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PROJECT PERFORMANCE ASSESSMENT REPORT

ARGENTINA

SAN JUAN PROVINCIAL REFORM ADJUSTMENT LOAN
(LOAN NO. 4220)

CATAMARCA PROVINCIAL REFORM ADJUSTMENT LOAN
(LOAN NO. 4578; TF NO. 26839)

CORDOBA PROVINCIAL REFORM ADJUSTMENT LOAN
(LOAN NO. 4585)

SANTA FE PROVINCIAL REFORM ADJUSTMENT LOAN
(LOAN NO. 4634)

June 17, 2009

Country Evaluation and Regional Relations
Independent Evaluation Group (World Bank)

Currency Equivalents (annual averages)

Currency Unit = Argentine Peso

1996	US$1.00	0.99
1997	US$1.00	0.99
1998	US$1.00	0.91
1999	US$1.00	0.99
2000	US$1.00	0.99
2001	US$1.00	0.99
2002	US$1.00	2.66
2003	US$1.00	2.96
2004	US$1.00	2.94
2005	US$1.00	2.92
2006	US$1.00	3.06

Abbreviations and Acronyms

CAS	Country assistance strategy
GDP	Gross domestic product
ICR	Implementation Completion Report
IEG	Independent Evaluation Group
IEGWB	Independent Evaluation Group (World Bank)
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
PPAR	Project Performance Assessment Report
PRL	Provincial Reform Loan

Fiscal Year

Government: January 1 - December 31

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Director, Independent Evaluation Group (World Bank)	:	Ms. Cheryl W. Gray
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IEGWB Mission: Improving development results through excellence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEGWB annually assesses about 25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. IEGWB incorporates the comments as relevant. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEGWB Rating System

IEGWB's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEGWB evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEGWB website: http://worldbank.org/ieg).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

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Principal Ratings

San Juan Provincial Reform Adjustment Loan (Loan No. 4220)

	*ICR**	*ES**	*PPAR*
Outcome	Unsatisfactory	Unsatisfactory	Highly Unsatisfactory
Institutional Development Impact**	Negligible	Negligible	———
Risk to Development Outcome	———	———	Substantial
Sustainability***	Unlikely	Unlikely	———
Bank Performance	Satisfactory	Satisfactory	Moderately Satisfactory
Borrower Performance	Unsatisfactory	Unsatisfactory	Highly Unsatisfactory

Catamarca Provincial Reform Adjustment Loan (Loan No. 4578; TF No. 26839)

	*ICR**	*ES**	*PPAR*
Outcome	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Moderate	Significant	Moderate
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory

Cordoba Provincial Reform Adjustment Loan (Loan No. 4585)

	*ICR**	*ES**	*PPAR*
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	Moderately Satisfactory
Risk to Development Outcome	Moderate	Moderate	Moderate
Bank Performance	Satisfactory	Moderately Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

Santa Fe Provincial Reform Adjustment Loan (Loan No. 4634)

	*ICR**	*ES**	*PPAR*
Outcome	Moderately Satisfactory	Moderately Satisfactory	Satisfactory
Risk to Development Outcome	Moderate	Moderate	Moderate
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The Evaluation Summary (ES) is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.
**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.
***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

Key Staff Responsible

San Juan Provincial Reform Adjustment Loan (Loan No. 4220)

Project	***Task Manager***	***Division Chief/ Sector Director***	***Country Director***
Appraisal	Maria Emilia Freire	Paul Meo	Gobind Nankani
Completion	Mark V. Hagerstrom	Ernesto May	Myrna L. Alexander

Catamarca Provincial Reform Adjustment Loan (Loan No. 4578; TF No. 26839)

Project	***Task Manager***	***Division Chief/ Sector Director***	***Country Director***
Appraisal	Mark V. Hagerstrom	Ernesto May	Myrna L. Alexander
Completion	Fernando Rojas	Ronald E. Myers	Axel van Trotsenburg

Cordoba Provincial Reform Adjustment Loan (Loan No. 4585)

Project	***Task Manager***	***Division Chief/ Sector Director***	***Country Director***
Appraisal	Ronald E. Myers	Ernesto May	Myrna L. Alexander
Completion	Fernando Rojas	Ronald E. Myers	James Parks

Santa Fe Provincial Reform Adjustment Loan (Loan No. 4634)

Project	***Task Manager***	***Division Chief/ Sector Director***	***Country Director***
Appraisal	Mark V. Hagerstrom	Ernesto May	Myrna L. Alexander
Completion	Fernando Rojas	Ronald E. Myers	Axel van Trotsenburg

Preface

This is the Project Performance Assessment Report (PPAR) for the Argentina's San Juan Provincial Reform Adjustment Loan (Loan No. 4220); Catamarca Provincial Reform Adjustment Loan (Loan No. 4578, TF No. 26839); Cordoba Provincial Reform Adjustment Loan (Loan No. 4585); and Santa Fe Provincial Reform Adjustment Loan (Loan No. 4634). The Provincial Reform Loans (PRLs) aimed at helping the provincial governments improve their delivery of social services while attaining and maintaining a prudent fiscal stance. These objectives were very important because the provincial governments are in charge of the delivery of most of those services.

All four loans supported provincial government reforms by making funds directly available to provinces that had introduced significant reforms, agreed to transfer the provincial pension funds to the national system, and demonstrated the ability and political commitment to further reforms. The Bank's Board approved the San Juan Provincial Reform Adjustment Loan of $50 million on August 26, 1997. The Catamarca Provincial Reform Adjustment Loan of $70.7 million was approved on September 14, 2000. The Cordoba Provincial Reform Adjustment Loan of $303 million was approved on November 22, 2000. The Santa Fe Provincial Reform Adjustment Loan of $330 million was approved on July 19, 2001.

These operations were singled out for PPARs for three main reasons. First, to identify the lessons that could be learned from the Argentine PRLs, which were among the first sub-national operations carried out by the Bank. Second, to determine whether it is possible to attain satisfactory results in this kind of operations even under difficult macroeconomic circumstances such as those prevailing in Argentina just before and after the collapse of the currency board. Third, to ascertain whether the impending 2001 monetary board crisis prompted resource transfers against weaker reforms than would have been supported otherwise.

This PPAR is based on the relevant documents for the four operations reviewed by the Bank's Board, and other documents relevant for understanding the context of the operations reviewed. They include the Country Assistance Strategies (CASs), the relevant Implementation Completion Reports (ICR) and ICR Reviews for the projects, IMF reports, and Economic and Sector Work (ESW) reports. The PPAR is also based on interviews conducted during a mission to Argentina in November to December 2007, with government officials and members of civil society who were knowledgeable of Bank support in the areas reviewed; and with Bank staff and consultants at headquarters and in the Country Office.

Comments from the Bank's Regional Management have been incorporated in the report. Copies of the draft PPAR were sent to government officials and agencies for review and comments, but none were received.

The report was prepared by Manuel Hinds (Consultant), with Helena Tang as Task Manager. Agnes Santos and Cecilia Tan provided administrative support.

Summary

1. This is the Project Performance Assessment Report for four Provincial Reform Loans (PRLs) in Argentina. The provinces are: San Juan, Catamarca, Cordoba, and Santa Fe. The PRLs aimed at helping Argentina resolve a serious structural problem. While the federal government controlled (and still controls) most fiscal revenues, the delivery of services was (and is) highly decentralized. By the mid-1990s, the 24 provincial governments were responsible for 45 percent of public sector expenditures while their own revenues (distinct from those transferred by the federal government) averaged only 37 percent of provincial expenditures. The federal government and the provinces saw this as a problem because the transfer of resources from the federal to the provincial governments had been insufficient and unreliable.

2. The Bank aimed at helping the provinces in two ways. First, assist them to assume their responsibilities of providing social services to the citizens in accordance with the constitution. Second, to do so while maintaining a prudent fiscal situation financed with taxes that would minimize distortions in the provincial economies. To attain these objectives, the PRLs typically had three components: fiscal and public sector administration, education, and health.

3. The PRLs were carried out in three stages. Initially, in what was called PRL-I (not reviewed here), the Bank financed a Transformation Fund established by the federal government to help the provincial governments develop their ability to collect revenues and allocate them efficiently in the delivery of social services. In the second stage, what was called PRL-II, the borrower was still the federal government but the proceeds of the loans were transferred directly to the provinces. The San Juan loan ($50 million), approved by the Board in August 1997, was part of this second stage. The first and second tranches of the loan totaling $35 million were disbursed, while the third tranche of $15 million was cancelled in June 2000 because of the failure to meet the important loan objective of fiscal prudence.

4. The other three loans were approved between September 2000 and July 2001—Catamarca ($70.7 million), Cordoba ($303 million), and Santa Fe ($330 million)—in what was called PRL-III. PRL-III had the same objectives as the earlier PRLs, but differed from them in that the borrowers were the provincial governments. The first disbursements of the PRL-III loans took place in mid-2001. The implementation of the three loans under the PRL-III was derailed with the eruption of the political and economic crises associated with the December 2001 collapse of the currency board. When the economy began to recover in 2003, new federal and provincial governments were elected, some of which had ideas that contradicted the objectives that the PRLs had supported.

5. Partly to reflect the changes in the political environment, and partly to take into account the limitations that the crisis and its aftermath had imposed on the governments' ability to carry out the expected reforms, the three PRL-III loans were restructured in 2003. In some cases, the restructuring entailed the substitution of actions that had become infeasible as a result of the crisis with second best measures that could contribute

to the attainment of the original objectives. Specifically, given the difficulty of privatizing enterprises in the post-crisis environment, other measures were introduced to substitute for privatization: the liquidation of the provincial bank in Catamarca, and the introduction of administrative reforms to improve the efficiency of the provincial bank in Cordoba and various utilities in Cordoba (electricity), Santa Fe (electricity), and Catamarca (water and sewerage). In other cases, however, the Bank watered down the conditions, as in Cordoba, where one condition establishing that the government should attain certain student/teacher ratios during the life of the loan was replaced with one establishing that it should present a plan to attain such ratios. In most cases, however, the Bank restructured the conditions in ways that still led to meeting the original objectives.

6. These restructurings facilitated the disbursement of the second tranches, which took place in 2003 for all loans. The loans were also extended to allow for compliance with the third tranche conditions.[1] The three loans were closed three years after their scheduled date—on March 31, 2006 instead of March 31, 2003—at the request of the government, which wanted the Bank to keep on supporting the provinces but only through investment loans. The last tranches were not disbursed. As a result, total disbursements were much lower than intended: 75 percent in the case of Cordoba, and 62 and 65 percent for Santa Fe and Catamarca, respectively. In sum, of the total $703 million committed under the three PRL-III loans reviewed in this document, 68 percent ($477 million) was disbursed.

7. In spite of these negative developments, the PRL-III operations were instrumental in supporting some significant reforms that were highly relevant for the development of the provinces and the country in general. The objectives of all the reviewed loans—to ensure efficient and responsive public delivery of social services while maintaining fiscally sound policies—were relevant and consistent with the country assistance strategy. The design of the loans, focused on components aimed at improving the fiscal situation and the delivery of education and health services, was relevant for the achievement of these objectives. The reforms supported by the operations included the attainment of fiscal surpluses in all the PRL-III participating provinces after 2002; the protection of the share of social expenditures in the provincial budget during the crisis; and improvements in the efficiency of the delivery of social services.

