

Report No. 20719

Argentina

Country Assistance Evaluation

July 10, 2000

Operations Evaluation Department

Document of the World Bank

Abbreviations

CAE	Country Assistance Evaluation
CAR	Country Assistance Review
CAS	Country Assistance Strategy
GDP	Gross Domestic Product
ESW	Economic and Sector Work
IBRD	International Bank for Reconstruction and Development
IDB	Inter American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
MIGA	Multilateral Investment Guarantee Agency
NGOs	Non-governmental organizations
OED	Operations Evaluation Department
PBG	Policy Based Guarantee
SSAL	Special Structural Adjustment Loan

Director-General, Operations Evaluation:

Mr. Robert Picciotto

Director, Operations Evaluation Department:

Mr. Gregory Ingram

Manager, OEDCR:

Mr. Ruben Lamdany

Task Manager:

Mr. René Vandendries

July 10, 2000

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Argentina Country Assistance Evaluation

The dramatic turnaround in the management and performance of Argentina, which took place at the beginning of the 1990s, has by now been sustained for a decade. This, in spite of three major external shocks which had strong repercussions on the Argentine economy. In contrast to the stagnation in the past, economic growth averaged 5 percent per year during 1991-99. In US dollar terms total GNP doubled. As the economy was put on a sounder footing for growth to be sustained, however, unemployment unavoidably increased, and poverty, after declining substantially in the early stages of the economic turnaround, has since remained stubbornly high. In addition to these social concerns, the economy is still vulnerable to external events and further progress is needed in reducing the fiscal deficit.

The Bank has played a highly supportive role both in the economic transformation of Argentina and in helping the country weather the crises. Over time, the Bank's program has appropriately evolved from support for public sector reform and privatization to financial sector reform, and then to provincial reform, focussed at first on provincial finances and increasingly on social sector issues. During crisis, Bank assistance contributed to protect social expenditures, as well as to mitigate the crisis impact on the poor.

The outcome of the Bank's program has been fully satisfactory. It could be rated even higher, were it not for the exogenous shocks which interrupted progress and for the unemployment and poverty problems, which will take time to resolve. The institutional development impact of the Bank's program has been substantial, as the reforms were fully imbedded in Argentina's institutional setting. Sustainability of the reforms is rated as likely, as the country's capacity to deal with external shocks has strengthened and government commitment to further reform is solid.

Still, important issues remain. More time is needed to reduce Argentina's vulnerability and dependence on external capital, including through further improvements in public finances and major efforts to address the unemployment and poverty problems. OED recommends that the option to assist Argentina in times of externally induced crises be kept open, particularly to help alleviate the impact of such crises on the poor. In addition, the Bank should focus its assistance program ever more on the social agenda. An earlier draft of this report was discussed with Argentine authorities, civil society and other stakeholders, as well as with World Bank staff. Their comments have been incorporated. No further government comments were received.

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The Country Assistance Evaluation was prepared by René Vandendries (task manager) and Manuel Hinds (consultant). Research assistance was provided by Anar Omarova and administrative support by Silvana Valle. Jorge Garcia-Garcia and Luis Ramirez peer-reviewed the report.

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1. Introduction

1.1 This report is an update of an OED Country Assistance Review (CAR) of Argentina completed in 1996. The CAR found that the outcome of the Bank's assistance during the 1980s and early 1990s had been mixed. Following unsatisfactory results during the 1980s, as Argentina approached the peak of its most severe macro-economic crisis, the Bank's assistance strategy, after some hesitation during 1989/90 at the very start of Argentina's structural reform process, gained momentum from 1991 onwards, *pari passu* with the introduction of the currency board arrangement, the core of Argentina's stabilization program. The CAR found that the outcome of the Bank's assistance had been satisfactory starting in 1991, but that the institutional development impact had been modest and, above all, that the sustainability of the achievements remained in doubt.

1.2 Several lessons and recommendations for the Bank's future assistance strategy to Argentina were identified in the CAR. The recommendations were summarized in a policy matrix, and the actions taken and results achieved by Country Management in response to all recommendations are summarized in Annex A. Among them, core issues were the continued weak fiscal performance, especially of provincial governments, the level and efficiency of social spending and the need to continue supporting the financial system reform. These have been the focus of the Bank's assistance strategy during the period of review. Good progress has been made in all three areas, particularly in the financial sector reforms. The other two issues, however, remain a major part of the agenda for the future, as will be seen below.

2. The Economy During the 1990s

Background

2.1 The program of reforms that the Argentine government started in 1989 with the advent of the Menem Administration had as its centerpiece the creation of a Currency Board, which came to life in 1991. After decades of stagnation, chronic high inflation and recurrent balance of payments crises, the Currency Board became the foundation for a thorough reform of the economy. The reform was aimed at jump-starting growth by achieving low inflation and bringing market discipline to economic relationships. The measures included improving the efficiency of the public sector; a redesign of the relationships between the federal and the provincial governments; one of the largest privatization programs in the world; liberalization of domestic and international transactions in both the financial and the real sectors; and improving the delivery of social services at both the federal and provincial levels.

2.2 The economy rebounded quickly after the introduction of these measures. Inflation came down to 4 percent by 1994 and the rate of growth of the economy went from minus 6.9 percent in 1989 to an average of 8.5 percent in 1991-1994. The "Tequila"

effect, prompted by the Mexican crisis in late 1994, hit Argentina particularly hard. It started as a foreign exchange crisis, as capital outflows—prompted by suspicions that devaluation was inevitable—drastically reduced the country's monetary base, raising interest rates and threatening to demonetize the country. Soon, however, the crisis hit the liquidity of banks and brought to the surface bank insolvency problems that had been hidden during the previous economic expansion. The government discovered that in addition to a currency crisis, it also faced a full financial crisis.

2.3 The government moved fast to resolve the crisis by securing financing from abroad that reestablished the confidence in the banking system. The crisis was an eye opener. While the system in general was much weaker than expected, the problems were concentrated in the provincial banks and in a large number of relatively small banks. After the crisis subsided, the government moved fast to restructure the banking system. This was the point where the 1996 CAR ended.

The Challenges During the Period of Review

2.4 The 1995 crisis highlighted the vulnerability of the country's stability to external shocks, to the point that, even after the crisis subsided, it raised serious concerns about the sustainability of the Convertibility Plan. During the next five years, the government focused its efforts in reducing the vulnerability of the economy. The sources of vulnerability included the need to protect the liquidity of the banking system; the insolvency of a substantial portion of the banks in the system; the fiscal deficit and the pressures that financial indiscipline in the provinces exerted on it; and the high rates of unemployment that prevailed at the time.

2.5 The government moved in several fronts to reduce the vulnerabilities resulting from the problems discussed above: restructuring the banking system and absorbing the losses accumulated in the weak institutions; opening the financial system to increased participation of foreign banks; increasing the liquidity of banks; extending the maturity of the government's foreign liabilities; borrowing in advance for the financial needs of the government; improving the early warning system to anticipate financial troubles in banks; improving regulation and supervision; creating a job creation program aimed at the heads of poor families; and proposing reforms to the labor legislation to make the labor markets more flexible. The government was able to advance very rapidly in the actions aimed at reducing the financial vulnerability of the country. The Trabajar (workfare) program was also put in place with great success. This, however, was not the case with the reforms needed to introduce flexibility in the labor market, as the government was unable to secure political support for reforming the labor laws.

2.6 The economy recovered fast after the Tequila crisis. After declining 2.8 percent in real terms in 1995, it then went on to grow at an average of 6 percent in 1996-1998 while the rate of inflation fluctuated around zero. Domestic demand grew faster than production, propelled mostly by capital inflows, leading the current account in the balance of payments to widen from around 2 percent to over 4.3 percent of GDP. The ratio of gross reserves to short-term debt increased from 82.2 percent to 95.5 percent during the period. While the current external debt to GDP ratio at around 53 percent may

not seem excessive, it has been growing steadily over the past few years (from about 30 percent during the early 1990s). The worrisome aspect is the growing public debt, a trend which can only be reversed by reducing and eventually eliminating the public sector deficit. The “Fiscal Responsibility Law” of September 1999 is meant to achieve that objective, but only at the Federal Government level. The issue has yet to be addressed at the provincial Government level. The main macro and financial variables are summarized in the following table:

Table 2.1: Macro-economic Indicators, 1995-1999

	1995	1996	1997	1998	1999
Real GDP Growth	-2.8	5.5	8.1	3.9	-3.1
Inflation	3.4	0.2	0.5	0.9	-1.8
Current Account % of GDP	-1.9	-2.4	-4.1	-4.9	-4.3
Gross Reserves/ST Debt	82.2	94.4	103.6	95.5	93.7
Fiscal Balance % of GDP	-2.3	-3.2	-2.0	-2.1	-3.8
Public Debt % of GDP	41.0	38.9	41.4	47.2	47.7

Source: IMF and World Bank figures.

2.7 The decline shown in the rate of growth in 1999 is the result of another external shock that hit Argentina: the large devaluation of the Brazilian Real in January 1999. In that year, exports contracted by 11.7 percent in US dollar terms. This, in turn, depressed the country’s economic activity, leading to a contraction of real GDP of 3.1 percent. The recession appears to have bottomed out in July 1999, with industrial production and construction growing at a sustained pace since August and the rate of unemployment falling from 14.5 percent in the second quarter to 13.8 percent in the fourth one. The IMF is projecting a 4.3 percent growth rate for 2000.

