

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

“ARGENTINA AVANZA” SOCIAL SECTOR PROGRAM

(AR-0290)

LOAN PROPOSAL

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CONTENTS

PROJECT SUMMARY

I.	FRAME OF REFERENCE.....	1
A.	Introduction	1
B.	Recent macroeconomic trends and future outlook	1
C.	Trends in poverty and equity and future outlook	4
D.	The country's strategy for the social sector	4
E.	The Bank's country strategy	6
F.	Program strategy	6
G.	Sector experience and lessons learned	7
H.	Coordination with other multilateral organizations.....	7
II.	THE PROGRAM	9
A.	Objectives	9
B.	Description	9
1.	Stable macroeconomic environment.....	9
2.	Social reform initiatives.....	10
3.	Protection of social spending.....	19
4.	Social development monitoring indicators	20
C.	Cost and financing	21
D.	Financial terms and conditions.....	21
III.	PROGRAM IMPLEMENTATION	22
A.	Borrower and executing agency	22
B.	Program management	22
C.	Program execution period, amounts and conditions	22
D.	Processing of disbursements.....	23
E.	Outside auditing	23
F.	Inspection and supervision	23
G.	Performance monitoring and evaluation.....	23
IV.	FEASIBILITY AND RISKS.....	25
A.	Institutional feasibility	25
B.	Benefits.....	25
C.	Social equity and poverty reduction classification	26
D.	Social and environmental impacts.....	26
E.	Risks	26
V.	CONDITIONALITY MATRIX	27

Proposed resolution

Electronic Links and References	
Abbreviations	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=429290
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=429298
Status of loans in execution & Tentative lending program	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=429299
Policy letter	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=429292
Protected social spending	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=429419
Interim progress indicators	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=429422
Output matrix	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=425511
Monitoring matrix	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=425516
Means of verification	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=429294

PROJECT SUMMARY

ARGENTINA “ARGENTINA AVANZA” SOCIAL SECTOR PROGRAM (AR-0290)

Financial Terms and Conditions ¹					
Borrower: Argentine Republic Guarantor: Argentine Republic Executing agency: Ministry of Economy			Amortization period:		20 years
			Grace period:		5 years
			Disbursement period:		24 months (18 months minimum)
Source	Amount	%	Interest rate:		Based on LIBOR
IDB (Ordinary Capital)	US\$500 million	100	Inspection and supervision fee:		0%*
Local	-	-	Credit fee:		0.25% on the undisbursed balance
Other/Cofinancing	-	-	Currency:		US dollars from the Single Currency Facility
Total	US\$500 million	100			
Project at a glance					
Project objective: Support Argentina with the implementation of its social policy as a transition from emergency interventions designed to mitigate the effects of the economic crisis of 2001-2002—by providing immediate income support, food aid and medicine supplies to the affected population—to a permanent social inclusion policy grounded in the participation of youths and adults in productive activities, universal access to health and education services, and conditional income support for the poorest segments of the population.					
Special contractual conditions: Program funding will be disbursed in two tranches subject to verification of compliance with the conditionality matrix: an initial tranche of US\$150 million currently scheduled to be disbursed in the last quarter of 2004 and a second tranche of US\$350 million to be released in the second quarter of 2006. Conditions include: (i) maintenance of an appropriate macroeconomic environment; (ii) implementation of reform initiatives in the social development, education, labor, and health sectors; (iii) the protection of government spending on selected priority social programs; and (iv) the monitoring of social progress through indicators.					
Exceptions to Bank policies: None.					
Project consistent with country strategy: Yes [X] No []					
Project qualifies as: SEQ [YES] PTI [NO] Sector [] Geographic [] Headcount []					
Procurement: n/a					
Verified by CESI on: 29 October 2004					

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Introduction

- 1.1 The purpose of the program is to support Argentina with the development of its social policy as a transition from emergency interventions designed to mitigate the effects of the economic crisis of 2001-2002, by providing immediate income support, food aid and medicine supplies to the affected population, to a permanent policy of social inclusion grounded in the productive employment of youths and adults, universal access to health and education services, and conditional income support for the poorest segments of the population. This operation is the next logical step in IDB and World Bank assistance designed to facilitate the country's economic and social transition.¹
- 1.2 A number of reform initiatives in the social development, education, labor and health sectors were identified in conjunction with Argentine officials as part of the proposed operation. The conditions precedent to disbursement also require the maintenance of a suitable macroeconomic environment, the protection of government spending on a set of priority social programs against possible budget cuts, and the monitoring of social progress based on indicators.

B. Recent macroeconomic trends and future outlook

- 1.3 Argentina has been going through the most severe political, economic and social crisis of its modern history, triggered by a series of factors that made its economy highly vulnerable to changes in the international economic climate and its own domestic dynamics. The government implemented a package of measures in late 2001 and early 2002 which shut down its payments and credit system and led to the suspension of public debt service flows to private creditors and the scrapping of the convertibility system, heightening legal and regulatory uncertainty, with serious effects on the output of goods and services and soaring social costs. By the end of 2002, Argentina's gross domestic product (GDP) had had a cumulative drop of 20% in a four-year period, leaving more than half the country's population below the poverty line.

¹ Operations which, together, represent an ongoing, coordinated framework of support in the implementation of its social policy: **IDB**: Support for the Social Income Plan, US\$490 million (under preparation); Phases I and II of the program for social protection and mitigation of the impact of the crisis on the poor, US\$1.5 billion and US\$400 million (2003); Reformulation and reorientation of the social portfolio to support the social emergency plan, US\$694.2 million (2002); Support for fiscal balance and social management, US\$400 million (2000); **World Bank**: Support for the heads of household income support II (under preparation); Economic recovery structural adjustment, US\$500 million (2004); Provincial maternal-child health (phase I, Adaptable Program Lending, APL), US\$135.8 million (2004); Maternal-child health sector adjustment loan (PMCHSAL), US\$750 million (2003); Economic and social transition structural adjustment loan, US\$500 million (2003); **European Commission**: 40 million euro assistance program for the primary health care system (30 million euros) and basic education (10 million euros).

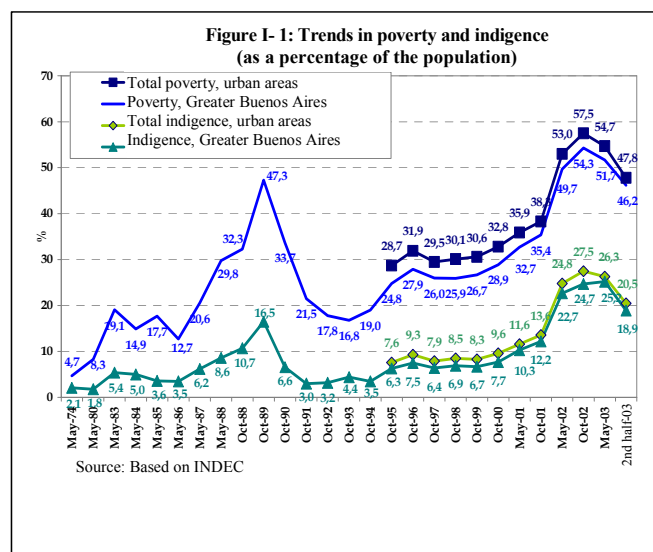
- 1.4 With the worst of the crisis behind it, starting in the second quarter of 2002, the country began trying to restore confidence in its institutions and to build a macroeconomic framework capable of putting the economy on the path to a sustainable recovery. Its stabilization efforts and adjustment to the new socioeconomic environment led to an economic upturn driven by the utilization of idle capacity through import substitution, exports and a rebound in domestic consumption, with a GDP growth rate of 8.7% and the inflation rate at a mere 3.7% in 2003. This, in turn, triggered an improvement in employment rates and poverty indexes.
- 1.5 The economic upturn continued into the first half of 2004, with growth rates rebounding to early 2001 levels, at 11.2% and 9%, respectively, for the first and second quarters of the year. Industrial installed capacity utilization rose to 70% in June of this year, from 64.3% in June 2003. There are also signs of the beginning of a rebound in capital investment in some sectors. Looking at the year as a whole, the economy is expected to continue to grow rapidly (at 6.5 to 7.5%), with continued moderate price fluctuation.
- 1.6 To consolidate the resolution of the crisis, the government worked out a medium- and long-term program with the International Monetary Fund (IMF) (for the period from September 2003 to September 2006) that includes a fiscal framework designed to meet growth, employment and social equity targets while, at the same time, laying the groundwork for normalizing relations with creditors and ensuring public debt sustainability. The program provides for neutral loan flows between the country and multilateral lending agencies throughout its effective period and includes a strategy for strengthening the banking system and institutional reforms designed to facilitate corporate debt restructuring efforts, help resolve pending issues with utility companies and, basically, improve the investment climate. The government is also seeking to build a sound fiscal framework and restore public administration capacity at all levels of government. The program's fiscal targets included a consolidated primary surplus of 2.5% of GDP for 2003 (2.1% for the federal government and 0.4% for the provinces) and 3% of GDP for 2004 (2.4% for the federal government and 0.6% for the provinces) as floor values to be used as the basis for reaching agreements on subsequent primary surplus figures (for 2005 and 2006) to cover regular net debt payments and any obligations incurred under a restructuring agreement for arrearages.
- 1.7 In late August 2004, the IMF agreed with the Argentine authorities to take up the third review of the program after the public debt restructuring concludes in default to private creditors. At that point, the results of the debt restructuring will be evaluated together with progress on the program's structural reform agenda.
- 1.8 The national executive branch has presented Congress with its budget bill for fiscal year 2005. The main assumptions are 4% GDP growth, 7.8% inflation and a 5.5% nominal exchange rate (which would mean a slight revaluation of the peso). Tax