8. The design of all the loans, however, shared a common problem—the inordinately large number of conditions which, additionally, were not prioritized. The San Juan operation had the lowest number of 16. The other three operations had much larger numbers: 119 (101 after restructuring which entailed the addition of new conditions and the deletion of some pre-existing ones) for Cordoba, 77 for Santa Fe, and 60 for Catamarca. Altogether, there were 272 conditions in the four loans. The large number of un-prioritized conditions created problems in the implementation, supervision, and evaluation of the loans.

[1] In one case, Cordoba, the loan restructuring split the second tranche in two, with the original third tranche becoming the fourth tranche. All other loans kept the original number of three tranches.

9. These operations were singled out for PPARs for three main questions. First, to identify the lessons that could be learned from the Argentine PRLs, which were among the first sub-national operations carried out by the Bank. Second, whether it is possible to attain satisfactory results in provincial structural adjustment operations even under difficult circumstances. In this respect, this PPAR concludes in the positive. Even if the 2001 economic crisis caused many problems in the implementation of the three PRL-III operations, the outcome of these loans was at least Moderately Satisfactory. Third, to ascertain whether the impending 2001 monetary board crisis prompted resource transfers against weaker reforms than would have been supported otherwise. In this respect, this PPAR concludes that they were primarily true-to-form structural adjustment operations that gave first priority to the planned structural reforms. A piece of evidence for this is the Bank's withholding for almost a year the first tranche disbursements of two of the operations (Catamarca and Cordoba) while awaiting compliance of the provincial governments with the first tranche conditions. Regarding the possibility that the restructured 2003 conditions watered down the attainment of the original objectives, the evidence shows that even if this was true in some cases, for most of the crucial objectives, the restructurings reflected reasonable adjustments to the changed circumstances.

10. This PPAR confirmed most of the ratings of the ICRs, finding that the PRL-III operations had attained satisfactory results in many dimensions. The PPAR also found that the PRL-III operations were more satisfactory than the San Juan (PRL-II) operation in each and every component, attaining reasonably satisfactory outcomes in spite of the difficult conditions in which they were implemented. The fact that PRL-III was able to produce three loans that were rated at least Moderately Satisfactory in the midst of a catastrophic environment is largely attributable to the long and conscientious preparation of the PRL series, which in turn was based on solid economic and sector work as well as in the experiences with the previous PRL operations in Argentina

11. This assessment has derived the following lessons from these operations.

(i) It is possible to attain satisfactory results in provincial structural adjustment reforms and operations even in extremely difficult conditions.

(ii) The sub-national approach may be optimal to deal with the improvement and protection of social services in times of crisis in cases where such services are decentralized to the province.

(iii) Good economic and sector work and close relationship between the country office and the borrower are important contributing factors to the success of operations.

(iv) Large numbers of conditions render the supervision and evaluation of operations difficult, particularly if they are not prioritized.

(v) The idea that provinces should increase their tax collections as a presumptive objective should be subject to scrutiny, as that objective needs to be balanced with other objectives such as the efficiency of taxation and the need to improve the business environment, depending on the situation.

(vi) Political feasibility of reforms must be a factor in the evaluation of new operations

(vii) The benefits of Bank operations can be substantially enhanced through a flexible approach to reforms.

1. Introduction

1.1 This is the Project Performance Assessment Report for four Provincial Reform Loans (PRLs) in Argentina. The four provinces supported by the loans include two of the poorest provinces in the country (San Juan and Catamarca, both in the north of the country) and two of the richer ones (Santa Fe and Cordoba, situated in the rich central belt of the country). The income per capita of the first two (between $4,000 and $5,000 in the mid-1990s) was about half the national level ($8,120) at the time of the appraisal of the operations. The other two provinces were among the richer in the country; their income per capita in the 1990s was around of $7,000, just below the national average.[1]

The Economic Setting

1.2 Argentina's economy suffered from protracted instability since the 1950s. Fiscal and current account deficits, inflation and currency depreciation rates were very high. As a result, financial and economic crises were common. These problems deteriorated in the 1970s and 1980s. Inflation exceeded 100 percent every year from 1975 to 1989 and then rose to over 3,000 percent in 1989, starting an episode of hyperinflation that severely disrupted the country economically and politically. The acceleration in inflation was accompanied by a 15 percent drop in real gross domestic product (GDP) between 1987 and 1990.

1.3 In March 1991, after more than two years of hyperinflation, the government introduced the Convertibility Plan to restore macroeconomic stability. The main features of the plan were the convertibility of the peso at a rate of 1 to 1 with the U.S. dollar, and the creation of a currency board to implement this. The plan worked. Inflation declined rapidly, reaching developed country levels by 1994, and the economy began to grow again. The government implemented a substantial program of structural reforms along with the Convertibility Plan. These included privatization of most state-owned enterprises, of which there were many operating in a range of sectors including oil, gas, railroads, industry, and banking. The government also opened investment in roads and highways to private investors, liberalized the goods and financial markets, and reduced the size of the state.

1.4 At the same time, rising commodity prices during 1991-94 led to a boom in exports which, coupled with high capital inflows, generated a boom in domestic demand. In 1995, however, capital inflows declined considerably due to the contagion effect of the December 1994 Tequila crisis, when the Mexican peso depreciated sharply and the Mexican government experienced serious problems in the service of its debt. In response, the government obtained large inflows of official capital—including from loans from the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), and the World Bank—which averted the collapse of the currency board and the

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[1] In Argentina, the population is heavily concentrated in the two richest provinces, the City of Buenos Aires and the Province of Buenos Aires. Only these two provinces have incomes per capita higher than the national average.

financial system. Nonetheless, the crisis resulted in a fall in GDP in 1995 notwithstanding the high growth in both commodity prices and exports that year.

1.5 The economy recovered in 1996 thanks to the continued rise in commodity prices.[2] In 1998, external circumstances became unfavorable as commodity prices fell, the dollar appreciated rapidly, and the Asian crisis resulted in a dearth of liquidity in the international financial markets. Additionally, Brazil, Argentina's largest trading partner, which had adopted a currency board in the mid-1990s, allowed its currency to depreciate in 1998. Exports fell in 1999, and though they recovered in 2000, their recovery was not sustained and they fell again in 2001. By 2001, GDP had been falling for three years in a row while the rate of unemployment reached record levels of close to 20 percent.

1.6 The fall in commodity prices led not only to declines in exports and GDP, but also to a deterioration of the fiscal situation. The overall fiscal deficit rose from 2.4 percent of GDP in 1995 to 3.6 percent of GDP in 2000. A substantial share of the deficits (about a third of them, equivalent to 1.6 percent and 1.2 percent of GDP in 1999 and 2000, respectively) originated in the provinces. The government tried to restore confidence by borrowing abroad, mainly from the IMF, the IDB, and the Bank, which it had done in 1995 to forestall the Tequila crisis.

1.7 Unlike what happened in 1995, however, the 2000-2001 efforts of the government and the international financial community eventually failed. The currency board collapsed in December 2001 and the country went into a deep currency, financial, and political crisis that resulted in a large depreciation of the peso, a sharp reduction in GDP in current dollars, and an equally sharp increase in the burden of foreign-currency debt. Total public sector debt went from 50 percent of GDP in 2000 to over 150 percent of GDP in 2002. The banking system collapsed, the country defaulted on its debt, and the economy went into disarray. When the situation stabilized, well into 2002, a new government had adopted economic strategies that differed from those advanced by the governments during the era of the Convertibility Plan in several important ways: macroeconomic efforts were focused on the renegotiation of the external debt, and structural reforms were focused on more intervention of the government in the economy.

1.8 The external situation improved markedly after 2003 with a sharp rise in commodity prices. At the same time, the dollar began a long decline that was still continuing in the spring of 2008. As in the rest of Latin America, these international events prompted an appreciation of the domestic currency and a rapid economic recovery. Partly as a result of these developments, and partly as a result of the drastic reduction of external debt resulting from its renegotiation, by 2006 the debt-to-GDP ratio was at approximately the same level it was before the devaluation of the peso in 2001 (about 50 percent of GDP). The commodity price boom and the rapid expansion of exports and GDP were still continuing at the time of the writing of this document, in the spring of 2008, making for one of the longest upswings in the history of the country.

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[2] Argentina exports mainly commodities (manufactured exports make up only about 31 percent of total exports), which include: sunflower seeds, lemons, soybeans, grapes, corn, tobacco, peanuts, tea, wheat, livestock, gold and other metals, meat, and natural gas. The prices of all these products tend to fluctuate together and in synchrony with prices of most other commodities. Source: World Development Indicators.

The CAS and the PRL Series

1.9 The PRLs aimed at helping Argentina resolve a serious structural problem. While fiscal revenues were (and still are) mostly controlled by the federal government, the delivery of services was highly decentralized. By the mid-1990s, the 24 provincial governments were responsible for 45 percent of public sector expenditures, accounting for 97 percent of expenditures on basic education, 92 percent of those on health, and 84 percent of those on welfare outlays. On the other hand, their own revenues (distinct from those transferred by the federal government) averaged only 37 percent of provincial expenditures.[3] The provinces saw this as a problem because the transfer of resources from the federal to the provincial governments had been insufficient and unreliable.

1.10 The Bank aimed at helping the provinces in two ways. First, assist them to assume their responsibilities of providing services to the citizens in accordance with the constitution, responsibilities that the provinces could not meet because they did not have the necessary resources or capacity to deliver them. Second, to do so while maintaining a prudent fiscal situation financed with taxes that would minimize distortions in the provincial economies.

1.11 This support developed in several stages. The first stage started in the 1980s through loans helping the federal government to finance multi-sector projects for the provinces. A second stage started in 1992-1993 when the federal government negotiated a new agreement with the provincial governments under which the latter would: (i) improve resource mobilization, restructure taxation, and eliminate existing distorting taxes; (ii) privatize public enterprises, including the provincial banks and utilities; and (iii) deregulate their economies and transfer the provincial pension funds to the national system. On its part, the federal government would establish a floor for the revenues it would share with the provinces to protect them from revenue shortfalls, and create a Transformation Fund to provide financing and technical assistance to carry out the provincial reforms.

1.12 The Bank supported the 1992-1993 agreement with the First Provincial Reform Loan (PRL-I Loan No. 3826-AR), which targeted a group of reform-minded provinces. The loan proceeds were used to capitalize the Transformation Fund. This loan was highly successful in deepening public sector reform among participating provinces. Nonetheless, provincial fiscal deficits continued to be a problem and became a factor in destabilizing the overall macroeconomic situation during the 1994-1995 Tequila crisis. In response, the government and the Bank agreed that further operations would be needed in this area and that direct fast-disbursement lending to the provinces would be appropriate. The strategy that guided these new operations was clearly spelled out in the country assistance strategy of the mid-1990s. The same strategy also underpinned subsequent PRL operations: to stabilize provincial public finances while improving the provincial government's ability to deliver public services.

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[3] World Bank data.

1.13 The Second Provincial Reform Loan (PRL-II) of 1997 embodied a new design principle of making loans directly available to provinces that had: (i) introduced significant reforms in terms of reducing the size of the government and privatizing major public enterprises; (ii) agreed to transfer provincial pension funds to the national system; and (iii) demonstrated the ability of and political commitment to further reforms. While the borrower was the Republic of Argentina, the funds went directly to the four participating provinces—Rio Negro, Salta, San Juan, and Tucuman—which accounted for 6 percent of Argentina's GDP and 10 percent of its population. It was in this context that the San Juan operation reviewed in this document was approved.

