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COUNTRY PROGRAM EVALUATION OF ARGENTINA: 2003-2008

Office of Evaluation and Oversight, OVE

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ABBREVIATIONS

CAPS	Primary Care Health Centers
CCLIP	Conditional Credit Lines for Investment Projects
CPE	Country Program Evaluation
CS	Country Strategy
GDP	Gross Domestic Product
GOAR	Government of Argentina
IDB	Inter-American Development Bank
IMAs	Independent Macro Assessment
IMF	International Monetary Fund
JJHD	*Jefes y Jefas del Hogar*
MTR	Mid-Term Review
NSG	Non-Sovereign Guarantee
OVE	Office of Evaluation and Oversight
PBL	Policy-Based Loan
PCR	Project Completion Report
PDL	Performance Driven Loan
PMT	*Programa de Modernización Tecnológica*
PNBE	Program that Provides Secondary Students' Families with Financial Support
PPMR	Project Performance Monitoring Report
PRE	*Programa de Apoyo a la Re-estructuración Empresarial*
PROMEBA	Neighborhood Improvement Program
PROSAP	*Programa de Servicio Agrícola*
PROSAT	Development of a Satellite for Soil Conditions
RE	*Re-estructuración Empresarial*
RES	Research Department
SAOCOM	*Satélite Argentino de Observación Con Microondas*
SME	Small and Medium Enteprises
TC	Technical Cooperation
WBI	World Bank Institute

EXECUTIVE SUMMARY

At the beginning of this decade, Argentina—the Inter-American Development Bank's second most important client—suffered a near-complete financial collapse. A macro-fiscal crisis in 2001, followed by defaults on debt obligations in 2002, thrust the country into record levels of poverty and unemployment, and led to a period of political uncertainty.

Following the collapse Argentina made a remarkable recovery. The country engineered a significant turnaround in terms of growth, exports, employment and poverty. Country output fully recovered, and even expanded. Employment recovered, as did income per capita. Inequality fell, and social indicators made progress. Argentina also abandoned many of the policies pursued in the 1990s in favor of a model predicated on competitive exchange rates, budget surpluses, and a model in which the state figures more prominently in investment and in the real sector. In some cases, such as the case of water, the model of services based on concessions was rolled back. At the same time, the state's role in financing and planning investment—in particular, in infrastructure—increased.

Although the country's economic performance in recent years has been commendable, Argentina faces serious challenges in the future. In the short run, the country must finance an increasing number of budget items while at the same time maintaining a fiscal surplus. This goal is made more difficult by the worsening global macroeconomic environment, by the recent fall in commodity prices compared to their 2008 highs, and by the requirements of rolling over debt in the coming years. In the medium term, the country will need to plan and prioritize its investment in a sustainable manner. Argentina will also need to revisit its social protection instruments, so as to maximize coverage of those most in need.

In 2004, the Office of Oversight and Evaluation (OVE) produced a Country Program Evaluation (CPE) of Argentina, which examined the years leading up to the Argentinean financial crisis of 2001, and focused on the Bank's response to that crisis. This CPE focuses on the Bank's ability to adjust its programming—and in general its support to Argentina—from a context in which the demand was primarily for fast financing and crisis mitigation to a context of growth. The CPE assesses four areas customarily reviewed in these evaluations: diagnostic and context, programming, delivery, and results. The last three areas correspond to questions of the relevance, efficiency, and effectiveness of the Bank's role in the country.

This CPE identifies positive findings regarding the Bank's involvement during the period under examination, such as accurate assessments of key challenges, well-targeted support of some social programs, and important instances value added. However, OVE's review raises concerns in many areas, including insufficient follow-up on its involvement in many programs, uneven and negative net flows to the country, and over-reliance or inappropriate use of certain loan modalities. These successes and concerns are outlined briefly in this summary, and in more detail in the report that follows. OVE also offers

several recommendations that may guide the Bank in its strategy for its relationship with Argentina in the years to come.

IDB PROGRAMMING 2004-2008
A MIXED PICTURE ON ASSESSMENTS AND EXECUTION

In reviewing the Bank's programming in Argentina over the four years following the last CPE, the current CPE finds that the Bank has done a good job in identifying the key challenges and issues for Argentina in its transition from crisis to growth, but has been less successful in its approach to addressing these problems.

In general, the Bank's Country Strategy with Argentina, set in 2004, accurately identified the central issues related to the structuring of the new development model. These ranged from changes in the regulatory and oversight structure in national investment systems, to changes in the system of social protection, to changes in the pension system. This diagnostic was also present in a 2006 midterm review of its program, with similar findings.

However the 2004 strategy did not identify a program to address these issues. Rather, it identified a preliminary lending pipeline for the following year as well as those projects already approved in 2004. In part, this was—according to the strategy (and consistent with the CPE's findings)—due to the fact that the Government of Argentina was still in the process of developing its own recovery and growth strategy. The Bank's approach was to diagnose challenges, identify general areas of activity, focus on the existing portfolio, and propose to develop a more detailed lending program in the following years.

OVE's evaluation finds that the Bank successfully engaged the country in some of the central development issues identified in its strategy. This is broadly the case with restructured social loans, as the Bank has remained involved in the process of reforming social protections, including attempts to integrate social protection programs managed by different line ministries. Likewise, in health care, the Bank addressed limitations of the prior program by extending coverage to chronic diseases. Nevertheless, the evaluation also finds that despite this engagement and steps taken toward integration of the social protection system, the execution of the transition from an crisis-based approach to a more regular social program agenda is still pending, particularly related to coverage and integration.

In other sectors, such as competitiveness, the evaluation finds that the Bank strategy did not assess and prioritize—or help the country assess and prioritize—activities and programs associated with this sector. As is pointed out in the strategy, in principle almost any type of activity—investments in infrastructure, human capital, governance, innovation, credit, labor markets, and essentially anything else—can be logically connected to better economic performance and, in a narrower lens, improved exports. Thus, the challenge the Bank faced was to work with the country to identify, from an exhaustive list of possible programs and activities, which can have proximate impacts on competitiveness, and how large these impacts can be. However, no systematic process of identifying the most effective options was done in any of the programming activities reviewed. Therefore, the basis used by the Bank to help the country with this (admittedly difficult) exercise was never made clear. Thus, despite the positive results sectors such as science and technology (see below), the basis on which the portfolio was settled upon is not clear, nor is the relationship of this portfolio to broader competitiveness challenges evident.

In the case of infrastructure (water and energy), this evaluation finds that the Bank had a role in financing, but that it did not participate in dialogue regarding many of the sector's central development issues. The evaluation found that the Bank responded to the country's requests regarding infrastructure finance, including the request for a large infrastructure in the poorer Northern provinces, as well as requests to finance expansion and deferred maintenance of water. However, the evaluation also found that the Bank did not participate in some of the central development issues related to sustainability, even as these were diagnosed in Bank's strategy. The evaluation also found evidence that there was no consensus between the country and the Bank regarding these issues, and that in any case the country did not demand the Bank's assistance in defining policy priorities, both reasons also advanced by the Bank for its absence on issues regarding sustainability.

In other sectors, the Bank maintained a presence, but with interventions of limited relevance. For example, in the case of support of public investment and planning activities, the Bank supported activities in entities that were no longer central to the planning function within the new model of public administration. In other cases, such as the support of the Senate, the evaluation found that the activities financed seemed minor relative to the institutional diagnostic put forth by the Bank in its strategy.

Lastly, in the case of sub-national lending, the evaluation finds that the Bank relied on mechanisms such as the Norte Grande program to reach poorer provinces, while preparing individual loans to other provinces. Nevertheless, this approach was not identified in the Bank's strategy, but rather emerged as an ad hoc approach. Regarding issues identified as priorities in the Bank's strategy, such as the need to review mechanisms for distribution of federal resources and sub-national financing, as well as the need to review provincial pension systems, these lost relevance as provinces' fiscal stances improved. The Bank did not have significant presence in these areas.

THE BANK'S ARGENTINA PORTFOLIO EXECUTION AND DELIVERY

This CPE finds that the Bank met and exceeded its financial programming in Argentina. Although the 2004 strategy identified a very conservative financial program with the country, which would have led to a modest reduction in the Bank's exposure with the country, the Bank updated its programming upwards in 2006 and in 2007, leading to an increase in loan approvals from US 5 to 6 billion, corresponding to the 2004 strategy. This amount was later increased to $7.3 billion, but the last increase corresponded to the new strategy under preparation.

The evaluation did find that the Bank's execution profile has improved markedly over time. From 2001, in which the portfolio was paralyzed, to 2008, indices of disbursement and other measures of execution have improved over time in almost all metrics tracked. The notable exception to this finding is in the timeliness of audited statements, and the proportion of these that receive a qualified finding. In both of these aspects, the portfolio remains deficient, with metrics substantially inferior to Bank averages.

The evaluation finds problems in the Bank's oversight and results instruments. In some instances, the Bank's continuous monitoring instrument (PPMR) shows execution and results assessments that are not adequately backed by data. Likewise, a review of the Bank's project results reporting instrument (PCR) shows that projects continue to focus on implementation issues and not on results. In other cases, such as in the Bank's support for country systems in monitoring and evaluation, the evidence shows that the support of these systems has not produced systematic data on the results of the Bank's program—in particular, in the results of social sector loans. Despite the Bank's analytical inputs, which have been useful, evidence of program effectiveness is still lacking.

The evaluation found problems regarding the Bank's use of instruments in Argentina. First, the Bank's use of conditionalities in PBLs contained little in terms of policy reform content. Additionally, the Bank has not been sufficiently selective in the use of Conditional Credit Lines for Investment Projects (CCLIPs). CCLIPs were lines of credit created for the Bank to be able to finance a series of programs in contexts with strong institutionality. In some cases this seems to be the case (e.g. upgrading neighborhoods, building schools); but in other cases this does not seem to be the case, such as the case of preinvestment and water**.**

The use of operations without sovereign guarantee (NSG) also merits mention. The evaluation finds that throughout the period under review, the Bank responded to increased investment financing demand by the public sector, and by a reduced role of private sector in investment financing. This led to a reduction in the NSG presence in Argentina. Given the poor NSG results associated with the program of the 1990s and the increase in investment finance demand by the public sector, during the period under review, the Bank's approach was to concentrate on public-sector investment financing.

ARGENTINA'S SOCIAL AND COMPETITIVENESS PROGRAMS
PROMISING RESULTS, INCOMPLETE EVALUATIONS

The Bank's portfolio with Argentina is a result of three underlying factors (i) a paralysis of execution following the 2002 crisis, (ii) a restructuring of many programs following the crisis, (iii) a three year hiatus in investment loan approval following the crisis (2002-2004), followed by a relatively recent resumption in approvals. This has produced a current portfolio with only a few investment projects having completed their execution in the last eight years. Nevertheless, it is possible to make some observations about project results, mainly in the areas of social protection and competitiveness.

In social programs, the evaluation finds positive results. For example, an IDB evaluation found that the scholarship program *Becas* provided the necessary incentives for children to remain in school. Evidence on performance is not as clear, particularly since available studies have not used standardized test scores as a basis for assessment. However, overall, education has been a sector that has performed well, and in which the Bank and country have been in agreement. Following years of very poor execution performance, the neighborhood improvement program PROMEBA finally did execute satisfactorily, and there is some good evidence on its targeting. For example, complementary evaluations of neighborhood improvement in Argentina found evidence of increased access to sanitation among beneficiaries. Evaluations of the health program *Remediar* found that it contributed to reducing out of pocket medical expenditures, and by doing so contributed to poverty alleviation during the crisis. There is mixed evidence regarding the program's effectiveness at reducing demands for health services at hospitals. In the case of the cash transfer program supported by the Bank, *IDH-Familias,* there were no impact evaluations done, so we do not know the program's impact on human capital development, poverty, employment or earnings. What is known regarding the effectiveness of social protection is based mostly on findings from another program for the poor, *JJHD*, which shows evidence of having positively impacted poverty levels.

In competitiveness, results are limited to programs in science and technology, agriculture, and small and medium enterprise finance, as programs in infrastructure are too young to be evaluated. In these sectors, the findings show that consistency and deliberation, along with country buy-in and strong institutionality, have yielded results, whereas ad hoc approaches have not. An example of a successful approach is the *Programa de Modernización Tecnológica* (PMT), in which the Bank supported the same model of intervention over time, invested in assessments, and maintained an active engagement with its counterpart. Assessments show that this program produces impacts, both in terms of beneficiaries and in terms of the institutional environment. On the other hand, in cases such as technical support for micro enterprises, the Bank's model was not clear. It used different loans at different times, with no unifying intervention model, which lurched from a pure private sector approach, to a pure public sector approach, to a hybrid approach. Likewise, the loans were alternately housed in different line ministries, with no country buy-in. In sum, these contrasting experiences provide anecdotal evidence that the manner and extent of the Bank's engagement, as well as its clarity of purpose and ability to find committed in-country partners, are determining elements of intervention success.

