



Country Program Evaluation

Argentina

2009-2015



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PREFACE

As part of its 2015-2016 annual work plan, the Office of Evaluation and Oversight (OVE) prepared the Bank's country program evaluation (CPE) with Argentina for the 2009-2015 period. This CPE is OVE's third independent evaluation of the IDB's country program with Argentina. The first (document RE-299) covered the 1990-2002 period and focused on analyzing Bank support prior to and during the 2001-2002 crisis. The second OVE evaluation (document RE-361) covered support during the Argentine economy's strong recovery in the post-crisis period (2003-2008). The 2009-2015 CPE evaluates the Bank's program with the country over the period subsequent to the 2009 international crisis, which was guided by the 2012-2015 strategy (document GN-2687) and updates to the 2004-2008 strategy (document GN-2328) over the 2009-2011 period.¹

According to the protocol for Country Program Evaluation (document RE-348-3), the main goal of a CPE is "to provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance."

This CPE seeks to analyze the Bank's relationship with the country, taking an independent view and assessing, in particular, the program's relevance and effectiveness, including both financial and nonfinancial products offered by the Bank during the period under analysis. This evaluation is intended as an input for the new country strategy document that the Bank is preparing.

In 2009, Management developed a new country strategy document model for the purpose of equipping the Bank with an effective tool to sharpen the country focus and guarantee the flexibility envisaged during the realignment process. In this framework, new guidelines were drawn up to "recast the country strategy, emphasizing the need for programming that is results-focused, risk-based, and uses a programmatic and flexible approach to respond to country priorities." Apart from these general principles, the most significant practical effects of the new model were: (i) decoupling of the country strategy, which is prepared every four years, and the actual programming, which is annual; (ii) a new emphasis on sector notes; and (iii) strengthening of the results matrix with specific indicators. The Bank's current country strategy with Argentina was approved in November 2012, following these new guidelines.

¹ The 2004-2008 strategy was updated in 2008 (document GN-2477) and in 2010 (document GN-2570, Country Strategy Updates).

ACRONYMS AND ABBREVIATIONS

AUH	Asignación Universal por Hijo [Universal Allocation per Child]
AySA	Agua y Saneamientos Argentinos
BCRA	Central Bank of the Argentine Republic
BECAR	Programa de Becas en Ciencia y Tecnología [Science and Technology Scholarship Program]
CAF	Andean Development Corporation
CAPSs	Centros de Atención Primaria de Salud [primary health care centers]
CCLIP	Conditional Credit Line for Investment Projects
CNCDs	Chronic non-communicable diseases
CPE	Country Program Evaluation
CPI	Consumer price index
CSC	Country Department Southern Cone
EDIVIAR	Esquema Director Vial Argentino [Argentine Roadways Master Plan]
FIEL	Fundación de Investigaciones Económicas [Economic Research Foundation]
GDP	Gross domestic product
IARAF	Instituto Argentino de Análisis Fiscal [Argentine Institute of Fiscal Analysis]
IMF	International Monetary Fund
INDEC	Instituto Nacional de Estadísticas y Censos [National Institute of Statistics and Censuses]
INTA	Instituto Nacional de Tecnología Agropecuaria [National Agricultural Technology Institute]
MAGyP	Ministry of Agriculture and Fisheries
MECON	Ministry of Finance and Public Credit
MIF	Multilateral Investment Fund
MINCYT	Ministry of Science and Technology
MSMEs	Micro, small, and medium-sized enterprises
NRCs	Nonreimbursable contributions
NSG	Non-sovereign guaranteed
OVE	Office of Evaluation and Oversight
PAyS	Programa de Agua Potable y Saneamiento [Water Supply and Sanitation Program]
PMR	Progress Monitoring Report
PROCAL	Programa de apoyo a la gestión de calidad y diferenciación en la industria agroalimentaria [Support program for quality management and differentiation in the agrifood industry]
PRODEV	Program to Implement the External Pillar of the Medium-term Action Plan for Development Effectiveness
PROMEBA	Programa de Mejoramiento de Barrios [Neighborhood Improvement Program]
PROMEDU	Programa de Apoyo a la Política de Mejoramiento de la Equidad Educativa [Program to Support the Policy on Improving Equity in Education]
PROSAP	Programa de Servicios Agrícolas Provinciales [Provincial Agricultural Services Program]
SAMEEP	Servicio de Agua y Mantenimiento Empresa del Estado Provincial [Water and maintenance service company of the provincial state]
SAT	Sociedad de Aguas de Tucumán [Tucumán water company]

SENASA	Servicio Nacional de Sanidad y Calidad Agroalimentaria [National Agrifood Health and Quality Service]
SG	Sovereign guaranteed
TFFP	Trade Finance Facilitation Program
UBNs	Unmet basic needs
UCA	Universidad Católica Argentina
UCAR	Unidad Para el Cambio Rural [Unit for Rural Change]
WEF	World Economic Forum
WEO	World Economic Outlook

EXECUTIVE SUMMARY

Context

After a period of strong growth coupled with fiscal and balance-of-payments current account surpluses in the decade following the 2001 crisis, the Argentine economy began to show signs of weakening beginning in 2010-2011, stemming from the deterioration of the external context and the distortions generated by government policies. With the deterioration of the fiscal position and limited access to international markets, monetary policy was increasingly dominated by the need to cover government financing requirements through the central bank. This contributed to a significant increase in inflation and an exchange-rate appreciation that affected the country's external position.

The new government, which took office in December 2015, quickly took measures to correct the main distortions in the economy and has made significant progress. However, the deterioration of recent years has aggravated some of the country's development challenges, which include significant income and production disparities between the more developed provinces (Buenos Aires and the Pampas region) and the more disadvantaged provinces; distortions in the economy and regulatory problems reflected in a systematic deterioration of the main competitiveness and business climate indexes; lack of financial system depth; gaps in infrastructure endowment, particularly in energy, exacerbated by the reduction in overall investment during the period in a context of a growing role for public investment; and deficiencies in the quality and effectiveness of social expenditure, despite the significant increase in such expenditure during the evaluation period.

The Bank's program

The Bank's program with the country during the 2009-2015 period was guided by the Bank's country strategy with Argentina for 2012-2015 (document GN-2687) and the updates to the 2004-2008 country strategy (document GN-2328) in 2009-2011. The 2004-2008 country strategy identified achieving sustainable and equitable economic growth as the country's key challenge and the main focus of Bank support. It mapped out three overarching objectives: (i) institutional strengthening for better governance and fiscal sustainability; (ii) a more favorable climate for investment and productivity growth, to enhance the country's competitiveness; and (iii) poverty reduction, rebuilding of human capital, and promotion of sustainable and inclusive social development. The 2012-2015 country strategy also had three overarching objectives for the Bank's support in the context of a transition to more moderate economic growth rates, after the strong recovery that followed the crisis at the start of the 2000s: (i) alleviation of obstacles to growth (with actions in infrastructure, agriculture, productive development, and science and technology); (ii) social and economic inclusion of the population (with actions in education, health, and water and sanitation); and (iii) urban sustainability and habitat improvement (with actions in urban development). The country strategy included environmental sustainability, climate change, and youth development as cross-cutting areas. The strategic focus on these areas was supplemented by a geographic focus on the country's Norte Grande region for alleviation of obstacles to growth and the Buenos Aires Conurbation for water and sanitation actions.

The actions envisaged in the country strategies current during the 2009-2015 period were bounded and partially relevant given the limited opportunity that the government provided for policy dialogue and support in key areas to address the country's development challenges, including the business climate and financing for investment in basic infrastructure and its sustainability. The program implemented during the evaluation period included 81 loan operations. Of this total, 48 were sovereign guaranteed (SG) loans for a total of US\$8,013,500,000 approved between 2009 and 2015. The remaining 33 operations, for US\$6.449 billion, were approved prior to the evaluation period but still had undisbursed balances in the amount of US\$4.2 billion at the start of 2009 (close to 65% of the approved amount).

Programmatic investment lines accounted for 75% of the Bank program's financing: Conditional Credit Lines (CCLIPs), operations under the Norte Grande Program, and multiphase operations in the most important sectors. The program was consistent with the country strategy and reflected the Bank's long-term positioning in the country. Since 2007, the Bank has approved US\$5.313 billion in operations under CCLIPs, in the agriculture, water and sanitation, urban development, education, science and technology, and transport sectors. Another of the program's pillars was comprised of operations exclusively targeting the Norte Grande region of Argentina, primarily in infrastructure with approvals adding up to US\$3.7 billion (25.5% of the portfolio). The Bank also approved \$1.964 billion in sequenced or phased operations, primarily for social protection and health. During the evaluation period, a small portfolio of technical cooperation operations was maintained, the majority of which financed project preparation activities, supported loan operations or specific studies, and improved management for results (PRODEV). Loans to the private sector were concentrated in financial institutions, particularly to support trade financing.

The relatively large size of the loans and the fact that they were approved as part of programmatic or multiphase series contributed to reducing preparation costs, which were at levels below the Bank's average. Nevertheless, average preparation times were long. In terms of execution, the portfolio's performance showed a positive trend, although some operations experienced significant delays. The portfolio being evaluated had a slightly better disbursement rate than the portfolios of countries in the Country Department Southern Cone (CSC) with similar characteristics. However, some investment loans approved between 2004 and 2008 required extensions that averaged 32 months, well above CSC and Bank extensions for the same period. The good pace of implementation of a significant proportion of the loans approved since 2009 can be attributed to improvements in portfolio management monitoring implemented by the Country Office together with counterparts in the Ministry of Finance and Public Credit (MECON) and the Federal Cabinet Office, to the fact that the loans were designed as multiple works in sequential operations within a single program, and to the capacity and agility of the centralized executing agencies.

Although the operations approved under the Bank's program included resources for executing and operating units to address institutional and operational weaknesses, these resources were reallocated primarily to investment activities during program implementation. This affected the sustainability and selection of works, which was not always based on technical/economic criteria that would ensure maximum effectiveness. Moreover, cost increases and the substitution of works undermined the efficiency of

programs during the evaluation period. Some of the increases were supported by the need to expand the scope of the programs, but most were due to so-called “redeterminations” of unit prices during the execution process.

Effectiveness

Alleviating obstacles to growth

The Bank’s program to support the objective of alleviating obstacles to growth included actions in basic infrastructure (transportation and energy) as well as support for producers and micro, small, and medium-sized enterprises (MSMEs) through subsidies (nonreimbursable contributions (NRCs)) in virtually all the sectors, coupled with credit lines and investments in productive infrastructure (irrigation, roads, logistics centers, and rural energy). The program also included the provision of production services and investments in science and technology and plant and animal health.

In transportation, Bank interventions involved 10% of total paved provincial roads and 4% of the Norte Grande’s paved national network. The total amount of works financed by the Bank comes to US\$1.667 billion in the Norte Grande (1,320 kilometers), close to US\$292 million in the Program for Productive Road Infrastructure (304 kilometers), and close to US\$115 million through provincial loans (242 kilometers). Overall, the Bank contributed to the improvement, rehabilitation, or paving of close to 1,865 kilometers of roads, including works currently under way. Under energy investments, the Norte Grande Electricity Transmission Program is in its final stages of execution, with favorable outcomes. With regard to investment in rural productive infrastructure and agricultural services, the Bank’s support (implemented primarily through the PROSAP, INTA, and SENASA programs) attained the targets of improving services and roads, but not the irrigation and electrification targets.

The IDB’s support for the science and technology sector has been very successful in supporting the strengthening of the country’s capacity and enhanced the Bank’s own experience in innovative areas. Since 1993, the Bank has supported the Science and Technology Secretariat through programmatic lines to back the technology modernization program and, more recently, through the technological innovation CCLIP. Not only has the Bank financed investments in the sector but it has also supported its institutional consolidation and development, having become a strategic ally of the Science and Technology Secretariat and, since 2007, of the Ministry of Science and Technology (MINCyT). The Bank also supported other projects with positive externalities. For example, the SAOCOM Satellite program allowed the State-owned company that developed it (INVAP) to acquire technological know-how on radars.

Evidence on the results of subsidizing companies and producers is mixed. While the NRCs aimed at supporting technological development and innovation executed by MINCyT have had favorable results, there is little evidence that the other programs, whose implementation is at an advanced stage or has been completed, were effective in increasing productivity or accelerating business growth. This is because coordination problems, inadequate rationale for the interventions, and inappropriate beneficiary selection criteria. The absence of effective centralized beneficiary registration and monitoring systems, combined with the array of windows with similar target populations,

constituted a high risk of overlapping beneficiaries and prevented monitoring of the effectiveness of the interventions.

The provincial productive development projects combined loans to businesses with technical support to boost productivity and open new markets. These operations reflect how the Bank has been refining its intervention strategy—initially focused only on providing credit lines to businesses—to incorporate a more comprehensive vision of production clusters. This approach resulted in programs having a positive impact on investing. This approach, which combines support for clusters and specific credit lines, is reflected in MECON's regional economies loan.

Social and productive inclusion of the population

To support the objective of improving the social and productive inclusion of the population, the Bank's program predominantly included investments in education, health, social protection, and potable water and sanitation. In education, while the Bank's programmatic series and sector targets included components and efforts to support improvements in education quality and system retention, in the end program implementation focused on expanding education infrastructure, thereby helping to improve coverage and narrow gaps in equity of access to early childhood and secondary education. Although the Bank's program was able to contribute substantially to the expansion of education infrastructure, OVE found that there were problems in the selection of beneficiary localities. Based on the results presented by the authorities, 970 schools were built that created more than 180,000 school slots in vulnerable areas, representing 21% of the total number necessary to cover compulsory education as established by law. According to the evidence, however, the selection of education infrastructure did not necessarily correspond to the areas with the greatest needs, particularly in early childhood education.

