



Country Program Evaluation

Argentina 2016-2019

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Preface

As part of its 2020 annual work plan, the Office of Evaluation and Oversight (OVE) has prepared the evaluation of the country program of the Inter-American Development Bank Group (IDBG)¹ with Argentina during 2016-2019.² According to the Bank's Protocol for Country Program Evaluations (CPEs) ([RE-348-3](#)), the main goal of this evaluation is “to provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance.” CPEs are prepared to inform the process of elaborating a new Country Strategy (CS) and evaluate the Bank's assistance to the country, in particular the financial and non-financial relevance of the CS and country program and the implementation, effectiveness, efficiency, and sustainability of the program.

This is the fourth independent evaluation of the Bank's country program with Argentina and was prepared between June 2019 and April 2020. The three prior CPEs covered periods of economic crisis and subsequent recovery. The first ([RE-299](#)) spanned 1990-2002, analyzing the Bank's support before and after the 2001/2002 crisis; the second ([RE-361](#)) covered the Bank's support during the post-crisis economic recovery of 2003-2008; and the third ([RE-491-1](#)) covered 2009-2015, a period marked by falling commodity prices and increasing fiscal difficulties in Argentina. During this evaluation period (2016-2019) the Government worked to create conditions for more private investment in a difficult macroeconomic and fiscal context, as an economic and currency crisis returned to Argentina in 2018/2019. This CPE is the first for Argentina to also cover IDB Invest (formerly

1 In this document, IDBG refers to the IDB and IDB Invest.

2 To match the 2016-2019 Country Strategy period, this CPE's evaluation period covers the period between November 16, 2016, and December 31, 2019, whereas the previous CPE's evaluation period ended December 31, 2015. All operations approved in 2016 before the start of the evaluation period are, however, included in the legacy portfolio of this current CPE.

known as the Inter-American Development Corporation) since OVE's oversight mandate was expanded following the 2016 consolidation of IDBG's non-sovereign-guaranteed (NSG) windows ([AG-9/15](#)).

The previous CPE for Argentina ([RE-491-1](#)), which covered the period 2009-2015,³ issued five recommendations: (1) prioritize efforts to support the policy dialogue on key issues to attain the country's development objectives; (2) support the Government in addressing institutional deficiencies that undermine the effectiveness and sustainability of Bank programs aimed at providing infrastructure; (3) address the problems of quality and equity in Bank programs that support the delivery of basic social services; (4) clearly document market failures that justify subsidy components in projects and ensure coordinated, effective, and sustainable implementation; and (5) exploit synergies between sovereign-guaranteed (SG) and NSG windows to support the provision of basic infrastructure and energy. All recommendations were endorsed by the Bank's Board of Executive Directors and to a large extent implemented by IDBG Management (see Annex II).

³ During the first three years of this period there was no new CS, but rather four updates of the 2004-2008 CS ([GN-2328](#)). In late 2012, a new CS ([GN-2687](#)) was approved for 2012-2015.

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Acronyms and Abbreviations

BCRA	Central Bank of the Argentine Republic, for its Spanish acronym
CAF	Latin American Development Bank
CCLIP	Conditional credit line for investment projects
CPE	Country Program Evaluation
CS	Country Strategy
DIGEPPSE	Special and Sector Programs and Projects Unit, for its Spanish Acronym
EU	Executing unit
FI	Financial intermediary
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IDB(G)	Inter-American Development Bank (Group)
IFC	International Finance Corporation
IL	Investment loan
IMF	International Monetary Fund
INDEC	Argentina's National Statistics and Census Institute, for its Spanish Acronym
LAC	Latin America and the Caribbean
MICI	Independent Consultation and Investigation Mechanism, for its Spanish Acronym

NG	<i>Norte Grande</i> region
NSG	Non-sovereign-guaranteed
OECD	Organization for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PBP	Programmatic policy-based loan
PPP	Public-private partnership
SG	Sovereign-guaranteed
SMEs	Small and medium-sized enterprises
TC	Technical cooperation
TFFP	Trade Finance Facilitation Program
XSR	Expanded Supervision Report

Executive Summary

Context

Argentina, the third-largest economy in Latin America and the Caribbean (LAC), is among the LAC countries whose populations enjoy the greatest degree of equality. However, it continues to face development challenges. Living standards, education and health outcomes, and access to basic infrastructure vary greatly among different Argentine regions; in particular, the northern provinces (Norte Grande, or NG) and parts of greater Buenos Aires lag behind. Argentina's business environment is marked by obstacles to competition, growth, and innovation, as well as insufficient access to finance because of the underdeveloped financial system. A lack of investment in infrastructure has resulted in persistent gaps in the quality of Argentina's roads and of the electricity supply. Argentina's institutions and regulatory framework continue to exhibit significant weaknesses, although public perceptions of the quality and efficiency of Government improved at least temporarily during the evaluation period.

The 2016-2019 evaluation period was marked by a return to crisis after initial stabilization attempts. The incoming Government took several measures to address a deteriorating macroeconomic and fiscal situation and create better conditions for investment. However, as economic shocks in early 2018 added to continued high fiscal deficits financed by foreign debt and Argentina's Central Bank, waning investor confidence resulted in capital outflows and a currency depreciation. Facing liquidity challenges, in June 2018 Argentina's Government signed a US\$50.7 billion three-year stand-by agreement with the International Monetary Fund (IMF), the largest in IMF history, which was later expanded by another US\$6.3 billion. So far, US\$44.1 billion of the program have been drawn down. Inflation, poverty, and unemployment continued to rise through 2018 and 2019, and after the ruling coalition's clear loss in the August 2019 primary elections, a sharp drop in international reserves prompted the Government to reinstate currency controls and delay domestic debt payments. After general elections confirmed the opposition's return to power in late 2019, the new Government passed several emergency measures, including increased export taxes and a freeze in public utility tariffs, and announced its intention to restructure a large part of its foreign debt, including its obligations under the IMF program. More recently, the Government has also introduced several emergency measures to address the effects of the COVID-19 pandemic.

Relevance

The IDBG 2016-2019 Country Strategy (CS) with Argentina was aligned with Government priorities and addressed important development constraints, although it did not fully identify all the program risks that materialized. The CS ([GN-2870-1](#)) proposed to work toward 13 strategic objectives under three main pillars: business climate improvement, strengthening of private sector integration and insertion into value chains, and reduction of poverty and inequality. It was in large part aligned with the main Government objectives which sought to create an environment conducive to private sector growth by, among other measures, improving the business environment, attracting private investment for infrastructure, and strengthening Government efficiency and transparency. CS strategic objectives not explicitly aligned to Government objectives, such as finance for small and medium-sized enterprises (SMEs), addressed other relevant development constraints. The CS also established three areas of cross-cutting action (gender and diversity, institutional strengthening and capacity building, and climate change), and promised a continued focus on the NG and greater Buenos Aires. While the strategic objectives are broadly worded, the results matrix outcomes suggest a narrower scope, leaving out some areas of new and ongoing IDBG activities such as work on transparency, urban railroads, and solid waste. The CS correctly identified macroeconomic and implementation risks but did not anticipate materialized integrity risks and failed to flag those posed by policy discontinuity, and proposed mitigation measures were not commensurate to the magnitude and nature of the risks.

The crisis prompted IDBG to rebalance its program toward fast-disbursing operations despite unmitigated risks to the effectiveness of supported reforms. Exceeding CS projections by more than 30%, IDBG approved 37 SG loans for US\$6.7 billion and 43 SG technical cooperation (TC) operations totaling US\$19.7 million. New NSG operations consisted of 28 loans for US\$1 billion, 1 equity investment for US\$2 million, and 2 TCs amounting to US\$0.5 million.¹ In addition to operations approved for Argentina specifically, IDB also approved 5 regional operations (US\$320 million of which was for Argentina) with major activities in the country during the period.² The CS pillars of business climate improvement and poverty and inequality reduction received considerably more newly approved funding than private sector integration and insertion into value chains. The legacy portfolio was composed of 51 SG and 9 NSG loans, as well as 26 SG TCs, with a combined undisbursed balance of US\$3.7 billion. Most legacy resources fell under the strategic area of poverty and inequality reduction, followed by business climate improvement.

¹ In addition, 51 loans were disbursed for US\$428 million, and 123 guarantees issued for US\$138 million under the Trade Finance Facilitation Program (TFFP).

² The overall approved amount of these 5 regional loans was US\$530 million.

Approved operations during the period included US\$1.2 billion in programmatic policy-based loans (PBPs), the first for Argentina since 2006. Virtually all of IDBG's country program was at least partially aligned to CS strategic objectives, almost three-quarters mainstreamed at least one cross-cutting CS issue, and a majority of the geographically identifiable SG support benefited the CS priority regions of the northern provinces and greater Buenos Aires. Several legacy operations were adapted early in the period to fit new Government priorities, and after mid-2018 IDBG provided US\$1.9 billion (of US\$2.5 billion approved) in fast-disbursing resources to complement the IMF program. Some of these resources were in the form of PBPs that supported several important areas of Government reform. Some reforms benefited from more direct technical support than others, and the depth of the supported policy measures was uneven. The fast-disbursing loans, approved despite unmitigated risks to the effectiveness of supported measures, such as those emanating from a lack of policy continuity or a further deterioration of macroeconomic conditions, allowed IDB to provide much-needed liquidity to Argentina in a crisis context.

In addition to its important financial contributions, the Bank also provided relevant technical support during the period. Argentina used its temporary access to international capital markets during the period to issue sovereign bonds, but IDB remained the central Government's most important official source of financing before the 2018 IMF program. NSG support to Argentina was highly financially additional especially by providing otherwise unavailable long-term financing, although in some cases private sector demand for this product was affected by the crisis. Given IDBG lending in US dollars, currency mismatch risks materialized for both SG and NSG lending during the period and have resulted in financial sustainability concerns. Counterparts also valued the non-financial value added by IDBG through TCs and other technical support.

Crisis effects, such as fiscal austerity measures, compounded ongoing institutional weaknesses and contributed to long execution delays. Argentine SG investment loan operations were prepared at a lower cost and within shorter times than IDB and peer country³ averages and averages during the previous strategy period. However, while cancellations were relatively low and the speed of investment lending disbursements improved compared to the previous period, SG disbursements stayed below CS projections despite higher-than-expected approvals, including of fast-disbursing operations. In addition, far more Argentine operations continued to require extensions than IDB and peer country averages. A significant part of the of the portfolio suffered delays due to fiscal austerity measures and other crisis impacts which compounded existing institutional

3 The peer country group, determined by the size of the economy, consists of Brazil, Chile, Colombia, Ecuador, Dominican Republic, Mexico, and Peru.

weaknesses and design issues. In line with findings by the previous CPE, institutional strengthening components of IDB operations continued to be under-executed, or their funds redirected to public works. Whereas IDBG-internal collaboration was more effective during project preparation than during implementation, IDBG generally coordinated well with other official multilateral and bilateral agencies on relevant issues.

Effectiveness and sustainability of the Bank's Program

In spite of implementation problems, IDBG assistance contributed to progress in several important areas, albeit in many cases only after long delays. Institutional strengthening operations, which included four PBP loans, contributed to improving Government efficiency and advancing toward increased Government transparency and integrity. IDBG operations for improved infrastructure, many of which suffered long delays, helped enhance road infrastructure quality and urban road safety, improve telecom and water and sanitation coverage and urban railroads, significantly increase Argentina's renewable energy capacity, and complete additions to transmission capacity. IDBG interventions in science and technology and agriculture helped develop business services and public goods for integration and innovation. By supporting the national REDES health program, IDB continued to strengthen the primary health care system's focus on the prevention and management of chronic diseases, and IDB also played an important convening role in supporting efforts to improve the physical and economic autonomy of women through a PBP and several TCs. IDB operations also helped make progress on improving natural disaster risk management frameworks, including the development of flood control plans for important river basins. By supporting urban development and water and sanitation projects, IDB contributed to improving the habitat and access to basic human services in lower-income regions, although many results have not been delivered in the expected timeframe.

The effectiveness of IDBG support to several other areas—such as the business environment, increased security, export insertion levels, fiscal reforms, early childhood development, education quality, and employability—was more limited. The implementation of a new public-private partnerships program for infrastructure supported by IDB faltered amid a significant increase in integrity risk perceptions and macroeconomic and policy uncertainty, fiscal reform measures have been partially reversed, and other regulatory improvements are likely to show results only once the economy recovers. IDBG operations to increase the financial depth of the private sector and financing for SMEs were strongly affected by the crisis, and contributions to reduced logistics costs were marginal. The effectiveness of IDBG's few operations supporting environmentally friendly solutions in raising environmental performance is uncertain,

and IDB-supported advances toward the strategic objective of greater security for businesses and people were very limited. The contributions of IDB's support to improving export insertion levels and developing businesses and clusters in areas with high value-added are unclear, as the dispersed IDB activities in this sector show few and mixed results to date. By advancing primarily on education infrastructure, IDB's contribution toward the education sector objectives of raising education quality has been limited, and implementation delays affected progress toward the early childhood development objective. IDB operations provided limited support to improving employability.

There are considerable risks to the sustainability of development results. The main issues that can affect the sustainability of IDBG's 2016-2019 program with Argentina are (i) policy changes and their effects on IDB-supported reform efforts; (ii) a structural lack of infrastructure maintenance at the subnational level; and (iii) worsening fiscal constraints, which are likely to continue to affect the implementation of IDB operations. OVE also found some instances of insufficient attention to economic, environmental and social sustainability risks at the sub-project level. The large currency depreciation during the period also significantly increased the burden implied by servicing US dollar loans, including IDBG's, posing more general debt sustainability questions.

Furthermore, the COVID-19 pandemic has created unprecedented uncertainties, as the full health, economic and social impacts of the crisis are still unknown. This suggests that IDBG's response in the short term will require flexibility and agility to help Argentina grapple with the crisis.

Recommendations

In light of the evaluation findings and the uncertainties created by the COVID-19 pandemic, OVE makes the following recommendations to Management:

- 1. Delay adopting a new Country Strategy until the effects of the COVID-19 pandemic are better understood.** Given the still unknown extent of the health, social, and economic impact of the COVID-19 pandemic in Argentina, OVE recommends that IDB Group not proceed with agreeing on a new full-term CS with the Government until the extent of the crisis impact is better understood. Instead, OVE recommends that IDB Group extend the current strategy period and, in its request for extension, include a road map covering a one-year period that outlines IDB Group's short-term support in response to the crisis. It will then be able to commit to a new multi-year country strategy under greater certainty at the end of the extension period.

