot springs completed.				0	2	2	2	0	6	Final reports on each study	

Outputs	Unit of measure	Base-line	Base year	Year					Final target	Means of verification	Comments
				1	2	3	4	5			
<b>Output 14:</b> Technical and economic viability study on public transportation service between tourist attractions in the region completed.	Number	0	2017	0	0	0	1	0	1	Study final report	
<b>Output 15:</b> Training events for business owners and employees in the tourism and productive sectors held.				0	2	2	5	3	12	Training program curricula	Language training; product development, use of tourism business associations; therapeutic use of hot springs; and preparation of bids to attract international events to the region. Projected attendance is 900.
<b>Output 16:</b> Equipment set for accessibility of people with disabilities at tourist attractions, installed.				0	1	1	1	0	3	PEU report	One set per department; composition to be determined during program execution.
<b>Output 17:</b> Tourism signage and signaling installed for the Salto Grande region.				52	85	85	85	85	392		
<b>Output 18:</b> Tourist information centers and mobile equipment installed.				0	2	1	0	0	3		
<b>Component 2</b>											
<b>Output 1:</b> Comodoro Pierrestegui Airport in operation.	Number	0	2017	0	1	0	0	0	1	Works certificates	Meets international airport standards for commercial passenger flights. Contributes to auxiliary CDR 10.
<b>Output 2:</b> Feasibility study for a bridge for local traffic between Concordia and Salto completed.				0	0	1	0	0	1	Study final report	

Outputs	Unit of measure	Base-line	Base year	Year					Final target	Means of verification	Comments
				1	2	3	4	5			
<b>Component 3</b>											
<b>Output 1:</b> Local border traffic (TVF) card system implemented.	Number	0	2017	0	0	1	0	0	1	Report of the PEU and the National Border Technical Office	TVF system implemented, and awareness campaign conducted. Contributes to auxiliary CDR 26.
<b>Output 2:</b> Border facilitation card (TFF) system for tourism transportation operators implemented.				0	0	0	1	0	1		TFF implemented. Contributes to auxiliary CDR 26.
<b>Output 3:</b> Technological equipment at the border facility up and running.				0	0	1	0	0	1		Contributes to auxiliary CDR 26.
<b>Output 4:</b> Signage and signaling to guide users at the border facility installed.				0	0	1	0	0	1		
<b>Output 5:</b> Furnishings for checkpoint booths and central building installed.				0	0	1	0	0	1		
<b>Output 6:</b> Feasibility study for a private business project with a free trade area completed.				0	1	0	0	0	1		

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

<b>Country:</b>	Argentina
<b>Program number:</b>	RG-L1126
<b>Program name:</b>	Development and Integration Program of the Salto Grande Region
<b>Executing agency:</b>	Ministry of Planning, Infrastructure, and Services of the Province of Entre Ríos (MPlyS)
<b>Fiduciary team:</b>	Roberto Laguado and Juan Carlos Lazo (FMP/CAR)

### I. EXECUTIVE SUMMARY

- 1.1 The Bank analyzed the executing agency's institutional capacity using the Institutional Capacity Assessment System (ICAS) report, which, in combination with recent experience in executing Bank operations, yielded a "medium" level of risk.
- 1.2 The borrower for the operation will be the Province of Entre Ríos, and the executing agency will be the Ministry of Planning, Infrastructure, and Services of the Province of Entre Ríos (MPlyS), which will execute the program activities through its technical, administrative, and operational units in accordance with its organizational structure and the roles assigned to each under current laws and regulations, and specifically through a provincial program execution unit (PEU) with the necessary management, fiduciary, technical, and socioenvironmental team for the program. The MPlyS has fiduciary experience as a subexecuting agency on Bank-financed programs. To bridge the gaps identified, the MPlyS will be supported by its General Directorate of Financing for Public Investment (DGFPIP), and the PEU will be strengthened by hiring consultants and training its staff.

### II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The PEU was established by Executive Decree 3016/01, to unify all ministerial executing agencies involved in executing programs with national and international financing. Under Article 1 of its General Regulations (Decree 3016/01), the PEU's mission is "to deal with all matters related to coordination, supervision, and implementation of provincial programs financed by the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB), the National Treasury and/or other providers of loans or grants, and to manage the relationship between the provincial government and such agencies." Article 2 adds: "to design, implement, supervise, and oversee execution, and administer programs with national and international financing for investment, construction, reform, and improvement in the Province of Entre Ríos."

### III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The ICAS analysis of the PEU at the MPlyS, in combination with recent experience in executing Bank operations, yielded a “medium” level of risk. The identified risk was the lack of experience with the Bank’s procurement procedures, which could lead to delays in program execution. The mitigation measures are: (i) to formalize mechanisms or procedures for monitoring and supervision in line with the commitments and objectives of the plans and programs; (ii) to review and improve fiduciary processes, in order to make them more nimble; (iii) to strengthen the PEU with procurement and financial specialists and targeted training in those areas; and (iv) to update and/or develop the appropriate manuals for effective operation.

### IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 The fiduciary agreements and requirements for procurement set forth the provisions applicable to execution of all program procurement processes.
- 4.2 **Recognition of expenditures.** The Bank may retroactively finance, as a charge against the loan proceeds, up to US\$100,000 (0.2% of the proposed loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date, provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures must have been incurred on or after the project profile approval date of 6 July 2018, but under no circumstances more than 18 months prior to the loan approval date. The design activities eligible for retroactive financing are associated with: (i) the profile of crossborder traffic at the Concordia-Salto border facility; and (ii) gathering of information on the productive and tourism sectors in Colón, Concordia, and Federación (Components 1 and 3).

#### A. Procurement execution

- 4.3 Procurement will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) of April 2011 and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) of April 2011.
- 4.4 Among the country subsystems approved by the Bank, the reporting system will be used.
- (i) **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services<sup>1</sup> generated under the program and subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be executed using national bidding documents agreed upon with the Bank. The program’s sector specialist will be responsible for reviewing the technical specifications for procurement processes during the preparation of selection processes.
  - (ii) **Selection and contracting of consultants.** Contracts for consulting services generated under the program will be executed using the

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<sup>1</sup> Document GN-2349-9, paragraph 1.1: Nonconsulting services are treated as goods.

standard request for proposals issued by the Bank. The program's sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services.

- (iii) **Selection of individual consultants.** Individual consultants will be selected on the basis of their qualifications to perform the work and through competitive processes, specifically, a comparison of the qualifications of at least three candidates. The program's sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services.

**Table 4.1. Thresholds for ICB and international short list**

Works			Goods			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	Inter-national publicity	Short list 100% national
≥25,000,000	<25,000,000 ≥350,000	<350,000	≥1,500,000	<1,500,000 ≥100,000	<100,000	>200,000	≤1,000,000

## B. Main procurements

**Table 4.2. Type of bidding process and amounts**

Activity	Type of bidding process	Estimated date	Estimated amount (US\$)
<b>Works</b>			
Design and construction for reconditioning of Comodoro Pierrestegui Airport	ICB	2019	36,300,000
Supervision of construction works	QCBS	2019	1,500,000
Integrated surveillance system	ICB	2021	490,000
Scanners for national identification documents with facial and fingerprint recognition	ICB	2021	600,000
Tourist information centers and related services (multiple centers)	Shopping	2019	500,000
Tourism and roadway signage and signals	Shopping	2019	760,000
Implementation and promotion of the export and investment agency	QCBS	2020	250,000
Feasibility study for a bridge for local traffic between Concordia and Salto	QCBS	2020	200,000

## C. Procurement supervision

- 4.5 Procurement process will be supervised as indicated in the procurement plan ([required link 4](#)) and generally on an ex ante basis with the exception of processes involving the shopping method, consulting firms selected on the basis of qualifications, and individual consultants, which will be subject to ex post review.

Ex post review visits will be conducted every 12 months. Ex post review reports will include at least one physical inspection visit selected from among the procurement processes subject to ex post review. At least 10% of the contracts reviewed will be physically inspected during the program.

- 4.6 The threshold amounts for ex post review are based on the MPlyS's fiduciary capacity for execution as examined during the design of the operation, and may be modified by the Bank in response to changes in such capacity.

**Table 4.3. Thresholds for ex post review (US\$)**

Works	Goods	Consulting services	Individual consulting services
<4,000,000	<300,000	<200,000	<50,000

**D. Special provisions**

- 4.7 **Mechanisms for prevention of prohibited practices.** The provisions of documents GN-2349-9 and GN-2350-9 related to prohibited practices (lists of companies and individuals ineligible to work with multilateral agencies) will be applicable.

**E. Records and files**

- 4.8 Documentation on procurement process will be kept at the offices of the PEU/MPlyS as the entity responsible for program procurement. For ex post reviews, records and files of all documentation generated by procurement processes will be kept duly organized, labeled, and updated.

**V. FINANCIAL MANAGEMENT**

- 5.1 The Financial Management Guidelines for IDB-financed Projects (document OP-273-6) and the Operational Guidelines for Financial Management of IDB-financed Projects (document OP-274-2) will be applicable.

**A. Programming and budget**

- 5.2 The executing agency's budget has programmatic line items and others based on the purpose of the expenditure (principal items). Based on their economic nature, the line items are current expenditures, capital expenditures, and short-term financial instruments. Budgetary allocations must be planned to ensure that the operation is executed within the established time frame.