In the health sector, the Bank adopted a more systemic approach and addressed the problems related to the differences in service quality at the provincial level, the administrative fragmentation of supply, and the system's adaptation to the country's epidemiological transition. Health care projects were able to strengthen supply by focusing on health care networks with different levels of complexity and an emphasis on chronic non-communicable disease (CNCD) prevention. The Bank's program made progress towards its goals of supporting primary health care centers (7,000 primary health care centers - CAPSs serving 16 million users in the public health care system). The support included providing basic medicines and training staff. The results of a recent national survey illustrate the outcomes from the start of the program: an increase in access to the health care system, increased blood pressure monitoring, and more treatment for hypertension. The survey shows that the CAPSs in the Networks Plan provide better service, especially in the country's most vulnerable provinces.

In potable water and sanitation, the Bank's program in the Buenos Aires Conurbation was highly effective in helping to reduce wastewater collection and treatment deficits and unaccounted-for water levels. The targets of increasing the number of people with connections to the water supply system were reached, but sanitation coverage targets were not. In the case of the Norte Grande, although progress towards increasing coverage levels has been verified, it has fallen short of the country strategy's targets.

The effectiveness of the program in the Norte Grande was mixed, depending on the province and type of intervention. In the provinces that OVE visited, it was possible to verify that the outcomes were more effective when the works were part of a long-term expansion plan. Solid waste management achievements were significant, but fell well short of the targets established for the operation.

Urban sustainability and habitat improvement

The Bank's program in urban sustainability and habitat improvement focused on supporting investments in neighborhood improvement through PROMEBAs. The intervention was effective to progressively improve the living conditions of the population living in shantytowns and informal neighborhoods. The main outcomes include residential water and sewerage connections and gas or electricity in more than 20,000 dwellings, regularization of urban layouts in more than 30 neighborhoods, and improvements in community amenities, streets, and human and social capital strengthening initiatives. Under the program, 38 localities have each received over US\$10 million to address problems in the main settlements and shantytowns in cities outside the capital and in the Buenos Aires Conurbation.

Sustainability

The Bank's program was successful in consolidating long-term lines of support, with emphasis on the Norte Grande region, in a complicated context; but this focus entailed assuming sustainability risks in the investments in a significant number of its areas of intervention. The sustainability risk of the program's outcomes is exacerbated by the program's lack of success in addressing weak management capacity and deficiencies in the regulatory framework of basic infrastructure service operators, institutional and budgetary weaknesses in the provincial governments that benefited from Bank-financed works, the financing of current expenditures in some sectors, and the significant deterioration in the country's business climate.

Recommendations

The territorial programmatic approach in Argentina was instrumental in increasing efficiency and positioning the Bank during the evaluation period. In order to build on the basis of these achievements and make the Bank's program in the country more effective, OVE recommends that Management:

- 1. Prioritize efforts to support the policy dialogue on key issues in order to attain the country's development objectives.** The policy dialogue supported by a knowledge agenda that addresses the complex challenges facing Argentina could trigger consensus in the country in the main areas of reform. The Bank's effort to promote policy dialogue should focus on the most urgent challenges to achieve development objectives, prioritizing areas in which the Bank has comparative advantages in knowledge generation and the identification of best practices. Potential areas of reform include improving the regulatory framework to promote private investment in infrastructure, strengthening the capacity of provincial governments, improving the business climate, making expenditure more efficient, and improving the quality of basic social services.

- 2. Support the government in addressing institutional deficiencies that undermine the effectiveness and sustainability of Bank programs aimed at providing infrastructure.** Regulatory and planning deficiencies, weaknesses in investment prioritizing, and lack of strategic planning at the sector and provincial level have reduced the development impact of investment expenditure on infrastructure. The regulatory framework and the deficiencies of infrastructure operators also generate sustainability risks. The programs, particularly those that involve transfers of infrastructure to provincial and local governments, should incorporate clear and effective works maintenance agreements that include incentives, penalties, and monitoring and accountability mechanisms.
- 3. Address the problems of quality and equity in Bank programs that support the delivery of basic social services.** The programmatic approach in the health and education sectors has positioned the Bank as an important actor in both sectors. However, the focus has been on supporting the expansion of infrastructure and supply, with less emphasis placed on improving quality, particularly in education. In the health sector, the Bank may continue to support improvements in quality by deepening the preventive approach and care through networks. Strengthening the components of quality and equity in operations involving the delivery of basic social services necessarily entails incorporating provincial governments as full actors in project design and implementation and developing incentives and management-for-results mechanisms at the federal level for provincial governments.
- 4. Clearly document market failures that justify subsidy components (NRCs) in projects and ensure coordinated, effective, and sustainable implementation.** Projects that include NRCs should effectively substantiate the need for them and address specific local market failures. This process of diagnostic assessment and evaluation should also technically justify the amounts and types of cofinancing to be provided as well as the beneficiary selection methodology. NRCs should be part of an intervention strategy that incorporates different windows to support the productive sector.
- 5. Exploit synergies between sovereign guaranteed (SG) and non-sovereign guaranteed (NSG) windows to support the provision of basic infrastructure and energy.** Closing the country's infrastructure gaps and increasing urgently needed generation capacity constitute an important opportunity for the IIC. OVE recommends exploring ways to coordinate actions of the NSG and SG windows to simultaneously support the government and the private sector in addressing regulatory and institutional weaknesses as well as the lack of access to financing, all of which have reduced the role of the private sector in the delivery of basic infrastructure and the generation of clean energy.

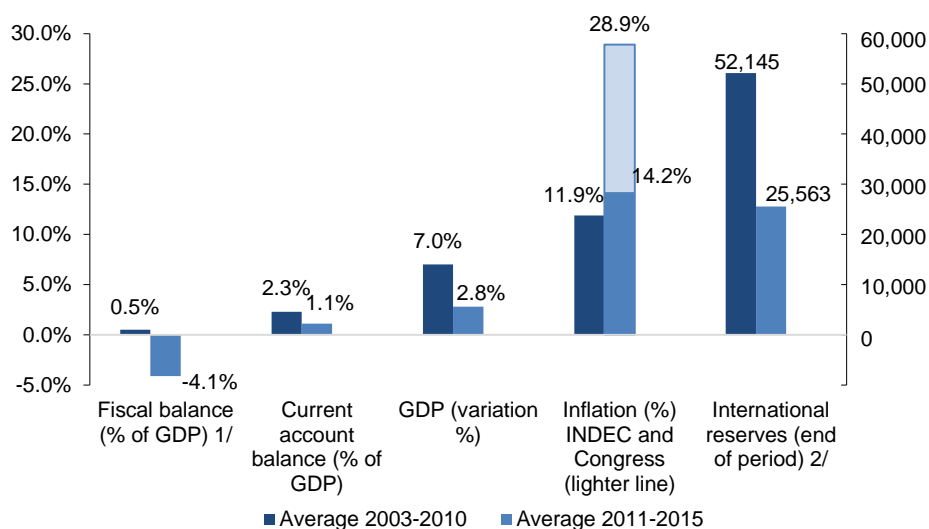
I. COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES

- 1.1 **Argentina is the second largest country in Latin America. Its economy is the third largest and it is one of the three countries with the highest income in the region.** With a surface area of 2,780,400 square kilometers and an estimated population of 41.8 million in 2014, its GDP per capita (equivalent to US\$22,302 in purchasing power parity) was the second highest in Latin America, exceeded only by Chile.¹
- 1.2 **Argentine economic growth was strong during the decade following the 2001 crisis, with a combination of twin surpluses (fiscal and balance-of-payments current account).** Official figures indicate that, with the exception of 2009, when the economy was hit by the international financial crisis, GDP grew at an average of 8% per year between 2003 and 2011.² This strong growth was accompanied by a sound fiscal and current account situation and a significant increase in international reserves. The economic recovery took place in a very favorable international context with a large increase in commodity prices (particularly soybean), low interest rates, and growth in the main trading partners.
- 1.3 **The economy began to show signs of weakening towards the end of the recovery period (2010-2011) and the twin surpluses gradually turned into deficits.** According to official figures, GDP growth slowed from 8.4% in 2011 to 0.8% in 2012, 2.9% in 2013, and 0.5% in 2014; according to private estimates, however, GDP experienced a 1% to 2% downturn in this last year. Preliminary IMF estimates for 2015 (WEO, April 2016) place growth at 1.2%. The economic slowdown that began in 2012 compounded the deterioration of public finances and was coupled with high inflation and a substantial loss of international reserves (Figure 1.1).
- 1.4 **The economic slowdown stemmed from the deterioration of the external context paired with the distortions generated by macroeconomic and trade policies.** The prices of the main export products fell significantly and the economic activity of the main trading partners (particularly Brazil) weakened. Moreover, the lack of access to financing in the international market was heightened by the technical default that arose from the conflict with bond holders who did not participate in the 2005 and 2010 debt swaps (“holdouts”). These effects were compounded by the implementation of expansive macroeconomic policies, exchange restrictions and controls, and, in general, growing price system distortions.

¹ Source: IMF, World Economic Outlook (WEO) of October 2015. Unadjusted GDP per capita was estimated at US\$12,735 in 2014.

² According to the estimates of private analysts, growth rates in the 2007-2011 period, on average, were about 1.5 to 2 percentage points below those reported in the official figures.

Figure 1.1: Macroeconomic Indicators 2003-2010 and 2011-2015



^{1/} Excludes property income.

^{2/} Right axis (millions of dollars). Data from the last day of operations in December 2010 and December 2015.

Source: BCRA, MECON, IMF WEO

1.5 The fiscal situation deteriorated significantly because expenditures have increased more than revenue, especially beginning in 2009. Between 2004 and 2008, the national government ran a financial surplus that averaged 1.3% of GDP. The financial surplus gradually decreased during the period and reversed course starting in 2009, when the government ran a deficit of 2.0% of GDP. The deficit is estimated to have reached 6.7% of GDP in 2015.³ Total national government spending grew from 17.4% of GDP in 2004 to 32.7% in 2014 (more than 15 percentage points), while tax and social security revenue grew from 18.6% of GDP to 27% of GDP over the same period (about 8.5 percentage points).⁴

1.6 Growth in social spending, subsidy expansion, and growth in spending on personnel were the main factors that contributed to the government's increased expenditure. Since 2001, important social protection programs have been created, such as the Universal Allocation per Child (AUH, 2009) and the Universal Allocation for Pregnancy (2011), and pension coverage expanded (2007, 2008, 2014). Social security spending alone increased 3.7 percentage points of GDP between 2004 and 2014 and, taken together, spending on family subsidies represented 2.6% of GDP in 2014. Because of a policy of frozen tariffs in an inflationary context, utility subsidies increased about fivefold since 2004. In 2014, subsidies represented 5% of GDP, of which energy subsidies accounted for 70%. Not only were subsidies burdensome, they favored higher income households and

³ Source: Econviews Monthly Report, March 2016. These figures exclude from government revenue rent from property that consists of transfers of earnings that the BCRA captures from the devaluation of the peso and transfers generated by the Sustainability Guarantee Fund of the National Social Security Administrator.

⁴ Source: IARAF based on MECON, "Los principales desafíos fiscales del próximo presidente: Cuentas públicas en rojo," Document N 5, September 2015.

were concentrated in the Buenos Aires metropolitan area.⁵ The national government's payroll increased 47% between 2001 and 2015 and the increase in the provincial governments' payroll was even steeper (60%).⁶ Personnel costs increased from 2.4% to 4.2% of GDP between 2004 and 2012.

- 1.7 **The provinces also experienced fiscal deterioration over the last decade as a result of a significant expansion in public spending.** National-provincial fiscal relations were characterized by inequities associated with the lack of consistency between decentralized spending and centralized resources as well as by the lack of transparency in the criteria for distribution of national government transfers. Over the last decade, revenue sharing transfers from the national government to the provinces (35% of national revenue intake in 2013-2014, without social security) were systematically lower than those observed in the late 1990s (38% in 1997-1999). At the same time, nonautomatic (discretionary) transfers from the central government increased to finance provincial spending.⁷ Recent studies show a great disparity in the distribution of resources under revenue sharing and special laws and in the distribution of nonautomatic transfers from the central government, which have been influenced by the electoral cycles (Annex III).
- 1.8 **Starting in 2011, the increase in fiscal deficits resulted in a reversal of the debt clearing trend when the country faced constraints in terms of access to international financial markets.** Between 2003 and 2011, gross public debt fell from 138% of GDP to 36%, thanks to high economic growth rates, negative real interest rates, the gradual appreciation of the peso in real terms, and the 2005 and 2010 debt restructurings. Given that a significant proportion of the debt is held by other state entities (BCRA, National Social Security Administrator), net public sector debt dropped to 18% of GDP in 2014, turning Argentina into one of the countries with the lowest debt in the region. Starting in 2011, the debt clearing process began to reverse course, with the gross public debt gradually increasing to 45% of GDP by late 2014 (external public debt represented 14.6% of GDP). Prospects for further external borrowing have been affected by the technical default situation (Box 1.1).

⁵ It is estimated that, while households in the two highest income deciles receive over 30% of the subsidies, households in the two lowest income deciles absorb slightly over 10%. The Buenos Aires metropolitan area receives almost half the energy and transportation subsidies and this proportion increased to 60% if the rest of the province of Buenos Aires is included (Figure I.9 in Annex I).