revenues are estimated at Arg\$76.837 billion, which puts the tax burden at 22.6% of GDP (4.8% for the capital gains tax, 6.8% for the value added tax (VAT), 3.4% for social security contributions, 2.4% for export duties and 1.8% for the tax on bank debits and credits). Primary spending would increase by 11% over 2004. The projected primary surplus for 2005 is Arg\$14.196 billion, of which Arg\$9.575 billion would be used to make interest payments on the public debt.

- 1.9 However, reasonable optimism prompted by recent economic dynamics is tempered by the medium-term challenges that still need to be met in order for the current recovery to effectively usher in a period of sustained growth. Argentina will need to step up investment and strengthen physical and human capital productivity to help create jobs in the formal sector and boost the production and value added of goods and services if it is to achieve sustainable and more equitable growth.
- 1.10 The needed rebound in investment and the generation of domestic and international savings depend on continued macroeconomic stability and the existence of a sound, efficient institutional framework with consistent, transparent rules helping to restore confidence in the nation's institutions, reducing uncertainty and creating an enabling environment for longer-term decision-making by economic agents. Any rebound in investment is contingent on the success of efforts to reduce certain structural, fiscal and institutional uncertainties playing a key role in decision-making processes: (i) the maintenance of macroeconomic policies and rules geared to reducing the economy's vulnerability to internal and external shocks; (ii) more accurate forecasting of costs and the future availability of basic inputs; (iii) a rebound in medium- and long-term lending and in services geared and accessible to a broader spectrum of economic agents; (iv) less uncertainty with respect to the public debt problem and future financing requirements; and (v) the building of sound government institutions ensuring good governance through the enhancement of legal certainty, respect for property rights and efficient, transparent public administration.

C. Trends in poverty and equity and future outlook

1.11 Current poverty rates in Argentina are at an all-time high.² As illustrated in Figure I-1, the incidence of poverty among urban households back in the 1970s was around 3%. Severe hyperinflation in the late 1980s and the aftermath of the 1995 Mexican crisis, among other factors, drove up poverty rates which, thereafter, never dropped below 25%. The recession between late 1998 and the beginning of the latest crisis towards the end 2001 further increased poverty, pushing the poverty rate up to 57.5% and the indigence rate to 27.5% by September of 2002, clearly marking a period of social emergency in Argentina. This social emergency was triggered by the combined effect of higher unemployment and the ensuing loss of income and the erosion in real wages in the wake of a real devaluation, which helped push many lower middle-class households with incomes just above the poverty line down below this threshold.



- 1.12 In the wake of the economic recovery beginning in the second half of 2002, with the rebound in employment rates, the implementation of income transfer programs and relative price stability, there was a sizeable reduction in poverty over the year, with the poverty rate falling to 47.8% and the indigence rate to 20.5% by the second half of 2003.
- 1.13 Some of the characteristics of poverty in Argentina include: (i) the proportion of poor and indigent in Argentina reflects disparities among different regions of the country and within different urban areas; (ii) poverty affects the youngest to a greater extent (with over 70% of children under the age of 14 below the poverty line); and (iii) poverty makes no distinction between the sexes and there is a high correlation between poverty and employment.

D. The country's strategy for the social sector

- 1.14 The main innovations in Argentina's social policy in the 1990s were the adoption of programs targeted to the poorest population groups to meet the needs of excluded groups and the implementation of institutional reforms designed to improve efficiency in social sectors. In 1997, rising unemployment and poverty rates

² See "Argentina, Poverty and Inequality 1998-2003," RE1/SO1.

prompted the establishment of cash transfer programs (such as the World Bank-funded “Trabajar” program) as a compensatory mechanism for geographic areas and population groups hardest hit by unemployment problems. The IDB also approved a number of investment projects designed to combat social exclusion and structural poverty (such as the program in support of vulnerable groups, the youth productivity and employability support program and the barrio improvement and sites and services program). However, social conditions have been steadily deteriorating, the jobless rate has been steadily climbing, the incidence of poverty has been increasing and, in general, social exclusion problems have deepened since 1999.

- 1.15 As mentioned above, the crisis of 2001-2002 heightened social deterioration alarmingly, while the breakdown in the payments and credit system and the economic collapse sharply reduced personal income levels, seriously undermining social cohesion. Against this backdrop, the focus of social policy shifted to the implementation and/or stepping up of programs designed to provide immediate income support, food aid and medicine supplies for population groups affected by the economic downturn. At the same time, a number of small programs were eliminated in an attempt to reinforce and focus efforts on containing the crisis.
- 1.16 The strategy for containing the social deterioration achieved its purpose by ensuring that most Argentine households impacted by the crisis had access to food and health care and that their children were able to stay in school.³ On the other hand, its implementation made it necessary to slow down the pace of structural reforms needed to fight poverty, such as the implementation of national compensatory education policy strategies and the development of a more effective primary health care model. The success of the containment strategy also gave rise to some new problems, such as growing numbers of citizens dependent on public assistance without any clear mechanisms for putting them back to work, overlapping of beneficiaries and difficulty verifying targeting efficiency. The lessons drawn from the crisis singled out a number of success factors which should be built on in the future, such as distribution logistics for medicine supplies.
- 1.17 The government’s current social policy is a transitional one, as it shifts from an emergency response strategy to a permanent policy of social inclusion based on the productive employment of youths and adults, universal access to health and education services and conditional income support for the poorest segments of the population. To that end, the government is seeking to take action to resolve problems arising during the crisis and, at the same time, build on pertinent positive features emerging from its experience in dealing with the crisis, to incorporate them into its policy for expanding and streamlining social programs and make necessary

³ Document PR-2744-1 on the release of the second tranche of program I for social protection and mitigation of the impact of the crisis on the poor contains information on the expansion of coverage of poor people through programs to provide drugs, scholarships, and cash subsidies.

structural reforms for addressing the structural roots of social exclusion. These changes are expected to take place in the context of balanced financial-fiscal planning, in which the costs of the programs and services are shared with the provinces and municipalities, as applicable.

E. The Bank's country strategy

- 1.18 The promotion and support of progress in the social areas are fully in keeping with the main objectives of the Bank's new country strategy in Argentina for 2004-2008 (CP-2785), which has been presented to the Board of Executive Directors' Programming Committee for approval. The strategy points out that, in a future scenario of gradual economic growth and as part of a fiscal sustainability approach, Argentina's social strategy needs to rise to current challenges through policies designed to: (i) lay the groundwork for building a human and social capital protection and development network, with mechanisms for stepping up assistance in times of crisis and for refocusing on longer-term objectives once economic growth resumes; (ii) promote more efficient policy targeting to focus on overcoming poverty and indigence in the country, looking out for indigenous groups accounting for a disproportionately large share of the nation's poor and indigent; and (iii) reduce social and economic inequities through policies that promote equal opportunity and boost labor productivity and employability. Special care was taken in designing the proposed operation to set conditions and targets in keeping with the sector priorities established in this strategy.