2.8 This time the crisis found a strong banking system in place as a result of the many actions that the government had taken in the previous years to reduce its vulnerability. Different from the Tequila crisis, there were no significant capital outflows and no runs on banks. There was a monetary contraction of the Peso denominated M2—which fell by 3.9 percent—but total M2, including foreign exchange deposits, went up by 3 percent, as deposits in foreign exchange went up by 10 percent, more than compensating for the decline in the Peso financial assets. Total credit of the consolidated banking system went up for both the public and the private sector as well (by 17.8 and 2.0 percent respectively.)

2.9 The primary issues confronting Argentina today are the perceived vulnerability of its economy, and a stubbornly high level of unemployment and poverty. As attested by the behavior of the economy during the 1998-99 crisis, the progress achieved by Argentina during the short period of review in reducing the country’s vulnerability to external shocks through strengthening the financial system is outstanding. Also, the speed at which the economy recovered from the 1995 financial crisis and that at which it is recovering from the crisis caused by the Brazilian devaluation show a greater degree of flexibility than existed before. Overall, the Argentine economy was able to keep constant the volume of exports in 1999 in spite of the grave shock caused by the Brazilian devaluation. Their value went down in large part because the Brazilian devaluation

caught the Argentine economy in the midst of a severe decline in its terms of trade, which declined by 1.2, 5.3 and 6.4 percent in 1997, 1998 and 1999, respectively, adding to a cumulative deterioration of 11.4 percent, which coincides with the decline in exports value. It appears that the liberalization of the economy has greatly improved its flexibility and its resilience to external shocks. Progress in other essential areas has been less marked, particularly in the reduction of unemployment and poverty.

2.10 Unemployment remained high during the period of review: it reached a peak of close to 19 percent during the "Tequila" crisis, declined afterwards but rose again during the most recent crisis, and was estimated at about 14 percent by the end of 1999. High levels of unemployment are a common byproduct of industrial restructuring of the scale that happened in Argentina (privatization of public enterprises, shedding of excess employees in the public sector) and it is likely to last for some time. Argentina's inflexible labor markets (constraints on hiring and firing, high dismissal costs, large payroll taxes) add to the problem by creating a bias towards capital intensive investment. A most encouraging recent development is the new (Dec. 99) Government's submission to parliament of a comprehensive labor reform law, whose approval is expected. Bank analyses, among others, suggest that the link between unemployment and poverty is particularly strong in Argentina. At the height of the 1980s crisis, the poverty rate was estimated at more than 40 percent of the population. During the early 1990s, as the economy stabilized, resulting in a substantial drop in inflation and high rates of economic growth, poverty declined significantly. However, following the 1995 crisis, and subsequent slower growth, the poverty rate rose again, fluctuating at around 25 percent during the past few years (Table 2.2).

Table 2.2: Argentina—Trends in Poverty and Employment, 1990-1998

<i>Year</i>	<i>Poverty rate^a</i>	<i>Unemployment</i>		<i>Inflation (% increase)</i>	<i>Growth of Real GDP (%)</i>
		<i>rate (% of labor force)</i>	<i>Gini coefficient</i>		
1990	41.2	7.5	0.46	2314.0	-1.8
1991	26.4	6.5	0.46	171.7	10.5
1992	18.7	7.0	0.45	24.9	9.9
1993	16.9	9.6	0.46	10.6	5.7
1994	17.0	11.5	0.46	4.2	5.9
1995	22.6	17.5	0.47	3.4	-2.7
1996	25.5	17.2	0.48	0.2	5.5
1997	25.2	14.9	0.48	0.5	8.1
1998	24.9	12.8	0.49	0.9	4.0
1999	-	14.2	-	-1.8	-3.1

^a The poverty rate refers to Greater Buenos Aires only.

Source: "Poor People in a Rich Country: A Poverty Report for Argentina," Report No. 19992-AR, World Bank, March 23, 2000, and IMF data.

3. The World Bank's Assistance Strategy

3.1 The contribution that the World Bank can make in terms of total financial assistance in an economy of the size and sophistication of Argentina is fairly small. Yet, through its economic advice and associated lending, the Bank has played a key supporting role in the continuing reform and stabilization efforts, in cooperation with the IMF and IDB. Moreover as the Bank's program has become more selective, it had a substantial impact in some sectors.

3.2 The focus of the Bank's assistance to Argentina shifted over time, in tandem with advances in the reform process and as new priorities emerged. Thus, during the early 90s the focus was public sector reform and privatization (Public Enterprise Reform adjustment loans in FY91 and FY93, Public Sector Reform loan in FY92) and financial sector adjustment (FY93). In FY95 the Bank made its first adjustment operations targeted at the provinces (Provincial Reform loan and Provincial Bank Privatization). Subsequently, lending to the provinces and support for social protection and the development of safety nets became the core of the Bank's program. The 1997 CAS and the 1998 CAS Progress report were very explicit in proposing a Bank portfolio focussed on social and provincial development.

3.3 The FY97-00 CAS focused on: i) enhancing social development, including poverty alleviation and human resource development; ii) improving the performance and institutional capacity of government, particularly sub-national governments; and, iii) consolidating structural reforms, including public finance, labor markets and the financial markets to ensure successful implementation of the assistance program, and enhance governance through institutional building. The CAS and the 1998 Progress Report also noted that "the level and composition of the program could also be affected by the need to provide support in the event of an external shock." These proposals were largely implemented, but the full lending program as originally proposed had to be modified to accommodate the more urgent needs of the 1998-99 crisis. To help the government face this crisis, the Bank approved the 1998 SSAL and its associated Special Repurchase Facility Support Loan. In 1999, the Bank also approved the Policy Based Guarantee Operation.

3.4 Following these CASs, the World Bank approved financial commitments totaling US\$12.6 billion (1.4 billion per annum) during FY91-99, of which US\$6.6 billion were in the form of adjustment lending. To put this in perspective, Argentina's foreign exchange requirements averaged US\$26.5 billion per year during 1997-99. The largest volume of Bank commitments went for multisector lending: this consisted of only two somewhat exceptional operations: a debt and debt service reduction loan in FY93, and the US\$2.5 billion special SAL in FY99 in response to the financial emergency. Apart from this, the main areas of concentration have been the financial sector, public sector management (increasingly aimed at the provinces), and the social sectors (Table 3.1).

Table 3.1: World Bank Commitments, 1991-1999 (US\$ million)

	<i>1991-1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>Total</i>
Infrastructure ^a	668.0	-	500.0	450.0	30.0	1,648.0
Production Sector ^b	33.5	46.0	144.5	114.5	-	338.5
Finance	1,708.5	-	-	-	505.1	2,213.6
Public Sector Mgmt.	1,416.0	516.0	320.0	305.0	10.0	2,567.0
Multisector	450.0	38.5	-	-	2,555.6	3,044.1
Other ^c	770.0	908.9	515.0	463.0	125.6	2,782.5
TOTAL	5,046.0	1,509.4	1,479.5	1,332.5	3,226.3	12,593.7
Of which: adjustment	2,125.0	850.0	300.0	300.0	3,030.0	6,605.0

^a Power, energy, transport.

^b Agriculture, industry, mining.

^c Education, PHN, social sector, water and sewerage, urban, environment.

Source: World Bank data.

3.5 Throughout the 1990s the Bank also supported its lending with several technical assistance operations (in mining, e.g.) and with notable economic and sector work. Most pertinent among the latter, perhaps, is the Bank's analysis of labor markets in Argentina, which started in the mid-90s, involved a succession of reports, and contributed substantively to the Labor Reform Law now before Congress.

4. Evaluation of the World Bank's Assistance Strategy

Overall Findings

4.1 The outcome of the Bank's financial assistance to Argentina during the 1990s is among the best Bank-wide and represents a dramatic improvement over the past (Table 4.1). Annex Table 4b contains data for comparator countries.

Table 4.1: OED Project Ratings^a (percentages)

	<i>1968-1990</i>	<i>1991-1999^b</i>
Satisfactory outcome	39	98
Substantial institutional development impact	27	78
Likely sustainability	69	90

^a By year of project approval, based on value of net commitments.

^b Based on the one-third of projects evaluated to date.

4.2 Currently, about 14 percent of the portfolio is shown to be at risk. Risk ratings, however, have fluctuated widely over the past few months. The projects which encountered problems in the recent past were mostly poorly designed (overly complex,

prepared hurriedly, or insensitive to provincial constraints) or suffered from a lack of counterpart funds.¹

4.3 On a country-comparative basis, the Bank's Argentina program was also very cost-effective (Table 4.2). This is even more true when only projects with satisfactory outcomes and non-risky projects are included in the calculation (Annex Table 5).

Table 4.2: Comparative Cost Data^a

	<i>Cost per project (US\$1000)</i>	<i>Cost per US\$1000 of net commitment (US\$)</i>
Bankwide	981	13.5
LAC	769	9.2
Uruguay	627	12.6
Brazil	894	8.7
Mexico	874	4.5
Argentina	621	3.8

^a Costs include lending, supervision and ESW.

Source: Annex Table 5.

4.4 Much is being said about corruption in Argentina. On a global scale, the Bank's program is well-designed to reduce incentives and scope for corruption: privatization, more efficient public spending. Still, there have been allegations of corruption in Bank projects.² Management seems ready to act aggressively to deal with this problem. It has used the Bank-wide hotline to receive denunciations, which, to this moment, has not produced any evidence of wrongdoing.³ Also, the current Argentine administration has made fighting corruption and waste one of its main objectives.

Successful Support to a Highly Committed Government, with some Implementation Problems Largely in the Social Sectors and at the Provincial Level

Growth and Stability

4.5 Strong commitment by Argentina's top political leadership was clearly the key factor in the successful restoration of growth and stability during the 1990s as well as in the economy's ability to deal with external shocks. The Bank played a highly supportive role in this process both through its financial assistance and its technical advice.

