

SECTOR PROGRAM IN SUPPORT OF FISCAL ADJUSTMENT AND SOCIAL REFORM

(AR-0189)

EXECUTIVE SUMMARY

BORROWER: The Argentine Republic

EXECUTING AGENCY: The Ministry of Economic Affairs and Public Works and Services

AMOUNT AND SOURCE: IDB: US\$450 million
Total: US\$450 million

FINANCIAL TERMS AND CONDITIONS: Amortization period: 20 years
Disbursement period: 18 months
Grace period: 4 years
Interest rate: variable
Inspection and supervision: 1% of the loan
Credit fee: 0.75% per annum on undisbursed balances

OBJECTIVES: The objectives of the program would be as follows:
(a) to provide fast-disbursing resources for funding government measures aimed at maintaining the country's macroeconomic stability; (b) to ensure adequate levels of public spending on programs that deliver basic social services targeted to low-income groups, and to make such programs more effective and more efficient; (c) to assist the Argentine government in implementing major reforms in the social services, health, labor and education sectors; and (d) to provide the Ministry of Economic Affairs and the beneficiary social sectors with technical assistance to help them prepare, manage and implement the proposed reforms.

DESCRIPTION: Activities under the program would be carried on in the following components:

1. **Targeted social services.** To maintain an integrated approach to social spending in the country, this component comprises basic activities in which the government and the Bank are particularly interested. The first set of activities is aimed at minimizing the social cost of fiscal adjustment without neglecting efforts to improve targeted programs. Secondly, the food sector will be restructured to enhance the performance of national and provincial programs.

The third set of activities relate to the general public's growing need for more information on the costs and results of public-sector social spending in order to promote efficiency.

The targeted social services component would include the following subcomponents:

- a. A basket of social protection programs, consisting of targeted programs with national funding encompassing the employment, nutrition, health, education, social development, and sanitation sectors. These programs entail an expenditure of US\$1,039.5 million in 1995, and have been evaluated in relation to their objectives, targeting instruments, delivery of services, monitoring, evaluation, efficiency, and transparency. The evaluation has determined the extent to which the programs satisfy the criteria of (i) being targeted to poor or vulnerable population groups and/or supporting social reforms, and (ii) having a plan of execution that can be carried out during the current year. The evaluation has also identified programs whose performance will have to improve in the short run owing to their importance in alleviating poverty and/or unemployment.
 - b. A Food Assistance Plan, to coordinate and improve the performance of national and provincial food and nutrition programs targeted to the most vulnerable sectors.
 - c. Development of data systems on national and provincial spending, to make social programs, especially health care and education initiatives, more efficient and better targeted.
2. Social reforms in the health, labor and education sectors to improve the efficiency and quality of services provided to the public, and especially to the poorest groups. These reforms would create an environment that would encourage the generation in the medium and long term of productive employment, high quality education, more efficient and more equitable delivery of health care services, and the targeting, efficiency, and transparency of poverty-reduction programs.

3. Strengthening of the institutions that prepare, process, and implement reforms in the health care, labor, and education sectors and are responsible for employment and nutrition programs.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of May 16, 1995, classified this as a Category II operation.

BENEFITS:

In conjunction with other current initiatives and efforts of the government, this program is expected to yield the following benefits:

- a. To provide the government with funds to support the balance of payments that will help consolidate the convertibility plan and the economic policy in a setting of stability and growth, which in turn will sustain a high demand for labor and adequate real incomes for the more disadvantaged population groups.
- b. To sustain budget allocations and enhance the efficiency of social programs in addressing the needs of low-income groups. Maintaining spending in these programs and making them more efficient operationally will improve the welfare of these groups and enhance prospects of accumulating and sustaining human capital therein, and so protect them from any unfavorable consequences of the adjustment program.
- c. To introduce social reforms that will create a more favorable setting for the accumulation and use of human capital in the population as a whole, and of the poorest groups in particular. This aspect is of crucial importance given the need to address the factors underlying the gap affecting the poorest groups in terms of access to education, health care, and the job market.

**TARGETING OF
LOW-INCOME GROUPS:**

It has been determined that the proposed program is consistent with the features of a program targeted to the poor, as set out in the report on the Eighth General Increase in Resources (AB-1704). It falls within the social area since the basket of targeted social programs relate to employment, nutrition, health care, education, social development, and sanitation.

RISKS:

Firstly, given the volatility of international financial markets, the country could be subjected to repeated shocks leading to deeper cuts in fiscal expenditure and make yet more unsustainable the

modest commitments made under the program. To deal with this risk, the program provides that spending under the protected social programs may be reduced, but that such reductions may not exceed 50% of the reduction in total fiscal expenditures.

Secondly, the social reforms called for under the program impinge on powerful vested interests and may generate strong resistance. To address this risk, wherever the reform measures are expected to be particularly controversial the program is designed to promote an atmosphere of public discussion in which new consensuses can be generated on the proposed reforms.

Thirdly, there could be institutional resistance to implementation of measures to improve the job creation and mother and child nutrition policies and assistance programs. To minimize this risk, discussion mechanisms have been built into the process of elaborating and implementing the measures to ensure that the participating institutions will reach a consensus.

The risks facing the part of the program relating to regulation of the employment market are associated with two essential factors: (i) the ability of the government to implement effectively the exceptional arrangements created by this program. To mitigate the impact of this risk, the program focuses much of its effort on the provision of technical assistance and the training of public officials to bring about a faster and more effective implementation of the practices and procedures provided in the Employment Promotion Act, the Small and Medium-sized Enterprises Act, and the Occupational Hazards Act; and (ii) the ability of the trade unions to hinder discussion of the overall process of reform in labor market regulations. The proposed program addresses this risk by emphasizing a study of alternatives and the creation of an atmosphere of public debate, rather than spelling out specific reforms. This process will make for greater understanding of the disadvantages that the rigidities of the present regulations impose on workers themselves, and for a perception of the reform to be implemented not as an imposition of the government but as the outcome of open, democratic debate.

THE BANK'S
COUNTRY AND
SECTOR STRATEGY:

The program proposed by the government in the present operation is consistent with the Bank's country strategy in connection with providing basic social services to the more disadvantaged population groups

and reforming the social sectors to improve their quality and efficiency. In March 1995 the Argentine government and a special Bank mission agreed on the priority and urgency of this operation.

DISBURSEMENTS:

The loan would be disbursed in three tranches: the first for US\$250 million, and two subsequent tranches of US\$100 each. Within ninety (90) days following the disbursement of each tranche, the borrower will present to the Bank a statement of account on that tranche prepared in accordance with terms of reference acceptable to the Bank and certified by the Office of the Auditor General of Argentina.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

a. General conditions for disbursement of the financing:

The borrower shall present to the Bank satisfactory evidence that (i) it has maintained, for the remainder of 1995, the authorized budget at the level in effect in March 1995 for each program in the basket, unless it has become necessary to reduce the national budget on a cumulative basis by 4% or more. In the latter case, the reduction of the basket is not to exceed 50% of the percentage by which the national budget is reduced; and (ii) the macro-economic policy framework is consistent with the program objectives.

b. Special conditions

(i) Conditions precedent to disbursement of the first tranche:

1. **Basket of protected programs:** Presentation to the Bank's satisfaction of (a) the updated financial and physical plans for execution of the budget of each program in the basket continues to be executed as agreed.

(ii) Conditions precedent to disbursement of the second tranche

1. **Basket of protected programs:** Presentation of the following, to the Bank's satisfaction:
(a) evidence that accrued expenditures according to SH records under the 1995 budget amount to at least approximately 62% for Group A and at least approximately 50% for Group B; (b) a basket of protected programs for 1996, the aggregate budgetary appropriation for which is to be included in the

national budget estimate submitted by the Executive Branch to the Argentine Congress. Such appropriation is to be kept, in real terms, at the equivalent of the current appropriation at March 31, 1995, corresponding to the basket for that year, adjusted for changes in GDP. The make-up of the 1996 basket is to follow the criteria used for the 1995 basket, with an internal allocation of resources substantially similar to 1995; (c) an evaluation report on administration of the mother and child nutrition policies and assistance programs in at least two provinces; and (d) evidence that the actions to improve performance of the job creation and mother and child nutrition policies and assistance programs have been taken.

2. **Food assistance plan:** Presentation of evidence satisfactory to the Bank that (a) a diagnosis has been made of the status of the food and nutrition programs, recommendations have been framed, and implementation of the measures needed to correct any shortcomings has begun; and (b) drafts of the food assistance plan and of the presidential decree thereon have been prepared.
3. **Evaluation of provincial social programs:** Evidence that education and health programs have been evaluated in two provinces.

(iii) Conditions precedent to disbursement of the third tranche

1. **Basket of protected programs:** Presentation of evidence satisfactory to the Bank that (a) accrued expenditures according to SH records under the 1995 budget amount to at least approximately 90% for Group A and at least approximately 70% for Group B; (b) the actions to improve performance of the job creation and mother and child nutrition policies and assistance programs have been taken; and (c) the pace of accrued expenditures in 1996 for the protected programs is consonant with the execution plans referred to in paragraph 3.14 of this proposal, and that such expenditures represented at least about 23% of total budgetary appropriations of the 1996 basket.

2. Food assistance plan: Presentation to the Bank's satisfaction of (a) the food assistance plan, and (b) the presidential decree on the food assistance plan.
3. Evaluation of the provincial social programs: Evidence that education and health programs have been evaluated in two provinces other than those covered in the previous evaluation.

c. Other special conditions

- (i) Not later than March 31, 1996, the executing agency is to provide the Bank with copy of the financial and physical plans for budget execution of each protected program in the 1996 basket, including quarterly programming of financial and physical targets for same.
- (ii) Within 30 days following contract signing, the executing agency is to present evidence satisfactory to the Bank that an interdisciplinary team of experts has been assembled or engaged to draw up a food assistance plan following mutually agreed-upon terms of reference.
- (iii) The borrower undertakes to ensure that the environmental standards of the Federal Water and Sanitation Council will be adhered to in the protected programs for rehabilitation of housing and water and sanitation works, and in those involving new sanitation works.

I. FRAME OF REFERENCE

A. Macroeconomic situation

- 1.1 During the 1990-1995 period, Argentina's macroeconomic performance was impressive. Inflation dropped from close to 3,000% in 1989 to 3.9% in 1994, and GDP grew more than 7.5% per annum on average over the 1991-1994 period. Gross fixed investment rose from 14% of GDP in 1990 to over 20% in 1994. Domestic savings increased from 13% of GDP in 1992 to over 17% in 1994. The ratio of external debt service to exports has improved considerably. Also, through an ambitious privatization program, large segments of the country's productive structure have been updated, enhancing overall economic efficiency and yielding substantial revenues. Nevertheless, Mexico's recent liquidity crisis has had a substantial adverse impact on capital markets in the rest of Latin America, particularly in Argentina, where deposits totaling US\$7.6 billion were withdrawn from the financial system between December 20, 1994, and the end of March, 1995.
- 1.2 With respect to the external balance, foreign investment attracted during the 1990-1995 period helped finance a considerable increase in imports, particularly of capital goods. When private capital inflows slowed in the wake of the recent crisis, the overall external balance and growth in GDP were placed in jeopardy. Accordingly, the government requested and obtained, in March 1995, an extension of the existing extended arrangement with the IMF, and a commitment for external financing from the IMF and other institutions for US\$5 billion - considered necessary to restore confidence in strict compliance with the Convertibility Act of March 1991. That act, which set a fixed exchange rate for the Argentine peso at par with the U.S. dollar, requires the monetary base to be fully backed by international reserves, and compliance with it is one of the main principles underlying the government's economic policy.
- 1.3 In connection with the internal balance, stagnating tax collections and expenditure overruns - particularly within the social security system - led to a fiscal deficit at the end of 1994. With the Mexican crisis, it became significantly more important to generate a fiscal surplus to dispel doubts about the public sector's ability to fulfill its financial obligations. To this end, the government has adjusted fiscal policy to generate an overall surplus in the nonfinancial public sector (excluding the provinces). The surplus is earmarked for public debt repayment pursuant to the IMF agreement. The shift in fiscal policy will entail projected cuts in national spending equivalent to 3.9% of the national budget approved for 1995. Other fiscal measures include increasing the VAT rate (an increase earmarked exclusively for the national government), raising import tariffs, partly eliminating reductions in employer contributions to social security, and expanding the tax base for VAT and the capital gains tax. Even so, in the first

quarter of 1995 tax revenues fell 2.4% short of expectations, which implies that tax increases and/or future budget cuts are in prospect.

