



Short Procedure

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To: The Board of Executive Directors

From: The Secretary

Subject: Argentina. Loan 1295/OC-AR. Program to support the fiscal balance and social management. Report on release of the second tranche and waiver of conditions

Inquiries to: Mr. André Medici (extensión 1972)

Remarks: In Management's opinion, as set out in the attached report, the objectives identified for release of the second tranche have been substantially met by means of compliance with clause 3.03 and nearly all of clause 3.05. With respect to clause 3.03, the International Monetary Fund has been keeping the Bank informed on the progress of discussions with the Argentine authorities to develop a sustainable macroeconomic stabilization program. As to clause 3.05, since significant progress has been made with the activities mentioned in subparagraphs (e), (f), and (h) and a commitment has been secured from the government to fulfill this clause and to report to the Bank in this regard, it is recommended that the Board of Executive Directors grant a waiver in respect of compliance with this clause. If the Board approves the waiver, Management will proceed to release the second tranche in the amount of US\$197.3 million.

The Executive Directors are requested to inform the Secretary, in writing, not later than **3 September 2002**, if they wish to interrupt this procedure. If no such communication is received by that date, agreement will be understood to exist on the waiver, and a record to that effect will be made in the minutes of a forthcoming meeting of the Board of Executive Directors

On **10 September 2002**, upon expiration of the circulation period for the present document, Management, acting in accordance with Part III, Section 2(j)(xiv) of the Regulations of the Board of Executive Directors, will proceed with the release of the second tranche.

References: PR-2546 (12/00), AB-1378(4/89), DR-398-4(9/99), DE-123/00

Other distribution: Managers, Division Chiefs, Representative in Argentina

ARGENTINA
Program to Support Fiscal Balance and Social Management
Loan 1295/OC-AR

REPORT ON RELEASE OF THE SECOND TRANCHE

Amount of Loan:	US\$400 million
Date Contract Signed:	February 27, 2001
Amount and Date of First Tranche:	US\$202.7 million, March 15, 2001
Final Disbursement Date:	November 27, 2002 ¹
Objective of Report:	(i) Provide information on compliance with conditions for the second tranche; (ii) request a waiver for compliance with paragraphs (e), (f) and (h) of clause 3.05; and (iii) recommend disbursement of the US\$197.3 million corresponding to this tranche. ²
Project Team Responsible for Supervision of Compliance during the Second Tranche:	André Medici, SDS/SOC, Head of Team; Gustavo Márquez-Mosconi, RES; José Jorge Seligmann Silva, RE1/OD1; Mónica Rubio, RE1/SO1; Claudete Camarano, COF/CAR; and Angélica Reza, RE1/SO1, who helped prepare this document.

I. SUMMARY AND RECOMMENDATIONS

- 1.1 In spite of the difficulties arising from the country's severe economic and social crisis this year, the program has contributed to support actions designed to: improve efficiency and transparency in the social security and pension systems; improve management of resources and budgets of public agencies; negotiate agreements with the public in order to increase transparency and insure a greater social commitment on the part of public institutions; and improve management and avoid duplication in national social programs. In the area of labor markets, program actions have been delayed due to significant increases in the number of unemployed and of poor families, which has prompted to focus on measures to ameliorate the difficult social situation and postpone those related to employment promotion.

¹ The original date of August 27, 2002, was postponed until November 27, 2002 as specified in memo CAR 2111/2002, dated June 21, 2002, at the request of the Ministry of the Economy's National Project Directorate with International Credit Agencies.

² The disbursement of the first tranche of US\$202.7 included the special commission payment to the Bank, US\$2.7 million, amount slightly smaller than the US\$204.0 originally foreseen. Consequently, the borrower requested for the second tranche the release of the remaining US\$197.3.

- 1.2 The federal government has fulfilled the following commitments as conditions for the second tranche: (i) establish the information system for administration, finances and accounting of the National Social Security Administration (ANSES) and make sure it is operational; (ii) implement and make operative quality standards to improve the information system on the performance of the Pension Fund Administrators (AFJP) and establish incentives so that the decision to join an AFJP is based on performance; (iii) present reports evaluating the performance-based management model and the letters of commitment to citizens in the pilot projects implemented, as well as corresponding quality standards, with the goal of spreading these experiences and practices to other public agencies; and (iv) ensure that the National Tax and Social Identification System (SINTyS) is operational and able to respond to questions from public agencies on the eligibility of beneficiaries for social programs.
- 1.3 Paragraphs (d), (e), (f) and (h) of clause 3.05 refer to actions that were not completely carried out, or that were substituted by other actions that the Bank believes are adequate. These actions relate to the development of new management instruments for public administration and employment measures.
- 1.4 In the Bank's opinion, and as described in this report, the objectives established for the release of resources for the program's second disbursement have been substantially met. As explained later in this document, significant progress was made in the development of new management instruments for public administration and employment measures sought in paragraphs (e), (f) and (h) of clause 3.05, and these instruments continue to be supported by other Bank operations as well as by the government's commitment to comply with them and report on their progress.
- 1.5 It is therefore necessary to request a waiver from the Bank's Board in order to proceed with the second tranche release. If the Board of Executive Directors approves the requested waiver, the Administration will proceed with a disbursement of US\$197.3 million corresponding to the second tranche.