¹ One unusual "problem project" is the Yacyreta Hydroelectric project, a joint undertaking between Argentina and Paraguay, which over time received substantial financial support from the Bank. The project has been plagued for years by delays, huge cost overruns, severe environmental problems, dislocation of large populations, and continuous disputes. While the electricity from the project is mostly meant for the Argentina market, most of the adverse impact is in Paraguay. This issue will be further discussed in the upcoming CAE on Paraguay.

² The Washington Post, March 13, 2000.

³ The complaints are received by the Oversight committee, reviewed/discussed with the Buenos Aires office in terms of validity, after which a decision is made on whether to pursue further investigation. The Buenos Aires office also gets complaints and allegations directly—usually by mail or fax, without an identifiable contact. These are also submitted to the Oversight committee.

4.6 The importance of the abrupt end to hyperinflation and of the wide scope and speed of the privatization process in the early 1990s cannot be overstated. These, and the subsequent recovery in economic growth, were determining factors in generating public support for the Government's policies. The Bank's role in the privatization process rested primarily in being able to provide technical advice, notably in identifying and engaging experts to help execute selected privatizations, as well as in helping meet some of the costs of privatization, including the costs of voluntary retirements. In the case of financial sector reform, the determination of key Government policymakers was also at the root of the substantial progress made, with the Bank playing an important supportive role with technical advice in strengthening the regulatory and supervisory system and with financial support for the debt and debt service reduction program in 1992/93.

4.7 The Bank's special SAL in FY99 (US\$2.5 billion), to help Argentina weather its recent financial crisis, again confirms the importance of the Bank's financial support as well as that of strong domestic ownership of the policy program. A comparative "Quality at Entry" assessment of similar Bank loans to four countries in the aftermath of the recent global financial crisis stresses the role of ownership. "In Argentina, the Government team had essentially designed the policy reforms and was committed to their implementation. Moreover, there was broad consensus among leading political parties on the overall policy direction."⁴ The assessment adds that the considerable knowledge among Bank staff of the country and its institutions made it easy to achieve a consensus within the Bank and with Argentina on the appropriate policies, thereby enhancing the quality of the loan.

Box 4.1: The NGO Perspective

Many NGOs tend to be critical of the economic policies pursued by Argentina during the 1990s, and hence critical of the World Bank which supported those policies. They argue that, while the policies produced rapid economic growth they also led to double-digit unemployment—currently estimated at 14 percent of the labor force—and perpetuated poverty. (In fact, the number of people below the poverty line fell from 40 percent at the end of the 1980s to around 30 percent after stabilization set in, but has remained at that level throughout the 1990s. Also, during the previous decade income stagnated or declined, but employment grew by some 30 percent and unemployment rates were very low.) Interviewed NGOs singled out privatization as the main contributor to the unemployment problem. They also said that Bank policies were paradoxical and perverse because, while fostering unemployment through its structural adjustment programs, the Bank also supports social safety nets. These are not sufficient to offset the adverse consequences of adjustment and, furthermore, do not lead to sustainable employment. They see the labor reform currently promoted by the Bank as a means to undo legally protected and regulated labor relations in order to reduce salaries in the name of increased competitiveness.⁵

⁴ The World Bank, PREM notes, August 1999, #27.

⁵ Extensive consultations with NGOs were held by the country team as an input in the preparation of the new CAS. In meetings with senior government officials, the OED mission was told that the Government did not object in general terms to the participatory approach of the Bank. However, they expressed that the government did not like involving NGOs in policy deliberations before discussing those policies with the government. They also noted with displeasure that after these meetings some NGOs made public declarations condemning policies agreed between the government and the Bank, saying that such condemnation was the conclusion reached in Bank seminars. The officials urged the Bank to clarify publicly that the Bank was not renegeing from its own policy recommendations whenever these situations arose.

Consolidating the Financial Reform

4.8 With Bank support, the Argentina Government moved quickly to improve the soundness of the banking system, including through the privatization of provincial banks. Working jointly with the IDB, the Bank helped to create two fiduciary funds (Fondos Fiduciarios) to absorb the losses incurred during the privatization of the provincial banks and the mergers or acquisitions of weak private banks, respectively. Research suggests that the process has been highly beneficial.⁶ The performance of privatized provincial banks and formerly weak banks is rapidly approaching that of the strong private banks. Key to the success was the fact that the bank privatizations were accompanied by a much improved regulatory and supervisory framework.

Provincial Reform

4.9 Bank lending for provincial reform gained momentum starting in 1995. Not only did it support important structural reforms but, above all, it was timely as it occurred at the heels of the Tequila crisis and provided financial resources to help keep the momentum of Argentina's reform process going. In addition, apart from finance, the Bank provided valuable technical advice and assistance during the course of supervision of the loans, and was thereby instrumental in helping ensure the overall success of the program.

4.10 Bank operations were complementary of one another, and focused, in addition to provincial bank privatization, on provincial finances and provincial pension reform. The latter was designed to strengthen the national pension system through a gradual consolidation of splintered pension regimes by transferring provincial pension funds to the national system. Through technical assistance, the Bank supported parallel efforts aimed at institutional strengthening. The outcome of all of these operations has been rated fully satisfactory by OED.

Social Sectors, Safety Nets and Gender

4.11 The Bank's involvement in the health and education sectors has been relevant. Among others, the focus has been on issues which are clearly in need of urgent attention: maternal and child health, and secondary education, which is key to strengthening the competitiveness of the Argentine economy. In some cases, there have been serious implementation problems, reflecting at times weak commitment at the provincial level which tended to lead to delays and periodic shortages of counterpart funds, and, at times, excessive optimism on the part of the Bank about what could be achieved in a short period of time. Also, while the Bank's projects were well focused on specific problems of high priority, the government still lacks a well-defined strategy on the social sectors, with clearly stated and feasible long-term national objectives and a road map of the actions needed to attain them. The Bank could help in focusing a discussion on defining such strategy, a step that could greatly facilitate the subsequent discussion of the institutional setting needed to attain the desired objectives.

⁶ George R.G. Clarke and Robert Cull, "Why Privatize? The Case of Argentina's Public Provincial Banks". *World Development*, Vol. 27, No. 5, 1999.

4.12 Two maternal and child health and nutrition projects (FY94 and FY97) have had satisfactory outcomes to date. Above all, the projects were well-targeted on the poor and well supervised. It is too early to tell how much of a contribution these projects made to country-wide outcomes (neither project has been evaluated by OED), but there has been a sharp decline in infant and maternal mortality rates over the past few years.

4.13 A Bank-supported Health Insurance Reform project (FY96) also was successful in that it helped introduce desirable reforms in the system—enhanced competition among insurance funds, a central regulatory body—but these are only the beginning of much needed improvements. Bank Assistance for secondary education presents a more mixed picture. Two projects (FY95 and FY96) had essentially the same objectives: physical and technological improvements in the schools, teacher and management training, and curriculum reform. Neither project has been evaluated as yet by OED and supervision reports are uninformative. The first project encountered major start-up difficulties, including a shortage of counterpart funds and differing views among provinces on program objectives. Part of the loan was cancelled and some planned expenditures were reallocated; yet, preparation of the second loan was started shortly after signing of the first loan, without having, or having been able to have, incorporated lessons from the first. While budgetary difficulties were also partly responsible for the implementation delays, the Bank acted hurriedly in what is a highly complex endeavor. A third secondary education project, specifically for the province of Buenos Aires, was approved in FY98 and is being implemented rapidly.

4.14 In view of the extent and structural nature of Argentina's long-term unemployment problem, the Government, in 1993, created a workfare program for the poor. Since 1996 The World Bank, with cofinancing from the IDB, has supported this safety net program, "Trabajar", with financial and technical support: there was a succession of four Bank loans for a total of about US\$700 million. On the whole, this has proven to be an important and successful contribution of the Bank to Argentina's poverty alleviation efforts.

4.15 Most provinces participate in the program and, by international standards, targeting has been excellent. For the second project for example (Trabajar 2) which is closed and has already been evaluated, it was found that at least three quarters of the recipients fell in the bottom decile of income groups. While there was some retrogression in the ability to reach the poor during the subsequent projects, largely because of the 1999 fiscal and financial crisis, this was somewhat unavoidable for both political and financial reason. "Not-so-poor" provinces are likely to resist being left out and, equally, they are more likely to be able to provide the necessary counterpart funds for subprojects.

4.16 The impact of the program has been substantial. Though women's participation rates were found to have been low, it was found that the unemployment rate was reduced as a result of the "Trabajar" program by around 2 percentage points. Given the excellent targeting of the program, the beneficiaries were predominantly the poor.

4.17 A cursory review of key Bank documents, such as the CAS or the poverty assessment, or of the extent to which gender issues have been incorporated in Bank projects, might suggest that gender issues are given scant attention in the Argentine program. However, after allowance is made for the extent to which gender differences are an issue in Argentina, the Bank's program is in fact very comprehensive. In terms of the international gender-related development index, Argentina, at 0.814 in 1997, ranked in the "high" group of countries world-wide, and in Latin America, just behind Chile (.832) and Uruguay (.823). The only notable issue is a relatively high maternal mortality rate, which is being addressed at the project level.

4.18 Thus, while gender issues are, on the whole, not critical in an overall poverty reduction program, the Bank has taken, nevertheless, important initiatives during the past couple of years. Among others, the Bank recently published a cross-sectoral review of gender issues which is being disseminated widely in the country and is influencing policy dialogue; it undertook a rapid evaluation of gender in all projects; a consultative group on gender was initiated by the Bank (which includes Bank counterparts as well as representatives of governmental and non-governmental organizations), and a Learning and Innovation Loan is in the pipeline which will fund efforts to strengthen the income generation capacity of poor families, with particular attention to addressing gender roles and relations within the household. The 1999 green cover poverty study does note the lack of comprehensive household data. It is appropriate that such data be collected in a gender-disaggregated manner so as to permit a full understanding of the issues.