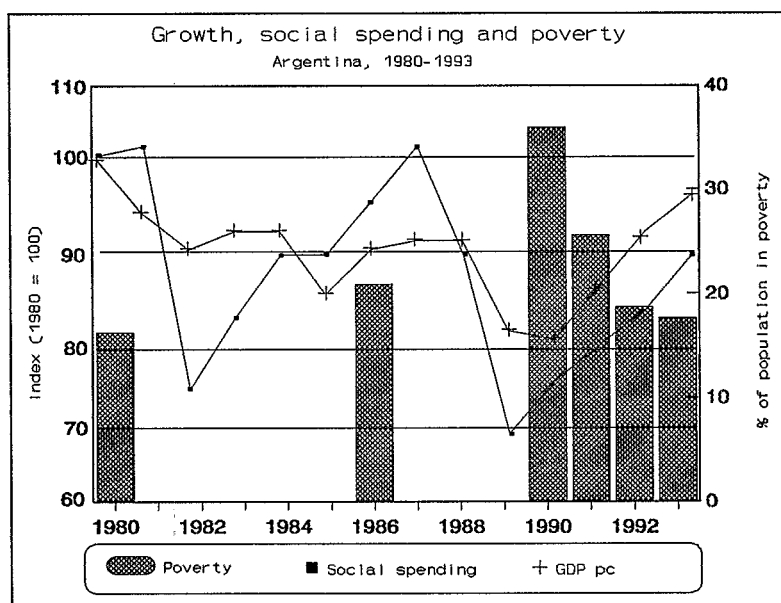
- 1.4 The decline in bank deposits has caused problems in certain segments of the banking system, especially in small wholesale banks and credit unions, as well as in some provincial banks that have been plagued by undercapitalization and nonperforming loans for some time. To provide a broader response to the problems that have arisen within the country's financial system, the government proposes to create three funds - one to capitalize, restructure and privatize the provincial banks under an IDB loan; another to help restore the health of commercial banks which are faced with liquidity problems; and a third to set up a deposit insurance system built around contributions from the private-sector financial system.
- 1.5 In conclusion, the Argentine authorities have responded quickly to the financial emergency in order to restore the financial market's confidence in the domestic economy and the public finances. They have dealt with the crisis through a combination of fiscal measures, efforts to prop up the banks, and a commitment of US\$5 billion in external financing from multilateral organizations. The IDB has already contributed US\$750 million for the program in support of the privatization of provincial banks (AR-0187), to which US\$450 million would be added for the program described here.

B. Macroeconomic factors, poverty and social spending

- 1.6 The overall macroeconomic situation and the social situation are connected in important ways with the incidence of poverty. A high degree of macroeconomic instability, as manifested in high inflation and significant declines in GDP, takes a toll on the poorer population groups, both directly through its effects on employment and indirectly through its effects on real wages. Since social spending is usually the variable for fiscal adjustment in macroeconomic crisis situations, social spending tends to follow cyclical trends, rising in times of rapid growth and falling more than proportionally in times of recession.
- 1.7 Accordingly, the poor are doubly affected by adverse shocks to the economy. On the one hand, they suffer the direct and indirect effects of the economic crisis and the ensuing decline in the private consumption of goods and services. On the other hand, however, the cyclical contraction in social spending translates into a decrease in the consumption of social services just when they are most needed to palliate - albeit partially - the drop in private consumption.
- 1.8 As reflected in Figure 1 below, both the decline in GDP and the contraction in social spending (both measured in per capita terms) were reflected in a significant rise in the incidence of poverty,

which jumped from 16% in 1980 to over 30% in 1990. The recovery of growth and the steady rise in social spending starting in 1989 have resulted in a significant drop in the incidence of poverty, which fell to 17.6% in 1993. This trend in poverty is associated in the short run with the impact of growth on employment and wages, and in the middle run with the impact of social spending on the accumulation and maintenance of human capital in the population.

Figure 1 a/



a/ No poverty data are available for the years from 1982 to 1985 or from 1987 to 1988.

C. Poverty and vulnerability of the low-income sectors

- 1.9 In 1980, as was noted in the previous section, about 16% of the Argentine population was poor. Half of this group (8%) were "structurally" poor, that is, persons who had been poor for a long time and had high levels of unmet basic needs. The other 8% were "new poor," that is, persons whose incomes had declined with the worsening of the economic situation. The structurally poor include, among others, indigenous populations, rural poor households, seasonal migrants, and women heads of households with many underage children. These people live mainly in the Andean provinces in northern Argentina. The "new poor" and/or vulnerable population groups comprise, among others, laid-off mature workers, women and youths without marketable skills, and families with many dependents in which the head of household has had little schooling.

This population lives mainly in Metropolitan Buenos Aires and the pampas, which contain 70% of the Argentine population.

- 1.10 As mentioned above, after a decade of slow growth and high inflation, the numbers of the poor had increased in 1990 to more than 30% of the population. It was not until 1993, after several years of rapid growth and low inflation, that the poverty indexes sank back to the levels of 1980. And, while this attests to the importance of economic growth and price stability in reducing poverty among the "new poor" and shows the vulnerability of that group to cyclical economic phenomena, it has to be remembered that the structural poor still require separate treatment, including significant investments in physical and social infrastructure to consolidate improvements in conditions.

D. Social spending in Argentina

- 1.11 Consolidated social spending, summarized below in Table 1, has two components: (i) spending on social security and health insurance plans; and (ii) sectoral spending, as on education and public health care. Both types of spending are effected at the national and provincial levels. The economic recovery of the 1990s and the present statutory requirement for certain automatic increases in social spending have boosted expenditure totals by 70%, from US\$30.3 billion in 1991 to US\$51.5 billion in 1994. Over that same period, aggregate public expenditure increased 63%, from US\$47.9 billion to US\$78.3 billion. In relative terms, social outlays in 1994 equalled 18% of GDP, and total public expenditure, 26.4%.
- 1.12 Social security spending is funded by payroll contributions and is governed by separate legislation, whereas sectoral spending is financed by tax revenues, largely through fixed-percentage revenue-sharing arrangements between the national and provincial governments involving the proceeds of the value-added tax and other levies.

TABLE 1 CONSOLIDATED SOCIAL SPENDING (In US\$ billions)				
	1991	1992	1993	1994
Social security	16.7	22.1	25.8	29.6
Sectors	13.6	17.3	20.2	21.9
Total	30.3	39.4	46.0	51.5

- 1.13 Table 2 breaks down sectoral social spending in 1994 by the principal sectors and level of government concerned.

<p>TABLE 2 SECTORAL BREAKDOWN OF SOCIAL SPENDING IN 1994 (In US\$ billions)</p>			
	National	Provincial and municipal	Total
Education	2.0	8.0	10.0
Health	1.1	4.0	5.1
Nutrition	0.2	0.6	0.8
Others	1.9	4.1	6.0
Totals	5.2	16.7	21.9

- 1.14 As can be seen, the heaviest expenditures in sector spending are made in education and health care, which absorb about 70% of the resources. In addition, because of the decentralization of recent years, more than 75% of sectoral spending is done by the provincial and municipal governments. Studies on the distributional impact of sectoral spending indicate that it is relatively progressive, particularly in basic education, public health, nutrition, and social welfare programs: of the US\$21.9 billion in sectoral social spending, about US\$5.3 billion benefited the first quintile of the population. Moreover, it is estimated that spending targeted solely at poor, vulnerable groups and/or support for social reforms totals US\$2.1 billion, of which US\$1.3 billion represents spending by the national government and the balance spending by the provinces and municipalities.

E. Fiscal adjustment in 1995

- 1.15 In March 1995, given the drop in capital inflows caused by volatility on world financial markets, the government revised its expectations for growth in GDP in 1995 from 6.5% to 3%, while keeping the inflation target at 3%. The slower pace of economic activity and declining tax revenues compelled the government to effect a fiscal adjustment and revise the current budget so as to generate a financial surplus in the nonfinancial public sector (not including the provinces) that would guarantee the fulfillment of its obligations while complying strictly with the Convertibility Act.
- 1.16 The fiscal adjustment approved by the National Congress in March includes, *inter alia*, the following measures: (i) a temporary increase in the VAT rate from 18% to 21%, the additional revenue so generated being excluded from the arrangement for the sharing of federal tax revenues with the provinces; (ii) an increase in import tariffs; (iii) equalization of employers' contributions to the social insurance system applicable to all areas of economic activity, and (iv) broadening of the tax base for VAT and the capital gains tax, eliminating certain deductions and exemptions.

- 1.17 These measures have been complemented by others to reduce public spending, notably (i) pay reductions for national public-sector employees by percentages ranging from zero to 15% for gross income brackets starting at the equivalent of US\$2,000/month, and (ii) reductions in expenditures for administration and under the investment program.
- 1.18 As a result of these measures, the current national administrative budget (nonfinancial public sector, not including the provinces) is expected to yield a financial surplus of US\$1,711.3 million, which will be used to pay down the public debt and maintain an appropriate proportion between the monetary base and reserves, in accordance with the targets negotiated with the IMF.

F. Budgetary inflexibility

- 1.19 It may be concluded from a review of the composition of the resources and apportionment of spending under the budget of the national administration (nonfinancial public sector, not including the provinces) that reformulating the budget to produce the financial surplus was no easy task, and required important decisions on the part of the government given the lack of budget flexibility. This rigidity stems from (i) the way revenue is apportioned between the national government (the central administration) and the provinces; (ii) the way certain tax revenues are tied to the purposes to which they are allocated, and (iii) the nature of spending by the national administration.
- 1.20 Regarding the apportionment of resources, the arrangement for sharing in the revenue of federal taxes (Act 23,548 and others) assigns 42.34% of the sharable revenue to the national government (the national administration), 56.66% to the provinces, and 1% to the National Treasury Contributions Fund. In addition, specific legislation allocates 11% of VAT revenues to the National Social Security Administration (ANSES), and 36% of capital gains tax revenues as follows: 20% to social security, 10% to the Buenos Aires Conurbation Fund, 4% to the Basic Social Infrastructure Fund, and 2% to the ATN Fund.
- 1.21 Also earmarked are other tax revenues administered directly by the Nation and not subject to sharing, such as taxes on fuels and electric energy. As a result of these allocations, of a total of US\$36.8 billion (11.8% of GDP) collected by the national and provincial governments, the national administration reportedly receives US\$23.8 billion, of which US\$6.9 billion (28.8%) is earmarked.
- 1.22 In addition to earmarking, the nature of spending is another factor that limits still further the latitude of the national authorities in making budget cuts. In a budget for spending of US\$41.3 billion revised in March 1995 (current appropriations), social security spending tied to specific contributions came to US\$13.9 billion and

domestic and external debt service to US\$3.6 billion. Adding the earmarkings (US\$6.9 billion) yields US\$24.4 billion for appropriations not subject to reduction. This means that, as matters stand, no additional cuts are possible in 59.1% of current national administration budget appropriations.