IDB VALUE ADDED

The evaluation finds that the Bank had an important value added in terms of its financial relationship with Argentina, its second most important client [after Brazil] in terms of portfolio, disbursements and exposure. Despite negative net flows, the Bank, too, continues to be important to Argentina, both in terms of the magnitude of its aid vis-à-vis public investment and financing metrics, and in terms of a vehicle to help the country meet short-term financing requirements. This relationship is particularly relevant in an environment in which (i) the country has not yet re-established a favorable borrower status internationally, (ii) the available pool of multilateral support has been reduced due to lack of IMF financing and to the reduction in the World Bank's portfolio, (iii) a global liquidity and risk crisis has reduced financing alternatives further, and (iv) the country's future financing requirements will increase in 2009 due to a slowing of revenue growth.

The evaluation found that the Bank identified central development issues in its strategy with Argentina, yet it many of these cases the Bank did not have a relevant role. The Bank's activities and financing were directed at financing deferred maintenance and expansion of infrastructure; it was not a relevant actor in assisting the country with issues related to infrastructure finance, planning and sustainability.

In some sectors the evaluation found that the Bank maintained a continuous engagement on central development issues. The Bank's engagement in social protection, for example, attests to this effort. The evaluation also shows that the Bank's ability to effect change in these sectors has been through investment lending, rather than through policy-based lending. Future lending should take this comparative advantage into consideration in determining how the Bank can best help Argentina maximize program effectiveness.

The review shows that recently the Bank has increased financing of infrastructure, and has boosted its program in Competitiveness. However, the Bank has not articulated a clear and consistent strategy of what objectives can be achieved and how. Furthermore, the evaluation found a lack of assessment regarding the impacts of the competitiveness portfolio, as well as significant differences in project efficiency (implementation) across different programs.

OVE'S RECOMMENDATIONS
FOCUSING ON RESULTS FOR A STRONGER RELATIONSHIP

The Bank has had a clear financial value added in Argentina. It has been an important source of funding for the country, and has maintained this role over time. One the other hand, in many instances the Bank has not had a clear value added in addressing central development issues. These recommendations are directed at strengthening that part of the Bank's relationship with Argentina.

1. To address issues associated with the institution's relevance in Argentina, the Bank should agree with the country and then implement the technical investments that will allow it to maintain a policy-relevant engagement in complex development issues. It should deploy these resources during both programming and execution, in order to maximize its contribution to development. It should favor high-level dialogue as a mechanism to engage in controversial development issues.

2. Given the persistence of the Bank's engagement in social protection, the Bank has an opening to continue to assist the country in its transition toward an integrated social protection system. The Bank should engage the country to complement this opening with activities to help the country improve the coverage

and effectiveness of Argentina's set of social protection programs. This necessarily includes renewed investments in assessment of coverage and program evaluation.

3. The Bank should work with the country to define a clear and evaluable competitive strategy. It should clearly explain how the existing portfolio, and new operations proposed, work toward agreed objectives. The Bank should also expand its knowledge base on program effectiveness and use this assessment exercise as a mechanism to prioritize and order its competitiveness portfolio.

4. The Bank should work with the country to prioritize evidence of effectiveness when establishing long-term funding commitments. In order to do this the Bank should develop a specific and deliberate strategy linking future lending commitments to demonstrated program effectiveness and institutional capabilities.

I. POST-CRISIS CONTEXT

A. Argentina's post crisis recovery

1.1 The collapse of the Argentine economy following the macro-fiscal crisis of 2001 and the default on debt obligations in 2002 was unprecedented in its magnitude and repercussions. The contraction produced unemployment rates of a quarter of the working population and poverty levels unseen in recent history. It also had dramatic consequences in politics and civil society, throwing the country into a two year period of uncertainty, characterized by a loss in confidence in public institutions[i]. This decline was followed by a remarkable recovery.

1.2 By all accounts the Argentina recovery was more extensive and widespread than economists had expected[ii]. Some economists expected the post-crisis to lead to hyperinflation and a continuation of recession for some time. That did not happen. The immediate inflationary pass-through of the devaluation was rather muted compared to expectations (20% inflation), and data show that the economic recovery began shortly after the exchange rate was floated. Economic analysts also expected the country's recovery to be slow, as was evidenced by the IMF's consistent underestimates of economic growth during the period. Here too expectations did not materialize. The double digit contraction of 2001-2002 was followed by an almost immediate onset of recovery, culminating in six consecutive years of growth.

1.3 Table 1.1 shows the evolution of key indicators during the period. In per capita terms the growth rates were on the order of 8 percent per annum. The growth in output was, as would be expected, accompanied by a posting of primary financial surpluses of the order of 3.5 percent per annum, as economic activity expanded. Investment also recovered, and reached levels of 23 percent of GDP. The economic recovery was accompanied by a marked improvement in labor, earnings, and poverty reduction. As can be seen below, unemployment rates fell continuously from a high of 26 percent in 2002 to eight percent in 2008. Poverty fell by 25 percentage points in five years. Furthermore, the expansion was pro-poor and progressive, in the sense that it was of a larger magnitude in the poorer deciles than in the richer deciles. This is reflected in the reduction in the Gini coefficient from 2002 to 2006, which falls from 0.59 to 0.51 – a reduction in eight percentage points. In general terms, the economy reached its pre-crisis levels quite rapidly.

1.4 The 2001-2002 economic debacle led to a strong political crisis that hit the federal system and the political parties.[iii] The expansion, though, saw some recovery in the population's confidence in basic institutions of the state. This is seen in the indicators of confidence, as measured by *Latinobarometro*. For example, in 2002 only 8 percent of respondents reported satisfaction with democratic institutions; by 2008 this number had risen to 35 percent. Similar improvements are seen in the Worldwide Governance Indicators, published by the World Bank Institute (WBI), which see rebounds in all six dimensions.

1.5 Despite the recovery seen in standard Governance Indicators, in most cases they have not recovered to pre-crisis levels, and in some cases they remain relatively distant from pre-crisis levels. This is the case of the indicators tracked in the Global Integrity Report, which in fact saw deterioration in recent years regarding indices for the three branches of the State, Executive, Congress and Justice. Also, WBI indicators related to regulatory quality and rule of law have also seen little improvement in recent years.

Table 1.1: Selected Indicators, 2002-2008

Variable	2002	2003	2004	2005	2006	2007	2008
Crecimiento del PBI real per-cápita (%)	-11.7	7.8	8	8.1	7.4	7.6	5.9
Tasa de inversión bruta fija (real, % del PBI)	11.3	14.3	17.7	19.8	21.6	22.6	23
Tasa de ahorro nacional bruto (nominal, % del PBI)	19.2	19.6	20.6	23.7	26.4	26.6	26.7 (1)
Balance Fiscal Financiero SPNNF (% del PBI, base caja)	-1.5	0.5	2.6	1.8	1.8	1.1	1.4
Balance Fiscal Primario SPNNF (% del PBI, base caja)	0.7	2.3	3.9	3.7	3.5	3.2	3.1
Balance Comercial de Balanza de Pagos (millones de US$)	17,178	16,805	13,265	13,087	13,958	13,456	15,464
Balance en cuenta corriente (millones de US$)	8,767	8,140	3,212	5,275	7,770	7,412	7,034
Stock de Inversión Directa Extranjera (millones de US$)	43,146	48,262	52,507	55,139	60,253	67,574	76,091
Stock de RIN del BCRA (millones de US$, fin de año)	10,501	14,119	19,646	28,077	32,037	46,176	46,386
Deuda externa del SPNNF (% del PBI)	155	129.3	112.4	62.5	51.1	47.3	48.8
Crédito al sector privado no financiero (% del PBI)	20.4	15.8	16.8	20.4	25.8	32.7	n.d.
Inflación oficial – fin de período (%)	40.90%	3.70%	6.10%	12.30%	9.80%	8.50%	7.20%
Tasa de interés activa promedio (PRIME, 30 días, %)	53	19.2	6.8	6.2	8.6	11	19.5
Tipo de cambio multilateral promedio (índice 2001=100)	236.1	216.3	225.4	229.6	235.7	242.7	251.2
Tasa de desocupación, prom. anual, EPH (% de la PEA)	22.2	17.2	13.6	11.6	10.2	8.3	7.9
Pobreza, EPH continua II semestre (% de población)	57.5 (2)	47.8	40.2	33.8	26.9	20.6 (3)	15.3
Coeficiente de GINI	0.59				0.51		

Fuente: Ministerio de Economía (MECON), Banco Central de Reserva Argentino (BCRA)
(1) Hasta el III trimestre
(2) EPH puntual, Octubre
(3) IV trimestre 2007 – I trimestre 2008

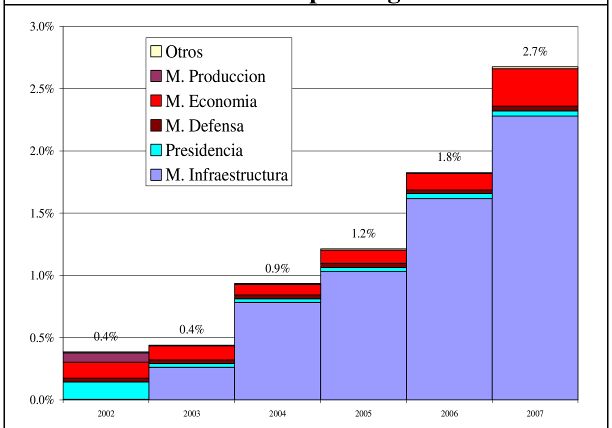
1.6 The economic expansion over the past five years is generally divided into three periods, according to the dynamics driving their growth. The period immediately after the crisis was characterized by recovery driven almost exclusively by net exports. In fact, during this initial period consumption was still declining. This lasted roughly six months. The second period, which roughly lasted from the end of 2002 to the beginning of 2004 was characterized by a recovery of private and public sector consumption, and by investment. The last stage was a transition to broad-based growth, which has been halted by the global financial crisis and economic slowdown since the last quarter of 2008.

1.7 The post-crisis recovery was a product of a competitive exchange rate, improved fiscal effort leading to large primary surpluses. Demand-side programs to boost aggregate demand were coupled with a devalued exchange rate. Following the currency devaluation, the pesification of dollar-denominated deposits and loans, and the debt default, some price controls were implemented as a mechanism of preserving purchasing power in the context of the overshooting of the exchange rate[iv]. The government also adopted a series of wage floors in order to boost compensation and wages. Many of these measures were given legitimacy legally by the passage of the *Ley de Emergencia* following the devaluation, which among other things allowed the government to renegotiate many of the service contracts. These measures were factors in the recovery of employment and wages, and to an expansion of private consumption. It is important to note that this took place in a scenario in which credit was actually tightening—domestically and internationally. This has led some analysts to speculate that recovery was in large part financed with retained earnings and with foreign assets repatriated at a very favorable exchange rate, rather than with savings[v]. In any case, both consumption and investment increased appreciably. A GDP decomposition shows that these two components account for essentially all of the recovery during 2003.

1.8 Beyond the fiscal and exchange rate policy, there were other factors that contributed to the high observed growth rates. The first is the utilization of installed capacity prevailing prior to the crisis—and indeed prior to the slowdown before the crisis. The second was a favorable international macro environment. This includes increase in demand for export commodities, as well as a relatively stable macro environment, until late 2008, when the financial crisis and the ensuing global recession began to filter through the real economy in Argentina. A reduced level of fiscal resources needed to service sovereign debt, due to the credit default, and then with the 2005 resolution of outstanding debt at a fraction of its nominal value (the haricut) also freed up resources.

1.9 The crisis of 2001 and 2002 also brought about changes in the nature and attributions of the state. The unraveling of provision contracts following the exchange rate float, already extensively documented elsewhere, was followed by a transformation in the institutional and regulatory framework, which is still ongoing. The precepts of the private-sector based model were maintained, but with substantial changes. In some instances, such as water, state companies were created to undertake provision, replacing the previous model based on concessions. In other cases the state took on a more protagonist role in both financing and planning, including with a system of tariff subsidies.

Economic services spending as % GDP



1.10 The period also saw a change in budgets that corresponded to these institutional changes impacting the government's political economy through a reshuffle of the political weight and leverage of the different line ministries in terms of their role in the definition of public policies. In fact, the newly created Ministry of Federal Planning, Public Investment and Services (which is charged with most public investments in infrastructure)[vi] exhibited a large increase in its participation on the government budget and spending in the last years. The low levels of infrastructure financing from prior years were accentuated by the lack of fiscal resources surrounding and immediately following the crisis. On the other hand, this infrastructure gap was also impacted by the rapid economic expansion. The financing of these needs increased monotonically during the period. Also seen in the budget data is a setting aside of funds to finance the generalized subsidies that were implemented after the crisis. These funds eventually comprised a relatively large share of central government outlays (ca. 11%), of which gas, electricity, transportation and food subsidies accounted for a majority of expenditures.

1.11 The sustainability of the adopted growth model was predicated on a continued need to generate primary surpluses. This was achieved with increases in tax rates, as well as increases in revenue due to growth of economic activity. These increases have been quite large, and until recent years had outpaced spending increases, which were also substantial. For example, government expenditures as a percentage of GDP rose from 23% in 2002 to 30% in 2008. The restructuring of sovereign debt also helped to contain expenditures, by reducing interest payments[vii].

