

**SUPPORT PROGRAM FOR COMPREHENSIVE PUBLIC-SECTOR REFORM
IN THE PROVINCE OF MENDOZA**

(AR-0209)

EXECUTIVE SUMMARY

BORROWER: The Province of Mendoza

GUARANTOR: The Argentine Nation

EXECUTING AGENCY: The Secretaría General de la Gobernación [Provincial Office for Government Affairs], with support from provincial ministries and the provincial legislature and judiciary

AMOUNT AND SOURCE: IDB: US\$ 80 million (OC)
Local counterpart funding: US\$ 80 million
Total: US\$160 million

**FINANCIAL
TERMS AND
CONDITIONS:** Amortization period: 20 years
Execution period: 3 years
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75% of undisbursed balance
Currency: U.S. dollars

OBJECTIVES: The program has the following objectives: (i) fiscal solvency for the Province in the medium and long term, to be achieved by means of a package of structural reforms and measures intended to assure a constant balance between public revenue and expenditure; and (ii) support for broad-based modernization of all three branches of the provincial government, including protection for the most vulnerable population groups during the reform process.

DESCRIPTION: The program has three components: (1) fiscal solvency (no cost to the program), (2) privatizations (US\$7.5 million), and (3) modernization of priority areas in the three branches of government (US\$141.6 million).

1. **Fiscal solvency** will be sought by means of fiscal policy measures that include action in the revenue and expenditure areas and policies that will strengthen the situation of public finances over time.

With an eye to balancing the Province's fiscal accounts over the medium and long term, the following strategies will be pursued: (i) a budget policy that seeks to generate surpluses as of 1998, (ii) legislation formalizing the principle of a balanced budget, aimed at ensuring fiscal solvency on a sustainable basis, and (iii) a stabilization fund to cover shortfalls that typically occur during periods of recession.

2. The **privatization** component focuses on three companies in the water supply, electricity, and urban transportation sectors.
3. **Modernization of the State** will be achieved by way of reforms and institutional strengthening in priority areas of the executive, legislative, and judicial branches.

**IMPLEMENTATION
ARRANGEMENTS:**

Since the proposed program will support reforms in all three branches of the provincial government, the implementation arrangements call for a variety of actions and outcomes. First, there are the specific targets and objectives as stated by the government in the letter of understanding (Annex II-1), which presents full details on reform policies under way and steps to be taken in key areas, including those for which Bank support is being requested. Second, specific targets have been agreed upon with the government for some of the program components, and eligibility for the various loan disbursement levels will depend on compliance with these targets (see paragraphs 3.14 through 3.16). Lastly, a series of fiscal targets have been set with regard to the objective of greater fiscal solvency (Annex III-2, Appendix 1), which is viewed as the backbone of this operation. These three elements will need to be performed simultaneously and in a coordinated fashion as part of program implementation. Accordingly, disbursements will be made progressively as these objectives and targets are met. This will ensure the timely availability of resources for financing reforms, as in the case of privatizations and outsourcing, and for making investments (in the health area, especially) and providing technical assistance.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of May 7, 1996, classified this as a Category II operation. The environmental brief was sent to the Public Information Center on February 3, 1997.

BENEFITS:

The program is expected to contribute to (i) greater fiscal solvency, with measures to ensure long-term sustainability; (ii) greater availability and better quality of public goods and services offered to the community; (iii) more efficient allocation of public spending in general, and social spending in particular; (iv) protection of vulnerable groups, by means of targeting strategies that will guarantee access to basic social development and health services throughout program execution; and (v) more effective service delivery, streamlined procedures, and better administration of the legislative and judicial branches.

Sustainable fiscal solvency over the medium and long term is crucial if the Province is to manage the debt generated by this operation; it will also strengthen the Province's position as a borrower on capital markets.

RISKS:

One of the risks the program faces is resistance to change. An effort will be made to counter this risk by holding awareness seminars and meetings for public officials and middle-level civil servants in the executive branch and with legislators and judges, and by providing more information to the public. Other risks include the possibility of a downturn in the national economy and the impact that would have on government finances, possibly undermining any gains achieved at the provincial level. Also, the new law on federal revenue sharing or, in the absence of such a law, a new fiscal pact replacing the current one could reduce shareouts for the Province and jeopardize attainment of the program's fiscal targets. The impact of this risk would be attenuated by the improved tax administration that would result from the program, which is expected to curtail tax evasion and broaden the tax base. Lastly, the new stabilization fund will help to offset strong cyclical fluctuations, thus averting the need for drastic adjustments during times of financial crisis.

**EXCEPTIONS TO
BANK POLICY:**

While the Argentine Nation will be the guarantor of the loan, it will only guarantee payment of the principal, interest, and fees; it will not guarantee the local counterpart or any obligations that do not fall to the federal government.

The program calls for Bank procedures to be followed for bidding processes and for hiring consultants. However, to expedite program execution and facilitate effective supervision by the Bank, it is proposed that the procedures for reviewing the selection and

hiring of consulting services be changed to allow for a sample-based ex post review of individual-consultant contracts valued at less than US\$50,000 and for consulting-firm contracts valued at less than US\$100,000 (see paragraph 3.28 et seq.).

**PROCUREMENT OF
GOODS AND
SERVICES:**

International competitive bidding would be required for the procurement of works valued at over US\$5 million and goods valued at over US\$350,000.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

In support of the priorities set by the national government and in keeping with the Eighth Replenishment guidelines, the Bank's action will focus on the following core activities: (i) deepen and consolidate modernization of the State at the central level, and extend it to the provincial and municipal governments; (ii) reduce poverty and raise the quality of life through actions aimed at providing sources of gainful employment, and increasing the quality and coverage of social programs; and (iii) boost productivity and competitiveness with an eye to increasing exports.

The proposed program addresses the first two objectives mentioned and responds to the Eighth Replenishment mandate recommending support for "reforms in the public sector (i.e., in tax, budget and expenditure policies, institutional strengthening and support for sub-national governments)" (document AB-1704, paragraph 2.52) and "to improve the Bank's performance in channeling benefits to the low-income groups" (document AB-1704, paragraph 3.23).

**POVERTY-
TARGETING:**

This program focuses on modernization of the State and is intended to produce an impact on the delivery and financing of public services, especially those having a social component. Roughly two thirds of the program's total cost will go toward social development and health sector reform and activities that will benefit low-income groups, including families with unmet basic needs who currently lack health care coverage under the *obras sociales* system or prepaid care plans, as well as children and elderly members of low-income families.

This notwithstanding, the program cannot be classified as a poverty-related investment under the terms of the Eighth Replenishment document.

**PARTICIPATION
OF WOMEN:**

The proposed program does not entail any actions that would discriminate by gender. The proposed reorganization of the health sector will improve maternal and child health conditions, thus improving the situation of women's health as well.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

As a condition for the first disbursement, evidence is to be presented that the executing unit and the area coordination offices (paragraph 3.8) have been set up and have an adequate structure, in addition to the conditions set forth in paragraphs 3.13 and 3.14.

Prior to the disbursement of funds under the judiciary and legislature subprograms, evidence is to be presented that the respective participation agreement has been signed.

Prior to issuing any calls for bids, procuring goods, hiring consulting services, or carrying out any activity that creates an obligation for any agency or body with legal status separate from that of the borrower, the executing agency is to sign a participation agreement with that agency (paragraph 3.6).

The contract is to contain a commitment by the borrower to implement recommendations emanating from program-funded studies (paragraph 3.18) and comply with the terms of the letter of understanding (paragraph 3.12) and the disbursement eligibility conditions (paragraphs 3.13 through 3.16); authorization for advances up to 20% of the amount of the financing (paragraph 3.11); and a provision for recognition of costs up to US\$1.2 million in retroactive financing (paragraph 3.31).

It is also to contain sufficient conditions for ensuring adequate program monitoring and evaluation (paragraphs 3.22 through 3.25), presentation of financial statements (paragraph 3.40), and observance of Bank procedures for the procurement of goods and services and for hiring consulting services (paragraphs 3.26 and 3.27).

The executing agency will be responsible for complying, to the Bank's satisfaction, with agreed conditions for authorization of program disbursements. For each eligibility level, the Bank will assess the degree of compliance with the policy commitments referred to in the letter of understanding; the conditions set forth in paragraphs 3.14 through 3.16, as applicable; and the fiscal accounts of the last quarter for which figures are available. In this last case, debt and expenditure levels will be examined to verify that they are within the target guidelines set in Table II-1 (paragraph 2.8). The Bank may suspend disbursements at any time if it sees that targets are not being met (paragraph 3.13).

I. FRAME OF REFERENCE

A. Adjustment and reform of the national and provincial public sectors

- 1.1 Ever since the unveiling of the Convertibility Plan in early 1991, Argentina has been engaged in a sweeping fiscal adjustment effort. The provinces, though, have not kept pace with the progress made at the national level: the aggregate provincial deficit dropped from 1.7% of GDP in 1990 to 0.4% in 1992, only to rise again to 1.4% in 1995. Although fiscal accounts have performed differently from one province to the next, several subnational jurisdictions have run high deficits and consequently have been forced to adopt adjustment policies to counteract some of the more deleterious effects. In some cases, provincial imbalances have also entailed some cost to the nation's finances. As a result, the fiscal situation of the provinces has become a priority issue for the national government and for the Bank's action in Argentina.

B. The province of Mendoza

1. Economic situation

- 1.2 With a gross domestic product of approximately US\$11 billion, the province of Mendoza accounts for nearly 4% of the country's output. The province's economic activity has grown at a rate comparable to the national average. Out of an economically active population of roughly 600,000, the province's public sector employs nearly 42,000, not counting the 5,500 position equivalents in casual employees. 1/ Historically, open unemployment in the province has been low compared to the national average. Still, Mendoza has not been immune to recent trends in the labor market. Between May 1995 and May 1996, the jobless rate rose from 6.8% to 7.4% of the economically active population.
- 1.3 In terms of socioeconomic development, Mendoza ranks near the mean and is on a par with five other provinces (Córdoba, Entre Ríos, Neuquén, Río Negro, and Santa Fe) with which it shares similar per capita income levels (US\$7,500 in 1994). 2/ Poverty levels in the province, however, are below the average for the group. Approximately 17% of Mendoza's homes have unmet basic needs; only four jurisdictions (including the Municipality of Buenos Aires) have lower levels.

1/ In 1995, Mendoza had 28 public-sector employees per 1,000 population, one of the lowest ratios in the country; only the provinces of Buenos Aires and Santa Fe had lower ratios.

2/ Nationally, average per capita income is US\$8,600.

2. Recent trends in the province's public finances

- 1.4 How public finances have fared recently can be explained in part by general developments in the economy. Between 1992 and 1994, fiscal accounts performed well, rebounding from an aggregate deficit of Arg\$46 million in 1992 to surpluses of Arg\$53 million in 1993 and Arg\$54 million in 1994 (approximately 5% of the province's total revenue). The increase in ordinary revenue (provincial taxes and federal tax shareouts) during this period was a spillover from the general upswing in economic activity. The province's internally generated revenue saw a 48% increase, while transfers from shareouts and other federal sources rose 32%. This extra revenue went into new spending: payroll spending grew 41%, capital expenditures were up, and more funds (flowing from tax recoveries) were channeled toward the municipal governments.

Table I-1 FISCAL ACCOUNTS (in millions of current pesos)					
	1992	1993	1994	1995	1996
Current revenue	830	1,046	1,127	966	1,054
Own revenue	405	523	563	441	493
Current expenditures	808	980	1,080	1,084	1,086
Personnel expenditures	453	610	639	654	634
Ordinary capital expenditures	69	125	132	112	60
Current saving	22	66	47	-118	-32
Nonrecurring revenue	0	981	366	107	a/ 227
Nonrecurring expenditures	7	881	240	163	b/ 801
Overall surplus (deficit)	-46	53	54	-258	-666
Expenditures as a percentage of current revenue					
Current expenditures	97.3	93.7	95.8	112.2	103.0
Personnel expenditures	54.6	58.3	56.7	67.7	60.2
Ordinary capital expenditures	8.3	12.0	11.7	11.6	5.7
Current saving	2.6	6.3	4.2	-12.2	-3.0
Overall surplus (deficit)	-5.5	5.1	4.8	-26.7	-63.2
Debt ratio	17.5	17.5	27.6	88.8	91.3
a/ Includes revenue from bank privatizations, reimbursements of loans to government-owned banks, recovery of residual-fund credits, and sale of shares held by the provincial government.					
b/ Includes the consolidation of residual-fund assets received from bank privatizations.					

- 1.5 At the same time, there was a significant inflow of nonrecurring revenue, by virtue of federal-provincial debt netting in the province's favor, and the provinces received proceeds from the

privatization of State-owned companies. 3/ This one-off revenue - estimated at US\$1 billion (the equivalent of annual current revenue) - was used to finance nonrecurring expenditures, mainly capital contributions and share subscriptions in 1993 and 1994. Noteworthy among the latter were the establishment of a fund to finance public and private capital investments, transfers to the province's water company, and capitalization of government-owned banks. 4/

- 1.6 When the cumulative deficit in ordinary expenditures and revenue for the three-year period from 1992 to 1994 hit Arg\$158 million, the Province's two state banks (Banco de Mendoza and Banco de Previsión Social) were called in to help cover the treasury's operating deficit. It was also at this time that the Province began to borrow from commercial banks in order to lend to the primary sector which was suffering as a result of adverse weather conditions. Public debt stock jumped from Arg\$145.4 million in late 1992 to Arg\$311.3 million two years later.
- 1.7 In 1995, Mendoza was hit by a financial crisis of unprecedented proportions, and the impact on public finances was severe. Fallout from the "tequila effect" was felt in two ways. First, the drop in national and provincial tax revenue triggered a slide of some 20% in total current revenue; 5/ and second, the provincial treasury had to be called on to make up for the heavy deposit drain at the two government-run banks, in a climate of widespread financial

3/ In 1993, the Province received Arg\$697 million in royalties that had been calculated incorrectly back in the 1980s; the money was used to purchase shares of the state oil company YPF when it was privatized. In 1994, the Province received Arg\$82 million from the concessioning and temporary administration of the Hidroeléctrica Los Nihuales S.A. power plant, the sale of a share interest in Distribuidora de Gas Cuyana S.A., and settlement of federal-government debt to the provinces.

4/ The Public and Private Investment Financing Fund for Change and Socioeconomic Growth in the Province of Mendoza (FTC) lends financial support to social and economic development projects that are of interest to the province. The fund, which was set up with an initial grant of Arg\$363 million, is administered by an autonomous agency having full legal status and authority to transact public and private business. The fund currently has assets of Arg\$300 million and has granted long-term loans totaling Arg\$174 million equivalent.

5/ The drop in current revenue was the result of several factors coming together at the same time: slowdown in economic activity, drop in revenue from the gross receipts tax, changes in the federal revenue-sharing arrangement, etc.

fragility that was particularly hard on the provincial banks. ^{6/} The Province's and the banks' financial situation took a turn for the worse when the agriculture sector became unable to pay back loans that had been granted with the Province's involvement. The budget year closed with a Arg\$258 million deficit.

- 1.8 To address this crisis, the Province embarked on a series of fiscal adjustment measures. Greater austerity was exercised in public spending and, in March 1995, the Province decided to sell off its share holdings in the two banks. The process was completed on November 30, 1996, when ownership was transferred to the purchasers. The IDB supported this action with financing under the Provincial Bank Privatization Program.
- 1.9 To ensure the success of the privatization process, the Province assumed the debt that had been contracted by the two banks during the financial crisis, as well as other associated financial commitments (e.g., voluntary terminations, capitalization of the banks). These undertakings - with their estimated total cost of Arg\$600 million - produced a sharp increase in the Province's public debt. In the process, only a portion of the banks' assets and liabilities were transferred to the newly privatized banks. The Province will have to administer these "residual funds" for the foreseeable future, i.e., the portion of the loan portfolios that was not transferred and is valued notionally at around Arg\$700 million. These loans will be collected through third parties such as Banco de la Nación and private agencies as soon as possible. In this connection, the Province has issued Decree 49/97 stipulating that upon payment of 70% of the debt, a 30% discount will be allowed on the debt, along with an additional deduction of 15% for payment in cash. This should make it possible to recover roughly 15% of the doubtful portfolio over the next three years.
- 1.10 In summary, the Province's fiscal accounts have gone through two very distinct phases over the last five years. Between 1992 and 1994, resources were abundant, both the ordinary ones associated with the expansive cycle as well as nonrecurring ones. Fiscal policy reflected a mixed stance. The government took steps to make sure nonrecurring revenue would not be spent immediately, by setting up the Fund for Change and Growth (FTC). On the side of ordinary revenue, though, nothing was done to save a portion of the surplus that had accrued during the boom and which could have helped to cushion adjustment during the ensuing recession (such use is prohibited by the FTC's bylaws); on the contrary, ordinary expenditures grew faster than did revenue. Even so, debt levels

^{6/} By late 1994, the two banks had a combined liability of Arg\$1,077 million (with Banco de Mendoza accounting for about 70% of that amount). Eighty percent of the deposits were private-sector assets. During the first few months of 1995, the private-sector deposit drain exceeded Arg\$500 million.

did not pose any significant problem in late 1994, despite the overall upward trend. The debt-to-current-revenue ratio stood at only 28%, with debt service (including payment of principal) at around 5% of that revenue. Beginning in 1995, revenue dropped off considerably in the wake of the financial crisis and the recession that followed. As a consequence, the deficit burgeoned and major spending cuts were implemented. Mendoza's fiscal difficulties, as manifested in the swelling of the public debt, are not then a function of expansionary fiscal policy, but rather they are directly linked to the financial crisis, when the provincial treasury was forced to bail out the provincial banks, and to the privatization of those banks, as outlined above.