- 1.23 By way of example, a 2% cut in the budget for overall spending (US\$826.4 million) would produce, after excluding expenditures associated with social security, debt service and earmarkings, an additional reduction of 4.9% in the other items of expenditure.
- 1.24 Given the lack of flexibility that the mechanisms described entail for budgetary appropriations, protecting targeted social programs is extremely important to avoid additional cuts in their budgets if further budget cuts occur as a result of lower tax revenues.

G. Programs in execution in the social sectors: lessons learned

- 1.25 In 1990 the Argentine government undertook reforms in the major social sectors, essentially to produce structural change; update legislation and regulations; set up modern programming, execution, supervision and evaluation systems for investment projects; and augment sector funding. In support of those efforts, the Bank has recently financed eight operations valued at the equivalent of US\$1,066.8 million, apportioned among sectors as follows: (a) science and technology, US\$156 million (14.6%); (b) provincial, municipal and urban development, US\$411.8 million (38.6%); (c) basic education, US\$300 million (28.1%); (d) occupational training, US\$154 million (14.5%), and (e) health, US\$45 million (4.2%). While no concrete results are available for these programs as yet, the cumulative experience of their execution, excepting that of the Production Conversion Program, has revealed institutional weaknesses in the executing agencies, delays in bidding operations for the procurement of goods and services, lack of transparency in standards, procedures and internal controls, and a lack of mechanisms for the evaluation of results. The executing agencies have access to funds under these programs to carry forward the reforms, rationalize investment, and streamline execution.
- 1.26 In addition, the country is making a concerted effort to set up sectoral systems for improving the programming, evaluation, dissemination, targeting and transparency of national and provincial social expenditures made in both the public and private sectors. Through this program the Bank will assist the government to make social spending more transparent through public information systems, and to speed up the reform process in some of these sectors.

H. Program rationale and justification for Bank participation

- 1.27 The financial crisis in Argentina could have a dual impact on low-income earners. On the one hand, by slowing down economic growth

it could further lower wages and employment in the poorest segments of the population, which in turn would increase the need for social assistance for those affected. On the other hand, the economic slowdown reduces tax revenues available to the national and provincial governments, forcing them to reduce expenditures to remain in fiscal balance. In the absence of corrective measures, fiscal adjustment in the national government, and eventually in the provinces, could lead to a reduction in services and investments financed by social spending programs targeted to the poorest segments of the population.

- 1.28 To address this situation there are three basic tasks to be accomplished. Firstly, it is essential to maintain fiscal and monetary discipline to avoid an economic crisis that would be disproportionately injurious to the poorest and most vulnerable sectors of the population. Secondly, the lowest-income sectors must be protected at the same time from the possible effects of a reduction of fiscal expenditures in the form of less access to social services, particularly those provided under targeted social programs. This requires not only the maintenance of an adequate level of expenditure, but also improving the efficiency and effectiveness of that expenditure. Finally, it is equally important to bring about a series of reforms that will improve employment, the quality of social services and the access of the population to them. This will make it possible to speed up the accumulation of human capital and enhance the efficiency of its use on the labor market.
- 1.29 While the second task is justified by the manifest necessity of protecting the poorest from the consequences of fiscal adjustments, the third is essential to guarantee the sustainability of efforts made today to protect those groups. Indeed, social reforms tend to reduce the causes of poverty and therewith the demand for targeted programs, which in turn facilitates the maintenance of fiscal equilibrium and macroeconomic stability.
- 1.30 The program proposed by the government in this operation incorporates the three tasks identified as essential and carries out the Bank's country strategy of ensuring the provision of basic social services to the neediest population groups and the implementation of reforms in the social sectors to make them better and more efficient. In March 1995 the Argentine government and a special mission of the Bank agreed on the priority and urgency of this operation.
- 1.31 In parallel to this program, the World Bank is preparing a program of support for the social sector consisting of two concurrent operations with combined financing of US\$300 million: a social protection project (US\$150 million) and a project to reform the national health insurance plans (US\$150 million). The program should be approved this year and have an execution period of two years under the time slice arrangement.

- 1.32 The World Bank and the IDB have agreed to use substantially similar requirements and instruments for the validation of disbursements and for the supervision, monitoring and evaluation of the two programs.

II. THE PROGRAM

A. Objectives

2.1 The program will have the following objectives:

- a. To provide fast-disbursing resources for funding government measures aimed at maintaining the country's macroeconomic stability;
- b. To ensure adequate levels of public spending on programs that provide basic social services for low-income groups, and to improve the performance and efficiency of such programs;
- c. To assist the Argentine government with implementation of major reforms in the social services, health, labor and education sectors; and
- d. To provide the Ministry of Economic Affairs and the beneficiary social sectors with technical assistance to help them prepare, manage and implement the proposed reforms.

B. Description of the program and its elements

2.2 The components on which the program activities proposed in this document would focus are described below:

1. Targeted social services, basically governed by the matrix of specific conditions in Annex II-1, and comprising:
 - a. A basket of social protection programs;
 - b. A food assistance program; and
 - c. The development of information systems on national and provincial social spending.
2. Social reforms, to be monitored by the Bank based on the detailed commitments made by the government in the policy letter included as Annex II-2.
3. Institutional strengthening for the social sectors involved in the program. 1/

1/ The execution of this component does not require program financing, as the government intends to use funds provided under the multisector preinvestment loan (740/OC-AR).

1. Targeted social services component

- 2.3 In order to maintain an integrated approach with respect to social spending in Argentina, a number of fundamental activities in which the government and the Bank have a particular interest have been grouped together under this component. The first of these are intended to minimize the social cost of fiscal adjustments, without abandoning efforts to improve programs that target the poor. The second group contains activities designed to bring order to the food assistance sector in order to improve the performance of national and provincial food programs. The third group includes activities to address the general public's growing need for additional data on the costs and results of public-sector social spending, and is aimed at increasing its efficiency.
- 2.4 The targeted social services component will include the following subcomponents:
- a. Basket of social welfare programs
- 2.5 As pointed out earlier, the government revised its fiscal policy in the first quarter of 1995 with the objective of generating an overall surplus within the nation's non-financial public sector to help cope with the country's recent financial crisis under an agreement with the IMF. The adjustments made were equivalent to a 3.9% cut in the national budget for 1995, and represented a reduction of approximately 18% in the budget allocations for a subset of social programs intended to provide assistance or basic services for vulnerable population groups and those most in need. However, in the most recent period tax revenues were lower than projected, for which reason new spending cuts are forecast for the remainder of the year. This can be expected to lead to a further round of disproportionately large cuts in these social programs. Such cuts would severely affect the low-income groups that benefit from them, unless the budgets of certain social programs can be placed under special safeguards such as those proposed in this program.
- 2.6 Moreover, it is important for purposes of improving the use of available funds that the performance and efficiency of these programs be improved, since in many cases they are operating at less than peak capacity.
- 2.7 As previously noted, out of a total of US\$21.9 billion in social sector expenditure, approximately US\$5.3 billion goes into benefits for the first quintile of the population. At the same time, it is estimated that the amount targeted exclusively at the poor and vulnerable, and/or spent in support of social reforms, totals US\$2.1 billion, of which US\$1.3 billion represents national expenditures while the rest is spent by the provinces and municipalities.
- 2.8 The following basket of social welfare programs consists of nationally-funded services which are aimed at the poor and which

were examined in the studies conducted for this program in order to ascertain their objectives, targeting methods, delivery of services, monitoring levels, evaluation techniques, efficiency and transparency. This evaluation made it possible to assess the extent to which these social welfare programs meet criteria with respect to (i) their targeting of the poor or vulnerable population groups and/or their support for social reforms; and (ii) their having a program of action which can be executed over the course of this year. The evaluation also identified programs that, owing to their importance in alleviating poverty and/or reducing unemployment, warrant more immediate efforts to boost their performance.

- 2.9 The programs selected for the basket on the basis of the analysis outlined above are presented in Table 3 below and include services in the employment, nutrition, health, education, social development and sanitation sectors. Their total budget for 1995 comes to US\$1,039,500,000. In order to differentiate between the programs in the basket for conditionality purposes, they have been divided into Groups A and B. Those in Group A are deemed to be more efficient in their performance. Group B includes programs whose performance is less predictable - either because they are new or because their execution is dependent on more complex decision-making levels. In view of the effects that contingencies may have on program performance, those programs listed in Group A will be subject to the condition that not less than 90% of their budget be executed, whereas programs in Group B must execute not less than 70% of their budgets.

TABLE 3
ARGENTINA
SECTOR PROGRAM IN SUPPORT OF FISCAL ADJUSTMENT AND SOCIAL REFORMS
BASKET OF SOCIAL WELFARE PROGRAMS
(in millions of US\$)

PROGRAMS	CURRENT LOAN		AUTHORITY
	(SDS/MT)	(SH)	
GROUP A		<u>762.9</u>	
EMPLOYMENT		<u>526.7</u>	
Job creation		184.5	Ministry of Labor
1. National Traineeship Program (PRONAPAS)	30.5		
2. Solidarity Assistance Program (PROAS)	39.6		
3. PRENO/PROEDIS	22.4		
4. PEP	30.0		
5. Other programs	62.0		
6. Unemployment insurance assistance		285.8	Ministry of Labor
7. Study, Monitoring and Promotion of Labor and Social Economics (YOUTH PROJECT)		56.4	Ministry of Economic Affairs, Public Works and Services
NUTRITION		<u>74.8</u>	
8. Solidarity Assistance to Adults (ASOMA)		43.1	Department of Social Development
9. Policies and Assistance in Mother-Child Nutrition		31.7	Ministry of Health & Social Action
HEALTH		<u>49.9</u>	
10. Program to Re-organize Child Development and Health Centers (PROMIN)		36.3	Ministry of Health & Social Action
11. Policies, Provisioning and Supervision of Immunization Programs (PAI)		13.6	Ministry of Health & Social Action
EDUCATION		<u>97.0</u>	
12. Better education for all		50.1	Ministry of Culture and Education
13. Upgrading of school facilities		46.9	Ministry of Culture and Education
AGRICULTURE		<u>14.5</u>	
14. Program of Assistance in Agriculture		14.5	Ministry of Economic Affairs, Public Works and Services
GROUP B		<u>276.6</u>	
SOCIAL DEVELOPMENT (PROSOL)		<u>52.0</u>	Department of Social Development
15. Repair of housing, water & sewers	26.8		
16. Investment fund	7.0		
17. Pre-investment	1.0		
18. Strengthening of civil society and CENOC	6.4		
19. Other programs	10.8		
HEALTH		<u>19.4</u>	
20. Control of vector-borne diseases (Chagas)		19.4	Ministry of Health & Social Action
EDUCATION		<u>190.3</u>	
21. Management of ed. programs and projects (teacher training and upgrading)		52.8	Ministry of Culture and Education
22. Implementation of federal act 24195		137.5	Ministry of Culture and Education
SANITATION		<u>14.9</u>	
23. Provision of Water Supply and Sewerage for Disadvantaged Areas (PASPAYs)		14.9	Ministry of Economic Affairs, Public Works and Services
TOTAL		<u>1,039.5</u>	