II. MACROECONOMIC FRAMEWORK

- 2.1 Argentina plunged into a profound crisis at the end of 2001 disrupting its economy and institutions and generating severe social hardship. By early 2002, the country was faced with the enormous challenge of rebuilding confidence in its institutions and on formulating a sustainable macroeconomic framework capable of putting the economy on a path of recovery. For the past few months this endeavor has been painstakingly advancing, involving the Government's efforts to achieve a new agreement with the International Monetary Fund (IMF).
- 2.2 By the end of 2001, the vicious cycle faced by Argentina of weak activity, overvaluation of its currency and mounting debt imploded. The lack of capital inflows and the intense bank deposit withdrawals led to the imposition of a freeze

on deposits (*corralito*). This was followed by the declaration of default, the devaluation of the peso, and the asymmetric conversion into pesos of dollar denominated credits and deposits, compromising the solvency and liquidity of the banking system.

- 2.3 The crisis led to an output fall of 16.3% during the first quarter of 2002 with respect to the same period of the previous year with nearly a quarter of the labor force currently unemployed, from 18.3% in October 2001. In the past few months, there have been indications that the economic activity is bottoming out, while demand indicators remain weak.
- 2.4 The abandonment of convertibility and the establishment of a floating exchange rate together with the strong demand for dollars has led to a steep depreciation of the peso from Arg\$1 per U.S. dollar until the end of 2001, to Arg\$3.60-3.70 per U.S. dollar during the past month. This depreciation has had a limited impact on consumer and wholesale prices, which have accumulated increases of 34.7% and 105.6% respectively in the first seven months of the year, increasing the country's competitiveness. Inflation rates have shown a decreasing trend since May 2002, with consumer prices increasing by 3.2% in July, the same also being observed with wholesale prices, due to the weak demand, the continuing freeze on utility prices, and a more stable exchange rate over the past weeks.
- 2.5 In spite of the imposition of export tariffs and lower international prices, revenues from exports have had a much smaller reduction (-7.4%) than from imports (-63.2%), increasing trade surplus to US\$8.1 billion in the first semester of 2002. The recent increase in international commodity prices together with significant unsold stocks of grains would indicate that this trend could be maintained during the second semester.
- 2.6 On the fiscal front, Argentina has been able to maintain its revenues mainly through its value-added tax (IVA) and the inflation impact, the tax on financial transactions, and export retention. It is expected that for the current year, a primary balance on the consolidated public sector will be achieved. The government is currently working on the formulation of the 2003 budget for which it aims to achieve a significant primary surplus.
- 2.7 Since the suspension of the IMF program in December 2001, the Argentinean authorities have been in intense discussions with IMF staff seeking a new agreement on a solid economic program that could pull the country out of its crisis. Progress has been made in key policy areas including the amendments to the insolvency law, the repeal of the economic subversion law, and bilateral agreements between the federal government and the provinces to ensure an orderly adjustment of their finances.
- 2.8 Among the main issues that will be part of the economic program to restore macroeconomic stability to be agreed with the IMF are the following: (i) definition of a monetary anchor and a credible monetary program, including

the solution to the problem of the court-ordered releases of deposits (the *amparos*); (ii) implementation of a strong fiscal program, including the ending of issuance of provincial quasi-currencies; (iii) establishment of a public service tariffs adjustment policy; and (iv) a banking restructuring strategy. Furthermore, this program will have in its center a social safety net in order to mitigate the social costs of the crisis.

- 2.9 The completion of this agreement will be very important to restore confidence leading to a faster recovery of the economic activity.