Emergency Relief

4.19 In addition to the Special Structural Adjustment Loan (US\$2.5 billion), the Bank approved two operations to help Argentina weather the illiquidity of the international markets that resulted from the cumulative effects of the Asian crisis, the Russian default and the instability of Brazil: the Special Repurchase Facility Support Loan (US\$505 million); and the Policy Based Guarantee (which provided a guarantee for tranches of US\$250 million of a US\$1.5 billion issue of zero coupon bonds and did not increase the exposure of the Bank because it was issued after the country prepaid the same amount of the SSAL). These two operations were extremely successful, the first one in terms of providing the Central Bank with a permanent contingent facility to support the liquidity of banks in case of a run, which could be used without the stigma of drawing from the IMF; the second in terms of enhancing the country's access to the international financial markets. The PGB is a new instrument that can prove to be extremely useful in helping countries to get access to longer-term and higher volumes of credit in the international markets.

Box 4.2: IFC and MIGA

IFC's role in promoting private sector development in Argentina has been critical. It has financed projects in new and difficult sectors (such as water and sanitation, health, housing), provided support to small and medium enterprises, and continued to invest during periods of crisis when the needs were greatest. During 1997-99, IFC provided US\$1.4 billion (including syndication) to the private sector. IBRD and IFC activities have been highly complementary. In Argentina's infrastructure transformation e.g., IBRD lending, studies and technical advice geared to provide the overall setting for reform, were combined with IFC's advice on financial structuring and specific investments. Overall, IFC's portfolio is of high quality, having successfully weathered the recent crisis. In addition, a number of IFC investments in Argentina have been "global firsts" for IFC, which have helped build the corporation's expertise for replicating these types of investments in other member countries.

Given exposure constraints, IFC's strategy will focus on high impact activities with potential demonstration effects, that could be replicated in other countries. Priorities are domestic financial markets development, private provision of social services, private infrastructure in "frontier" areas and in less developed provinces, middle-market firms and small and medium enterprises, credit enhancement structured finance, and information technology.

Argentina is the second largest host country for MIGA insured investments, accounting for 10.6 percent of MIGA's total gross exposure. Its operations are highly concentrated in the financial sector. Total foreign direct investment facilitated by MIGA in Argentina is estimated at US\$3 billion. Though highly exposed, MIGA could raise additional capacity through its Cooperative Underwriting Program and facultative reinsurance. In future, while continuing support for the financial sector, MIGA plans to diversify its portfolio in sectors such as water and sanitation, power, transport, and manufacturing.

The Role of the ESW and Technical Assistance

4.20 The Bank's ESW on Argentina has been of very high quality. It could be argued that much of this work is somewhat superfluous in that local research institutions can and do produce reports of the same quality. It is vitally important for the Bank, however, to maintain a minimum knowledge base, suitable for the design of Bank operations in a country where assistance may be needed for some time to come (see below). Yet, the usefulness of the Bank's ESW could be improved by doing it in an incremental way, producing sequential short notes to assist in policy deliberations with the authorities and engage the broader society in dialogue, and extending their scope and depth in response to sequential policy decisions taken by the government. In this way, two weaknesses of some of the Bank's ESW can be avoided: i) the overly descriptive reports, which include only a short list of very general recommendations; and ii) recommendations that are politically unfeasible, or seem so because the authorities and other important groups have not gone through the entire sequence of reasoning.

4.21 At the same time, other non-financial services by the Bank, technical advice and assistance in specific areas, have proven to be invaluable. Two technical assistance projects in the mining sector in FY96 (US\$30 million) and FY98 (US\$39.5 million) are prime examples of the Bank's contribution. By the early 1990s, Argentina did not have much of a mining tradition. At the request of the Government, the Bank prepared a Mining Sector Review in 1993, which identified the key issues in the sector that needed to be addressed in order to develop an internationally competitive mining sector (laws and regulations, development of cadastre, granting of permits, divestiture, etc.). Through

the technical assistance projects the Bank became a facilitator in bringing international experience and expertise to the sector. The projects made a major contribution in areas such as mining rights administration, the development of geological/mineral data and of environmental safeguard mechanisms. Private sector investment in mining has grown spectacularly, although it has leveled off recently reflecting depressed world market prices.

4.22 The Bank's technical assistance in the privatization process is another example of good cooperation. While Argentina's policymakers knew very well "what" needed to be done, the main contribution of the Bank consisted in bringing real world experience to the challenge of "how" to go about privatization, given experience elsewhere. The Bank was in a position to call on expertise from around the world. (This proved to be so successful that Argentine experts now provide advice to privatization efforts in other parts of the world). The Bank's input gave credibility and confidence to the policymakers in charge of the privatization process. In addition, the Bank was able to back the process over time with financial support and additional advice, when needed.

Box 4.3: IDB

During the past few years, IDB's financial support to Argentina roughly equaled that of the Bank. IDB's role has been largely complementary to that of the Bank, with the Bank taking the lead in knowledge and analytical work, international experience, visibility, and involvement with civil society on global issues such as anti-corruption. For its part, IDB has more flexibility in that it can finance small projects, using local currency resources, and has a broader definition of counterpart funding which is important in times of fiscal difficulties.

Burden sharing between the two institutions is common. In 1995, the two banks cofinanced the provincial bank privatization and provincial agricultural loans, and through parallel financing supported the fiscal adjustment and social reform program. In 1996, the two banks provided cofinancing for the transfer of provincial pension systems. In 1998 and 1999, cofinancing was provided for the structural adjustment and banking sector strengthening program. In addition, both banks provided parallel financing to a flood emergency program in 1998. In terms of sectoral involvement, the two institutions have worked well together. The Bank's activity in municipal development has been complemented by the IDB's focus on urban services. In infrastructure, IDB has been active in regional links, e.g., with Chile. IDB has provided support to develop a system of monitoring beneficiaries under the social safety net programs, a major component of the Bank's assistance program, and in health, IDB has promoted the development of modern, efficient, and quality primary care. In education, the IDB's focus in primary education complements the Bank's focus on secondary and university training.

5. Conclusions and Recommendations

Conclusions

5.1 The achievements of both the Government and the Bank during the past decade have been impressive. The Government's determination and success in implementing a speedy and far-reaching reform program have been exemplary for the rest of the world. For its part, the Bank, though a relatively small player in view of the country size, has been highly effective in helping advance the reform process. Country management needs to be commended for this achievement record.

5.2 OED rates the *outcome* of the Bank's program during the past decade as fully satisfactory. The outcome could have been even better, were it not for exogenous shocks which interrupted progress and for the stubbornly high levels of unemployment and poverty, a problem which will require time to be resolved. This is clearly where the focus of the Bank's program should be in the future. The *institutional development impact* of the Bank's program is rated as substantial. The *sustainability* of reforms in Argentina depends on three sets of factors. First, on the perceived vulnerability of the Argentine economy. Second, on the extent to which the reforms have become imbedded in the institutional setting of the country. Three, on the future commitment of the government to keep prudent macroeconomic policies and aggressive policies to eradicate poverty in place. A review of these three factors suggests that the sustainability of the Bank's reform program in Argentina has increased dramatically over the past decade, and appears to be likely.

(a) *The Vulnerability of the Argentine Economy*

5.3 Argentina is generally perceived as more vulnerable to external shocks than comparable countries with flexible exchange rate regimes.⁷ Such vulnerability is associated with two main features of the Currency Board system: the absence of a lender of last resort and the impossibility to vary the real exchange rate to accommodate external shocks, such as those prompted by large devaluations of partner countries or negative turns in the terms of trade. A third factor of social and political vulnerability, the prevalence of high rates of unemployment, would be a consequence of the latter. This subsection discusses these problems.

5.4 *The absence of a lender of last resort.* The 1995 crisis clearly showed that Argentina needs access to strong currencies to support the liquidity of its banking system. This, however, is true of all other countries in Latin America. For example, Mexico, which had a fully functional central bank, a crawling band and then a free-floating regime, still had to borrow more than US\$40 billion to save the liquidity of its banking system. The same was true in Venezuela when it had its financial crisis in the early 1990s. There is no case of a financial crisis in a developing country where the central bank did not have to borrow abroad to stop it.

5.5 The only perceptible differences between those cases and Argentina is that there the rate of inflation did not go up, the reserve losses of the country were relatively small, and the recovery from the crisis was fast, while in all other countries the rate of inflation went up to extremely high levels, the central banks lost most if not all their reserves, and economic activity took a long time to recover. Furthermore, the variable that adjusts the monetary market in Argentina—the interest rate—increased much more in real terms in the countries with flexible exchange rates than in Argentina, and remained high for much longer than in Argentina after the crisis had subsided.

⁷ Discussions about the virtues of Argentina's Currency Board arrangement are likely to continue but, apart from the practical impossibility of changing the regime at this time, the country has been adjusting quite well without devaluation.

5.6 This was so because runs on banks in countries with weak currencies trigger runs on the currency, so that people demand US dollars, and the more domestic currency is printed by the central bank, the more dollars are bought in the market, sending down the net international reserves of the central bank. When these reserves go down to zero, the central bank has to borrow in the international markets to keep on financing the run. If the central bank cannot borrow abroad and keeps on lending to the banks, the currency goes into a spin and chaos settles in. As stressed by an Argentine scholar, Guillermo Calvo, central banks are not lenders of last resort but *borrowers* of last resort. In this situation, the Central Bank of Argentina is at least in the same position as the central banks of countries with flexible exchange rates. Furthermore, during the period of review, the government effectively reduced the vulnerability of the banking system to levels below those of most other Latin American countries through the cleansing of the banks, the provision of access to liquid funds over 40 percent of deposits, and improved regulation and supervision.