1.14 The 2000 CAS included continuation of support to the provincial governments among its main priorities. These objectives coincided with those that underpinned the new series of operations that had been in preparation since 1999 and were already approved or scheduled to be presented to the Board by 2000-2001: the PRL-III, which actually was three different adjustment loans for, respectively, Catamarca (Loan No. 4578-AR, approved in September 2000), Cordoba (Loan No. 4585-AR, approved in November 2000) and Santa Fe (Loan No. 4634-AR, approved in July 2001). The PRL-III loans had three tranches each. The disbursements of the first tranches of the three loans took place in mid-2001. The currency board collapsed in December of that year, in the middle of the implementation of the three loans under PRL-III. At the time, the full attention of the federal and provincial governments was focused on controlling the damage of the crisis, excluding practically all other concerns.

The Crisis and the PRL-III Operations

1.15 The crisis peaked in 2002, and by 2003 the economy was rapidly recovering. The 2003 elections brought in new administrations at the federal and provincial levels and with them new approaches to development which in many cases changed the priorities of the reforms supported by the operations. Partly because of this, and partly because the crisis had made the implementation of the reforms problematic, the provincial governments were not able to comply with the conditions for the second tranche releases of the loans.

1.16 In 2003, the three operations still outstanding (the PRL-III loans) were restructured, with some of the original conditions being replaced by new ones based on actions that the governments had already taken. For the Catamarca loan, the second and third tranche conditions were restructured to recast the targets of the program in a manner that was believed to be feasible following Argentina's economic collapse with the collapse of the currency board, but without altering the original development objectives of the operation. This entailed replacing the condition to privatize the provincial bank with its liquidation, and replacing the privatization of the water and sewerage company with the concession of its administration to a private operator. Other conditions were restructured in the same vein.

1.17 For the Cordoba loan, the restructuring consisted of three main elements. First, the original conditions of the second tranche, which dealt with the privatization of the provincial bank and the electric utility, were restructured to take into account the low probability of privatization of these entities in the aftermath of the crisis. Privatization was substituted by administrative reforms that would mimic those that would have been carried out by private buyers. Second, the original third tranche was split into a third and a fourth tranche, leaving as conditions for the third one those that the government had already met by April 2003, and transferring to the fourth one those that had not as yet been met. Third, some of the conditions for the fourth tranche were amended, which entailed the dropping of the conditions for some of the reforms (for example the health insurance pilot) and the scaling back of other reforms (privatization). These changes allowed the provincial government to receive the simultaneous disbursement of the second and third tranches, which it did in May 2003. The new fourth tranche was expected to be released in the second quarter of fiscal 2006. This tranche was cancelled at the request of the federal government, which had decided at that time to restrict loans to provinces to investment lending. For the Santa Fe loan, the main restructuring entailed replacing the condition to privatize the electricity company with the implementation of an action plan that would improve its service and its financial performance.

1.18 These restructurings facilitated the disbursement of the second tranches of the PRL-III loans, which took place in 2003 for all loans. Also, the loans were extended to allow for compliance with conditions for the still undisbursed tranches. Yet, the three loans were closed on March 31, 2006 (three years after their scheduled closing dates) at the request of the government, which wanted the Bank to keep on supporting the provinces but only through investment loans. The last tranches were not disbursed. As a result, total disbursements were much lower than intended: 75 percent in the case of Cordoba, and 62 and 65 percent for Santa Fe and Catamarca, respectively. In sum, of the total $703 million committed under the three PRL-III loans reviewed in this document, 68 percent ($477 million) was disbursed.

1.19 Despite these negative developments, the operations were instrumental in supporting some significant reforms that were highly relevant for the development of the provinces and the country in general, which will be discussed in each of the next four chapters.

The Main Issues

1.20 These operations present an opportunity to determine whether it is possible to attain satisfactory results in provincial structural adjustment operations even under circumstances as difficult as those that prevailed in Argentina during the implementation of the PRL-III operations. It is for this reason that IEG's ICR reviews of the operations recommended a PPAR and defined the issues that should be dealt with, as follows. First, IEG's ICR Review of the San Juan operation noted that the Argentina PRLs were among the first sub-national operations that the Bank had carried out and that their experience may be valuable for informing the design of other similar operations. Second, IEG's review of the Cordoba operation specifically recommended that a PPAR should elaborate on the influence that the 2001 crisis may have had on the Bank's decision to finance the PRL-III operations as well as the extent to which the pressure to provide funds in the aftermath of the crisis may have resulted in the 2003 restructuring of the loans with relaxed conditions—two issues not discussed in the ICR. This PPAR focuses on these issues as well as on the general performance of the operations. The assessment of one PRL-II operation and three PRL-III operations in one single document gives a broader perspective on the loans, allowing for comparisons between one operation that was not affected by the crisis with three that were deeply affected by it.

1.21 The four PRLs under review had a large number of conditions. The San Juan operation had the lowest number of 16. The other three operations had much larger numbers: 119 (101 after restructuring which entailed the addition of new conditions and the deletion of some pre-existing ones) for Cordoba, 77 for Santa Fe, and 60 for Catamarca. In order to focus the discussion, this report examines the extent to which the broader objectives were supported by the conditions, rather than each individual condition.

1.22 The next four chapters discuss the performance of the four reviewed operations and assess their outcomes. Chapter 6 contains the lessons drawn from the assessment of the four operations.

2. San Juan Provincial Reform Adjustment Loan

Background

2.1 The objective of the San Juan loan was to reform and restructure the government of San Juan so as to ensure efficient and responsive delivery of social services while maintaining fiscally sound policies. The loan was approved by the Board in August 1997, and closed on June 30, 2000, six months later than scheduled. It was a $50 million loan to be disbursed in three tranches of $10 million, $25 million, and $15 million. The first tranche was disbursed in April 24, 1998; the second was disbursed in July 1999, with a delay of one year. The third tranche was cancelled on June 30, 2000 six months after the scheduled date because of the failure to meet the important loan objective of fiscal prudence (see discussion later in this chapter).

2.2 The loan was part of the PRL-II, which made funds directly available to provinces that: (a) had introduced significant reforms in terms of reducing the size of the government and privatizing major public enterprises; (b) agreed to transfer the provincial pension funds to the national system; and (c) demonstrated ability and political commitment to further reforms. The province met these conditions. The province's strong commitment to reform is reflected in the deregulation of the provincial economy that took place in the mid-1990s which resulted in inflows of investments particularly into agriculture and mining, and in the reduction in teachers' salaries to cut education costs and to prepare the ground for the introduction of a system of salaries based on merit. The reduction in teachers' salaries in 1995 improved the fiscal situation and the government's ability to improve the delivery of educational services. Furthermore, in 1995-96, the education budget was cut by 29 percent and the ratio of personnel spending to total expenditures fell from 94 percent to 88 percent. Notwithstanding these reforms, substantial problems remained. Social indicators were low, the public administration was weak, the wage bill in both education and health remained excessive, and the fiscal situation unsustainable. In 1995, the provincial deficit reached 44 percent of current revenues, the wage bill absorbed 123 percent of provincial net current revenues, and the debt stock/revenue ratio was above 101 percent.

Outcome of the Loan

2.3 The San Juan PRL had three main components: fiscal and public finance, education, and health. The outcome of the loan in these three components was negatively affected by the political fallout provoked by the reforms that the provincial government carried out in preparation for this loan. These reactions weakened the government politically and eventually undermined its commitment to reforms. Nevertheless, it was worth noting that assessing political feasibility of programs is more an art than a science, and the PRL-II operation served as a pilot.

2.4 As mentioned above, the provincial government had strong ownership of the loan objectives initially. However, during the implementation of the loan, the government was unable to withstand pressures coming from the teachers' union to restore teachers' wages to levels prior to the 1995 reduction. In 1998, the government increased teachers' salaries not based on merit but on political expediency. This resulted in larger fiscal deficits, compounding the government's failure to meet the educational objectives with the failure to meet the fiscal ones. The failure in the confrontation with the teachers also destabilized the overall political position of the government. The weakened government, which had attained some achievements in health in the early years of reform (particularly in terms of hospital autonomy and cost recovery), regressed in that area too. The impetus of the reforms subsided, the government lost the 1999 elections, and then abandoned not only the reforms but also any commitment to fiscal prudence during the period that elapsed between the elections (May 1999) and the inauguration of the new government (November 1999). The new government did not gather the strength necessary to restore fiscal prudence and the third tranche of the loan was cancelled. The fiscal situation continued to deteriorate after the cancellation, with the fiscal deficit rising from 8.9 to 23 percent of fiscal revenues from 1999 to 2000.

RELEVANCE

2.5 The objectives of the loan—to ensure efficient and responsive public delivery of social services while maintaining fiscally sound policies—were relevant and consistent with the country assistance strategy. The design of the loan, focused on components aimed at improving the fiscal situation and the delivery of education and health services, was relevant for the achievement of these objectives.

RATING BY COMPONENT

2.6 The loan had three components: fiscal and public finance; education; and health. The PPAR's assessment of the achievement of the objectives of the various loan components and sub-components is as follows:

Fiscal and Public Finance
***Achievement of Objectives:* Negligible. *Outcome:* Highly Unsatisfactory.**

2.7 According to the President's Report, this component has three sub-components, the achievement of each is assessed to be negligible by this PPAR, as discussed below.

2.8 *Improve tax collection and administration* to promote higher reliance on revenues mobilized within the province as well as increased accountability. Specifically, the objective was to increase the share of own resources from 12 percent of total revenues in 1996 to 17 percent at the end of 1999.

2.9 In the event, the share of own resources in total revenues rose to 14 percent in 1998, meeting the intermediate objective, but then declined to 13.2 percent in 2002, and subsequently to 11.1 percent in 2006.[1] Given this performance, this PPAR rates the achievement of the objective of this sub-component *negligible*.

2.10 *Carry out a civil service reform* that would reduce the wage bill and redundant personnel; improve training and compensation; tighten control to lower absenteeism and overpayments.

[1] The data is based on official fiscal performance figures provided by the Federal Government.

2.11 Under the loan, the province reduced public employment by 5 percent in 1998, meeting the second tranche conditionality and almost meeting the third tranche of a 6 percent reduction. However, the government began to hire teachers again in 1999, which led to an increase in the wage bill of 20 percent between 1996 and 1998 rather than a reduction. This PPAR rates the achievement of the objective of this sub-component *negligible*.

2.12 *Rationalize public expenditures and prioritize government spending*, with emphasis on privatization and outsourcing to improve reliability and quality of public services and lower the fiscal burden.

2.13 Fiscal performance deteriorated sharply in 1998 as a result of the government's failure to carry out education reforms and the political fallout that came from this failure. In 1999, at the end of that administration, the debt of the province had increased to 90 percent of revenues, from 53 percent in 1996. The new administration did not make any adjustment. By 2000, the ratio of debt to revenues had reached 98 percent. When the loan was closed that year, the government was making no effort to improve the fiscal situation. This PPAR rates the achievement of the objective of this sub-component *negligible*.