III. BACKGROUND

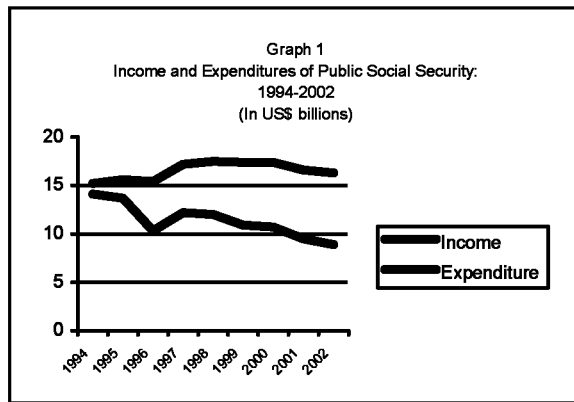
A. The Program

- 3.1 On December 13, 2000, the Bank's Board of Executive Directors approved loan 1295/OC-AR for a total of US\$400 million, with the goal of supporting Argentina's efforts to maintain fiscal balance, improve management of social development programs, and contribute to increased competitiveness of labor markets. Loan disbursement was planned in two tranches: US\$202.7 million and US\$197.3 million. Conditions for the first disbursement were met during the first two months of 2001, even though the contract was signed only on February 27, 2001. The Administration authorized the disbursement for the first tranche on March 15, 2001, based on documentation presented by the borrower and the Project Team's analysis of the positive results.
- 3.2 A series of political measures and actions were agreed upon for four components—social security, modernization of the state, labor markets and social development—in order to comply with program objectives.
- 3.3 **Social Security:** Program actions in this area seek to increase efficiency and equity in the management of collections and benefits of the public pay-as-you-go system by establishing the Financial and Accounting Administration Information System of the Ministry of Economic Affairs (SIDIF). This system is designed to make the finance budget registries and accounting registries compatible as well as the optional privately-funded system, through improving the quality and transparency of information systems managed by these institutions.
- 3.4 **State Reform:** These actions are designed to improve performance in public administration by perfecting management, obtaining better results in budget execution, and improving the quality of public services through a permanent evaluation process and greater transparency. These improvements are based on the setting of goals for quality standards in agreement with the public.
- 3.5 **Labor Market:** This involves support for actions to promote the continuity of the modernization process and to reduce the high level of labor contract rigidity in the employment market, as well as cut labor costs, increase employment levels and reduce levels of informality and the number of unstable jobs.

- 3.6 **Social Development:** Actions to improve management and avoid duplications of the multiple national social programs with direct beneficiaries, by coordinating and integrating efforts of the responsible institutions and targeting programs towards the extremely poor. The most cost-effective actions are maintained, and the commitment of poor families is encouraged to help them overcome their situation of social vulnerability. The development of an evaluation methodology for the Solidarity Program will be promoted to measure the impact on beneficiary families before the massive extension of this program, the extent to which these efforts have targeted the poorest of the poor, and the likelihood of their becoming financially sustainable.

B. Program Contribution to Social Policy

- 3.7 **Social Security:** The drop in economic activity also negatively affected finances and the evolution of the number of contributors to the social security system, both

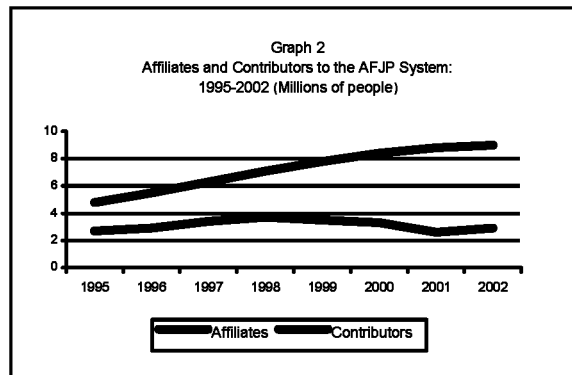


in the ANSES pay-as-you-go system, and in the privately-funded system managed by the AFJP's. Contributions to the pay-as-you-go system in Argentina had already dropped since 1994 because of changes in legislation in the 1990s that forced newcomers to the job market to join the

AFJP regime. Due to these changes, payroll contributions dropped from US\$14.1 billion in 1994 to US\$10.9 billion in 1999, and down to US\$9.5 billion in 2001 (Graph 1). On the other hand, expenditures on public social security benefits continued to be high, with an increasing need to finance social security by using treasury funds.

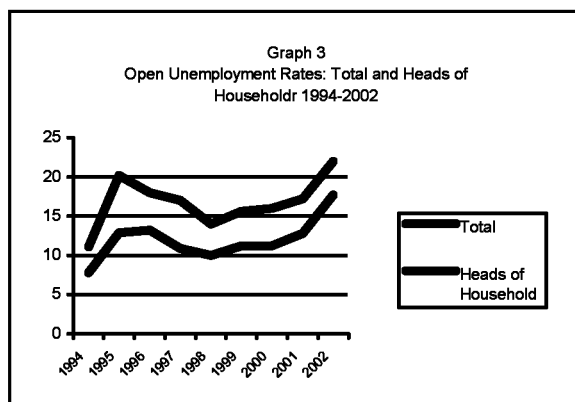
- 3.8 At the same time, the implementation of SIDIF in ANSES, supported by the present operation, spurred better management of expenditures and helped to avoid growth of fraud and duplications while rationalizing system expenditures with benefits. Between 2000 and 2001, expenditures with benefits such as pensions, assistance, and subsidies for those eligible, dropped from US\$17.4 to US\$16.6 billion.
- 3.9 The drop in the number of contributors to the funded system is worrisome, particularly in a context where affiliation is progressively increasing. Graph 2 shows how the number of contributors to the funded system has dropped since 1999, while the number of affiliates has increased. Factors such as unemployment, underemployment and evasion have overwhelmingly contributed to this situation, further destabilizing the system. In such a highly unfavorable economic context, the use of AFJP funds to buy public bonds has an impact on

long-term profitability and also on the population's confidence in the pay-as-you-go system.