F. Program strategy

- 1.19 In line with the country's and the Bank's social strategy, the proposed operation is designed to bolster and expedite the country's transition to a modern social policy geared to the needs of different social groups and attuned to future prospects for sustainable economic growth. More specifically, it underpins efforts to modernize and streamline social assistance programs, build a more up-to-date social safety net, strengthen employability and job placement programs for the unemployed, and implement health and education initiatives targeted at the most vulnerable population groups, as part of a broader, longer-term social inclusion strategy.
- 1.20 By themselves, activities envisioned under the proposed operation, though necessary, are clearly not enough to ensure the successful implementation of a modern social policy. The program is part of a larger-scale effort by the Argentine government, in which economic growth with social equity takes precedence, and by the Bank in Argentina, which has ongoing health, education and neighborhood improvement projects and cash transfer programs for poor households. The World Bank and other multilateral organizations are also involved in this effort. The program design draws on lessons learned by the Bank from previous sector programs in the region and in Argentina in particular.

G. Sector experience and lessons learned

- 1.21 In addition to the lessons learned from sector lending in general,⁴ the design of the proposed operation also embodies lessons drawn from the Bank's sector programs and emergency operations in the country and from the reformulation and realignment of the social portfolio in Argentina. The lessons learned from the sector program in support of fiscal adjustment and social reform (AR-0189) were that: (i) sector programs can be effective mechanisms for establishing, strengthening or reinstituting modernization policies provided they adapt the country's political-institutional situation and socioeconomic outlook; and (ii) short-term actions and targets need to be reconciled with the expectation that results can only be measured in the medium and longterms (paragraph 2.6 describes the application of these lessons to the selection of reforms to be supported). The lessons learned from Phases I and II of the program for social protection and mitigation of the impact of the crisis on the poor (AR-0295 and AR-0296) were that: (iii) the protection of social spending is an effective instrument: 96% of the target established for the protected programs was executed (compared with a contractual commitment of 85%); (iv) the underperformance of a particular program due to procurement or other problems,⁵ regardless of the government's will, could jeopardize a disbursement under a sector operation otherwise meeting its objectives, while exclusively global protection of spending for a broad spectrum of social programs increases the likelihood of larger-budget programs and/or programs on which spending is authorized by legislation reducing the importance attributed to safeguarding other social programs, requiring these risks to be balanced (paragraph 2.36 describes the application of these lessons to protected spending); and (v) regular program monitoring allows for the timely detection and correction of possible slippages (paragraph 3.13 describes the application of this lesson to monitoring of the operation).

H. Coordination with other multilateral organizations

- 1.22 The teams of Bank experts that have participated in the design and implementation of sector and social investment programs in Argentina have been working with both

⁴ In general, sector lending by the Bank has helped: (i) prop up the short-term stability of financial systems; (ii) add liquidity to the economy; (iii) solidify reforms expected to have positive long-term effects on economic growth; and (iv) finance social programs that are key in terms of their activities and targeting. More specifically, experience has shown that the successful implementation of such programs requires ensuring that: (i) the complexity of loan conditionality is in line with the proposed implementation period, in a climate of macroeconomic austerity; (ii) all necessary activities to meet required conditions are adequately funded, either by the country itself or under a parallel technical-cooperation program; and (iii) there is interest in and commitment to the program on the part of the agencies in charge of meeting corresponding targets and implementing program activities.

⁵ For example, there were problems with schoolbook purchase programs, in which the bidding process for procurement was challenged several times. There were also delays in the implementation of the IDH-families subsidy program because of difficulties in commissioning an independent audit.

the World Bank and the International Monetary Fund to ensure the consistency of their objectives for the country. The project team for the proposed operation has maintained a dialogue with both these organizations, as well as with the delegation of the European Commission to Argentina. All such organizations share the same vision with respect to current challenges in social areas and the design of this operation is consistent with that vision.

- 1.23 The proposed operation is consistent with, bolsters and, in turn, is bolstered by World Bank sector and investment programs such as the economic recovery support structural adjustment loan program and the provincial maternal-child health sector reform program, and by the second phase of the heads of household program currently under review. Likewise, it bolsters and is bolstered by proposed European Commission programs in health and education.

II. THE PROGRAM

A. Objectives

- 2.1 The purpose of the program is to support Argentina with the implementation of its social policy as a transition from emergency interventions designed to mitigate the effects of the economic crisis of 2001-2002—by providing immediate income support, food aid and medicine supplies for the affected population—to a permanent social inclusion policy grounded in the participation of youths and adults in productive activities, universal access to health and education services and, where necessary, conditional income support for the poorest segments of the population. Moreover, the funding freed up by loan disbursements under the program will help Argentina meet its financial obligations under agreements with multilateral organizations.
- 2.2 Disbursements under the proposed program will be conditional upon progress in the introduction of pending reforms in the social development, education, labor and health sectors, the maintenance of a suitable macroeconomic environment, the protection of government spending on selected priority social programs against possible budget cuts, and the monitoring of social progress outcomes based on interim progress indicators. The means of verification matrix describes the types of specific evidence to be presented to fulfill loan conditionality.

B. Description

- 2.3 The proposed operation consists of a US\$500 million sector loan to be disbursed in two tranches, the first for US\$150 million and the second for US\$350 million. The disbursement of each tranche will be subject to compliance with conditions spelled out in the conditionality matrix with respect to: (i) the maintenance of a stable macroeconomic environment; (ii) the implementation of social reform initiatives; (iii) the protection and monitoring of social spending; and (iv) interim progress indicators for Millennium Development Goals (MDGs).

1. Stable macroeconomic environment

- 2.4 The objective of this component is to ensure that the country maintains a stable macroeconomic environment as the basis for regular, sustainable socioeconomic development. Argentina currently has an IMF program in place for the period from September 2003 to September 2006, which includes regular adjustments. The policy letter accompanying the proposed operation describes a macroeconomic environment consistent with the objectives of growth, employment and social equity and, at the same time, lays the groundwork for normalizing relations with creditors and ensuring public debt sustainability.

- 2.5 Compliance with the policy letter and the consistency of the macroeconomic environment with program objectives will be verified for each tranche.

2. Social reform initiatives

- 2.6 For the selection and design of the reform actions described below, the lessons learned from previous operations were used, with reference to the opportunity to initiate, improve, or pick up on modernizing strategies and the need to reconcile immediate actions with the possibility of measuring their impact only in the medium or long term (see paragraph 1.21 (i) and (ii)).

a. In the social development sector

(i) Background

- 2.7 Prior to the economic crisis of 2001-2002, the Social Development Ministry (MDS) was in the process of shaping a strategy centered around the establishment of a social safety net for the structurally poor and population groups at high risk of social exclusion (such as the elderly without pension benefits and neglected and abandoned children, for example). The strategy gave top priority to the development of better management and targeting tools. The MDS was also trying to set itself up as the planning, coordinating and evaluating agency for the nation's social policy, helping the provinces develop their own social safety nets, particularly for matters relating to the identification of beneficiaries and program coordination.
- 2.8 In the face of the crisis of 2001, the emphasis of this strategy shifted to quickly building a social safety net for a short-term intervention, using available institutional capacity to meet the most pressing needs of the population during the crisis. The strategy was a success, in the sense of mitigating the effects of the crisis and sustaining levels of social spending needed to prevent at least part of the previous progress made in human capital building from being wiped out by the crisis.
- 2.9 However, the rapid expansion in the number of income transfer program recipients (mainly under the heads of household or PJJDH program, which reached 1.7 million beneficiary families) created a worrisome situation, which increased the importance of government spending to prop up the population's income. The social safety net is currently plagued by the overlapping of program recipients and benefits, a large number of beneficiaries registered in an employability program when, based on their situation, they should be registered in an assistance program (income for human development (IDH) versus PJJDH), the need to verify recipient rolls to help facilitate the targeting of vulnerable population groups, certain operating problems, particularly in the case of income transfer programs, and weaknesses in impact monitoring and evaluation mechanisms.