Education
***Achievement of Objectives:* Negligible. *Outcome:* Highly Unsatisfactory.**

2.14 The government did not meet the objectives of the education component of the PRL. The main problem with education in the province was that while the provincial government was spending nearly double what the Organization for Economic Co-operation and Development (OECD) countries spent on a per capita basis,[2] student achievement was among the lowest in Argentina, and much lower than that in OECD countries. The province also faced a growing gap in secondary school net enrollment rates between the children of the highest and the lowest 20 percent in terms of household income.[3] The share of the wage bill in the total education budget was 99 percent at the time of appraisal, leaving little room for other crucial inputs such as infrastructure, equipment, books, and teaching material.[4] On paper, there was an extremely low ratio of students to teachers and a disproportionately high use of temporary and substitute teachers. In reality, many of the teachers did not even show up in the classroom. Their appointments were actually sinecures granted to political allies. To resolve these problems, the provincial government aimed to raise the student-teacher ratio, reduce the disproportionate use of temporary staff, improve incentives for quality achievement, increase the participation of the private sector, and reduce administrative costs. As mentioned, the 1998 political defeat of the government in the confrontation with the

[2] According to an internal World Bank report for the loan, the cost of education per student in primary schools in the province was $1,078 and that per student in secondary school was $1,765 in 1995, compared to the Argentine national averages of $820 and $1,230 for primary and secondary schools, respectively. While the loan's completion report indicated that this was about double the average of OECD countries, it did not provide the figure for the OECD countries. The overall (primary and secondary schools) student/teacher ratio was 15.4 in the province, at the time of the appraisal, which is extremely low by any standard.

[3] Loan preparation studies.

[4] World Bank data.

teachers' union on the restoration of the 1995 salaries crippled the government's ability to continue with the reforms in education.

Health

Achievement of Objectives**: Negligible.** ***Outcome*****: Highly Unsatisfactory.**

2.15 As with education, the problems in health arose not from the lack of resources but instead from their inefficient use. In the mid-1990s, prior to the loan, the government spent about 7 percent of provincial GDP in health care, very close to the national averages of OECD countries such as Italy, Japan, Norway, Sweden, U.K., and U.S., and higher than those of Spain. Yet, the health indicators of the province suggested that the quality of health care was well below that of OECD countries. Infant mortality rates were higher than even those in Northwest Brazil (one of the poorest areas in Latin America), and mortality causes included public health diseases long associated with underdevelopment and poverty. Malnutrition and diarrhea remain among the principal causes of death of children of one to four years old.[5] These indicators coincided with grave inefficiencies in the system. At the time, hospitals had very low occupancy rates (57 percent against a norm of 80 percent). In 1995, current expenditures absorbed 100 percent of the health budget, so that there was no money left for investment; in 1996 investment was less than 0.2 percent of the budget.[6]

2.16 The loan had several components aimed at resolving these problems, including increasing cost recovery; consolidating the network of hospitals; reducing excess staff; improving the cost efficiency and coverage of the social security insurer ("Obra Social"); and improving targeting to the poor. The government passed legislation allowing for cost recovery and put in place a system for public hospitals to provide services to the Obra Social against payments for specific services provided. But no measures were introduced to consolidate hospitals and, while the government initially aimed at reducing personnel, it soon backtracked alleging that the reduction of personnel would damage the delivery of health care. The Obra Social was running financial surpluses by the end of 1999 and could have become the basis for increased coverage; yet, subsequent governments abandoned the idea of using insurance to meet this objective. Targeting to the poor was not improved because the plan to do so was based on the assumption that there would be savings for the system arising from the consolidation of the hospitals and the personnel reduction, which did not take place. By the end of the project, the reform momentum in health was lost in the midst of the collapse of the fiscal and education reforms.

Summary of Ratings by Component

2.17 Table 1 shows the summary of ratings by component.

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[5] Bank internal documents do not provide any evidence that the quality of the service in San Juan was lower than in OECD countries that spent about the same as San Juan as a share of GDP. Yet, people interviewed in the Bank and Argentina thought that the standard of care in San Juan was (and still is) much lower than in the developed countries.

[6] World Bank data.

Table 1. San Juan - Summary of Ratings by Component

	ICR Ratings	PPAR (Achievement of Objectives)	PPAR (Outcomes)
Public Finance	Not Rated	Negligible	Highly Unsatisfactory
Education	Not Rated	Negligible	Highly Unsatisfactory
Health	Not Rated	Negligible	Highly Unsatisfactory

OVERALL OUTCOME

2.18 The objective of helping San Juan reform its public sector in order to ensure an efficient and responsive delivery of public services in education and health within fiscally sound policies was not met. Moreover, the modest achievements arrived at are unlikely to be sustained. While the province met second tranche targets in the fiscal, education, and health components by mid-1999, its implementation deteriorated subsequently, mostly on the fiscal side, and the new provincial administration began dismantling some of the reforms starting in December 1999.[7] This report rates the outcome *Highly Unsatisfactory*, which is the uniform rating of each of the components of the loan.

Risk to Development Outcomes

2.19 As expressed by the completion report, even the modest achievements attained by the operation are unlikely to be sustained and, in fact, some of them have already been reversed, mainly because of changes in the policies supported by the provincial government in items such as the reduction of personnel costs in education and health and the abandonment of privatization plans. For these reasons, and along with the completion report, this report rates the risk to development outcomes of this operation *substantial.*

Bank Performance

QUALITY AT ENTRY

2.20 The quality at entry was *Moderately Satisfactory*. The loan responded to important needs in Argentina and its objectives were in line with the country assistance strategy of the late 1990s. The conditions were attainable. Yet, the lack of prioritization of the 16 conditions was a problem of loan design.

SUPERVISION

2.21 The Bank supervised the loan through both country-based staff and missions from Washington. Having country-based staff involved in the supervision of the loan allowed for more attention to details and more continuous cooperation with the borrower. Supervision of the PRL was combined with that of two complementary operations, the Second Provincial Development Project which financed reforms in the financial administration, the cadastre, and the health sector, and the Provincial Health Sector Development Project which supported hospital decentralization, payment systems, and

[7] World Bank internal document.

reforms to the social protection system. Yet, the Bank allowed the operation to deteriorate too much before closing it. For this reason, this PPAR rates supervision *Moderately Satisfactory*.

SUMMARY OF BANK PERFORMANCE

2.22 The Bank designed a highly relevant operation and made strenuous efforts to improve its performance when it began to go astray. However, the conditions were not prioritized and the Bank allowed the operation to deteriorate markedly before cancelling it. A valuable lesson was also learned in the implementation of PRL-II as the Letters of Development Policy, which were used to determine the type of actions to be undertaken, but as they were not part of the legal agreement were questioned by the authorities in the provinces for their validity. Hence, this PPAR rates Bank performance *Moderately Satisfactory*, based on Moderately Satisfactory ratings for both quality at entry and supervision. These are lower than the Satisfactory ratings given by the completion report.

Borrower Performance

2.23 After making serious efforts to implement the reforms supported by the loan right after its approval, the provincial government not only abandoned such efforts but in many cases it backtracked on the reforms already implemented. This report rates borrower performance *Highly Unsatisfactory*.

Ratings of ICR and PPAR

2.24 Table 2 shows the summary of these ratings.

Table 2. San Juan - Summary of Ratings

	ICR Ratings	PPAR	Reasons for Disagreement with ICR
Outcome	Unsatisfactory	Highly Unsatisfactory	Practically none of the objectives of the loan were achieved. The third tranche of the loan was cancelled amidst a fiscal collapse of the government.
Institutional Development	Negligible		
Sustainability	Unlikely		
Risk to Development Outcome		Substantial	
Bank Performance	Satisfactory	Moderately Satisfactory	Both quality at entry and supervision were Moderately Satisfactory
Borrower Performance	Unsatisfactory	Highly Unsatisfactory	The same justification as for the outcome.

3. Catamarca Provincial Reform Adjustment Loan

Background

3.1 The Catamarca loan was part of the PRL-III. When the loan was appraised, Catamarca's problems were very similar to those of the other Argentine provinces, although they were aggravated by lower income per capita (similar to that of San Juan's or about half the national average). While the province had serious fiscal problems (high fiscal deficits and indebtedness), the main problem affecting the delivery of social services was the inefficiency of expenditures, which in large measure was caused by excessive staffing, the lack of control of expenditures, and the lack of targeting of social expenditures to the poor. In education, excess staffing had resulted in very low student/teacher ratios (14.3 in 1998) yet the quality of education was the worst in the country according to national evaluations. As in San Juan, expenditures in health were comparable to the national average (about $300 per inhabitant), yet the health indicators of the province were worse than for the nation as a whole. For example, infant mortality, at 26.1 per birth in 1995, was well above the national average of 22 per 1,000.[8] Loan objectives were similar to those of the other PRL loans: to enhance the provincial government's ability to deliver social services while improving its fiscal performance.

3.2 The $70.7 million loan was approved by the Board in September 2000 to be disbursed in three tranches over a period of three years: the first tranche ($25.7 million) was intended to be disbursed on December 31, 2000, the second tranche ($20 million) on December 31, 2001, and the third tranche ($25 million) on December 31, 2003. The loan contained 60 conditions with no prioritization. The first tranche was released nine months later than anticipated (on September 20, 2001), just three months before the collapse of the currency board. Almost two years later, in August 2003, the second and third tranches of the operation were restructured to recast the targets of the program in a way that was believed to be feasible following Argentina's economic collapse of December 2001, but without altering the original development objectives of the operation.[9]

3.3 The restructuring amended 16 conditions. The most important of these pertained to the privatization of the provincial bank and the water and sewerage company. The government had prepared to the Bank's satisfaction both companies for their privatization but the deteriorated perception of Argentina held by investors made privatization impossible. The conditions associated with these activities for the disbursement of the second tranche were changed to the liquidation of the provincial bank and the concession of the water and sewerage company to private entrepreneurs. Thus, the loan restructuring did not water down the conditions of the most important components of the loan, but only adjusted these conditions to the changed circumstances. Another condition that was adjusted was the fiscal debt-to-revenue ceiling, which was raised to take into account the

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[8] The Loan's ICR, Report No. ICR88, page 3.

[9] The restructured loan was not sent to the Board for approval as, under Bank operations policy, restructuring that does not entail changes in development objectives does not require Board approval.

fact that the revenues were in devalued pesos while the debt was in dollars. There were also adjustments in the pace of civil service reforms which had slipped because of the crisis. After the restructuring, the second tranche of the operation ($20 million) was released on July 23, 2003. The restructured third tranche, planned for December 31, 2003 was not disbursed. It was cancelled in March 31, 2006, at the request of the federal government, in the context of the new country assistance strategy which restricted Bank loans to provinces to investment lending. The loan closed on March 31, 2006, with a total of $45.7 million disbursed.

Outcome of the Loan

Relevance

3.4 The objectives of the loan—to ensure efficient and responsive public delivery of social services while maintaining fiscally sound policies—were relevant and they were consistent with the country assistance strategy. The design of the loan, focused on components aimed at improving the fiscal situation and the delivery of education and health services, was relevant for the achievement of these objectives.

Rating by Component

3.5 The loan had three components: public finance and administration, education, and health. The PPAR's assessment of the achievement of the objectives of the various loan components is as follows:

Public Finance and Administration
***Achievement of Objectives*: Substantial. *Outcome*: Satisfactory.**

3.6 The initial objectives in this component included improving the fiscal balance (by attaining a current account surplus by 2002), tax collections, and the efficiency of the civil service, plus the privatization of the provincial bank and the water and sewerage company. The fiscal balance deteriorated in 2001 (the year the loan became effective) but turned into an overall surplus after 2002, so this important objective was attained. On the other hand, the ratio of tax collections to total revenues fell, so that by 2006 it was slightly lower than in 2001. As discussed earlier, the provincial bank and the water and sewerage company could not be privatized, although the former was liquidated and the latter was concessioned to a private company—both good second best outcomes. The ICR rated the overall outcome Satisfactory. This report confirms the *Satisfactory* rating of the ICR because most of the objectives of the component were met as amended (all the first-tranche conditions plus 15 out of 16 second and third tranche ones, the only exception being the reduction of the ratio of public employees to the province's population) and the amendments did not change the development objectives.