⁶ Figures presented by the Economic Research Foundation (FIEL) indicate that total public employment (national government, provinces, municipios, and State-owned companies) grew from 2,178,518 employees at the end of 2001 to 3,487,027 at the end of 2015 (a 60% rise). The provinces increased their payroll from 1,360,903 employees to 2,228,468 over the same period (a 63.7% rise).

⁷ See IARAF, "*Los principales desafíos del próximo presidente: Renovar el federalismo argentino*," Document 8, October 2015.

Box 1.1: Default, restructurings, and holdouts

After 10 years of convertibility, in January 2002, Argentina stopped servicing its debt of over US\$100 billion, which represented the largest sovereign default in history to that date. After the 2002-2005 recovery, the country began negotiations with the creditors, culminating in two debt swap processes (March 2005 and June 2010), through which 93% of the eligible debt was restructured, at a 75% discount in net present value terms.

Despite its intention to continue making payments on the restructured debt, in July 2014 Argentina technically defaulted again as a consequence of a District Court for the Southern District of New York ruling in favor of the creditors that had not participated in the 2005 and 2010 debt swaps (the so-called “holdouts”). The ruling resulted in the country not being able to continue payments to 93% of bondholders that had already agreed to restructure their claims, since the court ruled that such payments cannot be made without paying the litigants at the same time. This situation limited the country’s ability to obtain financing in the international capital markets until April 2016, when the new government reached an agreement with the holdouts.

Source: Annex III

- 1.9 **With the deterioration of the fiscal position and limited access to international markets, monetary policy was increasingly dominated by the need to cover government financing requirements, which contributed to a significant rise in inflation.** Beginning in 2009, the Central Bank of the Argentine Republic (BCRA) began to provide financing to the public sector, a trend that intensified during the 2012-2015 period. As a consequence of such financing, year-on-year inflation rose from 5% between 2003 and 2004 to 11% between 2005 and 2006, averaged almost 23% between 2007 and 2011 and almost 27% between 2012 and 2013, to reach 38.5% in late 2014 (beginning in 2007, the data comes from the Congress’s consumer price index (CPI)). As a result of the exchange rate anchor policy, inflation fell to about 28% in 2015, with an acceleration in November-December stemming from the expected depreciation of the peso with the change in government. Because the peso depreciation rate was markedly lower than the differential between domestic and external inflation, beginning in 2007, the peso began to appreciate significantly in real terms, undoing the real undervaluation that characterized the exit from convertibility.⁸
- 1.10 **The external position deteriorated significantly beginning in 2011.** After recording surpluses until 2010, the balance-of-payments current account weakened significantly in recent years as a result of the drop in export prices, the impact of the exchange-rate appreciation, a strong reduction in automobile exports to Brazil, and a growing energy deficit. The financial account was affected by the large public sector bond repayments in 2012 and 2013 and significant capital outflows in 2013, despite the intensification of exchange controls. The BCRA’s gross international reserves dropped from US\$46.4 billion in late 2011 to US\$30.6 billion in late 2013.⁹ After increasing slightly in 2014 (part of a currency swap with China), international reserves shrank to US\$25.6 billion (about four months’ worth of goods and services imports) in late 2015, although there was a slight recovery in the second half of December.

⁸ Estimates by private analysts suggest that prior to the entry into office of the new government, the real multilateral exchange rate had returned to levels similar to those that prevailed prior to the 2001 crisis.

⁹ To contain the drop in international reserves, in January 2014 the BCRA devalued the peso by 23%, intensified some exchange controls, and raised the benchmark interest rate.

- 1.11 **Between 2007 and 2015, the government approved a series of administrative measures and regulations that generated serious distortions in the goods and services markets.** They consisted in the establishment of price controls, prohibitions or restrictions on certain exports (beef, wheat, and corn), and greater use of export duties (withholdings) on various agricultural products. These measures affected agricultural producers' competitiveness significantly. For example, the estimated producer support¹⁰ in Argentina is -43.27%, compared with Brazil, Chile, and Mexico at 4.6%, 2.72%, and 12.30%, respectively (IDB Agrimonitor). These measures made it possible to contain price increases on some products temporarily, but generated significant inefficiencies in the allocation of resources. Moreover, beginning in October 2011, the government increasingly resorted to a series of controls to contain exchange market pressures. As a result, a wide gap developed between the official exchange rate and the parallel rate.
- 1.12 **Despite mounting imbalances, the high economic growth experienced from the convertibility crisis to the start of this decade appears to have generated significant improvements in social indicators, including reductions in unemployment, poverty, and inequality, but the veracity of the official indicators is in question.** Based on the official figures, the unemployment rate fell from over 20% in 2002 to 7.2% in 2011, remained largely unchanged in 2012-2014, and dropped slightly to 6.5% in the first nine months of 2015. At the same time, official estimates indicate that the poverty rate declined from 57.5% in October 2002 to 6.5% in the second half of 2011 and then to 4.7% in the first quarter of 2013 (latest data available).¹¹ These figures are questioned because of changes in the methodology for measuring the cost of the basic basket implemented by INDEC. Private estimates that incorporate higher inflation suggest that the reduction was considerably smaller. For example, the Social Debt Observatory of the Pontifical Catholic University of Argentina estimated that in 2011 and 2014, 24.7% and 28.7% of the population, respectively, was below the poverty line. INDEC estimates also show a drop in the GINI coefficient from 0.52 in late 2002 to 0.44 in late 2011 and 0.41 in the second quarter of 2015. Indicators of unmet basic needs (UBNs) improved between 2000 and 2010, but some regional inequalities persisted. For example, infant mortality in the Norte Grande was still almost double the national average (20.1 versus 12.5 deaths per 1,000 live births) and both the province of Buenos Aires and the Norte Grande region had a lower percentage of households with sewerage connections than the national average (Table I.4 in Annex I).
- 1.13 **The new government, which took office in December 2015, quickly adopted measures to correct the main distortions in the economy.** The Argentine economy faces significant challenges in view of the recent deterioration of variables relevant to the country globally and regionally, high inflation, fiscal pressures, the fragile state of international reserves, and the constraints in terms of access to international financial markets. In this context, the new government has already adopted a series of important measures that include unifying the exchange

¹⁰ Measured as transfers to producers (including those stemming from price setting) as a percentage of gross sales, see <http://www.oecd.org/tad/agricultural-policies/psemanual.htm>.

¹¹ Defined as the proportion of the population in urban areas whose monthly income is insufficient to buy a basic basket of goods and services.

market and floating the peso; eliminating a significant portion of exchange restrictions and controls; updating electricity, water and public transport tariffs; and eliminating most export duties. The process of regularizing social and economic statistics production has begun and the government has normalized the debt in default (Box 1.1).

- 1.14 **In the short term, the pending challenges involve stabilizing the economy and addressing the energy sector crisis.** In particular, the government faces the challenge of reducing inflation once the initial impact of the peso depreciation and the increases in public tariffs is absorbed. According to the CPI of the City of Buenos Aires, monthly inflation averaged 3.8% during the January-March 2016 period, while the CPI of San Luis (which is also being used as a benchmark) indicates that monthly inflation averaged 3.3% during the same period (in March 2016, year-on-year inflation was 37.3%). The government expects a substantial drop in inflation during the second half of the year, for which the wage response will be paramount. Moreover, the fiscal deficit needs to be adjusted in order to reduce the public sector's financing needs. The government has adopted a gradual approach in which the financing needs will be covered by a combination of bond issues on the international and local markets, and financing through the BCRA, although at a significantly lower level than in 2015. The government will also address the energy sector crisis, which is particularly severe in the distribution of electricity (Box 1.2). In addition to the rate adjustments, the government has taken the first steps in this area by declaring an electricity emergency and creating the Ministry of Energy. To overcome the weaknesses existing in a context of fiscal constraints, the government could provide incentives for increasing private investment. This would require a legal and regulatory framework that creates opportunities for such investment under competitive and sustainable conditions. The new government has already made progress in this regard.

Box 1.2: The crisis in the Electricity Sector

The quality of electricity service deteriorated significantly during the evaluation period (2009-2015). Since 2002, the duration and frequency of power cuts has been increasing, reaching critical levels in the summer, when consumption rises. Two basic factors explain this deterioration. First, demand increased continuously over the last decade, with growth rates of between 3% and 6.5% per year. Second, sector investment dropped significantly (from US\$2.260 billion on average per year between 1990 and 1999 to only US\$660 million on average per year between 2004 and 2013). National public investment accounted for 40% of investments and was geared to the transmission network and, in recent years, to an increase in generation capacity and debt-equity conversion with distribution companies. Given the weak regulatory framework and the rate gap stemming from the 2002 Economic Emergency Law, private investments and, in particular, investments by electricity distribution companies and retailers collapsed, which had a significant impact on the quality of service delivery.

Source: Annex IV

- 1.15 **There are also some important medium-term challenges to be taken up, many of which have been aggravated by the slowdown in growth and distortions in the economy.** These challenges include significant differences in revenue and production between the more developed provinces of Buenos Aires and the Pampas region and the more disadvantaged provinces, particularly those

in the Norte Grande;¹² regulatory problems and distortions reflected in the systematic deterioration of the principal competitiveness and business climate indexes; the financial system's lack of depth; gaps in infrastructure endowment, particularly in energy, which have been exacerbated by cuts in overall investment during the period in a context of a growing role for public investment; and deficiencies in the quality and effectiveness of social expenditure, despite the significant increase in such expenditure during the evaluation period.

- 1.16 **The more developed provinces of Buenos Aires and the Pampas region have productivity and income levels well above the more disadvantaged provinces, in particular those in the Norte Grande.** The provinces in the humid Pampas (Buenos Aires, Córdoba, and Santa Fe), which are connected to the dynamic agriculture sector, account for almost 50% of GDP, generate 68% of national exports, and are the country's main consumption centers (Logistics in Argentina, World Bank 2014). In the meantime, the regional economies outside the Pampas area are driven by a few specific niches (e.g. the wine industry in Cuyo, hydrocarbons in Patagonia, etc.). This disparity in productivity levels between the provinces is directly reflected in their social indicators.
- 1.17 **Economic distortions and regulatory issues have led to a systematic deterioration of the main competitiveness and business climate indexes.** Argentina ranked 106 in 2015 (out of 140 countries) in the WEF's Global Competitiveness Index, down from 69 in 2005 (out of a total of 125 countries). The factors identified by the WEF as having the most significant impact on competitiveness were the macroeconomic context, financial sector inefficiency, and deep institutional deficiencies in the areas of property rights, ethics and corruption, public sector performance, and quality of infrastructure. Moreover, inflation and complex exchange regulations were identified as the factors that had the most negative impact on the business climate.¹³
- 1.18 **The size of the financial system is an important obstacle to productive development.** The Argentine financial system is still small and transactional, which limits access to credit and affects the business climate. The financial system experienced a rapid recovery after the 2002 crisis but has still not resumed the size it had reached at the end of the 1990s. Both bank assets and deposits in terms of GDP remain significantly below the values of other countries in the region with a similar level of development. The credit-to-GDP ratio was 17.9% in 2013, compared with an average of 35% for the countries of Latin America. Moreover, the system lacks the capacity to finance long-term undertakings because of the public's clear preference for short-term and demand deposits. In recent years, the lack of financing for the private sector was exacerbated because the financial sector took on a significant role to finance the fiscal deficit by buying treasury bonds, which offered more attractive returns than lending.
- 1.19 **Private investment, particularly in infrastructure, has lost momentum in recent years.** In comparison with the region, Argentina continued to exhibit

¹² The provinces in the Norte Grande region are Tucumán, Salta, Misiones, Chaco, Corrientes, Santiago del Estero, Jujuy, Formosa, and Catamarca.

¹³ World Economic Forum, Global Competitiveness Report 2015-2016.

relatively low investment rates (18.9% versus 21.7% for Latin America and the Caribbean, 2010-2014).¹⁴ Over the period, public investment replaced private investment, particularly in the infrastructure sectors. While national public investment in infrastructure rose from 0.5% to 1.15% of GDP between 2003 and 2014, total investment (1.75% of GDP) is lower than in the 1990s (3% of GDP).¹⁵ The growing role of public investment in infrastructure is the result of nationalization or intervention of the utility providers (particularly electricity, water and sanitation) and government financing of infrastructure operators' capital expenditures.

1.20 **Low infrastructure investment resulted in gaps in terms of quantity and quality, particularly given the country's income per capita.** In 2014, Argentina ranked eleventh in infrastructure endowment among the countries in the region, according to the WEF.¹⁶ A comparison of Argentina's infrastructure with that of other high-income countries (Chile, Brazil, and Mexico) and with the average for the region shows that there are some very significant gaps in terms of sanitation system coverage and electricity service quality (Table I.2 in Annex I). Moreover, while the costs associated with exporting, which have a strong correlation with the size and quality of the transportation network, are lower than Brazil's, they are above the Latin American average and much higher than Chile's.¹⁷

1.21 **Lastly, despite the strong increase in social spending during the last decade, there are still significant challenges in terms of quality and efficiency.** Although government decentralization in the 1990s brought the delivery of education and health care services closer to the users, it contributed to reinforcing inequalities in terms of access and quality between the various provinces. The expansion of compulsory education stemming from Law 26,206 succeeded in widening coverage, but with regional inequalities and without a substantive increase in education quality (Annex V). The latest scores obtained on the Programme for International Student Assessment (PISA-2012) test indicate that the country faces challenges with regard to education quality, particularly in math and reading for students starting secondary school, although there has been a slight improvement in science. The public health system faces higher costs as a result of the epidemiological transition, administrative fragmentation, and differences in service coverage and quality at the provincial level. The financing of and access to medical services are characterized by fragmentation, qualitative differences, and organizational inequality. A significant percentage of beneficiaries has dual coverage and many of them contribute twice, particularly public employees (physicians and teachers) who work in different institutions (provincial and national).¹⁸

¹⁴ IMF WEO, October 2015.