(ii) Objectives of proposed reform initiatives

- 2.10 The goal of the proposed operation is to assist the MDS with the implementation of a new framework for the modernization and streamlining of social assistance programs in conjunction with other programs under preparation (support for the social income plan (AR-L1006) and the second phase of the World Bank's heads of household program) by meeting the following specific objectives: (i) promote the rationalization of the distribution of beneficiaries among social programs based on their respective profiles and needs, in order to improve the government's assistance to the various population groups; (ii) begin developing a *ficha social* [social program record],⁶ for current recipients of national cash transfer programs (primarily the PJJHD and IDH) to improve registration, targeting and management mechanisms; (iii) introduce the use of automatic debit cards for subsidy payment, which should improve data quality and the transparency of payment procedures; (iv) design and implement training and job placement initiatives to improve the employment rate of unemployed workers, including disadvantaged youths; and (v) significantly expand coverage of the noncontributory pension and health insurance program for nonworking seniors over 70 years of age without institutional coverage, to further strengthen the effectiveness of the social safety net.

(iii) Conditions

- 2.11 Disbursement of the first tranche is subject to presentation of: (i) a system for implementation and standardization of the *ficha social*; (ii) the design of a pilot project for the delivery of benefit payments via bank cards and an agreement signed by Banco Nación and the Ministry of Labor, Employment and Social Security (MTEySS) to implement it; (iii) Executive Branch decree that stipulates the transfer to social assistance programs of current PJJHD recipients who do not meet employability conditions; (iv) the design of a pilot national youth inclusion program; and (v) a coverage recommendation and budget estimates for an older adults program.
- 2.12 Disbursement of the second tranche is subject to the presentation of evidence of: (i) survey of a minimum of 400,000 social program records; (ii) the receipt of cash benefit payments under national programs via bank cards by a million households (of a total of about two million); (iii) compliance with the Executive Branch decree by means of having established the requirements and profiles provided for in the

⁶ The *ficha social* or social program record replaces the social programs identification card of current and prospective beneficiaries (FIBAPS) of the Single System for Identification and Registration of Social Program Beneficiary Families (SISFAM) (supported under previous Bank operations) for purposes of updating beneficiary rolls and will be used as the basis for keeping cumulative records of national and provincial social plan and program beneficiaries, thereby helping to *boost visibility and improve targeting efficiency and transparency* in the allocation of benefits while, at the same time, serving as an input for the generation of social management information at levels of disaggregation not found in normal statistical data.

decree, to determine the employability of the PJJDH beneficiaries, having started the beneficiary employability classification process, and having transferred or being in the process of transferring those families classified as unemployable to the Families-IDH program and/or other MDS programs, and transfer of pertinent budget categories; (iv) 100,000 beneficiary youths (out of a possible total of 500,000 eligible youths) are being supported by the national youth inclusion program; and (v) 110,000 recipients receiving support under an older adults program (out of a total of 300,000 eligible older adults).

b. In the job sector

(i) Background

- 2.13 Unemployment rates in Argentina's labor market rose steadily throughout the 1990s. Attempts to speed up job creation through changes in regulations designed to lower labor costs were unsuccessful in generating employment, given the instability of these regulatory reforms and the inelasticity of labor demand to changes in tax costs. Meanwhile, the economic stagnation beginning in 1998 reduced the demand for labor and contributed significantly to rising unemployment.
- 2.14 Beginning in 1997, the Argentine government adopted income transfer programs subject to a work quid pro quo as a way of offsetting part of the loss of income due to joblessness. At the same time, in the face of the social pressure created by the idleness which comes from unemployment, the government tried to set up job placement service networks as a way of easing the transition out of joblessness, into the working world. However, its efforts in this latter area were hampered by the concentration of the MTEySS, municipal governments, boards of trade and business and unions on the operation of income transfer programs.
- 2.15 The economic crisis in late 2001 had a devastating effect on the job market, heightening preexisting negative tendencies. Argentina's unemployment rate, which had been steadily climbing since 1998 in a recessionary context, peaked at 23.6% in October of 2002. Since then, it has been moving downwards. However, the Argentine government is faced with the arduous task of dealing with two especially negative job market trends, namely persistent high unemployment despite a sizeable drop in real wages and increasing de facto deregulation of the labor market, hampering the framing and conduct of productivity-boosting and employment-generating labor policies.
- 2.16 The drop in the share of private gainful employment in registered firms is clearly a troubling sign from the standpoint of productivity gains (and, thus, competitiveness) and the ability of government to pursue policies designed to improve the quality of employment. There are also growing numbers of jobs without benefits or legal safeguards in registered firms supposedly regulated by labor legislation. The percentage of employees in registered firms covered by

worker's compensation insurance fell from 81% in 1992 to 70% in 2003, while the share of workers entitled to severance pay dropped from 80% to 68% over the same period. The growth in direct government employment is equally worrisome and, like the expansion in the number of income transfer program recipients discussed earlier, has heightened the importance of government spending in propping up the population's income levels.

- 2.17 Resolving these labor market problems and other problems related to macroeconomic stability, institutional definition (see paragraph 1.10) and the streamlining of income transfer programs (see paragraph 2.10) requires a major effort in regulatory, educational, and institutional areas. One of the priority and urgent efforts is putting population groups excluded from the market over the last decade into the job market through the establishment of job placement networks and training programs. Education initiatives are also important to further the education of adult workers whose human capital has been eroded by protracted periods of joblessness and to strengthen the appeal and relevance of youth education. With labor inspection responsibilities traditionally delegated to provincial governments, which do not necessarily have the incentive or capability to effectively discharge this function, the MTEySS needs to resume the lead in this area. The importance of this last action stems from increasing informality in employment which undermines implementation of labor policies, decreases worker contributions to the treasury, and leaves large numbers of people without institutional health and pension coverage. The current economic growth situation generates an opportunity to reverse this situation without significantly affecting employment.

(ii) Objectives of proposed reform initiatives

- 2.18 The objective of the proposed program in this sector is to help the MTEySS rebuild the institutional framework it needs to match job seekers with employment opportunities, conduct and regulate training activities, and expedite efforts to monitor compliance with labor regulations, by meeting the following specific objectives:⁷ (i) establishment of a national employment office network to strengthen the operation of job placement services by provincial and municipal governments, working with nongovernmental organizations (NGOs), boards of trade and unions with experience in delivering these types of services to improve the quality and relevance of job counseling and assistance services for job seekers;⁸

⁷ In 2000, through the program to support fiscal balance and social management, the Bank supported the development of a proposal in this area for Argentina, the implementation of which was interrupted by the emergency.

⁸ Currently the number of public and private nonprofit employment offices, offering services of varying quality, is not tabulated. The proposal is to improve and link this capacity with job training programs and public and private employment opportunities in order to promote the job placement of unemployed workers who are beneficiaries of the employment programs, particularly PJJDH.

(ii) implementation of sector qualification plans under local, sector-wide agreements, bringing public and private actors for each goods-producing sector in order to set objectives, amounts, timetables, responsibilities, and specific targets for qualification and related matters, to expand and improve the quality of job training and skills development services;⁹ and (iii) implementation of the national employment compliance plan, based on an agreement with the Federal Public Revenues Administration (AFIP) to expand regular AFIP inspections to include oversight and monitoring of compliance with labor and social security regulations, to broaden the coverage of social protection mechanisms associated with being employed, including health insurance coverage.¹⁰

(iii) Conditions

- 2.19 Disbursement of the first tranche is subject to: (i) presentation by the MTEySS of a plan for setting up a national employment office network, together with a budget and physical and financial targets; (ii) agreement on a minimum of 20 sector qualification plans with local governments, boards of trade and unions; and (iii) confirmation of the inspection of a minimum of 36,000 firms employing at least 125,000 workers.
- 2.20 Disbursement of the second tranche is subject to the submission of evidence of: (i) the strengthening of the capacity of employment offices to meet the job placement needs of a minimum of 200,000 workers; (ii) at least 100,000 workers trained or in the process of being trained under sector qualification plans; and (iii) the monitoring of a minimum of 145,000 firms employing at least 500,000 workers as part of regular AFIP inspections (of a total of 350,000 firms in the industrial, commercial, and service sectors).

c. In the health sector

(i) Background

- 2.21 The policy conducted by the Ministry of Health and Environment (MSAL) prior to the 2001-2002 crisis included provisions for a primary health care system reform initiative centered around: (i) the development of a more effective primary health

⁹ As is the case with employment offices, the number of public and private training services—of varying quality—is not tabulated. The proposal is to improve and link this capacity with job training programs and public and private employment opportunities in order to promote the job placement of unemployed workers who are beneficiaries of the employment programs, particularly PJJDH.