- 3.10 Despite this situation, the number of contributors rose in 2002 (data as of June), which could be due to the efforts supported by this operation to improve regulation of the AFJPs. However, the increase could also reflect the slight improvement in economic activity during the second trimester of 2002. In the area of social security, the program also supported measures to widely publish AFJP administrative costs so that affiliates could choose their depository institution based on rate of return and size of administrative charges. These actions led to the reduction of AFJP administrative costs because of greater transparency of information, which improved competition. The average AFJP administrative commission charged dropped from 3.38% of the payroll in December 2000, to 2.28% in June 2002.

- 3.11 **Labor Market:** Labor market indicators dropped sharply during the project's implementation because of the crisis, invalidating some of the initial assumptions made in the design. Open unemployment grew from 15.1% in 2000 to 21.5% by May of 2002. The rise in unemployment affected heads of household in particular, which created an immediate need to generate alternative income for the men and women who were the principal source of sustenance for their family.



the total population and for heads of household between 1994 and 2002.

- 3.12 The strong surge in unemployment rates was accompanied by an increase in underemployment rates, which rose from 10.4% in 1994 to 16.3% in 2001. An intense process of concentration of wealth has accompanied this latest development. In the first half of the 1990s, the income gap between the 10%

wealthiest and the 10% poorest in Argentina held at a level of 20%. Between 1995 and 2002, this gap rose to 33%. The Gini coefficient, which is used to measure the level of income distribution, rose from .434 in May 1995 to .534 in May 2002.

- 3.13 The actions implemented by the program in this component will lead to improvements in the functioning of the job market with the eventual return of economic growth. However, given the current situation and the increase in poverty described below, these actions were temporarily set aside as a top priority.
- 3.14 **Poverty:** Poverty and indigence levels measured by the System of Information, Evaluation and Monitoring of Social Programs (SIEMPRO) substantially increased between 1998 y 2002³. The percentage of the poor increased from 32.6% to 53% of the population, and the percentage of indigence increased from 9.4% to 23.7%, respectively, between October 1998 and May 2002. Poverty predominantly affects the most vulnerable groups such as children and adolescents, where seven of every ten are poor and nearly four are indigent. The residents of Buenos Aires have been the most affected by the crisis, where eight of every ten are poor and nearly five live in conditions of extreme poverty.
- 3.15 According to information from SIEMPRO, US\$18 billion in resources would be needed to eradicate poverty during the current social emergency, of which US\$3.2 billion would be used to eradicate indigence.
- 3.16 The program helped to identify and channel the few existing resources towards programs that target the population with the greatest needs. SINTyS' support has been extremely vital to carrying out a census of beneficiaries of social programs in order to avoid duplication at the national and provincial levels. SINTyS is a fully functioning entity, and is helping national and provincial agencies that implement social policy to provide better services.

IV. CONDITIONS FOR THE SECOND TRANCHE RELEASE

- 4.1 The following is a report on the state of compliance and progress on the conditions precedent to the release of the second tranche of the loan. The report is organized according to the order established in the loan operation contract.

A. Special Conditions Precedent to All Loan Disbursements

- 4.2 **Clause 3.03 (a).** Maintain an appropriate macroeconomic political framework, consistent with the Program's development and in accordance with objectives

³ These indicators are based on measurement types utilized by the Argentine government (basic needs perspective), and these differ from the Bank's criteria for measurement of absolute poverty, which the Bank uses to compare poverty levels among the different countries of the region.

established in the Borrower's Policy Letter, referred to in Clause 4.01 of this Contract.

- 4.3 **Complied with.** The Bank considers that Argentina satisfies the conditions of this clause, given the progress and efforts made by the Argentinian government in achieving a greater macroeconomic stability and the advances in the discussions with the IMF towards the completion of an agreement on a new program.
- 4.4 **Clause 3.03 (b).** Compliance with policy actions specified for the corresponding tranche.
- 4.5 **Substantially complied with.** Four of the eight actions specified for the second tranche were fully carried out and one was substantially carried out. Of the three actions that were not totally complied with, the two actions corresponding to paragraphs (e) and (f) of clause 3.05, related to the labor market, are well underway and total compliance is expected by November 2002 (see explanation in paragraphs 4.22 and 4.24). Although paragraph (h) of the same clause was not complied with because the Program to which it applied to was eliminated (Solidarity Program), it was replaced with another action that the Bank believes may eventually produce even better results than those expected previously in terms of establishing methodologies for evaluating social programs. (See paragraphs 4.30 through 4.32).
- 4.6 **Clause 3.03 (c).** Keep the Special Account open as specified in Article 4.01 (c) of the General Norms, in which the Bank will deposit loan disbursements.
- 4.7 **Complied with.** The documentation presented to the Bank's office in Argentina in Note UNPRE 298/2002, dated August 8, 2002, proves that bank account 202.02.19.00 – Deposits of the National Government in Foreign Currency– IDB Loan 1295/OC-AR with its respective client account 20.519, remains open in order to receive resources from the loan's second tranche. CAR Note 2797, dated August 12, 2002, meets this contractual condition.