¹⁵ These figures exclude subnational governments' investments in infrastructure.

¹⁶ World Competitiveness Report 2014-15.

¹⁷ See Annex IV.

¹⁸ World Health Organization, 2010. A National Health Insurance Plan for Argentina: Simulating its Financial Feasibility.

II. THE BANK'S 2009-2015 PROGRAM

2.1 **Argentina is one of the Bank's most important members in terms of portfolio, disbursements, and credit exposure.** In a reversal of the trend from the last evaluation period, Argentina received net financing flows of US\$2.57 billion between 2009 and 2015 (excluding interest payments and fees). As of 31 December 2015, Argentina's debt balance with the IDB (sovereign and non-sovereign guaranteed) stood at US\$11.359 billion, i.e., 14.4% of the total stock of debt of the countries in the region with the Bank.¹⁹ This debt is equivalent to 2.1% of GDP and represented 4.9% of the country's total public debt.

A. Relevance of the Bank's country strategy with Argentina

2.2 **The Bank's program with the country over the 2009-2015 period was guided by the 2012-2015 country strategy (document GN-2687) and updates to the Bank's 2004-2008 country strategy (document GN-2328) over the 2009-2011 period.**²⁰ The updates to the 2004-2008 strategy maintained the latter's objectives and main areas for action. The 2004 strategy was prepared against the backdrop of the political, financial, economic, and social crisis of 2001 and 2002, and it identified the attainment of equitable and sustainable economic growth as the country's overarching challenge and the central objective of the Bank's support. Within this framework, the strategy identified three major objectives: (i) institutional strengthening for better governance and fiscal sustainability; (ii) a more favorable climate for investment and productivity growth, to enhance the country's competitiveness; and (iii) poverty reduction, rebuilding of human capital, and promotion of sustainable and inclusive social development. The areas included in the 2004-2008 strategy were quite broad, involving actions across practically all the sectors of the Bank.²¹ However, Bank support for social programs and increased financing for infrastructure and competitiveness stood out.

2.3 **Positive findings in OVE's evaluation of the Bank's program with the country for the 2003-2008 period** related to the precise diagnostic assessment of the country's main development challenges, well-targeted support for a number of social programs, and the Bank's value added. The areas for improvement identified concerned a lack of focus on and prioritization of key activities under the Bank's program; the Bank's absence in priority policy areas for program sustainability; insufficient follow-up on the Bank's involvement in many programs; uneven and negative net flows to the country; and over-reliance

¹⁹ In 2009, Argentina's debt with the IDB represented 15% of the Bank's total portfolio in the region.

²⁰ The 2004-2008 country strategy was updated in 2008 (document GN-2477) and in 2010 (document GN-2570 – Country Strategy Updates).

²¹ In the area of institutional strengthening, the subsectors included: (i) the democratic system; (ii) rule of law and justice reform; (iii) State and market; and (iv) public management, including pension systems. In the area of competitiveness and productivity, the subsectors included: (i) financial markets; (ii) modernization of innovation and technological development systems; (iii) support for productive development, agricultural services, tourism, the environment, and natural resources management; (iv) trade liberalization and integration; and (v) infrastructure. In the area of poverty reduction, human capital, and social development, the subsectors included: (i) social protection; (ii) education; (iii) health; and (iv) housing and sanitation.

on (or inappropriate use of) certain loan modalities. Box 2.1 presents the CPE's recommendations.

**Box 2.1: Recommendations of the Evaluation of the Bank's
2003-2008 Program with Argentina**

1. Invest in knowledge creation and use programming and execution as an opportunity for high-level dialogue on complex development issues.
2. Maintain support for the social sector, strengthening evaluation components and improving program coverage.
3. Establish a clear and evaluable strategy for competitiveness, with emphasis on evaluating and creating knowledge in relation to program effectiveness, with a view to prioritizing and ordering the sector portfolio.
4. Give priority to supporting areas of proven effectiveness with demonstrated institutional capacity.

Source: OVE Evaluation of the 2003-2008 Country Program with Argentina.

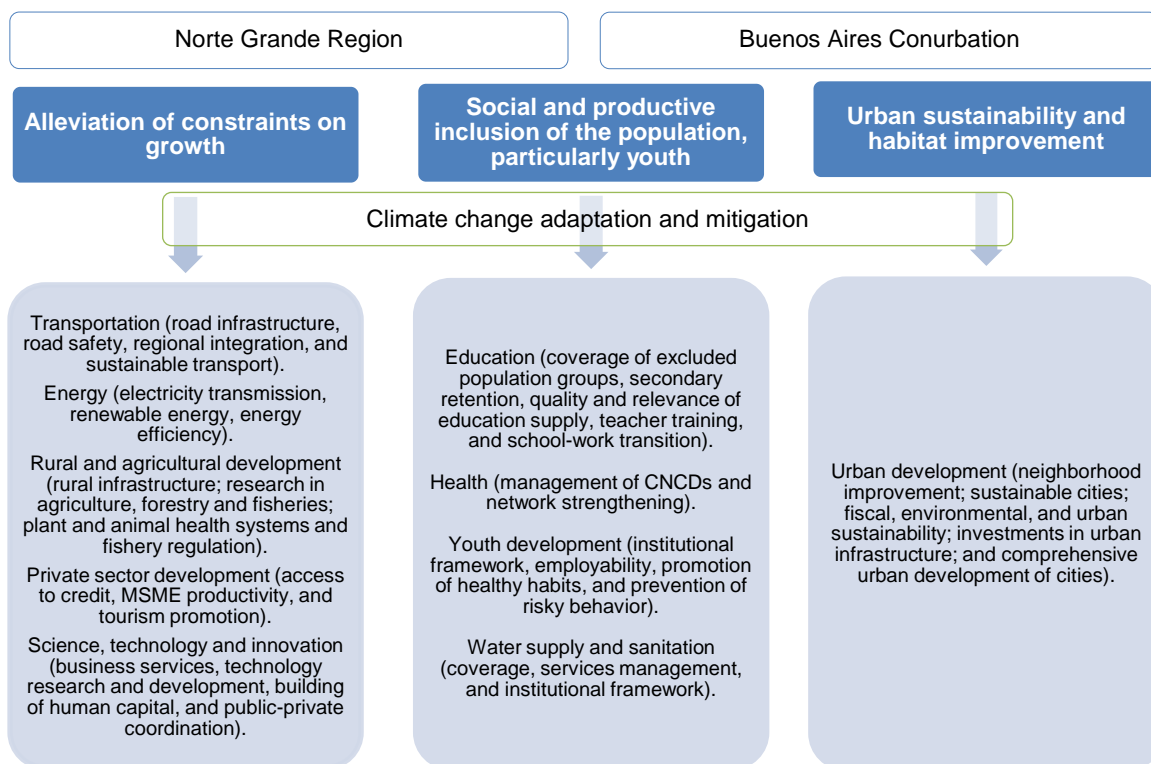
- 2.4 **The Bank's 2012-2015 country strategy defined three major objectives for Bank support**, against the background of a transition to more moderate economic growth rates following the strong recovery experienced after the crisis at the beginning of the 2000s: **(i) alleviation of obstacles to growth** (with actions in infrastructure, agriculture, productive development, and science and technology); **(ii) social and economic inclusion of the population** (with actions in education, health, and water and sanitation); and **(iii) urban sustainability and habitat improvement** (with actions in urban development). Environmental sustainability, climate change, and youth development were included in the strategy as cross-cutting areas. The strategic focus on these areas was complemented by a geographic focus on the Norte Grande region (for the areas of alleviation of obstacles to growth) and the Buenos Aires conurbation (for water and sanitation).
- 2.5 **Figure 2.1 presents the strategic objectives and priority areas of intervention of the strategy.** Although the 2012-2015 country strategy included actions in multiple sectors, this scope is justified by the size of the portfolio and the Bank's long-term positioning in the country, which was articulated on the basis of a programmatic/territorial approach. At the start of 2012 there were 54 outstanding loan operations with the public sector, of which 24 were part of 17 programmatic lines in almost all the sectors of the strategy.²²
- 2.6 **To support attainment of its strategic objectives, the strategy envisaged a policy dialogue that unfortunately never materialized and did not include key areas for competitiveness, the business climate, and the financing of basic infrastructure and its sustainability in the country.**²³ The country strategy document recognizes the need to push ahead with strengthening the institutional

²² These 24 operations were the first or second phases of programmatic lines like Conditional Credit Lines (CCLIPs), multiphase operations, or individual operations that were part of an established program.

²³ The dialogue areas provided for in the strategy included: (a) integration and facilitation of trade and services; (b) citizen security, in relation to policy issues and the national security system; (c) labor markets, in the areas of informality, vocational training, and pensions; (d) national and provincial public management, in the areas of planning, budget, evaluation, human resources, procurement, and control systems; (e) electronic government and non-fiduciary country systems; and (f) housing, in the areas of mortgage financing, development of the rental market, and targeting of subsidies.

framework and developing sector capacities in order to address the risks stemming from institutional weaknesses, the complexity of coordinating among various levels of government, and the issue of distortions generated by the generalized subsidies and regulatory weakness. However, the country strategy did not set objectives or goals in this regard, with the sole exception of improving the operating margin of water supply and sanitation companies.

Figure 2.1 Strategic objectives and priority areas of intervention, 2012-2015 country strategy



Source: 2012-2015 Country Strategy with Argentina VPC/CSC presentation

2.7 The actions envisaged in the 2009-2015 country strategy were bounded and partially relevant given the limited opportunity that the government provided for policy dialogue and support in the aforementioned key areas. The Bank focused a significant part of its efforts on covering infrastructure gaps that persist in the country, supporting technological development, increasing the supply of education infrastructure, and improving the supply of health care. The focus of the Bank's action in the Norte Grande region is aligned with the Norte Grande Development and Integration Program, the main objectives of which are to narrow the development gaps between the Norte Grande region and the country's other regions and improve regional competitiveness. The Bank also centered part of its action on the Buenos Aires Conurbation, which contains a high percentage of the country's needy population. Although the country strategy incorporated a geographical cross-cutting approach and two cross-cutting areas of action, for the most part the strategic objectives and actions reflected a sector approach.

B. Program implementation 2009-2015

- 2.8 **The program implemented during the evaluation period was comprised of 81 sovereign-guaranteed (SG) loan operations.** Of this total, 48 loans totaling US\$8,013.5 million were approved between 2009 and 2015), 23 (US\$4,009.5 million²⁴) between 2009 and 2011, and 25 (US\$4,004.0 million) between 2012 and 2015. The 33 remaining operations, totaling US\$6.449 billion, were approved prior to the evaluation period but had an undisbursed balance of US\$4,200 million at the start of 2009 (close to 65% of the amount approved). Between 2009 and 2015, 40 non-sovereign-guaranteed (NSG) operations totaling US\$587 million were also approved.
- 2.9 **The lending envelope had to be reduced during the last years of the evaluation period as a result of the country risk rating downgrade.** This generated tensions given that, while the financing envelopes in the country strategy are indicative, the single scenario had generated expectations in the government. The country strategy envisaged an estimated SG lending envelope that was larger than that of the previous strategy and a scenario of positive net capital flows with the country. The SG lending envelope for the 2012-2015 period was US\$6 billion, projecting an average positive net capital flow to the country of US\$485 million. The country strategy indicates that Bank disbursements would represent 7.66% of the government's financing needs (US\$78,285 million) during the period. The annual amount approved averaged US\$1,001 million (2012-2015) versus the US\$1,500 million programmed. Approvals remained below the target for the entire period and experienced a marked decline beginning in 2014 (Figure 2.1). The net flow of resources fell between 2009 and 2012, due to a drop in disbursements. Although the downward trend was reversed in 2013 and 2014, it resumed significantly in 2015. The net flow reached an average of US\$159.3 million between 2012 and 2015, below an average of US\$644.2 million observed between 2009 and 2011 (Figure 2.2).²⁵ As 2015 ended, the public sector loan portfolio had an undisbursed balance of US\$4,023 million.
- 2.10 **Despite the reduction in approvals and disbursements in recent years, the Bank's program was the largest among multilateral development institutions.** In a scenario of significant international financing constraints and strong country demand, the Bank was the main provider of multilateral financing. The World Bank approved US\$3,300 million in SG loans (US\$730.7 million in NSG loans) between July 2010 and June 2012, primarily in the water and sanitation, social protection, environment, health, transportation, and agriculture sectors. The World Bank did not approve any new operations between July 2012 and June 2014 and did not approve a new partnership strategy until August 2014. Between July and December 2015, the World Bank approved US\$1,343 million.²⁶ Between 2009 and 2015, CAF approved US\$4,621 million in SG loans.²⁷ The country also tapped into bilateral financing sources, which increased in size, especially in recent years. In

²⁴ US\$1,336,500,000 on average per year.