Education Reform
***Achievement of Objectives*: Negligible. *Outcome*: Unsatisfactory.**

3.7 This component had 16 conditions for second and third tranche disbursements. Among these conditions, the main objectives were increasing the student/teacher ratio from 14:1 to 20:1 in primary and secondary schools and from 9:1 to 10:1 in tertiary and polymodal schools; reducing the disproportionate use of temporary and substitute personnel from 25 percent of the total to 10-15 percent; and enhancing private sector participation by enacting a law that would determine the size of the subsidies to the private schools based on objective criteria such as the number of students, their socio-economic background, and the quality of the school.

3.8 With respect to the student/teacher ratio, the target was lowered in the 2003 restructuring from 20:1 to 16:1 for primary and secondary schools and from 10:1 to 9:1 in tertiary and polymodal schools. The overall ratio actually increased from 14:1 before the loan to 14.7:1 in 2003.[10] The ICR rated this objective as partially achieved. While it is technically true that the condition was partially met, the increase was so small that it is clear that the objective of raising the overall ratio was not materially advanced.[11] This report rates the outcome of this sub-component *Unsatisfactory.*

3.9 With respect to the payroll of temporary and substitute personnel, these were reduced from 25 percent of teacher salaries in 1998 to 3.6 percent in 2006. This exceeded the condition (which was to reduce it to 10-15 percent). The ICR rated this objective as accomplished. This report rates this sub-component *Highly Satisfactory.*

3.10 Regarding the enhancement of private participation, the law was not enacted, so the objective was not met. The ICR rates this objective as not accomplished. This report rates the outcome of this sub-component *Highly Unsatisfactory.*

3.11 Overall, averaging the ratings of the outcomes of the different sub-components, this report rates the Education Component *Unsatisfactory.* This represents a downgrade from the ICR, which rated it Moderately Unsatisfactory.

Health Reform
<u>Achievement of Objectives</u>: Substantial. <u>Outcome</u>: Satisfactory.

3.12 The main objectives of this component included reallocating resources to non-personnel spending from over 80 percent in 1998, extending coverage to the uninsured poor, promoting hospital financial autonomy, and implementing quality assurance systems.

3.13 The share of the payroll in the total health budget went down to 77 percent, meeting the original target established for the second tranche, and then to 61 percent one year later. The target for this sub-component was met. Hospital autonomy was improved as a plan of cost recovery was successfully implemented, such that the largest hospitals are recovering 60 percent of their costs. Overall, of the 12 objectives for health reform, seven were achieved as originally planned and all of them except one were met after restructuring. The exception was the maintenance of sustained budget levels for health, which went down in dollar terms as a result of the devaluation of the peso—a problem that cannot be attributed to the loan. The ICR rated this component Satisfactory. This

[10] The Loan's ICR, Report No. ICR88, Table 2.
[11] The ICR did not rate each of the sub-components but only the education component as a whole.

report rates this component *Satisfactory* because most conditions were met and the restructured ones did not change the nature of the loan objectives.

Summary of Ratings by Component

3.14 Table 3 shows the ratings on the achievement of the objectives by restructured components.

Table 3. Catamarca - Summary of Ratings by Restructured Components

	ICR Ratings (outcomes)	PPAR (objectives)	PPAR (outcomes)
Public Finance	Satisfactory	Substantial	Satisfactory
Education	Moderately Unsatisfactory	Negligible	Unsatisfactory
Health	Satisfactory	Substantial	Satisfactory

Overall Outcome

3.15 The outcomes of this operation showed varying degrees of shortfalls in the achievement of objectives, with the most serious shortfalls in the education area. The performance in the fiscal and financial areas was solid and that in health was relatively good. The average of the ratings of these components would be Satisfactory. However, the overall rating should reflect the fact that an important component (education) was Unsatisfactory. For this reason, this report rates the outcomes *Moderately Satisfactory*, concurring with the ICR rating.

Risk to Development Outcomes

3.16 The ICR rates the risk to development outcomes moderate, noting that most of the reforms have remained in place after the termination of the loan. While recognizing that the political environment of the country has changed significantly since the design of the reforms supported by the Loan, this report supports the ICR rating of *Moderate* risk to development outcomes and for the same reason—that most of the reforms are still in place.

Bank Performance

Quality at Entry

3.17 The operation was consistent with the country assistance strategy, and its objectives aimed at helping to resolve the most pressing issues in the Argentine provinces. Yet, the large number of conditions without any prioritization made the operation more difficult to supervise and evaluate, and dispersed government energies during implementation. For this reason, this PPAR rates the quality at entry *Moderately Satisfactory*.

SUPERVISION

3.18 As noted in the ICR, development policy operations pose a challenge in terms of supervision even under normal circumstances. In the case of the Catamarca PRL, this challenge was much greater given the extraordinary economic and political circumstances of the 2001-2002 crisis. The supervision teams forged close relationships with the provincial authorities, and helped in designing solutions for implementation problems, as well as provided efficient coordination with different networks in the Bank. Also, the Bank adjusted the conditions regarding the privatization of the provincial bank in a fully satisfactory way (substituting it with liquidation) and in an acceptable second best way in the case of the water and sewerage company (concessioning to a private company). In this respect, supervision was highly satisfactory. Yet, restructuring of conditions for the education component of the loan weakened the reforms in this area. This report rates supervision *Moderately Satisfactory* based mostly on the response of the Bank to the change in circumstances, which was able to protect the attainment of most of the objectives of the loan but still weakened those of the education component.

SUMMARY OF BANK PERFORMANCE

3.19 The ICR rated Bank performance Moderately Satisfactory, noting that the operation was based on a substantial basis of lending experience and analytical work in Argentina; that the Bank concentrated on selected provinces that demonstrated their willingness and capacity to undertake reforms and on issues that were fundamentally relevant for the development of the province; that supervision was satisfactory and that the Bank correctly evaluated the risks of the operation. On the other hand, the ICR noted that the conditions were too numerous and excessively complex; that the Bank underestimated the complexity and political difficulty of structural reforms in the education sector; and that less attention than desirable was paid to monitoring and evaluation at the design stage. This report agrees with these assessments, and concurs with the rating given by the ICR of *Moderately Satisfactory.*

Borrower Performance

3.20 While there were severe shortcomings in achieving the objectives of the education component, the government was able to implement a substantial portion of the planned reforms under extremely difficult circumstances. Balancing these considerations, this report rates the borrower's performance *Moderately Satisfactory*, validating the rating of the ICR.

Ratings of ICR and PPAR

Table 4. Catamarca Provincial Reform Loan Summary of Ratings

	ICR Ratings	PPAR
Outcome	Moderately Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Moderate	Moderate
Bank Performance	Moderately Satisfactory	Moderately Satisfactory
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory

4. Cordoba Provincial Reform Adjustment Loan

Background

4.1 As with all the PRL loans, the overall objective of the loan was to help the Province of Cordoba reform and restructure its government so as to ensure efficient and responsive delivery of public services within fiscally sound policies. The Board approved the $303 million loan on November 22, 2000 to be disbursed in three tranches ($103 million for the first tranche and $100 million for each of the second and third tranches). The first tranche was released in August 2001. Subsequent disbursements were interrupted by the country's financial crisis which erupted in December 2001.

4.2 Like the other PRL-III loans, the Cordoba operation was restructured in 2003 to adjust to the economic and political disruptions caused by the financial crisis. The restructuring consisted of three main elements. First, the conditions of the second tranche—which dealt with the privatization of the provincial bank and the electric utility—were adjusted to the realities of post-crisis Argentina in such a way that the new conditions specified actions that the government had already taken. These actions were introducing administrative reforms in these institutions that would mimic the actions that a private buyer would have taken. Second, the original third tranche was split into a third ($25 million) and a fourth tranche ($75 million), leaving as conditions for the third one those that the government had already met by April 2003 and transferring to the fourth one those that had not yet been complied with. Third, some of the conditions for the fourth tranche were amended as well. Specifically, some of the reforms in the original program were dropped in the restructured fourth tranche (for example a health insurance pilot) or scaled back (privatization). The restructuring enabled the provincial government to receive the simultaneous disbursements of the second and third tranches in May 2003. The new fourth tranche was expected to be released in the second quarter of fiscal 2006. This tranche was cancelled at the request of the federal government, which by then had decided to restrict provincial loans to investment lending.

Outcome of the Loan

Relevance

4.3 The objectives of the loan—to ensure efficient and responsive public delivery of social services while maintaining fiscally sound policies—were relevant and they were consistent with the country assistance strategy. The design of the loan, focused on components aimed at improving the fiscal situation and the delivery of education and health services, was relevant for the achievement of these objectives.

Rating by Component

4.4 The Cordoba loan had three components: public finance, public administration, and social sectors (education, health, and social protection).

Public Finance
Achievement of Objectives:* *Substantial.* *Outcome:* *Moderately Satisfactory.

4.5 The provincial government committed itself to a fiscal program that included attaining a current account surplus in the provincial fiscal accounts by 2003; reducing property taxes (by 30 percent) and eliminating inefficient taxes (tax on gross receipts of businesses);[1] raising the ratio of own-source revenues to total revenues by 2 percentage points between 1999 and 2005; and privatizing the provincial bank and the water and sewerage company.

4.6 The government reduced property taxes and eliminated inefficient taxes, while achieving fiscal surplus at the same time, going beyond the condition to have a surplus on the current account. However, it failed to raise the ratio of own-source revenues to total revenues (which fell from 35.7 percent in 1999 to 28.3 percent in 2005). The government also prepared the privatization of the provincial bank in ways satisfactory to the Bank but failed to receive bids for it because of the crisis triggered by the collapse of the currency board. The government then decided to mimic the reforms that a private buyer would have carried out in the management of the provincial bank. For this purpose, the bank hired experienced private bankers, which have been able to substantially improve the performance of the bank—as attested by the fact that it has been able to generate operating surpluses since 2005. The provincial government followed the same strategy with the electric company, which was also ready to be sold when the crisis hit. It hired managers with private experience to manage it as a private company would do. The financial situation of the company, however, deteriorated because the federal government did not authorize tariff increases although costs of inputs and labor were rising. During the 2003 restructuring of the loan, the Bank agreed to change the second tranche conditions from the original privatization to what the government had done because privatization had become impossible.

4.7 One area in which the government failed to meet its objectives was in the strengthening of municipal finances. This component supported a Fiscal Clean-Up Pact signed between the provincial government and the municipalities, under which the former would refinance the municipal debt in exchange for the latter taking a comprehensive series of reforms, which included tax administration and cadastre reforms. The municipalities failed to comply with their obligations and the conditions regarding this matter were restructured to the presentation of plans to meet the original objectives, in a clear case of watering down of the original objectives of the component.

4.8 The ICR rated the overall outcome of this component as Moderately Satisfactory.[2] The rating in this report takes several negative and positive factors into account. On the negative side, the provincial debt increased from 49 percent of current revenues in 1999 to 135 percent in 2005; the government failed to privatize the provincial bank and the electric company; and the government adjusted the privatization objectives in the 2003

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[1] This was already eliminated for small enterprises; the government planned to eliminate it totally under the loan.

[2] The ICR does not differentiate between the original and the restructured objectives when rating the outcomes of this operation.

loan restructuring to a distant second best (restructuring them administratively under public sector management). However, on the positive side, Cordoba met its objective to attain fiscal current account surpluses by 2003 (it has been running fiscal surpluses since 2003, which is better than current account surpluses) while also succeeding in eliminating inefficient taxes. Also, the increase in debt in pesos was not due to increased borrowing but to peso depreciation as the debt was denominated in dollars. Furthermore, the ratio of debt to fiscal revenues declined in later years as a result of the appreciation of the peso, so that by 2006 it had reached almost the same level as it had before the PRL. Balancing these considerations, this report rates the component *Moderately Satisfactory*.