3. The fiscal and financial setting

- 1.11 The short-term measures adopted in 1996 by the new provincial authorities were intended to provide an immediate response to the fiscal and financial problems triggered by the above-mentioned situation: administration of short-term debt including floating debt, the drop in tax revenue, the freeze on provincial assets on deposit at the banks, and commitments associated with the privatization of the banks. These all took place against a backdrop of extreme budget austerity, given that the need to meet payroll commitments, shareouts to municipal governments, and debt service effectively limited any short-term financial programming.
- 1.12 The first step was taken with the 1996 Budget Act, which included a series of savings measures: vacant positions were frozen, payroll bonuses were suspended, and budgetary appropriations were partly frozen. Other decisions were taken during the course of the year. The Province also took out a loan from Banco de la Nación in order to transfer the provincial retirement and pension fund to the national system, thus generating annual savings on the order of Arg\$57 million. The system for tax shareouts with the municipalities was revamped and this gave local governments some degree of revenue forecastability within such a complicated setting. About halfway through the year, further savings measures were implemented: 7/ administrative reorganization of ministries, drafting of regulations for the voluntary termination program, 8/ sale of public assets and property suited to private-sector operation, and adoption of new public-sector contracting arrangements. Work was also completed on the privatization of the banks.
- 1.13 As a result of these measures, the Province's 1996 budget outturn posted a savings of 4.2% in spending over 1995, not counting the transfers to the banks. The biggest drop was recorded in the area of capital expenditures. Current revenue rose 9.1%, with the

7/ Provincial Executive Decree 889 of July 8, 1996.

8/ Implemented recently through Decree 2009/96.

slight decrease in tax revenue being more than offset by royalties. Current savings for the year, however, stood at negative Arg\$32 million, which was less than the negative Arg\$118 million registered in 1995 and was principally a reflection of the impact of financial costs created by the bank privatizations. Even so, upon factoring in the impact of the financial crisis as a budget cost, the 1996 deficit stood at Arg\$666 million. ^{2/} Thanks to the improved fiscal situation and the upturn in financial markets, however, access to credit was reopened. The provincial treasury recently placed a six-year bond without sovereign guarantee on the international market, backed by oil and gas royalties and having an effective cost (internal rate of return to the investor) of 11.25%, substantially below the interest rates paid under previous borrowings.

- 1.14 The 1997 budget calls for capital expenditures of around Arg\$115 million. Payroll spending will continue to be tight, although some costs of the voluntary termination program will need to be covered; and debt service will be higher owing to the debt taken on relating to the privatized banks. Based on revenue projections, the spending level for 1997 will produce positive current savings, although there will be an overall deficit of 4% in current revenue as part of a budget that - unlike previous years - does not project any nonrecurring expenditures.

4. Current status of the Province's public debt

- 1.15 The Province's public debt stock as at December 31, 1996, stood at Arg\$962.5 million, with maturities running through the year 2011 and interest and fees of Arg\$418 million for the overall period. The debt had the following structure:

^{2/} The high deficit for 1996 can be traced mainly to the impact of capital revenue and expenditures associated with the privatization of the Province's banks. The fiscal accounts for 1996, which consolidate the assets and liabilities assumed by the provincial government, include - as capital revenue - reimbursements of past loans to the government-owned banks, proceeds of share sales, and recoveries of residual-fund credits. Capital expenditures include the credit portfolio that was purchased to help alleviate the farming-sector emergency as well as all other assets received as part of the residuum of the privatized entities.

Table I-2
PROVINCE OF MENDOZA
DEBT STOCK AS AT DECEMBER 31, 1996

	Arg\$ millions	Share (%)
1. Nonfinancial debt	108.7	11.3
2. Financial debt	853.8	88.7
- Bank privatizations	628.4	65.3
- Other	125.4	23.4
TOTAL DEBT STOCK AS AT DECEMBER 31, 1996	962.5	100

Source: Advisory Office, Ministry of Economic Affairs and Finance, based on the report "Informe de la Deuda", Public Debt Tracking Division, December 31, 1996.

- 1.16 The Province's debt stock at this writing is equivalent to 91.3% of total current revenue, well up from 17.4% in 1992. ^{10/} Interest on government debt (excluding the debt associated with the privatized banks) was equivalent to 3.1% of current revenue in 1996 and has been projected at 2.4% for 1997. The total interest burden for 1997, reflecting the costs of the aforementioned bank-related debt, will be equivalent to 7.1%. Given the present maturities schedule, service of principal and interest this year will total Arg\$236 million, equivalent to 20.9% of current revenue.

C. The Province's program through 1999 and modernization of the State

- 1.17 In general terms, the Province's program for the next three years seeks to spur economic, social, and political development with an eye to promoting balanced growth in Mendoza, allowing it to become an active player in MERCOSUR and in the global economy. In forging closer links with these markets, it will be necessary to deepen the integration of physical infrastructure with Chile, given Mendoza's advantageous location on the best overland route connecting the Atlantic and Pacific Oceans. The program's success will hinge on the following objectives being met: improving financial solvency in the medium and long term, and modernizing the State so that it may become a manager, planner, and promoter of true development of civil society and its activities, pursuing policies that seek greater social equity, better quality of life, and the elimination of regional disparities.
- 1.18 The loan request presented by the Province of Mendoza to the Bank, as outlined in chapter II, is seen as a crucial complement to the

^{10/} A recent World Bank study reckons an average debt-stock to current-revenue ratio of 57% for the 24 provinces (Argentina: Provincial Finances Study, IBRD, June 1996).

strategy of reforming the provincial government's action and intervention mechanisms. The State needs to delegate all non-core activities and reserve for itself only those activities that are in the social interest; to do this, it needs to redefine the functions that the public sector provides. The government's program focuses on two fronts: consolidating fiscal solvency and modernizing the public sector. The following paragraphs summarize the principal structural constraints for public-sector solvency and operation and the measures contained in the government's program to address them.

1. Fiscal solvency over the medium and long term

- 1.19 The fact that there is no formal arrangement for cushioning the financial impact of economic recession, e.g., the difficulty in raising funds coupled with unwanted, unplanned budget deficits, impinges directly on any medium-term target for fiscal solvency and a balanced budget. The Province intends to refinance its consolidated public debt with a view to reducing the interest burden and securing longer maturities for the principal. As a way of controlling debt levels and preventing the resurgence of past problems, a set of balanced-budget policies and rules are being considered. These will provide a framework within which revenue and spending policy can promote fiscal solvency in the public sector. Plans include setting up a public finance stabilization fund to attenuate the effects of the business cycle on budget revenue and, by extension, on spending policy.
- 1.20 As part of the proposed actions, the procedures of the Fund for Change and Growth - whose initial capital had come from federal-government settlement of debt to the provinces - will be rewritten to allow for loans to be made through a financial intermediary; the State will cease to be a direct lender. Monies from the Fund will be used as a transparent and measurable subsidy to sectors that the Province chooses to promote, and will supplement loans granted by financial intermediaries. Fifty percent of the Fund will be earmarked for private-sector credits, as compared with 25% historically. In the public sector, steps will be taken to ensure that the Fund is used for public investments and not for current expenditures.
- 1.21 The combination of shortcomings in organization and structuring in the public sector, inadequate systems for staff selection, hiring, and promotion, an incentive system that is out of step with the private sector, and outdated administrative procedures substantially increases the provincial economy's transaction costs and keeps agencies from formulating policies that are responsive to society's changing needs. The Province intends to cap personnel expenditures at the current 61% of the total budget, coupled with such temporary measures as freezing seniority-based benefits at their December 31, 1995, levels and suspending automatic annual promotions until such time as a review has been completed of all civil-service legislation and criteria have been adopted as to

productivity and efficiency in the areas of revenue, expenditures, and staff promotions. Staff levels will be reduced by means of a voluntary termination program as well as other measures designed to convert permanent public-sector employees into contractual staff, by structuring fee payments around actual demand, as proposed for the health sector. The goal is to downsize staff, provide training for human resources, and implement a modern administrative career civil service, with the ultimate aim of paring personnel expenditures.

2. Privatizations

- 1.22 Public-sector companies are unable to maintain investment levels that can guarantee quality service at competitive rates. In order to focus more on planning and control, the current administration has decided to complete the privatization process begun under the previous administration. With the provincial banks having been privatized in 1996, the plan now is to privatize Energía Mendoza Sociedad del Estado (EMSE), as authorized under Law 6498; concession out the trolleybus services provided by Empresa Provincial de Transporte (EPT), as authorized under Law 6180/94; complete the privatization of Obras Sanitarias Mendoza S.A. (OSM), for which tender documents have already been drawn up and authorization given under Law 6044/93; and liquidate the residual entity of Bodegas y Viñedos Giol Empresa Estatal, Industrial y Comercial, which was privatized in 1988.
- 1.23 Studies will also be conducted on other possibilities for privatization, concessions, or other ways to delegate to the private sector operations or activities that are not inherently the domain of the State. The objective will be to free up resources that could be used to boost public investment in physical infrastructure, retire debt ahead of schedule, and channel any surpluses into the soon-to-be-created Public Finance Stabilization Fund (see Annex II-3 in the technical files).

3. Modernization of priority areas in the Province's three branches of government

- 1.24 The public sector needs to be revamped and reorganized in keeping with its new functions; modern administrative processes need to be introduced, including the "one-stop" approach wherever possible; and the workings of government need to be improved with the objective of increasing administrative efficiency and effectiveness, making government more transparent, making it easier for citizens to carry out administrative procedures, changing the existing administrative culture, improving service quality, and equipping public institutions to devise policies that respond to society's needs.

a. Health and social development

- 1.25 The core task in these sectors will be to implement structural reforms with an eye to improving service coverage and quality, channeling spending to the neediest groups, recovering costs, and making service administration more efficient. Reform will entail action in three areas: (i) modernization of administrative structures, devolving responsibility to the municipalities; (ii) reformatting of service delivery, converting supply-based structures into demand-driven structures; and (iii) redefinition of arrangements and sources of financing for primary health care, promoting self-financing by means of cost recovery for hospital services and fee-for-service approaches.
- 1.26 In the health sector, the lack of good primary care, especially among low-income groups, generates high demand for hospital services. This reflects shortcomings in health promotion and prevention policies, and leads to high costs and inadequate delivery of services, when nonhospital primary care could produce better results at a lower cost.
- 1.27 Work will be stepped up in the area of primary health care protection and promotion, focusing initially on the lowest-income groups through a new family health care delivery model that is financed by a demand-based fee structure; the self-managed hospital model will be extended, and a service pricing system will be set up; cost-recovery strategies will be devised for health care services provided to users who are affiliated with an *obras sociales* health insurance system or a prepaid medical care plan, or who are otherwise able to pay for services; and a data and records system will be implemented for users of health services and social development programs, beginning with the lower-income groups and moving gradually toward universal coverage.
- 1.28 As concerns social development, prevailing service-delivery strategies for children, adolescents, and the elderly are outdated. These strategies, which are built around centralized institutions and programs that confine minors and the elderly to special homes, would be more efficient if they were devolved to the municipalities with joint responsibility being assigned to the community. Decentralizing and strengthening these programs by providing training for provincial, municipal, and community social agents, together with a system for information, monitoring, and evaluation, would help to make social programs more efficient and better targeted.
- 1.29 The Province's health and social development spending averaged US\$210 million each year over the past three years. The reforms being proposed here could lower current expenditure in various areas of the public sector. Although social spending is currently at an adequate level, it will be necessary to provide protection to the more vulnerable groups that have unmet basic needs to ensure

service coverage while reforms are carried out under the proposed program.

- 1.30 Within the provincial social spending category, the following priority groups were identified as requiring special protection: children, adolescents, the elderly, and disabled individuals who are at risk. This protection will need to be provided under both primary health care and social development programs. The preparatory studies carried out by the Health and Social Development Secretariat for the program proposed herein indicate that, by targeting these groups, more cost-effective use will be made of resources.

b. Other priority areas

- 1.31 The government's program also includes actions to modernize the executive, legislative, and judicial branches. In the executive branch, work will focus on making spending more efficient and on enhancing service delivery, public management, and tax and financial administration.
- 1.32 In 1996, the process of outsourcing the government printing office was completed. It is now proposed that the work of four offices of the Ministry of Environmental Affairs and Public Works (those responsible for transportation and construction) be outsourced.
- 1.33 In keeping with the "one-stop" approach, it is proposed that a bureau for regulatory agency affairs be set up, so as to make optimal use of resources for controlling and supervising service quality and the user fees to be paid to providers of privatized services. This office would provide administrative support to the regulatory agencies for water supply (EPAS, set up with support from the Multilateral Investment Fund), electricity (being set up), and transportation (being converted).
- 1.34 There is no effective control mechanism in place for public spending: records systems are not centralized and there is no evaluation of results. There is also no coordination between planning, execution, and control of overall resources and outlays. The idea now is to convert the budget into a management tool, unify the accounting records system, and adopt the principle of unified cash balances in order to have better control over budget execution in real time. A macrosystem will be set up to provide optimal financial coordination of planning, execution, and control of all public resources and spending in all centralized and decentralized areas of the government.
- 1.35 On the revenue raising side, tax evasion remains at high levels despite continuous fine-tuning of collection controls since 1988. Efforts will have to be redoubled to simplify the tax structure and design more fully automated control systems, in order for tax administration to become more efficient and equitable. Voluntary

taxpayer compliance will be encouraged by means of tax administration actions that increase the likelihood of evaders being penalized. In this connection, tax laws will be reviewed, the Internal Revenue Bureau will be modernized, and the possibility of replacing the gross receipts tax with a single-stage retail sales tax will be examined. The Province has put together a fiscal program that does not entail levying any new taxes or raising the rates of existing ones, moving gradually toward phasing out all exemptions in order to eliminate inequities and distortions.

- 1.36 Access to the justice system is limited and cumbersome, owing to a series of factors: planning is inadequate; procedures, technology, and organizational systems are outdated; there are scarce incentives for advanced professional training for judges, prosecuting attorneys, and court officers; infrastructure is weak; and there is little or no coordination with the legislative and executive branches. Litigation costs can take up to 60% of the relief being sought. The quality of court decisions is impaired by inadequate control and jurisprudence systems and the scarcity of information on citizens' rights and responsibilities. All these factors come together to undermine the provincial economy's competitiveness by unnecessarily raising economic transaction costs.
- 1.37 The Supreme Court will be strengthened by means of revamped structures and procedures that clearly separate judicial functions from administrative ones; the court system's administrative and case-management capacity will be enhanced by reformulating procedures, implementing modern technology, and providing ongoing training for magistrates, judges, and officers; and a general facilities and infrastructure plan will be drafted for the judiciary, to improve access to the justice system and ensure its effective exercise.
- 1.38 The legislative branch needs greater institutional capacity in order to adequately perform its legislative, representative, and control functions. Currently, there is an overproliferation of procedural laws and legislation of lesser importance, coordination is frequently lacking between the legislative and executive branches on important matters of provincial concern, and budget control is inadequate. There is also overlapping and duplication of functions between the two chambers. The legislative branch will be strengthened by modernizing its structure and organization, providing advanced professional training for staff, regulating functions, automating activities, and upgrading facilities. In particular, the administrative and legislative functions of the two chambers will be defined, aligned, and coordinated in order to eliminate overlapping and duplication. Modern budget control systems will be instituted. The quality of legislation, too, will be improved by building up advisory and technical drafting capacity. A plan will be devised and implemented for reducing legislative delays by focusing legislative activity on priority

issues. Lastly, communications will be improved between the legislature and the community.

- 1.39 In addition to these actions, the government is taking other action on its own in the areas of education, road transportation, and transparency of public management (see letter of understanding).

D. The Bank's strategy

- 1.40 In support of the priorities set by the national government and in compliance with the guidelines of the Eighth Replenishment, the Bank's action in Argentina focuses on the following core activities: (i) deepen and consolidate **modernization of the State** at the central level, and extend it to the provincial and municipal governments; (ii) **reduce poverty and raise the quality of life** through actions aimed at providing sources of gainful employment, and increasing the quality and coverage of social programs; and (iii) **boost productivity and competitiveness** among the tradable goods sectors, adopting an approach that espouses environmental protection and provides support infrastructure and activities that will help to modernize the productive apparatus and foster regional integration.
- 1.41 The proposed program addresses the first two objectives mentioned and responds to the Eighth Replenishment mandate recommending support for "reforms in the public sector (i.e., in tax, budget and expenditure policies, institutional strengthening and support for sub-national governments)" (document AB-1704, paragraph 2.52) and "to improve the Bank's performance in channeling benefits to the low-income groups" (document AB-1704, paragraph 3.23).
- 1.42 One of the Bank's immediate challenges in Argentina is to provide support for social and economic development in the provinces, especially for fiscal adjustment and government reform. The Bank is already active in the decentralization of social programs in Argentina (health, basic education, and social development, mainly), since this strategy makes for better targeting, efficiency, and flexibility in the management of those programs.
- 1.43 In 1995, the national government announced that the provinces could borrow (with sovereign guarantee) directly from multilateral banks, in order to support reforms embodied in the national economic program and aimed at enhancing fiscal revenue collection, moving forward with privatization programs, and making public spending more efficient.

- 1.44 Such direct lending is a supplement to other efforts that the Bank (and the IBRD) has been engaged in under loans to Argentina in which the Province of Mendoza has been an active participant. Direct lending to the provinces, it is felt, makes it possible to tailor project designs to the specific needs of each province and thus enhance the province's ownership of the program.

II. THE PROGRAM

A. Objectives

- 2.1 This program seeks to support comprehensive public-sector reform in the province of Mendoza, especially, the Province's efforts to (i) achieve fiscal solvency in the medium and long term and (ii) undertake broad-scale modernization of all three branches of the provincial government, while providing protection for the most vulnerable population groups during the reform process.
- 2.2 To help the Province achieve fiscal solvency, the program will provide support for a set of structural reforms aimed at reducing debt levels, balancing public revenues and expenditures, and introducing measures to ensure balanced public accounts in the future.
- 2.3 To help modernize the Province's public sector, efforts will focus on identifying those government functions that cannot be delegated, strengthening the Province's institutional capacity to mobilize resources efficiently, promoting more efficient delivery of public services, enhancing the performance of programs that address the health and social development needs of the province's population, and developing and modernizing institutional tasks in the legislative and judicial branches.
- 2.4 To protect the province's most vulnerable groups during the reform process, the volume of social-program spending on targeted groups in the areas of health and social development, and coverage of those groups, would be maintained.