- 2. Continue to work with the Government on reform implementation.** Many of the reform measures supported through PBPs during the evaluation period (as in transparency, fiscal reforms, and gender policies) will show their expected development results only if they continue to be implemented and the relevant counterparts take complementary actions. To this effect, IDB should make continuation of these reforms an important part of its dialogue with the Government, stay abreast of progress on reform implementation, and provide technical support where needed.
- 3. Given limited fiscal space, ensure that future IDB support through investment lending is focused on a limited number of areas where IDB can add most value, and ensure that project design is commensurate with implementation capacity.** Implementation of the investment portfolio was affected by fiscal austerity and implementation capacity issues. Given that fiscal space is likely to remain constrained, OVE recommends that IDB provide more focused support and ensure that project design takes into account institutional and fiscal capacity constraints.
- 4. Take measures to ensure that gaps in institutional capacity at IDB counterpart agencies are more effectively addressed.** Review the reasons for the under- or non-implementation of institutional strengthening components in numerous operations during the period, and ensure that future capacity building activities—either in the form of components within operations or as stand-alone interventions—are consistently well tailored to counterpart and project needs and realities.
- 5. Develop and implement an action plan to more systematically address the lack of maintenance of IDB-financed infrastructure, especially at the subnational level.** As in the previous CPE, OVE again found insufficient maintenance of infrastructure assets, especially by subnational entities, pointing to the need for more effective measures to improve the maintenance of IDB-supported infrastructure. Such measures can, for example, involve better integration of subnational maintenance activities into project design and ensuring their implementation, and/or more systematic work with the Government on strengthening relevant incentives.



01

Country Context¹

¹ For further details and sources, refer to Annex XII, which contains this context section with more details and sources in footnotes, as well as the Approach Paper for this evaluation (*Approach Paper: Country Program Evaluation: Argentina 2016-2019*, [RE-540](#)).

- 1.1 Argentina, with a population of about 44 million, is the third-largest economy in LAC and the world's 24th-largest. The 2018 per capita gross domestic product (GDP) of US\$20,611² places Argentina among the upper-middle-income countries, is higher than the LAC average, and ranks sixth among IDB's borrowing member countries. Argentina is considered an emerging market by the Financial Times Stock Exchange Global Equity Index and is one of the G-20 member countries. Manufacturing and industry are the largest contributors to total GDP, accounting for 19.6%, followed by wholesale, retail, and repair services (15.2%), real estate and rental activities (12.9%), and agriculture (7.4%).
- 1.2 The evaluation period was marked by a return to crisis after initial stabilization efforts. The period started with an urgent need to address a deteriorating macroeconomic situation, with accelerating inflation, dual exchange rate and pressure on the currency, high fiscal deficits, tightening liquidity, and dwindling international reserves. Actions initially taken by the Government included capital account and foreign currency market liberalization, the adoption of new fiscal and inflation targets, a reduction in subsidies for utility tariffs, an agreement with holdout bondholders (allowing Argentina to resume international bond issuances), fiscal austerity measures, comprehensive tax reforms, measures to increase Government transparency and accountability, and other reforms aimed at creating better conditions for investment and private-sector-driven economic growth. After a contraction in 2016, the economy briefly returned to growth in 2017. However, continued high fiscal deficits financed by foreign debt and Argentina's Central Bank (BCRA), a drought that further worsened the current account deficit, and external shocks resulted in capital outflows by the beginning of 2018. These circumstances set off a run on the peso and sharp depreciation, a surge in inflation, severe liquidity challenges, and a renewed economic recession. To avoid another default or forced debt restructuring, in June 2018 Argentina signed a US\$50.7 billion three-year stand-by agreement with the IMF, the largest in IMF history, which was expanded by another US\$6.3 billion in August 2018.
- 1.3 After a further worsening of the crisis, the opposition returned to power at the end of 2019. Socioeconomic indicators continued to deteriorate in 2019, and after the ruling coalition's clear loss in the August primary (PASO) elections, the Argentine peso depreciated even more sharply against the US dollar as Argentines withdrew their US dollar deposits from banks and bought foreign currency. International reserves fell

2 Based on purchasing power parity.

strongly amid efforts to shore up the peso, prompting the Government to reinstate currency controls and delay domestic debt payments to slow further depreciation and avoid outright default. General elections held in October 2019 confirmed the opposition's return to power, and in December the new Government passed the "Social Solidarity and Productive Reactivation" bill, which declared a public emergency and granted the Executive extraordinary powers until December 31, 2020. Legislative measures taken so far include an increase in agricultural export duties, a 30% surcharge on purchases of foreign currency ("PAIS tax"), a temporary (180-day) freeze of public utility tariffs, and a doubling of the severance pay for workers dismissed without "just cause." The new Government has also announced its intention to restructure a large part of its foreign debt, including its obligations under the IMF program. More recently, the Government also announced a series of measures to address the economic fallout of the COVID-19 pandemic, which are likely to put an additional strain on public finances.

Main development issues

- 1.4 Overall, Argentina's people enjoy greater equality than those in most LAC countries, but poverty rose sharply toward the end of the evaluation period and is higher in the northern provinces. In terms of living standards and inequality, Argentina ranks 50th (of 103 countries) in the World Economic Forum's Inclusive Development Index 2018, with better performance than Mexico (51st) and Colombia (57th), but behind Peru (41st) and Chile (34th). Argentina is among the most equal LAC countries in terms of income, with a 2017 Gini coefficient of 41.2 (compared to Brazil's 53.3, Mexico's 48.3, Chile's 46.6, Colombia's 49.7, and Peru's 43.3). However, with high inflation and a rollback in subsidies, the poverty rate has been on the rise again since 2018, reaching 35.4% in the first half of 2019 after having fallen to 25.7% in 2017 (Argentina's National Statistics and Census Institute or INDEC). Moreover, Argentine regions exhibit large disparities in the prevalence of poverty, with the highest poverty rates in the northern provinces.
- 1.5 There are significant regional differences within Argentina in education and health outcomes and in the provision of basic infrastructure. Argentina's education system has high enrollment rates but also high dropout rates and quality challenges. Moreover, education outcomes vary among Argentine provinces—a fact that is in part explained by differences in education budgets and infrastructure. In health, on a national level Argentina performs better than most LAC countries on key indicators such as life expectancy and infant

and maternal mortality. However, noncommunicable chronic diseases place a high burden on Argentina's health care system, and health outcomes in certain northern provinces are significantly worse than in certain central and southern regions. Of the overall Argentine population, 87% are estimated to have access to drinking water and 58% to adequate sanitation, but coverage is highly uneven among Argentine regions.

- 1.6 Argentina's business environment has not been conducive to private sector growth and innovation, and its financial system remains underdeveloped. The World Bank's 2020 Doing Business analysis ranks Argentina 126th (of 190) and thus slightly worse than in 2015 (124th), and behind countries such as Chile (59th), Mexico (60th), Colombia (67th), Peru (76th), and Brazil (124th). Besides macroeconomic and policy instability, the main issues are the high tax burden, hurdles to starting a business and obtaining permits, high transport and logistics costs, and obstacles to cross-border trade. Moreover, Argentine businesses report difficulties in finding sufficiently skilled workers. According to 2018 data from the International Labour Organization, an estimated 44% of all workers are employed outside the formal economy. Another major impediment to private sector development is the lack of financial intermediation by Argentina's financial system. After a short improvement in 2017, the ratio of domestic credit to the non-financial private sector to Argentina's GDP fell further during the evaluation period, continues to be the lowest in LAC, and is among the lowest in the world. This lack of intermediation is largely attributed to Argentina's regulatory and macroeconomic instability, including recurring high inflation.
- 1.7 In the area of infrastructure, challenges persist in the quality of Argentina's transport network and of its electricity supply. Argentina improved its overall infrastructure ranking on the World Economic Forum's Global Competitiveness Index from 89 (of 144 countries) in 2014/2015 to 68 (of 141) in 2019, but the two lowest-ranked sub-areas continue to be the quality of roads (rank 92) and the quality of the electricity supply (rank 88). A major impediment to improving the country's stock of infrastructure has been a lack of investment, which in the energy sector has meant that growth in demand outstripped additions to supply, resulting in a trade deficit in energy. A Government-led program aimed at attracting private investment for increasing the country's renewable energy generation capacity has been in place since 2016, but attracting enough long-term financing has been challenging.

1.8 After worsening or stagnating for more than a decade, public perceptions of several quality-of-government dimensions improved significantly during the evaluation period. According to the Worldwide Governance Indicators, Argentina had long been rated worse than the LAC average in perceptions of regulatory quality, rule of law, and control of corruption, but advances during the evaluation period have led perceptions of Argentina's institutions to now rank better than (rule of law, control of corruption) or almost catch up to (regulatory quality) the LAC average. Significant improvements were also seen in the dimensions of voice and accountability and Government effectiveness, but advances in the latter were partly reversed in the second half of the period (see Annex I, Figures I.1-I.7). Government effectiveness and service quality across Argentine regions are heterogeneous, a fact that is in part related to the complex institutional and fiscal relations between the federal and subnational governments and the stark differences in tax collection capacity and spending autonomy among provinces.



02

The Bank's
2016-2019
Program

2.1 The 2016-2019 Country Strategy (CS)³ ([GN-2870-1](#)) proposed to work toward 13 strategic objectives under three main pillars: (i) business climate improvement, (ii) strengthening of private sector integration and insertion into value chains, and (iii) reduction of poverty and inequality (Table 2.1). Additionally, the CS established three areas of cross-cutting action: (i) gender and diversity, (ii) institutional strengthening and capacity building, and (iii) climate change. NSG operations would complement SG interventions, especially in the first two CS pillars. Through operations at both the national and subnational levels, a continued focus of the IDB program would be the Norte Grande (NG) region and greater Buenos Aires. The CS also aimed to coordinate actively within the IDB Group, improve certain aspects of project implementation, strengthen the TC program, and continue IDB's support to bolstering certain parts of Argentina's country systems, although it expected that the IDBG's use of those systems would not increase significantly. Finally, the CS predicted a continuing dialogue with the World Bank Group, the Latin American Development Bank (CAF), and the Plata Basin Financial Development Fund to coordinate their work across various sectors.

A. Relevance

2.2 During the evaluation period, the Government aimed to create an environment more conducive to private-sector-led growth. In December 2016, Argentina's Government laid out a national development plan that grouped 100 national priorities⁴ under eight objectives: (1) macroeconomic stability (including ensuring the sustainability of public finances; inflation targeting); (2) a National Productive Accord (including creating conditions for investment, competition, and growth; targeted development in disadvantaged regions⁵); (3) infrastructure development (including increasing renewable energy; investing in transport, water, and sanitation infrastructure; cleaning up contamination; creating an enabling environment for public-private partnerships, or PPPs); (4) sustainable human development (including education, health, housing, social protection, gender, human rights); (5) fight against drug trafficking and improvement of security; (6) institutional strengthening (focused on transparency and integrity); (7) modernization of the State

3 The CS, approved in October 2016, defines the CS period as starting November 16, 2016, and ending December 31, 2019.

4 For a full list of all 100 Government objectives, refer to Annex III.

5 The "Plan Belgrano" aimed at fostering development of the 9 NG provinces (Catamarca, Chaco, Corrientes, Formosa, Jujuy, Misiones, Salta, Santiago del Estero, Tucumán) and La Rioja, and the "Proyecto Patagonia" targeted the Patagonia region.

(including reforms to various Government agencies); and (8) smart insertion into the world (including a goal to join the Organisation for Economic Co-operation and Development or OECD; joining and upholding other international agreements; hosting international summits in Argentina). Some of the Government's objectives, especially in the areas of social protection and regional development, were aligned with the governing party's campaign pledge of reaching "Zero Poverty" in Argentina. While the Government objectives responded to important development needs, the period showed that failure to achieve objective 1 (macroeconomic stability) hampered the country's ability to make sustained progress on most of the other objectives.

2.3 The CS objectives were largely aligned with the Government priorities⁶ and were relevant to Argentina's development needs. In part reflecting the considerable breadth of the Government's agenda, the CS objectives, proposed lines of action, and cross-cutting topics showed a high degree of alignment with the Government's goals (Table 2.1) and, where not explicitly aligned,⁷ addressed other important development challenges. For certain strategic objectives (institutional strengthening, improved infrastructure, developing business services and public goods for integration and innovation, stimulating early childhood development, improved habitat and access to basic services), the chosen outcomes of the CS Results Matrix (see Table I.5 in Annex I) suggest a narrower scope than their broad wording could otherwise imply⁸ and leave out some areas of new and ongoing legacy IDBG activities, partly because not all lines of action described in the CS were reflected⁹ (see also paragraph 3.1).

6 It is important to note that the CS predates the formal publication of the 100 official Government objectives.

7 The clearest example is increased financing for SMEs.

8 *Institutional strengthening* is limited to the expected outcomes of enhancing the efficiency of public management and improving the regulatory framework for doing business; *improved infrastructure* is limited to road quality, logistics costs, and the electricity supply; *development of business services and public goods* is limited to improving the quality and quantity of local suppliers and spending on technological innovation; *stimulating early childhood* is limited to coverage; and access to basic services is limited to water and sanitation.

9 Examples for lines of action discussed in the CS but not included in the Results Matrix are road safety, reduced violence against women, solid waste management, the quality of early childhood development services, transport infrastructure other than roads, and capital market development. New activities not covered in the Results Matrix are transparency initiatives prioritized by the Government and ultimately supported by IDB, and legacy activities not covered are urban railroads (despite an active CCLIP) and solid waste management.