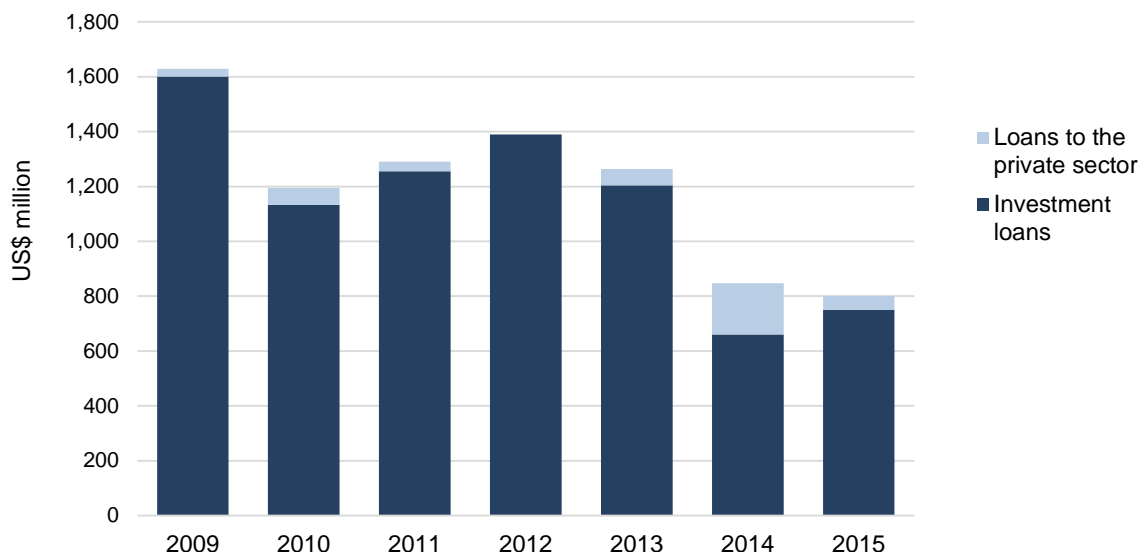
²⁵ The net flow observed in 2013 and 2014 was US\$250 million and US\$235 million, respectively, while 2015 saw a negative balance of US\$123 million.

²⁶ Primarily in the areas of social protection (31.6%), health (26.1%), and education (18.7%).

²⁷ Particularly in energy (50.2%) and transportation (29.4%).

2014, agreements with China were signed for a total of US\$4,700 million in investments in energy and transportation infrastructure, the Kirchner-Cepernic dams, and rehabilitation of the Belgrano Cargas railway. Of that total, US\$300 million was disbursed in January 2015.²⁸

Figure 2.1: Approved Amounts by Instrument (2009-2015)



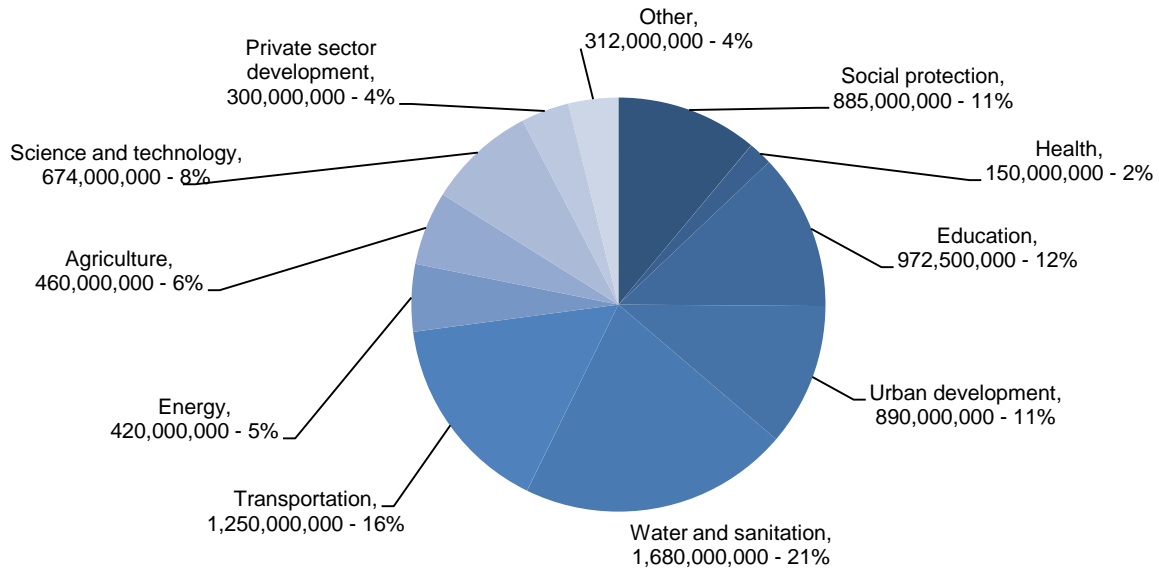
Source: OVE based on OVEDA

2.11 Most of the financing approved between 2009 and 2015 was channeled through sovereign-guaranteed investment loans (95.4%) and sector-wise, it was consistent with the strategy (Figure 2.3). As established in the 2012-2015 country strategy, no policy-based loans were approved during the period. The five sectors with the largest shares in the total volume of sovereign-guaranteed lending between 2009 and 2015 are: water and sanitation (21%), transportation (16%), education (12%), urban development (11%), and social protection (11%). Together, they accounted for 71% of total sovereign-guaranteed financing approved over the period. Outstanding loans at the start of the evaluation period were concentrated in the education (20.0%), transportation (18.6%), and social protection (17.7%) sectors. Annex II describes the Bank's program in detail by sector.

²⁸

MECON, 2016 budget.

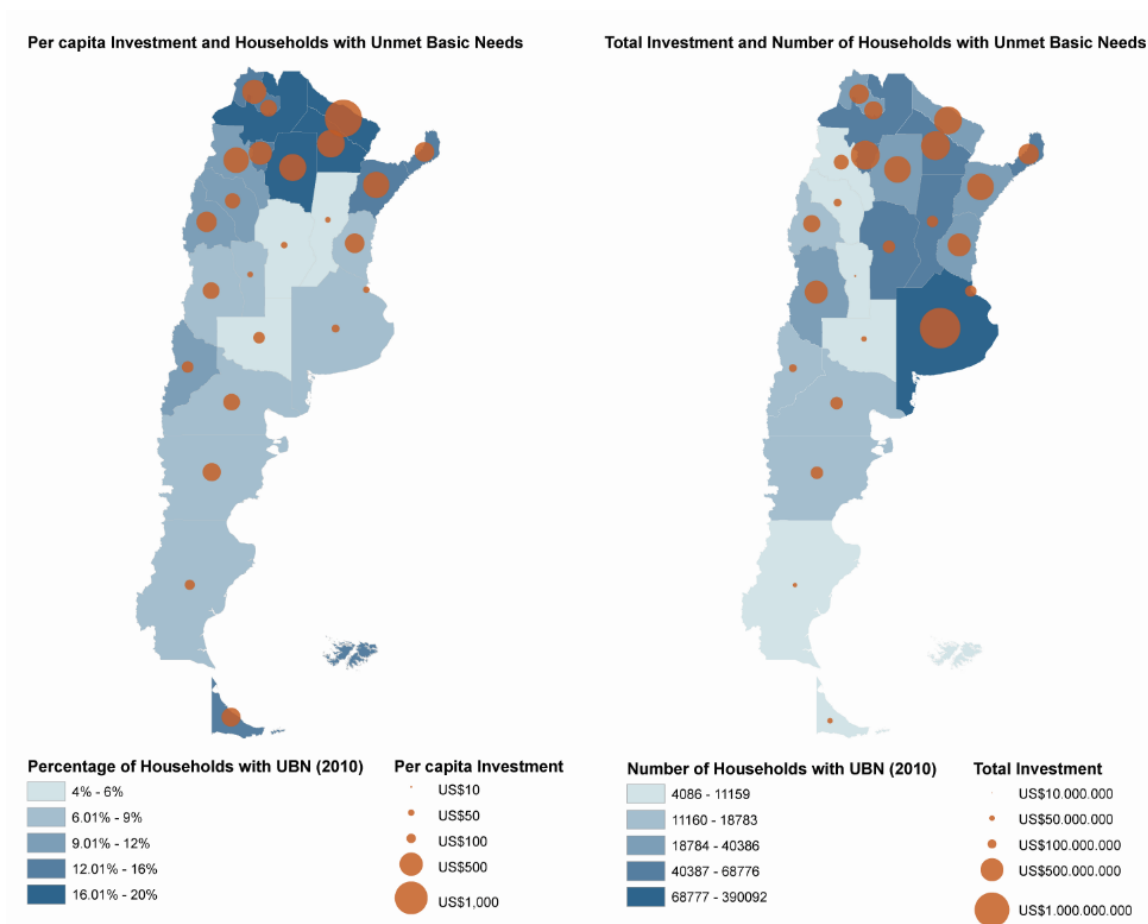
Figure 2.3: Public Investment Loans, Approved Amounts by Sector (2009-2015)



Source: OVE based on OVEDA.

2.12 **The program implemented was also consistent with the territorial approach laid out in the country strategy.** The Norte Grande provinces received 58% of the amount of Bank-financed works, while the province of Buenos Aires and the Autonomous City of Buenos Aires received 16%. The territorial approach was also observed at the sector level, with transportation and energy primarily in the Norte Grande provinces, while water and sanitation, urban development, and education were more evenly distributed. Similarly, the sectors that saw the highest investment in works were transportation (29%), water and sanitation (19%), energy (17%), and education (14%) (Table I.6 in Annex I). As a result, investment tended to be concentrated in the provinces with the highest UBN levels (Figure 2.4).

Figure 2.4: Investment in Infrastructure through IDB Programs (by province)



Source: OVE based on information from the projects and the 2010 Census

2.13 **Operations framed within programmatic investment lines accounted for 75% of the Bank program’s financing: Conditional Credit Lines (CCLIPs), operations under the Norte Grande Program, and multiphase operations in the most important sectors, in response to the Bank’s long-term positioning in the country.** Since 2007, the Bank has approved operations under CCLIPs (Table 2.1) for a total of US\$5,313 million,²⁹ in the sectors of agriculture, water and sanitation, urban development, education, science and technology, and transportation. Another of the program’s main elements was comprised of the operations exclusively targeting the Norte Grande region of Argentina, primarily in infrastructure; the amount approved totals US\$3.7 billion (25.5% of the portfolio). The Bank also approved US\$1,964 million in sequenced or phased operations, primarily for social protection and health. In addition to the operations that were part of programmatic lines or multiphase programs, 12 individual operations were approved for seven provinces, for a total of US\$931.1 million in education and social protection (Buenos Aires, Córdoba, and Rio Negro) and productive

²⁹

The total value of these credit lines is US\$11.340 billion and, as of the end of 2015, operations equivalent to 46.9% of this total had been approved.

development and infrastructure (Entre Rios, Mendoza, Rio Negro, San Juan, and Salta) (Annex II).

- 2.14 **With a territorial and programmatic approach, the Bank positioned itself as Argentina’s most important partner in the financing of investments in infrastructure.** Between 2009 and 2014, IDB disbursements represented 12%, 7%, and 7% of the total invested by the federal government in the sectors of water and sanitation, transportation, and energy, respectively (MECON and OVE, 2015). The IDB also played an important role in specific sector actions, such as improvements in urban infrastructure in informal neighborhoods and shantytowns, in which it stands out as the only source of external financing. The IDB also played a very significant part in the Norte Grande program, as the first multilateral agency to commit resources, approving 73% of total funds contributed by international financial institutions.

Table 2.1: Largest CCLIPs between the IDB and Argentina

Sector	Line	Year of approval	Amount in US\$ million (IDB contribution)
Agriculture	PROSAP	2008	600
	SENASA	2008	300
Water and sanitation	PAyS	2010	710
	PAyS Buenos Aires	2008	720
	PAyS Smaller communities	2007	360
Urban development	PROMEBA	2007	1,500
Education	PROMEDU	2008	2,700
Science and technology	Technology Innovation Program	2009	750
Transport	Productive road infrastructure	2009	2,500
	Metropolitan railroads	2013	1,200

Source: OVE

- 2.15 **Between 2009 and 2015, the Bank maintained a small portfolio of technical cooperation operations, the majority of which financed project preparation activities, supported loan operations or specific studies, and improved management for results (PRODEV).** Between 2009 and 2015, 55 nonreimbursable technical-cooperation operations for US\$24.5 million and 15 MIF grants for US\$12.3 million were approved. Weighted by volume of loans, Argentina is the CSC and Group A country that received the least amount of nonreimbursable technical-cooperation funding between 2009 and 2015.³⁰ The areas supported by the technical cooperation program included studies on youth

³⁰ During the period, Brazil received US\$89.3 million, Mexico, US\$50.5 million, and Paraguay, US\$43.2 million in technical cooperation funding.

and drugs, development with identity among indigenous peoples, labor market, public management for results, urban transportation, the application of the Emerging and Sustainable Cities Initiative in Mar del Plata, and promotion and support of alternative energy programs.

- 2.16 **Loans to the private sector were heavily concentrated in financial institutions, particularly to support trade financing.**³¹ The concentration of projects in the Trade Finance Facilitation Program (TFFP) was due to a combination of the effects of supply and demand. On the one hand, with the increase in credit risk in Argentina, the IDB's risk appetite in Argentina waned: hence the portfolio's concentration in lower risk loans such as TFFPs (shorter tenors, currency matches) and, as the deterioration worsened, loans to the largest banks. On the other, economic and financial measures (particularly currency exchange controls known as "cepo") led to a reduction in offers of trade financing funds. The drop in supply and the IDB incentives account for the expansion in TFFPs over the 2009-2015 period, while the absence of corporate projects is explained by the deterioration in the business climate and the increase in sovereign risk.
- 2.17 **Coordination with the World Bank and CAF was satisfactory.** MECON (through the International Financial Relations Branch) and the Federal Cabinet Office (through the Externally-financed Projects Evaluation Branch) have led coordination with the multilaterals. In addition, there has been significant coordination from the specialized execution units. In the agriculture sector, for example, coordination among donors at the strategic/program level has been handled directly by the Unit for Rural Change. Similarly, the execution units of the transportation, water, and urban infrastructure programs in the Norte Grande also manage resources from other multilateral agencies as well as from the national treasury, which allows for programmatic planning rather than uncoordinated contributions.