Public Sector Administration
***Achievement of Objectives*: Substantial. *Outcome*: Satisfactory.**

4.9 This component focused on improving management systems in several dimensions of the administration, including financial management; civil service; the general reorganization of the Ministries of Finance, Production, and Labor and Solidarity; and transparency. The reforms undertaken in these areas were satisfactorily implemented. The objectives of this component were accomplished. This report concurs with the ICR in rating the outcome of this component *Satisfactory*.

Social Sectors (Education, Health, and Social Protection)
***Achievement of Objectives*: Substantial. *Outcome*: Satisfactory.**

4.10 ***Education.*** *Outcome: Satisfactory.* The most important objectives of this sub-component included: (i) the reduction of repetition rates from 5.8 percent in 1998 to 4.0 percent in 2003, and dropout rates from 1.2 to 0.8 percent over the same period. Both objectives were accomplished. (ii) The increase in investment expenditures from 10 to 18 percent of the total education expenditures, which was also accomplished. (iii) The implementation of a pilot program to decentralize school management, which was accomplished in 400 schools. (iv) The enhancement of the system of public subsidies to private schools, which was accomplished through an audit of the existing arrangements, which produced a series of suggestions for improvement, which in turn were incorporated in the system. (v) The reduction of teacher's absenteeism, which went down from 12.5 to 2.5 percent of working days between November 2003 and July 2004. This objective was accomplished. (vi) The increase of student/teacher ratios from 18:1 to 24:1, from 8:1 to 15:1 and from 20:1 to 28:1 for primary, secondary, and the upper cycle of specialized secondary urban schools, respectively.[3] Only the latter objective was accomplished as originally stated. Under the 2003 restructuring, the condition was changed from attaining the specified ratios to submitting a plan to attain them. This condition was met. Yet, between 1998 and 2004 the overall student/teacher ratio (including both primary and secondary education, the only figure available) increased only from 20.6 to 21.4, which meant that the original objective was hardly met. (vii) Improvement in human resource management, which was accomplished in 2007, after the loan was cancelled, through the establishment of a comprehensive human resources management system that permits

[3] World Bank data.

optimizing the allocation of personnel resources to their most efficient uses as well as to establish and monitor performance standards.

4.11 ***Health***. Outcome: *Moderately Satisfactory.* The main objectives of this sub-component included protecting the share of the health budget in the total budget (accomplished although real expenditures went down in the aftermath of the peso real devaluation); strengthening the Ministry of Health (accomplished as a new Customer Service Office now effectively monitors the quality of services delivered by the government, and as the Ministry improved its capacity to control capital expenditures and hospital performance); recovering hospital costs (accomplished through charging such costs to the insured patients in such a way that by 2007 public hospitals were recovering about 85 percent of the billed amounts); putting in place a pilot project to provide health insurance to the poor (not accomplished); and strengthening the provincial health insurance agency, which in 1999 was facing serious financial and administrative challenges including more than nine months in arrears to health care providers, an obsolete technological platform, and the loss of personnel in the previous years as a result of voluntary retirement. Under the loan, the institution has kept a financial balance and has been current in its obligations while its service has improved as a result of the adoption of a system of integrated networks of integrated health providers, organized around primary physicians referring patients to specialized ones. The objectives of this reform were only partially attained because the institution in charge of insurance has not been publishing the findings of periodic surveys to monitor health quality, as had been specified in the loan.

4.12 There are several negative factors in this component: (a) the allocation of resources to health declined in real terms; (b) the pilot health insurance for the poor was not implemented; and (c) the strengthening of the health insurance company was only partially accomplished. While all this is true, the province attained most of the other objectives as discussed above. Taking into account these achievements, and the fact that after the peso real devaluation of 2001 it was practically impossible to protect the real volume of health expenditures without starving resources for other crucial sectors, this PPAR rates the outcome *Moderately Satisfactory.*

4.13 ***Social Protection.*** Outcome: *Satisfactory.* The social protection programs were targeted to the poor (accomplished); their quality was improved through a program designed to follow up on suggestions to improve public satisfaction. Also, the budget of social protection exceeded the minimum target established under the PRL (accomplished).

SUMMARY OF RATINGS BY COMPONENT

4.14 Table 5 shows the ratings on the achievement of objectives by restructured components.

Table 5. Cordoba - Summary of Ratings by Restructured Components

	ICR Ratings	PPAR (Objectives)	PPAR (Outcomes)
Public Finance	Moderately Satisfactory	Substantial	Moderately Satisfactory
Public Sector Administration	Satisfactory	Substantial	Satisfactory
Social Sectors	Satisfactory	Substantial	Satisfactory

OVERALL OUTCOME

4.15 While recognizing the obvious failures of the operation, this report concurs with the ICR in that it largely achieved its development objectives in fiscal reforms, public administration reforms, and the delivery of social services. In the cases of the most important failures, the privatization of the Bank of the Province of Cordoba (BPC) and the electric company—Empresa Provincial de Energía de Córdoba (EPEC)—the government has taken substantial steps to improve their efficiency within the limitations imposed by their state-owned ownership. Although the performances of these enterprises did not meet the expectations of the loan design, they were certainly better than what they had been before the loan. For these reasons, this report rates the outcome *Moderately Satisfactory.*

Bank Performance

QUALITY AT ENTRY

4.16 The operation was consistent with the country assistance strategy, with its objectives aiming at helping to resolve the most pressing issues in the Argentine provinces. Yet, the large number of conditions without any prioritization made the operation difficult to supervise and evaluate, and dispersed government energies during implementation. This report rates this operation *Moderately Satisfactory* for quality at entry.

SUPERVISION

4.17 The supervision teams confronted grave problems during the implementation of this loan. They had to restructure it to accommodate the drastic economic and political disruptions that took place as a result of the collapse of the currency board. While there was one case in which the restructuring substantially weakened the objectives of the loan—the attainment of specified student/teachers ratios, replaced with a plan to attain them—in most cases the restructured conditions kept in place the original objectives. This report concurs with the ICR rating for supervision as *Satisfactory.*

SUMMARY OF BANK PERFORMANCE

4.18 Bank performance must be assessed recognizing the extremely difficult conditions in Argentina following the collapse of the currency board. In the event, the progress made was noteworthy as witnessed e.g. by the fact that most public finance conditions were met. Bank staff managed the loan in a flexible manner to safeguard some progress with reforms while making urgently needed resources available. This report rates Bank performance *Satisfactory* consistent with the ratings of Moderately Satisfactory for quality at entry and Satisfactory for supervision.

Risk to Development Outcomes

4.19 This report concurs with the ICR rating of *Moderate* on risk to development outcomes. The provincial government has given ample evidence that it owned the objectives of the loan. The bulk of the reforms achieved under the loan had not been rolled back or diluted by late 2007.

Borrower Performance

4.20 This report joins the ICR in rating borrower performance *Satisfactory* to take into account the significant achievements it attained in the midst of trying circumstances.

Ratings of ICR and PPAR

4.21 Table 6 shows the comparison of the ratings of this PPAR with those in the ICR.

Table 6. Cordoba Summary of Ratings

	ICR Ratings	PPAR
Outcome	Moderately Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Moderate	Moderate
Bank Performance	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory

5. Santa Fe Provincial Reform Adjustment Loan

Background

5.1 The objective of the PRL was to reform and restructure the provincial government of Santa Fe to ensure efficiency, quality and equity of public services, particularly in health, education, and social protection, within fiscally sound policies. The loan helped the provincial government's reform and restructuring program through supporting specific reforms in public finance and administration, social protection, education, and health.

5.2 The $330.0 million loan was intended to be disbursed over a period of 21 months, with the first tranche ($153.3 million) planned for September 30, 2001, the second tranche ($50 million) planned for June 30, 2002, and the third tranche ($126.7 million) planned for June 30, 2003. The first tranche was released on September 19, 2001. Subsequent tranches were delayed by the December 2001 financial crisis. The loan was restructured in May 2003 to waive or amend conditions rendered unrealistic by the macroeconomic crisis. The second tranche was released at the time of restructuring. The restructured third tranche, which had been expected to be disbursed at the end of calendar year 2005, was cancelled in March 2006 at the request of the federal government. The loan closed on March 31, 2006 with a total of $203.3 million disbursed.

Outcome of the Loan

RELEVANCE

5.3 The objectives of the loan—to ensure efficient and responsive public delivery of social services while maintaining fiscally sound policies—were relevant and they were consistent with the country assistance strategy. The design of the loan, focused on components aimed at improving the fiscal situation and the delivery of education and health services, was relevant for the achievement of these objectives.

RATING BY COMPONENT

5.4 The loan contained 77 un-prioritized conditions spread over four components.

Public Finance and Administration
***Achievement of Objectives:* Substantial. *Outcome:* Moderately Satisfactory.**

5.5 The main objectives of this component included attaining fiscal balance by 2005; eliminating inefficient taxes (the stamp tax on the registration, tax on creation and expansion of companies, and the payroll tax for the industrial sector); improving tax administration; improving financial management and transparency; reducing the payroll; and privatizing the electricity company through the establishment of a concession.

5.6 Regarding the fiscal balance, Santa Fe took measures to reduce its fiscal deficit before the crisis. As a result, while the average fiscal deficit in all provinces was 20 percent in 2001, it was 11 percent in Santa Fe. This was followed by a surplus in 2002 when the other provinces had large deficits. In 2003, the ratio of debt to total revenues reached a maximum of 86 percent, while they were over 220 percent in the other provinces. This happened while the province also eliminated the inefficient taxes as planned. Santa Fe also drastically reduced its public sector payroll as well as the number of people working in government. It improved fiscal management with the introduction of computerized systems. It, however, failed to concession the electricity company because of the negative investment environment following the collapse of the currency board. The second tranche conditions were restructured to replace privatization with the implementation of an action plan that would improve the service and the financial status of the electricity company. Unfortunately, like all other electric utilities in Argentina, the financial situation of the company has been deteriorating steadily as a result of the price controls imposed by the federal government.

5.7 Taking into account the fact that the government met practically all the crucial objectives, with the exception of the privatization of the electric utility, and that it improved the objective regarding the fiscal balance (attaining fiscal surpluses in 2002-2007 rather than a fiscal balance by 2005) this PPAR rates this component *Moderately Satisfactory* according to the restructured objectives.

Social Protection
***Achievement of Objectives*: Substantial. *Outcome*: Satisfactory.**

5.8 The main objectives of this component included the protection of the social protection budgetary resources by setting a minimum budget of 90 million pesos in 2003 (accomplished); enhancing the quality of social protection programs (attained in accordance with evaluations carried out to the satisfaction of the Bank); and improving the targeting of such programs (attained through a better registry of customers). This PPAR concurs with the ICR in rating this component *Satisfactory*.

Education
***Achievement of Objectives*: Substantial. *Outcome*: Satisfactory.**

5.9 The main objectives of this component included the protection of education budgetary resources by setting a minimum budget of 914 million pesos in 2001 and thereafter (attained); improving human resource management in the education sector (attained through the introduction of computerized systems aimed at controlling human resource management); enhancing the use of national evaluation tests of students and schools (attained through a program that involves principals and teachers in the evaluation of schools based on the results of these tests); strengthening teacher training (accomplished through the enforcement of a system of accreditation of teacher training institutions); and improving the efficiency and equity of private school subsidies (attained through a system that allocates such subsidies based on objective criteria). This PPAR concurs with the ICR in rating the outcome of this component *Satisfactory*.