Table 2.1. 2016-2019 CS alignment with Government objectives

CS pillar	CS strategic objective	Government objectives
Business climate improvement	Institutional strengthening of Government	Macroeconomic stability; modernization of the State; National Productive Accord
	Improvement of infrastructure for investment and inclusion	Infrastructure development
	Inclusive financial development and SME financing	National Productive Accord
	Development of environmentally sustainable solutions and support for disaster risk management	Sustainable human development
	Greater security for businesses and people	Fight against drug trafficking, improvement of security
Strengthening of private sector integration, insertion into value chains	Improve export insertion levels and profile	National Productive Accord
	Development of business services and public goods to foster integration and innovation	
	Development of businesses and clusters in exporting areas with high value-added	
Poverty and inequality reduction	Stimulate early childhood development	Sustainable human development
	Improve education quality, school completion rate	
	Improve the employability of the population and women's participation in the labor force	
	Strengthen quality of primary health care service for prevention, early detection of noncommunicable chronic diseases	
	Improve the habitat and access to basic services, particularly in lower-income regions	Sustainable human development; infrastructure development
CS cross-cutting area		Government objectives
Gender and diversity		Sustainable human development
Institutional strengthening and capacity building		Institutional strengthening; modernization of the State
Climate change		Sustainable human development; infrastructure development; smart insertion into the world

Source: [GN-2870-1](#) IDB Country Strategy with Argentina, 2016-2019, and OVE elaboration.

2.4 The CS correctly identified some risks while not flagging others, and the proposed mitigation measures were inadequate. The IDBG CS correctly highlighted the risk of a too-slow pace of fiscal consolidation and inflation decline, slow implementation of structural reforms given the Government's minority in Congress, and private sector hesitation to invest to the extent foreseen given continuing policy and macroeconomic uncertainty. It also flagged the risks posed to execution by weak institutional capacity, especially at the subnational level. Besides not anticipating the integrity issues that surfaced

during the period (see Boxes 2.2 and 3.1), the CS also failed to flag the potential lack of medium-term policy continuity and follow-through on supported reforms as an important risk to program implementation and effectiveness. Given the magnitude of the identified macroeconomic and business climate risks and the little control IDB can exert over them, the proposed mitigation measures (promote productivity growth, improve public management and the regulatory environment, use automatic price-adjustment mechanisms in procurement) were inadequate to fully counteract risks to implementation and effectiveness. The ongoing risk monitoring also proposed by the CS eventually contributed to the IDB's increased scrutiny of disbursements amid the heightened uncertainty at the end of the period. As to the risks to implementation posed by weak institutional capacity at the subnational level, mitigation efforts fell short as institutional strengthening components built into operations with other primary objectives continued to suffer from under-execution (see Box 2.2).

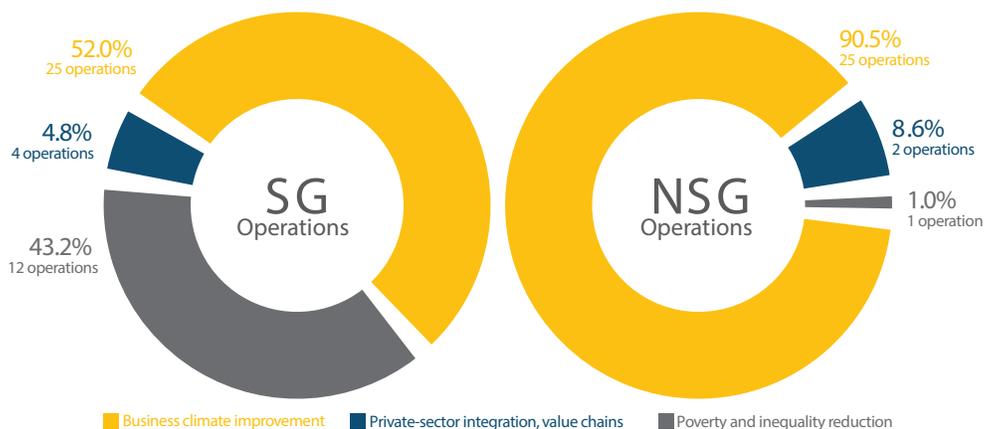
1. Description of IDBG's country program 2016-2019

2.5 Between November 16, 2016, and end-2019, IDBG approved a total of US\$8.4 billion through 116 new SG and NSG financing and TC operations (excluding TFFP). Exceeding the CS estimate of US\$5 billion by more than 30%, IDB approved 37 SG loans for US\$6.7 billion, complemented by 43 TC operations totaling US\$19.7 million. In addition to the US\$6.7 billion approved for Argentina specifically, 5 regional operations (amounting to US\$320 million¹⁰) with major activities in the country were also approved during the evaluation period, below the US\$1 billion projected by the CS. Of the total amount of SG loans approved for Argentina between 2016 and 2019, 18% corresponded to 5 PBPs, the first for Argentina since 2006. Most investment loans (ILs) were specific investment operations, many of which (61% of funds) were under conditional credit lines for investment projects (CCLIPs). IDB also made use of multiple works operations and approved one results-based loan and two multi-phase programs (Annex I, Figure I.11). NSG operations consisted of 28 loans for US\$1 billion, 1 equity investment for US\$2 million, and 2 TCs amounting to US\$0.5 million. Under TFFP, 51 loans were disbursed for US\$428 million and 123 guarantees issued for US\$138 million.

10 Amount allocated to Argentina only. The overall approved amount of these 5 regional loans was US\$530 million.

2.6 Most financing operations approved during the period supported the pillars of business climate improvement and poverty and inequality reduction; much lower amounts were dedicated to private sector integration and insertion into value chains (Figure 2.1 and Annex I, Tables I.1-I.4). Business climate improvement was supported by the majority of approved SG (52%) and NSG (91%) financing,¹¹ followed by poverty and inequality reduction (43% of SG and 1% of NSG financing). The pillar of private sector integration and insertion into value chains received only 5% of SG financing and 9% of NSG financing. By sector (Annex I, Figure I.9), transport obtained most new SG financing, followed by social investment and reform/modernization of the state. For NSG, the highest share of approved funds supported energy projects, followed by financial markets and science and technology. SG TC funds were mostly used for the pillar of poverty and inequality reduction (20% of approved amounts) and business climate improvement (15% energy sector, 15% financial markets), while NSG TCs focused on the energy sector (also business climate improvement).

Figure 2.1
2016-2019 Approved loan and guarantee amounts by CS priority area
Source: OVE, based on internal databases.



Note: Mapping to pillars is primarily based on Country Program Documents; however, OVE reclassified some operations (and classified operations without specific classification) based on project nature. Operations aligned to more than one pillar are shown in their primary pillar only. Includes regional operations.

2.7 The legacy portfolio was composed of 88 operations with undisbursed balances of US\$3.7 billion that were approved before November 16, 2016, but that continued to be implemented during the evaluation period (Annex I, Tables I.1-I.4).¹² On the SG side, it included 51 loans, two investment

¹¹ NSG percentages are based on the total excluding TFFP.

¹² The legacy portfolio includes all operations that were approved before, but had disbursements during, this CPE period. The NSG legacy portfolio additionally includes all operations that had, or should have had, an Expanded Supervision Report (XSR) during the evaluation period, given that NSG operations, unlike SG operations, are often fully disbursed up front (and implementation follows). Therefore, certain NSG

grants, and 26 TCs with total undisbursed balances of US\$3.6 billion. On the NSG side, the legacy portfolio included nine loans with undisbursed balances of US\$125 million. Most undisbursed SG loan balances were for operations falling under the CS pillar of poverty and inequality reduction (64%), followed by business climate improvement (22%), whereas most NSG balances (86%) were for operations to improve the business climate. By sector (Annex I, Figure I.10), most undisbursed SG loan balances were in water and sanitation, followed by urban development and housing and transport, whereas most undisbursed NSG balances were in transport and science and technology.

2.8 IDB provided extensive direct and indirect support to subnational governments. IDB SG operations that benefit subnational governments or government entities can take three basic forms: (i) direct loans or TCs to the subnational, (ii) loans or TCs to the federal Government that are transferred (in the form of assets, money, or services) to the subnational level on a non-reimbursable basis, or (iii) loans to the federal Government that become debt at the subnational level (for more detail, see Annex I, Box I.1). Constituting 45% of all operations in the evaluation portfolio (61% of loans and investment grants, 22% of TCs), those IDB SG operations with involvement by subnational Governments¹³ were in the form of direct support in 31% of cases, indirect non-reimbursable transfers from the federal Government for 61% of operations, and debt from the federal to subnational Governments in 8% of operations.

2. 2016-2019 country program relevance

2.9 The 2016-2019 IDB country program was overall relevant and well aligned to the CS strategic objectives, although in some areas not commensurate with expected results. OVE's review found that 78% of operations in the evaluation portfolio were well aligned with at least one strategic CS objective, 20% were partially aligned, and less than 3% were not aligned.¹⁴

operations that had already fully disbursed before 2016 may have been substantially implemented during the period. OVE considers the XSR an appropriate milestone that caps substantial implementation beyond disbursements, since the XSR is prepared at early operating maturity. However, not all NSG operations that should have had an XSR did; there was a gap in the production of XSRs at the beginning of the evaluation period. For that reason, OVE also considers non-TFFP NSG operations with disbursements in the two years preceding the evaluation period as part of the legacy portfolio, even if no XSR was prepared, to ensure that all relevant operations that were substantially implemented during the evaluation period are evaluated.

13 Operations without involvement of the subnational level include support to Government institutions, nationwide reforms or programs executed directly at the federal level. Classification by OVE based on operation structure at approval.

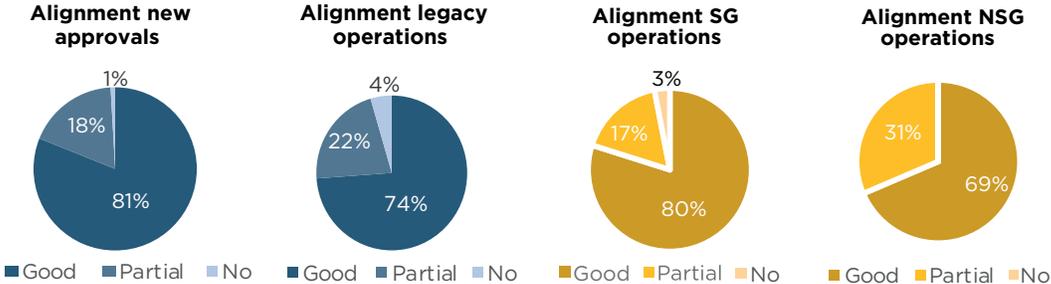
14 All non-aligned operations were social sector TCs. Some of these, although they were not clearly aligned to CS strategic objectives, were nonetheless relevant in offering support on development issues, such as gender-based identity.

OVE considered operations as fully aligned if they were designed to plausibly contribute to an expected outcome chosen for a strategic objective, and as partially aligned if their contributions were only partial,¹⁵ or if they corresponded to a CS line of action aligned to a strategic objective without clearly falling under one of the expected outcomes of the CS results matrix.¹⁶ However, in some areas, such as raising the quality of education and improving employability, the implemented portfolio was not commensurate with the expected results (see Chapter III for more details). Newly approved operations were on average better aligned than legacy operations (Figure 2.2), partly because the CS did not explicitly incorporate strategic objectives to which all legacy activities could contribute. While the higher share of only partially aligned NSG operations (Figure 2.2) in part reflects the strategy's natural inability to fully anticipate dynamic private sector needs over four years, several lines of NSG activity with legacy and new approvals (support to the telecom sector, agro-industrial producers, urban road safety) could have been better reflected in the CS as they had carried over from the previous strategy period.

Figure 2.2

Quality of alignment to CS strategic objectives (based on number of operations)

Source: OVE analysis.



2.10 Several legacy operations were partially canceled or redesigned early in the period to fit new Government priorities.¹⁷ For example, in private sector development the Government's focus shifted to improving the enabling environment from using grant financing for SMEs as a main instrument. The Government's

15 An example was an education operation (AR-L1152) that was entirely focused on building and upgrading school infrastructure, which by itself could not be expected to produce the aspired education quality results.

16 Examples for this case include work on transparency (which improves the quality of government under institutional strengthening) and gender-based violence (a line of action aligned to greater security), tourism, urban railroads, solid waste, urban projects for metropolitan areas, support to the telecom sector and large agro-industrial producers, a port expansion, and urban road safety.

17 Examples are a legacy operation that provided grants to exporting SMEs, for which undisbursed resources were in part cancelled and in part redirected to creating a new trade promotion entity; and legacy operations approved for institutional strengthening of the Trade and Finance Ministries, which were instead used to finance trade fairs and strengthen INDEC, respectively. In a legacy education loan funds were shifted from teaching quality components to infrastructure, and its focus to new kindergarten centers instead of other investments.

emphasis on reforming its institutions, improving the enabling environment and road infrastructure, and trying to foster trade was also reflected in a large increase in approved SG amounts for those sectors compared to the 2012-2015 strategy period (see Annex I, Figure I.8).¹⁸

2.11 As the crisis during the second half of the period triggered Government liquidity needs, IDB responded by approving fast-disbursing resources. Despite high approvals, slower-than-expected execution of ILs contributed to net IDB SG flows to Argentina having remained negative through the first half of 2018 (see Annex I, Box I.2). From mid-2018, the urgent crisis-induced liquidity needs led the Government to favor fresh loans with a faster disbursement schedule over the slower-executing ILs approved earlier. Complementing the IMF program, in June 2018 IDB decided to respond to these needs by committing to provide US\$2.5 billion in fast-disbursing loans within 12 months, with additional commitments made by CAF (US\$1.4 billion) and the World Bank (US\$1.75 billion). In this context, IDB quickly¹⁹ prepared and approved US\$1 billion under 4 PBP operations²⁰ and US\$1.5 billion in 2 fast-disbursing ILs after June 2018. Of these amounts, US\$1.9 billion have disbursed, turning 2018 and 2019 net financing flows positive for the central Government (Annex I, Box I.2). Although these operations contributed to exceeding the CS SG projections, overall amounts approved in 2018 and 2019 stayed below the planned approval amounts of the annual Country Programming Documents (see Figure I.13, Annex I) as some of the fast-disbursing resources replaced other operations. IDB's loans and the IMF program were meant to help restore market confidence and thus help Argentina overcome what was hoped to be a temporary crisis. However, many of the substantial macro risks present at the time of approval—including to debt sustainability in case of further sharp depreciation²¹—subsequently materialized. Thus, the financing package managed to only delay, but not avoid, another sovereign debt crisis.