B. Special Conditions Precedent to the Disbursement of the Second Tranche of Financing

1. In the Area of Social Security

- 4.8 **Clause 3.05 (a).** That the administrative, financial and accounting information system [SIDIF] of ANSES is operational.
- 4.9 **Complied with.** The Bank received a Note from Carlos A. López, Project Director of the Multisector Preinvestment Program (Loan IDB 925/OC-AR) to the Bank, dated April 11, 2002, in which all documentation was presented to demonstrate compliance with this clause. The following paperwork was included as proof of compliance:

- a. Note from ANSES, dated April 4, 2002, in which ANSES manifested its conformity with SIDIF's establishment and functioning in this agency, and pertinent administrative and accounting procedures;
 - b. Memo detailing adjustments carried out to implement SIDIF locally in decentralized public agencies (OD) in ANSES;
 - c. Note from the Information Systems Unit of the Treasury Secretary reporting on the transfer of equipment beginning fiscal year 2002, and costs of maintaining server and technical support, with respective lists specifying all equipment purchased;
 - d. Parametric lists of credits and expenditures in 2001 and part of 2002 of the National Budget Secretary for ANSES, in which the following are specified: personnel expenditures, goods, non-personal services, transfers, financial assets, debt service and the reduction of liabilities, other expenditures and representative expenditures.
- 4.10 A Bank mission verified this documentation during a visit to ANSES on June 30, 2002, when the supporting documents were inspected.
- 4.11 Both the team and ANSES authorities believe that the establishment of this system has brought innumerable benefits such as: (i) it helped ANSES to comply with the Law of Finance Administration of 1992 (established in 1993) that mandates that decentralized entities should have a uniform and integrated plan for the budget, accounting system and financial execution; (ii) it permits decision-making based on use of resources and a vision linked to the sources of income and expenditure through one single social security registry of entries and expenditures; and (iii) it eliminates double accounting by integrating treasury and budget information, and thus prevents the usual discrepancies between expenditures planned, drawn and paid.
- 4.12 SIDIF's establishment allows ANSES to focus less on financial administration and opens institutional space for more long-term structural reforms in the Argentine pension system. This program, through the Strategic Technical Assistance Plan (PEAT), supported the execution of various studies proposed in the loan document for the current operation, and these could be extremely relevant to future efforts to reform the Argentine pensions system. In addition to their evaluation of the main deficiencies in the current system, these studies help to create new tools to analyze the pensions system and generate solutions that could provide the legal framework for future sector reforms. The government of Argentina presented its reports on the studies summarized below. In the Bank's opinion, the reports comply with the agreed upon contractual obligations:
- a. Development of An Actuarial Demographic Model for the Public Pay-As-You-Go System (final report, April 2002): This study offers a model that has been adjusted according to the demographic characteristics of the population

and the pension system, and also estimates the future beneficiary population by type and nature of the benefit. This model will enable the evaluation of the impact of changes proposed in the pay-as-you-go system on the future population eligible for benefits and finance needs. The final report also includes: (i) a CD with software developed to apply the model; (ii) the corresponding operative manual; and (iii) a final report on social security projections in Argentina based on the application of the model according to some hypotheses. The Bank received all the materials listed above.

- b. *Development of a Macroeconomic Consistency Model for the Social Security System* (final report, July 2002): This study presents the foundations for the elaboration of a model that can project the amount of income needed to sustain future expenditures, in accordance with the performance of macroeconomic variables and the rules of the social security system. This model will also help insure that planning is in synch with the adjustments that need to be made to benefits or income to maintain the system's long-term financial equilibrium, and remain in harmony with public accounts. This system will be based on the information presented in the actuarial demographic model described previously.
- c. *Proposal to Reformulate Benefits for Death and Disability and for Labor Legislation* (final report, July 2002): This study provides the basis for all other studies presented below, and emphasizes the contingencies to consider when providing benefits (particularly in the cases of death and disability). The study also contains an evaluation of the current benefits system in which gaps and overlap are identified, and proposes reformulating benefits for death and disability. The financial impact of this new proposal is compared to the current system.
- d. *Proposal to Reform Special Regimes* (Report partially completed as of November 2001): Special regimes are the main cause of inequity in the pay-as-you-go system. The study contains an exhaustive analysis of categories included in these regimes, but still has not produced a proposal for reform or elimination. The final report should be completed by the end of September 2002.
- e. *Proposal to Reform Differential Regimes* (final report, February 2002): Differential regimes are another element contributing to inequity in the Argentine pension system. They favor certain groups over others in terms of benefits, such as early retirement or some professional categories, at both the provincial and national level. This study will help the government to develop standards to eliminate these privileges, and increase future equity in the Argentine pension system.
- f. *Proposal to Reform the Economic Compensation System for Termination* (final report, August 2002): In this study, an alternative unemployment insurance policy is proposed based on individually-funded accounts. This

alternative system combines constitutional protections against arbitrary firing with tools to improve the incentive system within which economic agents make decisions.

4.13 **Clause 3.05 (b).** Put into effect and implement standards to improve the information system on AFJP performance, referred to in clause 3.04, paragraph A, point (b).