¹⁰ The national employment compliance plan is a joint action between the MTEySS and AFIP, which tries to: combat unrecorded work; verify compliance with job conditions that guarantee respect for fundamental workers' rights and due social protection; achieve greater efficiency in the detection and correction of noncompliance with labor and social security laws; incorporate excluded workers into the social security system; get employers to voluntarily bring their situation into compliance and call attention to the problems stemming from unrecorded employment and to the benefits of compliance.

- care model with adequate service coverage; (ii) the decentralization and rationalization of resources and the streamlining of nationwide health care programs; and (iii) capacity building for the study and detection of health problems.
- 2.22 In response to the crisis of 2001-2002, the government crafted sector strategies for ensuring basic health service coverage, in order to minimize the impact of the economic crisis on health conditions. As part of this process, it issued a health emergency order that, among other things, established the “Remediar” program (with Bank financing) to ensure access to essential drugs for low-income groups through primary health care centers (CAPS).¹¹ This strategy was a success and the government was also able to maintain coverage for basic programs such as the expanded immunization program, programs for the prevention and treatment of communicable diseases and the maternal-child health and nutrition program (PROMIN), designed to reduce morbidity and mortality and maternal and child malnutrition rates and strengthen the psychosocial development of children under six years of age in areas with large numbers of residents with unmet basic needs (UBN).
- 2.23 The operation of the health care system is still plagued by inequity and inefficiency. Major inequities include: (i) sizeable, avoidable disparities in maternal-child health conditions among different provinces; and (ii) disparities in the access of different income groups to basic health services, with limitations in effective coverage for the poorest groups. The inefficiency of the health sector is attributable to its rigid organizational structure, the lack of performance incentives for service delivery and reliance on a hospital-based health care model with the emphasis on curative care, out of touch with public expectations and epidemiological needs.

(ii) Objectives of proposed reform initiatives

- 2.24 This operation will bolster strategic actions designed to strengthen the organizational model for primary health care services and the disease prevention and treatment capacity of the health care system as part of the federal health plan and in coordination with the Bank’s primary health care reform program (1193/OC-AR) and the programs of other multilateral organizations, with provisions for: (i) implementation of an institution-strengthening plan for local health authorities and a treatment capacity-building plan for CAPS, as a strategy for improving access to primary health care services for disadvantaged population

¹¹ CAPS: outpatient health care centers, located or intended for indigent or poor communities without health coverage; with an average of 300 or more monthly visits; staffed by a doctor at least 20 hours a week and by a nurse or nurse’s assistant six hours a week; and a pharmacy located in a safe and reliable space for medications.

groups, to include: (a) management commitments (MCs)¹² between the federal government and local health authorities to bolster the participatory management of CAPS at the local level and strengthen their operating and networking capacity for the more effective implementation of health promotion and disease prevention policies; (b) regular supplies of drugs in all 5,300 CAPS that treat low-income inhabitants and meet the minimum operative conditions (drugs distributed will cover treatment of at least 80% of common diseases at the health clinic level, including certain chronic illnesses and complications of pregnancy); (c) training services and basic and IT equipment for primary health care centers to strengthen the treatment capability of first-level care facilities based on findings by the CAPS survey; (d) registration of program recipients to characterize the demand for health care services by the most vulnerable groups; and (e) training for primary health care personnel under a national postgraduate in-service training program for 5,000 community physicians, in order to have almost one trained doctor per CAPS; and (ii) strengthening of the health statistics system and decentralized epidemiological surveillance system to build capacity for the study of health conditions, the planning of timely, effective interventions and the satisfaction of other related needs for research, teaching and refresher training in science and technology. To this end, the application of the system will begin in order to reach 90% of the provincial health statistics bureaus.

(iii) Conditions

- 2.25 Disbursement of the first tranche is subject to presentation of: (i) a proposal for strengthening the primary health care system, to include: (a) the use of MCs with local health authorities for the promotion of “healthy” policies, based on participatory management systems, (b) supplies of essential drugs (covering 80% of common diseases) to 5,300 CAPS (free of charge to patients); and (c) a national postgraduate in-service training program for up to 5,000 community physicians, and (ii) a proposal for a new national health statistics system.
- 2.26 Disbursement of the second loan tranche is subject to the presentation of: (i) evidence of progress in strengthening the primary health care system to the Bank and the Federal Health Council (COFESA), reflected by: (a) MCs with at least 24 provinces or municipios with over 100,000 inhabitants, to be signed at a later date; (b) a proposal for strengthening the treatment capability of CAPS based on findings by the CAPS survey; (c) progress in the in-service training of at least 2,000 community physicians; and (d) the establishment of patient rolls based on

¹² Agreements with commitments for the federal government and the jurisdictions aimed at improving some of the following areas, while guaranteeing in each case a minimum level of treatment success on the part of each CAPS: identification of the population in the service area; scheduling of care; networks of services; prevention and promotion; community participation; rational use of drugs; access to medical care; registry of patients; patient services and information system. To this end, incentives will be used in the form of inputs and basic equipment, technical assistance, research grants, and/or municipal improvements.

prescription data, including a minimum of one million patients; and (ii) with respect to the development of the information system: (a) evidence of progress in setting up the decentralized epidemiological surveillance system in the form of at least 350 operational data collection and analysis nodes and at least 90 operational sentinel centers (uploading and generating epidemiological data); and (b) evidence of implementation of the new national health statistics system in 90% of provincial health statistics bureaus, with the technical resources needed to begin producing health statistics reports.

d. In the education sector

(i) Background

- 2.27 The passage of the Federal Education Act in 1993 marked the beginning of an educational reform process with four main thrusts: (i) increasing the number of years of compulsory education and restructuring the school system; (ii) developing federal teacher training, quality assessment and educational information systems; (iii) crafting national compensatory education policy strategies; and (iv) working out federal agreements on curriculum content leading to new curriculum outlines. A series of programs designed to meet major education system challenges, such as the need to improve enrollment rates at the secondary school level and educational quality indexes and reduce the large geographic disparities in educational performance, were developed around these main focus areas, many of which were financed by the Bank.
- 2.28 The crisis of 2001-2002 interrupted these reform efforts, shifting the focus to keeping dropout rates from rising and previous progress in educational quality from being wiped out. In the face of this new situation, the government shifted to an emergency response strategy designed to reduce the personal cost of school attendance (by providing school supplies, transportation service, meals and uniforms) and uphold a minimum standard of educational quality (in terms of materials, equipment and infrastructure). This strategy was successful, with available data for 2002 and 2003 showing families keeping their children in school.
- 2.29 With the gradual economic upturn and rebound in spending on education beginning in the second half of 2003 and continuing into 2004, the Ministry of Education, Science and Technology (MECyT) is turning back to the original focuses of its reform efforts and to unmet challenges having to do mainly with educational equity issues, addressing the large disparities in school retention and completion among different provinces, education levels and socioeconomic groups.
- 2.30 Indeed, though the overall completion rate for the first two levels of basic general education (EGB 1 and 2, ages 6 to 11) is relatively high (86.2%), there are still sizeable differences among the provinces. In the province reporting the lowest completion rate, for example, one out of every three children enrolled in EGB 1

does not finish EGB 2. There is a steep drop in nationwide completion rates at EGB level 3 (the lower-secondary level, ages 12 to 14) and the comprehensive upper-secondary education level (ages 15 to 17), to 75.2% and 56.1%, respectively, again, with sizeable differences among the provinces. Available data also show prospects for student completion undermined by repetition, which is much more prevalent among low-income students. Thus, fewer than half of all youths in the bottom income quintile complete all nine years of basic education, compared with a completion rate of 93% for youths in the highest income quintile.

(ii) Objectives of proposed reform initiatives

- 2.31 The proposed operation bolsters efforts by the MECyT to take on two key functions to strengthen the operations of provincial authorities in charge of system management and financing, namely: (i) assisting with the meticulous, efficient planning of envisaged interventions to ensure their sustainability and maximize their relevance; and (ii) providing targeted assistance to meet the education needs of groups living in poverty which cannot be met by local governments, through spending on educational inputs, capital investments and grants. Its performance of these functions should help shore up efforts to expand compulsory education and strengthen teacher training and compensatory education programs.
- 2.32 Three critical actions will be promoted in this context, in conjunction with the education system improvement program (1345/OC-AR). First, support will be provided to the MECyT in the development and implementation of criteria for the allocation of available resources nationwide to compensatory education programs, realigning educational resources to help bridge educational gaps, as reflected in intake, repeater, dropout and completion rates. Second, support will be provided to the MECyT to conduct a national teachers' survey and ensuing plan for teacher training activities designed to improve the internal efficiency of the education system, particularly in schools serving disadvantaged groups. Third, support will be provided to the MECyT in estimating budget needs and identifying possible sources of funding for the expansion of compulsory education over the period from 2005 to 2015.