18 Another sector with a large increase was social investment, driven by three large fast-disbursing loans: a PBP for improving gender equality and two ILs to support social transfers under the IMF program.

19 While the preparation of two of the PBPs approved after June 2018 (AR-L1283, AR-L1298) had begun earlier, two other PBPs (AR-L1303, AR-L1304) and the two fast-disbursing ILs (AR-L1302, AR-L1309) entered the pipeline only following the IMF agreement. To fulfill its US\$2.5 billion commitment, IDB approved all resources foreseen under the PBP series under the first (and only) operation for AR-L1283 and AR-L1304.

20 Another PBP (AR-L1268) had already been approved in 2017.

21 Macro risks and risks to solvency and debt sustainability were laid out by, for example, in the IMF's Staff Report for the 2017 Article IV Consultation (December 2017) and in IDB's Independent Assessment of Macroeconomic Conditions (April 2018, internal document).

- 2.12 Most fast-disbursing operations were PBPs supporting highly relevant reforms, and which were approved despite unmitigated risks to their effective implementation. Whereas the two fast-disbursing ILs financed social transfers (see Chapter III for more detail), the PBP operations supported Government reform measures to improve the tax system; strengthen transparency, accountability, and digitization; advance PPPs and capital market development; and foster gender equality. The depth of supported policy measures was uneven,²² but several, such as the new “repentant suspect” law, a mandatory gift registry for public employees, open online platforms for public procurement, and the fiscal accord to reduce distortionary taxes (see Annex XIII, Table XIII.1 for all supported policies), have the potential to significantly improve the quality of Government and private sector competitiveness. However, as laid out in the operation’s approval documents, the materialization of the expected development results was subject to considerable risks, including those emanating from deteriorating macroeconomic conditions and policy uncertainty in case of a change in Government. The mitigation measures proposed in the same documents (approval of measures before the 2019 elections, TCs and dialogue, assumed continued Government commitment to seeking OECD membership) were weak, reflecting IDB’s limited ability to fully address risks of this nature and such magnitude.
- 2.13 Other crisis-induced program adaptation efforts included the transfer of debt responsibility from the federal to provincial governments, as well as the restructuring of IDBG’s support to the PPP program. To make feasible the execution of certain ILs²³ in at least some of the provinces despite the federal Government’s reduced fiscal space, IDB has, in coordination with the involved parties, adapted some operations to shift some of the debt burden from the federal Government to subnational entities. This may lead to shifts in the geographic focus of some IDB operations and can affect their relevance, as provinces’ ability and willingness to take on debt may not correlate with the magnitude of their development needs. Another area whose relevance was affected by major shifts in country needs and reality was IDBG support to Argentina’s attempt to channel large amounts of private investment into infrastructure through a new PPP program. As mounting integrity, economic, and

22 Policy depth is defined as increasing with the extent to which conditions are likely to trigger long-lasting policy or institutional changes (for methodological details, see [RE-485-6](#)). Policy measures under the PBP series for transparency and integrity (AR-L1268, AR-L1303) and for the approved fiscal reform PBP loan (AR-L1283) exhibited the highest depth (more than one-third of supported measures under each was high-depth), whereas the digital agenda PBP (AR-L1304) and the gender equality PBP (AR-L1298) had much lower shares of high-depth policy measures (19% and 16%, respectively). For details, see Annex XIII, Figure XIII.1 and Table XIII.1.

23 This was done for certain ILs that, within either the same or a predecessor operation, had been meant to reach provinces as non-reimbursable transfers. Cases known to OVE include AR-L1119, AR-L1285, AR-L1148, AR-L1136, AR-L1179, AR-L1258, AR-L1254, AR-L1067, and AR-L1243.

policy risks increasingly challenged the viability of this approach, IDBG undertook considerable, but ultimately unsuccessful, efforts to redesign its support (Box 3.1).

2.14 The regional distribution of SG support was broadly consistent with CS priority regions and benefited poorer provinces. Of those evaluation portfolio disbursements for which geographic end-use information was available,²⁴ 44% benefited the NG region and 21% greater Buenos Aires, the two regions targeted by the CS (Figure 2.3). Support was not uniform across the NG provinces²⁵, with higher disbursements in relatively poorer NG regions on a per capita basis (Figure 2.4). The single largest recipient of funds (18%) was Buenos Aires province.

Figure 2.3

Evaluation portfolio disbursements per province

Source: OVE, based on information contained in operation documentation and provided by IDB and executing agencies, as well as data from the most recent (2010) Census.

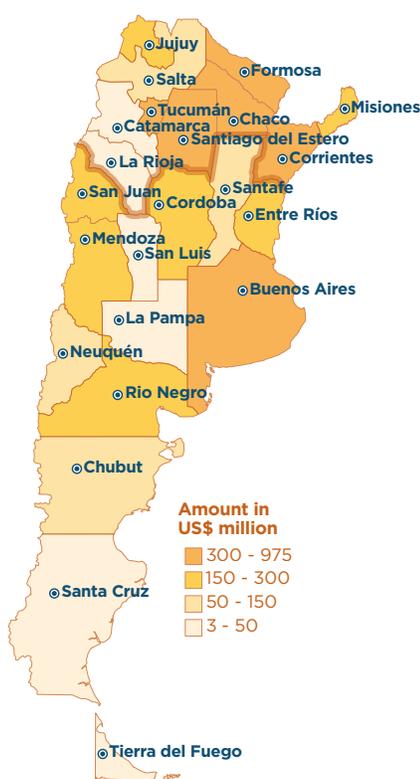
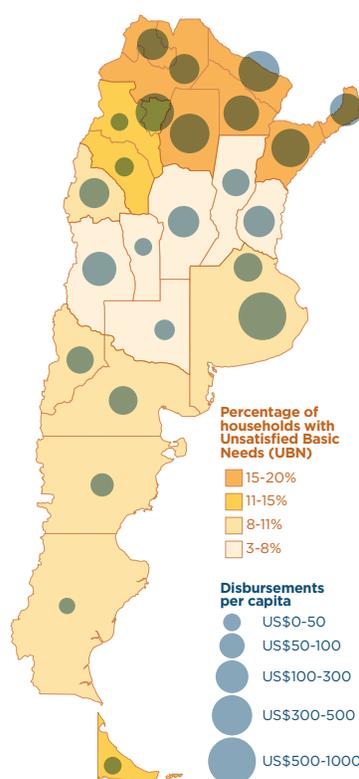


Figure 2.4

Disbursements per capita compared to geographic distribution of unsatisfied needs

Source: OVE, based on information contained in operation documentation and provided by IDB and executing agencies, as well as data from the most recent (2010) Census.



2.15 Almost three-quarters of the evaluated program included mainstreaming of at least one CS cross-cutting issue, with institutional strengthening and climate change topics more

24 Disbursements with province-level information on final use of proceeds constitute 72% of the evaluation portfolio's total disbursements (December 31, 2019), excluding PBPs. Disbursement portions not geographically allocated include central loan administration, federal-level programs, or investments without concrete province-level expenses. All evaluation portfolio disbursements were considered, as time-specific geographic disbursement data were not available.

25 Of total province-level disbursements, Corrientes (9.7%), Formosa (9.4%), Santiago del Estero (8.7%), Chaco (6.9%), Tucumán (5.7%), and Misiones (4.8%) received considerably more resources than Catamarca and La Rioja (0.8% each) and Salta and Jujuy (2.8% each). La Rioja, albeit not formally a NG province, was included as it has joined the *Plan Belgrano* for the NG provinces.

strongly represented than gender and diversity. OVE's review²⁶ found that 72% of evaluated operations included aspects of least one of the cross-cutting areas laid out by the CS. Of all evaluated operations, 44% (51% of SG, 14% of NSG) included components or other activities contributing to institutional strengthening/capacity; 36% (33% of SG, 51% of NSG) addressed topics related to climate change; and only 19% (20% of SG, 11% of NSG) addressed gender and diversity aspects. However, IDB operations included IDB's first-ever PBP for gender equality reform initiatives, and the number of operations mainstreaming gender and diversity aspects increased over the period.

3. IDBG financial contribution and technical value-added

- 2.16 In addition to its important financial contributions, the Bank also provided relevant technical support during the period. Given Argentina's only intermittent access to international capital markets and the limited capacity and high cost of domestic financial markets, the Government (par. 2.17) and parts of the private sector (paragraph 2.18) continued to rely on financing by IDBG and other international financial institutions to a significant extent during the period. External borrowing, however, also implied currency mismatch risks, which materialized during the period (par. 2.19) and contributed to the Government's now-unsustainable levels of debt. In addition to financial contributions, IDBG also added technical value in the form of TCs and other non-financial support (paragraph 2.20).
- 2.17 While Argentina increased borrowing from international capital markets during the period, IDB remained the central Government's most important official source of financing before the 2018 IMF program. Argentina's central Government issued roughly US\$46 billion in new foreign currency bonds after reaching an agreement with holdout bondholders in 2016, but it also continued to tap official lenders such as IDB and the World Bank's International Bank for Reconstruction and Development (IBRD) (Figure 2.5). While Argentina's debt stock with IBRD grew more strongly (+21%) than that with IDB (+14%) during the period (Annex I, Figure I.15), IDB remained the central Government's most important source of traditional multilateral financing. After Argentina lost its access to international capital markets in 2018, the central Government drew down a total of US\$44.5 billion under its agreement with the IMF between 2018 and Q3 2019; as a result, the IMF is now

26 OVE used classifications according to project documents where available, complemented by information on related indicators, components, or activities based on document review and interviews.

by far Argentina’s largest official source of financing.²⁷ Largely because of the 2018/2019 recession and depreciation of the Argentine peso against the US dollar, Argentina’s total SG debt stock with IDB in relation to GDP was higher (3%) than forecast by the CS (2.1%) at the end of the strategy period.

Figure 2.5

Central Government foreign currency debt stock (left panel) and official lender debt composition (right panel), in US\$ billion

Source: OVE, based on data by Argentina’s Finance Ministry.



2.18 NSG financing to Argentina was highly financially additional, although in some areas the relevance of IDB Invest’s instruments was affected by the 2018/2019 crisis. Given the small size and underdeveloped state of Argentina’s financial system, the availability of suitable finance is a key constraint for firms. Albeit less so than the International Finance Corporation (IFC),²⁸ IDB Invest provided significant own resources to the Argentine private sector during the period, in addition to mobilizing US\$703 million in B-loans and US\$25 million in concessional resources. IDB Invest’s long-term lending during the period helped meet some large investment and other financing needs especially in the renewable energy, agribusiness, telecommunications, and transport sectors, and IDB Invest also approved an operation to introduce a new short-term finance product for handheld phone financing. IDB Invest lending to financial intermediaries (FIs) initially helped these institutions expand the availability of longer-term finance for SMEs and green investments, but in 2018 and 2019 demand for long tenors plummeted in light of rising inflation, interest rates, and risk perceptions, so that some approved FI and non-FI operations have not been fully used. As Argentines withdrew more than 40% of their US dollar deposits from the banking system in the wake of the PASO elections, IDB

27 The central Government’s debt stock with the IMF stood at US\$43.5 billion in Q3 2019, almost double the combined total debt stock with other multi- and bilateral lenders (US\$23.9 billion).

28 Total 2016-2019 IFC commitments came to almost US\$1.5 billion (Annex I, Figure I.16).

Invest's client FIs reported needing short-term rather than the IDB Invest-approved long-term funding, especially to satisfy companies' trade finance needs.

2.19 Given IDBG lending in US dollars, currency mismatch risks materialized for both SG and NSG lending during the period. IDBG's US dollar financing²⁹ was attractive to Argentina's public and private sector participants, considering high and rising interest rates for local currency borrowing during the period, but it also carried the risk of a peso depreciation to increase the debt burden to borrowers whose revenues were not also denominated in foreign currency, or who relied on imported inputs or equipment. This risk materialized as the Argentine peso lost 75% of its value relative to the dollar during the evaluation period. While SG and NSG direct and indirect (via FIs) lending to exporters (whose revenues typically move with the exchange rate) was well hedged, other sectors that received IDBG lending have been more exposed to currency mismatches. Financial risks to IDBG from NSG operations were generally well addressed, to the extent possible, through project structuring or other guarantees, but risks to longer-term project effectiveness and economic sustainability remain as these ultimately depend on the extent to which final users and/or taxpayers (whose income is typically in pesos) can afford to pay for the construction, operation, and maintenance of financed assets. At the same time, however, the dollar's increasing strength allowed some projects with peso-denominated costs to invest more, or take on less debt, than initially expected.³⁰

2.20 IDBG also provided non-financial value-added through TCs, dialogue and other technical support. OVE interviews point to a generally high degree of satisfaction with the inputs provided by IDB through dialogue or TC products. Of the 50 TCs that were far enough advanced to have produced at least some relevant outputs, OVE found evidence that counterparts used them in 78% of cases. IDB also provided technical support through dialogue by IDBG specialists outside of TCs—for example, IDBG's support for dealing with integrity issues around the PPP program (see Box 3.1) and IDB Invest's help for introducing sustainability topics among Argentine FIs (see para. 3.6). Through TCs, the use of administrative budget and dialogue, IDB also provided technical inputs to the themes supported by PBPs, with some reform areas benefiting from more direct technical support than others (Box 2.1).

29 As IDB is not allowed to take on currency mismatch risks on its balance sheet, IDB can only lend in those local currencies in which it either has local treasury or can fully hedge its exposure. Given the volatility and insufficient depth of Argentina's capital markets, such hedges have been unavailable for the Argentine peso, at least at the sizes and tenors required for IDB operations.

30 See also Box 2.2.

Box 2.1. IDB technical value-added to Government reform areas

- The PBP and ILs to support Argentina’s fiscal reforms were accompanied by highly valued and continuous IDB involvement through TC and dialogue directly related to the reforms, resulting in innovative solutions to support policy implementation (see also Annex I, Box I.3). Numerous TCs and other technical support also helped prepare, strengthen, and implement measures supported by the **gender equality PBP**, for which Government counterparts additionally stressed the importance of IDB’s convening power, given the many different actors involved.
- The value-added of IDB’s convening power and its role as a knowledge broker was also stressed by counterparts for IDB support to areas related to the **transparency and integrity PBPs**. In addition to these more intangible contributions, IDB also provided inputs financed by TCs and administrative resources (including TCs to strengthen the anti-money-laundering watchdog and the Anti-Corruption Office), most of which were however only indirectly related to the PBP-supported reforms (see also Annex I, Box I.5).
- While IDBG had previously supported efforts by various Government agencies to improve IT systems and technology using TCs and administrative resources, the units directly in charge of the actions supported through the **“Digital Agenda” PBP** had seen no prior IDB involvement, and a subsequently approved, more directly related TC to support the implementation of part of the agenda went unused. Government counterparts indicated that the TC requirements proved too rigid and its processes too slow to be of practical use, leading the Government to implement the planned TC actions using other resources.