4.14 **Complied with.** Point (b) of clause 3.04 refers to proposals for standards to improve the information system on AFJP performance, establishing incentives so that the decision to join an AFJP is based on performance criteria, as well as rate return of investments and administrative costs. The Bank was informed that the following instruments were utilized to implement and standards proposed in the first tranche:

- a. Decree 1495 of January 2002 that annually classifies the AFJPs in terms of their administrative costs, among other measures, and also places those undecided in the AFJP with the best performance according to information comparing rate of return and administrative cost. This overwrites the prior criteria which placed those undecided in an AFJP through a lottery system;
- b. Instruction No. 3/2002, from the AFJP Superintendency, promulgated on January 15, 2002, that provides regulations for the dispositions of Decree 1495;
- c. Decree 216/2002, of February 4, 2002, that suspends the commission on the rate of return of 20% received, as well as the discounts received by the AFJP's, which substantially increased administrative charges on the accounts of affiliates in the compulsory funded system;
- d. Joint resolutions SAFJP 3/2001–SSN 28.296/2001 and SAFJP 6/2001–SSN 28.478/2001, from July and November 2001, respectively, that change the general conditions of the collective insurance policy for death and disability, in accordance with the study financed by PEAT. The PEAT study proposes changes to improve coverage for AFJP affiliates and reduce administrative costs.

4.15 These resolutions fully comply with the spirit of the clause, and are supported by the following studies financed by PEAT:

- a. *Study on the Determining Factors for AFJP Selection by Affiliates of the Funded Regime* (final report, November 2001): The objective of this study was to research the main factors influencing how members choose an AFJP. The study showed that member mobility is not a factor that promotes greater efficiency for the system's future functioning. Given the lack of information on affiliates, this mobility is not determined by rate of return or the amount of commission charged. The study concluded that cost structures should be simplified, with the elimination of fixed commissions and discount schemes.

It also recommended increasing the state's role in publishing and distributing information on rate of return and administrative costs.

- b. *Study on Insurance Premiums for Death and Disability* (final report, July 2001): The study produced a project proposal to substitute collective life insurance to guarantee financing for benefits for death and disability with a mutual contribution from all members of the funded regime. This will allow the following: (i) that the contributive base for payment of transitory retirement because of disability becomes the totality of the retirement and pensions fund; and (ii) the creation of a fund for mutual contributions integrating the retirement and pensions fund for this purpose.

2. In the Area of State Modernization

- 4.16 **Clause 3.05 (c).** That reports evaluating both the management model according to results and the letters of commitment to citizens in the pilot programs have been presented, as well as evaluations of corresponding standards. The goal is to extend these experiences and practices to other national public administration agencies.
- 4.17 **Complied with.** The evaluation of compliance with this clause is based on the presentation of reports from a sample number of institutions that established performance-based management and letters of commitment to citizens. It is also based on the corresponding quality standards, meaning the original legal instruments-- agreements on performance and letters of commitment to citizens-- that contain the proposed indicators to be evaluated.
- a. *Performance-Based Management Models:* The Bank has received information from some of the evaluation reports on five public agencies that are using performance-based management.
- b. *Letters of commitment to citizens:* Decree 229/2000 provides the legal foundation and regulations for this program, with the signing of letters of commitment to citizens in six institutions. In 2001, 23 additional letters of commitment to citizens were signed. Through Decree 229/2000, the

Table 1
Evaluation of Letters of Commitment
to Citizens in a Sample of Argentine
Agencies – Year 2001

Institution	Score
INTI	7.04
ORSNA	7.79
RPI	7.60
SAIJ	7.64
SEGEMAR	6.65

government established a specific uniform methodology to evaluate results by analyzing compliance with target indicators that had been previously agreed upon. In letters signed in 2000, the Bank proposed that the evaluation be carried out in order to complete one full year, and the

Bank received final evaluation reports from the following institutions: (i) National Institute of Industrial Technology (INTI); (ii) National Regulatory Aviation Agency (ORSNA); (iii) Real Estate Registry (RPI); (iv) Argentine Judicial Information System (SAIJ); and (v) Argentine Geology and Mining Service (SEGEMAR). All of these institutions signed their letters of commitment to citizens in 2000 and their performance is evaluated for the year 2001. Table 1 shows each institution's performance. Scores varied from 0 (no results) to 10 (achievement of all goals). The results are good for this first year and show that the country has made efforts to honor agreements with citizens even during such a serious institutional crisis as the present one. The last Bank mission met with SAIJ and SEGEMAR leaders who explained the achievements and problems that institutions faced while implementing the process, as well as their willingness to continue this implementation.