5.7 *The system's rigidity to adjust to external shocks through changes in the exchange rate.* This danger became a reality in the second crisis of confidence in the Currency Board. The resilience of the Argentine Currency Board was tested by the 66 percent devaluation of the Real during 1999. The ensuing contraction is widely blamed on the fixed exchange rate regime. By not devaluing, however, Argentina allowed its economy to adjust at a zero inflation rate, which it is doing successfully. If the country had devalued, the same adjustment would have had to take place at higher rates of inflation.

5.8 *Unemployment.* Argentina remains vulnerable to other kinds of external shocks, such as negative shifts in its terms of trade, which, given downward rigidity of nominal wages, could result in higher rates of unemployment. However, as noted before, the Argentine economy showed a remarkable flexibility in the reallocation of both resources and marketing efforts by adjusting fast to the Brazilian crisis, keeping the volume of exports constant by finding other markets for their products while absorbing a negative turn in its terms of trade equivalent to -11.3 percent in 1997-1999. All this happened while the exchange rate was kept stable. This suggests that the sources of the high rates of unemployment in Argentina lay elsewhere, mainly in the rigidities of the labor market, where collective negotiations and other deterrents to employment creation are still in place.⁸

⁸ While unemployment and the worsening of income distribution of the last few years are difficult problems that require special and immediate attention, it should be noted that they are not exclusive of Argentina. Many countries all over the world are experiencing similar problems. In the United States, for example, the hourly real wage of unskilled workers declined steadily from 1979 to 1994, and started to grow again only in 1997, in the midst of the largest and most prolonged expansion of the United States economy. There, the distribution of income has also worsened during the same period. The real wage has not declined in Europe, but the rates of unemployment of the last decade and a half are of the same order of magnitude as those of Argentina. While the impact of unemployment on poverty in Europe is much lower than in Argentina, because of unemployment benefits, the sustainability of such benefits is already a matter of serious concern in those countries.

(b) Institution Building

5.9 Argentina imbedded in its institutional setting most of the reforms it carried out in the 1990s. This is true in the macroeconomic dimension. The experience with the restructuring and recapitalization of banks in the aftermath of the 1995 crisis was incorporated into a model of restructuring that has achieved first-world standards—intervening, restructuring and selling a bank within a weekend, for example. The country's bank regulation and supervision has become known as one of the best in the region. The Currency Board itself provides an institutionalization of the country's foreign exchange regime. The relationships between the federal and provincial governments has progressed at a slower pace, but within institutional mechanisms. The same is happening with the steps that the government is taking to improve the provision of social services and to reduce poverty. There is one important institutional weakness, however, that both the Bank and the government have ignored in the period of review: the administrative reform of the Federal Government. Privatizations and voluntary downsizing programs helped in this respect in the early years of the 1990s but there is still a long way to travel, particularly in the coordination of social policymaking and implementation.

(c) Commitment

5.10 Elimination of the fiscal deficit, including that of the provinces, remains a primary condition for reducing the vulnerability of the Argentine economy. The government has shown a remarkable commitment to pursuing the line of reforms along the lines established almost a decade ago. The government took advantage of the recovery from the 1995 crisis to successfully consolidate, with Bank help, the reforms in the banking system. However, both the government and the Bank lost an opportunity to pursue more vigorously the reduction of the fiscal deficit, the introduction of flexibility in the labor markets and the improvement of the efficiency of the Federal Government during those good years, when the trauma of adjustment could have been eased substantially.

Recommendations

5.11 This Country Assistance Evaluation suggests two primary roles for the Bank in Argentina: first, to help reduce the country's vulnerability to external shocks and, especially, to help eliminate the fiscal deficit, and, second, to advance the social agenda. The authorities acknowledge the importance of these roles and welcome Bank intervention. In addition to the above, the Bank could help the authorities in dealing with issues of corruption and improving governance.

- a) Over the past decade the Bank has played a critical role as a catalyst in securing external financing during emergencies, using the opportunity to help safeguard social spending levels and keep the fiscal and financial reform program on track, so as to reduce future vulnerability. The participation of the Bank in the international rescue efforts also tended to increase confidence. While OED is aware of the ongoing discussions on whether this is an appropriate role for the

Bank, it recommends that this option be kept open, in view of the past track record and because crises hit the poor particularly hard.

- b) The resumption of growth, the recent strengthening of institutions, and the high per capita income level all suggest that the issue of graduation is likely to come to the fore. OED agrees with the draft CAS that the focus not be on early graduation but rather on a gradual withdrawal as the vulnerability declines. Maintaining high rates of growth is a sine qua non for poverty reduction.
- c) In view of the sophistication of Argentina's policymakers and research establishment, ESW should increasingly be in the form of short policy notes to assist in deliberations with the authorities and engage the broader society in dialogue and in a process of "learning together". Specific technical assistance and specialized advice also are likely to be of high value.
- d) The program in the future should concentrate even more on assistance to the social sectors (health, education, safety nets) and provincial reform, with particular attention to help in the generation of clear national and provincial objectives and in increasing the administrative efficiency of the government.
- e) Concerns over allegations of corruption have been increasing recently in the country in general and in some Bank projects in particular. The current administration has made fighting corruption one of its major concerns. OED welcomes the country team's measures to address the problem, including the use of the Bank-wide hotline to receive denunciations. OED further recommends that the Bank provide technical resources to the authorities to implement measures that have proven effective in other parts of the world.

OED RECOMMENDATIONS FROM THE 1996 CAR AND MANAGEMENT ACTION

There were two sets of recommendations: those included in the CAR itself, and those included in a Policy Ledger for Management Response.

<i>The CAR Recommendations</i>	<i>Management Action</i>
1. Continue supporting policy reform	Done. The Bank has been flexible and has combined investment lending with substantial levels of policy-based lending.
2. Focus on a few areas of high priority	Done. The Bank has become more selective over time, increasingly focussing its assistance on provincial reform and on the social sectors.
3. Concentrate on the fiscal problems of the provincial governments and of the social security system	Done. These objectives have been pursued through provincial reform loans and a provincial pension reform loan with good results.
4. Avoid frequent changes in the focus of Bank strategy in response to macroeconomic developments	Done. The Bank's assistance strategy has been consistent over time. Emergency lending in response to crises was a planned deviation from the underlying strategy.
5. Have clear and simple objectives for each instrument	Done. Unlike during the late 80s, when resource transfer objectives took precedence over sectoral objectives, recent adjustment lending combined emergency assistance with a strong focus on maintaining the policy reform agenda.
6. Treat ESW as a distinctive instrument with its own objectives, not a prelude to lending.	Done. Recent ESW on poverty, or on labor markets was intended primarily to inform government and other donors (as well as the Bank itself), and was effective in promoting the dialogue.
7. Sustain progress towards better economic analysis of projects	Done. Economic analysis of projects has been good, on the whole, as witnessed by satisfactory outcomes of projects. QAG rated the preparation of the special SAL as excellent, far ahead of that for other countries in the sample.
8. Improve project supervision and country portfolio reviews	Done. The disconnect (the difference between the number of projects that are rated as problem projects during their last year of implementation and those whose outcomes are rated as unsatisfactory at completion) has declined from about 50 percent during the late eighties/early nineties to zero percent during the past 5 years.
9. Assess and manage risks clearly and explicitly	Done, but follow-up required. Risks are not only acknowledged but contingency plans are in place, e.g. in the financial sector and at the macroeconomic level.
10. Use explicit performance indicators	Done, but follow-up required. Performance indicators have been developed, e.g. at the macro-economic level and in the social sector, some of it with IDB assistance (see Box 3 IDB). More needs to be done.

<i>The Policy Matrix Recommendations</i>	<i>Management Action</i>
1. The heart of the assistance strategy should be to seek improvements in (a) the fiscal performance of provincial governments, (b) the level and efficiency of social spending, again mostly at provincial government level, and (c) social security expenditure	Done, although further progress is still needed. This became the core of the Bank's program. ESW on provincial finances and delivery of social services was followed by lending for provincial reform and pension reform. The program is not finished, and the Bank expects to continue to focus on these areas.
2. Financial sector reform is a main priority.	Done. Partly because of Bank assistance, Argentina's financial sector is now one of the strongest in the region.
3. Make greater use of performance indicators	Done, but follow-up required. See above under The CAR, #10.
4. Improve risk analysis	Done, but follow-up required. See above under The CAR #9.
5. Adjustment lending should be conditioned on genuine government commitment.	Overtaken by events. Unlike during the late 80s, Argentina's government commitment to reform has been exemplary during the 90s, hence the satisfactory outcome of Bank adjustment lending in recent years.