(iii) Conditions

- 2.33 Disbursement of the first tranche is subject to: (i) the production and publication of district-level statistics on school enrollment and student flow (repeater, promotion and dropout rates) for basic general education (EGB) and comprehensive upper secondary education; and (ii) finalization of: (a) a data collection tool for the national teachers' survey showing each teacher's assigned school facility; and (b) instructions for field workers conducting the survey.
- 2.34 Disbursement of the second tranche is subject to: (i) the implementation of inter- and intra-district resource allocation criteria for major compensatory

education programs serving a million students (out of an estimated total of four million poor students) to maximize their impact on nationwide repeater, dropout and completion rates; (ii) the presentation of a report on teacher qualifications in schools included in national compensatory education programs as guidance for teacher training activities to improve student retention and educational efficiency; (iii) the projection of budget needs for the 2005-2015 period for the attainment of MDGs in at least 10 provinces with different school failure improvement scenarios; and (iv) calculation of the aggregate cost of a phased approach to providing universal access to early childhood education, third-level basic education and comprehensive upper-secondary education through the enrollment, reenrollment and retention of out-of-school school-age children.

3. Protection of social spending

- 2.35 In the last few years, federal budget resources earmarked for social programs have been increasing in nominal terms and as a percentage of total federal spending.¹³ This fact has been connected both to the response to the social emergency and, more recently, to economic growth and its positive effects on the treasury. While under these circumstances a fiscal adjustment is not imminent, unexpected changes in the international economic climate could eventually result in a significant adjustment. Considering that the success of the efforts contained in this program depend in part on the availability of resources earmarked for the social area, it was agreed, as a precautionary measure, that funding would be ensured for selected priority social programs for which the Bank and the Argentine government agreed to set floor limits on budget appropriations for such programs for both 2005 and 2006 and a minimum spending requirement for 2005.
- 2.36 Taking due account of the lessons learned about the risks associated with the protection of social spending (see paragraph 1.21 (iii) and (iv)) and of Argentina's current fiscal situation, the agreement with the Argentine authorities was to protect total spending on a group of programs and not, as on other occasions, the individual spending of each program. The group of programs for which government spending would be protected by the proposed operation was selected according to criteria established under previous spending protection programs in Argentina, expanded to all the programs that would be streamlined by the national government. Such programs must: (i) be explicitly targeted at the poor, the vulnerable, and individuals with unmet basic needs; (ii) cover a minimum of 250,000 individuals or 50,000 households a year; (iii) have an annual budget of at least US\$10 million; and (iv) condition the payment of any subsidies to specific quid pro quos.
- 2.37 Protected social spending under the fiscal year 2005 budget is equivalent to 8.02% of total national government spending and 12.73% of social spending by the federal

¹³ Indeed, as a consequence of the economic crisis of late 2001, targeted social spending increased as a percentage of total spending from 7% of social spending in 2001 to 16% in 2003 and 17% in 2004.

government, compared with the protection provided in 2003, which reached 1.95% of total national government spending and 2.94% of social spending. The difference is due in part to the growth of certain previously protected programs, but primarily to the fact that the current operation includes all the targeted programs that are affected by the streamlining effort. In particular, the budgets of the PJJDH and the food programs previously excluded from the spending protection operations are included here. It is estimated that protected spending will represent 1.32% of GDP in 2005. The annex on protected social spending contains a complete listing of protected expenditure items.

4. Social development monitoring indicators

- 2.38 Reflecting the government's commitment to maintain regular, measurable progress in social areas, and in response to the Bank's need to monitor such progress in the context of the strategy of the Bank with Argentina for 2004-2008 (CP-2785), the program also provides for an agreement between the Argentine government and the Bank to monitor progress based on MDG indicators.
- 2.39 Argentina's current government announced its MDG commitments in October 2003,^{14 15} establishing official monitoring indicators, with targets for the year 2015. Since current survey intervals, lags in the processing of corresponding data and/or problems adapting to short-term changes make the use of most of these official indicators impractical for the type of medium-term monitoring process dictated by the Bank's country strategy with Argentina for 2004-2008 (CP-2785), the Argentine government selected and/or developed a set of interim progress indicators specifically for purposes of the proposed operation as the basis for monitoring short- and medium-term progress towards the MDGs.¹⁶
- 2.40 In addition to its commitment to report on and meet targets related to the values of these indicators for disbursements under the proposed operation, the contractual condition also requires the borrower to submit annual status reports to the Bank on trends in the values of the indicators through the year 2010, as these data becomes available. The annex on the interim progress indicators contains a complete list of indicators, showing their baseline values and the targets to be met as a condition precedent to disbursement of the second tranche.

¹⁴ United Nations General Assembly Resolution A/RES/55/2 of 2000.

¹⁵ "Objetivos de Desarrollo del Milenio – Argentina. La Oportunidad para su Reencuentro." Office of the President of the Argentine Republic, 2003.

¹⁶ These indicators were established for MDGs 1 through 7. However, there is no nationwide aggregate baseline data available at this time for the development of an interim progress indicator for goal 8 (sustainable development).

C. Cost and financing

- 2.41 The total cost of the proposed operation is US\$500 million, to be financed by the Bank from its Ordinary Capital. The loan will be disbursed in two tranches, one for US\$150 million and a second for US\$350 million, subject to compliance with the conditionality matrix.

D. Financial terms and conditions

Table III-1

Source of financing:	Ordinary Capital
Amount:	US\$500 million
Conditions:	
Amortization period:	20 years
Grace period:	5 years
Disbursement period:	Minimum of 18 and maximum of 24 months
Interest rate:	Based on LIBOR
Inspection and supervision:	0%*
Commitment fee:	0.25% on the undisbursed balance
Currency:	U.S. dollars – Single Currency Facility

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

III. PROGRAM IMPLEMENTATION

A. Borrower and executing agency

- 3.1 The borrower is the Argentine Republic. The Argentine Ministry of Economy and Production (MECON) will serve as the executing agency for the program. The Ministry of Health and Environment (MSAL), the Ministry of Education, Science and Technology (MECyT), the Social Development Ministry (MDS) and the Ministry of Labor, Employment and Social Security (MTEySS) will assist with the implementation of strategic and policy actions to meet targets established under the program.

B. Program management

- 3.2 All executive functions and responsibilities associated with program implementation will be vested in the Secretaría de Política Económica [Economic Policy Office] of the Ministry of Economy and Production (SPE/MECON), as the technical/administrative unit in charge of coordinating with the Bank.
- 3.3 As far as reporting is concerned, the SPE/MECON will be in charge of: (i) monitoring the progress of the program as agreed on with the Bank to facilitate the fulfillment of policy actions required for release of the second tranche and submitting quarterly monitoring reports; and (ii) presenting the Bank with a final program report.
- 3.4 The SPE/MECON will be responsible for furnishing the Bank with all supporting documentation on compliance with its obligations incurred under the loan, to which end it will regularly work with line ministries to ensure the delivery, on time and to standard, of all documentation to be presented to the Bank for the authorization of loan disbursements.

C. Program execution period, amounts and conditions

- 3.5 The program will be executed over a period of 24 months. The loan is to be disbursed in two tranches, one of US\$150 million, currently scheduled to be disbursed in the last quarter of 2004, and a second of US\$350 million, scheduled to be disbursed sometime in the second quarter of 2006.
- 3.6 The conditionality matrix outlines requirements for the release of both tranches proposed for the program with respect to: (i) the maintenance of a stable macroeconomic environment; (ii) the implementation of social reform initiatives; (iii) the protection of social spending; and (iv) progress in monitoring indicators. Specific means of verification of compliance with the conditionality, as outlined in the verification matrix, have also been agreed upon.