- 4.18 The Bank was also able to verify that the Public Undersecretary of the Cabinet Ministry Chief is still utilizing a quarterly evaluation system of performance-based management and letters of commitment to citizens, and that this system allows monitoring and technical assistance throughout implementation of this process.
- 4.19 **Clause 3.05 (d).** That the Bank has received the agreements on performance-based management and letters of commitment to citizens, duly signed, from at least: (i) one decentralized area of ANSES; (ii) one unit of the Mother and Child Health Care Program (PROMIN); and (iii) from the Ministry of Labor, Employment and Human Resources Training (MTEyFRH). In this last case, a conceptual model will be defined to apply the letter of commitment to citizens and the agreement on performance-based management, keeping in mind its future application and use throughout this ministry's entire network of public offices or private decentralized unemployment assistance offices.
- 4.20 **Substantial complied with.** The institutions mentioned above made considerable progress in the process of fulfilling agreements on performance-based management and letters of commitment to citizens. The following is a description of the series of actions carried out in these three institutions.
- a. **ANSES:** This agency is in charge of administration and payment of benefits for the entire public social security system. The original idea was to limit the performance-based management agreement and letters of commitment to citizens to one decentralized regional unit because of the magnitude of the system. In the meantime, both instruments were implemented throughout ANSES rather than in just a decentralized entity, meaning that this clause has been fully complied with, and with even better results than the country had originally agreed to attain. The agreement on performance-based management with this institution was signed on August 22, 2001, and the first quarter evaluation was carried out in March 2002 with positive results. The letter of commitment was just recently signed in August 2002.

- b. PROMIN: PROMIN was created to provide incentives for actions to promote maternal-child welfare throughout the country's health system. The program, which was financed by the World Bank, did not perform satisfactorily until 2001, which led public agencies to establish agreements with the provinces on performance-based management and letters of commitment to citizens. These agreements were nearly ready for signing in 2001. However, the social crisis forced the government to declare a public health emergency in 2002, which naturally affected PROMIN's orientation. The signing of these instruments was delayed as they had to be modified in order to reflect PROMIN's new outlook in the face of the national emergency. Thus, it was only in August 2002 that the agreement on management was signed based on the new parameters. The other agreements on performance-based management should be signed at the latest by March 2003, as mentioned in the letter of the Health Ministry to program coordinators in the Ministry of the Economy. The March 2003 timeline is also linked to PROMIN's actions within the new functioning scheme, which depends on agreements with provincial governments. So despite the problems mentioned above, this clause has been complied with substantially where PROMIN is concerned.
- c. Ministry of Labor: The initial commitment to implement a model that would be integrated throughout the network of public unemployment assistance offices was not met due to the series of staff changes in the Ministry of Labor team. As an alternative, the government has committed itself to sign agreements on performance-based management and letters of commitment to citizens in the Ministry's Secretariat of Occupational Hazards (SRT).

3. In the Area of the Labor Market

- 4.21 Clause 3.05 (e). To insure that unified system for registering labor contracts (Labor Registry) is functioning satisfactorily.
- 4.22 Not complied with. The methodology and operative system to implement the registry were developed by the National Institute for Social Security Collections (INARSS). The INARSS was created after the project had already been approved, as part of the Federal Administration of Public Income (AFIP) of the Ministry of the Economy. INARSS' main goal is to implement the unified registry system as a way to improve the efficiency of the payroll collection process. This unified registry should be implemented through a pilot program in the banking system. Unfortunately, it has been difficult to carry out a pilot project in the banking system because of the many changes in public administration and the disarticulation of the Argentine financial system, which led to the implementation of the "corralito." INARSS authorities guarantee that the pilot project will begin at the end of August 2002, and that the evaluation could be ready before the end of September of this same year, so that the system may be applied in other economic sectors.

- 4.23 **Clause 3.05(f).** That the Network of Employment Offices be set up in at least four jurisdictions in accordance with the design mentioned in point (g) of paragraph C, 3.04.
- 4.24 **Not complied with:** During the current crisis, the problems of increasing efficiency in contracting mechanisms, training and job placement have been overtaken by those of indigence and poverty. Even while the challenges posed by the sector loan continues to have validity as medium and long-term initiatives, the government has been forced to restructure existing employment offices to provide solutions to the social emergency in the country. Mitigation policies, such as the Heads of Households Program, which transfers income to poor families in return for compliance with actions in health and education, were needed due to the negative evolution of the job market, the increase in unemployment and underemployment, and the increase in the number of families living in poverty. As a result, the unemployment policies referred to in this clause have been put temporarily on hold, although the government still plans to implement them when the economic situation returns to normal.

4. In the Area of Social Development

- 4.25 **Clause 3.05 (g).** That the Bank has received proof that the SINTyS is operational and able to respond to the information needs of national governmental agencies as regards eligibility of beneficiaries of social programs.
- 4.26 **Complied with.** The evidence that the SINTyS is operational can be found on the system's webpage www.SINTyS.GOV.AR. This webpage has been online since February 2002. The webpage contains the following:
- a. A catalogue of the SINTyS database, organized by province and program;
 - b. A list of agreements signed with national and provincial public institutions;
 - c. The plan of the prototype action (model to sign the Activity Plan with public agencies and provinces);
 - d. The actions and activities foreseen for 2002 and 2003 specified by trimester, activity, and product;
 - e. The products and services offered to provinces and national public agencies;
 - f. Conversion tables for databases of beneficiaries who are eligible for national social programs and some of the provincial programs; and
 - g. The legislation on which the SINTyS is based.
- 4.27 The number of beneficiaries of national programs according to the SINTyS cadastral study is currently 1.7 million. This number is less than before because of the effort to avoid duplications (around 5%) since the program began to function,

and also because of the gradual deactivation of national programs. The main social program under the current administration –the Heads of Households Program – is being managed by ANSES and SINTyS is providing technical support to elaborate the cadastral studies.