1.12 However, in recent years expenditure growth has outpaced revenue growth. Among the factors that have put pressure on expenditures are continued price subsidies, large outlays with infrastructure spending, as well as increased spending requirements (and net budget deficits) of provinces. This trend has been made much worse by the international financial crisis of 2008-2009. The result of these factors is seen in the fall in primary surpluses, from 5% earlier in the decade to 1% projected in 2009[viii]. It should be noted that the government has begun to implement a plan to reduce subsidies, although implementation has been made more difficult due to the economic impacts of the financial crisis and the political economy of removing subsidies[ix].

1.13 Alongside with the need to continue generating primary surpluses (this is the basis of the growth model), is a need to roll over debt. According to official estimates, Argentina's financing requirements are onerous in 2011, although the nationalization of pension funds alleviated some of these pressures. This presents a problem given that the country is still in the process of re-establishing lines of credit; the recent financial crisis adds to uncertainty regarding the availability of sovereign financing, which in late 2008 caused a spike in sovereign debt spreads[x]. The unsettled defaulted funds, holdouts from the 2005 haircut agreement, alongside outstanding debts with the Paris Club, are limiting the country's ability to raise capital to roll over debt. Note that this is not necessarily a solvency issue, as much as it is an issue of liquidity[xi]. Regarding Table 1.2 for 2010 and 2011, note that payments on GDP Coupon will likely be lower, given that they are contingent on economic performance, but primary balance will also likely be lower.

Table 1.2: Argentina - Financial Program 2008-2011 Treasury

In US$ bn.	2008	2009	2010	2011
Total Obligations	**15.7**	**19.3**	**20.0**	**23.5**
Interest Payments	5.3	6.7	8.2	9.5
o/w GDP units	1.4	2.0	2.2	2.4
Amortization	8.7	12.2	11.2	13.5
o/w PG	0.9	3.8	2.4	2.6
o/w Buybacks	1.3	2.1	2.8	2.8
Other (1)	1.7	0.5	0.6	0.5
Source of Funds	**10.6**	**11.0**	**13.0**	**13.2**
Primary Balance	7.6	9.1	9.5	9.9
Multilaterals	0.2	0.4	0.6	0.6
o/w IDB	0.0	0.4	0.6	0.6
Net BCRA financing	0.4	-0.2	0.4	0.3
Other (2)	2.5	1.8	2.4	2.4
Financing Gap	**5.124**	**8.332**	**6.969**	**10.375**

(1) Yaciretá, Cammesa, deuda flotante de diciembre, Otros.
(2) PFO neto (Programa de financiamiento ordenado), CUT neta (Cuenta Unica del Tesoro), Recupero Boden Cuasimonedas, Otros medios de financiamiento y Otros recuperos (O.D.+Provincias y otros O.I).

B. Development Challenges

1.14 A review of development challenges is not the objective of a CPE, however it is important to identify those challenges which are relevant for the Bank, in the sense that they were identified by the Bank as important issues and in the sense that they are pressing issues for the Government within the context of the next programming cycle.

Public and Private Investments

1.15 The historically low levels of public and private sector investment during the 1990s, coupled with a disassembly of the state's capacity to regulate water, transportation and electricity, have saddled Argentina with both a regulatory and physical infrastructure challenge. The country has responded to this challenge by establishing new institutions to plan and finance investment. Nevertheless, both Bank and other diagnostics raise questions regarding the medium- and long-run sustainability of certain characteristics of the model being adopted[xii]. These include the indiscriminate and high levels of price subsidies, which serve neither a poverty-welfare purpose nor an economic purpose; on the contrary, they are regressive, costly, and do not favor an alignment of appropriate incentives for sector investment. They also include the absence of a long-term sector plan, along with a model by which the plan can be financed and maintained. In sectors such as water the problem is made worse by the relatively poor level of coverage compared to other countries with similar levels of development, despite some improvements in coverage over the 1990s. In other sectors, such as energy, the limitations of national endowments in terms of natural gas (ca. 10 years of proven reserves) implies that sector solutions need to be devised and implemented to deal with short-term constraints—including an adequate financing framework for these solutions. As mentioned above, recently the Government of Argentina has been working on mechanisms to enhance sustainability and equity, through a revision of price subsidy schemes.

1.16 In order to move forward in this Argentina will also need to build confidence in order to be able to attract more private sources of investment and financing in areas with modest rates of return and higher risk. This will allow the government wider latitude in crafting a hybrid model of service provision and finance.

Sub-national and Governance

1.17 The country faces serious problems of equity across Provinces. This is particularly relevant given the highly federalist structure of Argentina, in which a relatively large portion of state functions are attributions of the Provinces (and in some instances municipal authorities). This challenge has been identified and analyzed at length, including by the Bank (and including in the Bank's strategy with Argentina). Issues arising from the *sistema de coparticipación* were highlighted as a fundamental development problem in OVE's prior review, as well as in a multitude of research and policy agencies[xiii]. Most studies conclude that the *sistema de coparticipación* has exacerbated inequalities among provinces; the distribution of resources is pro-cyclic and does not generate the adequate incentive to tax collection in the provinces and municipalities. Furthermore, the fiscal situation of the provinces has deteriorated in 2007 and 2008 due to their increasing debt with the federal government.

Social Protection, Education, Health

1.18 Despite the remarkable progress made in terms of poverty, current social protection instruments are focused on transitioning the cohort of poor from the 2001-2002 crisis, and have not looked at the poverty profile of Argentina now almost six years since the recovery began[xiv]. This is important given the transitions out of poverty of the initial 2002 cohort, as well as the transitions into poverty. The current institutional structure does not adequately identify these two flows, and is thus not capable of responding to their changing needs over time. The country also has problems in coordinating the three main social protection programs (*JJHD*, IDH-Familias, Seguro Desempleo), and has no unified method to identify and help new potential beneficiaries[xv]. This may impose challenges in the short-term, as the country will be forced to deal with the poverty consequences of the international financial crisis, and the ensuing slowdown in growth and employment.

1.19 In education, diagnostics by the IDB suggest a problem in both student performance and in completion rates. Both of these are demonstrated to have differential magnitudes according to income quantiles. Furthermore, in terms of student performance, assessments show little improvement in student performance over time[xvi]. There is also a documented problem with aging infrastructure, although the link between this and student performance is not documented. An ambitious new education law having been enacted to, among other things, address early drop-out rates and quality issues, although success in this area will depend on the performance of individual provinces, who are responsible for the provision of basic schooling (Pre-K-12).

Productivity and Competitiveness

1.20 Productivity and competitiveness is a wide and non-excludable category, in which potentially any public policy can have incidence, from human capital formation to governance. However, diagnostics by the Bank as well as other development agencies have identified small enterprises as those with the highest unrealized potential for growth, particularly with problems in access to credit as well as mismatches in the terms of credit financing available, problems due to poor associatively of firms, and relatively low levels of innovation and investment. This is also where the Bank has focused most of its activities in the sector[xvii]. Other diagnostics, including a recent growth diagnostic funded by the IDB, suggest that more binding constraints to productivity growth lie in a low appropriability of investment, as well as low levels of domestic savings, although these have seen an upward trend in recent years[xviii].

II. Programming

2.1 The Bank's programming with Argentina was done mainly through two programming exercises. Both of these were presented for Board approval, in 2004 (the country strategy) and in 2006 (the midterm review). This chapter analyzes the programming intent of the Bank and the financial programming and relationship between the Bank and the country.

C. Programming Intent in the Country Strategy (2004)

2.2 At the time that the strategy was approved, the country was still undergoing a transformation regarding its development model. The changes included a deliberate move away from pure market-based approaches to public service delivery, to a model in which the estate would be more involved in the financing, planning, and delivering services. This, along with lingering challenges due to the 2001-2002 crisis, lead to a strategy with a good diagnostic, yet sometimes anchored in the tenets of the prior period's programming.

2.3 The strategy identified three areas of strategic intervention. The first was to strengthen the investment environment to achieve increased competitiveness and productivity, the second was to support institutional strengthening for better governance and fiscal outcomes, and the third was to achieve poverty reduction, through social development and sustainable and equitable human capital formation. Although these areas were rather broad in scope, the strategy does identify, at the sector level, fundamental challenges that the Bank would be helping to meet.

Strengthening the Investment Environment

2.4 The strategy identified a number of key development challenges associated with transitioning from crisis to growth. Among these one of the most challenging was the issue of changes in the infrastructure finance model, particularly in the water and sanitation sector. The strategy mentions a short-term preoccupation with dealing with prices and concession contracts, "*An additional factor requiring attention in the short term is the need to avoid deterioration in public service delivery and infrastructure during the process of renegotiating concession contracts, an issue that also has medium- and long-term impacts*." (§1.18) It later identifies this challenge as "*Guarantee the quality of public services and infrastructure and establish an enabling environment for investments to address the requirements of medium- and long-term growth. In terms of renegotiation of concessions, the economic and financial balance of concession contracts, and the rights and obligations of the parties need to be redefined with a long-term view. This should include a review of the pricing structure, together with redefinition of investment requirements and the duration of concessions, among other quality and coverage elements*." (§1.31)

2.5 The preoccupation with infrastructure is not only in terms of investment and financing. The strategy also highlights the issue of strategic programming, and mentions that "*The vital importance of guaranteeing the quality of public services and infrastructure is recognized, together with the need to strengthen mechanisms for encouraging investment and reporting requirements. To ensure resources are used more efficiently, the government is promoting the use of technical criteria to consistently and harmoniously guide project selection*." (§1.43).

2.6 The role of regulatory reform is also highlighted, particularly in chapter three, where the Bank identifies that it "*The Bank could help strengthen the regulatory framework and the functioning of bodies involved in regulation, control and defense of competition, guaranteeing transparency and participation of the sectors involved, and in improving the functioning of institutions to develop, execute, monitor and evaluate public policies*." (§3.24). Indeed, the strategy places the Bank dead center in the debate regarding the state's role in public infrastructure finance, maintenance, and provision of public goods. According to the strategy, the Bank would be a central resource for the country in dealing with these issues toward the future. This is also mentioned in §3.9 and §3.10, where work in the regulatory framework and in generating public-private arrangements to make investment more sustainable are proposed. Also mentioned was the importance of not interfering with the negotiations regarding renegotiating concessions.

2.7 In competitiveness, the agenda is broad, if not as developed as the agenda in other sectors. The 2001 crisis raised the profile of issues related to governance, finance, and provision of public goods, and generated a multitude of diagnostics in these issues. The same was not the case for competitiveness. In any case, the strategy mentions the development of a national competitiveness strategy, modernization of the innovation and technology development systems, mentions the rationalization of regional development strategies, as well as an ambitious agenda for reform of the mechanisms available for financing. Alternate institutional financing arrangements, such as financing in local currency are also identified, as is an agenda for non-sovereign guarantee, particularly in export finance.

Institutional reform of institutions involved in the design and implementation of local development strategies also figures prominently in competitiveness, as it does in most other areas.

Institutional Strengthening for Better Governance and Fiscal Outcomes

2.8 The strategy likewise identifies key areas in governance where the country should, according to the Bank, address pressing development challenges. These range from a lack of independence and accountability across branches of government, reform in fiscal federalism, increased efficiency of spending, regulatory and administrative reform (with respect to both service provision and with respect to environmental protection), and pension reform. Sub-national governance, finance, and development are also fundamental challenge for long-term growth. Paragraphs 3.6 to 3.12 detail a list of possible areas of intervention for the Bank, ranging from justice reform, regulatory reform (already mentioned in the context of infrastructure investment), pensions, sub-national governance and fiscal federalism, budgetary, tax, and financial reform, civil service reform, among others. Again, the strategy places the Bank as a major player, including in some of the most complex issues of governance.

2.9 Sub-national development is mentioned as a centerpiece of the governance challenge in Argentina. However, it also is identified as a key issue in every sector in which the Bank will be involved. The strategy identifies the topic of sub-national development as one central challenge in developing a productive sector policy (1.31 i); in ensuring a match between provincial functions and their taxation (1.24); in dealing with the issue of pension reform liabilities (1.26); in addressing regional differences in poverty and development (1.34); in addressing discrepancies in education finance and achievement (3.30), among others. For this reason, the strategy identifies it as a cross-cutting Bank priority, along with a strengthening of public administration (3.40). Indeed, the development of "*policies at the local, regional and national levels, together with their implementation, monitoring and evaluation*" is stated as a specific goal of these cross-cutting activities.

2.10 A few examples help to clarify the scope of the challenge sub-national development. For example, regarding provincial attributions and taxation, the strategy identifies that provinces have become key in political coalitions, and are central in lobbying for resources, yet they do not bear the tax implications of these efforts, "*A strengthening of provincial power and a weakening of the party system have caused a redistribution of political forces with major consequences for the governance of the country in situations of institutional crisis. At such times, sub-national power has become essential for governance as a result of the set of incentives created by the electoral system and effective transfer of spending power to the provinces, but without corresponding autonomous financing capacity.*" (1.24) It goes on to say that regional discrepancies in political clout require a national development agency that brings these aspects into the policy-making process. This diagnostic is consistent with that made by OVE in its prior CPE.