Annex Table 1: Argentina at a glance

9/9/99

	Argentina	Latin America & Carib.	Upper-middle-income		
POVERTY and SOCIAL					
1998					
Population, mid-year (millions)	36.1	502	588		
GNP per capita (Atlas method, US\$)	8,970	3,940	4,860		
GNP (Atlas method, US\$ billions)	324.1	1,978	2,862		
Average annual growth, 1992-98					
Population (%)	1.3	1.6	1.4		
Labor force (%)	2.2	2.3	2.0		
Most recent estimate (latest year available, 1992-98)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	89	75	77		
Life expectancy at birth (years)	73	70	70		
Infant mortality (per 1,000 live births)	22	32	27		
Child malnutrition (% of children under 5)	2	8	..		
Access to safe water (% of population)	65	75	79		
Illiteracy (% of population age 15+)	4	13	11		
Gross primary enrollment (% of school-age population)	113	113	108		
Male	114	..	..
Female	113	..	..
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1977	1987	1997	1998	
GDP (US\$ billions)	56.8	111.1	292.9	298.1	
Gross domestic investment/GDP	30.9	19.6	19.4	19.9	
Exports of goods and services/GDP	9.6	7.9	10.6	10.4	
Gross domestic savings/GDP	33.2	19.9	17.2	17.4	
Gross national savings/GDP	32.5	15.2	15.2	15.1	
Current account balance/GDP	2.0	-3.8	-4.1	-4.9	
Interest payments/GDP	1.0	3.3	2.1	2.1	
Total debt/GDP	20.2	52.6	42.1	49.7	
Total debt service/exports	27.4	74.3	54.9	61.9	
Present value of debt/GDP	40.9	..	
Present value of debt/exports	329.0	..	
	1977-87	1988-98	1997	1998	1999-03
<i>(average annual growth)</i>					
GDP	0.4	4.4	8.1	3.9	4.2
GNP per capita	-1.1	3.1	6.7	2.6	3.0
Exports of goods and services	1.3	8.8	12.0	9.2	4.5

Development diamond*

Legend: — Argentina, - - - Upper-middle-income group

Economic ratios*

Legend: — Argentina, - - - Upper-middle-income group

	1977	1987	1997	1998
STRUCTURE of the ECONOMY				
<i>(% of GDP)</i>				
Agriculture	..	8.1	5.6	5.7
Industry	..	37.8	29.1	28.7
Manufacturing	..	27.5	19.5	19.1
Services	..	54.1	65.3	65.6
Private consumption	57.8	75.4	70.7	70.7
General government consumption	9.0	4.7	12.1	11.9
Imports of goods and services	7.3	7.6	12.7	12.9
	1977-87	1988-98	1997	1998
<i>(average annual growth)</i>				
Agriculture	0.8	3.2	0.2	10.9
Industry	-1.3	4.3	9.9	3.2
Manufacturing	-1.0	3.6	9.2	1.6
Services	1.7	4.8	7.7	4.7
Private consumption	..	4.0	8.8	4.0
General government consumption	..	1.4	3.2	-1.1
Gross domestic investment	-0.5	8.4	17.7	6.6
Imports of goods and services	-1.3	21.0	26.6	8.4
Gross national product	0.4	4.5	8.1	3.9

Growth of investment and GDP (%)

Legend: — GDI, - - - GDP

Growth of exports and imports (%)

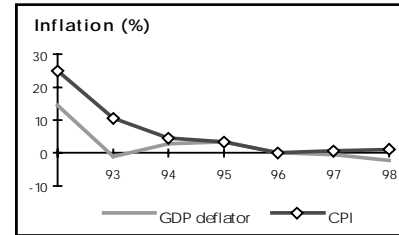
Legend: — Exports, - - - Imports

Note: 1998 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

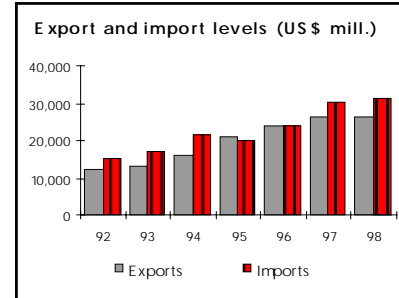
PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
Domestic prices				
<i>(% change)</i>				
Consumer prices	176.0	169.2	0.5	0.9
Implicit GDP deflator	159.5	127.8	-0.5	-2.0
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	15.0	18.7	18.9
Current budget balance	..	-3.0	-0.4	-0.3
Overall surplus/deficit	..	-6.4	-1.5	-1.4



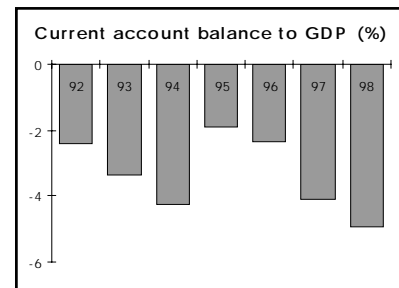
TRADE

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total exports (fob)	..	6,360	26,430	26,221
Food	..	744	3,007	3,056
Meat	..	655	1,025	836
Manufactures	..	3,661	8,335	8,543
Total imports (cif)	..	5,820	30,450	31,437
Food
Fuel and energy	..	653	967	852
Capital goods	..	973	14,823	15,587
Export price index (1995=100)	..	81	102	97
Import price index (1995=100)	..	82	106	105
Terms of trade (1995=100)	..	99	97	93



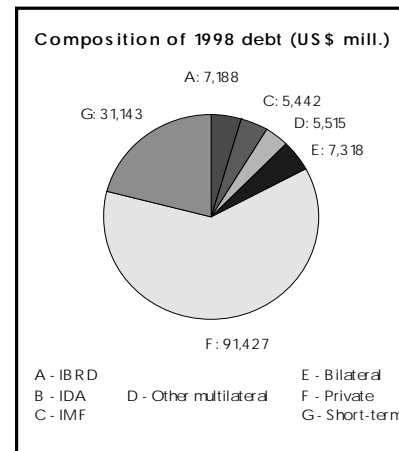
BALANCE of PAYMENTS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Exports of goods and services	6,588	8,134	30,940	30,822
Imports of goods and services	4,712	7,627	37,241	38,326
Resource balance	1,876	507	-6,301	-7,504
Net income	-781	-4,738	-6,171	-7,614
Net current transfers	31	..	436	388
Current account balance	1,126	-4,239	-12,036	-14,730
Financing items (net)	719	2,070	15,309	18,168
Changes in net reserves	-1,845	2,169	-3,273	-3,438
Memo:				
Reserves including gold (US\$ millions)	..	3,734	22,482	22,922
Conversion rate (DEC, local/US\$)	5.00E-9	2.10E-4	1.0	1.0



EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	11,445	58,458	123,221	148,033
IBRD	343	2,146	5,494	7,188
IDA	0	0	0	0
Total debt service	1,849	6,244	19,969	18,106
IBRD	46	224	635	725
IDA	0	0	0	0
Composition of net resource flows				
Official grants	0	0	27	26
Official creditors	43	664	-110	549
Private creditors	384	940	10,954	8,682
Foreign direct investment	144	-19	3,569	2,382
Portfolio equity	0	0	214	-986
World Bank program				
Commitments	205	639	1,220	3,815
Disbursements	20	795	797	2,029
Principal repayments	20	133	299	350
Net flows	0	662	498	1,678
Interest payments	26	91	335	375
Net transfers	-26	571	163	1,303



Annex Table 2a: Argentina Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1992-97	Latin America & Caribbean	Upper-middle-income
POPULATION					
Total population, mid-year (millions)	26.0	30.3	35.7	493.9	574.0
Growth rate (% annual average)	1.7	1.5	1.1	1.4	1.3
Urban population (% of population)	80.7	84.8	88.6	74.2	73.8
Total fertility rate (births per woman)	3.2	3.2	2.6	2.7	2.5
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNP per capita (US\$)	2,680	2,660	8,950	3,940	4,540
Consumer price index (1995=100)	0	0	101	123	117
Food price index (1995=100)	..	0	99	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	4.4	..	..	..	..
Highest quintile (% of income or consumption)	50.3	..	..	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	4.3	2.8	3.0
Education (% of GNP)	1.8	1.5	3.5	3.7	4.8
Social security and welfare (% of GDP)	..	5.8	7.2	7.4	7.9
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	96	..	..	91	94
Male	..	..	..	..	..
Female	..	..	..	..	..
Access to safe water					
<i>(% of population)</i>					
Total	66	55	65	75	..
Urban	76	63	71	83	..
Rural	26	17	24	36	..
Immunization rate					
<i>(% under 12 months)</i>					
Measles	..	67	98	93	92
DPT	..	63	85	82	82
Child malnutrition (% under 5 years)	..	..	2	8	..
Life expectancy at birth					
<i>(years)</i>					
Total	67	70	73	70	70
Male	64	67	70	66	67
Female	71	74	77	73	73
Mortality					
Infant (per thousand live births)	48	32	22	32	30
Under 5 (per thousand live births)	71	38	24	41	38
Adult (15-59)					
Male (per 1,000 population)	212	205	165	189	193
Female (per 1,000 population)	116	102	80	116	116
Maternal (per 100,000 live births)	..	85	140	..	..