C. Investment loan portfolio performance

- 2.18 **The relatively large size of the loans and the fact that they were approved as part of programmatic or multiphase series helped reduce preparation costs, which were below the Bank's average, but did not succeed in reducing average preparation times.** The average preparation costs (per million approved) dropped from US\$6,661 in 2004-2008 to US\$4,050 in 2012-2015, below the averages for the Bank (US\$7,370) and CSC (US\$8,013). The average preparation cost by type of operation is shown in Table 2.2. The average approval time (from pipeline to approval) increased slightly, from 16 months (2004-2008) to 17 months (2009-2015), which is similar to the Bank's average. Individual operations took an average of 33 months from pipeline to first disbursement; the first phase of a CCLIP or multiphase operation takes an average of 26 months from pipeline to first

³¹ Of these NSG operations, 75% (almost 50% of the amount) pertain to lines approved with local banks (Banco Galicia, Banco Macro, Banco Patagonia, etc.) in the context of the TFFP. Another eight operations (US\$266 million) financed corporate projects in the private sector (cement, agriculture, transportation, and logistics) and provided funds for energy project prefeasibility studies (biogas, biofuel). Almost all the operations were loans, with only five non reimbursable technical-cooperation operations (US\$1.2 million) and one reimbursable one (US\$1.7 million).

disbursement; and loans for second, third, or fourth operations take 20, 18, and 19 months from pipeline to first disbursement.

**Table 2.2: Average Preparation and Execution Costs by Operation Sequence
(in US\$ per million approved or executed)**

Program Phase	Average Cost of Preparation	Average Cost of Execution
First operation	3,001	5,890
Second operation	1,732	3,900
Third operation	904	1,219
Fourth operation	21	N/A
Individual	9,973	38,033
Provincial	6,029	21,016
Total	5,504	19,271

Source: OVE based on OVEDA

- 2.19 **In terms of execution, the portfolio’s performance shows a positive trend, although operations have experienced significant delays.** The disbursement rate of the portfolio under evaluation was slightly higher than that of portfolios with similar characteristics in CSC countries³² (Figure I.21 in Annex I). However, loans approved between 2004 and 2008 had extensions of 32 months on average, which is well above the extensions in CSC and the Bank over the same period (22 and 20 months, respectively).
- 2.20 **The high level of execution of a significant proportion of the loans approved since 2009 can be attributed to improvements in portfolio management monitoring implemented by the Country Office together with counterparts in MECON and the Federal Cabinet Office, the fact that the loans were designed as multiple works in sequential operations within a single program, and the capacity and agility of the centralized executing agencies.** In the case of infrastructure, 94% of the works executed pertain to multiple-works operations or multiple-works CCLIPs, which facilitated the high execution levels observed. This modality enabled the execution units to select works within the sample that were further along in terms of preparation and feasibility. The sequentiality of approvals within established programs also made it possible to prepare a bank of projects to be financed in subsequent operations. This also paves the way for rapid selection of the better prepared projects and even for initiatives that are not properly formulated to be replaced by others that would be executed more rapidly. The revolving fund modality applied to the majority of programs allowed execution units to have resources available to make payments on contracts. The reallocation of funds among components and works was frequent and made it possible to maintain the momentum of execution.
- 2.21 **In operations with a strong provincial government role, the lack of consolidated planning systems at the national and provincial levels and the**

³² The synthetic portfolio includes CSC countries (Chile, Uruguay, Paraguay, and Brazil) and excludes fast-disbursing projects (over 50% disbursed in the first six months of eligibility). The curves are weighted by initial amount approved.

institutional weakness of executing agencies or their provincial counterparts complicated works selection and execution. These difficulties were exacerbated in provincial operations and individual ones that were not part of a CCLIP or multiphase program. For example, significant delays occurred in the provincial loans in support of productive development in Mendoza and Río Negro, the operation to support the railway, and the solid waste operation, as a result of execution unit weaknesses, deficient works designs, and local contractor market failures. These cases reflect the complexities the Bank faces when working in new sectors or with new actors and the execution advantages of selecting sequential, multiple-works programs. Even in centralized sequential programs, the active involvement of the provincial governments in project design and execution has required active work by the execution units and Bank specialists.

2.22 **OVE’s review of the executed infrastructure works found that their selection was not always supported by economic and technical criteria that would ensure their priority.** This absence was evident in the case of the water and sanitation works in the Norte Grande, where the works were selected on a first-come-first-served basis without such selections being supported in a regional investment plan. In the case of road projects, while the works were on a list of projects prioritized in the Argentine Roadways Master Plan (EDIVIAR), they were not part of an infrastructure development plan for the transportation of goods and people. The substitution of works to be financed according to the principle of first-come-first-served facilitated the execution of works with a higher level of preparation that were not necessarily a priority. Only in the electricity sector was it possible to verify that the selected works were part of the long-term electricity transmission plan. In the case of PROSAP, although the works financed at the provincial level were included in the provinces’ strategic plans, the program lacked a prioritization strategy at the national level.

2.23 **During the evaluation period, cost increases and the substitution of works undermined the programs’ efficiency.** Some of the increases resulted from expansions in scope; however, the highest percentages were attributable to the so-called “redeterminations”³³ of unit prices during the execution process. For example, in the case of the Norte Grande electricity transmission program, the “redeterminations” represented a 58% increase over the original budgets. In view of these circumstances, the country requested—and the Bank approved—a new operation (AR-L1095) for US\$300 million, equivalent to 52% of the amount of the original project.³⁴ There were similar cases in transportation, water and sanitation, and education.

³³ Decree 1,295/02.

³⁴ More detailed information can be found in <http://agn.gov.ar/files/material-de-difusion/libro-energia-agn.pdf>.

III. EFFECTIVENESS OF THE BANK'S PROGRAM

- 3.1 **This chapter analyzes the results of the Bank's program during the 2009-2015 period, grouped under the three strategic objectives of the 2012-2015 country strategy: alleviating obstacles to growth, promoting the social and productive inclusion of the population, and promoting urban sustainability and habitat improvement.** The expected outcomes, targets, and indicators included in the country strategy approved in 2012 were established, in most cases, at the sector level with 2010 as the baseline year and targets for 2015 (Table I.5 in Annex I). It is therefore difficult to verify attainment of the strategy's targets since, for many of the sectors, the relevant data to measure progress will only be available after the country evaluation is completed. The problems related to the generation of reliable statistics and data in the country experienced during the evaluation period make this assessment even more difficult.
- 3.2 **The fact that the indicators are aggregated at the sector level also makes it difficult, in most cases, to identify attribution of Bank operations to the strategic goals,** inasmuch as the outcomes do not depend solely on them but on the actions and interventions of multiple actors, including national and provincial governments, as well as on other variables exogenous to the interventions. In most sectors, neither the country strategy nor the operations indicated how the planned works (in many cases implemented through multiple-works programs) would contribute to achieving the strategy's objectives. The works selection criteria based on objectives of fast execution of resources and the lack of comprehensive regional plans make it even more difficult to measure impact on development objectives. Given these factors, this chapter focuses on analyzing the outcomes of Bank programs that were completed during the period or are at an advanced stage of execution, linking them to country strategy targets where possible, and analyzing key aspects of the design and execution of selected programs that provide insights into the potential attainment of their targets.
- A. Alleviation of obstacles to growth**
- 3.3 **The Bank's program to alleviate obstacles to growth** included actions to boost economic productivity and competitiveness, both by reducing costs through investments in productive infrastructure (transportation and energy), supporting productive development (through an increase in innovation capacity), productive services (plant and animal health), and alleviating constraints stemming from market failures and asymmetries (through credit and subsidies for producers and MSMEs).
- 1. Productive infrastructure**
- 3.4 **The transportation program focused primarily on financing investment in road infrastructure.** Almost 70% of the portfolio was geared toward improving roads in the Norte Grande. Provincial roads in other regions in the country and a GB metropolitan railway recovery program were also financed.³⁵ Support in the

³⁵

In addition to this, three provincial loans (Mendoza, Entre Ríos, and Río Negro) totaling US\$200 million, included road infrastructure improvements among their main components.

electricity sector focused on strengthening the electric power transmission system in the Norte Grande and in other provinces in the country.³⁶ These investments were supplemented with support for investments in rural roads, irrigation and drainage, and rural electrification under the Provincial Agricultural Services Program (PROSAP).

3.5 Bank interventions in transportation involved 10% of all paved provincial roads and 4% of the national paved network in the Norte Grande. By program, Bank-financed works totaled US\$1,667 million in the Norte Grande (1,320 kilometers), close to US\$292 million in the Program for Productive Road Infrastructure (304 kilometers), and close to US\$115 million through provincial loans (242 kilometers) (see Annex IV). Overall, the Bank contributed to the improvement, rehabilitation, or paving of close to 1,865 kilometers of roads, including works currently under way. With PROSAP support for rural roads, 339 kilometers of roads were built or improved, reaching the target of improving rural accessibility, measured by the increase in estimated average daily traffic from 1,589 vehicles/day to 2,170. PROSAP also was able to improve irrigation infrastructure covering 73,038 hectares, though it fell short of the target of 300,922 hectares.³⁷

3.6 With regard to investments in the energy sector, after significant delays and price “redeterminations,” the Norte Grande electricity transmission program is at last in its final stage of execution, with favorable results. The program in the Norte Grande concentrated on overcoming the limitations of the Argentine transmission system and making the high-voltage interconnection of the Northeast and Northwest regions possible. The program included the construction of a 500-kV, 1,208-km transmission line, seven transformer stations, and close to 300 km of regional subtransmission lines with their respective transformer stations. The high-voltage line is already operational and, in addition to improving the supply of electricity in the Norte Grande and strengthening the Argentine Interconnection System, it will enable the exchange of electricity with Brazil under more favorable terms as well as a broader regional energy exchange. Additional works consisted of 19 works to expand and reinforce regional systems, 14 of which have been completed while the remainder are still being executed. An additional extension to November 2016 was requested to complete those works. Lastly, in rural electrification, projects to support the agriculture sector (PROSAP) resulted in providing access to electricity for production to 2,078 agricultural enterprises (less than half the target of 4,978).

2. Productive development: Innovation, services, credit, and subsidies

3.7 Investment in productive infrastructure was supplemented by support for innovation capacity, support for agricultural services, and credit and subsidies for producers and businesses. Support for the country’s science and

³⁶ Approval of all these operations required a waiver of the Public Utilities Policy in place at the time because of the significant regulatory distortions in the sector and their lack of alignment with the Bank’s policy.

³⁷ According to the completion report, this was because some of the planned works were financed from other sources, including PROSAP III.

technology innovation agenda included the third phase of the Technological Modernization Program, the Technological Innovation Program (CCLIP with four projects approved during the period), a program to finance science and technology scholarships, and support for the development of a satellite system and applications. The outcomes of the Bank's support for science and technology are presented in Box 3.1. Support for plant and animal health services, and quality and innovation in agriculture were provided through support for SENASA and INTA as well as through specific PROSAP components. The Bank's productive development program comprised a number of operations with direct subsidies (NRCs) to producers and MSMEs, including some of those described above (17 loans incorporated a component to finance NRCs, financing subsidies for a total of US\$523.9 million, Table II.3 in Annex II). Some of these operations combined subsidies with credit lines for financial institutions to provide loans to enterprises and producers in specific provinces (San Juan, Salta, and Mendoza).

Box 3.1: IDB Support for Science and Technology in Argentina: an innovative approach

The IDB's support for the science and technology sector in Argentina has served to strengthen the country's capacity as well as enhance the Bank's own experience in innovative areas. Since 1993, the Bank has backed the Science and Technology Secretariat through continuing lines to support the Technological Modernization Program (three loans, US\$500 million) and, more recently, the Technological Innovation Program (four CCLIP loans, US\$750 million). These global support were supplemented by specific loans to support a technological venture (SAOCOM satellite) and scholarships to train researchers (BECAR Program). Over the years, not only did the Bank finance investments in the sector, it also supported its institutional consolidation and development, becoming a strategic ally first of the department and, since 2007, of MINCyT. This support presented a challenge, however, given that a large proportion of the science and technology investments continue to be financed by loans with multilaterals. The sustainability of these achievements will therefore depend on the extent to which these investments can be incorporated into the government's budget.

MINCyT found an important ally in the Bank for monitoring and evaluation. With IDB support, the ministry established its independent unit to evaluate the impact of its policies. This partnership has made it possible to rigorously measure the achievements of the Bank's program in the sector, especially with regard to support for innovation in enterprises through NRCs. The impact evaluations show that the loans to enterprises effectively increase investment (there is no crowding out), make them more likely to invest in science and technology, improve their performance, and have spillover effects on other sector enterprises in terms of job creation and capacity to export. For its part, support for researchers has an impact on the quantity and quality of publications, with a more striking impact on young researchers.¹

OVE also verified the existence of other positive externalities from the Bank's action in the sector. For example, development of the SAOCOM satellite allowed the State-owned company that developed it (INVAP) to acquire technological expertise in radars. Thus, not only has INVAP been able to produce second-generation radars (that simply receive data from aircraft), but it has also developed first-generation radars that are being used in air traffic and border control in Argentina.