B. General description

- 2.5 The program has three components: (1) fiscal solvency, (2) privatizations, and (3) modernization of priority areas in the three branches of government.
 1. Fiscal solvency component (no financial cost to the program)
- 2.6 This component is based on fiscal policy measures that include action in the revenue and spending areas and policies that will strengthen the situation of public finances over time.
- 2.7 The provincial government's budget policy during program execution will be geared toward reducing the ratio of debt stock to current revenue and creating conditions for sustainable fiscal solvency over the medium and long term by means of a balanced budget. To achieve this, the Province will:

- a. Effect savings and restructure expenditures in order to produce current savings and budget surpluses in the medium and long term. Projected surpluses will be used to retire provincial debt. The debt-to-current revenue ratio will drop from over 0.9 to around 0.6 over the space of four years. The investment program will observe stringent economic and social return criteria and will be required to remain within the overall budget framework as defined (see letter of understanding in Annex II-1 and fiscal projections and assumptions in Appendix 1 to Annex III-2).
- b. Establish a public finance stabilization fund to cushion cyclical effects on provincial finances and as a complement to standing balanced-budget rules (see Annex II-3 in the technical files for an explanation of how the fund will work).
- c. Adopt a balanced-budget rule, whereby the executive branch will be required to submit annual budgets that meet the following criteria: (i) public-sector current savings are to be positive or zero and (ii) as of fiscal year 2000, the ratio of total debt to current revenue should be around 0.60. The goal will be to convert the fiscal-policy approach pursued in the program into a permanent modus operandi for the provincial government.

2.8 The following fiscal targets have been agreed upon for the program; they are a summary version of the budget revenue and expenditure projections presented in greater detail in Annex III-2, Appendix 1:

TABLE II-1 FISCAL TARGETS (In millions of current pesos)					
	1996	1997	1998	1999	2000
Current revenue	1,054	1,128	1,185	1,229	1,273
Own revenue	493	501	527	547	565
Current expenditures	1,086	1,091	1,089	1,093	1,087
Personnel expenditures <u>a/</u>	634	649	653	645	645
Capital expenditures <u>b/</u>	861	115	179	209	210
Current savings	-32	37	96	136	186
Surplus (deficit)	-666	-43	133	31	50
EXPENDITURES AS A PERCENTAGE OF CURRENT REVENUE					
Current expenditures	103.0	96.7	91.9	88.9	85.4
Personnel expenditures	60.2	57.5	55.1	52.5	50.7
Capital expenditures	81.7	10.2	15.1	17.0	16.5
Current savings	-3.0	3.3	8.1	11.1	14.6
Surplus (deficit)	-63.2	-3.8	11.2	2.5	3.9
Debt ratio	91.3	89.1	73.6	68.4	62.1
<u>a/</u> For 1997 and 1998, includes cost of voluntary terminations.					
<u>b/</u> For 1996, includes costs assumed in association with bank privatizations.					

- 2.9 As the table shows, debt as a percentage of current revenue will drop significantly, ultimately reaching a level just over 60%. The program seeks to bring about a major reduction in personnel expenditures: from 60% of current revenue to just over 50% by program completion. Capital expenditures, which had fallen considerably during the recession, would return to higher levels upon including the investments called for under the legislation to privatize State companies. Current savings would grow over each year of the program, reaching a level equivalent to roughly 15% of current revenue in the year 2000. Conditions are expected to be in place upon program completion that would allow for these fiscal indicators and the improvements achieved to be maintained (see paragraph 3.25(c)).

2. Privatizations component (US\$7.5 million)

- 2.10 Three companies would be privatized or concessioned out under the program:
- Energía Mendoza Sociedad del Estado (no financial cost to the program). EMSE currently serves some 330,000 customers directly and has a staff of 1,611. Annual invoicing is roughly US\$170 million. Over the last 10 years, EMSE has run an annual current deficit on the order of US\$11.5 million, which has been covered through capital contributions (FEDEI, hydro royalties, rate equalization fund). EMSE's current activities will be divided into two business units, one for distribution (EDEMSA)

and one for generation (GEMSA). The privatization bill was passed into law in May 1997, and control of the company is expected to be handed over to the private sector in 1998.

- b. Obras Sanitarias Mendoza S.A. (US\$1.6 million). OSM supplies water to roughly one million customers and sewerage service to over 780,000. With annual invoicing of US\$60 million and a staff of 979, it has not been running any operating deficit. The Province currently controls 90% of the company's shares. With privatization, OSM's capital would be raised initially by 20%, and the resulting 70% share control would be transferred to an investor/operating company for a period of 25 years. The privatization agreement is expected to be signed in 1997. The Province has approved the regulatory framework and enacted legislation authorizing privatization of the production, distribution, and marketing of water supply and domestic and industrial sewage collection and treatment services.

The company's staff would be resized selectively through a voluntary termination program (indemnities would be paid to some 80 employees), coupled with a program to provide training to 600 other employees, to be charged against the local counterpart (see Table II-2).

- c. Empresa Provincial de Transporte (US\$5.8 million). The EPT trolleybus company currently transports 5.5 million passengers each year and will service 11.4 million users once new lines are built with private investment. EPT had revenues of US\$3 million in 1996, but has been running a deficit since 1992, which the Province has covered in the amount of nearly US\$95,000 each year on average. The company has high operating costs, spends little on large-scale maintenance, and has a rigid staff structure (85 permanent staffers and 81 contractuales).

To make the company attractive for concessioning out to the private sector, the government decided to finish up investments to replace overhead cables. An international competitive tender was held, and the contract went to Siemens Argentina. The process was reviewed by the IDB and was found to meet with its guidelines, making these costs eligible for financing under the program. The concession would be given for 20 years, with an additional five-year option.

Loan proceeds would be used to finance 83% of the works, in order to ensure the continuity and acceptable quality of services, along with consulting services and training for 85 employees. The local counterpart would fund 17% of the works, the purchase of a section of the site where the terminal is located, and voluntary terminations for roughly 40 employees (see Table II-2).

- 2.11 As the following table shows, for the privatizations component the Bank will finance 83% of the works, 69% of consulting services, and 10% of training costs. The local counterpart will finance program-related indemnities and 31% of training.

<p align="center">TABLE II-2 PRIVATIZATIONS (in thousands of U.S. dollars)</p>					
	WORKS	CONSULTING SERVICES	TRAINING	INDEMNITIES	TOTAL
OSM			690	960	1,650
EPT	5,073	29	97	603	5,802
Total	5,073	29	787	1,563	7,452
IDB	4,200	20	80		4,300
Local	873	9	707	1,563	3,152

3. Modernization of the State component (US\$141.6 million)

- 2.12 This component will focus on reform and institutional strengthening of priority areas in the executive (US\$119.1 million), legislative (US\$3.6 million), and judicial (US\$14.5 million) branches of the provincial government. Actions in the **executive branch** will target reform of the structure and services provided by the Health and Social Development Secretariat (US\$55 million), social protection for targeted groups (US\$51.1 million), and measures to revamp the structure of spending and to reform financial and tax administration (US\$12.9 million).

a. Reorganization of the health and social development sector (US\$55 million)

- 2.13 Analysis of the province's health sector has pointed up three central problems: (i) services are inefficient, owing to overuse of hospitals and the high costs that entails; (ii) public hospitals have limited patient-selection capacity and end up providing free services to patients who are affiliated with an *obras sociales* health insurance system or a prepaid medical care plan, or are otherwise able to pay for services themselves, thus pushing up the system's average costs; and (iii) low-income groups have limited access to primary health care and secondary prevention, thus increasing the likelihood of health problems and overuse of hospitals, with the consequent impact in terms of higher costs.
- 2.14 Family health (US\$38.7 million). To address the first problem (overuse of hospital services), the plan is to extend primary health care coverage and improve its quality by means of a system whereunder family physicians are paid according to a demand-based fee structure. The system entails a proactive care strategy,

including home visits and prevention measures that promote more effective use of basic care, to cut down on hospital use. The linchpin of this strategy will be the family doctors, who will not be government employees but rather will have their remuneration linked to the number of patients that they are able to attract (capitation payments) under a competition-based structure. An estimated 350,000 people would receive care services over a three-year period.

- 2.15 The system would be instituted gradually, with physicians from health posts and hospitals (who are currently government employees) being trained and converted over to the status of self-employed professionals who would be remunerated on a capitation basis. In the beginning, support teams (nurses, laboratories, and home visitors) and teams of consultants in basic specialties (pediatricians, gynecologists, etc.) would be set up and would work with these physicians. Later on, in the medium and long term, these services would be supplied under a global capitation arrangement funded by the government. The services could be offered by private providers (prepaid health care plans or the *obras sociales* system) that find the government's remuneration level acceptable.
- 2.16 During the first phase, attention would focus on low-income groups that have no access to the *obras sociales* system or prepaid medical care and are fully subsidized by the government. Subsequent evaluations could lead to the implementation of a model that included higher-income groups through cost-recovery strategies, depending on the progress of the reforms slated in the *obras sociales* system. Preliminary estimates indicate that there is a sizeable population not receiving acceptable coverage under the *obras sociales* system who would be eligible for program coverage.
- 2.17 The high cost indicated for this activity stems from the capitation payments (per-patient payments made to physicians for comprehensive health care services). These payments will amount to US\$28.7 million, of which the Bank would fund incremental costs totaling US\$17 million. The Bank's share of funding under this heading would decrease steadily, from 100% in year one to 33% in year three of the project, allowing for the provincial budget to absorb the program financing gradually.
- 2.18 Cost recovery (US\$3.1 million). To address the second problem (services being provided at no cost to patients who are able to pay), a cost-recovery system needs to be set up for public health care services that are provided to individuals affiliated with the *obras sociales* system or a prepaid health care plan, in order to keep down the cost of maintaining public health institutions. The system would be implemented at hospitals first, and then be extended over time to nonhospital facilities and ultimately to family physicians. Success of the system will hinge on two additional activities, which will be financed by the program:

(i) health care services need to have administrative autonomy, which can be achieved by extending the model of self-managed hospitals, and (ii) health care users need to be identified appropriately, so that government-subsidized programs can target low-income groups and so other groups can be identified for which cost-recovery schemes could be implemented.

- 2.19 Self-managed hospitals (US\$1 million). The self-managed hospital program, whereunder hospitals are converted into flexible institutions with budget autonomy, including the authority to hire and terminate staff, has begun at four provincial hospitals, financed under the World Bank's PRESSAL program. IDB funding would be used to extend the program to other hospitals in the province of Mendoza. The costs for this activity are associated mostly with training (around 75%), since the studies and consulting services were already carried out during the previous stage.
- 2.20 Identification of users (US\$2.4 million). To address the second and third problems outlined above, a system will be set up to identify users of social development and health services in order to (i) target government-subsidized programs to low-income groups and (ii) identify users who are members of private health care programs or are otherwise able to pay for such services. The system would operate on the basis of magnetic cards containing coded data on the holder's socioeconomic and demographic characteristics. Each time a user accesses the system, the relevant medical and epidemiological data and the costs incurred are entered into the individual's database. This will make it possible to manage demand effectively and improve the quality of medical and epidemiological data, as well as provide input for decision-making on costs associated with the services provided.
- 2.21 Health promotion and protection (US\$1.6 million). The province's disease burden could be reduced significantly through secondary health prevention programs, which would diminish the risk of chronic disease. The program will support promotion and prevention strategies geared toward reducing the disease burden by heightening individual awareness and through action in the areas of health and the environment.
- 2.22 Social development (US\$8.3 million). The program will support institutional strengthening of the Province's Social Development Undersecretariat and decentralization of social services to municipal governments and NGOs with an eye to enhancing the efficiency and effectiveness of these services. To this end, technical assistance will be provided for: organizational and functional restructuring in this area and for the design and implementation of a strategy to decentralize social services; development and implementation of a social programs information, monitoring, and evaluation system; and training for provincial, municipal, and NGO social service staff and workers.

b. Social protection for targeted groups (US\$51.1 million)

2.23 An adequate level of social spending needs to be maintained during periods of public-spending adjustment in order to protect the most vulnerable groups. In this connection, the local counterpart contribution will defray a portion of the Health and Social Development Secretariat's expenses for supplies (excluding personnel expenditures) in the following programs for self-targeted groups:

- Primary health care for low-income groups (US\$10.2 million). Health spending on primary care will be targeted more accurately, respecting the commitment to attend to basic needs among the most vulnerable groups. The regions that the Social Development Undersecretariat has identified as being most vulnerable will be targeted through a network of home visitors and the SIEMPRO Social Programs Information, Evaluation, and Monitoring System until the SISFAM Beneficiary Identification System is up and running. Once the system for identifying health and social development service users is developed as provided for in the program, targeting criteria will be fine-tuned. The costs involved (US\$10.2 million) are for goods and services and would be financed out of the local counterpart. This amount represents less than 3% of the Health Undersecretariat's non-personnel expenditures for the next three years.
- Decentralized programs for children, adolescents, the elderly, and the disabled (US\$20.7 million). The purpose here is to maintain the level of budget funding earmarked for targeted social development programs that are administered by the municipal governments. These programs have the following features: (i) they are self-targeting, in that the groups involved have a limited ability to work or to support themselves; (ii) they are an important part of the Social Development Undersecretariat's strategy, since preliminary investment studies have shown that decentralization will enhance social service efficiency under these programs. The expenditures protected under the program represent less than 22% of the Social Development Undersecretariat's estimated budget (not including personnel) for the next three years.
- Self-targeting programs (US\$20.2 million). The Social Development Undersecretariat's long-term objective is to decentralize the Province's social programs to the greatest extent possible. To this end, the Province has agreed to maintain, at current coverage levels, existing provincial self-targeting social programs for children, adolescents, the elderly, and the disabled. This commitment may be reviewed in the light of supervisory mission findings on the municipal governments' ability to take over these programs. The program costs for this heading represent less than 22% of the Social Development Undersecretariat's estimated budget (not including personnel costs) for the next three years.

TABLE II-3 SOCIAL SUBPROGRAMS (in thousands of U.S. dollars)									
	Works	Equipment	Consulting services	Training	Capitation payments	Indemnities	Supplies	Associated costs	Total
I. Health	60	9,033	2,362	3,143	28,656			3,500	46,754
Family health		4,992	1,206	366	28,656			3,500	38,720
Cost recovery		2,606	5	460					3,071
Self-managed hospitals			234	748					982
Identification of users		1,435	750	220					2,405
Health promotion and protection	60		167	1,349					1,576
II. Social development	2,369	1,287	946	690		3,000			8,292
Institutional strengthening		836	323	600		3,000			4,759
Support for decentralization	2,369	451	623	90					3,533
III. Targeted programs							1,148		1,148
Primary health care							10,200		10,200
Decentralized programs for children, adolescents, elderly, and the disabled							20,720		20,720
Maintenance of self-targeting programs							20,228		20,228
TOTAL	2,429	10,320	3,308	3,833	28,656	3,000	1,148	3,500	106,194
IDB	2,000	8,500	30	3,150	21,820		-	3,500	1,700
Local	429	1,820	578	683	6,836	3,000	1,148		64,494

- 2.24 As the preceding table shows, IDB loan proceeds (covering 39% of social subprogram costs) would go toward financing 76% of capitation payments (see paragraph 2.18), 82% of equipment, training, works, and consulting services, and almost 100% of associated costs. The local counterpart (covering 61% of the subprogram costs) would defray the cost of protecting targeted programs for vulnerable groups (supplies), 24% of capitation payments, and program-related indemnities.

c. Other priority areas in the executive branch
(US\$12.9 million)

- 2.25 Under this component, the Province's spending structure will be revamped by delegating activities that do not necessarily have to be provided by the government, while reserving for itself the control and audit functions for privatized public services. The following activities are planned:

Outsourcing (US\$1.4 million). Activities carried out by the following units of the Ministry for Environmental Affairs and Public Works are to be outsourced: the Offices of Public Works, Architecture, and Site Inspections and Audits; the Materials Testing and Research Bureau; and the Transportation Department.

Although outsourcing will not yield a significant reduction in public-sector staffing (an estimated 86 persons, or 16% of the staff of the two departments affected), it will have an important demonstrative effect prompting other areas to follow suit. The IDB will finance equipment and training, while the local counterpart would cover program-related indemnities.

Bureau for Regulatory Agency Affairs (US\$1.1 million). An office will be set up to provide administrative support for regulatory agencies that oversee utility companies. Specifically, the office will receive complaints, refer requests to the respective regulatory agency, and monitor quality in the delivery of public services, thus fulfilling a consumer protection function (see paragraph 1.33). The IDB will finance all costs related to equipment, consulting services, training, and the associated costs of this subcomponent.

- 2.26 Tax policy and administration (US\$4.9 million). The Province's tax administration will be modernized by strengthening the Internal Revenue Bureau through actions to improve tax collection, compliance tracking, and audits. The main outputs and outcomes expected under this component are (i) an updated policy framework, including possible tax policy changes; (ii) a tax administration system organized on the basis of segmentation of taxpayers by economic size (large taxpayers unit); (iii) a stronger training effort as a key element of human resources management at the bureau; and (iv) a revamped tax information system that allows for systematic use of data to monitor tax compliance. The IDB will finance 85% of equipment, 78% of consulting services, and 90% of training; the local counterpart will finance the balance of these items, as well as small-scale works.
- 2.27 Financial administration (US\$2.5 million). With a view to enhancing its management of public spending, the Province will overhaul the entire financial administration system in line with the principles of integration and systematization embodied in National Law 24,156. A macrosystem will be devised whereby budget formulation and execution can be controlled and evaluated on the basis of results. The macrosystem will have the following component systems: budget, accounting, cash management, public credit, control, and audit.
- 2.28 The main outputs expected are (i) a stronger, results-based budget formulation and evaluation system, (ii) an integrated, computerized public accounting system, (iii) provincial treasury funds consolidated into a single account and effectively administered, (iv) better management of the Province's public debt, (v) up-to-date legal and formal controls under the provincial comptroller's office, and coordination with management control in the executive branch, and (vi) appropriate human, physical, and computer resources for the integrated financial management system. The reform process will be embodied in a new Financial Administration

and Control Act to be drafted with support from the program. The IDB would cover 100% of equipment, 97% of consulting services, and 100% of training; the local counterpart would cover 3% of consulting services.