D. Processing of disbursements

- 3.7 The disbursement of resources under each tranche is subject to the fulfillment of agreed actions for that particular tranche, as specified in section II of this loan proposal.
- 3.8 The SPE/MECON will have a simple operating structure for program implementation purposes, with a general coordinator with experience in the management of projects funded by international organizations and two or more experts with experience in social sector work and familiar with the loan disbursement and operating procedures of international organizations.
- 3.9 The borrower and, more specifically, the executing agency will be responsible for keeping accounting and financial records of the use of loan proceeds, as well as for the preparation and submission of all disbursement requests, ensuring that all such documents are available for inspection by the Bank and/or outside auditors should the case arise. The borrower will need to maintain a special account for administering the loan and provide this account information to the Bank prior to the first disbursement. The loan may not be used for the procurement of any items on the negative list or for procurement of goods from countries other than IDB member nations.
- 3.10 The project team will evaluate the information supplied by the country with respect to the fulfillment of agreed policy actions and will draw up corresponding reports for the Bank's Management and Board of Executive Directors for purposes of requesting the authorization of loan disbursements pursuant to current Bank policy.

E. Outside auditing

- 3.11 The Bank reserves the right to request financial reports from the borrower on the use of loan proceeds, audited by a firm of independent auditors acceptable to the Bank and in accordance with terms of reference approved by the Bank.

F. Inspection and supervision

- 3.12 The Bank will establish any inspection procedures it deems necessary to ensure the satisfactory execution of this special loan. The borrower will lend its full cooperation in this endeavor, furnishing any and all necessary assistance and information.

G. Performance monitoring and evaluation

- 3.13 The executing agency has agreed that the operation will be monitored through reports every four months to help ensure timely compliance with the conditions precedent to disbursement, particularly for purposes of the release of the second tranche. These four-monthly reports will contain a descriptive account of progress

in meeting loan conditionality, including an analysis of the likelihood of successful compliance, an assessment of potential risks and corresponding corrective measures and monitoring indicators for program objectives. The monitoring matrix establishes the main indicators to be reported. This strategy resulted from the application of lessons learned from previous operations (see 1.21 (v)).

- 3.14 The final program report will cover, among other things: (i) actual program outputs and outcomes; (ii) the final impact of implemented initiatives from the standpoint of their contribution to solving the problems identified in the program design phase; (iii) the problems encountered during the course of program execution and the effectiveness of corrective measures implemented; and (iv) an examination of the operations of social sector agencies relating to the program.
- 3.15 The executing agency will keep files of all data collected, baseline data, technical reports, aide-mémoires and other documentation for purposes of program evaluation by the Bank. The results matrix shows the main milestones that will be the subject of an ex post evaluation of the program.

IV. FEASIBILITY AND RISKS

A. Institutional feasibility

- 4.1 As in the case of phases I and II of the program for social protection and mitigation of the impact of the crisis on the poor in 2003, MECON will serve as the executing agency responsible for the proposed program. It was an effective coordinator for these previous programs, successfully networking with line ministries and other domestic agencies and organizations. The structure and terms of the loan are fully manageable under the agreed arrangement.

B. Benefits

- 4.2 The main benefit of the proposed program is progress in shifting from an emergency response strategy in the social sector to an ongoing social inclusion policy. In the context of this policy, the federal government anticipates financing on a sustainable basis a set of coordinated and mutually enhanced programs reflecting appropriate targeting and management criteria and instruments: (i) support for the poorest provinces and communities to form and preserve human capital through targeted education and health services; (ii) support for the provinces and municipios in efforts to combat unemployment with training and job placement resources; (iii) economic support for families temporarily affected by unemployment, subject to training and job search activities; (iv) economic support for structurally poor families, subject to school attendance and visits to health care centers by minors and mothers; and (v) support for special-needs groups (elderly, youth, people with disabilities, etc.).
- 4.3 In the short term and in connection with spending protection, this operation will ensure the availability of funding to, among other things: (i) provide reproductive health services to a million patients; (ii) supply 28 million doses of vaccine; (iii) distribute 156,000 primary health care kits; (iv) assist 110,000 job seekers; (v) provide conditional financial assistance to 290,000 poor households; (vi) furnish 250,000 schools with reference materials; and (vii) provide 340,000 grants to students at the lower (EGB 3) and upper secondary school levels.
- 4.4 From a medium-term perspective, assuming there is a steady economic recovery, the proposed program is expected to produce the following outcomes: (i) approximately 1.8 million cash transfer program recipients will receive their benefits via bank cards, thereby making the programs more transparent and increasing the recipients' independence and their self-esteem; (ii) 400,000 households will have been transferred from the PJJDH over to the IDH program, receiving assistance better geared to their particular situation; (iii) approximately 500,000 people will receive job training and a large percentage of them will go back to work; (iv) some 300,000 low-income older adults will get a

pension; (v) approximately three million patients will receive better quality care under the public primary health care system; and (vi) approximately one million students will get a better education.

C. Social equity and poverty reduction classification

- 4.5 The proposed operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). As a quick-disbursing policy-based loan (PBL), this operation does not qualify as a poverty-targeted investment (PTI).

D. Social and environmental impacts

- 4.6 The proposed program is not expected to have any adverse environmental effects, since most program activities are focused on monitoring progress in social reform efforts, budget performance and social development indicators.

E. Risks

- 4.7 The proposed operation entails three types of risks: (i) the risk of failing to maintain a stable macroeconomic environment and, thus, of not being eligible for disbursement of the second tranche; (ii) the risk of failing to meet established conditions due to incidents otherwise reasonably believed to be under control by Argentine officials, such as a given sector failing to undertake a particular action or a failure by the Finance Ministry to make timely releases of budget funds to finance necessary operations for meeting a particular target or undertaking a particular strategic action; and (iii) the risk of failing to meet established conditions due to events beyond the control of the authorities, such as a slowdown in economic growth, which would affect the attainment of employment and poverty reduction targets, or a delay in awarding the contract for a major procurement due to an unsuccessful or contested bidding process.
- 4.8 The government intends to take all necessary steps to prevent the first such risk from materializing, particularly in light of the immediate and long-term implications of noncompliance with this condition. Most of the conditionality for the proposed program—implementation of reform initiatives, attainment of targets and social spending—entails the second type of risk, to be mitigated by the establishment of a monitoring mechanism to anticipate potential problems and take appropriate action. Certain reform initiatives and types of protected social spending and some of the targets for program monitoring are exposed to the third type of risk, which is being mitigated by requiring, on the one hand, quarterly progress monitoring to enable early detection of any problems and, on the other, allowing a reasonable margin of tolerance both for execution of the overall protected budget (85%) and the attainment of targets for interim progress indicators (four of six established targets).

V. CONDITIONALITY MATRIX

Problem	Action	Impact	Condition precedent to disbursement	
			First tranche	Second tranche
I. Macroeconomic environment				
Economic instability and a slowdown in growth would hamper Argentina’s social development and its attainment of the MDGs.	A macroeconomic environment consistent with the program objectives is maintained.	A stable macroeconomic environment conducive to social development.	(1) Maintenance of a macroeconomic environment in sync with the program objectives.	(1) Maintenance of a macroeconomic environment in sync with the main statements made in the policy letter and with the program objectives.
II. Reform initiatives				
(i) In social development (Implementation of a new framework for the modernization and streamlining of social assistance programs)				
Currently, the main subsidy program (PJJDH) keeps no records which can provide a full description of program recipients, making it impossible to refer recipients to other more appropriate social programs for their specific situation. Subsidy programs make benefit payments through financial intermediaries, which need to be collected in person, engendering incremental transaction costs.	Survey of <i>fichas sociales</i> [social program records] of current program recipients and introduction of the use of automatic debit cards for the payment of benefits.	Improvements in the targeting, oversight, operating efficiency and security of subsidy programs.	(2) System for the implementation and standardization of the social program records pilot project for the payment of benefits via debit cards and signed project implementation agreement by Banco Nación and the Ministry of Labor.	(2) 400,000 social program records surveyed. (3) Delivery of benefit payments to one million households via bank cards.