Annex Table 2 b: Argentina: Key Economic and Social Indicators, 1991-1999

Indicator	1991	1992	1993	1994	1995	1996	1997	1998	Comparator countries								
									Argentina	Uruguay	Chile	Mexico	Brazil	Hungary	Czech Rep.	Indonesia	Malaysia
									Average 1991-1998	Average 1991-1998	Average 1991-1998	Average 1991-1998	Average 1991-1998	Average 1991-1998	Average 1991-1998	Average 1991-1998	Average 1991-1998
GDP growth (annual %)	12.7	11.9	5.9	5.8	-2.8	5.5	8.1	3.9	6.4	4.2	7.7	3.1	2.7	0	-0.3	4.8	6.5
GNP per capita growth (annual %)	11.3	10.5	4.5	4.4	-4.2	4.2	6.7	2.6	5	3.8	6.7	1.3	1.3	0.3	-1.4	2.8	3.9
GNP per capita, Atlas method (current US\$)**	3860	6240	7080	7590	7400	7770	8160	8030	8030	6070	4990	3840	4630	4510	5150	640	3670
GNP per capita, PPP (current international \$)**	8147.8	9407.5	10053.3	10713	10544.8	11070.2	11683.2	11727.8	11727.8	8541.5	8507.3	7450.5	6460	9831.6	12197.5	2407.2	8554.5
Population growth (annual %)	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	0.7	1.5	1.8	1.4	-0.3	-0.1	1.7	2.5
Agriculture, value added (% of GDP)	6.7	6	5.5	5.4	5.7	6	5.6	5.7	5.8	9.1	8.3	5.6	8.3	7.2	4.5	17.7	14.1
Manufacturing, value added (% of GDP)	24.4	21.9	19.5	19.1	18.4	18.7	19.5	19.1	20.1	20.1	16.7	18.8	23.8	23.3	..	23.8	30
Services, etc., value added (% of GDP)	60.6	63.3	65.3	65.9	66.3	65.6	65.3	65.6	64.7	62.5	58.9	68.9	56.6	59.5	55.5	40.4	43.1
Exports of goods and services (% of GDP)	7.7	6.6	7	7.6	9.7	10.5	10.6	10.4	8.7	21.6	29.2	23.5	8.7	36.4	54.5	30.3	90.6
Imports of goods and services (% of GDP)	6.1	8.1	9.3	10.6	10.1	11.1	12.7	12.9	10.1	21.4	29.1	25.2	9.2	39	56	27.9	88.6
International tourism, receipts (% of total exports)	16.2	20	22	20.4	17.2	16.1	16.4	17.2	18.2	17	5.5	8.4	4.2	10.4	11	9.2	4.1
Current account balance (% of GDP)	-0.3	-2.4	-3.4	-4.2	-1.9	-2.4	-4.1	-4.9	-3	-1.3	-3.6	-3.9	-1.6	-4.4	-3.1	-1.6	-6.1
Resource balance (% of GDP)	1.6	-1.5	-2.4	-3	-0.4	-0.6	-2.2	-2.5	-1.4	0.2	0.1	-1.7	-0.5	-2.7	-1.6	2.4	1.9
Agriculture, value added (annual % growth)	4.1	0.2	2.4	7.8	5.7	-1.6	0.2	10.9	3.7	4.5	1.7	1.3	2.8	-3.7	..	2.6	0.9
Manufacturing, value added (annual % growth)	10.2	11.6	4.6	4.5	-7.2	6.5	9.2	1.6	5.1	0.7	5.3	4.3	1.5	6.6	..	7.5	9.4
Services, etc., value added (annual % growth)	10.8	9.4	5.8	6.3	-1.9	5.5	7.7	4.7	6	5.3	9.2	3	2.8	0.2	..	4.3	7.1
Exports of goods and services (annual % growth)	-3.6	-1	4.7	15.1	22.6	7.8	12	9.2	8.3	7.4	10	13.1	5.2	6.9	8.2	10.3	11.2
Aid (% of GNP)	0.1	0.1	0.1	0.1	0.1	0.1	0	0	0.1	0.4	0.3	0.1	0	0.5	0.4	1.1	0.1
Aid (% of gross domestic investment)	1	0.7	0.5	0.3	0.3	0.3	0.2	0.1	0.4	3	1.1	0.3	0.1	2.4	1.6	4	0.4
Aid per capita (current US\$)	8.3	7.9	6.7	4.3	4.1	3.8	2.7	2.1	5	18.3	10.4	3.1	1.2	18.8	17.5	8	2
IBRD (DIS, US\$)	459.9	171.3	1507.1	547.5	941	1076.7	797	2028.6	941.1	72.8	110.3	1254.2	940.8	243.6	61.4	1105.2	148.2
IBRD Net Disbursement per capita (current US\$)	14	5.1	44.5	16	27.1	30.6	22.3	56.1	27	22.7	7.8	13.9	5.9	23.8	6	5.7	7.3
Money and quasi money (M2) as % of GDP	7.5	11.1	16.2	19.2	20.4	20.9	23.8	27.4	18.3	38	37.2	24.5	27.8	43.1	68.2	43	79
Money and quasi money growth (annual %)	141.3	62.5	46.5	17.6	-2.8	18.8	25.5	10.5	40	41.6	19.7	27.2	18.8	807.7	21	12.2	27.6
Inflation, consumer prices (annual %)	171.7	24.9	10.6	4.2	3.4	0.2	0.5	0.9	27	46.3	11	20.1	685	22.9	9.4	14.6	4.1
Domestic credit provided by banking sector (% of GDP)	22.8	22.5	26	26.6	27.9	28.2	30.4	32.6	27.1	39.5	63.3	38.2	77.7	65.1	70.5	51.6	128.1
Gross domestic investment (% of GDP)	14.6	16.7	19.1	19.9	17.9	18.1	19.4	19.9	18.2	13.7	25.4	22.9	20.9	23.5	29.8	28.1	37.9
Gross domestic savings (% of GDP)	16.2	15.2	16.7	16.9	17.6	17.5	17.2	17.4	16.8	13.9	25.4	21.1	20.4	20.9	28.3	30.5	39.8
Gross international reserves in months of imports	5.1	5.7	6.7	5.6	5.5	5.9	5.5	5.7	5.7	5.2	8.2	2.3	6.9	4.6	4	3.5	4
Private investment (IFC, % of GDI)	87.3	89.4	91.1	91	91.5	92.9	92.6	91.4	90.9	69.4	78.1	79.8	77.1	..	..	71.6	67.8
Total debt service (% of exports of goods and services)	33.9	27.6	30.9	25.5	30.4	39.5	50.3	58.2	37	20.3	23.2	29.8	39.3	36.7	10.8	32.6	8.3
Overall budget deficit, including grants (% of GDP)	0	0.6	0.7	-0.2	-1.2	-2.2	-1.5	..	-0.5	-0.9	1.8	0.8	-4.9	-4.3	0.2	0.2	1.6
Expenditure, total (% of GDP)	11.4	12	14.6	15.2	15.8	15.4	15.3	..	14.2	31.6	20.9	15.2	31.1	49.6	36.1	16.6	24.5
Current revenue, excluding grants (% of GDP)	11.2	12.3	15.1	14.9	14	13	13.6	..	13.4	30.6	22.6	15.1	24.2	41.7	34.8	17.5	26.6
Tax revenue (% of GDP)	10	11.4	13.6	13.6	12.9	12.1	12.4	..	12.3	28.7	18.9	13.2	17.7	36.1	32.7	15.6	20.3
Trade (% of GDP)	13.8	14.7	16.3	18.2	19.8	21.5	23.3	23.3	18.8	43.1	58.3	48.7	17.9	75.4	110.5	58.1	179.2
Foreign direct investment, net inflows in reporting country (DRS, % of GDI)	8.8	11.5	6.1	6.7	11.4	13.2	14.3	10.4	10.3	4.5	17.9	9.7	6.1	22.1	10.3	4.6	18.2
Illiteracy rate, adult total (% of people 15+)	4.1	4	3.9	3.8	3.7	3.5	3.4	3.3	3.7	2.8	5.2	10.4	17	0.8	..	16.7	15.9
Immunization, DPT (% of children under 12 months)	81	81	81	82	82	83	85	..	82.1	91	92.1	87.7	75.7	99.7	97.6	90.9	90.4
Life expectancy at birth, total (years)	..	72.1	..	..	..	..	73.1	73.3	72.8	73.5	75	71.6	66.6	69.8	73.2	64.4	71.5
Mortality rate, infant (per 1,000 live births)	..	24	22.9	..	22.2	20.9	18.8	18.6	21.2	18.4	12.1	31.7	37.3	11.9	7.7	47	10.9
Safe water (% of population with access)	..	..	..	..	65	..	..	..	65	86	85	83	72	..	..	62	89.7
Sanitation (% of population with access)	..	..	..	..	75	..	..	..	75	61	..	66	55.5	..	..	51	93.7
School enrollment, primary (% gross)	107.8	..	..	111.9	112.8	113.3	110.7	..	111.3	107.8	99.6	114.4	114.1	99.3	100.8	114.1	100.6
Population density (people per sq km)	12	12.2	12.4	12.5	12.7	12.9	13	13.2	12.6	18.3	18.8	47.3	18.7	110.9	133.5	106.2	62
Urban population (% of total)	86.9	87.3	87.6	88	88.4	88.7	89	89.3	88.1	89.9	84.3	73.3	77.9	62.9	74.6	35.1	53.3

* Source: SIMA database as of May 1, 2000.