Source: OVE

¹ Britto, F. A., M. Pereira, and G. Baruj. 2014. *Evaluación de Programas Públicos: Principales Metodologías y experiencias de evaluación de programas de apoyo a la CTI en América Latina*. CIECTI, Argentina.

- 3.8 **The Bank's support in the area of agricultural services made it possible to substantially improve SENASA's infrastructure** (offices and labs) and to finance health campaigns to prevent pest infestations. PROSAP was able to improve services for the grape and wine-making sector, support for quality management, and differentiation in the agrifood industry (PROCAL), and support for the Integrated Agricultural Information System of the Ministry of Agriculture and Fisheries (Annex VI).

- 3.9 **Evidence on the effectiveness of subsidies is mixed.** While NRCs aimed at supporting innovation and technology development executed by MINCyT have had favorable results (Box 3.2), in most of the rest of the programs that have been completed or at an advanced stage of execution, there is little evidence of their effectiveness in increasing productivity or accelerating enterprise growth.³⁸ The deterioration of the business climate and the market distortions affected the returns of the majority of small producers and SMEs, reducing the effectiveness of NRCs. The distortions in public rates also had an impact on the effectiveness of some programs with NRCs, such as the Cleaner Production Program, which subsidized the procurement of technologies to save water and energy.
- 3.10 **Weaknesses in design and coordination and the absence of beneficiary registration and monitoring systems may have undermined the effectiveness of the subsidies and made it difficult to measure it.** The review of operations with NRC components in the portfolio revealed a lack of coordination and inadequate justification of the need for subsidies, the beneficiary selection criteria, the estimate of financing amounts, and the percentage of businesses' cofinancing (Annex VII). The absence of centralized beneficiary registration and monitoring systems, combined with the array of windows with similar target populations, constitutes a high risk of overlapping beneficiaries and prevents monitoring of the interventions' effectiveness. To mitigate the risk of overlapping beneficiaries, as part of MECON's Regional Economies Program, the Bank supported the implementation of a Subsidies and Incentives Registry in MECON that tries to supply data to facilitate the coordination of productive development interventions. Nevertheless, OVE did not find any evidence that such a registry had been implemented effectively.
- 3.11 **Productive development projects at the provincial level show how the Bank has been fine-tuning its intervention strategy, which, in some cases, focused only on providing lines of credit to businesses.** In the San Juan I and II projects, interventions were identified not only at the enterprise level but at the cluster level. An impact evaluation of the San Juan program was carried out with Bank financing, in which 152 beneficiary enterprises (out of a total of 175) were compared with 55 similar enterprises (near neighbor). The analysis, which is currently being supplemented by means of another survey of data, found that the program had a positive impact on investing and there was some indication of preliminary effects on sales.³⁹ This approach—combining support for clusters with specific credit lines—was adopted by the regional economies program.

³⁸ For example, the report "Review of the Bank's Support to Agriculture 2002-2014" (OVE, 2015) suggests low additionality from PROSAP's NRCs, having found that 52% of those surveyed for an evaluation done by UCAR would have made their investments even if they had not received PROSAP's NRCs.

³⁹ The original analysis is being supplemented by a final survey that included 670 enterprises, some 220 of which participated in the program. Almost half the enterprises received a single treatment, while a group of them received repeated treatments. The effects on sales are preliminary since the evaluation is still under way.

B. Social and productive inclusion of the population

- 3.12 The Bank's support for improving the social and productive inclusion of the population incorporated investments in education, health, social protection, and water and sanitation.** In education, while the Bank's programmatic series and the sector targets included components and efforts to support improving education quality and system retention, program implementation ended up concentrating on expanding education infrastructure. In health care, the Bank adopted a more systemic approach and addressed problems related to the differences in service quality at the provincial level, the administrative fragmentation of supply, and the system's adaptation to the country's epidemiological transition.
- 3.13 The Bank's contribution to the expansion of education supply helped improve coverage and narrow equity gaps in terms of access to early childhood and secondary education. However, it is still too soon to measure the effect of this expansion on learning.**⁴⁰ According to estimates presented by the authorities, the school attendance gap between the poorest and richest quintiles narrowed during the 2006-2014 period from 8.3 to 2.4 percentage points for five-year-olds and from 35.7 to 11.5 percentage points for four-year-olds. The percentage of 18- to 20-year-olds in the two poorest quintiles who were not attending school and did not graduate dropped from 26.9% to 17.95% between 2006 and 2014. The authorities also indicate that dropout rates decreased from 14.3% to 12.7%. These are preliminary estimates and there is a problem of attribution, since these indicators depend not only on public policies but on seasonal, regional, and national factors.
- 3.14 Although the Bank's program was able to contribute substantially to the expansion of education infrastructure, OVE found that there were problems in the selection of beneficiary localities.** Based on the results presented by the authorities, 970 schools were built that created more than 180,000 school slots in vulnerable areas, representing 21% of the total number necessary to cover compulsory education as established by law. According to the evidence, however, the selection of education infrastructure did not necessarily correspond to the areas with the greatest needs, particularly in early childhood education. There is little alignment between the number of schools and the gaps in coverage. In particular, the allocation of early childhood education projects indicates that centers were financed in provinces that already have coverage, so the scope of the projects is being reduced. In the case of early secondary education, there is better, though statistically insignificant, alignment (Figures V.8 and V.9 in Annex V).

⁴⁰ The outcomes of changes in learning achievement are being prepared. In 2010, the baseline (2010) was estimated on the basis of a cross-sectional analysis of data comparing schools with and without intervention. These data are being analyzed on a cross-sectional and longitudinal basis to understand the effects on students' level of knowledge. According to Galarza (2014), preliminary results of the qualitative evaluation show progress in program implementation, with increased use of educational resources and a noteworthy improvement in the line's own monitoring and evaluation mechanisms. Lastly, TERCE international tests showed improvements in primary school science and mathematics learning achievement.

- 3.15 **Health care projects were able to strengthen supply by focusing on health care networks with different levels of complexity and emphasizing CNCD prevention.** To date, the Bank's program has supported the registration in the public health system of 1.7 million individuals at risk of developing CDDs in 23 provinces (the target is to register 3.4 million at-risk individuals by program completion). The Bank's program also made progress towards its goals of supporting primary health care centers (7,000 primary health care centers serving 16 million users in the public health care system). The support included providing basic medicines and training staff. The results of a recent national survey illustrate the outcomes from the start of the program: an increase in access to the health care system, increased blood pressure monitoring, and more treatment for hypertension. The survey shows that the CAPSs in the Networks Plan provide better service, especially in the country's most vulnerable provinces.⁴¹
- 3.16 **The creation of the Universal Allocation per Child (AUH) as part of the national social protection system cut short the Bank's social protection program.** The AUH accelerated fulfillment of the Bank program's objectives of unifying and consolidating the social protection system but some of the system's weaknesses were not resolved during the evaluation period. The Bank's support for realigning the conditional transfer programs had been designed as a multiphase program. The program's phases were geared toward improving the effectiveness and integration of the social security, protection, and inclusion system, through the realignment and coordination of its institutional programmatic framework. With the creation of the AUH, the program's subsequent phases were rendered obsolete, since existing programs were de facto eliminated, giving way to a universal transfers program. The Bank continued to support pending sector reform tasks by financing studies for the institutional strengthening of social protection programs.
- 3.17 **In water supply and sanitation, the Bank's program in the Buenos Aires Conurbation was highly effective in helping to reduce wastewater collection and treatment deficits and unaccounted-for water levels.** Between 2008 and 2015, the Buenos Aires Conurbation's wastewater treatment capacity increased by 2.4 million m³/day, which makes it possible to treat wastewater generated by 5.5 million people, increasing treatment from 9% to 50%.⁴² By mid-2015, the Bank's program with AySA had installed 25,328 new sewerage connections equivalent to 286 kilometers of networks (PMRs, AR-L1080, AR-L1122). Another significant Bank contribution was the installation of meters and the rehabilitation of water supply systems to reduce losses.⁴³ As a result of these investments and a management plan, per capita water provision has been reduced from 622 liters/inhabitant/day in 2009 to 563 liters/inhabitant/day in 2014, a savings equivalent to 423,400 m³/day (AySA, 2015). At the strategy level, the water and

⁴¹ *Evaluar para seguir Adelante: Resultados del Programa Redes.*

⁴² The IDB's contribution to this investment was the financing of two effluent treatment plants with capacity to cover 600,000 people. In addition, the IDB financed sewage networks in the municipios of Tres de Febrero, Hurlingham, Ituzaingó, and Morón.

⁴³ From 2006 to 2014, 600 kilometers of water supply systems have been renovated, of which the IDB financed 159 kilometers. In addition, the company installed 10,062 household meters, of which the IDB financed 5,675.

sanitation targets of increasing the number of people connected to a water supply system were attained but not those referring to sanitation coverage.

- 3.18 **In the Norte Grande region, although progress was made in increasing water and sanitation coverage levels, in almost all cases the country strategy targets were not met.** With the exception of the percentage of water and sanitation connections the baselines for which are inconsistent with the values indicated in the 2010 census, all other indicators and goals proved very ambitious vis-à-vis the achievements. In particular, the country strategy's sanitation target was to increase the number of people covered from 3.34 million to 6.14 million, e.g. 72% coverage. According to available data, however, barely 58% of the Norte Grande population had access to a sewerage connection in 2014.⁴⁴
- 3.19 **The effectiveness of the Bank's action in water and sanitation in the Norte Grande region varied depending on the province and the type of intervention involved. In the provinces visited, OVE was able to verify that the outcomes were more effective when the works were part of a long-term expansion plan.** Although the Bank's investment in Chaco were important, their effectiveness was affected by the lack of planning and prioritization in the investments. In Tucumán, the investments were more effective since they were part of a plan to expand sewerage service. The significant investments were delayed, however, and the information available to measure outcomes is limited. Investments in water and sanitation in San Juan, as in Tucumán, were effective in supporting the city's sanitation service expansion plans but limited in terms of household and master metering.
- 3.20 **While the results achieved by the solid waste management program were significant, they fell short of the targets established for the operation.** The Bank's program of intervention in the solid waste sector was an integral part of the National Strategy for Comprehensive Urban Solid Waste Management, aimed at improving sector environmental indicators and reducing negative impacts on tourism activities and on the health of the population. At this point in time, 85.3% of the first operation (AR-L1025) has been disbursed and implementation of the second operation is starting. Overall, nine sanitary landfills have been or are about to be completed out of the 54 planned and 19 open-air dumps have been closed out of the target of 34. In addition, four transfer plants and seven separation plants have been built.

C. Urban sustainability and habitat improvement

- 3.21 The Bank's program to support the objective of **urban sustainability and habitat improvement** focused on supporting neighborhood improvement investments through the Neighborhood Improvement Program (PROMEBA), supplemented by support through the sustainable cities program and support for fiscal, environmental, and urban sustainability (Box 3.2).

⁴⁴ The 2014 data came from the 2014 urban household survey, which was limited to communities with more than 2,000 residents. It is possible that the percentage is lower if the rural population is included.

3.22 **The urban infrastructure intervention strategy has been effective in that it progressively improved the living conditions of the population in shantytowns and informal neighborhoods.** After significant delays in the execution of the first PROMEBA, approved in 1996, the subsequent phases incorporate a more active role for provincial and municipal institutions, which prepare comprehensive medium-term plans for neighborhoods, financed by the program in various stages.⁴⁵ The continuity of the financing and of the technical team, the possibility of financing multiple projects in one same neighborhood, and the formulation of comprehensive plans contributed to the program's effectiveness. The main outcomes include residential water and sewerage connections and gas or electricity in more than 20,000 dwellings, regularization of urban layouts in more than 30 neighborhoods, and improvements in community amenities, streets, and human and social capital strengthening initiatives. Under the program, 38 localities have each received over US\$10 million to sustainably and comprehensively address problems in the main settlements and shantytowns in cities outside the capital and in the Buenos Aires Conurbation. The direct involvement of municipal governments makes it possible for the program to link with other local initiatives and the delivery of municipal services. Moreover, being inside the housing and habitat department has allowed it to coordinate with other national housing programs.

Box 3.2: Planning and Urban Development Actions

The IDB's urban development work strategy combines infrastructure financing with medium- and long-term planning efforts and the strengthening of planning and coordination units. The planning processes are necessary to ensure that the urban interventions are effective but the time they take do not always align with the periods envisaged in the loans or with the expeditious disbursements possible under multiple-works operations. Despite the complexity of interagency coordination and the time required for planning, two IDB programs have had good outcomes by combining these processes with infrastructure financing.

The Development Program for Metropolitan Areas Outside the Capital (AR-L1101) works in the metropolitan areas of Salta, Tucumán, Mendoza, Neuquén, Chubut, and Rosario. These cities are characterized by their contiguous municipios and lack of metropolitan planning processes and institutions. The program combines studies and the formulation of a metropolitan strategic plan, strengthening of metropolitan institutions, and financing of infrastructure works. Although the planning process has taken more time than initially envisaged, the exercise enables the municipalities and provincial authorities to identify sectors with potential for creating metropolitan institutions and opportunities for collaboration. In the city of Mendoza, the municipios and province identified security system strengthening with video surveillance cameras as a priority. The six municipios and the province signed a participation agreement that is allowing them not only to buy cameras but to formalize interagency coordination through a metropolitan security council, create security-related information systems, and strengthen the metropolitan area's emergency response system. In Tucumán, the program is linked to other urban interventions such as PROMEBA for environmental sanitation and the construction of recreational areas along the Salí River. It also strengthens the institutional framework of the metropolitan solid waste consortium.