- 2.29 Strengthening of public management (US\$2.9 million). This component seeks to enhance the executive branch's ability to formulate policies that respond to social needs, make spending more efficient, improve relationships among the three branches of government, increase efficiency in the management of government human resources, streamline public management and evaluate its efficiency, and define minimum standards for providing public services. Accordingly, studies and activities are planned in the areas of reengineering the executive branch's administrative procedures, human resources management, organizational reform of the Province, and strengthening of the inspector general's office. ^{11/} The IDB will finance 71% of consulting services and 44% of training; the local counterpart will finance the remaining amounts in these two categories.

TABLE II-4 OTHER PRIORITY AREAS (in thousands of U.S. dollars)							
	Works	Equipment	Consulting services	Training	Indemnities	Associated costs	Total
- Bureau for Regulatory Agency Affairs		720	45	25		350	1,140
- Outsourcing		839		76	500		1,415
- Tax administration	33	1,743	2,220	610	-	250	4,856
- Financial administration	-	1,222	1,225	90			2,537
- Public management			1,471	1,501			2,972
TOTAL	33	4,524	4,961	2,302	500	600	12,920
IDB	-	3,700	4,100	1,900	-	600	10,300
Local counterpart	33	824	861	402	500		2,620

- 2.30 As can be seen in Table II-4, the IDB will finance 82% of equipment, 83% of consulting services and training, and the associated costs; the local counterpart will cover the adaptation of premises, 18% of equipment, 17% of consulting services and training, and program-related indemnities.

^{11/} Logical frameworks for each of these activities are on file with RE1/OD2.

- 2.31 The legislative branch (US\$3.6 million). The provincial legislature will see its administrative, organizational, and technological capacity strengthened so that it can better perform its legislative, representative, and control functions. Six projects are planned: (i) reorganization of the legislature and drafting of operating rules, for the specific purpose of equipping it with a more effective organization and methods that will make for greater security, flexibility, representativity, standardization, and efficiency in its administrative affairs; (ii) upgrading of human resources, through advanced professional training for technical staff; (iii) enhancement of legislative and oversight functions, by developing and implementing a plan to reduce legislative delays, a technical advisory system, rules for legislative procedures, and a budget control system; (iv) strengthening of management control in the legislature, including ranking legislation by order of importance; (v) adaptation of premises (US\$1 million), to better respond to the legislature's needs in keeping with its specific functions and concerns with economy; and (vi) support for strategic proposals, to increase the likelihood of success of plans for the legislature and strengthen relationships with the community. As the table below shows, the IDB will finance 77% of the costs for this component (83% of works, 81% of equipment, 59% of consulting services, and 82% of training).

TABLE II-5 LEGISLATURE (in thousands of U.S. dollars)					
	Works	Equipment	Consulting services	Training	TOTAL
Legislature	1,090	1,353	761	402	3,606
IDB	900	1,100	450	330	2,780
Local counterpart	190	253	311	72	826

- 2.32 The judiciary (US\$14.5 million). The Province's Supreme Court would be strengthened, to better equip it to manage the proposed reforms and enhance the quality and coverage of the court system. Three projects are planned: (i) improve administrative and court system management by strengthening the Supreme Court and the lower courts; (ii) provide training for court officers, judges, and magistrates; and (iii) carry out a general infrastructure and facilities plan, to provide appropriate premises for conducting activities that will promote the accessibility, efficiency, security, and transparency of the judicial function. The IDB will finance 83% of equipment and consulting services, and 60% of training. The local counterpart will cover 100% of infrastructure and facility adjustments, 17% of equipment and consulting services, and 40% of training.

TABLE II-6 JUDICIARY (in thousands of U.S. dollars)					
	Works	Equipment	Consulting services	Training	TOTAL
Judiciary	4,725	4,473	3,827	1,489	14,514
IDB	-	3,700	3,160	880	7,740
Local counterpart	4,725	773	667	609	6,774

C. Program cost and financing

- 2.33 The program has a total cost of US\$160 million, of which 50% would be financed by the IDB out of its ordinary capital. The provincial counterpart includes US\$51.1 million for targeted programs in the social development and health sectors, to protect them from possible cuts during the fiscal adjustment process.
- 2.34 The following table presents the program's estimated costs and sources of funds:

TABLE II-7 COSTS AND SOURCES OF FINANCING, BY EXPENDITURE CATEGORY (in thousands of U.S. dollars)				
	IDB	Local	Total	%
I. Privatizations	4,300	3,152	7,452	4.6
- EPT (transportation - trolleybuses)	4,300	1,502	5,802	
- OSM (water supply and sanitation)	-	1,650	1,650	
II. Modernization of the State	66,880	74,714	141,594	88.5
A. Executive Branch	52,000	67,114	119,114	74.4
1. Health and social development	41,700	13,346	55,046	
2. Protection of vulnerable groups	-	51,148	51,148	
3. Other priority areas	10,300	2,620	12,920	
B. Legislature	2,780	826	3,606	
C. Judiciary	7,740	6,774	14,514	
D. Contingencies	4,360		4,360	
III. Management and Administrative Costs	1,340	1,349	2,689	1.7
IV. Fees and interest	7,480	785	8,265	5.2
- Credit fee		785	785	
- Inspection and supervision	800		800	
- Interest	6,680		6,680	
TOTAL	80,000	80,000	160,000	100

- 2.35 As can be seen in Table II-8, on the following page, the IDB will finance 53.2% of the planned works, mainly for the trolleybus company (EPT) and the judiciary; 82.2% of equipment for modernization of the three branches of government; 75.6% of consulting services, of which 83% would be for modernization of the State; 72% of training; 76% of capitation payments; and 95% of the associated costs.

TABLE II-8
COST AND FINANCING BY ITEM OF EXPENDITURE
(in thousands of U.S. dollars)

	Works	Equipment	Consulting services	Training	Capitation payments	Indemnities	Supplies	Associated costs	TOTAL
Privatizations	5,073	-	29	787	-	1,563	-	-	7,
EPT	5,073	-	29	97		603			5,
OSM				690		960			1,
Modernization of the State	8,277	20,670	12,857	8,026	28,656	3,500	51,148	8,460	141,
Executive Branch	2,462	14,844	8,269	6,135	28,656	3,500	51,148	4,100	119,
1. Health and social development	2,429	10,320	3,308	3,833	28,656	3,000		3,500	55,
2. Protection of vulnerable groups	-						51,148		51,
3. Other priority areas	33	4,524	4,961	2,302	-	500		600	12,
Legislature	1,090	1,353	761	402					3,
Judiciary	4,725	4,473	3,827	1,489					14,
Contingencies								4,360	4,
Management and administrative costs			2,689						2,
Fees and interest								8,265	8,
TOTAL COST	13,350	20,670	15,575	8,813	28,656	5,063	51,148	16,725	160,
	7,100	17,000	11,800	6,340	21,820	-	-	15,940	80,
al	6,250	3,670	3,775	2,473	6,836	5,063	51,148	785	80,

- 2.36 The local counterpart will cover 46.8% of works, 24.4% of consulting services, 38.1% of training, 24% of capitation payments, 100% of indemnities, and 5% of the associated costs. It will also defray the cost of protecting spending for supplies for vulnerable groups (excluding personnel expenditures) in the health and social development sectors. It should be noted that, pursuant to Article 5 of Decree 2009, any individual that has availed himself of a voluntary termination or outsourcing program is expressly prohibited from returning to work in the public sector.
- 2.37 The IDB will finance 50% of the Program Coordination Unit's administrative and management costs and the necessary incremental costs in each area of program implementation. Contingencies include: (i) preparation of studies and activities directly related to the reforms to be implemented, selected on the basis of eligibility criteria agreed upon with the Bank (see chapter III); (ii) additional costs that may arise under various program components; and (iii) the cost of an independent audit of the program's financial statements.

III. PROGRAM EXECUTION

A. Organization

1. The borrower, the guarantor, and general implementation arrangements

- 3.1 The Province of Mendoza will be the borrower and will carry out the program by way of the Secretaría General de la Gobernación de la Provincia [Provincial Office for Government Affairs], with support from provincial ministries, the judiciary, and the legislature. The Argentine Nation will be the guarantor.
- 3.2 Early in 1996, Decree 167/96 was enacted setting up the **Executive Committee for Reform, Administration, and Modernization of the State**, a deliberative body chaired by the Director of the Provincial Office for Government Affairs. The committee is made up of a representative from each provincial ministry, the Provincial Office for Government Affairs, the Office for Educational Affairs, and the Provincial Cultural Board. The person who will serve as the director of the proposed program is a member of this committee and would provide all the necessary information that is to be analyzed as part of the general reform process. The committee will also provide the executive director with the necessary support and sufficient information in keeping with that official's authority and responsibilities. Representatives from the other branches of government are also invited to sit on the committee from time to time.
- 3.3 The **Program Coordination Unit** will report directly to the Director of the Provincial Office for Government Affairs and will be responsible for the execution, coordination, monitoring, evaluation, and general supervision of the program. The unit will have an **executive director** and a support team (comprising a legal adviser, two assistants, two computer specialists, and two accountants) and will have the following responsibilities: (i) oversee and assess progress of the program overall, and of each component, to ensure that targets are met; (ii) develop and follow a general plan for the program; (iii) propose and implement a steering policy for the program; (iv) work with the respective ministers to assess the performance of area coordinators; (v) draft consolidated reports for presentation to the Provincial Office for Government Affairs and to the Executive Committee for Reform; (vi) serve as liaison with the Bank; (vii) oversee the program's financial administration; and (viii) set standard requirements and supervise contracts for goods and services.
- 3.4 Each branch of government – and, within the executive branch, each area – will hold responsibility as the execution unit for the respective projects, assisted by seven coordination offices:

(1) legislature; (2) judiciary; (3) fiscal solvency; (4) economy and finance; (5) health; (6) social development; and (7) public management. The area coordinators will work on a full-time basis in coordination with their respective ministers or branch of government and will serve as liaison with the Program Coordination Unit. They will be responsible for: (i) developing and following through with plans and an implementation schedule for their respective areas; (ii) coordinating the preparation of tender documents and terms of reference for goods and services to be procured; (iii) coordinating with the Procurement Office as to the procedures and actions needed for adequate procurement of goods and services; (iv) furnishing the executive director with all necessary data on program progress; (v) assessing program execution in their respective areas and submitting their assessment to the executive director; and (vi) drafting periodic reports on the performance of activities in their areas of responsibility.

- 3.5 The **Procurement Office** of the Economic Affairs and Finance Ministry will be in charge of procuring all goods and services required for projects carried out by the executive and judicial branches, while the legislative branch will arrange for its own procurements and hirings. In order to properly perform this task, the Procurement Office will have two additional professionals assigned to it.
- 3.6 The executive branch will enter into an agreement with each of the other branches of government specifically regulating, in a fashion acceptable to the Bank, the conditions for transferring resources, the respective obligations concerning procurements and hirings, evaluation, supervision, and coordination, arrangements for requesting disbursements, and the commitment to execute the projects in keeping with the agreements reached by the Province and the Bank. **Signature of each such agreement will be a prerequisite for the disbursement of funds under each subprogram.**
- 3.7 The structure proposed for the Program Coordination Unit (PCU) is warranted given the complexity of the projects comprising the program; these projects focus on institutional development and they involve all three branches of government as well as individual organizational units, each with its own management. The PCU will be responsible for setting and maintaining the pace of execution and priorities, a task that will be of paramount importance in order to ensure that public-sector processing times do not hinder program execution. Furthermore, the package of projects entails an enormous number of activities and staff, which makes it necessary to have an individual coordinator for each area, systematic control to make sure targets are met within the established time frames, and the ability to detect problems on a timely basis and identify possible causes.
- 3.8 **The prospective loan contract would include, as a general condition for disbursement of loan proceeds, the executing agency's**

obligation to show (i) that the PCU has been set up and has the structure and functions it needs in order to perform the tasks entrusted to it for program implementation; (ii) that the PCU has the staff and means necessary to carry out those tasks; and (iii) that the area coordinators have been assigned the necessary resources to perform the functions as agreed upon with the Bank.

B. Program implementation arrangements

- 3.9 Since the proposed program will support reforms in all three branches of the provincial government, the implementation arrangements call for a variety of actions and outcomes. First, there are the specific targets and objectives as stated by the government in the letter of understanding (Annex II-1), which presents full details on reform policies under way and steps to be taken in key areas, including those for which Bank support is being requested. Second, specific targets have been agreed upon with the government for some of the program components, and eligibility for the various loan disbursement levels will depend on compliance with these targets (see paragraphs 3.14 through 3.16). Lastly, a series of fiscal targets have been set with regard to the objective of greater fiscal solvency (Annex III-2, Appendix 1), which is viewed as the backbone of this operation. These three elements will need to be performed simultaneously and in a coordinated fashion as part of program implementation. Accordingly, disbursements will be made progressively as these objectives and targets are met. This will ensure the timely availability of resources for financing reforms, as in the case of privatizations and outsourcing, and for making investments (in the health area, especially) and providing technical assistance.

1. Eligibility for disbursements

- 3.10 In view of the foregoing, it is recommended that the program implementation arrangements make for clear separation of the program's stages. There will be three successive levels of disbursement eligibility, with the borrower presenting evidence of compliance with sets of conditions for each level of eligibility as set forth in the loan contract and described below. Proceeds would be disbursed only up to the respective eligibility level, to finance investments and activities directly related to reforms, as well as any expenses incurred to implement them. The following authorization levels are recommended: up to US\$30 million, upon confirmation of compliance with the conditions for loan eligibility and the conditions for the first eligibility level; up to US\$60 million, upon confirmation of compliance with the conditions for the second level; and up to US\$80 million, upon confirmation of compliance with the conditions for the third level.

2. Disbursements of loan proceeds

- 3.11 In order to defray the costs inherent in the privatization process and the proposed reforms, it will be necessary to advance more than the 10% normally allowed under the Bank's loan contracts. Based on an analysis of the main program events, **it has been calculated that an advance of up to 20% of the loan amount would need to be authorized.** This will provide the liquidity needed in order to cover program-related payments. All amounts disbursed against the program, regardless of the format (recognition of previous expenditures, direct payments, or advances), will be limited to the eligibility levels indicated above and will be subject to the Bank's normal rules and procedures.

3. General conditions and letter of understanding

- 3.12 The executing agency will be responsible for performing all such policy actions as may be necessary in order to move forward with fiscal consolidation and the reform process. **By way of the Program Coordination Unit, it is to present satisfactory evidence (see paragraph 3.25) to the Bank of compliance with the letter of understanding dated July 29, 1997, and signed by the governor of the province.**

C. Specific conditions for disbursements

- 3.13 The executing agency will be responsible for complying, to the Bank's satisfaction, with the conditions set forth in this and the following paragraphs for authorization of program disbursements. For each eligibility level, the Bank will assess the degree of compliance with the policy commitments referred to in the letter of understanding; the conditions set forth in paragraphs 3.14 through 3.16, as applicable; and the fiscal accounts of the last quarter for which figures are available. In this last case, debt and expenditure levels will be examined to verify that they are within the target guidelines set in Table II-1 (paragraph 2.8). The Bank may suspend disbursements at any time if it sees that targets are not being met.
- 3.14 Eligibility conditions for disbursements up to US\$30 million (first level):
- a bill has been presented to the legislature setting up the Public Finance Stabilization Fund
 - draft legislation has been introduced formalizing the requirement of a balanced budget
 - a call for bids has been issued for the privatization of Obras Sanitarias Mendoza S.A. and Empresa Provincial de Transporte

- a preliminary draft of the Government Control and Financial Administration Act has been submitted to the Bank
- guidelines on the proposed organizational reform of the Internal Revenue Bureau, including the creation of a unit for large taxpayers, have been submitted to the Bank
- studies have been commissioned for modernization of the health sector and social development

3.15 Eligibility conditions for credit and disbursements up to US\$60 million (second level):

- evidence has been presented to the Bank of satisfactory progress with regulations for the Public Finance Stabilization Fund
- evidence has been presented to the Bank that the necessary instructions for modifying the Fund for Change and Growth have been issued by the Executive Branch and are in effect, and that draft legislation has been submitted whereby the Province would no longer be the direct lender of these funds; the funds would be provided in the form of transparent subsidies and would supplement financial sector loans in priority areas
- evidence has been presented to the Bank that the budget proposal for 1998 reflects the balanced-budget principle
- Obras Sanitarias Mendoza S.A. (OSM) has been privatized and Empresa Provincial de Transporte (EPT) has been concessioned out
- tenders have been called for privatization of Energía Mendoza Sociedad del Estado (EMSE)
- environmental audits have been performed for OSM, EPT, and EMSE; a plan has been submitted to remedy any environmental problems associated with those companies; and evidence has been presented that funds are available to implement the plan
- a contract has been signed to design a system to assess the efficiency of social spending in the Ministry of Health and Social Development
- the draft version of the Government Control and Financial Administration Act has been submitted to the legislature for consideration
- satisfactory progress has been shown in organizational reform of the Internal Revenue Bureau, with payment-plan tracking for all large taxpayers

- a contract has been awarded for developing the tax information system
 - satisfactory progress has been shown in implementing social development and health reform programs
 - the legal framework for the civil service's new social security system has been introduced in the legislature
- 3.16 Eligibility conditions for credit and disbursements up to US\$80 million (third level):
- evidence has been presented that the legal framework for the civil service's new social security system has entered into force
 - evidence has been presented of satisfactory progress in the implementation of the financial administration system
 - the operating rules of the Fund for Change and Growth have been reformulated so that the Province is no longer the direct lender; funds would be provided in the form of transparent subsidies and would supplement financial sector loans in priority areas
 - a concession contract has been awarded for EMSE's electric power services
 - compliance monitoring and auditing of large taxpayers has been implemented, based on objective parameters
 - a management control system has been put in place at Internal Revenue Bureau units
 - a system has been instituted to assess the efficiency of social spending in the Ministry of Health and Social Development
 - evidence has been presented to the Bank that the targeted social programs' coverage of low-income groups has been maintained at agreed upon levels in keeping with agreed upon criteria

D. Eligibility criteria for additional studies

- 3.17 The following eligibility criteria have been set for any additional studies that may be financed under the program: (i) they should be directly linked to the reforms that are to be implemented, focusing especially on institutional strengthening in areas covered under the program; (ii) they should be intended to improve public management and make organizational structures more efficient; (iii) they should contribute to judicious use and efficiency of

spending, and fiscal balance in the province; (iv) they should strengthen the role of the State as controller and overseer rather than executor; and (v) there should be no other sources of Bank financing for the studies (preinvestment, etc.).