** Data for comparator countries are Atlas data and refer to 1998.

Annex Table 3: ESW List for Argentina, 1991-1999

Report title	Date	Report #
Economic Reports		
Argentina - Public finance review : from insolvency to growth (Vol.1)	02/11/93	10827
Argentina - The convertibility plan : assessment and potential prospects (Vol.1)	07/12/96	15402
Argentina - The convertibility plan : assessment and potential prospects (Vol.2)	07/12/96	15402
Argentina - The fiscal dimension of the convertibility plan : a background report (Vol.1)	01/22/98	16996
Argentina - The fiscal dimension of the convertibility plan : a background report (Vol.2)	01/22/98	16996
Sector Reports		
Argentina - Mining sector review (Vol.1)	06/30/93	11704
Argentina - Capital market study (Vol.1)	12/21/94	12963
Argentina - Argentina's poor : a profile (Vol.1)	06/27/95	13318
Argentina - Managing environmental pollution : issues and options (Vol.1)	10/16/95	14070
Argentina - Managing environmental pollution : issues and options (Vol.2)	10/16/95	14070
Argentina - Transport privatization and regulation : the next wave of challenges (Vol.1)	06/06/96	14469
Argentina - Reforming provincial utilities : issues, challenges and best practice (Vol.1)	06/06/96	15063
Argentina - Cordoba : public sector assessment : proposals for reform (Vol.2)	05/15/96	15132
Argentina - Cordoba : public sector assessment : proposals for reform (Vol.1)	05/15/96	15132
Argentina - Provincial finances study : selected issues in fiscal federalism (Vol.1)	07/12/96	15487
Argentina - Provincial finances study : selected issues in fiscal federalism (Vol.2)	07/12/96	15487
Argentina - Facing the challenge of health insurance reform (Vol.1)	05/30/97	16402
Argentina - Financial sector review (Vol.1)	09/28/98	17864

Annex Table 4a: OED Ratings by Sectors

	Ratings		Inst. Devel. Impact		Sustainability	
	Total Evaluated (US\$m)	% Satisfact.	Total Evaluated (US\$m)	% Substantial	Total Evaluated (US\$m)	% Likely
1968-1990						
Agriculture/Environment	543.9	22.34%	528.9	66.18%	528.9	20.14%
Education/HNP	28.8	96.88%	28.8	96.88%	28.8	96.88%
Finance/Industry	1049.8	29.53%	1049.8	0%	1049.8	75.82%
Infrastructure	1708.5	42.38%	1370.2	25.66%	1426.5	85.51%
Public Sector Management	49.9	100%	25	100%	49.9	100%
Multisector						
Urban Development/Water Supply & Sanitation	179.8	87.93	179.8	66.63%	179.8	21.30%
Total	3560.7	39.08%	3182.5	27.47%	3263.7	69%
Memo item:						
Adjustment	1146	26.18%	1146	30.54%	1146	69.46%
1991-1999						
Agriculture/Environment	32.8	100%	32.8	0%	32.8	100%
Education/HNP	350	100%	350	100%	350	100%
Finance/Industry	1306.4	91.86%	1306.4	91.86%	1306.4	91.86%
Infrastructure ^a	8.3	100%	8.3	0%	8.3	100%
Public Sector Management	1991	100%	1991	82.77%	1991	83.68%
Multisector	450	100%	450	0%	450	100%
Urban Development/Water Supply & Sanitation	167.2	100%	167.2	100%	167.2	100%
Total	4305.7	97.53%	4305.7	78.16%	4305.7	89.98%
Memo item:						
Adjustment	3725	100%	3725	79.87%	3725	91.28%

a. Electric Power, Oil and Gas, Transportation.

Annex Table 4b: OED Ratings for Selected Countries, FY 1991-1999

Country	Outcome				Institutional Development Impact				Sustainability			
	Total eval.	% Satisf.	o/w Adjust.	% Satisf.	Total eval.	% Substan.	o/w Adjust.	% Substan.	Total eval.	% Likely	o/w Adjust.	% Likely
	\$m		\$m	Adj.	\$m		\$m	Adj.	\$m		\$m	Adj.
before 1991												
Bank wide	201046	72	34534	68	201046	25	34534	30	201046	40	34534	44
LAC	52164	61	11909	73	52164	26	11909	44	52164	46	11909	73
Argentina	3561	39	1146	26	3561	24	1146	31	3561	62	1146	69
Uruguay	782	88	280	79	782	65	280	79	782	43	280	79
Chile	2334	91	750	100	2334	60	750	100	2334	82	750	100
Mexico	15342	80	5012	100	15342	40	5011	70	15342	61	5041	100
Brazil	14755	57	1135	42	14755	19	833	0	14755	34	1135	42
Hungary	2278	98	488	100	2278	59	488	59	2278	94	488	100
Czech Republic	--	--	--	--	--	--	--	--	--	--	--	--
Indonesia	14259	87	950	100	14259	43	--	--	14259	60	950	100
Malaysia	2198	87	--	--	2198	33	--	--	2198	56	--	--
1991-1999												
Bank wide	57697	87	34996	88	57697	43	34996	42	57697	67	34996	71
LAC	15801	86	9475	85	15801	60	9475	66	15801	69	9475	74
Argentina	4306	98	3725	100	4306	78	3725	80	4306	90	3725	91
Uruguay	172	100	165	100	172	96	165	100	172	42	165	39
Chile	205	84	--	--	205	21	--	--	205	96	--	--
Mexico	4769	72	2100	52	4769	41	2100	38	4769	62	2100	52
Brazil	1267	85	--	--	1267	34	--	--	1267	47	--	--
Hungary	878	95	600	100	878	95	600	100	877	95	600	100
Czech Republic	460	100	450	100	460	98	450	100	10	100	450	100
Indonesia	2242	72	250	100	2242	32	250	100	1992	34	250	100
Malaysia	295	100	--	--	295	70	--	--	295	100	--	--

* Source: OED database as of March 1, 2000

Annex Table 5: Comparative Costs for Selected Countries, FY 1991-1999

	Total costs \$m	No. of projects	Average total costs \$'000 per project	Net commitment \$m	Total costs \$ per \$1000 of net commitment	Net commit. for satisf. and nonrisky projects, \$m	Total costs \$ per \$1000 of net commit. For satisf. & nonrisky pr.
Bank wide	2266.1	2310	981	167653	13.5	141008	16.1
LAC	377.8	491	769	41069	9.2	37195	10.2
Argentina	41	66	621	10702	3.8	10541	3.9
Uruguay	6.9	11	627	548	12.6	548	12.6
Chile	10.9	15	727	536	20.3	502	21.7
Mexico	47.2	54	874	10560	4.5	8827	5.3
Brazil	61.7	69	894	7103	8.7	5935	10.4

* Source: PBD database as of March 1, 2000.

** The amount of total costs includes lending completion, supervision, scheduled and unscheduled ESW, and dropped project costs.

*** The amount of net commitment does not include projects closed for which an ICR is in preparation and projects recently approved for which a PSR is in preparation.

Annex Table 6: Argentina: Bank's Senior Management, CY 1991-1999

Year	Vice President	Country Director	Chief/Resident Representative
1991	S Shahid Husain	Pieter P. Bottelier	Myrna L. Alexander
1992	S Shahid Husain	Ping-Cheung Loh	Myrna L. Alexander
1993	S Shahid Husain	Ping-Cheung Loh	N/A
1994	Shahid Javed Burki	Ping-Cheung Loh	Patricio Millan
1995	Shahid Javed Burki	Gobind T. Nankani	Patricio Millan
1996	Shahid Javed Burki	Gobind T. Nankani	Patricio Millan
1997	Shahid Javed Burki	Gobind T. Nankani	Patricio Millan
1998	Shahid Javed Burki		Myrna L. Alexander
1999	Shahid Javed Burki		Myrna L. Alexander

Argentina: Country Assistance Evaluation

MANAGEMENT ACTION RECORD OF OED RECOMMENDATIONS, MANAGEMENT RESPONSES AND ACTIONS

<i>Recommendations</i>	<i>Management Response</i>	<i>Actions</i>
<p>1. Over the past decade the Bank has played a critical role as a catalyst in securing external financing during emergencies, using the opportunity to help safeguard social spending levels and keep the fiscal and financial reform program on track, so as to reduce future vulnerability. The participation of the Bank in the international rescue efforts also tended to increase confidence. While OED is aware of the ongoing discussions on whether this is an appropriate role for the Bank, it recommends that this option be kept open, in view of the past track record and because crises hit the poor particularly hard.</p>	<p>Management concurs with this recommendation and included the possibility for such special assistance in the FY01-04 CAS.</p>	<p>A program of possible special assistance would be prepared and included in a CAS Progress Report for Board discussion.</p>
<p>2. In view of the sophistication of Argentina's policymakers and research establishment, ESW should increasingly be in the form of short policy notes to assist in deliberations with the authorities and engage the broader society in dialogue and in a process of "learning together". Specific technical assistance and specialized advice also are likely to be of high value.</p>	<p>Recent experience has shown the value of having both short policy notes and more extensive, investigative ESW. In part, the ability to produce short notes is predicated on having sound underlying research some of which is only done by the Bank as local think tanks do not cover the full range of topics (e.g., environmental concerns). In addition, the Bank has the ability to access information, not necessarily in the public domain, and to recommend actions objectively as local institutions may be perceived to have particular biases. Importantly, the Bank is one of the few able to synthesize research and operational</p>	<p>Continue the recent practice of: (i) engaging local researchers and counterparts in the ESW process; (ii) synthesizing the analysis and conclusions into short-policy documents and/or easily accessible public reports such as the book on gender; and (iii) keeping major ESW to specialized topics and/or synthesis pieces needed for strategy and progress measurement.</p>

	<p>experience into a comprehensive set of recommendations. Finally, despite Argentina's achievements, the Bank can continue to play an important role as a knowledge broker in bringing global best practices that add value to the work of local researchers. We do nevertheless share the view that major ESW should be highly specialized and selective, and highly participatory both in terms of engaging local researchers in the work and disseminating widely in a way that is easy to assimilate.</p>	
<p>3. The program in the future should concentrate even more on assistance to the social sectors (health, education, safety nets) and provincial reform, with particular attention to help in the generation of clear national and provincial objectives and in increasing the administrative efficiency of the government.</p>	<p>We concur with this recommendation and believe that the FY01-04 CAS reflects this approach.</p>	<p>Carry out the proposed CAS, including a continuation of efforts in health, education, social safety nets, and provincial reform. At the federal level, we propose to restructure the ongoing Y2K project to accommodate the Federal Government's efforts to implement performance based management. At the provincial level and as a complement to the proposed series of Provincial Reform loans, the proposed Provincial Development III project would entail more clearly defined triggers/steps in terms of provincial administration, management and accountability.</p>