Health Reform
***Achievement of Objectives*: Substantial. *Outcome*: Moderately Satisfactory.**

5.10 Practically all the objectives in this area were attained. These included testing a pilot program of primary care (the test was carried out with more than 270,000 patients);

improving public hospital performance (attained through establishing a system that monitors performance continuously based on performance contracts that include cost recovery); strengthening the regulatory capacity of the Ministry of Health (attained through the implementation of a system to accredit physicians); and maintaining the financial stability of the provincial health insurer (not accomplished, as the costs of medical care have increased faster than the insurer's revenues). There was one important objective that was not attained: the provincial government failed to balance the financial accounts of the insurance provider. This PPAR rates this component *Moderately Satisfactory* to take into account that most other objectives were accomplished.

SUMMARY OF RATINGS BY COMPONENT

5.11 Table 7 shows the ratings by restructured components.

Table 7. Santa Fe - Summary of Ratings by Restructured Components

	ICR Ratings	PPAR (Objectives)	PPAR (Outcomes)
Public Finance	Moderately Satisfactory	Substantial	Moderately Satisfactory
Social Protection	Satisfactory	Substantial	Satisfactory
Education	Satisfactory	Substantial	Satisfactory
Health	Satisfactory	Substantial	Moderately Satisfactory

OVERALL OUTCOME

5.12 Based on the ratings of the restructured components, this PPAR confirms the ICR rating of *Satisfactory* for the overall outcome.

Bank Performance

QUALITY AT ENTRY

5.13 The loan was relevant, it was consistent with the country assistance strategy, it was prepared and designed with the benefit of experience from previous provincial operations in Argentina, and the borrowing government supported it strongly. A drawback of loan design was the large number of conditions attached to later tranches. This PPAR rates it *Moderately Satisfactory.*

SUPERVISION

5.14 Supervision was responsive to the difficulties of implementation in the environment that emerged and decisions to "lower the bar" in selected areas at restructuring, with the exception of the power distribution concession, have been vindicated by the government's perseverance in the implementation of the reforms after the termination of the loan, which shows that the 2003 restructuring was not a means to dilute the objectives of the loan. This report concurs with the ICR rating for supervision as *Satisfactory.*

SUMMARY OF BANK PERFORMANCE

5.15 This report concurs with the ICR in rating the Bank's performance *Satisfactory*. This is based on the fact that the Bank was able to produce a loan with Satisfactory outcome under the very difficult circumstances of PRL-III. This is consistent with the assessment of Moderately Satisfactory for quality at entry and Satisfactory for supervision, respectively. It is also consistent with the rating of the Cordoba operation, which had results very similar to this one.

Risk to Development Outcomes

5.16 The generally satisfactory outcome of the PRL in Santa Fe was attained under extremely difficult circumstances mainly because the government fully owned the objectives of the operation. Such ownership was not new. In the years prior to the operation, the province had distinguished itself at being at the forefront of fiscal and administrative reforms in the country. This does not seem to have changed. The government has continued the reforms after the closing of the operation. For these reasons, this report concurs with the ICR in rating the risk to development outcomes as *Moderate*.

Borrower Performance

5.17 Notwithstanding the difficulties posed by the macroeconomic instability that followed the collapse of the currency board, the provincial government complied with most of the original conditions. For this reason, this PPAR concurs with the ICR in rating borrower performance *Satisfactory*.

Ratings of ICR and PPAR

5.18 Table 8 shows the summary of the ratings of the ICR and this report.

Table 8. Santa Fe Summary of Ratings (Outcomes)

	ICR Ratings	PPAR
Outcome	Moderately Satisfactory	Satisfactory
Risk to Development Outcome	Moderate	Moderate
Bank Performance	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory

6. Conclusion and Lessons

6.1 This chapter discusses two issues that cut across the operations: first, the question of whether, as a result of the crisis, the design and restructuring of the PRL-III operations supported weaker reforms that would have been supported otherwise, and the lessons that can be extracted from their implementation.

Did the crisis prompt resource transfers against weaker reforms than would have been supported otherwise?

6.2 This question can be posed in the two steps of the PRL-III operations in which the reforms that the loans supported were defined: during their design and during their restructuring. Regarding the design of the loans, this PPAR answers the question by analyzing the history of the PRL operations in Argentina, including the way they fitted within the country assistance strategy, their objectives and the thoroughness of their design. To answer the second aspect of the question, the report examines the process of loan redesign from 2002 to 2003, and the consistency between the reforms supported by the redesigned loans and their original objectives.

THE DESIGN OF THE OPERATIONS

6.3 It is clear that the PRL-III loans were part of the efforts that the Bank, along with the rest of the international financial community, was making in 1999-2001 to help Argentina stem the incoming crisis. It is also clear that the two objectives of the operations—to improve the provincial governments' ability to deliver social services while improving their fiscal situation—coincided exactly with the policies that the government was pursuing regarding the provinces in its attempts to stave off the crisis. Further, the design of the operations as fast-disbursing ones facilitated the rapid transfer of resources under critical circumstances—in fact they were disbursed very close to the collapse of the currency board. All these facts seem to lend credence to the idea that the loans were just part of the ultimately failed efforts to avert the collapse of the currency board.

6.4 Yet, the PRL-III operations were not improvised vehicles hastily designed to help in an urgent macroeconomic stabilization effort. On the contrary, their objectives had been part of the strategies of the government and the Bank throughout the 1980s and the 1990s. They were reasonable operations with worthy objectives that proved very important for the long-term stability of the country. Moreover, the outcomes of the operations, which was at least Moderately Satisfactory in the three PRL-III (as rated by the ICR and this report), belie the idea that the structural reforms dimension of the operations was neglected. Finally, the fact that the first disbursements of two of the three PRL-III operations were delayed for almost one year until the provincial governments complied with the loan conditionalities indicates that the Bank was giving first priority to meeting the objectives of the structural reforms rather than to transferring the resources urgently. Still, even though the operations were reasonable and well designed, disbursing so close to the collapse of the currency board could be judged negatively. However, the

Bank could not legally stop disbursements if the borrower had complied with all the established conditions for disbursement—which was the case of the PRL-III.

6.5 Thus, to the question of whether the PRL-III operations were just excuses to transfer resources to Argentina during the 2001 crisis, this report answers no. They were bona fide structural reform operations and they were designed as such.

THE LOAN RESTRUCTURINGS

6.6 Regarding the quality of the conditionality of the conditionality that replaced the original one as a result of the 2003 restructuring, the experience in the PRL-III operations was mixed. In some instances substantive actions that should have been taken by the government were replaced with the completion of studies. This happened in all three PRL-III loans. Yet, in the most important instances restructuring adapted the actions needed to attain the loans objectives to the new circumstances prevailing after the crisis. This was the case, for example, of the modification of the privatization conditions in the three PRL-III operations. Certainly, the measures that became the restructured conditions (mostly mimicking administrative measures that private operators would have undertaken) were second best actions; the fact, however, was that the first best conditions were unattainable. Even more substantially, in Catamarca the condition regarding the provincial bank was changed from privatization to liquidation, a politically difficult condition that the province implemented.

6.7 Thus, while there were some cases of watering down of conditions, with respect to the most important objectives the restructuring represented an adjustment to a change in circumstances.

Lessons

(1) It is possible to attain satisfactory results in provincial structural adjustment reforms and operations even in extremely difficult conditions.

6.8 The first lesson answers the basic question posed to this PPAR. The three PRL-III operations evaluated in this report were carried out under extremely difficult macroeconomic conditions; still, they had outcomes that were at least Moderately Satisfactory; risks to development outcomes that were uniformly Moderate and Bank and borrower performances that were either Moderately Satisfactory or Satisfactory. In fact, the only unsatisfactory operation—the San Juan loan—was implemented under favorable macroeconomic conditions. This shows that the macroeconomic condition of the country was not the crucial factor determining the success of the operations.

6.9 This lesson contradicts one drawn by the ICR of the Santa Fe PRL, which states the following:

> Provincial policy development operations such as Santa Fe's PRL are only appropriate under stable macroeconomic conditions. While this type of operation requires an overall satisfactory macroeconomic policy framework, such framework is the responsibility of the national government and beyond the sphere of action of provincial authorities. As illustrated by the experience of Argentina's

> last series of PRLs, including that of Santa Fe, failings or uncertainties at the macroeconomic level can override substantial achievements at the provincial level, leading to loan cancellation.

6.10 Reading this lesson in isolation would give the impression that the Santa Fe operation had been rated Unsatisfactory by the ICR. Yet, the ICR rated the outcome of the Santa Fe operation Moderately Satisfactory, clearly contradicting the idea that these operations cannot produce satisfactory outcomes in difficult circumstances. Moreover, the same ICR further contradicts such idea in yet another lesson, with the following words:

> The Bank's continuous engagement during critical periods can help sustain ongoing reforms and protect previous achievements. The experience of Santa Fe's PRL indicates it was beneficial to have an operation in place providing a clear roadmap for enhancing service delivery in key social sectors during times of economic, political and institutional chaos. The substantial financial resources attached to the PRL became even more attractive in face of the overall lack of liquidity in the country in 2001-2002, providing the province additional incentives to sustain the ongoing reforms in the short and medium term. The experience of Santa Fe's PRL also shows that sector reforms are possible even when the overriding priority is fiscal adjustment; however, sector budgets need to be protected, in particular to ensure that cost savings from efficiency gains can be reinvested into the sector.

6.11 In the opinion of this PPAR, this lesson, which clearly supports the idea that provincial reform loans can be satisfactory even in very difficult conditions, can be applied to all the reviewed PRL-III operations. Of course, it would be better to have stable economic conditions for any Bank operation; yet, even if a country is in situations as unstable as that of Argentina in 2001-2002, operations aimed at supporting important objectives in terms of fiscal stability and the delivery of social services can be extremely useful if properly designed and owned by the borrowers.

6.12 Moreover, structural adjustment operations may be highly desirable in cases of macroeconomic instability if—as was the case with the PRL-III loans—they were aimed at resolving macroeconomic imbalances and improving the delivery of social services, both of which tend to deteriorate in unstable macroeconomic situations.

(2) The sub-national approach may be optimal to deal with the improvement and protection of social services in times of crisis in cases where such services are decentralized to the provinces.

6.13 Prior to the PRLs, the volume of resources available for social services, mostly based on transfers from the federal government, had been highly unreliable because social expenditures were frequently adjusted to accommodate fiscal needs at the federal level. Furthermore, the volume and quality of the services afforded by these resources were diminished by substantial inefficiencies at the provincial level. By helping Argentina to institutionalize the transfers under a predictable system as well as by helping the provinces to increase the efficiency of their social services delivery, the PRL-III operations effectively protected such delivery much beyond what could have been attained with operations at the national level.

(3) Good economic and sector work and close relationship between the supervision teams, the country office, and the borrower are key factors contributing to the success of operations.

6.14 The fact that PRL-III was able to produce three loans that were rated at least Moderately Satisfactory in the midst of a catastrophic environment is largely attributable to the long and conscientious preparation of the PRL series, which in turn was based on solid economic and sector work as well as in the experiences with the previous PRL operations in Argentina.