Source: OVE, based on analysis and interviews.

B. Program preparation and implementation

2.21 While preparation times and costs for Argentine SG operations compared favorably to IDB and peer country averages³¹, fewer projects were executed on time. Argentine ILs continued to be prepared at a lower cost and in a shorter period of time than IDB and peer country averages (see Annex I, Table I.6 for details). In line with IDB trends, preparation times and costs for Argentine ILs approved during the current strategy period were also lower than for those approved during the 2012-2015 period.³² Preparation times of Argentina’s PBP operations were only about half of those

31 The peer country group determined by the size of the economy (gross national income exceeding US\$150 billion, purchasing power parity terms), consists of Brazil, Chile, Colombia, Ecuador, Dominican Republic, Mexico, and Peru.

32 Argentine ILs approved in 2016-2019 took on average 16% less time to prepare than ILs in comparable countries, 14% less than the IDB average, and 21% less than ILs approved in 2012-2015. IL preparation costs per US\$ million were 22% lower than for peers, 47% lower than for the IDB average, and 23% lower than for 2012-2015 Argentine ILs. Per approved operations, Argentina also had a substantially lower rate of less than 10% cancellations, 10% less than the IDB average, and 4% less than ILs of the previous period (see Annex I, Table I.6)

than the peer country average.³³ While overall IL disbursement rates³⁴ and the speed of initial project execution³⁵ have improved considerably compared to the previous strategy period, 2016-2019 disbursements stayed below CS projections in all years (Annex I, Figure I.13) despite considerably higher approvals (Annex I, Figure I.12), and far more Argentine ILs continued to require extensions than the IDB and peer country averages.³⁶

2.22 Crisis impacts compounded existing institutional weaknesses and project design problems, causing implementation delays. External circumstances affecting implementation were fiscal austerity measures, changes to executing units, inflation and currency depreciation, and Government priority changes. Factors under IDB's control slowing execution included the need to address project design issues during implementation, as well as measures IDB took to address heightened integrity and other risks during the period. These period-specific factors compounded existing institutional weaknesses, which remained insufficiently addressed, in part because of the under-execution of institutional strengthening components³⁷ as IDB operations overestimated counterparts' ability to, or interest in, dedicating resources to these components as designed (Box 2.2).

2.23 Despite IDBG efforts, execution slowdowns proved difficult to avoid. Already under regular circumstances, IDB fiduciary and procurement specialists carry a comparatively large workload because of the overwhelming use of IDB (rather than country)

33 The total cancelled amount for Argentine ILs during 2016-2019 was US\$11 million, compared to US\$28 million during 2012-2015 and a peer country average of US\$290 million. The average share of original approved amounts cancelled for Argentine ILs was 3% over the 2016-2019 period, compared to 8.6% over the 2012-2015 period and a peer country average of 15.8%.

34 During the previous strategy period, only 7.1% of total initially available Argentine IL loan balances plus new amounts approved were disbursed. This rate was 21.6% during the current evaluation period, which is in line with the disbursement rate of comparator countries (20.9%), but lower than for the rest of the Southern Cone countries (27.9%).

35 For Argentine ILs approved during 2016-2019, disbursing the first 50% took an average of 9.3 months (IDB average: 9.2 months; peer average: 4.3 months), much less than the 31.4 months it took projects approved during the previous strategy period to disburse the same share. Full execution comparisons are not yet possible since no new approvals from the period have fully disbursed.

36 Of Argentine ILs approved during 2012-2015, 63% were extended (most of which became legacy operations for the current evaluation portfolio), compared to 43% of peer country ILs and 45% of overall IDB ILs. While none of the Argentine ILs approved during 2016-2019 has fully disbursed so far, 3% have already been extended, compared to 0% for peer countries and 1% for IDB on average. Of the specific evaluation portfolio, 64% of ILs (78% of legacy, 11% of new operations) were extended for an average of 34 months.

37 This refers to institutional strengthening components included in operations whose main objective was not institutional strengthening in itself. IDB also approved and implemented numerous operations primarily focused on institutional strengthening during the period (see also par. 3.3), some of which contributed to various improvements in Government management, but whose focus was typically different from the institutional strengthening needs specific to IDB project implementation.

Box 2.2. Factors affecting implementation during the period

Crisis-related

- **Austerity measures.** Of SG ILs approved or implemented during the period, 34% suffered execution delays, under-execution, and/or cancellation as the federal Government saw its fiscal space reduced under the 2018 IMF program, resulting in budget cuts for IDB-supported programs. Several of the affected operations that foresaw transfers from the federal to subnational governments have been, or are being, restructured as loans to the subnational governments instead (see par. 2.15), a process that introduced additional delays toward the end of the evaluation period.
- **Depreciation, inflation, and crisis effects on the economy.** The high and accelerating inflation and currency depreciation during the period affected operations in several ways. While a few operations (for example, AR-L1120, AR-L1130, AR-T1165) were able to exceed their output targets because IDB's US dollar resources were worth more in local currency terms than initially expected, 12% of evaluated SG ILs had to lower their targets, failed to fully execute, or were delayed because of such crisis impacts as the effects of inflation and price uncertainty and volatility on procurement processes. Toward the end of the period, worsened risk and economic perspectives also contributed to the non- or under-execution of several NSG operations (see par. 2.18) and of IDBG support to the PPP program (Box 3.1).

Changes in the Government

- **Changes to executing units (EUs).** In an attempt to address prior inefficiencies and a lack of oversight perceived by certain ministries, in 2018 the federal Government consolidated numerous EUs and integrated them more closely into the corresponding line ministries (Decree 945/2017). While execution of operations by EUs under some ministries (Agriculture, Science and Technology) proceeded as before, the implementation of infrastructure and other works through the EU of the Ministry of the Interior, Public Works and Housing (DIGEPPSE¹), has suffered delays since the reorganization. Interviews with counterparts reveal that, in addition to initial disruptions due to the restructuring, a crisis-related hiring freeze has prevented the EU from easing bottlenecks. Other operations were delayed as their EUs changed, sometimes multiple times, because of general Government restructuring processes in 2016 and 2018. Overall, 17% of evaluated SG ILs suffered delays related to these changes.
- **Changing Government priorities.** Ten percent of ILs suffered partial cancellations, redesign, and/or implementation delays as a result of changed Government priorities (see also par. 2.13).

Other

- **Lack of counterpart interest in, or ability to execute, soft components.** Of SG ILs with institutional strengthening aspects, 42%—or 19% of all SG ILs—did not, or did not fully, implement operations' soft components (i.e. investment in human capital as opposed to hard assets). The main reason (in 53% of the cases) was the counterpart's preference for using the funds for public works instead. The second reason (27%) was insufficient budget availability for these components, an issue that was exacerbated by the crisis and additional restrictions on subnational spending introduced during the period.
- **Design issues.** Of SG ILs, 13% had implementation issues rooted in their design: for example, construction methods were specified under an early childhood development project for which few local construction companies were qualified, and a rural development project underestimated smallholder farmers' reluctance to assume debt.

1 Dirección General de Programas y Proyectos Sectoriales y Especiales.

- **IDB measures prompted by heightened integrity risk and uncertainty.** The emergence of the “Notebooks” scandal in 2018 led to significant delays in preparing and implementing IDBG support to Argentina’s PPP program (Box 3.1). In addition, because the scandal implicated many Argentine construction companies involved in building public works under IDB projects, IDB introduced additional steps in its procurement processes to reduce integrity risks. Under the new requirements, IDB procurement specialists need to seek approval from the Office of Institutional Integrity for any new contracts or contract changes with companies implicated in the scandal. A sharp increase in uncertainty at the end of the period also prompted IDB to temporarily shorten the period for advance disbursements and to intensify monitoring of the financial plans and compliance with the requirement for local counterpart funds before disbursing.
- **Ongoing institutional weaknesses.** While it is impossible to quantify the extent to which weak institutional capacity affected program implementation given the significant crisis-related and other disruptions, this evaluation again found evidence of general weaknesses in execution capacity, especially at the subnational level, as well as red tape and process inefficiencies at all levels of Government. All of these factors continue to contribute to implementation delays, especially in complex projects such as those for infrastructure.

Source: OVE, based on analysis and interviews.

systems and processes in Argentine IDB operations.³⁸ To address some of the additional implementation problems during the period, IDB procurement specialists provided close technical support to various EUs, but client counterparts reported that execution problems, especially in DIGEPPSE, persisted, as the main issue of personnel shortages remained unresolved. IDB procurement specialists also needed to review and approve frequent contract price change requests rooted in inflation and devaluation.³⁹ The additional procurement steps introduced after the emergence of the Notebooks scandal and tighter disbursement rules at the end of the period (see Box 2.2), while necessary safeguards against risks facing IDBG, added more delays. IDB team leaders and the country office leadership worked with Government counterparts to put in place the documentation needed to change operations with subnational transfers to indirect subnational loans, but processes have proven lengthy in many cases.

2.24 No newly approved NSG operations were cancelled or prepaid or became impaired during the period.⁴⁰ Consistent with the scarcity of alternative financing sources for the Argentine

38 Despite progress by the Government on improving public administration systems during the period, there have been few Government advances toward IDB country system certification.

39 While, as the CS pointed out, IDB policies allow for automatic price redetermination formulas in high-inflation environments, these take root only once a contract is signed and is being implemented. In Argentina’s case, fiscal constraints disrupted many procurement processes between the award of the bid and contract signature—i.e., before price adjustment formulas would be applied—so that it was necessary to seek case-by-case exceptions to start implementation after long disruptions.

40 All analysis is based on available information in IDB and IDB Invest systems, as well as additional research by OVE whenever data were incomplete or inconsistent.

private sector, no NSG operations approved during the evaluation period in Argentina were cancelled (compared to 9.3% of operations for peer countries⁴¹) or prepaid⁴² (compared to 1.3% of operations in peer countries) during the period. Of all originated operations, 34% were dropped during the period in Argentina (compared to 44% in peer countries). Despite the crisis during the second half of the evaluation period, no Argentine NSG operations approved and disbursed during the period had suffered subsequent impairment or write-offs by the end of 2019. Because of a lack of comparable time recording during the whole period, no consistent and reliable data about NSG project processing times and costs are available. Client interviews point to a high degree of satisfaction with IDB Invest's responsiveness and client focus.

2.25 The evaluation portfolio contains several outstanding examples of effective IDBG-internal collaboration, but also some opportunities for improvement. IDBG-internal cooperation was a crucial issue, given the high number of multisector operations approved or implemented during the evaluation period.⁴³ In addition to the close coordination between IDB and IDB Invest around the PPP program (Box 3.1), several SG multisector operations exhibited cooperation between specialists of the relevant IDB divisions to ensure the quality of all components.⁴⁴ However, cross-sector collaboration during implementation was found to be less consistent and appears to depend on whether team leaders involve their counterparts from other divisions in relevant reviews and decisions. Lack of coordination can result in missed opportunities, especially for multiple-works programs, under which the final design of subprojects is often not known during project preparation.⁴⁵

41 The same group of peer countries was used for NSG as for SG. Because of the inconsistent availability of data on historic cancellations, prepayments, and write-offs for the whole portfolio, comparisons are limited to peer countries.

42 One legacy operation was, however, prepaid in 2017. Prepayment is defined as repayment before the original maturity date.

43 According to OVE's analysis, 21 evaluated operations involved activities in more than one sector.

44 Examples include collaboration between urban development, education, social protection, and health specialists during the preparation and implementation of an operation aiming to bring holistic improvements to a marginal neighborhood in the City of Buenos Aires; teamwork between social protection and education specialists on an early childhood education operation, between education, social protection, labor, and transport specialists on a fast-disbursing social transfers loan, and between trade and transport specialists on a regional integration project; and a labor markets TC that supported several operations led by other divisions (including the gender equality PBP and the fast-disbursing social transfers ILs), which themselves were also examples of cross-sector collaboration.

45 An example is the involvement of transport specialists, who have been asked to help in the implementation of operations of various divisions, but not for certain rural development operations that also have significant road components. In the case of at least one rural road financed under the rural development program PROSAP,

2.26 With few exceptions, IDBG coordinated well with other official multilateral and bilateral agencies around co-financed operations and on more general issues. Various sectors (including transport, water and sanitation, rural and urban development, health, energy, Government strengthening, and social protection) received support from both IDB and the World Bank Group during the period, as well as from some bilateral lenders. Coordination was generally close in operations involving several development partners, such as water and sanitation loans co-financed with the European Investment Bank and the French Development Agency, the Barrio 31 urban development project which also received support from the World Bank, as well as a regional transport operation which was complemented by works financed by CAF and FONPLATA. IDB also worked with relevant World Bank counterparts around the technical aspects of the PPP program⁴⁶ and national systems certification, with the World Bank and the OECD on actions taken following the Notebooks scandal, and with the IMF concerning fiscal reforms and the IMF program. Coordination appears to however have been more limited in the health sector.⁴⁷

3.1 This chapter analyzes the results of the IDBG's program during 2016-2019 under the three pillars of the CS (business climate improvement, strengthening of private sector integration and insertion into value chains, and poverty and inequality reduction). It is difficult to make a quantitative assessment of IDBG's contribution to the higher-level CS objectives during the period, given the severe crisis effects on many country variables and the

it is conceivable that increased road safety risks (see also Annex I, Box I.4) could have been better addressed by involving transport specialists during the review and supervision of financed works.

46 According to interviews, good IDB-World Bank coordination at the technical level was however somewhat counterbalanced by less effective coordination at the strategic level.

47 Lack of coordination in the health sector until recently resulted in different sets of reporting requirements by IDB and the World Bank that led to duplication of work and other inefficiencies for benefiting entities.