- 3.18 The Government of the Province of Mendoza and the Bank will agree on an action plan, as necessary, to implement recommendations arising from program-financed studies.

E. Readiness of program components

- 3.19 The government has already begun implementation of its plan and officials are aware of the importance of the plan and its objectives. Two decrees have been enacted to get the transition under way (Decree 167/96 on the policy course of the reform and Decree 889/96 on time frames for the reform), and will serve as the basis for launching reform of the State. Legislation has also been passed authorizing the privatization of OSM, EPT, and EMSE. Tender documents have already been drafted for OSM and are nearly complete for EPT.

- 3.20 Decrees have also been enacted on health sector reform and voluntary terminations. As concerns the other legal instruments required for program implementation, the respective logical frameworks make provision for consultants to be hired as necessary to draft such instruments. Logical frameworks have been drawn up for each component, and the main activities and inputs have been identified in order to proceed to the execution stage, along with a procurement schedule that is broken down into quarters for the first year and annually for years two and three.

- 3.21 The program's executive director has been appointed. The area coordinators are pending formal appointment.

F. Implementation plan

- 3.22 The program is expected to be completed within three years. A tentative schedule has been drawn up for program activities, specifying the actions to be performed during year one. As a condition for the first disbursement, the Program Coordination Unit is to present the definitive plan for program execution, containing the following information:

- a. a contracting timetable, broken down by component, with details on the various stages of each contracting process
- b. physical and financial targets for the progress of program activities during each period

- c. the timetable for delivery of program reports and study findings and the plans for implementing the respective recommendations
- d. the progress expected in implementing the recommendations as formulated

G. Reviews and progress reports

- 3.23 Achievement of program objectives will be measured against indicators devised for that purpose (see logical framework in Annex III-2). The Program Coordination Unit (PCU) and the Bank will hold semiannual meetings to review the progress of each activity and component and the implementation of recommendations. At these meetings, decisions will be made on any remedial measures that might be necessary in order to solve problems identified, and strategies will be formulated for meeting the program's objectives and targets.
- 3.24 One month before each such meeting, the PCU will submit to the Bank a report containing relevant data (see paragraph 3.25(b)) so that progress can be assessed adequately.
- 3.25 The PCU is to submit the following reports to the Bank:
 - a. As a basis for monitoring missions, the PCU must include appropriate justification with requests for disbursement eligibility, which will require Bank clearance as a condition for disbursement of each advance payment up to the respective eligibility limit. In the reports, the PCU is to examine compliance with agreed upon conditions, fiscal targets, and achievement of the program's objectives.
 - b. The semiannual reports are to include: (i) information on the Province's macrofiscal climate and the progress of reforms (i.e., compliance with the letter of understanding), and (ii) evidence of progress made in program activities. Specifically, the reports are to include information on:
 - the status of fiscal reforms, and a review of fiscal targets and the status of the Public Finance Stabilization Fund and balanced-budget legislation
 - the status of compliance with the privatization timetable
 - the status of program studies and technical assistance
 - recommendations and policy changes proposed on the basis of those studies and the respective implementation plan
 - program-funded procurements and contracts

- a review and cross-verification of disbursements and actual expenditures incurred
 - the status of the environmental cleanup plan for EMSE, OSM, and EPT
 - any adjustments that may need to be made in the program
 - annual data that are to be compiled for purposes of verifying compliance with program targets and for ex post evaluation
 - the implementation plan for the following six-month period
- c. During each of the three years following program completion, the Province will send to the Bank, for its information, a yearly report as of July 31 showing the fiscal situation and status of reforms in the public sector. The report is to include information on budget execution during the preceding year and the budget approved by the legislature for the following year. Specifically, the report is to examine the continuity of fiscal reforms, recent fiscal performance as gauged by the fiscal revenue, expenditure, and debt indicators used during program execution, the status of the Public Finance Stabilization Fund and experience gained with it, and the status of reform in the health sector.

H. Tendering of construction works and procurement of goods and services

- 3.26 Since experience in Argentina has shown that foreign companies normally do not bid on works valued at less than US\$5 million, an attempt has been made to group program works into lots that would be attractive to non-Argentine bidders. **It is proposed that international competitive bidding be required for works contracts valued at over US\$5 million and for procurement contracts valued at over US\$350,000.** Procurement contracts for lesser amounts (for which loan proceeds are used) would follow the Province's procurement procedures, which call for unrestricted competition, do not conflict with the Bank's policies, and do not preclude the participation of foreign bidders. All program procurement and works contracts will observe applicable Bank procedures.
- 3.27 Consulting services, too, would be selected and hired in accordance with Bank procedures and policies. **International competitive bidding would be used to procure the services of consulting firms costing US\$200,000 or more.**
- 3.28 Given the high volume of consulting services required by the program and the desire to streamline execution as well as supervision by the Country Office, it is recommended that the

requirement of previous consultation with the Bank be maintained only for the selection and hiring of individual consultants for amounts over US\$50,000 and of consulting firms for amounts over US\$100,000. The process would be monitored by the Bank on the basis of a sample consisting of not less than 20% of the total amount of services contracted; the executing agency will make the respective documentation available to the Bank throughout the disbursement period for this purpose. If it is found that agreed upon procedures were not followed, the expenditures will not be eligible for Bank financing.

- 3.29 This procedure is warranted on the basis of the Province's solid track record as a second-level executing agency of Bank loans to the national government. Arrangements have also been made for the Country Office to hold a seminar on Bank procurement procedures in June/July 1997 in Mendoza.
- 3.30 The project team has given its clearance for publication of the general procurement notice for the program and the specific notices for the various activities. Annex III-3 contains the tentative timetable for hiring consultants, tendering works, and procuring goods.

I. Recognition of costs and retroactive financing

- 3.31 For cost-recognition purposes, the Province has identified costs incurred as from September 1, 1996, by EPT for works and equipment related to overhead trolleybus cables. During the analysis mission, the project team ascertained that these contracts had observed procedures substantially similar to the Bank's. Consequently, it is recommended that these costs, up to US\$1.2 million and incurred during the 12 months prior to loan approval, be recognized as retroactive financing.

J. Environmental impact

- 3.32 Although this operation has no direct environmental impact, it does involve privatizations. To make sure that concessionaires will observe the Province's environmental regulations, the terms of reference for the consultants who reviewed the regulatory frameworks for the privatizations included activities to ensure that environmental audits would be performed, in order to determine the dimension of the companies' environmental-damage problems and the strategy to be used in gradually resolving them. During the privatization/concessioning process, responsibility will be assigned for dealing with these problems, and the environmental commitments to be assumed by the concessionaire in running the company will be defined.
- 3.33 The Environment Committee has classified this as a Category II operation. The environmental brief was approved on May 7, 1996,

with the specific recommendation that an explanation be given why environmental considerations were included in the consultants' terms of reference. This clarification is given in the preceding paragraph.

- 3.34 Mendoza is one of Argentina's most advanced provinces in terms of environmental legislation. The Province has a structured environmental protection agency that is staffed and has the means to operate. Under the institutional strengthening program for environmental management (768/OC-AR and 907/SF-AR), technical assistance is being provided to this agency in general aspects related to information, environmental education, legislation, and policy design, as well as the development of specific pilot projects for industrial pollution control, an improved environmental monitoring system, and integrated watershed management.
- 3.35 The Multilateral Investment Fund has financed technical cooperation for the establishment and implementation of the Provincial Water and Sanitation Board, which is charged with controlling and monitoring services that have been concessioned out and setting water quality control guidelines.
- 3.36 As for the environmental considerations related to privatization of the electric power distribution company, the Bank has supported – under the national electric power company reform program (682/OC-AR for US\$300 million) – institutional strengthening of the Social and Environmental Evaluation Unit at the Office for Electric Power, as well as activities at the national and provincial level associated with environmental legislation for this sector, judicious use of electric energy, and the environmental management manual for transmission lines.
- 3.37 The decision to keep the trolleybus system operating was based on **environmental protection** considerations, since the city of Mendoza lives in an almost constant state of temperature inversion owing to its light winds, low precipitation, and low altitude. The proposed program will help keep down emissions levels within the urban area.

K. Involvement of women

- 3.38 The proposed program does not entail any actions that would discriminate by gender. Indeed, reorganization of the health sector will improve maternal and child health conditions, thus improving the situation of women's health as well.

L. Impact on poverty

- 3.39 This program focuses on modernization of the State and is intended to produce an impact on the delivery and financing of public services, especially those having a social component. Roughly 65%

of the program's total cost will go toward social development and health sector reform and activities that will benefit low-income groups, including families with unmet basic needs who currently lack health care coverage under the *obras sociales* system or prepaid care plans, as well as children and elderly members of low-income families.

M. Accounting and audits

- 3.40 The Program Coordination Unit will keep records of program expenditures in accordance with the chart of accounts approved by the Bank. The program's financial statements will be audited each year by independent auditors acceptable to the Bank and submitted to the Bank's satisfaction throughout the program implementation period, within the 120 days following the close of each fiscal year, in accordance with the stipulations of the loan contract.

N. Ex post evaluation

- 3.41 In keeping with Bank policy, the borrower was consulted and expressed interest in performing an ex post evaluation. At the first program review meeting, the Province and the Bank will agree on terms of reference for the preparation of the ex post evaluation report on the program's results. The report is to be based on the indicators and means of verification contained in the logical framework and on data compiled during the interim evaluations.

IV. PROGRAM RATIONALE

A. General rationale

- 4.1 Bank involvement in this program will be decisive in boosting the Province's fiscal solvency over the medium and long term, and it will ensure its financial viability for the immediate future. The targets proposed in terms of a balanced budget, current savings, public investment and spending levels and efficiency, and debt stock and profile, together with the establishment of the Public Finance Stabilization Fund and support for the privatization process, are all key elements that emanated from dialogue with the Province during program preparation. Bank participation will also make it possible to improve the efficiency of public-sector operations, especially social services, thus generating a better supply of services at lower cost and making good on the commitment to guarantee adequate service delivery to the most vulnerable population groups during a period of fiscal adjustment, by protecting social spending for targeted groups over the next three years.
- 4.2 By tracking the program during the implementation phase, appropriate monitoring procedures can be devised for strengthening fiscal control and planning capacity in the medium term, including periodic medium-range financial and fiscal programming exercises. Important, too, is the value added by the Bank through its support for coordination among the three branches of government in designing and implementing the respective reform components.
- 4.3 Achievement of the program's immediate objectives will enhance the Province's status as a borrower on capital markets and its ability to honor the financial commitments stemming from this operation.

B. Technical and institutional viability

- 4.4 The program's technical viability is assured by the fact that the Province has professionals with experience in the execution and administration of projects with international financing and professionals with experience in the areas of the various projects comprising the program. Offices in all three branches of the provincial government will be strengthened and receive technical assistance to prepare them for the increase in activity that will occur under the program.
- 4.5 The Program Coordination Unit will be made up of professionals hired specifically and exclusively for this purpose, to ensure technical excellence and impartiality of decisions and action vis-à-vis the institutions being reformed.

- 4.6 The priority of this program is ensured by a political commitment assumed at the highest level. From the very beginning of its administration, the executive branch has shown a deep commitment to reform, as embodied in Decrees 167/96, 889/96, and 1190/96, and it has pursued from the very beginning a strategy of consensus-building among the various political forces. These two aspects bring greater institutional viability to the program. The other two branches of government have also expressed their intention to participate in the design and execution of the program.

C. Financial viability

- 4.7 In assessing the program's financial viability, an analysis was conducted of the Province's ability to provide the counterpart funds and repay the loan. The Province's fiscal accounts were projected through the year 2000 under with- and without-program scenarios (see Appendix 1 to Annex III-2). To ensure that the counterpart funds will be available, the program's costs have been included in the budget projections. The analysis indicated that the Province will be able to provide the counterpart funds required under the program and, in fact, the situation of provincial finances will improve with the program, despite the cost associated with the program's actions and activities. The Province's level of net indebtedness will drop the equivalent of US\$215 million between year-end 1997 and the year 2000, against a backdrop of lower government operating costs (15%); reorganization, training, and restructuring of human resources without any major personnel expenditures being involved; and an increase in public investment.
- 4.8 Similar results were obtained from the analysis of the Province's loan repayment capacity. In the with-program scenario, the Province's net debt upon program completion would be US\$790 million, with debt service absorbing 13.6% of current revenue, as compared with 20.9% at project start-up. In that case, the Province's liabilities with the Bank would represent approximately 10% of the total. The Province's financial solvency would also improve under the with-program scenario, with the debt ratio dropping from 91.3% to 62.1%.

D. Legal viability

- 4.9 A study of the requirements stipulated under the Constitution of the Province of Mendoza and the law enabling the Province to assume commitments such as those that would arise under the contract for this operation has shown that the Province is empowered to enter into such a contract, subject to approval by the provincial legislature.
- 4.10 The law approving the contract (the "Borrowing Authority Act") would also give authorization for the form of administration that is agreed upon with the Bank, as well as all such acts and agreements that may be necessary in order to execute it, and,

specifically, to earmark funds from the provincial budget that are needed to perform the contractual obligations.

- 4.11 Pursuant to legislation governing acts and contracts of the Argentine Nation, the Nation is empowered and is prepared to execute the respective guarantee contract to cover the financial obligations of repaying the principal, interest, and fees that the Province would contract for with the Bank under this operation.
- 4.12 In accordance with the Agreement Establishing the Bank and the Report on the Eighth General Increase in Resources, the Bank is empowered to enter into the proposed contract with the Province for the program described herein.

E. Benefits

- 4.13 The program is expected to yield the following benefits: (i) greater fiscal solvency, with measures to ensure long-term sustainability; (ii) greater availability and better quality of public goods and services offered to the community; (iii) more efficient allocation of public spending in general, and social spending in particular; (iv) protection of vulnerable groups, by means of targeting strategies that will guarantee access to basic social development and health services throughout the life of the program; and (v) more effective service delivery, more efficient procedures, and better administration of the legislative and judicial branches.
- 4.14 One specific benefit expected of the program is the prospect of balanced fiscal accounts in the medium and long term. The program aims to create conditions that will pare debt stock back to historical levels in the medium term. Between 1997 and 2000, the net debt level is expected to decrease by over US\$215 million and the ratio of debt to current revenue should drop to 62.1%, which means Mendoza would return to a situation of financial solvency that it has not seen in years. This assumes a budget policy that seeks to generate surpluses as of 1998, with current savings growing each year up through 2000, when they will be equivalent to 14.6% of the Province's total resources. During the program implementation period, fiscal policy will center around the following main instruments: (i) more effective tax administration, which will help to increase revenue levels; (ii) lower operating costs as a result of re-engineering of administrative procedures; (iii) maintenance of personnel expenditures at levels similar to their present levels and selectively expanding services; (iv) programming of public projects and investments on the basis of strict criteria of economic and social priority, seeking ways of working with private capital under concession or joint-operating arrangements.
- 4.15 Reduction of the Province's net debt can be achieved through the combined effect of an expected increase in cumulative current

savings over the period 1997-2000 and partial use of revenue from privatizations. ^{12/}

- 4.16 Once the program is completed, conditions should be in place to continue pursuing policies similar to those described above. The Province will thus be able to return, within a reasonable time frame, to its historical levels of financial solvency and service the debt generated by this operation. The program will also help to prevent the reoccurrence of conflictive situations associated with inappropriate fiscal policy management. As an important part of the program's activities on this front, two instruments will be designed and implemented: (i) legislation formalizing the balanced budget requirement in order to ensure that the Province's fiscal policy will be projected and implemented with an eye to basic principles of public finance; and (ii) the establishment - also by legislation - of a stabilization fund.
- 4.17 Through the stabilization fund, the program will help temper the strong cyclical fluctuations that have characterized the Province's fiscal accounts. The fund will make it possible to amass public savings during periods of expansion, which can then be used to cover the shortfalls that typically occur during recessions; this will reduce the need for sudden, drastic adjustments during times of economic difficulty.
- 4.18 The private sector will be expected to provide more efficient management and step up investments in services that are privatized. This will translate into greater coverage and better quality of public services. Specifically, over US\$20 million is expected in private-sector investment in trolleybuses, and around US\$15 million in annual investments in the electricity sector.
- 4.19 In the health sector, the principal benefits expected are as follows: (i) better coverage of low-income groups; (ii) more efficient operation of the sector thanks to the new information system which will be based on individual client records; (iii) less overall public spending on hospital care as the result of better primary care and secondary prevention, which will reduce demand for in-patient services; and (iv) medium- and long-term reduction in current public spending on health personnel. Another important benefit of the program will be the headway made with reform of the provincial health system, given the recent changes in national legislation governing the *obras sociales* plans. The system would serve as a model that could be applied in other provinces in similar situations.