SDS: Secretaría de Desarrollo Social [Department of Social Development]
MT: Ministerio de Trabajo [Ministry of Labor]
SH: Secretaría de Hacienda [Department of Finance]

2.10 The activities planned for 1995 under the main programs included in the basket are presented below along with their expected benefits:

- (i) **Employment:** The job creation programs will enable authorities to create some 170,000 term positions in areas related to training programs or public works projects, primarily for young people, heads of household without professional qualifications and the long-term unemployed; the unemployment insurance program will benefit approximately 93,000 unemployed persons in the formal sector of the economy.
- (ii) **Nutrition:** Some 190,000 individuals including children under two and expectant mothers, together with 178,000 elderly persons not covered by the social security system, will benefit from the food supplement program and the mother and child preventive health care programs;
- (iii) **Health:** Programs in this area are designed to improve the health and nutritional status of expectant mothers and children under six years of age, contribute to the psychosocial development of children aged two to five years, and control of diseases preventable through immunization and affecting pregnant women and children during their first year of life. Comprehensive mother and infant health care will be provided for 18,000 women and 47,000 children, and a total of 680,000 children and 140,000 mothers will receive immunization.
- (iv) **Education:** The programs in this area are intended to improve the quality and coverage of the education system, ensuring universal schooling through grade 10, and provide training for teachers so that they may assume responsibility for the process of transforming the educational system. The goals of these programs for 1995 are to raise the enrollment rate to 97% by properly equipping 6,500 schools, building 120,000 square meters of additional classrooms, repairing 1,000 schools and training 250,000 teachers - thereby benefiting some 1.5 million students.
- (v) **Social development:** Activities in this area include the Housing, Water and Sewerage Repair Project which is designed to furnish housing solutions for 21,000 families living in marginal urban areas and provide piped water to 93,000 persons through expansion of existing water supply systems, as well as the Social Investment Fund which will begin assisting the needy in northern Argentina this year using funds provided under a loan from the World Bank.

(vi) **Basic sanitation:** This area will include programs that are designed to eradicate cholera, and that will help small, disadvantaged groups in remote villages through construction of water supply and waste disposal systems; the number of individuals benefiting from these programs is estimated at 101,000.

(vii) **Agricultural assistance:** Programs in this area will supplement the incomes of small-scale producers and benefit some 14,000 families.

2.11 The programs in the basket in which immediate action will be taken to improve performance based on guidelines agreed with the government include the job creation program and the mother and child nutrition policies and assistance program.

2.12 For the job creation programs, the government has undertaken to (i) **design an information system** including information flow charts, reports, publicity vehicles, and avenues for public access to the system. The system should offer the unemployed a means of registering and receiving counseling on employment programs for which they might be eligible. Lastly, the system should serve as a gateway and distribution channel for all job creation programs. The system is to be implemented in at least four provinces (two for the solidary assistance program and two for the occupational training program); (ii) **devise a project selection methodology**, to weight indicators related to unmet basic needs, such as low-income level, infant mortality, unemployment, and regarding efficiency, such as jobs created for every peso invested, which are being used at this writing, and apprise the public and beneficiaries of this evaluation. Basically the methodology is a weighting system for each attribute now being used informally in project selection. It is to be brought in first centrally at then on the decentralized level; and (iii) **improve the operating capabilities of the MTSS**, bolstering the regional employment offices to better perform their function of implementing employment programs at the provincial level.

2.13 For the mother and child nutrition policies and assistance program (milk distribution), with a view to conducting pilot projects that could then be replicated, the government is committed to carrying through the following measures for two provinces: (i) **targeting system:** devise a targeting system calling for (a) incorporation of other agents, such as nongovernmental organizations, to identify prospective beneficiaries; and (b) effective application of eligibility criteria for the program; (ii) **proposal for improving performance**, to include (a) a review of the current management information system, including a review of reporting forms, and (b) a review of the provincial and intraprovincial resource allocation system, building in parameters of nutritional risk, operating capacity, and cost-efficiency; and (iii) **design a public**

information system to generate periodic information in each province on (a) total cost of the program in that province, (b) percentage of the total cost spent on milk, (c) cost of the nutrition component per beneficiary, (d) quantity of milk received per beneficiary and total monthly milk deliveries, and (e) name, address, and telephone number of the entity in charge, for those seeking further information.

- 2.14 With respect to the basket of programs, the government will commit itself to: (i) maintain the budget for each program at the level in effect as of March 1995, unless a cumulative adjustment of 4% or more to the national budget were to become necessary (in which case the percentage by which the budgets of the programs in the basket are reduced would be no more than half that applied to the national budget); (ii) maintain the level of expenditures under each program in accordance with its 1995 budget; (iii) present a basket of protected programs for 1996, the aggregate budgetary appropriation for which is to be included in the national budget estimate submitted by the Executive Branch to the Argentine Congress. Such appropriation is to be kept, in real terms, at the equivalent of the current appropriation at March 31, 1995, corresponding to the basket for that year, adjusted for changes in GDP, such that the ratio of expenditure to real GDP remains constant for each program. The make-up of the 1996 basket is to follow the criteria used for the 1995 basket, with an internal allocation of resources substantially similar to 1995; (iv) present an evaluation report on administration of the mother and child nutrition policies and assistance program in at least two provinces; (v) carry out the actions for enhancing performance under the Job Creation and Mother and Child Nutrition Policies and Assistance Programs, as discussed in paragraphs 2.12 and 2.13 of this document; and (vi) continue the effort undertaken by the federal government to create an information system on levels of poverty and effectiveness of all social assistance programs, regardless of who is responsible for carrying them out (while social spending remains the responsibility of provincial and municipal governments, the federal authorities hope that making this information available to the public will stimulate provincial and local governments to improve the efficiency and performance of these programs).

b. Food assistance plan

- 2.15 Food assistance programs in Argentina are generally accessible, and are targeted at the most vulnerable population groups. Examples include the MSAS programs to supply milk for expectant mothers, community kitchens for children aged six and under, and school lunchrooms - all of which are funded by POSOCO and PROSONU. For the older population, there are the ASOMA and PAMI programs, as well as PRO-HUERTA for families and communities. These programs are well-designed and many have been in place for a long time, gaining wide acceptance among the population. They operate on a

regular basis throughout the country; administration is decentralized and all of the food provided by them is now purchased in the provinces. Despite these achievements, the following problems have been detected in their operations: (i) lack of regular disbursement of funding from the central government to the provinces or failure by the latter to allocate such funding to food programs in a timely manner, causing delays in the bidding process and in paying suppliers, and leading to interruptions in service; and (ii) absence of technical and nutritional information on the programs.

- 2.16 This lack of technical and nutritional information results from the fact that: (i) in the absence of suitable systems for technical supervision and administrative control, each province develops its programs according to its own rules, interests and circumstances; and (ii) there is a dearth of information on the programs (no one knows the actual number of recipients, the quantity of food distributed per beneficiary, nor the nutritional effects of these programs on the diet of beneficiaries), which makes it impossible to assess their operations and impact, and therefore prevents authorities from introducing technical corrections.
- 2.17 This has meant that, despite the investment and effort expended on them, these food supplement programs are not as efficient or effective as they could be. To make them so will require taking the following action: (i) adopting a clear policy coordinated, supervised, controlled and evaluated by a nutrition-policy coordinating body that can allot resources in an efficient manner and avoid duplication of efforts; (ii) targeting programs at population groups that are most vulnerable biologically (expectant and nursing mothers, pre-school and primary school children, and the elderly), based on their socioeconomic status (degree of poverty) and geographical location (generally, whether they live in rural areas or the poorest municipalities); (iii) providing adequate coverage of the population to ensure the greatest possible impact on nutrition and health indicators in Argentina; (iv) integrating primary preventive care in mother and child health with educational activities intended to modify behavior and eating habits; (v) simplifying logistics to maintain continuity in the distribution of food to program beneficiaries, and ensuring that such foods are easy to store, distribute and consume; (vi) supplying educational materials on nutrition for use in the programs; (vii) providing information systems that will make it possible to improve the management and assess the effects of programs (these must include the means for monitoring growth and development, and the nutritional status of recipients, as well as precise indicators for measuring the impact which nutritional objectives have on education — such as attendance figures, drop-out rates, repetition of school years); (viii) adopting systems for controlling the quality of the food products distributed in the programs; and (ix) making adequate funding available to ensure the continuity of programs over time. The effects of nutrition programs take a long time to be felt, so

that it is necessary to guarantee their sustainability by providing stable financing for uninterrupted distribution of food products. 2/

- 2.18 The Argentine government shares the view that it is necessary to create food security networks for the poorest families and most vulnerable population groups, which is in line with what is taking place in most of the region's countries, as well as with the recommendations of the competent international agencies. Accordingly, there is a need for a plan of action based on equity, comprehensiveness, efficiency and participation. In the present operation, the government undertakes to: (i) verify the assessment of the current status of food supplement programs using information from existing studies and prior analyses, and propose activities to improve their operations; (ii) formulate a food assistance plan as a general framework for the changes that will have to be made to all food supplement programs in order to improve their efficiency and performance (this proposal must include means for providing technical supervision, administrative control, evaluation and auditing of programs, as well as for designing information systems and methods of targeting programs at the poor); and (iii) prepare the technical and legal groundwork for the presidential decree which will be required in order to place the food assistance plan in operation.

c. Component for development of data systems on social spending at the national and provincial levels

- 2.19 One of the activities included under the Social Welfare Program proposed by the World Bank is the preparation and placement in operation by the second quarter in 1995 of the Information System for Evaluation and Monitoring of Social Programs (SIEMPRO). The main objective of SIEMPRO is to serve as a catalyst for changing the focus and administration of social programs, promoting transparency, participation by civil society and the targeting of social services toward the poor. It is directed specifically toward: (i) establishing information for monitoring and analyzing poverty in Argentina, and consequently to improve the targeting of the country's social programs; (ii) establishing methods and systems for the examination of poverty, and for monitoring and evaluating programs aimed at the poor; (iii) disseminating and transferring the information systems and methods developed to national and provincial agencies; and (iv) advising the federal cabinet on the setting of priorities and coordination of targeted social programs.
- 2.20 A few of the important goals of SIEMPRO are: (i) to establish and put in operation a central executing agency; (ii) to establish and implement its operating plan; (iii) to establish the Transfer Fund

2/ Financing for these activities is included in the institutional strengthening component referred to in paragraphs 2.44 and 2.45.

of US\$2 million to provide technical assistance to the provincial Ministries of Social Action for use in setting up and training provincial executing agencies to take part in the system; and (iv) to conclude an agreement with the INDEC to conduct a survey of living conditions.