03

Effectiveness
of the Bank's
Program

fact that some of the chosen CS outcome indicators were quite narrow (see par. 2.3), had outdated baselines,⁴⁸ and were not obvious measures for the achievement of the strategic objectives⁴⁹ (for the evolution of the chosen CS outcome indicators, see Annex I, Table I.5). This chapter therefore presents a largely qualitative assessment of the actual or likely contribution of IDBG’s country program to the strategic objectives and their expected outcomes based on progress to date.⁵⁰

A. Business climate improvement

- 3.2 The CS laid out five strategic objectives to contribute to business climate improvement: (i) institutional strengthening of Government, (ii) improvement of infrastructure for investment and inclusion, (iii) inclusive financial development and SME financing, (iv) development of environmentally sustainable solutions and support for disaster risk management, and (v) greater security for businesses and people.
- 3.3 IDB institutional strengthening operations helped make most progress toward improved Government efficiency and transparency, but fell short on improving the business environment. IDB contributed to advances in enhancing Government efficiency mainly through two ILs (AR-L1127, AR-L1016) and several TCs (AR-T1115, AR-T1119, AR-T1121, AR-T1141) that helped improve Government systems, results-

Table 3.1. Strategic objective: Institutional strengthening of Government

Expected outcomes: Enhance public mgmt. efficiency; improve regulatory framework for doing business			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	10 (4)	1,480 (42.5)	1,033 (29.5)
New (legacy) TCs	11 (5)	4.9 (1.6)	1.6 (0.9)
Total (new + legacy)	30	1,528.98	1,064.58

Source: OVE, based on the CS and internal databases.

48 Of the 45 outcome indicators, 16 have baseline values dating to 2012 or before. One possible explanation for the outdated baselines is the lack of reliable national statistics for many sectors in the years preceding the evaluation period.

49 Examples are the indicators chosen to measure the strategic objective of *development of businesses and clusters in exporting areas with high value-added*, which do not discriminate between exporting and non-exporting enterprises, or between low- and high-value-added products; the indicators of quality and quantity of local suppliers chosen to measure *development of business services and public goods to foster integration and innovation*, which can be considered only loosely related to this objective; and the indicator of the percentage of paved roads (for *road infrastructure quality*), which fails to account for work on improving and maintaining roads.

50 While OVE evaluated all operations (see Tables 3.1-3.13 for total approvals and disbursements and expected outcomes under each strategic objective), this section offers only a high-level summary of the most significant findings in each area. For more detail, refer to the sector notes to this CPE.

based management, and decision processes at the federal and subnational levels. Other operations in support of subnational governments and the federal revenue administration fell short of expectations.⁵¹ The effectiveness of IDB support to improving the regulatory business framework has been limited to date: the significant IDB efforts through a PBP (AR-L1283) and two ILs (AR-L1248, AR-L1285) to reduce the burden of distortionary taxes on businesses are unlikely to produce all results planned because of delays, crisis effects, and policy reversals (Annex I, Box I.3), the application of the new PPP framework supported under AR-L1283 has faltered amid integrity issues and increased risk perceptions (Box 3.1), and the new venture capital law (also supported by AR-L1283) is likely to show results only once the economy recovers. IDB operations also contributed to efforts to reduce corruption and increase Government transparency and accountability,⁵² some of which can be considered to have plausibly helped improve public perceptions of these Government quality dimensions (par. 1.8), even if many results cannot be directly attributed to IDB intervention.⁵³

3.4 IDBG operations for improved infrastructure contributed, albeit some after long delays, to improving roads and the electricity supply, but progress toward reducing logistics costs was limited. During the evaluation period, the Bank helped build or rehabilitate 479 km of the national and provincial road networks, although because of execution delays progress was slower than

51 AR-L1149 (municipal pre-investment studies) has fallen somewhat short of targets so far, despite improvements after changes to its focus and management. AR-L1272 (improving financial management in Buenos Aires province) has only recently started execution after long delays in reaching signature, and AR-1282 (strengthening management capacity of the Federal Administration of Public Revenue) was not executed because the Public Revenue Administration was not willing to take the resources in the form of a loan instead of a non-reimbursable transfer from the Government.

52 IDB-supported initiatives include the new “repentant suspect” law (“*ley del arrepentido*”); a mandatory registry for gifts to public sector employees; implementation of parts of the access to information law; the development and use of central electronic procurement platforms; an increase in the autonomy of the anti-money-laundering watchdog Financial Information Unit; institutional strengthening for the Anti-Corruption Office; and improved corporate governance and accountability for state-owned enterprises. For more information, see Annex I, Box I.5, and Annex XIII.

53 In addition to some IDB contributions to strengthening INDEC (AR-L1247, AR-L1266), IDB’s main support was via the four PBP operations for anti-corruption, transparency, and accountability measures taken by the Government. The PBPs, given their nature, disbursed into the general budget rather than specifically benefiting the Government parts that were in charge of the reforms. While IDB provided some technical support (for example via AR-T1180, AR-T1204, AR-T1166) for strengthening the units in charge of anti-corruption and anti-money-laundering, state-owned enterprise corporate governance, and the public investment project system, no direct technical support was provided for implementing the Government’s “Digital Agenda” under AR-L1304.

Table 3.2. Strategic objective: Improvement of infrastructure for investment and inclusion

Expected outcomes: Improve road infrastructure quality; reduce logistics costs; improve the quality of the electricity supply			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	26 (12)	2,712.24 (858.98)	550.54 (454.80)
New (legacy) TCs	5 (3)	1.42 (1.02)	0.71 (0.54)
Total (new + legacy)	46	3,703.66	1,006.59

Source: OVE, based on the CS and internal databases.

during the previous period.⁵⁴ Two NSG projects (AR-L1166 and 11226-04) financed the implementation of underpass works and a road safety action plan for the public Buenos Aires road concessionaire AUSA. IDBG also provided significant support to designing and implementing PPP solutions for improved road (and initially also other infrastructure) quality, but a significant increase in integrity risk perceptions and macroeconomic and policy uncertainty caused the program to falter despite IDBG's adaptation and redesign efforts (Box 3.1). In the energy sector, IDB Invest financing has significantly increased the supply of electricity from renewable sources (Box 3.1). SG operations contributed, though after long delays, to improvements to the country's transmission network at the provincial and regional level (AR-L1079), including in the NG region (AR-1095).⁵⁵ The only operations directly related to logistics are two relatively small NSG projects: a legacy loan (AR-L1132), which helped expand the capacity of a logistics provider, and another loan (12068-01) which has financed the expansion of the Zarate port. Other contributions to improved infrastructure were made by operations in telecommunications and urban railroads via an NSG loan (11975-01) that helped expand 4G high-speed network coverage, and an SG operation (AR-L1158) that helped substantially upgrade a section of the General Roca train

54 On average, 37% fewer kilometers per year were built/improved than during the period evaluated by the previous CPE. AR-L1014, completed after more than 10 years of implementation, executed 34% of the originally proposed national roads interventions but exceeded the target for provincial roads. Outside of NG, AR-L1036 was completed after extensions of more than twice its original period.

55 Delays in the SG loans completed during the period averaged more than 5 years. With AR-L1079, IDB financed the construction of 568 km of high-voltage transmission lines in various provinces; under AR-L1095 and its predecessor AR-L1021, the Bank helped construct transmission lines to connect the Northwest and the Northeast regions of the country, increasing electricity coverage in the NG from 77% (2003) to 87% (2014).

line; however, an ongoing MICI (Independent Consultation and Investigation Mechanism) process is trying to address community safety and health concerns.⁵⁶

Box 3.1. IDBG support to public-private infrastructure financing solutions

- **PPP program.** After a new PPP contract law (law 27,328) was passed at the end of 2016, an IDB PBP operation (AR-L1283) supported the allocation of roles and responsibilities for the newly created PPP unit. IDBG also provided substantial technical support to structuring the first round of PPPs (rehabilitation and construction of six road corridors) through an IDB Invest TC used to hire a law firm to design and draw up the contracts, as well as through close dialogue between Argentina's and IDBG's PPP units to ensure project bankability. Joint IDBG work also helped design a risk-enhanced structure in which, via SG guarantees (AR-L1281), IDB would partially back certain Government obligations under the PPP contracts to attract more financing at attractive conditions. While it was thought that enough private sector lending could be attracted to finance the first round of PPPs, IDB Invest was also going to provide own (and mobilize additional) financing to PPP projects, mainly in later rounds. However, the deteriorating economic situation and the emergence of the Notebooks scandal¹ in mid-2018 caused commercial financing options to disappear for the already-awarded first round of PPP road projects, endangering their viability. These developments prompted IDBG to redesign their operations to allow for a Government fund to intermediate between financiers (IDB Invest and B-lenders) and PPP projects, given the impossibility of direct financing to the latter because of integrity concerns around their sponsors and the deteriorating macroeconomic conditions. To mitigate the indirect integrity risks, IDBG (including its Office of Institutional Integrity) offered technical support to the Government for the design and setup of an integrity framework that project sponsors would need to adhere to for financing. While work on the redesigned structure was completed in mid-2019, the spike in country risk in the fall of 2019 and policy uncertainty have prevented financing from materializing.
- **Renewable energy.** The Argentine RenovAr program was launched in 2016 to promote the development of the country's considerable (and at that time virtually unexploited) renewable energy potential under a structure in which private investors would finance, build, and operate renewable energy projects to sell energy to a public off-taker under long-

1 The Notebooks scandal ("causa de los cuadernos"), thought to have emerged as a result of the new "repentant suspect" law, implicated public sector officials of past administrations and a large number of Argentine construction companies, among them the sponsors of the road projects awarded under the first PPP round, in an extensive bribery scheme.

56 Another MICI complaint was submitted (and an agreement was reached soon thereafter) about possible impacts of urban street rehabilitation works in the Río Negro province (AR-L1106) under a project which has suffered long delays in part due to the bankruptcy of a major contractor.

term contracts. The program also benefited from optional guarantees by the World Bank to cover parts of the Government's financial obligations under the contracts. After receiving initial TC support by IDB, including assistance to foster the implementation of environmental best practices, the program held four rounds of auction that awarded, at increasingly competitive prices, contracts for the construction and operation of 147 renewable energy projects for a total of 4,466.5 MW. Having already supported the large Manantiales wind project, IDB Invest approved US\$262.4 million in own funds and mobilized a further US\$25 million in concessional financing for 10 RenovAr projects (1 solar, 9 wind) awarded in the initial two rounds. Of the 6 (of the 10 approved) already operating wind and solar projects, 503 MW were installed and generating electricity by the end of the period, and the others were under construction. Once the projects are completed, IDB Invest financing will have contributed to installing more than 30% (738 MW) of the total renewable energy capacity awarded in the first two RenovAR auction rounds.

Source: OVE, based on analysis and interviews.

3.5 The effectiveness of IDBG operations in increasing the financial depth of the private sector and financing for SMEs,

Table 3.3. Strategic objective: Inclusive financial development and SME financing

Expected outcomes: Increase the financial depth of the private sector; increase financing for SMEs			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants, excluding TFFP	11 (3)	460 (44.04)	156.09 (29.48)
New (legacy) TCs	2 (1)	3.01 (0.43)	0.30 (0.10)
Total (new + legacy)	17	507.47	185.97
TFFP loans/guarantees	174	566	

Source: OVE, based on the CS and internal databases.

both of which worsened during the period, was limited by the small scale of IDBG interventions and was affected by the crisis.⁵⁷ Given the small scale of IDBG financing compared to Argentina's financial sector,⁵⁸ the only operation of the country program that could have had a noticeable effect on increasing the depth of the financial sector was an IL (AR-L1249) aimed at implementing the Government's National Financial Inclusion Strategy; however, it has not disbursed because of Government

57 Given thematic overlaps between CS strategic objectives, several operations in the areas of SME and value chain competitiveness and agriculture (grouped under the second CS priority area) also provided access to SME finance (see par. 3.9 and 3.10).

58 IDBG disbursements under financial sector operations during the period equaled US\$186 million, compared to total bank lending to the non-financial private sector of US\$41 billion and lending to SMEs of US\$6.5 billion (BCRA, October 2019).

austerity measures.⁵⁹ IDBG contributions to increasing financing to SMEs were strongly affected by the economic cycle: those NSG FI SME onlending operations whose targets were set before a period of economic upswing met or exceeded SME portfolio growth targets, whereas those executed during a downturn fell short.⁶⁰ At the same time, the currency depreciation allowed an SG operation (AR-L1130) with the San Juan province government to extend far more SME loans than planned, although the data on results are mixed.⁶¹ Smaller contributions toward increased SME financing were made by an NSG operation (12116-01) that expanded online lending via a fintech, a TC for the public bank BICE (AR-T1183) that helped develop a factoring platform that is still in use, and a partly-used TC for FONCAP (AR-1164) that supported the development of a rating methodology for microfinance institutions. IDBG's support to the financial sector also included several green or sustainable finance operations, the effectiveness of which has been affected by the economic downturn and uncertainty about future energy sector policies.⁶²

3.6 While the results of the few IDBG operations to support environmentally friendly solutions are still unknown, significant contributions were made toward improving institutional frameworks for disaster risk management. Partly because relevant operation-level outcomes have not been tracked to date, it is not clear whether IDB contributed toward the improvement in Argentina's environmental performance index during the period. The program has, however, delivered some relevant products, including the clean-up of mining areas (AR-L1026), the promotion of sustainable water management and irrigation practices (AR-G1003, AR-L1120, AR-L1198), the acquisition of research vessels and centers for promoting sustainable fisheries (AR-L1159), the incorporation of environmental aspects in wind energy projects, and the fostering of forestry initiatives (AR-L1067), parts of which have however suffered avoidable delays and raise efficiency

59 However, the Government continued to work on this topic with grant resources from other donors.

60 After initial gains, the relevant SME portfolios of IDB clients contracted by 30-40% in real terms between end-2018 and late 2019. While it is impossible to know what would have happened without IDB Invest financing, the size of the contraction among IDB Invest clients is similar to that experienced by the banking system's overall SME lending (-28.5%). (Based on BCRA data.)