2.11 The strategy also identifies challenges in the social protection system required to move from crisis to growth, which include (i) generating mechanisms that would be anti-cyclical, (ii) improve targeting, (iii) policies that promote equal opportunity, productivity gain, and employability—i.e. linking labor market outcomes to the social protection policy. In response to these challenges, the Bank emphasizes job training and education quality, more efficiency and equity in social spending, including greater coordination across ministries, improved targeting and automatic anti-cyclical mechanisms in social policy, facilitation of political consensus and improved transparency, so that social policy can be more effective, particularly in the context of decentralization. (1.36-1.37).

Poverty Reduction

2.12 Regarding poverty reduction and social protection, more specifically, the strategy identifies a clear role for the Bank. This role is not just in financing, but in helping to redesign a social protection system. The need for better targeting is mentioned, as is the prioritization of "*crosscutting consolidation of social safety net programs*". Indeed, in paragraph 3.28 the strategy identifies a specific agenda for the Bank that includes "*the design and implementation of a targeted subsidy program for the poor and indigent families, subject to certain counterparty requirements that contribute to the unification of existing nationwide subsidy programs*". The design of mechanisms to transition beneficiaries back to work is also mentioned as a priority.

2.13 Even as the strategy identifies a role for the Bank in social protection, and in the transition from crisis to growth, it does not do the same with either Health or Housing. Second phases of the other two restructured programs, REMEDIAR (a program that provided medication to those who could not afford them through health centers located in poor neighborhoods) and PROMEBA (a program that financed investments in basic infrastructure of shanty-towns), are mentioned in programming, but the changes that would be undertaken are not identified. In the case of PROMEBA a scaling up of the program and cost reduction mechanisms are proposed, although there is no discussion of why the changes would be necessary, or how low-income housing needs would be different during a recovery/growth period. Also missing is a discussion of the other government programs in execution, particularly at the province level, and how PROMEBA would be integrated with these. In health there is an interesting discussion of making the coverage of basic health more universal and uniform, but this discussion is not linked to the Bank's program.

D. Challenges moving forward and the Mid-term review (2006)

2.14 The strategy recognizes the difficulties involved in executing its proposed agenda, as well as the risks involved, particularly given the crisis scenario from which the country recently emerged. To deal with this uncertainty the strategy identifies a modest lending envelope for the first two years, and identifies a mid-term review on which the lending envelop would then be based. Paragraph 3.49 of the strategy sets out three conditions for the "target" lending scenario, including (1) improved execution, (2) new structural reforms—pensions and financial sectors are the two identified by name—,and (3) sector investment programs.

2.15 The 2006 review took place as planned. The document was presented to the Board in July of 2006. The Mid-term review emphasized some of the issues of the 2004 diagnostics. For example, the issue of sustainability of provision of public goods was again highlighted, both as a challenge and as a risk for governance: "*In the near-term, the challenge is to avoid that the current price-agreement policy, the delays in resolving the utilities concession issue (including pricing elements) and the regulatory frameworks, and the approaching electoral period, erode the credibility gains the administration has achieved in recent years*" (2.8) The document also tackles the relationship between prices and incentives, by mentioning that the lack of a clear price policy is hindering private investment: "*protracted contract renegotiations with public utility concessionaires and delays in comprehensive public utility pricing adjustments are continuing to affect the business climate and future investment decisions. These uncertainties need to be dispelled if Argentina is to attract the private capital flows needed for continued GDP and employment growth in a context of fiscal sustainability. Completing development of a model to ensure public utility service quality, continuity, and coverage, which draws on lessons learned from public and private models, is fundamental for social welfare, competitiveness and growth in Argentina*".

2.16 Likewise, the issue of sub-national development continues to be a pending development agenda, according to the review. For example, regarding fiscal federalism the document states that the new government has the opportunity to "*achieve greater transparency and efficiency in public-resources allocation, improved delivery of essential social services, creation of an enabling environment for private-sector-driven growth, more stable, transparent regulations and administrative rules, and deeper reforms to institute rules for sustainable fiscal federalism.*" (§2.10) The document also continues presents data on the markedly different levels of development across the country, to once again set sub-national policy as a pressing matter.

2.17 The strategy identified a set of conditions for moving from a base to a target lending scenario, based on three triggers: "*To achieve the target scenario, the following conditions would have to prevail: (i) a significant improvement in the implementation of projects currently in execution; (ii) new structural reforms that would create additional financing needs in key areas for sustaining growth and economic stability; and (iii) the establishment of sector investment programs. These conditions would be evaluated at the end of the year two of the Strategy when a midterm review will be conducted to analyze portfolio performance, the government's policy and reform program, and the appropriate level of approvals and target areas for the 2006-2008 operations program.*" (§3.49).

2.18 Of the three triggers two are in fact not well defined, and a basis by which they can be evaluated was not put forward. It is unclear what are the pending "structural reforms", given that the strategy identifies a rather long list of challenges, most of which can be construed as "reforms" in almost every sector.

If the Bank's intent refers to the "structural reforms" promoted by previous Bank strategies in the early 1990s (liberalization, privatization, etc.), this would be in contradiction with the policy thrust of the new government. Concretely, the only instance in which the meaning "structural reforms" is to some degree specified is (i) by mentioning the pending pension reform and financial sector reform (§3.49), and (ii) by referencing the structural reforms identified by the IMF in their standby agreement (results matrix). The "sector investment program" condition is likewise not defined, nor are any measurable and actionable triggers defined. The diagnostic clearly mentions that in most (if not all) sectors, improvements need to be made regarding planning, and in the case of competitiveness a comprehensive sector plan is included as part of the Bank's objectives. Nevertheless, neither the strategy nor its annexes identifies what the meaning of this is, and how it will eventually be assessed.

2.19 The assessment of progress toward triggers was to take place in the 2006 review. The review did take place, yet the only trigger that is reviewed is disbursement of the portfolio, which did improve markedly in the intervening years. There is no mention of progress regarding pension reform, or other sector reforms. There is likewise no mention of the adequacy of sector investment programs, perhaps given that the concept was not defined in the first place. Instead, the 2006 review proposes a set of new criteria for a future lending envelope, which is unrelated to the criteria initially identified in the strategy. Regarding the lending scenarios, the review mentions "*Which scenario will materialize will depend on various factors, including the implementation of the agreements with regard to portfolio execution; the evolution of fiscal and debt indicators to ensure the fiscal space to take on these new commitments both at the national and sub-national level; and the analysis, during project preparation, of institutional capacity, lending product, and degree of flexibility in IDB financing.*" (executive summary). It is clear from the new set of triggers that the focus shifted from sector reforms and planning to fiscal indicators.

E. Evaluability of the Strategy and the Mid-term Review

2.20 The main findings of OVE's CS Evaluability exercise this review were, first, a lack of assessment of the prior programming period. Although the strategy details the events that lead up to the default, it is silent regarding the IDB's role in these events. Likewise, the strategy is silent on the achievements of the Bank during that period. The review also found that the link between development objectives and solutions to these challenges was not developed. The evaluability of the mid-term review represents a step back vis-à-vis the strategy. The mid-term review retains the strategy's three main objectives. However, it does not update the results framework of the strategy, nor does it report on progress vis-à-vis stated intent. Rather, it identifies a separate set of Bank indicators, mainly consisting of project-level indicators.[xix]

F. The financial relationship between Argentina and the Bank

2.21 For the Bank Argentina has always been and continues to be a central country to the institution. The Table below presents data on exposure and on approvals for sovereign guarantee operations from 2001-2008. As can be seen, Argentina is consistently the second most important member, both in terms of exposure and in terms of approvals throughout the period under review, with Brazil being the first. The data also show some shifts in exposure over the period under analysis, with countries such as Brazil, Colombia, and Peru seeing increases in their share of exposure, as exposure in Mexico[xx].

Table 1.3: Exposure (top) and new approvals (bottom), OC with sovereign guarantee largest 10 borrowers, 2001-2008

Country	2001	2002	2003	2004	2005	2006	2007	2008	2008 share
Argentina	**8,399.4**	**7,993.7**	**8,547.5**	**8,503.7**	**8,518.4**	**7,993.2**	**7,954.5**	**8,333.6**	**0.18**
Brazil	10,988.2	12,095.2	11,954.5	10,647.0	9,899.8	11,429.5	11,587.3	12,370.4	**0.27**
Mexico	5,719.0	6,132.7	6,769.4	7,074.0	6,918.9	6,341.9	4,416.2	4,489.3	**0.10**
Colombia	3,602.3	3,583.7	4,308.4	4,585.6	3,534.4	3,950.3	4,345.7	5,177.4	**0.11**
Peru	2,693.3	2,907.8	2,922.0	3,053.4	3,202.7	3,366.1	3,549.8	3,815.6	**0.08**
Uruguay	1,336.2	1,939.6	2,118.7	2,227.8	2,057.3	1,792.8	1,840.5	1,808.7	**0.04**
Venezuela	2,000.0	2,159.7	2,117.0	1,979.4	1,790.3	1,649.0	1,181.3	1,222.9	**0.03**
Ecuador	1,290.8	1,361.7	1,375.0	1,412.2	1,312.1	1,340.0	1,300.5	1,429.0	**0.03**
El Salvador	902.9	1,024.1	1,100.0	1,102.8	1,069.6	1,122.6	1,166.3	1,139.7	**0.02**
Guatemala	604.3	782.6	820.7	885.2	874.5	941.0	1,095.5	1,196.1	**0.03**
Country	2001	2002	2003	2004	2005	2006	2007	2008	2004-08
Argentina	**1,645.0**	**0.4**	**1,986.0**	**527.6**	**1,033.0**	**1,624.9**	**2,486.8**	**1,204.5**	**6,876.8**
Investment	**645.0**	**0.4**	**86.0**	**27.6**	**1,033.0**	**1,124.9**	**2,486.8**	**1,204.5**	**5,876.8**
PBLs	**1,000.0**	**0.0**	**0.0**	**500.0**	**0.0**	**500.0**	**0.0**	**0.0**	**1,000.0**
Emergency	**0.0**	**0.0**	**1,900.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Brazil	1,951.0	690.4	220.4	2,342.4	321.9	148.9	1,134.6	1,931.8	5,879.5
Mexico	1,100.0	1,002.5	512.2	412.5	2,061.0	207.0	250.0	395.0	3,325.5
Colombia	800.4	100.7	1,814.0	744.0	561.0	581.1	606.0	710.0	3,202.0
Peru	343.3	490.6	421.5	360.1	346.9	357.9	430.0	155.0	1,649.8
Uruguay	303.6	723.0	260.0	77.0	268.3	189.8	100.4	335.0	970.5
Venezuela	97.5	28.0	5.0	910.2	25.0	150.0	0.0	0.0	1,085.2
Ecuador	69.5	76.7	232.9	20.5	13.8	313.2	367.6	3.4	718.5
El Salvador	284.8	72.0	100.8	212.1	112.6	0.8	0.0	0.0	325.4
Guatemala	31.1	297.6	112.5	101.1	26.1	239.5	181.1	614.4	1,162.2

Source: OVE calculations.

2.22 The Bank's relevance to the country is more nuanced than the country's importance to the Bank. Nevertheless, a number of developments over the past decade have highlighted the Bank's importance. First, Argentina's limited access to financing has implied that a greater share of financing needs are satisfied either by current revenue or by multilateral and bilateral financing. Second, with the World Bank reducing its portfolio over the period and with Argentina repaying the IMF fully, the IDB's share of financing has increased markedly. Third, with the country still in the process of settling the financial fallout of the 2002 crisis, it remains limited in its ability to borrow. Settlements with Paris Club, as well as settlements of the haircut holdouts are still pending. Lastly, the global financial and real sector crisis that took hold in 2008 and 2009 threatens to further reduce the availability of financing and exacerbate financing requirements, in the short run. In terms of financing, Bank disbursements are on the order of between 5 and 15 percent of Argentina's financing requirements.[xxi] In terms of public sector capital formation, the percentage is lower, but is still significant: for 2008 it was roughly 6% of total capital formation.

2.23 The 2004 strategy was approved in a context of uncertainty, in which the country was developing a new model for development following the decade-long adhesion to a Washington consensus-based model. Thus, it was reasonable for the 2004 strategy to be cautious regarding the approved lending authority. It set forth two lending scenarios, depending on the achievement of standard macro-fiscal targets, at the time established in collaboration with the IMF.[xxii] The higher of the two scenarios was for 5 billion dollars in new approvals for the 2004-2008 period, and the lower for 4 billion.