- 2.21 It is expected that the establishment and start-up of the central executing agency and SIEMPRO's operating plan will take place during the fourth quarter of 1995, and that the establishment and implementation of the Transfer Fund and the conclusion of the agreement with the INDEC will occur during the first quarter of 1996.
- 2.22 At the same time, it is worth noting that Argentina is making sectoral efforts to improve its basic statistical information and program management capabilities. For example, fundamental reforms at the organizational and administrative level are being carried out in education within the context of decentralizing responsibility. As part of these reforms, the federal educational information network is being created which will enable authorities to evaluate performance at various levels of education, based on cost-efficiency and educational quality. And in health, efforts are under way to improve administration and financial management of services provided by the HPAs, through the development of information systems to manage financial flows and the medical services provided by the hospital. Efforts are also being made to upgrade the provision of health services under the social security system, making them more equitable and uniform through structural reform of its funding and data systems.
- 2.23 Independently of the above, the Economic Planning Secretariat of the Ministry of Economic Affairs and Public Works and Services intends to incorporate into its reports certain data on the effectiveness of social spending. To this end, diagnostic studies will be carried out as a pilot project to evaluate the execution of educational and health care programs in four provinces, based on terms of reference approved by the Bank. The project will include the development of indicators of cost effectiveness using reliable background information. The submission of duly reviewed and qualified results from the evaluations carried out in the first two provinces will be a condition for disbursement of the second tranche, and submission of duly reviewed and qualified results from the evaluations conducted in the other two provinces will be a condition precedent to the disbursement of the third tranche.

2. Social reforms component

- 2.24 In 1992 the government undertook an accelerated process of reforms in the nation's social sectors (health care, labor and education) for the purpose of improving the efficiency and quality of the services it provides for its citizens, especially those of the poorest segment of the population. What follows is a description

of the stages of reform completed to date and the results that are expected under this program. These reforms will ensure an environment containing medium and long-term incentives for job creation in the productive sector, quality education, greater efficiency and equity in the delivery of health services, and improved targeting, efficiency and transparency in poverty reduction programs.

a. Health care sector

- 2.25 Argentina's health care sector annually spends the equivalent of about 9% of the nation's GDP, which is high in comparison with other countries in the region. Ironically, the country's health status - as measured by the traditional indicators - does not reflect this effort. The sector consists of many different areas in which the social security system is the primary provider of health care funding in the country. There are some 360 national health insurance plans (social security funds, most of which are run by trade unions). As well, each province has its provincial welfare fund, which finances health services through employee contributions made by those working in the public service. The majority of public expenditures in health are made through the provinces.
- 2.26 Some of the most important problems facing the health sector can be seen in: (i) an excessive number of physicians (29 per 10,000 inhabitants in 1990) ^{3/} who are highly specialized and concentrated in the country's major cities; (ii) broad access to the faculty of medicine and relatively lax technical requirements so that physicians graduate with poor technical skills; (iii) widely varying quality in the medical services and serious problems in monitoring same since there is no system of accreditation, classification or certification; and (iv) a lack of clear agreement or consensus on the monetary cost of providing health care services, which hinders any attempt to plan for the sector's needs.
- 2.27 Within the social security system, which covers a large proportion of the population, health care varies in quality, coverage is uneven, services are highly rationed and the system is generally inefficient in utilizing resources. Some of these problems arise because there is as yet no complete and updated listing of social security plan members, which means that services must be contracted and paid for, and budgets allocated, on the basis of incomplete information concerning the number of plan members to be covered.
- 2.28 The Argentine government is taking a gradual approach aimed at reversing the deficits and correcting the weaknesses in the health sector. In order of priority, efforts are being directed to: (i) reforming the system of health insurance plans, seeking to

^{3/} PAHO figures. The estimated rate for 1995 is 35 per 10,000, as communicated orally by the Ministry of Health.

expand their scope and restructure the system from the financial and legal standpoint; (ii) improving the management of publicly funded hospitals through the system of self-administered public hospitals (HPAs) with efficient cost recovery mechanisms and better data systems for keeping track of social security beneficiaries; (iii) making the system more equitable by means of a system for classifying, qualifying and accrediting health care providers; and (iv) raising the quality of physicians and, at the same time, placing emphasis on family practice. These efforts are focused on the changes to be introduced in the HPAs, and those discerned for the social security system.

- 2.29 **Expected results:** The reforms proposed in this program, the completion of which is feasible over the period scheduled for its execution, will help to increase efficiency and equity within the sector through the following results: (i) improve the information system so as to enable it to identify beneficiaries covered by the system, describe their characteristics, calculate more precisely the amount of health care resources available and the recovery of health care costs in public hospitals; (ii) improve quality of care in order to focus efforts on arriving at a system that will monitor and improve the quality of care in health services; (iii) provide retraining for health personnel to adapt the available medical services to the needs of a market that is beginning to orient itself around family medicine for the purpose of rationalizing the use of services and improving the systems of referral and counter-referral of patients; and (iv) establish a compulsory medical plan in order to make the provision of health services more equitable, uniform and cost efficient through the use of a preliminary design for a compulsory medical services package or plan.

b. Labor sector

- 2.30 Argentina's labor market has seen a steady rise in underemployment and unemployment over the past two years, despite rapid growth during the same period (6% and 6.1%, respectively, in 1993 and 1994). Taking 1992 as a reference, underemployment had risen from 8.2% to 10.3% by 1994, and unemployment from 7% to 11.5% over the same period. Particularly hard hit was the 15 to 19 age group, where unemployment climbed from 16.3% to 34.1% during this period. Even more worrying is the fact that between 1993 and 1994 the total number of workers employed in Argentina dropped by 1.4%.
- 2.31 Many analysts attribute this development (before the Mexican crisis) to the presence of significant rigidities in the labor market regulations which, in a setting where prices remain stable, prevent the labor market from adjusting adequately and introduce a high degree of unpredictability with respect to labor costs. In an inflationary environment, the impact of these regulations is easily avoided given the flexibility of prices (including real wages). In a setting where prices remain

stable, on the other hand, labor market adjustments require flexibility in nominal wages and predictability in costs, and labor regulations in turn become highly restrictive.

- 2.32 In broad outline, the goal of the reform to be introduced with this loan is to create a more flexible regulatory system which will avoid having the full weight of the adjustment fall on labor, allowing for the possibility of adjusting wages and working conditions to the dynamics of an open economy. The instruments used for this purpose are intended to create a range of contracting and negotiating alternatives that will expand the currently rigid system (which favors full-time permanent employment and centralized wage bargaining within each sector), make labor costs more predictable and decentralize wage negotiations to the extent possible.
- 2.33 In terms of strategy, the reform process requires the building of a consensus based on wider information concerning the costs and benefits that the current labor regulations generate, both for workers and for society as a whole. As a first step in this direction, the government signed a framework agreement on employment, productivity and social equity with the Federation of labor and trade organizations in 1992. This agreement proposes an ambitious modernization program, promotes an active role for the various social agents, sets priorities with respect to timing and postpones to its final stage the task of undertaking a thorough reform of the regulatory framework governing the labor market. Based on lessons learned from earlier frustrations, it is thought best to build a consensus with respect to the reform process which will facilitate decision making.
- 2.34 Early in 1995 substantial progress was made in the form of passage by the Argentine Congress of the following legislation: (i) the Employment Promotion Act (LFE), which requires that employers have insurance, limits litigation, defines the risks that must be covered, creates incentives for taking preventive measures, avoids the overlapping of benefits, speeds up approval of claims and establishes an administrative procedure for determining disability (this act establishes various special coverage regimes for temporary contracts, extension of the probationary period, pro-rated social security costs for part-time workers and apprenticeship contracts of 3 to 24-months duration); and (ii) the Small and Medium-sized Enterprises Act (PyMES) which, among other benefits, authorizes special collective agreements for smaller companies, allows changes in the dates for paying annual bonuses and vacation benefits, and modifies the system for termination of employment and renegotiation of collective agreements as a means of preventing a business crisis.
- 2.35 In addition, the government has placed a bill before the National Congress entitled the Occupational Hazards Act (LRT) which creates a privately administered social insurance system with public oversight to cover occupational accidents in the private sector,

introduces compulsory insurance for employers, places limits on litigation, defines the risks to be covered, limits compensation, speeds up approval of claims, and establishes a simple administrative procedure for determining disability.

- 2.36 The reforms to the regulatory framework governing the labor market which will be introduced under this program are aimed at: (i) making the conditions for hiring and dismissing workers more flexible in order to increase employment and reduce evasion of labor legislation; (ii) making labor costs more predictable and thus allowing real wages to rise in line with increases in productivity; and (iii) introducing changes in the collective bargaining system that will permit greater flexibility in wage levels and working conditions.
- 2.37 **Expected results:** The following results are expected during the execution period of this program: (i) promulgation of regulations under the LFE; (ii) promulgation of regulations implementing Title III of the PyMES, together with formal appointment of the special oversight committee; (iii) preparation of the preliminary draft regulations under the LRT; (iv) publication of technical documentation and carrying out of events intended to publicize alternative methods of collective bargaining; and (v) publication of technical documentation and carrying out of events intended to publicize changes in the labor relations regime for domestic employees.

c. Education sector

- 2.38 The Federal Education Act (No. 24,195 approved on April 14, 1993) defines a new organizational structure for the nation's educational system, gradually replacing the primary and secondary levels with those of basic general education and multimodal education, respectively, and making the corresponding changes to their curriculums. Given this transformation, it is essential that a new labor regime be established to match the new organization of the school system, guarantee that the changes to the system are carried through to completion and correct the deficiencies in the current statutes.
- 2.39 The process of decentralizing the education system which began in 1971 granted autonomy to the provinces at the elementary, secondary and non-university post-secondary levels, including reforming the system of labor contracts with teachers in order to adapt them to the requirements set out in the new Federal Education Act. Examination of the applicable statutes that govern teachers in the 12 provinces of Argentina reveal the need for: (i) modernizing and defining teaching duties; (ii) specifying the tasks and responsibilities of the educational process; (iii) prioritizing the professional aspects relating to teaching staff; (iv) specifying the functions of knowledge transmission and distribution as a major part of educational activities; (v) differentiating between career paths for teachers, technical staff and administrative personnel;

(vi) improving the systems governing conflicts of interest and teacher leave in order to raise the efficiency of the educational system; and (vii) revising current pay scales.

- 2.40 The educational reform and investment program financed in December 1994 under loan 845/OC-AR called for providing the provinces with the necessary technical assistance to prepare, negotiate and implement new labor arrangements over the next five years. To hasten this reform process, the Ministry of Culture and Education has prepared a preliminary draft of a model new teaching contract, which the present program proposes to complete and make available to the provinces so that it may serve as a basis for their own regulations. The adoption of this model will enable the provinces to make rapid progress in bargaining and reaching agreements with their teachers' associations, which will facilitate the eventual approval of the new system by the respective legislatures. The purpose of the model will be to improve the quality of education and regulate labor and professional relations with teaching staff according to the new Federal Education Act, for which reason it must include provisions governing at least the following: (i) raising the professional status of teachers; (ii) teacher evaluation; (iii) training programs; (iv) the teaching career; (v) entry and mobility within the profession; (vi) promotions and advancement; (vii) remuneration; and (viii) discipline.
- 2.41 The transformation wrought by the Federal Education Act on the academic and organizational structures of the education system makes it necessary to provide training for present teachers so that they can apply the new curriculum, and for administrators and supervisory staff to familiarize them with the new structures, standards and regulations governing education. In response to this need, the Ministry of Culture and Education drew upon its own resources in 1994 to develop regular training programs for teachers, administrators and supervisors, which were attended by some 150,000 individuals.
- 2.42 Based on this experience, the Federal Education Council in 1995 approved the federal network of continuing education for teachers, at the same time allocating the necessary funding to support operations at the national level with the participation of public and private training institutions. The network was also provided with systems for evaluating the quality of training courses offered by participating institutions, as well as for accrediting these institutions.
- 2.43 **Expected results:** (i) to design a national model of the new professional teaching system, and apply it in at least one province; (ii) to design a model for alternative pay scales and apply it in at least one province (including demonstration of its impact on the cost of education); (iii) to operate the federal network of continuing education for teachers in at least one

province, evaluate and approve provincial training projects, and train teachers in at least three provinces; and (iv) to conduct a national census of teachers and educational institutions.