- 4.28 Since it was established in February 2002, the SINTyS has already received innumerable requests from national and provincial public agencies. At the present time, 17 provinces have agreements with the SINTyS, in addition to five federal public agencies with continuing programs and consultations, such as the anticorruption office and the Ministry of Education. While it has made significant progress in terms of providing coverage, the SINTyS is still unable to attend to the needs of all the provinces and all National Programs, due to the lack of personnel and budgetary problems.
- 4.29 **Clause 3.05 (h).** Presentation to the Bank of the evaluation methodology for the Solidarity Program, as well as the decision taken, with the corresponding budgetary commitments, to apply said methodology in at least four localities involved in the pilot project. This must be presented to the Bank prior to the extension of the Solidarity Program to the total universe of beneficiary families.
- 4.30 **Not complied with.** The Solidarity Program was deactivated by the national government in 2001, thus precluding formal compliance with this clause. Throughout the year 2001, the national government also consolidated several targeted social programs.
- 4.31 In the face of this new reality, the project team considers that there would be substantial compliance with this clause so long as the spirit of the clause is respected and maintained, that is, if the government continues to show interest in and the political will to evaluate social programs before their expansion, and as a tool for the management of social policy. In this respect, and as justification the waiver, the team presents the following examples of progress made by the country with regard to evaluation: (i) the creation of a Coordinating Council of Social Policy and the strengthening of SIEMPRO as a central body with a mandate for monitoring and evaluating government social programs; (ii) a government commitment to develop and implement evaluation methodology for certain social programs within the framework of the Portfolio Reformulation, approved by the Bank's Board of Executive Directors on March 27, 2002 (document PR-2656, February 26, 2002); and (iii) presentation to the Bank of a request for technical assistance on evaluation of social programs. This last request will be developed within the context of the preparation of possible emergency sector loan to be negotiated with the Bank, and will seek to develop and refine evaluation methodologies for social programs, so that actions taken in this crucial area are made permanent.⁴

⁴ The mission that evaluated compliance with contractual clauses for the second disbursement (from July 30 through August 2, 2002), received a formal request for Bank assistance from the Executive

- 4.32 The goals within this clause will be more than fully complied with to the degree that the country can develop an evaluation system of government social programs, with the help of the requested technical assistance and in the context of preparation of a new sector operation. In actuality, in its original formulation the clause was limited to the presentation of an evaluation methodology to be applied to a specific program, and not to an across-the-board evaluation system of all government social programs. The fact that national authorities have become convinced that such an evaluation effort can no longer be postponed is evidence of the greater consciousness in the country as regards the need for a more efficient use of resources in the social sectors.

ACRONYMS AND ABBREVIATIONS

AFIJ	Administración Federal de Ingresos Públicos/Federal Administration of Public Income
AFJP	Administradoras de Fondos de Jubilaciones y Pensiones/Administrators of Pension Funds
ANSES	Administración Nacional de Seguridad Social/National Social Security Administration
IMF	International Monetary Fund
INARSS	Instituto Nacional de Recaudación de la Seguridad Social/National Institute for Social Security
INTI	Instituto Nacional de Tecnología Industrial/National Institute of Industrial Technology
IVA	Valued-Added Tax
MTEyFRH	Ministerio de Trabajo, Empleo y Formación de Recursos Humanos/Ministry of Labor, Employment and Human Resources Training
OD	Organismos Descentralizados/Decentralized Agencies
ORSNA	Organismo Regulador del Sistema Nacional de Aeropuertos/National Regulatory Aviation Agency Aviation Agency
PEAT	Plan Estratégico de Asistencia Técnica/Strategic Technical Assistance Plan
PROMIN	Programa de Atención Materno-Infantil/Mother and Child Health Care Program
RPI	Registro de Propiedad Inmueble/Real Estate Registry
SAIJ	Sistema Argentino de Informática Jurídica/Argentine Judicial Information System
SEGEMAR	Servicio Geológico Minero Argentino/Argentine Geological and Mining Service
SIDIF	Sistema de Información Administrativa, Financiera y Contable/Financial Information System of the Ministry of Economic Affairs
SIEMPRO	Sistema de Evaluación y Monitoreo de Programas Sociales/System of Information, Evaluation and Monitoring of Social Programs
SINTyS	Sistema de Información Tributario y Social/National Tax and Social Identification System
SRT	Secretaría de Riesgos de Trabajo/Secretariat of Occupational Hazards