2.24 However, by the time that the midterm review was being prepared, it became clear that the country demand for IDB lending was much beyond the amounts initially set in the 2004 document. The 2006 document thus proposed approvals for the 2006-2008 period of 3.7 billion dollars and an alternative scenario of US$2.7 billion, raising the overall level of approvals for the strategy period from a high scenario of 5 billions to a high scenario of 6 billion dollars. According to the Review "*the target scenario is feasible, given the progress observed in the portfolio and the dialogue on new opportunities for IDB participation with a medium-term outlook. It would involve total approvals for the period 2004-2008 of US$6.0 billion, which is 20% higher than the original scenario of US$5.0 billion, with a PBL/total approvals ratio of 15%-20%. The alternative scenario would maintain the level of approvals at about US$5.0 billion.*" (GN-2328-3)

2.25 In 2008 these amounts would be raised a third time, in this case as an advance against the future strategy[xxiii]. In a memo that went to the Board in February, Management requested that the Board approve between 900 million and 1.3 billion in additional authority for that period, bringing the total approved authority to 7.3 billion dollars. According to the document: "*In order to ensure an efficient operational transition from projects in the portfolio towards new operations while moving forward in the preparation of a new Country Strategy with the recently elected authorities, Management is considering advancing between US$900 million and US$1,300 million from the financing to be committed under the next strategy lending envelope. This arrangement would be channeled to the financing of projects that follow on the operations identified in the MTR, giving continuity to policies and programs being implemented with the Bank's participation. In addition, the proposal provides the opportunity for the Bank and the Government to begin a dialogue on reforms that could be implemented in the coming 4-year presidential term.*"(GN-2328-5)

2.26 The document also mentions that the change in lending authority reflects (i) increased project costs due to currency appreciation, (ii) the approval of new country lending parameters, and increased interest by the Argentine government in working with the Bank. In terms of risks, the document cites improved macro and fiscal performance, as well as the fact that the latest article IV assessment (2006) was less severe than the prior assessment as grounds for justifying this on the grounds of low risk.

2.27 The process by which limits were established raises questions regarding how the institution assesses levels of risk as part of its decision-making. Unlike other institutions such as the World Bank, the Bank does not have a dedicated risk analysis unit that makes recommendations on country-level risk and portfolio dimensioning for operations with sovereign guarantee.[xxiv] In the case of

Argentina, the risk assessments done were in the form of Independent Macro Assessments (IMAS) and in reviewing information of other agencies, most notably the IMF. However, as part of the assessment there is no discussion of the risk that the Bank accepts. Exposure hypothetical scenarios are not made explicit, nor are they linked with key variables at the country level. In the absence of a formal system it is difficult to assess the quality of the Bank's risk assessment, or the implications that different lending envelopes (for this and every other country) can have for the institution.

III. DELIVERY

3.1 This chapter assesses the quality of the delivery of the Bank's program. It consists of thematic assessments of what portion of the program was delivered, and how this compared to the program identified in the strategy as well as an assessment of standardized metrics of Bank delivery.

G. Executed Program vis-à-vis Programatic Intent

Strengthening the Investment Environment

3.2 One of the centerpieces of the new development model being adopted by Argentina was to insert the state into the context of services in water, energy and transportation. The Bank's strategy recognized the importance of the topic (see chapter 2), particularly as it relates to issues of expansion in coverage, quality of provision, planning and sustainability of investment. In practice, infrastructure became the backbone of the Bank's program, a trend that increased in the later years of approvals. Particularly, in water and sanitation, the Bank approved substantial sums to help the country overcome historical deficits in coverage. In energy, the Bank's funding was important in transmission, mainly as part of the Bank's strategy to support the development of the *Norte Grande*, one of the regions with highest development deficits. In roads, the World Bank was a larger actor than the IDB, but here too the Bank had an active portfolio, particularly in the financing of the *Norte Grande*.

3.3 The evaluation found that the Bank's contributions in financing were relevant to address the large deficits of infrastructure that had accumulated over time. As a percentage of overall investment, Bank disbursements toward the future are expected to finance significant shares of investment.

3.4 The investments of the Bank in infrastructure notwithstanding, the evaluation found that the Bank was largely absent from the central issues of current policy debate. The strategy diagnostic mentioned the importance of developing long-term planning for dealing with the legacies of the crisis and getting prices right. Although there were isolated activities that addressed some of these issues (e.g. US$20 million of the Norte Grande loan dedicated to institutional strengthening), by and large this was not done. Water projects mainly financed deferred maintenance of existing infrastructure or new infrastructure, both in cities and in smaller localities. Energy projects focused on perhaps the least contentious sector: transmission. In generation, where most of the difficult issues regarding prices are concentrated, the Bank had no presence, although recently it has approved a TC on renewable energy resources and has plans to continue this support with a loan[xxv]. Likewise, roads projects did not tackle the pending issue of toll values and sustainability[xxvi]. There were no sector loans approved in these sectors (which are a traditional method used to engage the country in policy reform), and there was also little use of technical cooperation (TCs) to assist the country in dealing with central development issues[xxvii]. Of the TCs approved during the period none of them had as an objective to study or otherwise deal with the issues presented and discussed in the strategy. In the cases reviewed where the Bank insisted that polemic issues were of concern to the institution (e.g. biannual reports prepared by GOAR regarding the energy sector as part of conditions of the *Norte Grande* energy loan), there is little evidence that these efforts have bloomed into an engaged dialogue[xxviii]. This is not to say that there has not been any progress in these areas. For example, during the 2008 OVE mission the country was developing a plan to reform the system of price subsidies for services, which has begun to be implemented. However, the Bank has not been involved in this, nor has there been demand that it be involved by the part of the borrower. Rather, the Bank's focus has been centered to a great extent on providing resources for financing infrastructure investment.

3.5 Interviews with policymakers and Bank staff suggest that there was no demand for the Bank to engage in these areas. In short, interview evidence shows that the Bank did not engage the country, but that the country itself was not receptive to a dialogue on, say, the fiscal and equity consequences of service subsidies and prices.

Institutional Strengthening for Better Governance and Fiscal Outcomes

3.6 The Bank's strategy identified central issues in governance that ranged from independence of the judiciary to sub-national governance. The main finding of the evaluation is that the Bank did not address the root causes of most of the issues identified in its strategy, and in many cases did not address the issue (e.g. Justice and Pensions were dropped). In most cases the evaluation found that the diagnostics of 2004 did not lead to a corresponding program. For example, where the diagnostic identified that the credibility of democratic institutions was at stake, the Bank responded with a program in support of Congress that did not deal with the causes of these. Given the nature of the confidence crisis on the political institution during the 2001 crisis, the Bank response in 2004 to invest in information technology, training, and process reengineering for the Senate was not related to the underlying factors that had led to the institution's discrediting.

3.7 The second operation was the strengthening of the strategic planning division at the ministry of economics. The diagnostic was clear, in that the country needed to develop prioritization and planning capacity, both at the central and provincial levels. However, the finding here is that the intervention was peripheral to the policy making decision center. At the time of approval it was clear that the newly created ministry of planning would now be undertaking many of the functions regarding sector planning and investment. Therefore, the intervention created a technical unit in a ministry which was no longer the driver of the development of sector plans or the prioritization of spending. A review of the available evidence shows serious problems with execution, and a lack of political will to execute the program's components (see midterm review).

3.8 One of the two PBLs approved was directed at issues related to governance, and in particular to public finance management, approved in 2004 for 500 million dollars. Clearly the PBL played a role in providing fast disbursing funds, however it also contained conditionalities that dealt with specific issues of the budgetary process in Argentina, and activities geared toward multi-year budgeting and results-based budgeting, consolidation of budgetary normative and legislation, as well as process improvements in the public credit system. There were also steps identified to improve coordination of Provincial and National budgets[xxix]. The Bank produced an ex post review of the PBL which found that the conditionalities were met, and that the activities were consistent with improving public finance administration. It also indicated that the PBL was part of activities that were already ongoing or were slated to be executed. The logical consequence of this finding is that these changes would have been done without the PBL also. There were also two other issues identified in the Bank's review. The first is that the index by which success would be measured would have required an updating. This updating was not done; therefore attesting to results was not possible. Second, the PCR mentions budgetary modifications as an issue with the quality of the planning and execution of the Budget. This is consistent with the review in the Annex of this CPE.

3.9 The last area reviewed in terms of program relevance was that of sub-national strengthening. Although it is cross-cutting, and is relevant in all sectors mentioned, it has at its core issues of governance and political economy between *La Nación* and the Provinces. The Bank highlighted the importance of sub-national competencies and the relationship between Provinces and the Nation in its 2004 strategy (see chapter 2). It also recognized that approaches that centralized decision-making, in an attempt to channel resources toward those provinces in greater need, had met with limited success: "*On the other hand, centrally designed projects that propose single strategies that do not take into account the multiplicity of problems, objectives, and capacities present in each province, have been ineffective. This lesson was very prominent in the implementation of the Education Reform and Investment Program (845/OC-AR) in which the rationale of defining common actions from the central government overlooked the complexity and diversity of the education problem in the different provinces*." (§2.31)

3.10 In general, the evaluation found that the Bank dealt with the issue of sub-national governance in two ways. First, for the most part second phase projects in education, infrastructure and the productive sector removed across-the-board eligibility or prioritization criteria to target less developed provinces, which was the approach that had been attempted previously. This was effective as a means of improving the disbursement profile of Bank operations. Second, the Bank followed a strategy of not working with less developed provinces directly (with the exception of a loan to Salta), but rather addressing their need through programs such as the *Norte Grande* program, in which GOAR would be charged with executing infrastructure investment in a targeted way[xxx].

3.11 The Bank approved a project to strengthen Provinces' fiscal management capacities and productive investment capacities in 2004 (AR-L1002). The program had two components, one related to investment constraints at the province level and a second related to the implementation of integrated financial data systems. The project was less than 1/3 disbursed at the time of the writing of this draft, and it is too early to say anything regarding results. However, a review of project components versus assessments of private sector constraints shows that the project, at least the first component, addresses constraints to private sector development, but by no means the most relevant[xxxi].

3.12 Other than the provincial fiscal management project, the Bank's interventions did not deal directly with the root causes of sub-national governance identified in its 2004 strategy. For example, issues identified by the Bank in 2004 related to the correspondence between spending and taxing authority, or the issues related to Provinces and pensions, or the issues related to the asymmetric political clout of some provinces and their impact on policy-making— were not addressed.

Poverty Reduction and Social Protection

3.13 The social sector is perhaps the sector in which the Bank had the most specific program identified in its 2004 strategy. As part of a continued effort to support the country in dealing with the ramifications of the 2001-2002 crisis, the Bank programmed responses to the crisis in two manners. The first was through the approval of a UD$500 million PBL, *Argentina Avanza*. The PBL provided immediate resources to finance social sector programs.[xxxii] The second was through an investment loan for US$700 million to finance the government Program *Familias*. It should be noted that projects approved outside the pillar of poverty reduction may also have direct or indirect impacts on poverty (and vice versa). The heading is used mainly to be congruent with the Bank's own programmatic classification.

3.14 The Social sector PBL provided an opportunity for the Bank to further its stated development objectives of helping the country unify its social protection system and improve targeting (see chapter 2). The vehicle by which this could be achieved would be the establishment of conditionalities against which tranches were to be disbursed. The evaluation found that the sector loan did little to further the sector goals or to deal with the sector challenges identified by the Bank in its strategy. The series of conditionality did not go to the heart of the problems. At the time that the program was approved, there were over a million beneficiaries of *JJHD,* who were to either be migrated to *Familias*, in the case of the structural poor, or migrated toward a more conventional unemployment insurance program[xxxiii]. The program's conditionalities did not identify the criteria for reclassification of beneficiaries, did not establish type I and type II error targets as conditionalities, and did not establish a target for transitioning beneficiaries from *JJHD* to alternate social protection programs.[xxxiv] Lastly, the program did not address the changing nature of poverty in Argentina, to the extent that it did not assess those outside JJHD who would potential beneficiaries of public social protection programs.

3.15 The evaluation also found that the Bank was more successful at engaging the country in social protection through investment lending. Although the approval of the fast-disbursing PBL provided financial value-added, the approval of *Familias*, in the amount of US$700 million, was more effective at moving beneficiaries out of JJHD.

3.16 In the case of education, the Bank's intent was not clear initially. Emerging from a relatively unsuccessful program in education during the 1990s, the Bank's strategy in the sector only emerged with the mid-term review. This is partly due to the fact that the major driver of education priorities during the period was in fact the new education law, which addressed issues of coverage, quality, and type of educational services to be provided. During the mid-term review the Bank programming identified specific operations that went to support the country's education strategy, including funds for new school construction and a continuing of the financing of educational scholarships (*Becas*). Given that the new education law extended the school day and extended the years of mandatory schooling, the issue of school infrastructure become particularly important. In this sense, the Bank's strategy, which focused on physical infrastructure and on schooling incentives, was well aligned with both country priorities, and with its own diagnostic in 2004. This was the case, for example, with the infrastructure programs that will help the country to finance the expansion in education network at the provinces necessary to meet the new education law's requirements of an extended school day for primary and an expansion of compulsory education through high school. The Bank's focus on pre-primary and technical education is also consistent with the country's plans.

3.17 Education is one of the sectors where the evaluation found evidence of a good match between challenges identified by the Bank, and solutions approved. It is also a good example of where the priorities highlighted by GOAR were very much in line with those contained in the Bank program. Nonetheless, as mentioned before, the Bank did not address the issue of heterogenerity in sub-national capacity, identified as an important issue by the 2004 Bank program and the 2006 review. Rather, the Bank has moved away from this issue—most notably in the education CCLIP. This issue is important given the heterogeneity of school characteristic across provinces and the importance of these characteristics in determining student performance.

H. Overall Aspects of Approvals and Delivery

3.18 This section analyses the delivery of the actual approval of the program. Argentina's strategy for 2004-2008 aimed to concentrate the Bank's action on three areas: Governance (Institutional strengthening for better governance and fiscal sustainability); Competitiveness (a more favorable climate for investment and productivity growth); and Social Development (poverty reduction).