3. Institutional strengthening component

- 2.44 The reforms proposed under this operation require flexible and efficient institutions that can prepare, develop and implement them in a relatively short period of time. The introduction of reforms capable in the medium to long term of improving the efficiency of services provided to program beneficiaries faces severe limitations at present owing to the lack of flexibility with respect to using budgetary resources for hiring specialized services. As a result, there is a significant need for technical cooperation to begin strengthening the central and sectoral organizations and carry out other preparatory activities to ensure that reforms achieve the desired goals.
- 2.45 During the analysis mission, a review was carried out of the terms of reference for the technical assistance proposed under the program, which calls for the approximately 532 person-months of consulting services at a total estimated cost equivalent to US\$3,360,000 distributed as follows: (a) health care sector: contracting of consultants for 16 person-months to design systems for classification and accreditation of health care providers and institutions, training programs in family medicine and programs to retrain health services personnel in this approach; (b) labor sector: contracting of consultants for 312 person-months to carry out among other tasks the following: (i) drafting of the LFE regulations, (ii) drafting of the regulations under Title III of the Law on Small and Medium-sized Enterprises, (iii) drafting of the LRT regulations, (iv) studying the impact that the severance compensation plan has on job creation efforts and prepare a proposal outlining alternative methods for termination of employment, (v) studying the impact that alternative forms of collective bargaining will have on employment, wages, and the different social agents; the current situation with respect to collective agreements; a description of the costs and benefits associated with the various alternatives for reforming the laws governing collective bargaining, and (vi) implementing a training plan for MTSS officials responsible for labor intermediation, mediation in collective bargaining, and conciliation of disputes; (c) education sector: contracting of consultants for 38 person-months in the areas of human resources policy and administration, legal affairs and salaries, to formulate the model Teachers Employment System; (d) Ministry of Economic Affairs: contracting of consultants for a total of 32 person-months to compile data on social expenditure; (e) Department of Social Development: contracting of consultants for 78 person-months to prepare the food assistance plan; (f) Ministry of Health: contracting of consultants for 20 person-months to make improvements to the Mother and Child Nutrition Policies and Assistance Program; and (g) Ministry of Labor: contracting of consultants for 36 person-months to make improvements in the job creation programs.

III. EXECUTION AND FINANCING

A. Executing agency

- 3.1 The executing agency for the program will be the Ministry of Economic Affairs, Public Works and Services, through the Department of Finance (SH). The National Directorate of Projects with International Organizations, which comes under the authority of the Department of Finance, will act as the coordinating unit for the program.
- 3.2 Also participating in the program in the role of subexecuting agencies are: (i) the Central Bank, which will process imports; (ii) the Ministries of Labor, Social Security, Health and Education, which will be responsible for executing the employment, health and education programs in the basket of social welfare programs, and for carrying out the necessary reforms in their respective sectors; and (iii) the Department of Social Development (SDS), which will be responsible for the execution of programs included in the basket, and the proposed reforms to the food assistance plan. The executing agency proposes to establish institutional relations with the aforesaid subexecuting agencies covering the details of the responsibilities, duties, contributions, schedules, reports and other items to be provided by the parties in order to ensure the success of the program.
- 3.3 The coordinating unit will be responsible for supervision, monitoring and evaluation of the program, maintaining contacts with the Bank, handling preparatory technical assistance, preparing and processing requests for disbursements, and drafting the progress and performance reports agreed upon. In addition, it will be required to fulfill such other requirements as are assigned in the proposed loan contract.

B. Financing and execution, amortization and grace periods

- 3.4 The program will be financed under a loan from the Bank's ordinary capital in the amount of US\$450 million, to be disbursed in 18 months reckoned from the effective date of the loan contract, with amortization over 20 years and a grace period of four years.

C. Disbursements

- 3.5 Funds will be disbursed in three tranches, the first in the amount of US\$250 million and the remaining two for US\$100 million each. The first tranche will be disbursed in June 1995 and it is estimated that the second will be disbursed in November 1995 and the third in June 1996, subject to the following sets of conditions:

1. General disbursement condition

- 3.6 The borrower will present evidence satisfactory to the Bank that during the remainder of 1995 it has maintained the budget for each program in the basket at the same level in effect as of March 1995, unless a cumulative adjustment of 4% or more to the national budget becomes necessary. In the latter case, the percentage by which the budgets of the programs in the basket are reduced must be no more than 50% of the percentage adjustment made to the national budget.

2. Special conditions for the disbursement of each tranche

a. First tranche

(i) Basket of protected programs

- 3.7 Present to the Bank's satisfaction: (a) evidence that the macroeconomic policy framework is consistent with the program objectives; (b) updated financial and physical budget execution plans for each program in the basket (specifically, these plans must show monthly expenditures under each program for 1995, along with quarterly spending targets or outcomes expected from each program, expressed in the most appropriate units according to the program); and (c) confirmation that the budget authorized for 1995 is maintained as agreed upon with respect to the programs in the basket.

b. Second tranche

(i) Basket of protected programs

- 3.8 Present the following to the Bank's satisfaction: (a) evidence that the macroeconomic policy framework is consistent with the program objectives; (b) proof that the expenses "accrued" according to the records of the SH in relation to the current 1995 budget are at least (approximately) 62% for Group A and at least (approximately) 50% for Group B; (c) a basket of protected programs for 1996, the aggregate budgetary appropriation for which is to be included in the national budget estimate submitted by the Executive Branch to the Argentine Congress. Such appropriation is to be kept, in real terms, at the equivalent of the current appropriation at March 31, 1995, corresponding to the basket for that year, adjusted for changes in GDP. The make-up of the 1996 basket is to follow the criteria used for the 1995 basket, with an allocation of resources substantially similar to 1995; (d) an evaluation report on administration of the mother and child nutrition policies and assistance program in at least two provinces; and (e) evidence that the actions to improve performance of the job creation and mother and child nutrition policies and assistance programs have been taken.

(ii) Food assistance plan

- 3.9 Present evidence to the Bank's satisfaction that: (a) the current status of food supplement programs has been studied, recommendations have been drawn up and the necessary measures to overcome their deficiencies have begun to be implemented; and (b) a proposed food assistance plan has been drawn up, together with the text of the respective presidential decree.

(iii) Evaluation of education and health care programs

- 3.10 Present evidence that education and health care programs have been evaluated in two provinces.

c. Third tranche

(i) Basket of social welfare programs

- 3.11 Present evidence to the Bank's satisfaction: (a) that the macro-economic policy framework is consistent with the program objectives; (b) that accrued expenses according to the records of the SH in relation to the applicable budget for 1995 are at least (approximately) 90% for Group A and at least (approximately) 70% for Group B; (c) that the actions to improve performance of the job creation and mother and child nutrition policies and assistance programs have been taken; and (d) that the pace of accrued expenditures in 1996 for the protected programs is consonant with the execution plans referred to in paragraph 3.14 of this proposal, and that such expenditures represented at least about 23% of total budgetary appropriations of the 1996 basket.

(ii) Food assistance plan

- 3.12 Present to the Bank's satisfaction: (a) the food assistance plan; and (b) the presidential decree concerning the food assistance plan.

(iii) Evaluation of education and health care programs

- 3.13 Present evidence that education and health care programs have been evaluated in two provinces other than those referred to above.

D. Special conditions

- 3.14 Not later than March 31, 1996, the executing agency is to provide the Bank with copy of the financial and physical plans for budget execution of each protected program in the 1996 basket, including quarterly programming of financial and physical targets for same.
- 3.15 Within 30 days following signature of the contract, and for the purpose of preparing the food assistance plan and introducing immediate improvements in nutritional programs, the executing agency will present proof acceptable to the Bank showing that it has put

together or hired an interdisciplinary team of experts to develop the food assistance plan in accordance with mutually agreed-upon terms of reference.

- 3.16 The borrower undertakes to ensure that the environmental standards of the Federal Water and Sanitation Council will be adhered to in the protected programs for rehabilitation of housing and water and sanitation works, and new sanitation works programs.

E. Periodic reviews

- 3.17 With a view to evaluating the results obtained in the execution of the program, mid-term reviews have been scheduled for (approximately) November 1995 and June 1996. To facilitate this task, the executing agency will prepare and send to the Bank one month or more in advance of each of these dates, a report containing at least the following:

1. First report

- 3.18 Social reforms: **Health care:** (a) information system: evidence that the reforms are helping to identify the shortcomings and needs of the present information system and contributing to improve it; (b) quality of service: progress in developing systems for the classification, qualification and accreditation of health care providers; (c) retraining programs: relevance of reforms in contributing to the rationalization of the use of services and improvements to the referral and counterreferral system; and (d) compulsory medical plan: evidence that the reforms introduced are helping to promote a compulsory medical plan and the design of a consensus-building strategy. **Labor:** (a) Employment Promotion Act: draft regulations endorsed by the Ministry of Labor; and (b) Small and Medium-sized Enterprises Act: draft regulations for Title III endorsed by the Ministry of Labor. **Education:** (a) professional teaching system: model for the new teaching system and recommendations to provincial authorities for its application, matrix of the breakdown of costs in the current educational systems of 24 provinces, model of costs in the system (matrix and software for the new salary scale); and (b) federal network for training, instruction and retraining of teachers, placement of the network in operation in at least one province, evaluation and approval by the MCE of provincial training projects and findings from the national census of educational institutions and students.

2. Second report

- 3.19 Sector reforms: **Health:** (a) Information systems: identification and quantifying of the system's shortcomings, and strategy for improving and modernizing the information system, costs and implementation schedule; (b) quality of service: evidence that the existing regulatory framework has been updated, and that the ANSSAL provisions have been brought into line with Resolution 432/92 and modernized; results and achievements in publicizing these activities

at the provincial level through COFESA; (c) retraining health workers: family physician program (undergraduate and graduate), technical specifications for the performance of their duties, design of the retraining program and agreements with the country's medical faculties to train family practitioners and to adopt appropriate institutional mechanisms for incorporating family physicians; and (d) compulsory medical plan: preliminary design for compulsory medical plan and a plan for consensus-building activities, with a description of the type of activities, costs and implementation schedule. Labor: (a) Employment Promotion Act: promulgation of regulations implementing the Act; (b) Small and Medium-sized Enterprises Act: evidence that the special oversight committee has been set up; (c) Occupational Hazards Act: preliminary draft of regulations; (d) collective bargaining: evidence that technical documentation has been published and events held to disseminate the reforms in labor relations; and (e) women and labor relations: evidence that technical documentation has been published and events held to disseminate the reforms in labor relations to domestic employees. Education: (a) Professional teaching system: design of the new system to govern the teaching profession in one province, and results from the simulation analyses run on the various alternatives for salary reforms as applied to one province.