**B. Disbursement and cash management**

- 5.3 Disbursements will be made in accordance with a detailed financial plan, based on the program's actual liquidity needs.
- 5.4 The PEU will manage the separate bank accounts opened exclusively for management of the loan proceeds at Banco de la Provincia de Entre Ríos. It will also be responsible for monitoring the balances of the special accounts in U.S. dollars on a monthly basis and reconciling the program's bank accounts.

- 5.5 The Bank will encourage the PEU to migrate to using the IDB's Web-based e-Disbursements system for electronic preparation and submittal of disbursement requests to the Bank. This lowers transaction costs and allows the Bank to review and process such requests remotely.
- 5.6 Disbursements will be made using the advance of funds modality in accordance with the financial plan covering a maximum of 180 days, and will be accounted for when expenditures have reached at least 80%. The disbursement request form, execution status, and financial plan for the next 180 days will be used for disbursement requests. No supporting documentation for expenditures or payments made is required for accountability reporting, but this does not indicate Bank approval of expenditures incurred. The original supporting documentation for expenditures will be available for review by the Bank upon request.

**C. Accounting, information systems, and reporting**

- 5.7 The PEU uses UEPEX<sup>2</sup> as its financial management system, which allows it to identify the program funds as well as sources of financing. The UEPEX system classifies program investments by category in the expenditure matrix, in accordance with the chart of accounts approved by the Bank. Accounting will be on a cash basis, and International Financial Reporting Standards will be used, as applicable, in accordance with established national criteria. The required financial reports are: (i) a financial plan for up to 180 days after the request for advance of funds; (ii) the program's audited financial statements; and (iii) other reports requested by the fiduciary specialists.
- 5.8 The exchange rate in effect on the date of conversion of the currency of approval or currency of disbursement to the local currency of the borrower's country will be used for accountability reporting on the loan proceeds: Article 4.10(b)(i).
- 5.9 For disbursements in any currency other than U.S. dollars or Argentine pesos: in cases of direct payment and letter of credit guarantee reimbursement, the equivalency to the loan currency will be set according the amount actually disbursed by the IDB.

**D. Internal control and internal audit**

- 5.10 The accountants appointed by the Office of the Comptroller General of the Province of Entre Ríos will be responsible for internal audit of the PEU. Their duties include a broad range of control activities, which may be even broader than internal auditing, because they are involved both on an ex post basis and in activities related to accounting and financial management.
- 5.11 Their responsibilities are governed by Resolution 14 of the Office of the Comptroller General of the Province of Entre Ríos and are as follows: (i) preemptively intervene in expenditure processing; (ii) sign or intervene in payment orders on the general treasury or the treasuries of entities or jurisdictions; (iii) analyze administrative acts that affect budgeting, finances, and/or assets in terms of the jurisdiction or entity in question, and issue observations or notices accordingly; and (iv) periodically verify transactions recorded in the budgetary and

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<sup>2</sup> <https://dgsiaf.mecon.gov.ar/uepex/>.

- financial accounting system, ensuring that records are complete and match the supporting documentation.
- 5.12 Even though the activities do not strictly reflect the ICAS method of analysis, the internal control system does not carry relevancy risks.

**E. External control: external financial audit and reports on programs**

- 5.13 The Audit Office of the Province of Entre Ríos has not yet been authorized to audit Bank-financed operations. As a result, and for the sake of flexibility in commissioning the audit of the operation, the option of several different institutions eligible to audit Bank-financed operations will be kept open. When the time comes to begin the procurement process, the executing agency will ask the Bank for a short list of institutions that may be invited to participate.

**F. Financial supervision plan**

- 5.14 The initial supervision plan is based on risk and fiduciary capacity assessments conducted in accordance with the program's onsite and desk reviews, including the scope of operational, financial and accounting, and compliance and legality actions, and their frequency and responsible parties. An annual financial inspection visit is planned. Disbursements will be subject to ex post review.

**G. Execution mechanism**

- 5.15 The MPlyS will be responsible for program execution and will execute program activities through a PEU. The specific responsibilities for each area will be specified in detail in the program Operating Regulations ([optional link 7](#)). The Operating Regulations will specify the parties responsible for planning and fiduciary management, and will redesign procurement and financial flowcharts (e.g., management of revolving funds) and provide training on contracting independent audit firms.
- 5.16 Support on fiduciary issues will be important, primarily from the General Directorate of Financing for Public Investment (DGFPIP) and General Directorate of Works Inspection and Oversight (DGFyCO), which have extensive experience executing Bank resources. This support will be clearly specified in the program Operating Regulations ([optional link 7](#)).

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Regional. Loan \_\_\_\_/OC-RG to the Province of Entre Ríos  
Development and Integration Program of the Salto Grande Region

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 Province of Entre Ríos, as borrower, and with the Argentine Republic, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Development and Integration Program of the Salto Grande Region. Such financing will be for an amount of up to US\$50,000,000 from the resources 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.

(Adopted on \_\_\_\_ \_\_\_\_\_ 2018)