3.19 Regarding the Bank's efficiency of programming, the evaluation found that the Bank's ability to program and follow through on proposed strategies was limited [xxxv]. This is reflected in the high ratio of approved and not programmed operations, 24%, even when one takes as a basis for programming <u>either</u> the 2004 <u>or</u> the 2006 documents. This falls dramatically if one considers the 2007 and 2008 programming documents (to 5%). On the other hand, considering the strategy and update, the proportion of programmed that is not approved is low, at 11%. This increases to 14% if annual programming exercise documents are considered.[xxxvi].

Table 3.1: Delivery Metrics for Argentina and the Bank: 2000-2008

	Argentina								
Delivery Metric	2000	2001	2002	2003	2004	2005	2006	2007	2008
Timeliness of Program Design									
Preparation time, PBL (mos)	4	6	n/a	4	5	n/a	9	n/a	n/a
Preparation time, INV (mos)	23	19	n/a	12	7	16	10	13	12
Months to 1st disbursement, INV (mos)	21	19	n/a	13	13	9	8	10	8
Timeliness program in execution									
Incidence portfolio underdisbursing (FGT0)	0.55	0.59	0.69	0.67	0.65	0.76	0.71	0.49	0.42
Degree of underdisbursement (FGT1)	0.25	0.3	0.3	0.3	0.29	0.24	0.22	0.18	0.13
Average age of Operations (mos)	41	42	52	62	69	64	61	50	42
Conditioned by Sector:									
Incidence portfolio underdisbursing (FGT0)	0.64	0.67	0.76	0.7	0.71	0.76	0.71	0.49	0.39
Degree of underdisbursement (FGT1)	0.27	0.32	0.32	0.3	0.3	0.25	0.23	0.16	0.13
Average age of Operations (mos)	41	42	52	62	69	64	61	50	42
Quality of the program in execution									
Incidence of problem IP (PPMR)	0.41	0.36	0.53	0.48	0.38	0.09	0.02	0	0.09
Incidence of problem DO (PPMR)	0.24	0.19	0.32	0.3	0.19	0.02	0	0	0.02
Fiduciary quality of program execution									
Proportion "Qualified Audits"	0.76	0.19	0.59	0.69	0.6	0.59	0.46	0.43	n/a
Proportion late audits	0.92	1	0.97	0.56	0.32	0.34	0.4	0.58	1
Oversight of the Bank's program (missions)									
Generating portfolio (programming)	3	2	5	8	11	6	6	3	n/a
Executing and monitoring portfolio	57	59	47	54	69	70	64	79	53
Generating knowledge	n/a	3	11	16	27	15	18	10	n/a
Total missions	101	79	70	85	109	98	92	107	66
Financial Metrics (in millions of $US)									
Disbursements	996.61	1,560.99	417.49	2,652.30	342.02	590.37	1114.61	1490.17	895.55
Collections	915.67	879.17	1,501.99	3,007.58	1046.7	1068.73	1918.8	2220.26	1316.72
Net Loan Flow	692.16	1,241.38	-558.35	311.68	-204.8	8.33	-248.49	-223.79	-75.81
Net Cash Flow	80.94	681.81	-1,084.50	-355.28	-704.68	-478.36	-804.19	-730.09	-421.17

*Metrics based on the Bank's LMS, PPMR, EFAS reporting, and Time Reporting systems. PPMR (DO, IP) refers to proportion of the portfolio that was satisfactory (IP and DO). Fiduciary indicators are: percentage of projects for which statements were delivered on time and the percentage that were found to be clear by the auditors. Financial metrics elaborated using Enterprise data Warehouse, table ODS.LMS_ODS_FINTRANS. **For comparison purposes, the mission metrics reported for the Bank represent the number of missions performed by a country of the Bank on average.

3.20 Table 3.1 summarizes common metrics of delivery for the Bank. Additional information on delivery, as well as comparisons of the portfolio in Argentina versus the Bank is found in the annex to the CPE. There are three issues that fall out from an inspection of the table's results. . First, the evaluation found that the execution in Argentina improved dramatically from the earlier years of the evaluation. The country's execution performance in almost every metric analyzed improved over time. This is as much a tribute to the improved performance as it is to the poor levels of disbursement in the years immediately following the crisis. A review of the years leading up to 2008 show that the performance was in fact poor throughout years of very high growth and fiscal surpluses (e.g. 2004-2006). Nevertheless, this trend has reversed itself in dramatic manner in 2007 and 2008. In terms of absolute disbursements the portfolio has performed very well.

3.21 Second, despite the improvements in the execution pace, in some dimensions the portfolio still faces execution challenges. In particular, in some areas such as the performance of audits, their timely presentation, and the percentage of these without exceptions, the portfolio is still underperforming. In the case of audits, the rate of tardy audits is markedly higher for those performed by the government authority (*Auditoria General*) than those performed by private firms.

3.22 Third, the evidence reviewed finds that although the Bank's execution of its portfolio improved markedly, the Bank's supervision system still presents deficiencies. As can be seen in the table, the incidence of programs that are assessed by the Bank as having low development objective or implementation ratings falls to zero in 2006 and 2007, and continues very low in 2008. In many cases reviewed, this rating is not justified by evidence, and in some cases the evidence available is suggestive of execution problems that are not consistent with the classification given.[xxxvii] Although a full review of the usefulness of these self-reported ratings is beyond the scope of the CPE, it is important to raise the issue, as it can have serious implications regarding the Bank's ability to identify and respond to problems in the field.

I. Use of Instruments

3.23 The Bank's approved portfolio in Argentina has increasingly relied on the CCLIP as a preferred instrument for delivery of investment operations.[xxxviii] This is seen by the percentage of outstanding balance of investment operations approved under that modality, which has increased from 0% from 2003 to 2006 to 20% in 2007 to almost 90% in 2008 (as of the writing of this document it was the only investment modality used in 2009).

3.24 The rationale for the use of CCLIPs in Argentina was not identified in the strategy, but was identified in the mid-term review. The review said "*From an operations standpoint, some opportunities have emerged to use the range of Bank instruments to achieve the proposed objectives, which will help to design responses that are better tailored to the special circumstances in each sector. For example, some sectors are in a position to undertake medium- and long term investment plans. This makes it feasible to use instruments (multiphase, PDLs) that establish Bank-country commitments consistent with the proposed timeline to achieve the country's development goals. At the same time, some sectors propose an investment program that involves replicating execution arrangements, gradual increases in service coverage, etc., which could be excellent candidates for a CCLIP. In addition, a CCLIP could offer the financial umbrella that is needed to effectively align Bank support to long-term country's goals.*" (§5.9)

3.25 The evaluation found that the use of CCLIPs in Argentina did not adhere to this program intent, and in some cases did not adhere to the instrument's eligibility criteria, particularly regarding the clarity of the sector's development model and the documentation of results. This is particularly noteworthy in instances where the country's intervention model is evolving, such as in some of the infrastructure sectors.[xxxix] This would prima facie be at odds with the CCLIP's requirement of an established institutionality, and inconsistent with the intent, if not the actual text governing the instrument. In other cases, such as the CCLIP in support of Pre-investment, a loan is approved on the heels of a project with no demonstrated impact, and with mid-term reviews that seriously questioned the project's intervention model. In this particular situation, it would appear the use of instrument was inappropriate. Annex 8 summarizes the findings for all CCLIPs, but as can be seen only two of the CCLIPs approved (Education and Neighborhood Upgrading) document results, and in only three cases is a clear sector program given. This raises doubts regarding the Bank's commitment of longer-term resources in environments in which results are not properly demonstrated and in which sector policies are not clear.

D. Compliance with prior CPE Recommendations

3.26 The prior CPE made a series of recommendations regarding what Management should do in its approach and in its programming with Argentina. OVE's CPE has allowed an assessment of the degree to which these recommendations were incorporated into programming and otherwise taken into account.

3.27 The main conclusion, as is usually the case in these instances, is that some recommendations were implemented, while others were not. The Table below summarizes the nature of recommendations, as well as OVE's assessment regarding their implementation.

Recommendation	Assessment
Improve Sector Work. Incorporate sector work and non-financial products into programming.	Partial. Management has invested in analytical work, which has benefited from initiatives from RES, as well as initiatives from Country Divisions. The IMAS is a good step toward a better macro and risk assessment. However, it's applicability is limited due to its restricted nature. Likewise, analytical work on, for example, growth diagnostics, has allowed for a more focused approach to country bottlenecks. Still pending is a better utilization of Bank resources in providing analytical work in support of Bank operations.
Approve resources to maximize the efficiency of investment operations and of reform, rather than resources directed toward balance of payment operations. This includes using PBLS when they are consistent with macro and fiscal contexts	Partial. A shift toward investment loans did occur, but the Bank has not engaged in much of the reform agenda that it had identified in its strategy. In social sectors there has been a tighter relationship with a programmatic approach. In infrastructure

and in order to promote fiscal, employment, or distributional objectives; financing projects whose return exceeds costs; moving away from isolated projects to a more programmatic approach.	this has been absent.
Improve strategic programming in terms of (i) identification if indicators, (ii) self-assessments and lessons learned, particularly with respect to results, (iii) special attention to sub-nationals with an explicit "bottom-up" approach, (iv) focus on project risks.	Not implemented. The strategy and the mid-term review by and large did not include assessments of development impacts of operations. Assessments focused on implementation and on macro developments. Proposed matrix was altered between strategy and midterm review, and many indicators were not tracked. Regarding the sub-national strategy, there was none. Operations were developed during the subsequent programming, but did not respond to a specific strategy.
Improve evaluability of projects. Improve coordination between execution and design, involving those who design in execution. Improve self-evaluation function.	Partial. Evaluability did not improve. Regarding a greater participation of those who design in execution, there have been improvements in recently approved operations. It is an empirical question if this effort will continue throughout execution. Regarding self-evaluation function, it is still done in an ad hoc manner. There is no proper funding for this to be done at the project preparation level.

IV. RESULTS

4.1 This chapter details the sector-level and project-level results of the Bank's program with Argentina. Two caveats are in order prior to discussing the results. The first is that most of the programming, particularly projects approved in 2006-2008, is not mature enough to produce results. This later programming, concentrated in infrastructure, was discussed at length in chapters II and III. The second caveat is that a large part of the results in programming are derived from the Bank's response to the 2002 crisis. In that sense, although the focus of the CPE is post-crisis, the results chapter is necessarily linked to the programming period covered in the prior CPE.

Objectives Identified in the Strategy

4.2 At the program level the Bank's identification of how it would track objections was ambiguous. This is due to a change, during the midterm review, of the method by which the Bank would assess its results. Whereas in the country strategy the Bank identified a list of indicators that could be used to track achievements at the sector level, in the midterm review a new results framework was proposed, this one based more on project-level results, and on indicators that would be defined as specific operations were approved. Also, the midterm review did not update the indicators identified in the strategy. In short, there was no reporting on progress toward the strategy matrix.

4.3 The review of the aggregate matrix identified in the strategy shows a number of patterns. The updated matrix, with findings for each objective, are annexed. The first is that with respect to social sector and employment outcomes, indicators have in fact progressed very well. Mainly due to the economic recovery, poverty levels fell, employment recovered, and output recovered, and did so in a way that was broad-based. Education efficiency outcomes likewise have recovered to pre-crisis levels. Outcomes with respect to fiscal indicators were also positive, and exceeded targets. In other cases, such as health and urban development, indicators have trended positively, but have been at the output level. For example, with respect to neighborhood improvement and health, indicators identified were essentially the number of beneficiaries, rather than the benefits that could accrue to these beneficiaries.

4.4 Despite these positive findings, it should be noted that many of the indicators identified by the Bank were not tracked; it is not always possible to attest to their achievement. As was mentioned above, there was no tracking of results in the mid-term review. The review reported on activities undertaken, such as operations approved. With very few exceptions there was no assessment of results. This is also true of the tracking in the now-defunct Country Portfolio Reviews. OVE attempted to identify from other sources, the degree to which results were in fact achieved. In some cases this was not possible due to the lack of appropriate data. For example, with respect to coverage of those in extreme poverty and those in poverty, the lack of data documenting both poverty and program coverage, it is not possible to identify type I and type II errors (that is, poor not covered, and not poor covered).

4.5 With respect to governance indicators, the review found that the indicators were not well specified in the strategy, therefore it is not possible to assess the degree to which these were achieved. They related mostly to approval of specific operations or to specific activities to be undertaken. As already mentioned in the introduction, if measured by overall indicators of governance, the results have improved over the period of the strategy. However, they have not recovered to pre-crisis levels (unlike poverty, employment and GDP, which have). In any case, these indicators were not identified as a mechanism to track the Bank's activities.

Results by Sector

4.6 The review found evidence of several key results in the portfolio. Among these, are: (i) social programs were effective at combating the dramatically high levels of poverty; (ii) social programs supported by the Bank were on the whole well targeted; (iii) productive-sector programs were found to produce positive impact on firm-level outcomes. There were also instances of unanticipated positive impacts, particularly with respect to development of institutions.