- 3.20 If in reviewing the reports submitted by the executing agency the Bank finds that progress made in executing the program is unsatisfactory, the executing agency is to present reports or plans within 30 days thereafter in which it indicates the measures that will be taken to adjust execution of the program, its proposed schedule and corresponding budget.

F. Procurement procedures

- 3.21 The Bank's policy as set forth in document GP-116-4 calls for international public bidding procedures to be followed for purchases by the public and private sectors in excess of US\$5 million. Public-sector procurement for smaller amounts is to be carried out in accordance with the procedures established in local legislation, provided such legislation is consistent with the Bank's procurement policy.
- 3.22 According to the Bank's current policy, the loan proceeds may be used to compensate the country for foreign-currency outlays in respect of imports of goods during the six months prior to loan contract signing, provided that the requirements set by the Bank for this operation have been fulfilled and such imports do not exceed 50% of the aggregate amount of the loan.

G. Accounting and audits

- 3.23 The borrower will be responsible for maintaining separate records (plan, chart or statement of accounts) in which to enter the

transactions that will be used in the disbursements, and which will serve to ensure timely preparation of statements of account and project reports. Project records shall be kept in a manner which essentially records the importations that will be included under the project in sufficient detail to identify the goods purchased, the importer, the exporter, the cost of importations in each category and the source of the goods.

- 3.24 The borrower must submit to the Bank within ninety (90) days following the last disbursement of each tranche a statement of account for that tranche, duly certified by the Office of the Auditor General of Argentina, and in conformity with the terms of reference to be agreed upon in due course.

H. Environmental impact

- 3.25 The Environment Committee, at its meeting of May 16, 1995, classified this project as a Category II operation.

I. Policy letter

- 3.26 During the analysis mission, the government and the Bank agreed upon a draft policy letter that describes the activities to be carried out under the program, its objectives, and policies designed to support immediate and future efforts of the Argentine government to consolidate the social reform process and raise the efficiency and performance of targeted social welfare programs. It is understood that this policy letter forms an integral part of the program, and the actions described therein constitute commitments on the part of the government to be carried out, insofar as possible, within the execution period of the present program. The definitive policy letter has been negotiated, and it was agreed that it would be sent to the Bank before the presentation of this proposal to the Bank's Board of Executive Directors.

IV. BENEFITS AND RISKS

A. Benefits

- 4.1 This operation gives the government and the Bank appropriate instruments for protecting low-income population groups from possible unfavorable consequences of the fiscal adjustment. For the present, the operation provides the government with resources for balance-of-payments support to consolidate the credibility of the convertibility plan and of current economic policy in a setting of stability and growth. In the framework of the agreement signed by the Argentine government with the IMF and together with other operations of the Bank and the World Bank in Argentina, the program would make a significant contribution to sustaining a stable macroeconomic environment in which a high demand for labor could be maintained, and therewith an adequate level of real income for the more disadvantaged population groups.
- 4.2 Also for the present, the program stems from agreement with the government on the need to sustain the budget appropriations and enhance the operating efficiency of a series of social programs designed to meet the needs of low-income groups. Maintaining expenditures under these programs and improving their operating efficiency will result in greater capacity for accumulating and sustaining human capital in those groups, which will shield them from the possible unfavorable consequences of the adjustment program.
- 4.3 In the middle run, the social reforms called for under the program will create an environment more favorable to the accumulation and use of the human capital of the population in general and of the poorest segments in particular. This aspect is of crucial importance given the need to address the factors underlying the relative disadvantage of the poorest groups in access to education, health care and the labor market. It is this disadvantage that makes them vulnerable and necessitates recourse to social welfare programs to offset the effects of social adjustment. Unless reforms are carried out to fill the gap, the demand for expenditures in social programs will be much greater than the availability of resources under any reasonable projection.

B. Risks

- 4.4 The program faces significant risks. Firstly, given the volatility of the international financial markets, the country may undergo repeated shocks that will necessitate further reductions in fiscal expenditure and make even the program's modest commitments unsustainable. In response to this risk, the program anticipates the possibility of spending cuts in protected social programs, but limits them to 50% of the percentage of reduction in total fiscal expenditures.

- 4.5 Secondly, the social reforms called for under the program may meet with strong resistance because they affect powerful vested interests. To address this risk, wherever it is expected that the reform measures could prove particularly controversial, the program is designed to generate an atmosphere of public debate in which new consensus could be generated on the envisaged reforms.
- 4.6 Thirdly, there could be institutional resistance to implementation of the plans to improve the job creation and the mother and child nutrition policies and assistance programs. To minimize this risk, discussion mechanisms have been built into the process of elaborating and implementing the plans to ensure that the participating institutions will reach a consensus.
- 4.7 The risks of the part of the program bearing on labor market regulation have to do with two essential factors: (i) the government's ability to implement effectively the exceptional arrangements created by this program, and (ii) the ability of the labor unions to hinder debate on the overall reform of labor market regulations.
- 4.8 Given the complexity of the reforms proposed in this program, the ability of the government to publicize the existence of these exceptional arrangements and to implement their efficient use by enterprises and labor unions is crucial to their success. The program centers much of its attention on the provision of technical assistance and the training of public officials to ensure faster and more effective implementation of the practices and procedures provided for in the Employment Promotion Act, the Small and Medium-sized Enterprises Act, and the Occupational Hazards Act.
- 4.9 The labor unions have repeatedly rejected regulatory reforms that would make the labor market more flexible (particularly regulations governing the terms of severance and collective bargaining), which are seen as contrary to the interests of their members. Given the extensive political and economic power of those organizations, this is a factor to be taken seriously that could affect implementation of the program. To deal with this risk the proposed program calls for a study of alternatives and the creation of an atmosphere of public debate rather than spelling out specific reforms. This process will promote a better understanding of the disadvantages that the rigidities of the present regulations impose on workers themselves, and for perception of the reform to be implemented not as an imposition of the government but as the outcome of open, democratic debate.

SECTOR PROGRAM OF SUPPORT FOR FISCAL ADJUSTMENT
AND SOCIAL REFORM (AR-0189)
Conditionality Matrix
Targeted Social Services

PROBLEM	DISBURSEMENT		
The borrower will present evidence satisfactory to the Bank that (i) it has maintained the budget levels authorized as of 1995 for each program in the basket for the remainder of 1995, unless it becomes necessary on a cumulative basis to adjust national budget by 4% or more; in this case, the adjustment coefficient in the basket would be no greater than the equivalent 50% of the adjustment percentage in the national budget; and (ii) the macroeconomic framework is consistent with the program objectives.			
	FIRST TRANCHE	SECOND TRANCHE	THIRD TRANCHE
F SOCIAL PROTECTION PROGRAMS			
<p>adjustment made onal government t quarter of 1995 overall cut in l budget, tems funding programs to provide ces to needy or groups. Tax ring the quarter than projected, uts in public e expected in the ne year. This ould mean further, roportional in social The low-income enefit from these ould be seriously hout special arrangements for of certain rams. Also, to use of these s considered at the programs e efficient and ive, since in their operations an ideal.</p>	<p>Presentation, to the Bank's satisfaction, of:</p> <ol style="list-style-type: none"> Updated quarterly financial and physical budget execution plans for each program in the 1995 basket. Specifically, the plans are to contain monthly spending figures for each program in 1995, and the target outcomes expected for each program. 	<p>Presentation of the following to the Bank's satisfaction:</p> <ol style="list-style-type: none"> Evidence that accrued spending according to SH records in relation to the current 1995 budget at least approximates 62% for Group A and 50% for Group B. A basket of protected programs for 1996, the aggregate budgetary appropriation for which is to be included in the national budget estimate submitted by the Executive Branch to the Argentine Congress. Such appropriation is to be kept, in real terms, at the equivalent of the current appropriation at March 31, 1995, corresponding to the basket for that year, adjusted for changes in GDP. The make-up of the 1996 basket, which is to follow the criteria used for the 1995 basket, and internal resource allocation are to be substantially similar to 1995. An evaluation report on administration of the mother and child nutrition policies and assistance program in at least two provinces. Evidence that the actions to improve performance of the job creation and mother and child nutrition policies and assistance programs have been taken. 	<p>Presentation of evidence satisfactory to the Bank:</p> <ol style="list-style-type: none"> Accrued spending according to SH records, in relation to the current 1995 budget at least approximates at least for Group A and at least for Group B. The measures to improve performance of the creation and mother and child nutrition policies and assistance programs have been implemented. (i) The pace of accrued spending on the protected programs in 1996 is consistent with the execution presented in accordance with the loan contract, (ii) such expenditures represented at least 23% of total budgetary appropriations of the basket.

SECTOR PROGRAM OF SUPPORT FOR FISCAL ADJUSTMENT
AND SOCIAL REFORM (AR-0189)
Conditionality Matrix
Targeted Social Services

PROBLEM	ACTION	DISBURSEMENT		
		FIRST TRANCHE	SECOND TRANCHE	THIRD TRANCHE
FOOD ASSISTANCE PLAN				
nutrition programs in Argentina cover the population and are the more vulnerable sectors. Programs for expectant mothers under six, school children, families, and communities. Programs are well designed, operated by the people, and operate throughout the country, they are the following implementation (a) intermittent delivery of food in provinces or intermittent by the provinces of funds to the provinces, thereby slowing tendering and payments to suppliers and the continuity of the programs; lack of technical nutritional supervision and the latter is associated with lack of technical supervision and administrative controls, which province to run its programs in with its own policies, inter-circumstances; and (ii) a lack of information on the programs (for the true number of beneficiaries, quantity of food received by each, early nutritional impact on the population), which makes it impossible to assess the process and impact of the programs, thereby precluding any needed adjustments.	<p>a. Confirm the diagnosis of the current status of food and nutrition programs with existing study data and earlier analyses, and propose immediate action.</p> <p>b. Prepare a proposal for a food assistance plan as an overall framework for urgent changes that must be made in food and nutrition programs to make them more efficient and more effective. The proposal should include mechanisms for technical supervision, administrative control, program evaluation and auditing, and the required information system and design for targeting instruments.</p> <p>c. Prepare the technical and legal rationale for a presidential decree to implement the food assistance plan.</p>		<p>Present evidence, to the Bank's satisfaction, that:</p> <p>a. The status of the food and nutrition programs has been diagnosed, recommendations have been prepared and implementation has begun of measures needed to overcome problems.</p> <p>b. A proposal has been prepared for a food assistance plan, as well as a draft presidential decree to that end.</p>	<p>Present, to the Bank's satisfaction:</p> <p>a. Food assistance plan</p> <p>b. Presidential decree for food assistance plan</p>

SECTOR PROGRAM OF SUPPORT FOR FISCAL ADJUSTMENT
AND SOCIAL REFORM (AR-0189)
Conditionality Matrix
Targeted Social Services

PROBLEM	ACTION	DISBURSEMENT		
		FIRST TRANCHE	SECOND TRANCHE	THIRD TRANCHE
EVALUATION OF INFORMATION SYSTEMS ON NATIONAL AND PROVINCIAL SOCIAL SPENDING				
Economic Programming Office of the Ministry of Economic Affairs and Public Services currently publishes reports on social spending in the provinces. They do not provide information on efficiency or effectiveness of that expenditure.	Diagnostic evaluation studies will be conducted, on a pilot basis, on the execution of spending on health and education in four provinces, based on terms of reference agreed upon with the Bank. The work will include finding simple cost-efficiency indicators based on reliable baseline information.		Evaluation of social spending on health and education in two provinces.	Evaluation of social spending on health and education in two provinces other than those for the first tranche.