^{12/} The figures used for fiscal projections are conservative estimates and are not an accurate representation of the actual expected sales price.

- 4.20 In the area of social development, the program will produce the following main benefits: (i) more efficient service delivery with better quality, especially for children, adolescents, and the elderly, by decentralizing programs to the municipal governments and having targeted groups take a more active role in strategies managed by support agencies; and (ii) lower recurrent costs for the Social Development Undersecretariat in the Province's budget, since the focus will shift away from execution and toward program design, financing, and regulation.
- 4.21 The use of targeting strategies to protect vulnerable groups will keep them from being penalized by possible budget cuts during the period of fiscal adjustment and administrative reform. The Province and the Bank will review coverage indicators for these groups to ensure that essential services are being delivered over the coming years.
- 4.22 Processing times are expected to be cut significantly within the executive, legislative, and judicial branches; administrative procedures will be consolidated to better serve citizens and end the problems of lost and mislaid files. The productivity of civil servants is expected to increase to levels on a par with other countries, e.g., about 800 cases per judge per year. This will reduce the need for any growth in public-sector employment.

F. Risks and actions to counter them

- 4.23 The central risks inherent in a reform program of this scope are the natural resistance to change and the securing of political and sector consensus and changes in legislation to ensure timely implementation and continuity of the reform process. To counter these risks, an intense effort will be launched to build consensus among the three branches of government and the various political forces as necessary, including a better communications strategy by means of a special program for internal and external government communications; strengthening direct communication on the reform efforts in each of the ministerial areas; and seminars and meetings aimed at raising the awareness of political authorities and middle-level cadres in the executive, legislative, and judicial branches.
- 4.24 Other risks include the possibility of the national economy taking a turn for the worse; the impact this would have on fiscal resources could undermine gains achieved at the provincial level. New legislation on federal revenue sharing or, in the absence of such a law, a new fiscal pact replacing the current one could reduce shareouts for the Province and jeopardize the attainment of the program's fiscal targets. Streamlining of the taxation function under the program should help to curtail evasion and broaden the tax base, thus attenuating these risks. The establishment of the Public Finance Stabilization Fund would help reduce strong cyclical fluctuations, averting the need for drastic adjustments during times of financial crisis.

- 4.25 Possible delays in the privatization process could affect the targets for reducing public spending. The program will help ensure that sufficient funding is available to carry out these activities, and proposes a realistic timetable for the various stages of the process.
- 4.26 The main risks in the areas of health and social development are (i) the complexity of the reform measures, and (ii) the resistance of some professional corps, especially physicians, to change their employment status and become part of the new model of primary health care and family health programs.
- 4.27 Given the complexity of the reform measures, the program calls for semiannual supervision by the Bank, including monitoring of targets and conditionalities, and actions for dissemination and consensus-building intended to help the user population assimilate the measures and help health teams overcome their resistance to change. The operating capacity of the Bank's Country Office in Argentina is adequate for monitoring and supporting the borrower during program execution.
- 4.28 At the center of strategies for change will be economic incentives to encourage health professionals to join the proposed care model, to help overcome resistance, and to dispel concerns as to the impact on their income.

GOVERNMENT OF THE PROVINCE OF MENDOZA
LETTER OF UNDERSTANDING

Mr. Enrique V. Iglesias
President
Inter-American Development Bank
Washington, D.C.

Dear Mr. Iglesias:

The Government of the Province of Mendoza, with the support and backing of the Argentine Nation, is requesting a loan from the Inter-American Development Bank in the amount of Arg\$80 million equivalent for a program to support comprehensive reform of the Province of Mendoza's public sector (AR-0209). This program rounds out a platform of reform and policies already under way in Mendoza.

By way of background, allow me to give you a brief summary of the province's current situation and the status of the government's program, which includes the reform policies for which we are seeking support.

I. Provincial finances: recent developments and current situation

Following on a period of high domestic inflation that was not without repercussions for the provincial economy, between 1992 and 1994 the province's fiscal accounts posted significant improvement, moving from a position of deficit in 1992 to a surplus in 1993 and 1994. This development was the result of strong growth in revenue (well in excess of expenditures) flowing mainly from nonrecurring sources, specifically the netting out of federal debt to the province coupled with transfers of proceeds from privatized companies. If this extraordinary revenue is not included, however, the province actually had an overall ordinary deficit (current and capital revenue and expenditures) of Arg\$158 million for the three-year period, owing to the fact that the increase in ordinary expenditures far outstripped that of ordinary revenue generated by economic growth. The debt stock doubled during the period and at year-end 1994 stood at Arg\$311 million, which included Arg\$90 million in emergency farm aid to counter the impact of the crisis that befell this sector.

A noteworthy event during this period was the establishment of a fund to finance public and private capital investments. This fund, the "Public and Private Capital Investment Financing Fund for Change and Socio-economic Growth in the Province of Mendoza", was the result of a policy decision to take extraordinary revenue and use it to set up a permanent facility that would provide financial support for social and economic development in the province. To ensure prudent fiscal management, the

fund is administered by an independent board having legal status and the authority to transact public and private business by extending lines of credit.

In 1995, Mendoza and several other provinces were hit by a severe financial crisis as spillover from the so-called "tequila effect"; provincial budgets around the country fell into difficult straits. In Mendoza, the impact on the province's fiscal accounts was felt most strongly in two areas: reductions in provincial tax revenues and receipts of national taxes (which fell back to the minimum guaranteed level) as the result of an across-the-board drop in economic activity; and the provincial treasury's cash infusions into government-run banks and the social security system, in response to drained deposit levels. Consequently, 1995 closed with an aggregate operating deficit of Arg\$258 million (including the bank bailouts), equivalent to one fifth of the province's annual expenditures.

To deal with this crisis, the province launched a series of reforms aimed at restoring fiscal solvency and remedying these problems. Building on the pre-existing political will to privatize the province's government-run banks, a tender process was organized late in 1995 and the transfer was completed on November 30, 1996. In order to ensure the privatization program's success, the province not only assumed the two banks' existing debt to national public financial institutions (stemming from the drain of deposits at those banks), but it also had to cover other financial commitments inherent in the privatization process (voluntary terminations and capitalization of the banks); this translated into a sharp increase in the province's total debt. Since not all of the former banks' assets were transferred to the new banks, the province will administer the residuum comprising a portion of the loan portfolios, some public securities, fixed assets, and others.

The year 1996, then, was not a typical one as far as provincial finances are concerned. The delicate fiscal situation carried over from 1995 had to be resolved, but in doing so the province tripled its debt level. This turn of events was compounded by cash flow problems resulting from commitments assumed in association with the bank privatizations but that had not been included in original funds flow forecasts.

Even so, Mendoza continued to meet its debt obligations, honoring financial and payroll commitments on time and taking steps toward achieving fiscal solvency by consolidating its accumulated debt with suppliers as of 1995, programming expenditures on the basis of available funds, rescheduling a portion of the provincial debt (longer terms and a lower interest rate), and transferring the heavily subsidized provincial pension plan to the national system.

Provisional figures for 1996 point to year-end current savings above original budget estimates, owing to the greater-than-expected inflow of funds and compliance with current-expenditure targets. However, once capital accounts are factored in, which include the Arg\$378 million

infusion for support and privatization of government-run banks, the outturn is an overall deficit of roughly Arg\$300 million; this amount was able to be covered thanks to the successful rescheduling of the debt. Floating debt was also reduced during the year, as debt to suppliers was consolidated and payments were put back on schedule. The consolidated debt stock rose by only Arg\$63 million, attributable mainly to recognition of debt that had been assumed in 1994 and 1995 as well as growth in public capital investment levels.

Projections of the provincial budget's performance over the coming four years indicate that Mendoza will have to increase its debt stock in the early part of the period in order to fund capital expenditures, unless the proposed reforms are carried out with support from the AR-0209 program. These projections, it should be noted, do not reflect the social cost of the current inefficient delivery of government services.

Based on the reform's projected impact in each area and the new expenditures generated by startup of the various projects, the situation should improve considerably, with service delivery reaching adequate levels, a fiscal surplus being posted as of 1998, a financial stabilization fund being set up, and the debt stock being pared back.

II. Problems detected

As a supplement to the foregoing analysis of the province's fiscal situation, the following paragraphs outline the problems that prompted the government program.

Among the *situational (nonstructural) problems* identified, there was a sharp dropoff in revenue in the second half of 1995 which led to stagnation in provincial receipts in 1996, although the closing months of the year saw faint signs of recovery. This situation was compounded by cash flow constraints during the year, due in part to the size of the floating debt carried over from 1995 (nearly Arg\$150 million, compared with average monthly intake of around Arg\$90 million) and the transfers to government-run banks to keep them operating and privatize them.

These difficulties precipitated other problems, of a structural nature, in the form of high borrowing levels with maturities bunched in the first two years, and high interest rates that were the result of economic circumstances at the time the debt was assumed (i.e., an illiquid financial system in the wake of the 1995 crisis).

Among the *structural problems* that have contributed to the existence of a cumulative operating deficit since 1992, mention should be made of those that have had an especially strong impact on the province's financial solvency and the working of the public sector. Specifically, the province lacks a programmed arrangement for cushioning the impact of economic recession on public finances, especially on revenue inflows; this leads to undesired, unforeseen budget deficits and has a direct

impact on the province's ability to meet its medium-range targets in the areas of fiscal solvency and a balanced budget.

The traditional model of public-sector management focuses on execution rather than on planning and control. The weakness of this model is that it exacerbates fiscal solvency problems when they arise; by funding the deficits of government-run companies, the model undermines fiscal solvency as the foundation for achieving a balanced budget in the medium and long term. Although in many cases socially warranted, since they are public services, such private-sector-type goods production activities keep the State from concentrating on its inherent functions, such as health, education, public safety, justice, and socioeconomic development.

At the same time, public services suffer from poor quality and coverage levels, and users are unable to exercise effective control over them, i.e., they cannot set quality or coverage levels, let alone find the proper channels for voicing complaints or proposing initiatives. These services, it should be added, are organized as state monopolies, a situation that does not promote efficient performance in the sector.

In other words, the State is not efficient in allocating scarce resources and, consequently, its role and commitment to society need to be rethought. To do this, it will be necessary to move away from the old way of thinking (e.g., policies for subsidizing the supply of goods and services), since these approaches have shown themselves to be poor guideposts for resource allocation and efficient social spending.

A bloated bureaucracy, functions agglomerated at the central level, poor coordination among processes having similar objectives, inadequate building use planning, and low staff motivation and training are just a few of the key issues that need to be addressed.

The legislative and judicial branches face similar problems and need to be modernized as well. The judiciary, for instance, uses outdated procedures, files are kept manually, and little use is made of computers, with the result that an inordinate number of employees have to be assigned to performing administrative duties.

Further outgrowths of this situation are the government's increasingly poor public image and its high operating costs, factors that work against the goal of having a balanced budget.

With regard to revenue inflows, work has been under way since 1988 to finetune tax collection oversight; even so, evasion levels remain high. Efforts need to be stepped up to simplify the tax structure and design automatic control systems, with an eye to making tax administration more efficient and equitable. This is especially important given the province's need to become more competitive in order to thrive in a climate of economic openness.

III. The government's program through 1999 and key measures implemented thus far

The provincial government is looking to support the democratic process by strengthening its legislative and judicial branches and fostering the development of civil society. Stronger government control functions in these areas will make for more efficient management in the executive branch as well.

Better organization of the legislature's functions will expedite debate on public policy and, by extension, broader-based consensus on such policy. Pursuing a parallel line of action in the Supreme Court will enable the justices to perform their assigned function of administering justice without being bogged down by administrative tasks.

As civil society becomes stronger through stronger organizations, it will be better able to defend its rights and exercise greater control over government acts; it will also share with the State those responsibilities that are inherent in ensuring society's general welfare.

The government's program, which is built conceptually around the principles of solvency, efficiency, equity, and transparency, pursues five central courses of action: raise the quality of government-provided services, specifically the supply of "mixed and public goods" (education, health, public safety, and justice); help businesses convert and adapt; track and monitor economic activity; make information available to ensure equal opportunities and production with equity; and frame an employment policy.

For the government's program to be successful, the following objectives have to be achieved: improve financial solvency in the medium and long term; modernize the State so that it can assume the role of manager, planner, and facilitator of true civil society development; pursue policies geared toward greater social equity and balanced regional development; and ensure careful planning in the use of the scarce natural resources that are the backbone of the provincial economy, especially water resources. Against this backdrop, the State needs to delegate those activities that are not an essential part of its function and reserve for itself those that cannot be performed by the private sector.

In the interest of greater clarity, the following paragraphs describe the main features of the government's program for the next three years. Many of these reforms have already been launched under three reform-related decrees: Decree 889/96 (general reform), Decree 1190/96 (health sector and social action), and Decree 1939/96 (environmental policy). Others will be deepened, or launched within a reasonable time period, with the financing being requested.

A. Medium- and long-term fiscal solvency and privatizations

- The province's consolidated public debt needs to be rescheduled in order to secure better conditions and a lower interest burden. As part of the process, the Public Debt Monitoring Unit established pursuant to Decree 774/95 has been reorganized. Rescheduling negotiations have been successful, with a significant reduction in the average rate and better annual distribution of commitments. As a second target, the ratio of debt to current revenue is to be pared back from its present level of 93% to 60%-70% by the year 2000.
- Personnel expenditures are to be capped at the current 61% of the general budget, with temporary measures (e.g., freezing of seniority-based benefits at their December 31, 1995, level, and suspension of automatic annual promotions) until a review has been completed of each piece of legislation governing the public sector and criteria have been adopted on revenue and expenditure efficiency and productivity, as well as staff promotions. New civil service regulations will be implemented, with an eye to more efficient service delivery while keeping personnel expenditures at levels similar to the one projected for the current fiscal year.
- In early 1996, the provincial pension plan was transferred to the national integrated system, which makes government employees part of the private pension system. A bill to transfer the province's insurance plan to its beneficiaries is currently before the legislature.
- A balanced-budget requirement needs to be adopted, which would be observed during the phases of budget formulation, legislative consideration, and budget execution during each fiscal year. This will require legislative approval.
- Legislative approval is also required for implementation of the Public Finances Stabilization Fund, which is intended to offset the cyclical effects of unforeseen economic contractions and expansions on provincial revenue; the fund will also ensure, as a minimum, that budgeted amounts are available, and it will establish prudent limits for spending increases. The fund will not be a habitual source of funding for the State, but rather a stop-gap measure when there are unexpected dips in revenues. The government plans to maintain this fund through allocation to it of at least the equivalent of 5% of its annual current revenue, in order to provide itself with an effective tool for cushioning abrupt cyclical fluctuations.
- The operating regulations of the Fund for Change and Growth are to be rewritten, specifically with regard to its relationship with the private sector so that the State will no longer be a direct lender of funds but rather will work through a financial intermediary. In

this way, the fund will be able to support priority sectors in the province by means of earmarked, transparent subsidies, thus making maximum use of resources channeled through the private financial sector. As for borrowings by the public sector, steps will be taken to ensure that all such monies go toward capital investments and not current expenditures, maintaining transparency in operations. In both cases, any such administrative and legal measures as may be applicable will be taken.

- The privatizing of the province's government-run banks that began under the previous administration will be completed. A call for bids was issued in January 1996, and the award process was finalized in November of that year. The residual loan portfolio that remained with the Province will be collected by third parties pursuant to instructions contained in Decree 49/97 (conditions for refinancing, requests for remissions of debt, extensions) to ensure recovery of the amounts in the shortest time possible. These new conditions enhance the prospects for collecting on these loans; thanks to the government's efforts, it should be possible to recover 15% of these debts over the next three years. The government has authorized the agency to avail itself of all available channels to collect these loans, including recourse to the court system if necessary. In the case of suspected fraudulent bankruptcy by debtors, the agency is authorized to bring suit in criminal court (Article 184 of the Penal Code).
- Still in the area of privatizations, the financial situation of Energía Mendoza Sociedad del Estado (EMSE) will be strengthened, to adjust it to the market structure and to applicable national regulations in preparation for its subsequent privatization, as authorized pursuant to Law 6498. The services provided by Empresa Provincial de Transporte mediante Trolebuses are to be concessioned out, as authorized by Law 6180/94. The privatization of Obras Sanitarias Mendoza (OSM) is also to be completed; the tender documents are ready, and authorization has been granted (Law 6044/93). Lastly, the residual entity of Bodegas y Viñedos Giol Empresa Estatal, Industrial y Comercial, which was privatized in 1988, is to be liquidated.
- Proceeds from the privatizations will be used for the capital investment plan and to set up the Finance Stabilization Fund (for which legislative approval will be necessary).
- Services of the Ministry of Environmental Affairs and Public Works will continue to be outsourced. Several contracts have been signed and approved pursuant to a decree to that effect.
- Other studies will be conducted on possibilities for privatization, outsourcing, concessions, or other ways of delegating nonessential State activities or operations to the private sector, so as to free up resources for investing in physical infrastructure or retiring

debt. Specifically, the government printing office was outsourced in early 1996, and several unprofitable State-owned concerns have been sold off (car makers, airlines, hotels, etc.)