4.7 The review also found evidence of limitations of program effectiveness. Among these are: (i) the Bank's efforts to produce high quality results and evaluation information was of limited success; results tracking and quality of evaluation was poor, and in the case of PROMEBA and *Familias* the strategy did not produce useful information on program effectiveness; (ii) overall the Bank's program with governance has not shown results; (iii) the evidence reviewed shows that programs could have been more effective by better program placement and targeting, particularly in the case of productive programs.

Social Sector Results: Restructured programs

4.8 The Bank reformulated its social sector portfolio to deal with the 2002 crisis, increasing finding to projects related to social protection (IDH/Familias), education (Becas), health (REMEDIAR) and neighborhood upgrading (PROMEBA). The redirecting of resources was built on programs already in execution, where some components received additional funding while others were cancelled. Along with the reformulation the Bank also approved resources for fast disbursement in the form of two emergency loans (February and December of 2003) and a PBL (December of 2004). The PBL in particular would also provide elements for improving the monitoring results framework for the restructured loans. It contained conditionality for both outputs to be executed and for monitoring indicators to be tracked, including related to targeting of social programs. The Bank also financed SIEMPRO, an institution charged with the monitoring and evaluation of social programs (including but not limited to those supported by the Bank).

4.9 In social protection the Bank's strategy was to take advantage of the existing program, IDH/Familias, which was a small conditional cash transfer program, as a mechanism of supporting the increased need for poverty alleviation. *Familias*, executed through the social development ministry was to replace the already existing program supported by the World Bank, *JJHD*. The plan, as articulated in both the redirection document, as well as in the social PBL of 2004 was that *Familias* would be the recipient of much of the *JJHD* beneficiaries, along with an alternate social protection program financed through unemployment insurance payments (*Seguro de Capacitación y Empleo*). The strategy to migrate *JJHD* to *Familias* was in part due to a need to improve targeting and to find, according to the Bank, and exit strategy for *JJHD*[xl].

4.10 The Bank financed studies of Familias, including some which were useful in simulating different hypothetical coverage and poverty scenarios. However, it has not financed an impact evaluations of IDH/*Familias*[xli]. Despite the financing of

SIEMPRO, charged with evaluating the social programs, and despite the social PBL, which also focused on monitoring and learning regarding crisis response activities, the Bank did not produce evaluations regarding the effectiveness of *Familias*, nor were any such evaluations found in the sources reviewed. Part of the reason for this lack of data on results is that there was no evaluation system in place to assess beneficiary results versus non-beneficiaries.

4.11 Given that some of the elegibility rules are common across *JJHD* and *Familias* (some are not) and given that most *Familias'* beneficiaries were migrated from *JJHD,* it is useful to briefly review findings regarding *JJHD*, even if the Bank's involvement of *JJHD* was only through the social PBL, and not through a specific investment operation[xlii]. Although the results are not portable across programs, they can be informative in a more general way.

4.12 The evidence reviewed shows that *JJHD* was effective in providing income and thus reducing poverty for some. This was critical in the crisis and immediate post-crisis period, and it is reasonable to expect that *Familias* can have a similar or even larger impact, given that the amounts of its payments are larger than *JJHD*, and given that rules governing selection into *Familias* likely drew in the poorer of the *JJHD* beneficiaries. Results also point to unemployment effects of *JJHD*. Given that the program was not open to those employed (or at the very least those formally employed), it was to be expected that there would be some disincentives to formal labor. It should be noted that *Familias* conditions on earnings (those with program and formal labor earnings above the minimum wage are ineligible) but not on employment, so it is unclear if these same results would be expected.

4.13 In 2002 many Argentines lost health coverage and were forced to use state-run health services, most of these run by each of the 23 provinces, given the federalist structure of health in Argentina. According to the IDB the increase in demand for public-run health was on the order of 30-40% between 2001 and 2002, and was concentrated among the poor. The Bank's role in this was to support the expansion of primary care health centers (CAPS) linked to distribution of medication as a method of both reducing the load on the provincial health system and of promoting health coverage for those impacted by the crisis.

4.14 There are a number of assessments of Remediar, most of an operative nature, but some that looked at outcomes also. A review of these sources reveals several key findings. The first is regarding targeting—an important dimension given that loss of coverage was three times higher among the poor than the non-poor. The program, mainly due to its strategy of placement among CAPS, was well targeted. Type I errors in the neighborhood of 8% are reported. It is important to note that this level of targeting was achieved even with the program's remarkable rate of expansion. Remediar also was effective at displacing some out of pocket costs of medication (roughly 20% for poor families), and thus had an impact on household budgets and thus on poverty rates. The program's intervention and purchasing model also generated decreases in the price of medication, although some of this impact is due to the *ley de genericos*, also passed at roughly the same time, which promoted the use of less expensive non-brand medication. Lastly, the composition of medication was more efficient over time, meaning that the match between demanded medications and those that were delivered was better in later years than in earlier years.

4.15 One of the program's objectives was to reduce demand at hospitals. Although it is likely that this did take place, it is unclear exactly what the magnitude of this impact was; it has not been estimated either by the Bank or by other sources. One possible reason for this is that the dynamic nature of demand during the post crisis period makes it difficult to estimate counterfactuals without the intervention. Even so, official statistics show that a majority of consultations is still done at hospitals, and that among the poor only 37 percent of consultations are at the CAPS.

4.16 A second concern raised both in in-country interviews and in the literature reviewed is the role of chronic disease treatment and the CAPS. The CAPS did not finance medication for chronic disease, nor did they have a protocol for following up on consultations. Although there were several changes to the program's specific components over the years after the crisis, provisions for financing chronic disease medication and for tracking treatment of these (mainly hypertension and diabetes) were not among them; they would be included during the second phase of Remediar (FEAPS). The relevant counterfactual to be raised here—although it is clearly beyond the scope of this paper to answer it—is how health outcomes would have differed had this concern been implemented earlier.

4.17 The third major crisis mitigation measure financed by the Bank was the extension of a program providing secondary school students' families with financial support (PNBE, or *becas*). The *becas* model was financed in three different operations; however the results reported are from the first operation, which disbursed *becas* only until 2005. The program was already in operation when the crisis hit, and in fact there were very few modifications to the targeting or execution model post-crisis. The program's execution increased from 110 thousand *becas* in 2001 to 350 thousand in 2005.

4.18 There were two impact evaluations of *becas*. One based on the first cohorts to be treated, conducted by the Bank and later expanded and published independently. The second evaluation was of subsequent rounds of beneficiaries, also financed by the Bank. Both evaluations found fundamentally similar results: *becas* improved retention rates and other measures of internal efficiency, and some evidence of improved learning. Argentina has no national testing of secondary school students, and none was administered ad hoc, so results on learning had to be gleaned from reported grades. Both evaluations also showed that grades were impacted by the program, and that this impact was stronger for those who remained additional years in the program.

4.19 The last social sector program was the neighborhood upgrading program, PROMEBA. The program stands apart from the remaining programs, in that the logical and empirical link between neighborhood improvement and the effects of the 2001-2002 crisis are not made explicit. In other words, there is no assessment of the impact of the macro-fiscal crisis on housing or a straight forward justification provided for the inclusion of PROMEBA among the restructured programs. This is particularly important given that the program's eligibility criteria focused on structural aspects of poverty, such as unmet basic needs, and not necessarily on the aspects of poverty that are generally associated with business cycles.

4.20 PROMEBA was reviewed in the context of water and sanitation investments in both the programming and the execution chapters. Here results of the first phase are reviewed. As was the case with Familias, PROMEBA did not have a baseline dataset with which to contrast neighborhood status before and after program placement. This presented a series of challenges to the evaluation, which the Bank dealt with by contrasting socio-economic and integration status of intervened neighborhoods with neighborhoods that had similar overall characteristics prior to program placement. Despite the attempt to adapt the evaluation technique to the underlying data inadequacies, the evaluation found that results with respect to outcomes are questionable[xliii]. This finding highlights the importance of having good ex ante baseline data and a robust ex ante evaluation strategy—neither of which was the case in this program.

4.21 The evaluation of PROMEBA was informative in a number of ways, despite the data problems mentioned above. Many of these are highlighted by the external interpretation of results commissioned by the Bank. First, there was substantial improvement in areas related directly to program activities. Indices such as those measuring access to services, direct consequences of the public works implemented, improved substantially. These results are consistent across communities—even in communities where the data problems mentioned above were most egregious. Second, although impacts at the outcome level cannot be established due to method problems, in the case of health, the evidence is suggestive of improvements in diarrhea, and other health problems usually associated with poor water and sanitation environments[xliv]. Third, the evaluation highlighted that the implementation of the program was heterogeneous in some components. Case in point is titling, where in some communities the program delivered titles, whereas in others there was no evidence of this output. This is a clear area for future improvement. Third, results are stronger for communities where need was higher. Those with higher levels of development benefited less. This seems obvious, but it is central in that it has clear implications for the needs-based targeting in the subsequent phases of PROMEBA. Fourth, there is limited evidence of second-round impacts, such as those related to incentives to further invest in one's asset (in this case the dwelling).

Productive Sector Results

4.22 The productive sector is unique in that the portfolio survived the redirection of funds following crisis, and since then has experienced considerable expansion. The assessment of results in the productive sector is both relevant for accountability purposes and as a mechanism of providing the Bank and Country with useful policy recommendations based on results achieved.

4.23 There are three main areas in which we have results for the productive sector. The first is in science and technology, through the PMT program which is now in the third consecutive loan, and which had both matching grants and support for research. The second is the *Programa de Apoyo a la Re-estructuración Empreserial* (PRE), which worked with SMEs to adjust to a more open economy through financing of technical assistance and some inputs. The third is the *Programa de Servicios Agrícolas Provinciales*, or PROSAP, which provided a fund for financing productivity projects at the province level. The Bank also financed SAOCOM program through PROSAT, the development of a satellite which would provide information on soil conditions. Lastly, the Bank has recently moved to a cluster approach for provincial productive sector development, with projects in Mendoza, San Juan and Rio Negro, though all of them are in the initial stages, so it is too early to show results.

4.24 There are no specific results on PRE, since no evaluations of the impact of the program were conducted.[xlv] As such, assessments found are operational in nature, describing the output of the program (firms receiving the subsidy, for example).

4.25 Despite the absence of evidence, however, the program experienced sufficient operational and design problems to potentially impact results findings. PRE was originally structured as a program to finance small and medium sized enterprise's productivity and business plans to adjust to a more open economy. Firms present business development plan with a desired subsidy for technical assistance and certain inputs, which then undergoes a technical and economic evaluation to determine whether it will be financed. The program finances technical help, and a certain percentage of inputs, with a limit of 75,000 pesos, which are disbursed after the actions are executed.

4.26 In terms of the design, the specific assumptions about the characteristics of the beneficiary firms that would justify the intervention are neither specified in the loan document, nor obviously met by the beneficiaries. In theory, firms with a profitable business idea might not implement it because of financing constraints, technical inability or risk aversion. However, given the nature of the intervention, which mainly provides a subsidy to firms with a technically and economically sound business development plan, it is not clear how the program solved any of these constraints for most beneficiaries. First, the need to provide a well-developed plan restricts access to technically challenged firms. Second, it does not solve problems related to access to financing, since payments are made after the project is implemented. Thus, the program's most likely effect is concentrated in firms that would not implement the business development plan in the absence of the program because the cost of introducing the innovation outweighs the benefit by a small margin. In this case, the subsidy might provide enough of an incentive to carry out the innovation, though it is hard to argue that in the absence of clear targeting mechanisms most beneficiaries will be in that category.

4.27 The program did not settle on a specific execution model, changing drastically its institutional setting three times during the eight years of execution. Initially conceived to be executed by the private sector under the monitoring of the government, the administration and execution of the program had to be centralized to SePyme due to the drastic budget cuts that affected the contracts with the firms selected for the administration of the program. With the economic recovery, in 2004, the program changed to the current institutional system, with a hybrid public-private administration under the supervision of SePyme. In addition to the changes in the execution model, SePyme saw frequent changes in its leadership and staff, which according to a qualitative evaluation financed by OVE[xlvi] have severely undermined the institutional learning for project administration and, thus, potentially reduced its effectiveness. In summary, despite the absence of evidence of the results of the program, the design and execution flaws are likely to have undermined the impact of the program on productivity.

4.28 PROSAP is the main vehicle financed by the Bank for agricultural development in the Provinces. It is essentially a fund that Provinces can submit projects to, which are then evaluated and financed by PROSAP. The type of project requested by the Province depends on its rural development needs, so PROSAP finances different interventions in different provinces. As such, it does not really have an intervention model, but rather a financing model. Given that there is very little ex post evaluation of executed projects, it is difficult to assess the quality of the projects financed. Anecdotal evidence and in-country interviews raised questions regarding this quality. Interviews with the executors suggested that this is a problem, but that it has been improving over time. In any case, it is not possible, based on the evidence available, to draw conclusions with any degree of certainty.

4.29 Although there is very little done regarding PROSAP results, OVE recently concluded an impact evaluation of one component of PROSAP's intervention in Mendoza, which provides extension services in the form of technical assistance for grape producers. The results point to positive impacts on productivity and grape quality for some types producers, but no impact for larger groups of beneficiaries. The results reviewed show that impacts on productivity are greater for producers with low productivity before participating in the program, while impacts on grape quality are larger for those with high productivity. Those with average productivity levels increased their quality but not their productivity. Most importantly, however, the impacts seem concentrated on large producers (6 ha or larger), leaving small producers, which were the stated objective of the program, with no impact in terms of productivity or grape quality.