61 The only measured outcome indicator (survival rate of enterprises that received financing under the program compared to a control group), at 3.3%, fell short of the 5% target. The other outcome indicators (sales, exports, productivity) were not reported because the required enterprise survey was not carried out. Substitute indicators based on social security administration data show increases in employment and in access to credit among beneficiary firms. In terms of economic impact, San Juan's GDP contracted by 3.1% during 2012-18, failing to meet the target of increasing by 2 percentage points more than the national GDP (which grew 0.6% during the period).

62 See Annex X for details.

questions.⁶³ Non-financial support by IDB Invest to the financial sector has also increased awareness of sustainability topics among Argentine FIs,⁶⁴ although it is too early to assess the results of these efforts. In terms of improving frameworks for disaster risk management, most progress was made by a contingent loan (AR-O0008) which supported the creation of a national fund to address urgent needs of populations affected by natural disasters, as well as the implementation of the national disaster risk management policy. Other contributions were made by a legacy IDB SG operation (AR-L1026) that helped create a tool for monitoring the use of environmental resources for mining activities and territorial planning, as well as several TCs (AR-T1195, AR-T1158, AR-T1126) which supported flood risk assessment and management.⁶⁵ IDB also provided disaster relief support after extensive flooding in 2016 (AR-L1245), which helped those affected return to their homes and resume their lives.

- 3.7 IDBG contributions toward the strategic objective of greater security for businesses and people were very limited. The only operation completed, after considerable delays, was an SG loan to Buenos Aires province (AR-L1074) that financed an emergency response system. It has failed to meet most of its targets for reduced crime rates and to implement its components for addressing gender-based violence and institutional strengthening, the latter due to lack of counterpart interest. IDB's lending and TC support for the National Security Ministry (AR-L1255, AR-T1160) to improve the quality of crime data and provincial police training and to conduct pilot interventions in high-crime areas has the potential to contribute to the outcomes of reducing crime and its costs if it continues to be implemented, but execution has been slow in light of budget restrictions. A TC (AR-T1182) supported a small innovative rehabilitation pilot for young criminals, but it is too early to know its impact on crime recidivism.

63 One forestry center (of the five built to date) visited by OVE was fully constructed but had not been able to operate for several months because of mistakes made in the application for the needed high-voltage line. For the same center, potential cost-efficiency questions arise from the purchase of machinery considered over-dimensioned for its expected use by interviewed future users and operators (Annex I, Box I.4).

64 IDB Invest developed and launched, jointly with Fundación Silvestre Argentina, the Sustainable Finance Protocol that commits signatories to developing internal policies, risk analysis tools, and financial products that promote sustainable practices and take into consideration the environmental and social impact of investments. Thus far 18 Argentine FIs, including all of IDB Invest's clients, have signed on to the initiative.

65 Another two operations primarily focused in water and sanitation (AR-L1121, AR-L1273) in execution also address disaster risk management through interventions in drainage, flood control, and river basin management.

Table 3.4. Strategic objective: Development of environmentally sustainable solutions and support for disaster risk management

Expected outcomes: Improve environmental performance; improve the institutional and legal framework for disaster risk management			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	0 (6)	0 (94.93)	0 (56.94)
New (legacy) TCs	2 (3)	1.43 (1.14)	0.60 (0.78)
Total (new + legacy)	2 (9)	97.51	58.32

Notes: The contingent loan AR-O0008 is included among new approvals. Because disbursements under this facility can be drawn from undisbursed loan balances, in order to avoid duplication, its approved amount has not been added to the total.

Source: OVE, based on the CS and internal databases.

Table 3.5. Strategic objective: Greater security for businesses and people

Expected outcomes: Reduce economic costs of insecurity for businesses; reduce crime rate in population			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	1 (1)	25 (13.33)	3.66 (12.99)
New (legacy) TCs	1 (1)	0.35 (0.48)	0.08 (0.41)
Total (new + legacy)	2 (2)	39.15	17.14

Source: OVE, based on the CS and internal databases.

B. Strengthening of private sector integration and insertion into value chains

3.8 Under this pillar, the CS laid out three strategic objectives: (i) improved export insertion levels and profile, (ii) development of business services and public goods to foster integration and innovation, and (iii) development of businesses and clusters in exporting areas with high value-added. In this discussion, the first and third strategic objectives are grouped together because of the close thematic relationship between them.⁶⁶

3.9 IDB's contributions to improving export insertion levels and the development of businesses and clusters in areas with high value-added are unclear. Through several ILs (AR-L1071, AR-L1140, AR-L1145, AR-L1078, AR-L1092, AR-L1154), IDB helped produce numerous dispersed outputs aiming to foster exports and/or business or cluster development,⁶⁷ and NSG financing

⁶⁶ Depending on the sector and companies supported and the type of support, many operations that develop businesses and clusters in exporting areas can at the same time be considered to help improve Argentina's export insertion and profile.

⁶⁷ Financed products included trade and industry promotion events, an electronic platform for SME exporters, business plans, entrepreneurship-fostering activities, and other assistance for businesses and clusters. Two operations financing investments in increasing

helped improve the debt profile of larger agroindustrial exporters, but given the few outcome-level results,⁶⁸ the contribution of these operations to progress toward the relevant strategic objectives is difficult to assess. The only operations with the potential to affect export insertion levels and reduce export times and costs more broadly were an IDB SG loan (AR-L1251) supporting the establishment of a new public Single-Window Unit for International Trade and a TC (AR-T1219) to help create a trade and investment promotion agency in Buenos Aires province. However, both of these operations show little advance, and their implementation is uncertain given Government changes.

Table 3.6. Strategic objective: Improve export insertion levels and profile

Expected outcomes: Improve the country's position in global value chains; diversify exports by products; add value to exports; reduce export cost and time			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	3 (8)	163.60 (128.65)	94.32 (55.55)
New (legacy) TCs	2 (2)	0.55 (0.36)	0.48 (0.07)
Total (new + legacy)	15	293.17	150.42

Source: OVE, based on the CS and internal databases.

Table 3.7. Strategic objective: Development of businesses and clusters in exporting areas with high value added

Table 3.8. Strategic objective: Development of business services and public goods to foster integration and innovation			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	0 (2)	0 (169.44)	0 (20.52)
New (legacy) TCs	0 (0)	0 (0)	0 (0)
Total (new + legacy)	2	169.44	20.52

Source: OVE, based on the CS and internal databases.

the tourism potential of some regions were also included under these objectives, as they can, apart from developing domestic tourism (for which there is no clear corresponding CS objective), also result in increased export revenues from tourism.

68 Based on the few available results, SME export promotion activities (AR-L1092, AR-L1078) have not resulted in higher revenues.

Table 3.8. Strategic objective: Development of business services and public goods to foster integration and innovation

Expected outcomes: Improve local supplier quantity & quality; increase spending on technological innovation			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	4 (8)	260 (249.48)	103.52 (141.90)
New (legacy) TCs	3 (1)	0.83 (0.05)	0.31 (0.04)
Total (new + legacy)	16	610.36	245.78

Source: OVE, based on the CS and internal databases.

3.10 IDBG interventions contributed to the strategic objective of developing business services and public goods for integration and innovation, although there are gaps in the availability of results data. Most IDB operations under this objective involved spending on technological innovation (one of the expected outcomes), but it is unknown whether there were any contributions to the outcome of improved quantity and quality of local suppliers. Public goods and business services supported by IDB interventions for innovation more broadly (AR-L1141, AR-L1145, AR-L1181, AR-L1252, AR-L1156, AR-L1157) include scholarships; grants and loans to scientific and technological innovation projects; the creation of technological service centers; and the development of business plans for strengthening national research and technology systems. Most operation outputs exceeded targets and clearly involved spending on technological innovation (the CS outcome), although only a few (though largely positive) operation-level outcomes are known.⁶⁹ In the agriculture sector, a change in target beneficiaries and lower than expected individual grant amounts⁷⁰ have allowed the PRODAF operation (AR-L1068) to finance more business plans and investments, and thus to help more smallholder farmers in Chaco and Entre Ríos than expected adopt new technology, but another project component (guarantees for improved access to credit) was not executed because of lack of demand. IDB's support to the National Agricultural Research Institute (AR-L1062, AR-T1194) has contributed to improving Argentina's research and development capabilities, but implementation and results have been affected by budget cuts and the economic crisis.⁷¹ Other agricultural operations (PROSAP III and IV: AR-L1130, AR-L1198) also provided public goods (rural infrastructure projects) and business services

69 Scholarship recipients of the BECAR program (AR-L1156) reported significantly higher incomes than a control group.

70 Due to lack of demand for financing business plans for groups of farmers, funds were redirected to individual farmers.

71 The operation has financed numerous labs, research stations, and other research equipment and training, but, largely because of budget cuts, it has fallen short of product targets so far, and at least one of the finished labs cannot be operated because of increased electricity prices.

(services, training, investment grants) to farmers and agribusiness companies, even though they fell less clearly under the expected CS outcomes as their contribution to innovation and integration is not always evident. Whereas an OVE visit to one of the projects financed under PROSAP found opportunities for improving the mitigation of certain unintended effects (Annex I, Box I.4), the program has overall resulted in many promising outcomes.⁷²

C. Poverty and inequality reduction

3.11 To reduce poverty and inequality, the CS set out five strategic objectives: (i) stimulate early childhood development, (ii) improve the quality of education and the school completion rate, (iii) improve the employability of the population and female labor market participation, (iv) strengthen the quality of primary health care providers and strengthen their capacity for prevention and early detection of noncommunicable chronic diseases, and (v) improve the habitat and access to basic human services, particularly in lower-income regions. Because of the close thematic relationship between the first two objectives, they are grouped together in this discussion.

Table 3.9. Strategic objective: Stimulate early childhood development

Expected outcomes: Improve child care and preschool coverage			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	1 (0)	200 (0)	4.54 (0)
New (legacy) TCs	0 (1)	0 (0.25)	0 (0.25)
Total (new + legacy)	2	200.25	4.78

Source: OVE, based on the CS and internal databases.

Table 3.10. Strategic objective: Improve the quality of education and school completion rate

Expected outcomes: Improve learning indicators; improve school completion rates, especially in lower-income segments; reduce repetition rates			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	2 (2)	1,500 (240)	892.6 (136.09)
New (legacy) TCs	3 (2)	1.10 (0.22)	0.27 (0.6)
Total (new + legacy)	9	1,741.32	1,029.12

Source: OVE, based on the CS and internal databases.

72 Among other results, farmers who benefited from improved irrigation and drainage produced more and had higher crop yields than a comparison group, supported clusters increased their production, rural road improvements eliminated the number of non-passable days and increased traffic, and improved access to electricity helped farmers extend their working hours.

3.12 IDB's contribution to progress toward the early childhood development and education objectives has been limited. Under the early childhood development objective, the CS sought to increase the share of children aged 0-5 years who were either benefitting from early childhood stimulation programs or attending a child care center, as well as to raise enrollment of four-year-old children in initial education. IDB's contribution to both outcomes was limited due implementation delays of both the early childhood development (AR-L1254) and the PROMEDU IV (AR-L1180) operations. By the end of 2019, AR-1254 had only reached one third of its year-end target of children benefitting from access to improved quality non-formal education in early childhood centers and 7% of its target of children benefitting from family-based early childhood stimulation interventions. Essentially no progress had been made under the operation's initial education component. Kindergardens constructed by the PROMEDU projects (AR-L1052, AR-L1180) plausibly contributed to increased initial education enrollment, though less than expected given PROMEDU IV's implementation delays. Under the education objective, the CS expected to help improve learning outcomes, school completion and repetition rates, however IDB's contribution in these areas has also been limited. In the context of the IMF program, a fast-disbursing social transfer loan (AR-L1302) financed PROGRESAR scholarships for secondary and post-secondary education for a year, which together with construction of secondary school facilities by AR-L1152 plausibly contributed to improved school completion rates. While AR-L1180 has thus far primarily focused on the construction of kindergardens, its quality improvement component has been substantially scaled back and implementation has progressed slowly,⁷³ thereby limiting its contribution to improved learning outcomes and repetition rates.

Table 3.11. Strategic objective: Improve the employability of the population and women's participation in the labor force

Expected outcomes: Adaptation of skills to the requirements of the job market; reduce youth unemployment; greater female participation in the labor force			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	1 (0)	0.20 (0)	0.20 (0)
New (legacy) TCs	6 (2)	2.82 (0.48)	1.26 (0.21)
Total (new + legacy)	9	3.50	201.48

Source: OVE, based on the CS and internal databases.

⁷³ Under AR-L1180, US\$77.1 million of IDB funding were originally allocated to quality improvement, but this amount was reduced to US\$34.2 million when the project was restructured. By end-2019, only about \$1.3 million of this component had been disbursed, while over \$90 million had been disbursed for school infrastructure.

3.13 While IDB's contribution to improving employability has been modest, it played an important convening role through its support to efforts to improve the physical and economic autonomy of women. In terms of contributions to the expected CS outcome of improving female labor market participation, a gender-equality-focused PBP (AR-L1298), in conjunction with a series of TCs, supported actions to implement the National Plan to Prevent, Address and Eradicate Violence Against Women across provinces, the implementation of the National Plan to Prevent and Reduce Unintended Adolescent Pregnancies, and the submission of a law to promote gender equality in the workplace. While the law has not yet been adopted, several of its key provisions have been integrated into collective bargaining agreements. IDB also supported actions to professionalize childcare providers and the establishment of voluntary systems to certify employment quality with a gender focus. The sole substantial IDB operation components to support the other expected CS outcomes (reduce youth unemployment, adapt skills to the requirements of the jobs market) were short-term stipends to complete general and vocational training courses under the Hacemos Futuro program and PROGRESAR scholarships for secondary and post-secondary education under the fast-disbursing IL (AR-L1302). Efforts to help strengthen the efficiency and administration of these programs under AR-L1302 through investments in information systems have progressed more slowly than expected because of budget constraints.

Table 3.12. Strategic objective: Strengthen the quality of health care services for prevention and early detection of noncommunicable chronic diseases

Expected outcomes: Increase prevention and reduce impact of noncommunicable chronic diseases			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	2 (2)	160 (112.62)	6 (32.91)
New (legacy) TCs	2 (1)	0.45 (0.30)	0.10 (0.30)
Total (new + legacy)	7	273.38	39.31

Source: OVE, based on the CS and internal databases.