The Emerging and Sustainable Cities Initiative has been well received in Argentina and currently Mar del Plata, Salta, Paraná, Bariloche, and Jujuy are participating, among others. The initiative includes a planning process in which different municipal units and Bank sector specialists participate. It culminates in an action plan that prioritizes the investments. The next step is for the IDB to support the cities by financing preinvestment studies and demonstration actions and identifying sources of financing in existing IDB operations as well as other national programs. The program has been able to coordinate with the Multisector Preinvestment Program (AR-L1149) to finance studies and with the following programs to finance action plan investments: solid waste (AR-L1151), sanitation (AR-L1084), education (AR-L1152), and urban

⁴⁵ PROMEBA II, III, and IV have supported interventions in 176 localities (in 22 provinces) with an average amount of US\$6.5 million per locality. Of these, 38 have received over US\$10 million, through an average of eight projects per locality.

development (AR-L1101 and AR-L1148). In Mar del Plata, IDB collaboration and the municipality's initiative have resulted in the mobilization of US\$50 million from national resources with IDB financing, as well as funding from CAF (US\$2.5 million) and own investment (US\$9.2 million) to finance actions contained in the city's action plan.

Source: OVE

D. Sustainability

- 3.23 **The Bank's program presents sustainability risks in a significant number of its areas of intervention.** The identified risks include financial difficulties and weaknesses in the regulatory framework of the basic infrastructure service operators, institutional and budgetary weaknesses of the provincial governments, and the significant deterioration of the business climate. The Bank program's lack of success in implementing the institutional support components, the financing of current expenditure in some sectors, and the lack of participation in the policy dialogue prevented the mitigation of these risks and compromise the sustainability of the investments.
- 3.24 **Most of the investments in basic infrastructure were financed and executed from the central level and transferred for operation and maintenance to the pertinent operators, which in many cases lacked sufficient capacity.** IDB investments represent a significant injection of capital for most of the agencies, and put pressure on their operational capacity. The structural problems of provincial agencies and enterprises providing services include weaknesses in terms of human capital, regulations, business management, planning, and operation.⁴⁶ For example, in Chaco, even though significant amounts were invested in water production, there are no measurement mechanisms or sufficient trained staff to operate the company's infrastructure. Tucumán is in a similar situation since a system of operational indicators that would make it possible to detect failures and improve infrastructure management has not been developed. Water and sanitation operators are experiencing financial difficulties. AySA (Buenos Aires Conurbation), SAMEEP (Chaco), and SAT (Tucumán) are running operating deficits in excess of 65% and depend on provincial and federal subsidies. Energy operators are in a similar situation. In the case of transportation, the provincial road divisions receive funds from the provincial treasury and from revenue sharing that has diminished in recent years as a result of changes in the distribution structure.
- 3.25 **The Bank's support envisaged addressing the institutional weaknesses of the infrastructure operators, but this did not materialize.** The basic infrastructure projects required a diagnostic assessment and formulation of an institutional strengthening plan. Barely any of the resources for these activities were executed and most of the balance was reallocated to works components. Of the US\$162 million approved for institutional strengthening, only 9.3% was executed and almost 80% was reallocated to other components (Table IV.7,

⁴⁶ With financing from the World Bank and on a very limited basis, the Norte Grande Water Program has begun to undertake a few activities to reorganize the businesses, improve operating processes, and implement dashboards with basic indicators that allow for better planning and operational management in the companies. However, some activities are significantly delayed with respect to infrastructure investments.

- Annex VI). The initial phases of the Norte Grande road and water program stand out in that, despite the studies and the fact that US\$20 million and US\$22 million had been earmarked for strengthening, no type of strengthening activity was executed. The same thing happened with the Road Program to Support Production Development, which has yet to execute strengthening resources, even though plans were prepared for three provinces.
- 3.26 **The budgetary burden required for the provinces to absorb school infrastructure maintenance costs also represents a significant challenge to sustainability, aggravated by the mismatch between provincial revenue and expenditure.** The provisions made for education infrastructure maintenance turned out to fall well short of actual needs. In interviews with OVE, various provincial officials highlighted the reactive approach to school infrastructure maintenance emergencies. In other words, there are no resources earmarked for preventive maintenance and repairs of school infrastructure, which results in higher-cost repairs. Another ongoing challenge is the availability of staff. School infrastructure from the earlier stages of the program is already experiencing maintenance problems. During OVE's field visits and interviews with various national and provincial government actors, it has been mentioned that the significant increase in education supply in recent years represents an enormous challenge for the subsequent years, since additional resources will be required for maintenance.
- 3.27 **In the health sector, the results obtained so far have been achieved as external loan resources have been available, but at some point this expenditure will have to be absorbed by the respective public agencies.** In preventive health care, the model being implemented will only be viable as long as the cost of the preventive medicine incentives is absorbed by the provincial governments with support from the national government. Fragmentation in the sector also needs to be addressed. The system has a great diversity of programs that increase the costs of sector coordination and prevent it. For example, there are separate programs for school health, cervical-uterine cancer, smoking prevention, tuberculosis, etc. Each of them have growing costs and should be coordinated to avoid duplication and generate economies of scale. The design of the World Bank-financed *Plan Sumar* quality health coverage program for the uninsured is based on pay for performance. This will require the *Redes Plan* and *Plan Sumar* at some point to agree on criteria and ways to operate to avoid distortions in the granting of incentives.
- 3.28 **The deterioration of the business climate, exacerbated by the slowdown in growth, has affected the sustainability of investments financed with subsidies.** The Bank's intervention to support the business and investment plans of enterprises through subsidies only addressed their short-term liquidity problems but did not resolve the medium-term problems of access to credit, which is limited because of severe supply constraints. This undermined the continuity of Bank-financed business plans in a context of severe deterioration of the business climate. For example, the closing report for the grape and wine small producers' integration project mentions as a threat to the sustainability of its outcomes the lack of access to financing that the producers would be facing as they exit the program. The situation is similar for the PROSAP-assisted business plans (Annex VII). The beneficiaries of the science and technology program subsidies

interviewed by OVE highlighted inflation, exchange rate variation, and restrictions on imports as challenges to their sustainability.

- 3.29 **Lastly, in the case of the public goods and services offered by SENASA, the sustainability challenge lies in striking a financial balance to cover the costs with income from fees for services delivered to the private sector and budget lines to support the tasks of inspection and delivery of public goods.** SENASA's central laboratory runs the risk of being underused unless its services are promoted abroad so as to get clients that contribute to cover its maintenance costs. In addition, starting in 2015, SENASA resumed certain inspection functions that had been executed by the private sector (internal phytosanitary barriers). Moreover, the push for SENASA's operational decentralization through support for regional and local infrastructure means that SENASA's decentralized offices will be requiring additional resources to maintain their infrastructure (see Annex VI).

IV. CONCLUSIONS AND RECOMMENDATIONS

- 4.1 **The Bank's support in Argentina was provided in a context of the country's transition to more moderate economic growth rates, expanding imbalances in the economy, challenges in the provision of infrastructure, deficiencies in the quality and effectiveness of social expenditure, institutional challenges, and a deteriorating business climate.** The actions envisaged in the Bank's program—focused primarily on investment in basic infrastructure (transportation, energy, water and sanitation, neighborhood improvement), support for the expansion of school infrastructure, health care, science and technology, and the agriculture sector, and subsidies to producers and businesses—were bounded and partially relevant given the limited opportunity that the government provided for policy dialogue and for support in key areas to address development challenges.
- 4.2 **The financing of the Bank's program was concentrated on operations under programmatic investment lines** (CCLIPs, operations under the Norte Grande Program, and multiphase operations) in the most important sectors. The program was consistent with the country strategy and reflected the Bank's long-term positioning in the country. The use of specialized execution units in the largest national programs, combined with a programmatic approach, made for efficient execution of most of the program. The review of executed works revealed that the selection of works was not always based on technical/economic criteria that would ensure their priority. Although an institutional diagnostic assessment and the formulation of a strengthening plan were conditions for project selection, resources for these activities were barely executed and were reallocated to other components.
- 4.3 **With the aim of alleviating constraints on growth and supporting the social and productive inclusion of the population, the Bank's program focused its support on financing investments in the country's basic infrastructure (transportation, energy, and water and sanitation) but virtually no progress was made in improving the institutional, regulatory, and managerial areas necessary to ensure the maximum effectiveness and sustainability of the investments.** In transportation, Bank interventions involved 10% of total paved provincial roads and 4% of the Norte Grande's paved national network. The action

in the Buenos Aires Conurbation was highly effective in helping to reduce wastewater collection and treatment deficits and unaccounted-for water levels. However, although IDB operations used framework and transfer agreements to commit the provinces and operators to maintaining the investments, operators in the sectors and in the provinces, especially in water and sanitation, suffer from a lack of operational and financial capacity.

- 4.4 **Investments in infrastructure to alleviate obstacles to growth were supplemented by actions that achieved significant results in promoting the country's capacity to foster innovation in science and technology and in improving plant and animal health agricultural services.** These interventions also included support for producers and enterprises in the form of subsidies to finance business and investment plans, but the evidence of their effectiveness is mixed. With the exception of MINCyT, there are problems with NRCs in most sectors, in terms of their rationale, the selection of their beneficiaries and the activities to be financed, their amounts, and the counterpart requirements for beneficiary enterprises.
- 4.5 **Actions in the social sectors to support the social and productive inclusion of the population had satisfactory results in health and partial results in education, but were truncated in the social protection sector as a result of reforms that the government implemented.** The Bank's program was instrumental in supporting the country's expansion of education infrastructure but was less effective in addressing the problem of quality, which did not improve during the evaluation period. The increase in education supply in recent years represents an enormous challenge for the provincial governments, since additional resources will be required for maintenance. In health care, the Bank became a relevant actor for strengthening care through a network approach and pay-for-performance with emphasis on treating CNCs. The Bank's program in social protection was truncated by the creation of the Universal Allocation per Child, resulting in partial achievement of the Bank program's reform targets. Maintenance of school infrastructure presents a sustainability problem for the education sector, while dependence on external financing and the multiplicity of programs affect sustainability in the health sector.
- 4.6 **Lastly, the neighborhood improvement intervention to support urban sustainability and habitat improvement was effective in that it progressively improved the living conditions of the population in shantytowns and informal neighborhoods.** The intervention in the sector also combines investment in infrastructure with support for planning and coordination efforts in metropolitan areas through the Development Program for Metropolitan Areas Outside the Capital and the Emerging and Sustainable Cities Initiative.
- 4.7 **The territorial programmatic approach in Argentina was instrumental in increasing efficiency and positioning the Bank during the evaluation period. In order to build on the basis of these achievements and make the Bank's program in the country more effective, OVE recommends that Management:**
1. **Prioritize efforts to support the policy dialogue on key issues in order to attain the country's development objectives.** The policy dialogue supported by a knowledge agenda that addresses the complex challenges facing

Argentina could trigger consensus in the country in the main areas of reform. The Bank's effort to promote policy dialogue should focus on the most urgent challenges to achieve development objectives, prioritizing areas in which the Bank has comparative advantages in knowledge generation and the identification of best practices. Potential areas of reform include improving the regulatory framework to promote private investment in infrastructure, strengthening the capacity of provincial governments, improving the business climate, making expenditure more efficient, and improving the quality of basic social services.

- 2. Support the government in addressing institutional deficiencies that undermine the effectiveness and sustainability of Bank programs aimed at providing infrastructure.** Regulatory and planning deficiencies, weaknesses in investment prioritizing, and lack of strategic planning at the sector and provincial level have reduced the development impact of investment expenditure on infrastructure. The regulatory framework and the deficiencies of infrastructure operators also generate sustainability risks. The programs, particularly those that involve transfers of infrastructure to provincial and local governments, should incorporate clear and effective works maintenance agreements that include incentives, penalties, and monitoring and accountability mechanisms.
- 3. Address the problems of quality and equity in Bank programs that support the delivery of basic social services.** The programmatic approach in the health and education sectors has positioned the Bank as an important actor in both sectors. However, the focus has been on supporting the expansion of infrastructure and supply, with less emphasis placed on improving quality, particularly in education. In the health sector, the Bank may continue to support improvements in quality by deepening the preventive approach and care through networks. Strengthening the components of quality and equity in operations involving the delivery of basic social services necessarily entails incorporating provincial governments as full actors in project design and implementation and developing federal incentives and management-for-results mechanisms at the federal level for provincial governments.
- 4. Clearly document market failures that justify subsidy components (NRCs) in projects and ensure coordinated, effective, and sustainable implementation.** Projects that include NRCs should effectively substantiate the need for them and address specific local market failures. This process of diagnostic assessment and evaluation should also technically justify the amounts and types of cofinancing to be provided as well as the beneficiary selection methodology. NRCs should be part of an intervention strategy that incorporates different windows to support the productive sector.
- 5. Exploit synergies between SG and NSG windows to support the provision of basic infrastructure and energy.** Closing the country's infrastructure gaps and increasing urgently needed generation capacity constitute an important opportunity for the IIC. OVE recommends exploring ways to coordinate actions of the NSG and SG windows to simultaneously support the government and the private sector in addressing regulatory and institutional weaknesses as well as the lack of access to financing, all of which have reduced the role of the private sector in the delivery of basic infrastructure and the generation of clean energy.