ARGENTINA
MINISTRY OF ECONOMIC AFFAIRS
AND PUBLIC WORKS AND SERVICES

POLICY LETTER

With reference to the sector program in support of fiscal adjustment and social reform (hereinafter "the program"), below is an outline of the operation's conceptual framework, the steps taken by the Government, and proposed actions for the immediate future, including the period from June 1995 to June 1996, when the program will be executed.

I. MACROECONOMIC SITUATION AND FISCAL ADJUSTMENT

Argentina's macroeconomic performance during the 1990-1995 period has been impressive. Inflation came down from close to 3,000% in 1989 to 3.9% in 1994, and growth in GDP averaged over 7.5% per annum from 1991 to 1994. Gross fixed investment rose from 14% of GDP in 1990 to over 20% in 1994. Domestic savings increased from 13% of GDP in 1992 to over 17% in 1994. The ratio of external debt service to exports has improved considerably. Also, through an ambitious privatization program, large segments of the country's productive structure have been updated, enhancing overall economic efficiency and yielding substantial revenues. Nevertheless, Mexico's recent liquidity crisis has had a substantial adverse impact on capital markets in the rest of Latin America, particularly in Argentina. In order to deal with this situation, the national government was compelled this year, *inter alia*, to effect a fiscal adjustment that involved an overall cut in the national budget and a reduction in amounts budgeted to fund social programs for the neediest and most vulnerable population groups.

II. BASKET OF SOCIAL PROTECTION PROGRAMS

The country's current macroeconomic situation may make further cuts in the national budget inevitable. Nevertheless, the government is aware of the importance of maintaining adequate levels of spending on certain social programs addressed to low-income population groups. Among the social programs promoted and financed by the national government and the provinces, a basket of social welfare programs have been selected that would maintain such an adequate spending level during the adjustment period. These programs would undergo immediate improvement measures, among other conditions to be agreed upon with the Inter-American Development Bank.

III. FOOD ASSISTANCE PLAN

With a view to restructuring the food sector and achieving a more effective and better targeted use of resources in funding it, the national government is considering setting up a food assistance plan. The purpose of the plan is to establish national policy on food assistance and to specify the instruments to be used to implement it. Those policies and instruments would seek to improve equity, efficiency and transparency in the use of resources in current national and provincial food distribution programs.

IV. SECTOR REFORMS

In 1992 the government put in place an accelerated process of reform in the country's major social sectors, in order to improve the efficiency and quality of the services provided to the population, particularly the poor. Described below are the stages of reform which have been completed and the actions which the government proposes to carry out in the immediate future to consolidate and carry these accomplishments further.

A. Labor sector

(i) Employment Promotion Act

The Employment Promotion Act (LFE), passed in 1995, provides for new forms of relations between employers and employees, in addition to the predominant one, being a full-time employment contract for an indefinite period of time. The LFE: (a) provides for a probationary period of three to six months under indefinite contracts; (b) encourages hiring on a part-time basis; (c) provides for temporary contracts with partial exemptions from employee benefits for particularly vulnerable groups; and (d) provides for apprenticeship contracts. In this way, the LFE brings into the formal job market the heterogeneous situations apparent in employment supply and demand.

In implementing these reforms, the government will issue regulations to govern the LFE and design mechanisms and instruments for dissemination of the new hiring options.

(ii) Small and Medium-sized Enterprises Act

Also in 1995, the Small and Medium-sized Enterprises Act (PYMES) was passed. Title III of the Act stipulates special labor conditions for small enterprises. To enable small enterprises to adapt their human resources management practices to changing market conditions in an open economy, the PYMES provides for a special level of collective agreements for small enterprises, allows for variations in payment dates for bonuses

and vacation pay, modifies the end-of-employment system, and provides for renegotiating collective agreements as a means of preventing corporate crisis.

In order to translate these reforms into reality, the government proposes: (a) to draw up regulations to govern Title III of the PYMES; (b) to design the necessary administrative and regulatory instruments; (c) to design alternative end-of-employment systems; and (d) to assist the Special Control Commission (created by the Act) in determining maximum amounts to be spent for each economic sector. The government will also design mechanisms and instruments for dissemination of the new hiring and negotiating options, and will train the staff members involved.

(iii) Occupational Hazards Act

The prevailing legislation on occupational hazards combines a perverse structure of incentives for prevention with a partial system of compensation in which timeliness and cost predictability pose problems. The result is inadequate protection for workers, a legal system that is overburdened with pending claims, and a high level of unpredictability in labor costs. To remedy the situation, the government has placed a new Occupational Hazards Act (LRT) before the National Congress. The Act sets up a privately-administered system of social insurance with state oversight that provides for both effective employer coverage and timely and effective access to benefits by injured workers through administrative procedures.

Once the LRT has been passed by Congress, the government proposes to issue regulations to implement it. The regulations will: (a) design mechanisms to regulate and supervise occupational insurance companies, guidelines for the self-insurance system, and the plan to improve occupational hygiene and safety; (b) design systems, to compile and organize information on accident statistics; (c) strengthen operating mechanisms within Medical Commissions; and (d) draw up a list of occupational diseases and a table to be used for employment disability evaluation.

(iv) Collective Bargaining and Collective Agreements

The government will initiate a process of discussion and analysis of the effects of the collective bargaining and collective agreements system. The system is predominantly centralized and makes it difficult for companies to adjust to rapid change in their environment, as expressed in poor job creation. To correct the situation, the government will conduct studies to: (a) measure the impact of alternative forms of collective bargaining on employment, wages and social agents; (b) identify the current situation with respect to collective bargaining, with special emphasis on the more flexible terms that have come into play, on forms of State intervention, and on the ability of social agents to produce such adaptations; and (c) describe the costs and benefits associated with

different legislative reform options in connection with collective hiring. These studies will serve as a means of sparking public debate in order to build a new consensus.

To strengthen the technical and operating capacity of the Ministry of Labor and Social Security (MTSS), the government will implement a training plan for staff members to participate in labor intermediation, mediation in collective bargaining, and the settlement of disputes. The government could also delegate mediation and dispute settlement functions to third parties for labor disputes in areas and sectors where the MTSS is unable to take rapid and efficient action.

(v) Policies to Protect Working Women

Rules placing heavier obligations on employers when hiring women have encouraged underemployment and employment in the informal sector among women. To address this situation, some of the benefits now attributed to women alone (particularly maternity benefits) should be distributed among the family. The government will be taking action to reduce wage and employment discrimination and to increase registration in and contributions to the social security system for women workers.

B. The health care sector

The Argentine government is implementing a strategy to make gradual progress to correct shortcomings and weaknesses in the health care sector. Although the country has been making major efforts to improve the health care situation, a high percentage of GDP (9%) is spent on the sector without being translated into the hoped-for results. This is attributable, *inter alia*, to: (a) an out-of-date and incomplete information system that prevents adequate identification of beneficiaries and the recovery of health care costs at public hospitals; (b) a national system of training, classification, accreditation and certification of care providers that is at an early stage of development, which has an effect on the quality of service; (c) faculties of medicine that provide training oriented towards the practice of specialized medicine and do not promote family medicine; (d) faculties of medicine with admissions and graduates that are not commensurate with human resources needs in health care, resulting in an excess supply of providers; (e) service delivery that is uneven in terms of quantity, quality and timeliness, which has adverse effects on coverage equity; and (f) the unavailability of accurate figures on the cost of services, which complicates the budgeting process.

In order to put in place a process of reform that will offer solutions to the problems indicated, the government proposes, *inter alia*, to take the actions described below:

- (i) Refine the information system to make it possible to identify system beneficiaries and their characteristics, make precise

calculations of resources used, and recover the cost of services at self-administered public hospitals, by (a) conducting studies to identify weaknesses and needs in the current system; and (b) designing a detailed plan to update and modernize the register of beneficiaries, adding new ones and removing those who have left the system.

- (ii) Improve the quality of service by means of the following actions: (a) develop a system to classify, train and certify service providers; (b) compile and analyze existing work on the accreditation, classification, training and certification of providers; (ii) update the regulatory framework (Resolution 432/92) and adjust ANSSAL provisions to national regulations; (iii) elaborate a regulatory framework for the certification and recertification of professionals; and (v) disseminate the results and implications of these actions at the provincial level by presenting them to the Federal Council of Health Ministers (COFESA).
- (iii) Retraining of human resources, including: (a) designing programs of study (undergraduate and graduate) for family physicians, and technical specifications for the performance of their duties; (b) conceptualizing a program for human resources retraining; (c) motivation and awareness-raising of the agents involved to reach agreements with the country's more important faculties in order to put the above program in place; and (d) adjusting the appropriate institutional mechanisms to include family physicians.
- (iv) Compulsory medical plan: A package or preliminary plan of compulsory health care services will be designed in order to deliver health care services on a basis that will be more equitable, uniform, and cost-effective, and better suited to the system's financial potential. In addition, actions will be taken to build a consensus.

C. The educational sector

(i) Teaching regulations

An analysis of teaching regulations in effect in 12 Argentine provinces showed a need for: (a) updating and defining teaching duties; (b) specifying technical teaching tasks and responsibilities; (c) establishing a priority ranking of professional and personal factors; (d) stipulating knowledge transmission and distribution functions as an important part of schooling activities; (e) differentiating between career paths for teaching, technical, administrative and executive staff; (f) improving the systems covering conflicts of interest and teacher leave, to

enhance the efficiency of the educational system; and (g) reviewing current salary scales.

The Federal Education Act (No. 24,195, approved on April 14, 1993) defines a new structure for the national educational system that will gradually replace the primary and secondary levels with basic general and multimodal education, respectively, and modify curriculum content. These changes make it essential that a new labor regime be established that is in keeping with the new school structure, will carry the process of change further, and will correct shortcomings in the current regulations.

In response to these needs, the national government proposes to elaborate and make available to the provinces a model for a new professional teaching system, containing a minimum core of common and shared features, that will serve as a basis for the regulations in each case. This instrument will help to improve the quality of education and to regulate labor and professional relations by the teaching body, against the backdrop of the new Education Act.

(ii) Federal system of continuing education

In the context of transforming the academic and organizational structure of the educational system, as provided for in the Federal Education Act, the Ministry of Culture and Education initiated regular programs in 1994 for teacher training and the restructuring of educational establishments. The government intends to pursue these efforts to encompass all current teachers and educational institutions.

Domingo Cavallo
Minister of Economic Affairs and
Public Works and Services

APENDICE

PROPOSED RESOLUTION

ARGENTINA. LOAN /OC-AR TO THE NACION ARGENTINA
Support for Fiscal Adjustment and Social Reform Sectorial Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Nación Argentina, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Support for Fiscal Adjustment and Social Reform Sectorial Program. Such financing shall be for the amount of US\$450,000,000 or its equivalent in other currencies, except that of Nación Argentina, which are part of the Ordinary Capital resources of the Bank. The financing shall be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.