4.30 The last class of projects reviewed in productivity are those associated with science and technology, in particular PMT and PROSAP. For PROSAT there is very little that can be said regarding results; however, the execution story is informative enough to include it in this chapter. In-country interviews show that in PROSAT the Bank was able to demonstrate its capability of financing programs which are in and of themselves innovative, without a point of reference. Interviews with the executing unit show it to be highly competent and technical. Yet, the Bank was able to maintain a discussion within this context and engage the agency on issues related to quantifying project benefits.

4.31 In PMT there is both an execution lesson as well as a results lesson. The first has been learned, the second has not. In execution, PMT is a good example of a program in which the Bank has engaged and maintained continuity of financing. It is appropriate that the Bank is using a CCLIP in such a context, given both the nature of the intervention outputs, which are essentially continued financing of grants, and the executor's characteristics.

4.32 In terms of results, in 2008 OVE concluded an evaluation of PMT and other similar programs in other countries. This showed that the program's impact is heterogeneous, and depends on characteristics such as firm size. More established firms, on average, use grants to displace innovation that they were already planning to undertake, whereas startup firms use the grants to finance innovation they otherwise would not have been able to undertake, generating an impact on innovation only on smaller firms. On the other hand, the use of subsidized loans has a positive impact on larger firms. This finding would require, at the minimum, an effort to further review these findings, if not a redesign of the program with respect to eligibility and targeting. This design is not present in PMTIII[xlvii].

4.33 In an effort to target more effectively productive development policies for specific sectors, the Bank has recently moved to a provincial cluster approach, by financing projects in Mendoza, San Juan and Rio Negro. This new approach has, in theory, the value-added of identifying important sectors locally and increasing coordination among firms and between the private and the public sector. , thus permitting a more effective design of sector specific interventions. In visits to the Mendoza and Rio Negro projects, OVE was able to assess some progress in the identification of clusters, though it is still unclear how the specific needs for each sector will be met. Commendably, there are some efforts by the Bank to collect data and identify the correct methodologies for a future impact evaluation of such operations.

ENDNOTES

[i] This is seen for example, in the collapse of opinion-based governance measures, such as those published by the World Bank (Governance Matters 2009 and related data).

[ii] Government projections understated expected growth by 2-3 percentage points throughout the period. IDB projections were similar. IMF projections have under estimated by between 3-7 percentage points.

[iii] The political crisis was a systemic crisis that impinged on all the political structure and the government functioning at all levels (executive, congress and judicial). The crisis led to a rupture between the political parties and the society. The Congress was strongly questioned the common symbolic expression "que se vayan todos".

[iv] This was essentially the implementation of limits on utility service rates, mostly in Buenos Aires.

[v] See Frenkel (2007), "Política cambiaria y monetaria en Argentina después del colapso de la convertibilidad", CEPR

[vi] Decreto 1283/2003 Unifícación de los Ministerios de Economía y de la Producción en una sola Cartera de Estado y créación el Ministerio de Planificación Federal, Inversión Pública y Servicios, Mayo de 2003.

[vii] According to IDB figures these reduced from 4% of GDP in 2001 to 2% in 2008.

[viii] Projection based on BCRA.

[ix] This reduction has been postponed due to political pressures and due to the impact of the global crisis on purchasing power.

[x] The JP Morgan EMBI Index shot to 1800 bp after the financial crisis started in late 2008. It is currently lower, but still relatively high, at 800 bp.

[xi] Table 1.2 reflect estimates from June of 2009. For 2010, note that payments on GDP coupon will likely be lower (or none), given that they are contingent on economic performance. Primary balance will also likely be lower.

[xii] See IDB (2008). "NOTA SECTORIAL AGUA POTABLE Y SANEAMIENTO."; Also see IDB (2008) "OPORTUNIDADES DE ACCIÓN PARA EL BANCO INTERAMERICANO DE DESARROLLO NOTA SECTORIAL DE ENERGÍA"; Annex on Infrastructure to this CPE.

[xiii] See IDB (2008); CIPPEC (2005); CIPPEC(2009) "EN DEUDA CON LA CONSTITUCIÓN: EL RÉGIMEN DE COPARTICIPACIÓN, PROBLEMAS Y SOLUCIONES"; Sanguinetti (2004) and Sanguinetti (2007), "Expenditure smoothing at the subnational level: Evidence from Argentina"; IDB (2002) and IDB (2008) "Desafíos Institucionales del Gobierno Argentino para Contribuir a la Competitividad de la Economía: Diagnóstico, principales desafíos y posibles cursos de acción".

[xiv] See Gasparini and Cruces (2008) for a review of the social protection system, the gaps in coverage, and the legacy of PJJH.

[xv] See IDB (2008). "Nota Técnica - Protección Social", World Bank (2005), "Argentina: Seeking Sustained Economic Growth with Social Equity, Report No. 32553". See also Social Sector Annex for a discussion on the transition from JJHD to Familias.

[xvi] See for example, IDB (2008), "Nota Técnica del Sector Educación: Argentina"; IDB (2008) Loan Document AR-L1038, UNESCO (2008), "Student achievement in Latin America and the Caribbean: Results of the Second Regional Comparative and Explanatory Study (SERCE)", OECD (2008) "PISA 2006 results).

[xvii] See for example, IDB (2008), "ARGENTINA ESTRATEGIA DE DESARROLLO DE LA COMPETITIVIDAD DEL SECTOR PRIVADO EN ARGENTINA: NOTA DE DIÁLOGO SECTORIAL"

[xviii] See for example, Sanchez and Butler (2007), "Competitiveness and Growth in Argentina: Appropriability, Misallocation or Disengagement?" and Fanelli et al (2007) "Growth Diagnostics for Argentina". Note that Butler and Sanchez mention that the most binding constraints may be the most difficult to deal with, and provide alternative scenarios which may be more feasible to implement.

[xix] For example, in competitiveness of provinces the strategy mentions that IDB indicators will be "*Project-specific indicators for: Salta (1465/OC-AR), Mendoza (1640/OC-AR), Río Negro (1463/OC-AR), San Juan (ARL1022). Institutional capacity index of provincial government agencies (1588/OC-AR).*" (results matrix). In the case of governance, it only mentions as indicators the approval of projects.

[xx] In the case of Mexico this was due to a large repayment in 2007.

[xxi] For example, in 2008 financing requirements were in the neighborhood of 5.1 billion, while Bank disbursements were in the neighborhood of 800 million dollars, or 16%.
[xxii] According to the strategy "*Para la implementación de la Estrategia en el período 2004-2008 fueron elaborados dos escenarios de préstamos que toman como punto de partida un marco de estabilidad macroeconómica en línea con el programa de gobierno de mediano plazo acordado con el FMI. Se espera que este programa permitirá al país llegar a una posición de solvencia y sostenibilidad de su deuda pública como resultado de su renegociación con los acreedores privados, de los avances en las reformas fiscales, la reestructuración del sistema financiero y la renegociación de los contratos de servicios públicos*." (GN-2328-1)
[xxiii] It should be noted that although this was charged against the future strategy, it still corresponded to the last year of the 2004-2008 strategy.
[xxiv] This task is left up to Bank staff, who respond to decisions by top Management in their consultations and dialogue with the borrowing countries.
[xxv] According to comments received by OVE from Management, the Bank has agreed with GOAR to support wind energy generation with a loan slated for 2010. In 2008 in interviews at the Ministry of Planning mention was made of the Bank's support in this area.
[xxvi] In roads the Bank financed projects in which tolls were not an issue.
[xxvii] Of the TCs approved during the period none of them had as an objective to study or otherwise deal with the issues presented and discussed in the strategy.
[xxviii] See sector note for a discussion of the loan and the reporting mechanisms mentioned.
[xxix] See Silva, Claudia 2008 "Programa Sectorial de Administración Financiera Pública: Evaluación Ex-Post"
[xxx] The average poverty rate in provinces with which the Bank approved loans was 18.5 percent; in those with no approved loans the average was 21 percent.
[xxxi] For example, according to interviews of firms in Argentina, constraints are related to tax policy, stability of the investment climate, and labor regulation. Only 1% of firms identified issues such as processes, permits, or other administrative procedures as constraints. See Annex for a discussion.
[xxxii] These resources were also important in retiring emergency loan funds, which had been approved during the crisis and were coming due, and allowing a refinancing of funds on a more favorable basis.
[xxxiii] See social annex for detail regarding different social protection programs and the IDB
[xxxiv] A target was added, but was modest relative to the magnitude of the problem.

Delivery efficiency metrics, by programming document group

	(I) 2004	(II)=(I)+2006	(III)=(II)+2007	(IV)=(III)+2008
Programmed and approved	2,060,600,000	5,121,200,000	6,389,700,000	6,389,700,000
Programmed and not approved	150,000,000	655,000,000	785,000,000	1,035,000,000
Approved and not programmed	4,685,100,000	1,624,500,000	356,000,000	356,000,000
Proportion of programmed that is approved	93.21%	88.66%	89.06%	86.06%
Proportion of approved that is programmed	30.55%	75.92%	94.72%	94.72%

[xxxv]

[xxxvi] A caveat is that AR-L1029 did not have an amount identified, so that the calculation was made with an imputed value equal to the median value of all approved operations.
[xxxvii] This is the case of most of the governance portfolio, as well as projects such as the PRE.
[xxxviii] The use of CCLIPs was approved by the Board, given that it had the potential to generate additional demand for the Bank's lending by reducing both financing and transaction costs. A credit limit is approved, and fees and charges are only applied to the currently approved balance of that limit. Likewise, subsequent operations do not require the same intensity of program preparation as would an investment loan under another modality. This intent is made clear by the normative approving the CCLIP, in 2003, and later modifying it, in 2006 (GN-2246-1 and -4). These documents required that CCLIPs be in scenarios where operations can be replicated, where there are documented positive results, where executor capacity/institutionality has been demonstrated, and in areas where the program is consistent with the broader Bank strategy in the country.
[xxxix] As discussed previously in chapters I and II, in these sectors issues such as sustainability of financing, structure of subsidies and incentives—among others—are still taking shape and being implemented by GOAR.
[xl] For a more in depth discussion see Background Note by the IDB, as well as Background Note by OVE.

[xli] There are few studies done on Familias. One of these studies was a study of beneficiaries, in which Familias beneficiaries' characteristics were analyzed to determine the level of program targeting (in terms of those who should not be in the program but were, not in terms of those not covered who should have been)--see Ministerio de Desarrollo Social de la Nación (2008). "Informe Preliminar de Evaluación de Focalización del Programa Familias por la Inclusión Social". See also report on the evaluation . The study found that the program's poverty profile was higher among beneficiaries who sastisfied JJHD conditionalities than among those who did not. A second study of Familias, conducted by CEDLAS, simulated changes in program rules in order to predict changes in program outcomes . A third study, also financed by the Bank, looks at the vulnerability profiles of potential Familias beneficiaries by using household surveys and administrative data on program participation and outcomes (FIBAPS). These studies are potentially useful tools for adjusting execution parameters. There are also studies of the Argentinean social protection system more broadly, such as that of Gasparini and Cruces (2008), which does not estimate impacts or inclusion/exclusion errors in Familias, but does mention that the proportion of poor not covered by social protection programs is relatively large, in part due to (i) the fact that the social protection system was designed as a response to the 2001-2002 crisis, and has since centered around the original beneficiaries of that system, and (ii) due to the fact that budgetary restrictions did not allow all the poor from that crisis to be covered initially.

[xlii] For example, both programs were open only to those who were unemployed and who had children. Differences include the amount, which for JJHD was a fixed payment of 150, while Familias' payment was dependent on the number of children, with a payment limit of 305. Familias also required health and education conditionalities, while Jefes required community service hours, which were not enforced.

[xliii] Some of these are pointed out by a review of the data by an outside consultant, who found that some of the differences may be due to inappropriate comparisons among communities. This is consistent with, for example, results that show a reduction in health status in Chubut due to the program, which is not plausible. Likewise, ex post poverty data show large positive impacts on some communities and large negative in others. These apparently puzzling results are most likely due to pre-existing differences prior to the intervention that were not able to be controlled for during the initial sample selection process. These issues underlie the importance of having appropriate baseline data in order for evaluation results to be credible.

[xliv] In this instance the CPE is in disagreement with the external interpretation commissioned by the Bank, which finds the evaluation results sufficiently compelling as to conclude that there are demonstrated results in health and unmet basic needs. The CPE finds that this view is not warranted, given the data and method complications, and the contradictory results in poverty (and health).

[xlv] It is to be noted that this office is currently conducting an impact evaluations of PRE, although results are not available as of the writing of this draft. The PCR does include a survey of beneficiaries, in which they rate the program generally well; but perception surveys are inappropriate to gauge program impact.

[xlvi] Kantis (2008)

[xlvii] The Bank's latest CCLIP for Argentina includes financing for a fourth phase of the program. This is outside the review period, therefore it is not possible to assess the degree that the latest loan has incorporated a better targeting and differential application of innovation financing instruments.