3.14 By supporting the national REDES health program, IDB has continued to strengthen the primary health care system's focus on the prevention and management of chronic diseases. IDB's multiphase operations (AR-L1142, AR-L1196) have supported registering the population in participating primary care centers' catchment areas and screening people for cardiovascular disease and diabetes risks, contributing to a substantial nationwide

increase in screening. They have also helped establish a system of scheduled visits, periodic monitoring, and referrals for certain diagnoses related to such diseases. While AR-L1142 had contributed to consolidating the functioning of the national drug supply and distribution program REMEDIAR, and IDB was instrumental in helping mainstream its financing into the national budget at the end of the operation, more recently the depreciation has led to drug supply issues and shortages. Preparation work with the Province of Buenos Aires under IDB's results-based loan with the province (AR-L1312) has helped the province operationalize several programs to strengthen primary and emergency care and impart a results focus in those programs, even though the operation has not yet reached eligibility. On the NSG side, an operation (12201-01) has provided a private emergency services operator with funds to expand its services in remote mining areas and to purchase an airplane for emergency medical transport.

Table 3.13. Strategic objective: Improve the habitat and access to basic services, particularly in lower-income regions

Expected outcomes: Increase water and sanitation coverage particularly in the NG region and Buenos Aires conurbation; increase access to quality housing for the poorest population groups			
	# operations	US\$ million approved (available at beginning of period for legacy)	US\$ million disbursed during the period
New (legacy) loans/guarantees/grants	6 (14)	985 (1,961.90)	73.67 (718.75)
New (legacy) TCs	5 (1)	1,850.68 (0.54)	1.13 (0.49)
Total (new + legacy)	26	4,798.11	794.03

Source: OVE, based on the CS and internal databases.

3.15 By supporting urban development and water and sanitation projects, IDB contributed to improving the habitat and access to basic human services in lower-income regions, although many results were delivered only after long delays. IDB contributions to improved water and sanitation coverage have been affected by long implementation delays, but relatively more progress was made in the Buenos Aires Metropolitan Area (AR-L1122, AR-L1195)⁷⁴ than in the NG provinces (AR-L1136)⁷⁵ and the rest of the country (AR-L1031, AR-L1084, AR-L1162).⁷⁶ While there were advances in sanitation works for

74 The operations rehabilitated water supply systems, a water treatment plant, and various sewerage works, helping to increase water production by 9%, incorporate 32,000 new sewerage connections, and reduce unaccounted-for water by 1 percentage point between 2015 and 2018.

75 Because of long delays, AR-L1136 has thus far completed only three water supply investments (Chaco, Formosa, Tucuman) and one wastewater treatment plant (Formosa). A new loan approved in 2017 (AR-L1258) has yet to initiate disbursements.

76 The operations, all of which have suffered long delays, have increased water and sanitation coverage in Buenos Aires, Chaco, Entre Ríos, Tucumán, Santa Fe, Río Negro, Mendoza, Misiones, San Juan, Santa Fé, Chubut, and Neuquén.

the Reconquista basin (AR-L1121),⁷⁷ the operation has been affected by delays in reaching agreement with the relevant authorities on an integrated management plan. As to the expected outcome of increasing access to quality housing for the poorest population groups, IDB support to upgrading low-income neighborhoods and informal settlements under PROMEBBA (AR-L1119) generated some positive results despite delays,⁷⁸ but little progress was made under another operation (AR-L1148) toward providing urban infrastructure and public services to less developed municipalities, largely because of budget cuts. Another urban development operation targeting Barrio 31 in the city of Buenos Aires (AR-L1260), approved under IDB's new focus on urban social integration during the evaluation period, has already implemented most of its education component. Two legacy operations were related but not directly aligned to the outcomes of this strategic objective. The first, an operation to establish coordination mechanisms for solving cross-border problems between neighboring municipalities in metropolitan areas (AR-L1101), completed infrastructure works in several provinces, but not all institutional arrangements between jurisdictions were sustained once the works were completed. The second, a solid waste management project (AR-L1025), completed the construction of several landfills and waste-sorting stations after long delays; however, one of the waste-sorting stations visited by OVE had remained unused for months as the landfill meant to receive the sorted waste could not operate because of delays in rehabilitating its access road.

D. Sustainability

3.16 Several factors pose risks to the future materialization and sustainability of the development results of evaluated operations. The main issues that can affect the sustainability of IDBG's 2016-2019 program with Argentina are (i) policy changes and uncertainty given the political transition, (ii) a structural lack of infrastructure maintenance at the subnational level, and (iii) fiscal constraints.

77 While works have advanced, no project outputs have been completed. The operation is implementing an agreement reached with affected parties following a MICI complaint regarding potential environmental damages linked to the intervention.

78 The project, completed in 2017 after a two-year delay, increased access to quality housing for the poorest population groups mainly through the regularization of land tenure and access to basic infrastructure and the expansion of human and social capital. While output targets were not reached for the expansion of human and social capital, more families than expected benefited from improved land rights and infrastructure.

Apart from these main concerns, OVE's review also found some instances of insufficient attention to economic, environmental and social sustainability risks at the operation sub-project level.⁷⁹

- 3.17 The effectiveness and sustainability of certain IDBG-supported lines of action initiated during the evaluation period will depend on the priorities of the new Government. The risk of drastic policy change is relatively low in areas (such as health and science and technology) where IDB supported long-standing initiatives predating the evaluation period. However, of the risk is much higher for IDBG's support to certain Government reforms substantially initiated during the period (for example, in transparency and integrity, the tax system, PPPs, and renewable energy). Improvements to INDEC and the Anti-Corruption Office are relatively more exposed to the effects of policy changes as those offices lack autonomy in terms of decisions and/or funding, and the same applies to the Single-Window Unit for International Trade and a similar trade promotion entity in the province of Buenos Aires, neither of which had been fully established by the end of the period. Similarly vulnerable are measures rooted in voluntary agreements, such as corporate governance improvements in state-owned entities. Even when reforms are based on laws, as parts of the fiscal and transparency reforms are, their implementation can be suspended in the absence of sufficient political support, as has happened to the fiscal accord with provinces (Annex I, Box I.3). The effectiveness and sustainability of IDBG's support to the renewable energy program and in water and sanitation will also depend on Government decisions regarding these sectors. The results of IDBG's efforts to help Argentina attract more private investment through PPPs, while unlikely to materialize in the short term given the economic situation, hinges on the Government's interest in pursuing the program more generally and in creating the conditions necessary for private investment.
- 3.18 The maintenance of IDB-financed infrastructure continues to be a concern at the subnational level. Similar to the 2009-2015 CPE, OVE again found that maintenance was insufficient, albeit to varying degrees, for IDB-financed projects in transport, solid waste, water and sanitation, housing/urban development, and education; especially for infrastructure transferred from the federal Government to provinces or municipalities upon completion. IDB operations financing infrastructure construction and rehabilitation include the contractual requirement that the benefiting subnational governments must maintain the assets upon transfer, and IDB

79 OVE field visits found gaps in the screening for economic sustainability of a forestry center and insufficiently mitigated road safety risks under a rural development operation, and OVE's desk review found documented non-compliance with the requirement for environmental and social monitoring and supervision under an education project (for details, see Annex I, Box I.4).

specialists report having increased their reviews of annual provincial plans and budgets presented to IDB during the period. Nevertheless, these measures appear to fall short, given that IDB typically ends its SG project supervision before major maintenance is needed, and that the provinces face fiscal constraints which worsened during the period. The continuation of development results is therefore at risk, and/or can require higher than necessary investments in future rehabilitation because of early degradation of assets.

- 3.19 Continuing and worsening fiscal capacity constraints give rise to more general sustainability concerns. The Argentine Government's fiscal space and ability to address the country's development challenges have been curtailed across the board by the increased debt service burden following the currency depreciation during the period, a situation that also calls into question the sustainability of external borrowing amid high fiscal deficits more generally. In more direct effects of the fiscal crisis on IDB's program, numerous IDB-supported programs are continuing to see execution delays and cuts to their budget allocation, which can affect the achievement of their results. The looming fiscal cost of the COVID-19 pandemic is likely to imply further shifts in, and constraints to, resource allocation.



04

Conclusions and Recommendations

- 4.1 IDBG provided broadly relevant support to Argentina during a challenging period marked by economic volatility and responded to pressing country needs despite unmitigated effectiveness risks. The IDBG CS and operational program were thoroughly aligned to Government priorities and responded to development needs, and IDB remained Argentina's main multilateral development partner throughout the period. IDB also continued to directly and indirectly support subnational governments, with a majority of geographically identifiable resources benefitting the NG and Buenos Aires regions prioritized by the CS. In the face of a looming economic and liquidity crisis, IDB demonstrated considerable flexibility in quickly adjusting its program to provide US\$2.5 billion in fast-disbursing loan resources under the IMF program, thereby exceeding originally foreseen approvals by over 30%. While the CS had correctly identified macroeconomic risks, and the approval documents of some fast-disbursing PBP operations had flagged risks to policy continuity and implementation, the proposed mitigation measures proved inadequate. At the same time, the approval of these fast-disbursing loans allowed IDB to provide much-needed liquidity in a crisis context.
- 4.2 While implementation times improved on average compared to the previous period, large parts of the evaluation portfolio suffered significant execution delays. Although IDB approved significantly more resources than foreseen by the CS, including fast-disbursing resources, disbursements stayed below CS projections throughout the period. In addition to some design issues and continued weaknesses in institutional capacity, much of the under-execution was due to crisis effects: fiscal austerity measures affected a significant share of the portfolio, and the rapid inflation and depreciation disrupted procurement processes. Government priority and organizational changes also contributed to operation delays or under-execution, and further slowdowns were caused by the prudential measures IDBG took at the end of the period to address integrity issues and the heightened risk environment. As in the previous strategy period, the institutional strengthening components included in a substantial number of operations continued to be under-executed, or their funds redirected to infrastructure works. Whereas IDBG-internal coordination in the many multisector operations contained in the portfolio was more consistent during project preparation than implementation, IDBG generally coordinated well with other official multilateral and bilateral agencies on relevant issues.
- 4.3 Crisis impacts and other execution issues also affected the effectiveness of IDBG's operational program. In some CS priority areas, IDBG helped make significant progress,

including by increasing Argentina’s renewable energy capacity, advancing gender equality and transparency, fostering research and development capacities, strengthening efforts to combat chronic diseases, improving Argentina’s road network and urban road safety, expanding potable water and sanitation coverage, strengthening disaster risk management, and improving access to basic services and infrastructure for low-income urban populations and rural producers. Advances in other areas—improving the regulatory framework for doing business, greater security, higher export insertion levels, education quality, stimulating early childhood development, and increased employability—were more limited. The results of large parts of the program (such as operations in water and sanitation, road infrastructure, electricity transmission, education, early childhood development, urban and rural development, and citizen security) have not been delivered in time because of the execution issues described above, and OVE site visits also found instances of other potentially avoidable delays (in the areas of forestry and solid waste). Crisis-induced changes in counterpart priorities and the economic environment affected program results, particularly for IDB’s support to PPPs, fiscal reforms, and financial markets.

- 4.4 Sustainability is a concern for parts of the program, given policy changes, worsening fiscal constraints, insufficient infrastructure maintenance at the subnational level, and other risks to the continued delivery of development results. Lasting results, especially of IDB’s support to reforms initiated during the period, will depend on political support for their continued implementation. Some areas (such as fiscal reforms) have already seen policy reversals. IDB efforts to ensure sufficient infrastructure maintenance at the subnational level have thus far fallen short given structural obstacles to assigning sufficient government resources, so that there is an ongoing danger to the continued delivery of development results. Project implementation is likely to remain affected by fiscal constraints at the federal level, and the geographic distribution of development results will depend more strongly on which subnational governments are able and willing to take on debt themselves.
- 4.5 Finally, the COVID-19 pandemic has created unprecedented uncertainties, as the full health, economic and social impacts of the crisis are still unknown. This suggests that IDBG’s response in the short term will require flexibility and agility to help Argentina grapple with the crisis.
- 4.6 In light of the evaluation findings and the uncertainties created by the COVID19 pandemic, OVE makes the following recommendations to Management:

- 1. Delay adopting a new Country Strategy until the effects of the COVID-19 pandemic are better understood.** Given the still unknown extent of the health, social, and economic impact of the COVID-19 pandemic in Argentina, OVE recommends that IDB Group not proceed with agreeing on a new full-term CS with the Government until the extent of the crisis impact is better understood. Instead, OVE recommends that IDB Group extend the current strategy period and, in its request for extension, include a road map covering a one-year period that outlines IDB Group's short-term support in response to the crisis. It will then be able to commit to a new multi-year country strategy under greater certainty at the end of the extension period.
- 2. Continue to work with the Government on reform implementation.** Many of the reform measures supported through PBPs during the evaluation period (as in transparency, fiscal reforms, and gender policies) will show their expected development results only if they continue to be implemented and the relevant counterparts take complementary actions. To this effect, IDB should make continuation of these reforms an important part of its dialogue with the Government going forward, stay abreast of progress on reform implementation, and provide technical support where needed.
- 3. Given limited fiscal space, ensure that future IDB support through investment lending is focused on a limited number of areas where IDB can add most value, and ensure that project design is commensurate with implementation capacity.** Implementation of the investment portfolio was affected by fiscal austerity and implementation capacity issues. Given that fiscal space is likely to remain constrained, OVE recommends that IDB provide more focused support and ensure that project design takes into account institutional and fiscal capacity constraints.
- 4. Take measures to ensure that gaps in institutional capacity at IDB counterpart agencies are more effectively addressed.** Review the reasons for the under- or non-implementation of institutional strengthening components in numerous operations during the period, and ensure that future capacity building activities—either in the form of components within operations or as stand-alone interventions—are consistently well tailored to counterpart and project needs and realities.

5. **Develop and implement an action plan to more systematically address the lack of maintenance of IDB-financed infrastructure, especially at the subnational level.** As in the previous CPE, OVE again found insufficient maintenance of infrastructure assets, especially by subnational entities, pointing to the need for more effective measures to improve the maintenance of IDB-supported infrastructure. Such measures can, for example, involve better integration of subnational maintenance activities into project design and ensuring their implementation, and/or more systematic work with the Government on strengthening relevant incentives.

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