Problem	Action	Impact	Condition precedent to disbursement	
			First tranche	Second tranche
There is no coordination among the main cash transfer programs to allow a more evenhanded assignment of recipients to programs based on their respective profiles and needs.	Coordinate and streamline the distribution of beneficiaries of the main cash transfer programs according to their profiles and needs.	Improvement in the targeting and control of cash transfer programs, with the resulting improvement in services offered to beneficiaries.	Executive Branch decree that stipulates the transfer to social assistance programs of current PJJDH recipients who do not meet employability conditions; with a period of no more than one year to come up with the profiles and requirements that the beneficiaries have to meet for the transfer and to complete such transfers.	(4) Compliance with the Executive Branch decree by means of (i) having established the requirements and profiles provided for in the decree, to determine the employability of the PJJDH beneficiaries, (ii) having started the beneficiary employability classification process, and (iii) having transferred or being in the process of transferring those families classified as unemployable to the Families-IDH program and/or other MDS programs, and transfer of pertinent budget categories
There are no effective employability strengthening and job placement assistance tools, particularly for low-income youths with the highest incidence of joblessness and seasonal employment.	Design and implementation of educational advancement and training and job placement initiatives.	Improvement in the job skills and employment of adults and youths.	(4) Design and presentation to the Bank of a pilot national youth inclusion program. Also see section II (ii) Use of matrix.	(5) 100,000 youths supported by a national youth inclusion program. Also see section II (ii) Use of matrix.
The social safety net falls short in meeting the needs of older adults without institutional pension coverage.	Expansion in the coverage of the noncontributory pension and social security program for nonworking older adults over 70 years of age without institutional coverage.	Provision of a means of support for older adults without institutional pension coverage.	(5) Proposal on program coverage and budget estimates for the older adults program.	(6) Support for 110,000 beneficiaries under the older adults program.

Problem	Action	Impact	Condition precedent to disbursement	
			First tranche	Second tranche
(ii) In employment				
Currently, the government has no effective tools for the administration of job placement policies for unemployed workers, while local agencies and organizations (municipal governments, boards of trade and unions) have been concentrating on emergency programs.	Establishment of a national employment office network. This initiative is based on the establishment and strengthening of municipal and provincial government agencies to operate job placement services in conjunction with NGOs, boards of trade and unions with experience in the delivery of such services.	Improvements in the quality and relevance of employment counseling and assistance services for job seekers.	(6) Presentation of an implementation plan, budget estimate and physical and financial targets for a national employment office network.	(7) Strengthening of the capacity of employment offices to meet the job placement needs of a minimum of 200,000 workers.
The country lacks effective tools and a proper institutional framework for strengthening the employability of jobless workers and improving the quality of jobs.	Implementation of the “Más y Mejor Trabajo” [More and better work] plan, calling on government and private actors to establish industry qualification plans under local and sector agreements with specific employment, employment quality and employability targets.	Improvements in the quality and relevance of job training and skills development services.	(7) At least 20 sector qualification plans agreed upon.	(8) A minimum of 100,000 workers qualified or in the process of getting qualified under sector qualification plans.
Currently, 41.7% of employees in private enterprises are not registered with the labor authorities and, thus, are not entitled to benefits prescribed under labor legislation.	Implementation of the national employment compliance plan to verify and encourage compliance by private enterprises with labor and social security regulations.	Reduction in the numbers of unregistered workers and effective enforcement of labor and social security regulations.	(8) Compliance monitoring of a minimum of 36,000 firms employing at least 125,000 workers.	(9) Compliance monitoring of a minimum of 145,000 firms employing at least 500,000 workers.

Problem	Action	Impact	Condition precedent to disbursement	
			First tranche	Second tranche
(iii) In health				
Primary health care				
A fragmented, underdeveloped health care system with limited PHC capacity as the strategy for promoting a participatory, comprehensive health care model.	Implementation of an institution-strengthening plan for local health authorities and a treatment capacity-building plan for CAPS (primary health care centers) as a strategy for improving access to primary health care based on consensus-building with health authorities.	An interagency consensus-building process promoting a participatory primary health care model fully integrated into the health system, driven by community needs, to improve access to basic health services and improve health conditions as a strategy for eliminating inequities in Argentina’s health care system.	(9) Proposal for the strengthening of PHC, including: (i) use of MCs with local health authorities for the promotion of “healthy” policies based on participatory management systems; (ii) supplies of essential drugs to 5,300 CAPS (covering 80% of common diseases, free of charge to patients); and (iii) a national postgraduate in-service training program for up to 5,000 community physicians.	(10) Progress in the strengthening of PHC services, reflected by, among others: (i) MCs with at least 24 provinces or municipios with populations of over 100,000 inhabitants, to be signed at a later date; (ii) a proposal for strengthening the treatment capacity of CAPS based on findings by the CAPS survey; (iii) progress in the in-service training of at least 2,000 community physicians; and (iv) the establishment of patient rolls based on prescription data, including at least one million patients.
Information system				
Problems with the timing, quality and security of national health statistics and epidemiological surveillance system as a management tool for a public health promotion and disease prevention model.	Strengthening of the health statistics system and the decentralized epidemiological surveillance system.	Involvement of health sector actors in the early detection and timely study of common health problems, strengthening provincial statistics bureaus and improving the quality, efficiency and capacity of the national health statistics system.	(10) Proposal for a new national health statistics system	(11) (i) A minimum of 350 operational data collection and analysis nodes and at least 90 operational sentinel centers (uploading and generating epidemiological data). (ii) Implementation of the new national health statistics system in 90% of provincial health statistics bureaus, with needed technical resources to begin producing health statistics reports.

Problem	Action	Impact	Condition precedent to disbursement	
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(iv) In education				
National investment programs in education require standardized inter- and intra-district assessments of student flow as the basis for resource planning to maximize their impact on nationwide repeater, dropout and completion rates, with a view to improving equity in education.	Identification of factors obstructing student flow and implementation of equity-enhancing inter- and intra-district resource allocation criteria for national education investment programs.	Targeting of national government investment in education to improve repeater, dropout and completion rates at those points of the education system showing the greatest disparities, to improve equity in education.	(11) Production and publication of district-level statistics on school enrollment and student flow (repeater, promotion and dropout rates) in basic general education (EGB) and comprehensive upper secondary education.	(12) Implementation of inter- and intra-district resource allocation criteria for major compensatory education programs serving a million students to maximize their impact on nationwide repeater, dropout and completion rates.
No current database on the training, experience, qualifications, employment status and perceptions of teaching personnel as the basis for improving the relevance and efficiency of teacher training, particularly for teachers in schools serving populations at high risk educationally.	Conduct of a national teachers’ survey.	Improvement and change in the emphasis of continuing teacher training activities and resource planning for teaching personnel to boost retention and educational efficiency.	(12) Final version of: (i) a data collection tool for the teachers’ survey showing each teacher’s assigned school facility; and (ii) instructions for field workers conducting the survey.	(13) Report on teacher qualifications in schools included in national compensatory education programs as guidance for the design of teacher training activities to improve retention and efficiency.
Weaknesses in the costing methods of provincial education offices hampering effective financial planning for the attainment of universal education targets and MDGs.	Budget estimates for different scenarios to reduce school failure and proposal of one or more financing mechanisms for activities geared to the attainment of MDG targets.	Basic long-term financial planning data for the administration of provincial government funds earmarked for the education system.		(14) Projections of budget needs for 2005-2015 for the attainment of MDG targets in at least 10 provinces with different scenarios to reduce school failure.

Problem	Action	Impact	Condition precedent to disbursement	
			First tranche	Second tranche
				(15) Estimate of the aggregate cost of a phased approach to providing universal access to early childhood education, lower secondary education (EGB 3) and comprehensive upper secondary education through the enrollment, reenrollment and retention of out-of-school school-age children.
III. Protection and monitoring of social spending				
In a climate of fiscal austerity, priority social programs are faced with budget cuts.	Protection of social spending on basic social services.	Implementation of priority social programs in the education, health and social development areas on schedule.	(13) The fiscal year 2005 federal budget bill presented to Congress allocates the amount of funding specified in Annex II for all expenditure items agreed upon with the Bank.	(16) At least 85% of the total allocation for the selected expenditure items under the 2005 Federal Budget Act is used. (17) For the expenditure items agreed upon with the Bank, the fiscal year 2006 federal budget bill allocates an aggregate amount of funding equal to or greater than the sum of the budget allocations for such items under the federal budget for 2005.
IV. Interim MDG indicators				
With the economic crisis past, the promotion of social development, embodied in the attainment of the MDGs, requires the establishment and monitoring of interim progress indicators.	Interim indicators improve in accordance with preestablished targets.	Progress towards attainment of the MDGs.	(14) Presentation, to the Bank's satisfaction, of a report on the interim progress indicators, with information on computation methods, baseline data, data-generating agencies and targets. (See the annex on the interim indicators).	(18) Monitoring of the agreed interim indicators by MECON and attainment of at least four of the six agreed targets, as established in the annex on the interim indicators.