- A Bureau for Regulatory Agency Affairs will be set up to ensure effective control and oversight of service quality and user fees for privatized services. This will be the administrative body charged with referring claims from service users to the respective agency, thus helping to protect users and ensuring efficient service delivery.
 - Roads management is to be upgraded. In this connection, functions have already been transferred to the Provincial Land Registry and the Provincial Revenue Office, and staffing levels have been cut from 1,760 to 1,290. Consideration is also being given to the possibility of outsourcing or otherwise working with the private sector in order to attend to the road sector's requirements.
- B. Modernization of priority areas in the three branches of the provincial government
- Public administration will be consolidated by eliminating nonessential and overlapping functions, among other measures. The specific objective is to reengineer administrative procedures to make better use of time and expedite processes for users of government services. The undertaking was launched with a study on streamlining the provincial government's structure; the expected main impacts are a reduction in reporting and decision-making levels, elimination and/or merger of various organizational units, and overall tightening up of organization charts. So far, over 100 offices have been slated for downsizing.
 - With regard to the preceding activity, a new civil service employment statute will be implemented that is based on productivity criteria for gauging salaries, incentives, and bonuses. A call for bids has already been issued for specialized consultants to prepare the project.
 - Better quality information will be made available to citizens, with a view to enhancing community control of government actions. This measure has already been implemented at the Secretaría General de Gobernación, where a public information committee has been set up to coordinate the actions of the various branches in an effort to make better use of provincial information systems, train human resources in computer technology, and design, coordinate, and administer public information systems.
 - Tax collection will be made more efficient, curbing tax evasion by simplifying the tax system and upgrading controls. To this end, the province agrees not to create any new taxes or raise current tax rates. Exemptions will be phased out gradually, aiming to

eliminate inequities and distortions and thereby make the economy more competitive. Tax policy options will be examined within the framework of the Federal Fiscal Pact signed with the provinces, and applicable legislation will be reviewed.

- The accounting records system will be unified, and the principle of unified cash balances will be adopted in order to ensure better control of budget execution in real time. The province proposes to overhaul the entire financial administration system in line with the principles of integration and systematization set forth in National Law 24,156. Work has already begun in this direction, and substantial advances have been made in budget formulation and information support for decision-making.
- Actions will be undertaken to set up a health system in the province that affords access to all citizens according to need, including a fee structure based on clients' ability to pay, with an eye to upgrading quality and promoting preventive care. The system's intake point will be the family physicians network, changing over from a subsidized supply-based approach to one that is based on demand. To this end, preventive and outpatient care services will be strengthened as part of a package of essential health care services, extending coverage and enhancing the quality of care for the neediest population groups, especially those with unmet needs and who lack access to *obras sociales* health insurance or prepaid health care plans. With these measures, overall costs and unjustified use of hospital facilities will be brought down, personnel expenditures will be streamlined and a charging and cost-recovery system will be instituted for care provided at self-managed hospitals. A system will be set up to identify health service users in order to manage demand and enhance the quality of medical and epidemiological information, as well as the costs associated with services delivered. Health promotion and protection strategies will also be devised, aimed at a broader preventive-care base and lower disease burden by means of more conscientious action by individuals in the areas of personal health and the environment.
- At the same time, a health and assistance program will be launched for schools located in isolated rural or border areas and group-home schools, to raise the quality of life of students and provide them with equitable coverage through a basic package of services. A general effort will be made to promote the participation of civil society organizations in child and adolescent health care or development.
- Institutional strengthening will be provided for the delivery of provincial social development services, placing emphasis on decentralization of actions to municipal governments and NGOs (a pilot project has been implemented) by bolstering decentralized operation of formal care programs for children, adolescents, and

the elderly. This will be supplemented by the Social Programs Information, Monitoring, and Evaluation System (set up in 1996), as well as training for provincial, municipal, and community-based social agents. Priority will be assigned to a social emergency program to combat child malnutrition until it is eradicated and reduce child mortality; an assistance program will be developed for jobless men and women with dependents.

- The education sector will be reformed with a view to providing all students with the same set of core skills and competencies under the Federal Education Act. Graduates of the new system (basic and streamed secondary education) are expected to receive civic and ethics training for their personal development and for their role as full members of society (responsible, critical, and equipped with a sense of community); such training will ensure continuity in their pursuit of advanced studies and prepare them for careers in a wide variety of fields in the workplace. With this target in mind, a step-wise methodology has been adopted along the following main lines of action: development and consolidation of curricular design for the pre-primary, first, and second cycles of basic general education (1997); design and initial implementation of the third cycle of basic general education (1998 and 1999); design and pilot application of the various streams of secondary education (1999); reform of post-secondary education other than teacher training; modification of special systems (special education for students with learning difficulties, and adult education).
- An environmental policy will be drafted to reorganize and reorient the siting of productive activities and human settlements, fostering land use patterns that are more balanced and, consequently, more sustainable. This means curbing the spread of urban development into areas holding high agricultural potential, so as not to limit the development potential of agroindustry-based economies. Ecological balance will be restored in the ecosystem, and air pollution will be reduced. To this end, Decree 1939/96 has been issued establishing an action plan for environmental management and courses of action for sustainable regional and subregional production, environmental control, and management of natural resources and protected areas.
- Physical infrastructure will be upgraded through increased investment in roads and highways; housing (including better financing arrangements for home building); systems for the distribution and regulation of water for irrigation purposes (sealed linings for irrigation ditches) and other uses; building and remodeling of schools, hospitals, and health centers; and solid waste treatment facilities (drinking water and sanitation), among others. These targets are all set out in the Three-year Works Plan.

- A policy will be pursued to support political, social, and economic development, with an eye to achieving harmonious growth in the province and allowing it to become an active player in MERCOSUR and the global economy. This objective will be furthered by deepening the integration of physical infrastructure with Chile, given Mendoza's favored position on the most highly developed overland corridor connecting the Atlantic and Pacific Oceans.
- In the area of governance, legal certainty will be enhanced by strengthening and modernizing compliance monitoring of companies and groups having legal status. The number of people without papers will be reduced significantly, with emphasis on mutual cooperation among social areas and municipal governments. Individual and property safety will be strengthened by promoting prevention efforts and community involvement in prosecution and guaranteeing the full exercise of individual rights. The organization and operation of penal institutions will be improved, including services and facilities. Finally, better communications will be established between the central administration and the municipal governments.
- The Supreme Court will be strengthened by means of training for officers and magistrates and improving court management in order to expedite case processing and avoid delays in the administration of justice. Administrative procedures will be reengineered with this objective in mind. Juvenile and family court systems will be set up, providing a means for addressing interpersonal conflicts and finding legal and social solutions to these conflicts.
- The institutional workings of the legislative branch will be developed and modernized by modifying building facilities, physically centralizing operations and management, reengineering legislative procedures, and improving internal and external communications, all of which will make for more efficient legislative business.

IV. The role of program AR-0209 in the general program for State reform

The program to support comprehensive reform of the Mendoza provincial government (AR-0209) has been designed as part of a broader reform process that is predicated on redefining the role of the State and seeks to revamp the State apparatus to achieve greater efficiency and effectiveness in the delivery of essential services.

Given the scope of the government's plan and current financial constraints, a funding source must be located that will make it possible to carry out some of the program components that the government cannot implement on its own, so that all the reform objectives can be attained within a reasonable time frame.

The reform objectives that are an implicit part of the provincial government's actions are set forth in Decree 167/96, which set up the Executive Committee for Administrative Reform and Modernization of the State, an agency having institutional and operational responsibility for implementing and monitoring the reform process. The committee, which is part of the executive branch, is made up of a representative of each ministry and each decentralized agency, and its work is coordinated by the Secretario General de Gobernación.

With an eye to attaining the aforementioned objectives, Decree 889/96 on administrative reform and modernization of the State was issued. The decree is based on an analysis and evaluation of the functions that are inherently functions of the State, given the need to have a sound legal framework for administrative procedures and information such as will ensure transparency in the workings of government. The decree assigns reform-related tasks and activities to various areas of the government and covers the government's plan in this area almost entirely, including time horizons; it also authorizes the executive branch to take the necessary actions and institute procedures to reach the proposed goal.

In support of the foregoing, Decree 1190/96 was issued to address the area of social development and health, with the purpose of deepening and strengthening reform in this sector, assigning priority to the social purpose of health, and ensuring the quality and efficiency of actions and services for all residents of the province. For this, progress should continue to be made with administrative decentralization of hospitals, and a referred care network based on the new care model should be optimized, viewing family physicians as the best means for providing personalized and general care under health promotion and protection efforts. An important prerequisite for accessing this system will be identification of the provincial population in terms of their health coverage.

The Government of Mendoza is firmly committed to taking all such steps as may be necessary to achieve and maintain a balanced budget over time, while reducing and rescheduling its debt obligations and taking action to: improve the workings of government, especially by simplifying bureaucracy and implementing a new civil service employment statute; revamp, concession out, outsource, or privatize non-core services and State companies; improve health-sector operation, mainly through the system of family physicians, self-managed hospitals, and social action, promoting the participation of municipal governments and NGOs. It also is committed to enhancing the operation of the legislative branch, by strengthening organizational, administrative, and technological capacity in support of its legislative, representative, and control functions. For the judicial branch, the government will support measures to strengthen the Supreme Court and improve its workings, and to improve the justice system services.

In summary, the province has embarked upon a process of comprehensive State reform which is built around a new view of its role that seeks to

modernize the State and make it a manager, planner, and facilitator of true, harmonious social development, and to maintain financial solvency so that it can concentrate on improving the quality of services and essential functions that it is called upon to provide.

Accordingly, program AR-0209 will ensure not only that the necessary funding is available but also will afford an important opportunity for the province to capitalize on the Bank's experience in the formulation and implementation of programs of this nature. This will ensure that the proposed objectives are achieved within the deadlines set.

Dr. Arturo Pedro Lafalla
Governor
Province of Mendoza

**SUPPORT PROGRAM FOR COMPREHENSIVE PUBLIC-SECTOR REFORM IN THE PROVINCE OF MENDOZA
(AR-0209)**

LOGICAL FRAMEWORK

PRIMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>the reform of the provincial public eye to enhancing service quality and ensuring fiscal solvency over d long term.</p>	<p>Standards set for productivity, efficiency, and quality in the delivery of public services. Higher professional level among government employees. Better quality and coverage of basic social services. Higher quality levels in justice-system services. More representativity, economy, quality, and effectiveness in legislative activity. Fiscal balance over the medium and long term. Restructuring of the provincial budget, including pending targets. Privatization/concessioning out of State-owned enterprises.</p>	<p>Budget performance audits. Number of public companies privatized. Number of concession and outsourcing contracts signed. Surveys of target population as to service quality. Number of persons trained. Legislative proceedings. Official gazette. Statistics.</p>	<p>Continuation of national economic the provincial government's develop strategy, especially as concerns ent and deepening the reform process.</p>
<p>m for comprehensive reform in the Province of d at (i) achieving fiscal solvency e over the medium and long ined by means of a package of ns and measures intended to stant balance between public penditure; and (ii) support for odernization in priority areas of es of the provincial government.</p>	<ul style="list-style-type: none"> • Achievement of fiscal balance in the medium term: move from a deficit of US\$301 million in 1996 to a surplus in 1998, 1999, and 2000. By the end of 2000, current savings should be generated and the ratio of debt stock to current revenue should drop from 93% to 60%-70%. • Establishment of the Public Finance Stabilization Fund within 18 months and a balanced-budget requirement in effect in 1998. • Privatization/concessioning out of: EMSE (December/98), OSM (July/97), and EPT (December/97). • New civil service regulations; streamlining of organization of public administration in the executive branch; training of civil servants; establishment of productivity and efficiency standards. • Decentralization and increase in quality and coverage of social and health services. • Strengthening of the Supreme Court, and higher quality levels in justice-system services. • New organizational structure for the legislature, providing for greater representativity, economy, quality, and effectiveness. 	<p>Budget execution, balanced-budget legislation, and stabilization fund implemented. Number of concession and outsourcing contracts signed. New civil service regulations approved. Surveys of target population as to service quality. Statistics and reports from area managers. Semiannual program monitoring reports.</p>	<p>Legislative approval of legislation o authority, balanced budget, establis the stabilization fund, and privatizat Political consensus. Economic and political stability. Community and State interests havi over sector interests. Staff acceptance and participation i termination, outsourcing, and trainin programs. Annual growth rate of 2% in nationa provincial GDPs. Maintenance of national tax burden</p>

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Efficiency</p>	<p>Fiscal policy measures that include action in the revenue and expenditure areas that will strengthen the situation of public finances over time.</p> <p>In keeping with the fiscal projections, provincial tax revenue targets would be: US\$359 million in 1997; 5% increase in 1998; further 3.5% increase in 1999; and 3.5% increase in subsequent years.</p> <p>The ratio of debt to current revenue should drop from 92.3% in 1996 to 60%-70% in 2000.</p>	<p>Budget performance audits.</p> <p>Law establishing the Public Finance Stabilization Fund.</p> <p>Balanced-budget requirement.</p> <p>Semiannual monitoring reports.</p>	<p>Fiscal projections are based on assumptions for each of the variables.</p>
<p>Privatization of mass transit system (ESM)</p> <p>Transfer of services and voluntary contributions at ESM</p> <p>Transfer of ESM's electric power</p>	<p>Privatization of three public enterprises (ESM, ESM, and EPT)</p> <p>Transfer all trolleybus services to the firm that is awarded the contract, December/97.</p> <p>85 employees trained by year-end 1997.</p> <p>Transfer of 70% of the Province's share interest to the private sector by year-end 1997.</p> <p>Rise in customer-to-employee ratio from 912 to 993 within 3 months.</p> <p>Training of 200 employees each year, for a 3-year total of 600.</p> <p>Transfer of stock control of company.</p> <p>Technical studies and legal, financial, advertising, and information instruments prepared, to establish competitive climate able to draw greatest possible number of qualified bidders, within 12 months.</p>	<p>Decree awarding the contract.</p> <p>Concession contract for the services.</p> <p>Concession contract signed.</p> <p>Training certificates.</p> <p>International tender, award, and signature of contract for consulting services to promote sale of the company, by executive decree.</p> <p>Selling memorandum.</p> <p>Concession contract signed.</p>	<p>Response of interested parties to the process.</p> <p>Agreement of employees targeted to the process from planned indemnities.</p> <p>Response of interested parties to the process.</p> <p>Contracting processes proceed without problems.</p>

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
tion of the State	<p>Reform and institutional strengthening of priority areas in the three branches of government. Action in the executive branch will focus on revamping the structure and services provided by the Social Development and Health Secretariat, on providing social protection to targeted groups, and on reorganizing the structure of spending and reforming tax and financial administration.</p>	<p>Provincial budget. New civil service legislation. Official gazette. Legislative proceedings. Surveys of target population on service quality. Number of persons trained. Statistics. External evaluation reports. Reports from area managers. Reports from project leaders.</p>	<p>Staff acceptance of reorganization of new civil service regulations, and tr Continuity of administrative streamlin Level of economic activity similar to Maintenance of national tax burden</p>
d social development	<p><u>Health</u> Using a care model based on unrestricted selection of family physicians, coverage of 18% in year 1, 72% in year 2, and 100% in year 3, of the population whose coverage is provided by the government. Consolidated health care users register (RUUS) covering at least 70% of the population by the end of year 3. All hospitals in the Province's public health providers network decentralized within three years (50% by the end of year 2). 27% increase over 1995 level in own revenue at hospitals and health centers (12% in year 2, and an additional 15% in year 3). Preventive care programs included in 80% of public health care services and 30% of private health care services by the end of year 3.</p> <p><u>Social development</u> New organizational and functional structure of the social development sector, and new integrated model of social service delivery, including municipal governments and NGOs, within 12 months. Resizing of central staff, within 24 months (250 employees). 68 agreements signed with municipal governments and NGOs within 12 months. A social information system up and running, including computer support (300 terminals), within 18 months. Training of social-service staff over a 30-month period (100 from the central area and 1,800 local agents from municipal governments and NGOs). Deeper restructuring of services for children, adolescents, and the elderly, within 30 months (decentralization, information systems, training of 400 workers in specific care for this sector).</p>	<p>Records of the family physicians system. Epidemiological and statistical records. Survey of population using the RUUS. Survey of population with public-sector coverage. Legislation (laws and decrees) governing hospital decentralization. Accounting records and administrative information on individual public-sector providers.</p> <p>Provincial budget. Municipal budgets. Approved organization charts. New staffing plan approved. Records on decentralization agreements. Records from Social Programs Information, Monitoring, and Evaluation System. Records from social-service employee training program.</p>	<p>Acceptance, participation, and consen sectors involved. Identification of population with public coverage. Legal framework prepared in due tim Amendment of applicable legislation. Acceptance of preventive care by the and first-level providers.</p> <p>Elimination of legal constraints on r Existence of a legal administrative f for reassigning and streamlining sta Participation of union representative restructuring process. Support and commitment of particip new integrated system for social se delivery: municipal governments a</p>

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>ection for targeted groups</p> <p>ity areas</p> <p>ng</p> <p>r Regulatory Agency Affairs</p> <p>istration</p>	<p>Adequate level of service coverage for self-targeting groups, compared with rate at program startup.</p> <p>Contracts signed to outsource services of the Ministry of Environmental Affairs and Public Works for a total of 86 positions in 3 months.</p> <p>Bureau up and running within 14 months. 80 persons trained within 12 months.</p> <p>In keeping with the fiscal projections, provincial tax revenue targets would be: US\$359 million in 1997; 5% increase in 1998; further 3.5% increase in 1999; and 3.5% increase in subsequent years.</p> <p>Report analyzing tax policy options and reviewing legal framework by month 4 and implementation of proposals by month 8.</p> <p>New structure of Internal Revenue Bureau implemented by month 16.</p> <p>Training provided by month 12: 360 persons trained in new procedures, 50 trained in legislation; 70 trained in management techniques.</p> <p>Set of key indicators for monitoring critical tax administration areas and activities in place by month 4.</p> <p>Creation and implementation of the Office for Large Taxpayers by month 4.</p> <p>Implementation of systems: withholding and intake agents, by month 6; payment plan monitoring, by month 4; receipt of sworn tax returns, by month 5.</p> <p>Annual audit plan, based on objective parameters, by month 12.</p> <p>New information systems, drafted in clear language, by month 24.</p>	<p>Semiannual reviews.</p> <p>Outsourcing contracts signed.</p> <p>Decrees ratified by the legislature.</p> <p>Legal regulations published.</p> <p>Report of the Financing Undersecretariat.</p> <p>Tax code and legislation reviewed and amended.</p> <p>Draft legislation containing changes to tax policy.</p> <p>New structure and manuals describing positions, functions, and procedures approved.</p> <p>Technical reports approving information systems written in clear language.</p> <p>Human resources and training area created; training center set up.</p> <p>Internal Revenue Bureau approval of audit plan.</p> <p>Establishment of unit and roll of large taxpayers.</p>	<p>Recognition of advisability of outsourcing policy by those who perform outsourcing tasks.</p> <p>Level of economic activity similar to previous years.</p> <p>Maintenance of national tax burden.</p> <p>Staff acceptance of new proposals.</p> <p>Legislative approval of new legislation.</p> <p>Development of a management curriculum for Internal Revenue Bureau.</p> <p>Availability of quality suppliers able to provide services to re-engineer and reform computer system.</p> <p>Timely availability of reliable data.</p> <p>Ability to process information in digital form.</p>