6.15 The results were also favorably influenced by the quality of the Bank supervision. Development policy operations pose a challenge in terms of supervision even under normal circumstances. This challenge was much greater in the case of the PRLs given the extraordinary economic and political circumstances of the 2001-2002 crises. The supervision teams forged close relationships with the provincial authorities, and helped in designing solutions for implementation problems, as well as provided efficient coordination with different networks in the Bank. Through their continuous contact, these teams and the country office helped to maintain the commitment of the provincial governments to the reforms as well as to find solutions to problems encountered during the implementation of the loans. Also, in most cases, the Bank adjusted the conditions regarding some reforms that became unfeasible as a result of the macroeconomic crisis in fully satisfactory ways or in acceptable second best ways.

(4) Large numbers of conditions render the supervision and evaluation of operations difficult, particularly if the conditions are not prioritized.

6.16 The reviewed operations had 272 conditions before the 2003 restructuring. Just the three PRL-III operations had 256. Certainly, some of these conditions were crucial strategically while others were just preconditions to attain the crucial ones, or less important complements to them. Nonetheless, the large number of non-prioritized conditions creates severe problems in the implementation of the loans, in their supervision, in the authorization of disbursements, and in evaluation. In fact, the evaluation of some of the operations could be significantly different if priorities had been established at the time of appraisal.

6.17 For example, this PPAR rated the outcome of the Catamarca PRL Moderately Satisfactory (and not Satisfactory or Highly Satisfactory) because it failed in some educational reforms. This rating may underestimate the performance of Catamarca, which, for example, was able to liquidate the provincial bank when it failed to privatize it. This was a feat that the more developed Cordoba could not or was not willing to do. The Catamarca government also concessioned the water company, while neither Cordoba nor Santa Fe was able to find a comparable solution when they also failed to privatize their energy companies. In the absence of prioritization of the loan components in the PRLs, it is impossible to compare these achievements with the creation of a system to track cost recovery in hospitals, or the creation of new criteria for the licensing of physicians.

(5) The idea that provinces should increase their tax collections as a presumptive objective should be subject to scrutiny, as that objective needs to be balanced with other objectives such as the efficiency of taxation and the need to improve the business environment, depending on the situation.

6.18 The PRLs assumed that increasing the share of own-resources in total provincial revenues was a desirable objective. This, however, is not necessarily always the case. There are two instances in which reducing the share of local taxes could be optimal. The first one is when national taxes are more economically efficient (they cause lesser distortions) or cheaper to collect than provincial ones at the margin. In this case, the optimal taxation policy would be to raise all taxes nationally and then allocate them to the provinces. This principle was applied in Cordoba and Santa Fe, where the governments reduced their respective tax revenues by eliminating distorting taxes. The second is when the reduction of taxes reduces the cost of doing business, such as in the case of Cordoba. In this instance, although the eliminated taxes were efficient, their elimination was optimal because the private sector could allocate the liberated resources better than the government. In sum, increasing the share of local taxation could be optimal or not, depending on the circumstances. Both Cordoba and Santa Fe were correct in eliminating distorting taxes, meeting one of the conditions of the loan, even if they then failed to comply with the objective of increasing their own tax collections—particularly because after that they attained fiscal surpluses.

(6) Political feasibility of reforms must be a factor in the evaluation of new operations

6.19 The contrast between the generally satisfactory outcome of the PRL-III loans in the midst of a serious macroeconomic crisis and the highly unsatisfactory one of the San Juan PRL-II loan within normal macro circumstances illustrates the limits that politics may set for the effectiveness of Bank operations. The factor that led to the highly unsatisfactory outcome of the San Juan operation was the government's inability to overcome the political resistance against a measure that would have been extremely controversial almost anywhere: reducing the salaries of the teachers. This resistance provoked widespread fiscal and political failure. The PRL-III operations, which focused on less politically controversial objectives, were more successful overall. The unsatisfactory educational outcome of the PRL-III Catamarca operation was also related to the political obstacles found in that area. This experience suggests that political economy considerations should be taken into account in the design of loans. Of course, assessing the political feasibility of reforms is more of an art than a science. Yet, there are some cases, as it in San Juan, in which reforms are clearly too risky because they include measures that could be perceived as too radical or illegitimate by significant portions of the population.[1]

[1] It should be noted that the reduction in salaries was not part of the conditionality of the San Juan loan. The provincial government reduced those salaries in 1995, two years before the approval of the loan, as part of its own program of reforms. The reduction, however, caused a backlash that eventually destroyed the reforms program that the loan supported.

(7) The benefits of Bank operations can be substantially enhanced through a flexible approach to reforms

6.20 The provincial governments and the Bank took a flexible approach to the operations that greatly enhanced their ability to help Argentina to meet their original objectives while accommodating the economic crisis. While, as acknowledged in the previous section, some of the restructured conditions of the PRL-III operations watered down the initial objectives of the loans, most of them did meet those objectives, or some second best, through other means when the original ones became unfeasible. Moreover, the Bank showed additional flexibility by accommodating different adjustments in different provinces. In this way, for example, when privatization of the provincial bank became impossible, Catamarca liquidated it while Cordoba opted for hiring professional bankers while instructing them to mimic private administrative rules in managing it. Catamarca concessioned its water company while Santa Fe and Cordoba rationalized the management of their electricity companies. While the outcomes of the restructured measures tend to fall short of the original objectives, they represent substantial improvements relative to the original conditions.

Annex A. Basic Data Sheet

San Juan Provincial Reform Loan (Loan No. 4220)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	50.0	35.0	70%
Loan amount	50.0	35.0	70%
Cofinancing	n.a.		
Cancellation		15.0	30%
Institutional performance			

Cumulative Estimated and Actual Disbursements

	FY98	*FY99*
Appraisal estimate (US$M)	35.0	15.0
Actual (US$M)	10.0	25.0
Actual as % of appraisal	20%	50%
Date of final disbursement: July 2, 1999		

Project Dates

	Original	*Actual*
Initiating memorandum	04/07/1997	04/07/1997
Negotiations	06/12/1997	06/12/1997
Board approval	08/26/1997	08/26/1997
Signing	01/20/1998	01/20/1998
Effectiveness	12/31/1997	04/24/1998
Closing date	12/31/1999	06/30/2000

Staff Inputs (staff weeks)

Stage of Project Cycle	Actual/Latest Estimate	
	No. of Staff Weeks	US$ ('000)
Identification/Preparation	20	73,531
Appraisal/Negotiation	6	29,482
Supervision	20	49,700
		30,600 (WPA)
ICR	7	43,900 (WPA)
Total	53	152,713 (direct)
		74,500 (WPA)

Mission Data

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/ Preparation				
12/96	7	TM, FM, EcF, PS, SS, ED, PS		
Appraisal/Negotiation				
4/97	7	T, EcF, SS, ED, PS, C, C		
Supervision				
12/97	8	TM, EcF, SS, ED, SS, PS, C, C	S	S
2/98	2	TM, PSM	S	S
4/98	1	EcF	S	S
5/98	5	TM, PSM, ED, Hlth, SS	S	S
9/98	4	TM, ED, PSM, Hlth	S	S
4/99	4	TM, PSM, Hlth, ED	S	S
6/99	3	TM, Hlth, ED, PSM	S	S
9/99	4	TM, Hlth, ED, PSM	U	S
12/99	2	TM, Hlth	U	S
3/00	4	TM, PSM, ED, Hlth	U	HU
5/00	3	TM, Hlth, ED	U	HU
Completion				
9/00	1	TM	U	HU
10/00	2	Hlth, C	U	HU
11/00	2	ED, C	U	HU

CATAMARCA PROVINCIAL REFORM ADJUSTMENT LOAN (LOAN NO. 4578)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	70.7	45.7	65%
Loan amount	70.0	45.7	65%
Cofinancing	n.a.		
Cancellation		25.0	35%
Institutional performance			

Cumulative Estimated and Actual Disbursements

	FY01	FY02	FY03	FY04
Appraisal estimate (US$M)	25.7	20.0	25.0	
Actual (US$M)		25.7		20.0
Actual as % of appraisal		36%		28%
Date of final disbursement: July 23, 2003				

Project Dates

	Original	Actual
Appraisal	07/30/1999	10/15/1999
Negotiations		05/02/2000
Board approval	09/02/1999	09/14/2000
Signing		08/17/2001
Effectiveness	09/20/2001	09/20/2001
Closing date	03/31/2003	03/31/2006

Staff Inputs (staff weeks)

Stage of Project Cycle	Actual/Latest Estimate	
	No. of Staff Weeks	US$ ('000)
Lending		
FY00	31	205.33
FY01	7	43.85
Total:	**38**	**249.18**
Supervision/ICR		
FY00		27.09
FY01	9	89.57
FY02	9	104.87
FY03	12	101.17
FY04	5	46.33
FY05	4	32.30
FY06	8	67.66
Total:	**47**	**468.99**

CORDOBA PROVINCIAL REFORM LOAN (LOAN NO. 4585)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	303.0	228.0	75%
Loan amount	303.0	228.0	75%
Cofinancing	n.a.		
Cancellation		75.0	25%
Institutional performance			

Cumulative Estimated and Actual Disbursements

	FY01	*FY02*	*FY03*	*FY04*
Appraisal estimate (US$M)	203.0	25.0	0	75.0
Actual (US$M)	0	103.0	125.0	0
Actual as % of appraisal	0	34%	41%	
Date of final disbursement: May 14, 2003				

Project Dates

	Original	*Actual*
Appraisal	07/11/2000	07/25/2000
Negotiations	07/11/2000	10/05/2000
Board approval	07/19/2000	11/22/2000
Signing	06/29/2001	07/17/2001
Effectiveness	08/02/2001	08/02/2001
Closing date	03/31/2003	03/31/2006

Staff Inputs (staff weeks)

Stage of Project Cycle	*Actual/Latest Estimate*	
	No. of Staff Weeks	*US$ ('000)*
Lending		
FY00	61	371.86
FY01	27	134.40
FY02		0.00
FY03		0.00
FY04		0.00
FY05		0.00
FY06		0.00
FY07		0.00
Total:	**88**	**506.26**
Supervision/ICR		
FY00		0.00
FY01	7	50.01
FY02	13	102.29
FY03	19	162.70
FY04	16	108.47
FY05	8	51.55
FY06	10	63.46
FY07		14.43
Total:	**73**	**552.91**

SANTA FE PROVINCIAL REFORM ADJUSTMENT LOAN (LOAN NO. 4634)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	330.0	203.3	62%
Loan amount	330.0	203.3	62%
Cofinancing	n.a.	n.a.	n.a.
Cancellation		126.7	38%
Institutional performance			

Cumulative Estimated and Actual Disbursements

	FY02	*FY03*	*FY04*	*FY05*	*FY06*
Appraisal estimate (US$M)	203.3	0	0	0	126.7
Actual (US$M)	153.3	50.0	0	0	0
Actual as % of appraisal	46%	15%			
Date of final disbursement: July 22, 2003					

Project Dates

	Original	*Actual*
Initiating memorandum		
Negotiations		
Board approval		07/19/2001
Signing		09/05/2001
Effectiveness		09/19/2001
Closing date	06/30/2003	03/31/2006

Staff Inputs (staff weeks)

Stage of Project Cycle	*Actual/Latest Estimate*	
	No. of Staff Weeks	*US$ ('000)*
Lending		
FY00	1	1.14
FY01	47	348.10
FY01		2.18
Total:	**88**	**351.42**
Supervision/ICR		
FY02	13	99.81
FY03	14	100.92
FY04	7	61.30
FY05	2	21.62
FY06	5	37.07
Total:	**41**	**230.72**