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
administration	<p>Reports on government output processes for all activities, within 6 months.</p> <p>Reports on goods and service output indicators for 50% of the government's end output, within 3 months.</p> <p>Reports on unit costs and productivity for 50% of the government's end output, within 12 months.</p> <p>Processes to convert the budget accounting system over to a financial and business-type basis, taking national and provincial experience into consideration, within 3 months.</p> <p>Manual on financial statements from accounting outputs, evaluated and adapted within 6 months.</p> <p>All central government accounts payable closed within 12 months.</p> <p>A single account for all central-area funds within 12 months.</p> <p>All government liabilities recorded, within 2 months.</p> <p>System for automatic payment of debt service obligations, within 6 months.</p> <p>Audit and Internal Control Unit restructured and strengthened within 6 months.</p> <p>Standard internal-control structure defined for all agencies within 2 months.</p> <p>Computer systems support: budget execution output, within 2 months; public debt output, within 6 months; automatic bank reconciliations, within 2 months.</p> <p>Training in the budget system for 160 public-sector employees, within 2 months.</p> <p>Training in the computerized accounting system for 300 public-sector employees, within 2 months.</p> <p>Ongoing training through one-month courses each year, for revolving-fund and petty-cash administrators, for roughly 2,000 public-sector employees.</p>	<p>Provincial budget for information systems.</p> <p>Outputs on registration, financial statements, visual inspection.</p> <p>Tests and checks of operations, budget and program documents.</p> <p>Reports drafted and approved.</p> <p>Financial statements manual prepared.</p> <p>Bank magnetic files.</p> <p>Copy of the maturity schedule.</p> <p>Reports from the area manager.</p> <p>Documentation on programs and training attendance.</p> <p>Draft legislation for the Financial Administration Act.</p>	<p>Political support for implementation of reforms.</p> <p>Familiarity with team approach to financial administration issues.</p>

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ing of public management	<p>Streamlining of structures by 30% on average, within 18 months.</p> <p>Elimination of overlapping in organizational structures, within 12 months.</p> <p>Draft bill on the new civil service regulations, within 9 months.</p> <p>Reduction of throughput time by an average 50% vis-à-vis current levels, within 24 months.</p> <p>Reduction of throughput stages to 30% of current levels.</p> <p>Quality standards or indicators for each public service prepared within 12 months.</p>	<p>Organization charts.</p> <p>Statistical survey.</p> <p>Evaluation reports.</p> <p>Draft bills.</p> <p>Surveys of target population.</p> <p>Quality standards.</p> <p>Reports from area coordinator.</p>	<p>Continuation of current policy of administrative streamlining.</p> <p>Favorable attitude toward change.</p>
branch	<p>85% implementation of common services and Human Resources and External Relations Department, within 2 years.</p> <p>85% of files processed and checked in 3 months (on average).</p> <p>60% of staff satisfied with administrative operations, performance in 3 years.</p> <p>Manual on position descriptions prepared and in force, and system in place for staff recruitment, contracting, and promotions, within 8 months.</p> <p>Draft bill on statute/establishment table prepared within 9 months.</p> <p>Development and implementation of an ongoing study and training program, within 8 months.</p> <p>60% increase in substantive legislation, within 3 years.</p> <p>85% of provincial legislators and technical staff trained in budget control.</p> <p>85% of Consolidated System for Parliamentary Information and Management up and running, and being used by legislators and staff within 5 years. 100% of legislators and staff trained within 2 years.</p> <p>Legislative Organization Act passed.</p>	<p>Regulations, organization charts, and budget of the legislature.</p> <p>Reports from legislative secretariats of both Houses.</p> <p>Tracking of legislation.</p> <p>Surveys.</p> <p>Legislative proceedings.</p> <p>Draft bill on statute.</p> <p>Statistics.</p> <p>Attendance at courses and seminars.</p> <p>Reports from area coordinator.</p>	<p>Political consensus and will for agreement on the reform, and approval by the two Houses.</p> <p>Support and participation by staff and provincial legislators.</p> <p>Agreement on building modification and office uses.</p>

SUMMARY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>branch</p>	<p>50% reduction in case processing times within 5 years.</p> <p>50% increase in judicial-system productivity within 5 years.</p> <p>Production of complete, reliable statistics within 5 years.</p> <p>Immediate access of practitioners and the general public to information on the status of proceedings, within 5 years.</p> <p>Streamlining and upgrading of the judicial branch's administration within 1 year.</p> <p>All administrative tasks being performed in keeping with standardized procedures, with departmental responsibilities defined, within 1 year.</p> <p>Training center for magistrates and officers in the judicial branch, within 7 months.</p> <p>Five four-month cycles of reform-related refresher training offered within 3 years.</p> <p>All architectural barriers removed from new buildings, within 3 years.</p>	<p>Official documents from the Supreme Court.</p> <p>Evaluation reports.</p> <p>Official statistics of the judiciary.</p> <p>Opinion poll on access to information.</p> <p>Reports from the area coordinator.</p>	<p>Implementation of the building infrastructure plan at all institutional levels and for coordinated implementation of the training and training plans.</p> <p>Staffing and outfitting of the Supreme Court technical supervisory team.</p>

Mendoza. Provincial Budget. Current structure (with reform program)
Consolidated figures for central government, decentralized agencies and special accounts (1, 2 and 3)
Regular and nonrecurring headings, by six-month period (in millions of current Argentine pesos)

CONCEPTO	1996 Provisional(a)		1997 Projected(b)		1998 Projected		1999 Projected		2000 Projected	
	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half
I. Current revenue	512	542	572	556	565	621	585	644	605	668
Provincial	242	251	247	254	256	272	265	282	274	291
Tax	169	155	176	187	182	202	189	209	195	216
Royalties	34	41	42	42	39	48	40	49	41	51
Other nontax	39	54	29	25	35	22	36	24	38	24
Federal	271	291	325	302	309	349	320	363	331	377
Tax shareouts and road revenues	182	220	240	226	218	271	229	285	241	299
Other transfers (earmarked and unrestricted)	89	70	84	77	91	78	91	78	91	78
II. Current expenditures	484	603	526	565	486	603	491	602	491	596
Personnel (c)	303	332	321	328	314	339	310	335	310	335
Good and services	32	92	45	76	35	83	33	78	31	75
Transfers to municipal governments and other transfers	100	120	116	109	112	123	123	134	126	137
Voluntary terminations: privatized banks	24	22	12	4	0	0	0	0	0	0
Debt-related interest and costs: government operation	17	16	14	13	15	12	16	13	17	13
Debt-related interest and costs: bank privatizations	8	20	17	36	10	47	9	42	8	35
III. Current saving (dissaving) (I-II)	29	-61	46	-9	78	18	94	43	113	73
IV. Capital revenue	58	169	10	25	194	23	86	17	67	7
From privatizations (d)	0	24	0	0	140	0	46	0	52	0
From sales of shares, reflows, and other (e)	58	145	10	25	54	23	40	17	15	7
V. Capital expenditures	12	849	17	98	21	158	24	184	24	185
Public works (using own funds and borrowings)	9	13	12	49	17	93	20	108	20	108
Loans for housing projects, and other	2	32	4	41	3	53	3	67	4	71
Pre-existing capital goods, and other	1	2	1	8	1	12	1	9	0	6
Costs assumed under bank privatizations (f)	0	801	0	0	0	0	0	0	0	0
VI. Overall surplus (deficit) (III+IV-V)	75	-741	39	-82	251	-117	155	-124	156	-106
VII. Stabilization fund	0	0	0	0	0	50	0	0	0	0
VIII. Amortization of debt associated with:	254	239	234	86	171	59	147	67	132	58
Operation of government and support for producers	38	46	29	32	27	23	23	20	23	19
Support and privatization of banks	27	193	41	54	19	36	24	47	19	39
Floating debt (working capital-salaries, suppliers, etc.)	189	--	164	--	125	--	100	--	90	--
IX. Borrowing requirement (VIII+VII-VI)	179	980	195	168	-80	226	-8	191	-24	164
X. Financing obtained	53	1,106	101	263	21	179	74	159	70	147
From financial institutions and private sources	47	933	87	72	0	0	0	0	0	0
From the IDB, IBRD, and the Fund for Change and Growth	4	3	1	60	21	79	20	69	20	57
Floating (public agents, suppliers, etc.)	--	164	--	125	--	100	--	90	--	90
Nonreimbursable transfers from the national government	2	6	5	5	0	0	0	0	0	0
Carry-over from previous years (earmarked or not)	0	0	9	0	0	0	54	0	50	0
XI. Net surplus (deficit) (X-IX)	-127	127	-94	95	101	-47	82	-32	94	-17

Net debt stock	962	1,005	871	840	789
Debt to current income ratio	91.27%	89.10%	73.41%	68.34%	62.01%

Notes:

(a) Provisional execution based on April 30, 1997, data. Deadline for definitive closing of balance sheet: June 30, 1997

(b) Projection based on actual execution as at April 30, 1997.

(c) En 1997 y 1998, includes cost of voluntary terminations pursuant to Decree 2009/96.

(d) Includes revenue from privatization of government-owned banks (in 1996) and the power company (EMSE) and water utility (OSM) (from 1998 on). EMSE's estimated revenue is \$110 million in cash in 1998 and \$14 million in royalties from 1999 on. According to the terms of the privatization legislation, revenue from these two firms may only be used for public works.

(e) Includes reimbursement of loans to the banks in 1994 and 1995, recoveries of credits from the residuum entity of the banks, and realization of Province-held assets (shares of HIDISA, CTM, and others).

(f) Refers to the consolidation of all assets received as residuum of the privatized banks ("purchase" of assets).

Assumption for the beginning of the six-month period: Average semiannual participation will be similar to that observed in 1996 and 1997.

Mendoza. Provincial Budget. Current structure (without reform program)

Consolidated figures for central government, decentralized agencies and special accounts (1, 2 and 3)

Regular and nonrecurring headings, by six-month period (in millions of current Argentine pesos)

CONCEPTO	1996 Provisional(a)		1997 Projected(b)		1998 Projected		1999 Projected		2000 Projected	
	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half
I. Current revenue	512	542	572	556	561	617	580	640	600	664
Provincial	242	251	247	254	252	268	260	277	269	287
Tax	169	155	176	187	179	198	185	205	192	212
Royalties	34	41	42	42	39	48	40	49	41	51
Other nontax	39	54	29	25	34	22	35	23	36	23
Federal	271	291	325	302	309	349	320	363	331	377
Tax shareouts and road revenues	182	220	240	226	218	271	229	285	241	299
Other transfers (earmarked and unrestricted)	89	70	84	77	91	78	91	78	91	78
II. Current expenditures	484	603	526	564	486	604	491	606	494	606
Personnel (c)	303	332	321	328	314	339	310	335	310	335
Good and services	32	92	45	74	37	85	37	86	37	87
Transfers to municipal governments and other transfers	100	120	116	109	112	122	122	133	125	136
Voluntary termination: privatized banks	24	22	12	4	0	0	0	0	0	0
Debt-related interest and costs: government operation	17	16	14	13	14	10	14	11	15	11
Debt-related interest and costs: bank privatizations	8	20	17	36	10	47	9	42	8	35
III. Current saving (dissaving) (I-II)	29	-61	46	-7	75	13	88	33	106	58
IV. Capital revenue	58	169	10	25	194	23	86	17	67	7
From privatizations (d)	0	24	0	0	140	0	46	0	52	0
From sales of shares, reflows, and other (e)	58	145	10	25	54	23	40	17	15	7
V. Capital expenditures	12	849	17	92	20	144	24	174	25	181
Public works (using own funds and borrowings)	9	13	12	49	17	88	20	105	20	108
Loans for housing projects, and other	2	32	4	41	3	53	3	67	4	71
Pre-existing capital goods, and other	1	2	1	2	1	2	1	2	1	2
Costs assumed under bank privatizations (f)	0	801	0	0	0	0	0	0	0	0
VI. Overall surplus (deficit) (III+IV-V)	75	-741	39	-74	249	-107	150	-124	148	-117
						141				
VII. Stabilization fund	0	0	0	0	0	0	0	0	0	0
VIII. Amortization of debt associated with:	254	239	234	86	170	59	147	67	134	60
Operation of government and support for producers	38	46	29	32	27	23	23	20	25	21
Support and privatization of banks	27	193	41	54	18	36	24	47	19	39
Floating debt (working capital-salaries, suppliers, etc.)	189	--	164	--	125	--	100	--	90	--
IX. Borrowing requirement (VIII+VII-VI)	179	980	195	160	-79	166	-3	191	-14	177
X. Financing obtained	53	1,106	101	255	5	169	92	155	64	155
From financial institutions and private sources	47	933	87	76	0	0	0	0	0	0
From the IDB, IBRD, and the Fund for Change and Growth	4	3	1	48	5	68	5	65	5	65
Floating (public agents, suppliers, etc.)	--	164	--	125	--	100	--	90	--	90
Nonreimbursable transfers from the national government	2	6	5	5	0	0	0	0	0	0
Carry-over from previous years (earmarked or not)	0	0	9	0	0	0	86	0	59	0
XI. Net surplus (deficit) (X-IX)	-127	127	-94	94	84	2	95	-36	78	-22

Net debt stock	962	997	856	830	798
Debt to current income ratio	91.27%	88.42%	72.66%	68.04%	63.17%

Notes:

(a) Provisional execution based on April 30, 1997, data. Deadline for definitive closing of balance sheet: June 30, 1997

(b) Projection based on actual execution as at April 30, 1997.

(c) En 1997 y 1998, includes cost of voluntary termination's pursuant to Decree 2009/96.

(d) Includes revenue from privatization of government-owned banks (in 1996) and the power company (EMSE) and water utility (OSM) (from 1998 on).

EMSE's estimated revenue is \$110 million in cash in 1998 and \$14 million in royalties from 1999 on. According to the terms of the privatization legislation, revenue from these two firms may only be used for public works.

(e) Includes reimbursement of loans to the banks in 1994 and 1995, recoveries of credits from the residuum entity of the banks, and realization of Province-held assets (shares of HIDISA, CTM, and others).

(f) Refers to the consolidation of all assets received as residuum of the privatized banks ("purchase" of assets).

Assumption for the beginning of the six-month period: Average semiannual participation will be similar to that observed in 1996 and 1997.

SUPPORT PROGRAM FOR COMPREHENSIVE PUBLIC-SECTOR REFORM IN THE PROVINCE OF MENDOZA TENTATIVE PROCUREMENT PLAN
(in thousands of U.S. dollars)

	August 1, 1997				YEAR 1				YEAR 1		YEAR 2		YEAR 3		TOTAL	
	AUG-OCT		NOV-JAN		FEB-APR		MAY-JULY		SUBTOTAL		SUBTOTAL		SUBTOTAL			
	IDB	LOCAL	IDB	LOCAL	IDB	LOCAL	IDB	LOCAL	IDB	LOCAL	IDB	LOCAL	IDB	LOCAL	IDB	LOCAL
Privatizations																
Services	100	183				92		311	100	586		130			100	71
	78	146				74		249	78	469		96			78	50
	22	37				18		62	22	117		34			22	19
and goods																
work	4,200	873							4,200	873					4,200	873
	4,200	873							4,200	873					4,200	873
Modernization of the																
Services and training	4,033	2,562	4,797	300	3,773	474	895		13,497	3,336	2,293	565	910	282	16,701	4,181
	2,698	21,024	4,797		1,920	474			9,415	21,498	1,834		910		12,159	21,498
	1,068	1,582		240	1,482		895		3,445	1,822	367	452		225	3,812	2,498
	267	396		60	371				638	456	92	113		57	729	625
and goods	8,276	2,330	4,450	184	1,937	125	761		15,424	2,639	1,030	756	531	268	16,985	3,562
	8,276		4,450		1,937		761		15,424		817		531	201	16,773	20,000
		1,864		184		125				2,173	212	756		67	212	2,995
		466								466					0	466
work	1,293		780	4,247	259				2,332	4,247	370	530	198	600	2,900	5,370
	1,293		780	4,247	259				2,332	4,247	370	530	198	600	2,900	5,370
	17,902	5,948	10,027	4,731	5,969	691	1,656	311	35,553	11,681	3,693	1,981	1,639	1,150	40,886	14,711

competitive bidding

competitive bidding

the amount and activity to be financed

ce will attempt to combine tenders into packages whenever possible, so as to keep costs down. Also, the Province has decided that international competitive bidding should be indicated.

PROPOSED RESOLUTION

ARGENTINA. LOAN /OC-AR. REPUBLICA ARGENTINA.
REFORM OF THE MENDOZA PROVINCE SUPPORT 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 Mendoza Province, as Borrower, and the República Argentina, as Guarantor, for the purpose of granting to the former a financing to cooperate in the execution of a Reform of The Mendoza Province Support Program. Such financing will be for the amount of up to eighty million dollars of the United States of America (US\$80,000,000) from the Single Currency Facility of the Ordinary Capital resources of the Bank and it will be subject to the "Terms and Financial Conditions" and the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.