

**ARGENTINA**

**SECTOR PROGRAM ON PUBLIC FINANCIAL MANAGEMENT**

**(AR-L1009)**

**LOAN PROPOSAL**

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Electronic Links and References	
Basic Socioeconomic Data	<a href="http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata">http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata</a>
Status of loans in execution	<a href="http://ops.iadb.org/approvals/pdfs/ARen.pdf">http://ops.iadb.org/approvals/pdfs/ARen.pdf</a>
Information available in the RE1/SC1 technical files	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=624972">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=624972</a>
Policy setter	<a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=672478">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=672478</a>
Matrix: Means of verification	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=615219">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=615219</a>
Output matrix	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=624967">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=624967</a>
Matrix: Quality at entry (Q@E) Standards	<a href="http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=624975">http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=624975</a>

## ABBREVIATIONS

AFIP	Administración Federal de Ingresos Públicos [Federal Public Revenues Administration]
BAPIN	Banco de Proyectos de Inversión Pública [Public Investment Project Bank]
CESI	Committee on Environment and Social Impact
CFAA	Country Financial Accountability Assessment
DNIP	Dirección Nacional de Inversiones Públicas [National Public Investment Office] (DNIP)
GDP	Gross domestic product
IFIs	International financial institutions
IMF	International Monetary Fund
IRAM	Instituto Argentino de Normalización y Certificación [Argentine Standardization and Certification Institute]
ISO	International Organization for Standardization
MECON	Ministerio de Economía y Producción [Ministry of Economic Affairs and Production]
PAMI	Plan de Adultos Mayores Integral [Comprehensive Plan for Older Adults]
PNIP	Plan Nacional de Inversión Pública [National Public Investment Plan]
PPMR	Project Performance Monitoring Report
SIDIF	Sistema Integrado de Información Financiera [Integrated Financial Information System]
SIGADE	Sistema de Gestión y Análisis de la Deuda [Debt Management and Analysis System]
SLU	Sistema Local Unificado [Unified Local System]
SNIP	Sistema Nacional de Inversiones Públicas [National Public Investment System]



## PROJECT SUMMARY

### ARGENTINA SECTOR PROGRAM ON PUBLIC FINANCIAL MANAGEMENT (AR-L1009)

Financial Terms and Conditions <sup>1</sup>				
Borrower: the Argentina Nation Guarantor: the Argentina Nation Executing agency: Ministry of Economic Affairs			Amortization period:	20 years
			Grace period:	5 years
			Disbursement period:	18 months
			Interest rate:	Based on LIBOR
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	Inspection and supervision fee:	0%*
IDB (Ordinary Capital)	500 million	100	Credit fee:	0.25% of the undisbursed proceeds
Total	500 million		Currency:	United States dollars from the Single Currency Facility
Project at a glance				
<p><b>Project objective:</b></p> <p>The project's objective is to support the Argentine government's efforts to strengthen public financial management as a means of increasing its effectiveness, efficiency, and transparency through improved investment planning, budget management, and public debt management.</p> <p><b>Special contractual conditions:</b></p> <p>The proposed program loan will be disbursed in two tranches and will involve actions in four policy areas: macroeconomic environment; strengthening of public investment; strengthening of financial management; and strengthening of the public debt system. The expected outputs and conditions for each tranche of the operation are listed in the program policy matrix included in Chapter V.</p> <p><b>Exceptions to Bank policies:</b></p> <p>None.</p>				
<p>Project consistent with country strategy:    Yes [ <input checked="" type="checkbox"/> ]                      No [ <input type="checkbox"/> ]</p> <p>Project qualifies as:                                SEQ [No]                      PTI [No]                      Sector [    ]                      Geographic [    ]                      Headcount [    ]</p> <p>Procurement: Not applicable</p> <p>Verified by CESI on: 4 November 2005 (CESI 45-05)</p>				

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

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





## I. FRAME OF REFERENCE

### A. Background information

#### 1. Macroeconomic framework

- 1.1 Since the second quarter of 2002 Argentina has been facing a strong recovery from its profound crisis, leading to a significant improvement of its social indicators, and has strived to restore confidence in its institutions and to maintain a macroeconomic framework capable of guiding the economy on to a sustainable growth path (see Table 1). Stabilization efforts and adjustment to the new socioeconomic circumstances have generated an economic recovery based on bringing idle capacity into use through import substitution, exports and a revival of domestic consumption, resulting in GDP growth of 8.8 percent in 2003, 9.0 percent in 2004, while inflation rates remained at 3.7 and 6.1, respectively. By mid 2005, GDP in real terms was 8.1 percent over the level of 2001 and 2.6 percent over the level reached in 1998. The government monthly indicator of economic activity (EMAE) for December indicates a real GDP growth rate of 9.1 percent for 2005.

**Table I. Economic and Social Indicators**

	1998	1999	2000	2001	2002	2003	2004
GDP growth	3.9	-3.4	-0.8	-4.4	-10.9	8.8	9.0
Inflation	0.7	-1.8	-0.7	-1.5	41.0	3.7	6.1
Unemployment	12.4	13.8	14.7	18.3	20.8	14.5	12.1
Poverty	25.9	26.7	28.9	38.3	57.5	47.8	40.2
Extreme poverty	6.9	6.7	7.7	13.6	27.5	20.5	15.0

- 1.2 Gross domestic fixed investment (GDFI) has been recovering since the end of 2002 and showed a 34.4 percent increase in 2004 compared to the previous year. The GDFI, measured in 1993 constant prices, was equal to 17.7 percent of GDP in 2004 and an estimated 19.5 percent of GDP in 2005 against 11.3 percent in 2002 and 14.3 percent in 2003 but still inferior to 20.8 percent levels of 1997-98. As the gap between economic activity and the productive capacity is reduced, greater levels of investment will be required to sustain growth. The observed increase in the share of durable equipment is an important sign of improvement in the composition of investment. Looking forward, the existence of an appropriate business environment, in particular regarding uncertainties on future energy supply, will be critical to enhance investments as well as its composition and quality.
- 1.3 On the fiscal front, the recent economic recovery was accompanied by significant primary and overall balance surpluses at both federal and provincial levels. From a historical perspective, current primary balance levels are the highest in recent history. In 2004, the primary surplus of the national non-financial public sector (NFPS) reached \$17,360 million pesos (3.9 percent of GDP) and the consolidated

primary surplus (National and Provinces) approximately 5.1 percent of GDP, a result significantly bigger than the 3 percent of GDP programmed in the IMF Stand-By Arrangement. During the first eleven months of 2005, the government's fiscal position remained solid with an accumulated national NFPS primary surplus of nearly \$18,700 million (3.6 percent of GDP). At the provincial level, the consolidated primary fiscal balance is expected to remain positive this year, at about the equivalent of 0.7 percent of GDP, in spite of the negative impact of public sector salary increases.

- 1.4 Government budget projections for the period 2006-2008 have as objective the maintenance of an average national annual primary surplus of 3.3 percent of GDP and overall surplus of 1.4 percent of GDP. During this period, small reductions as percentage points of GDP are projected for total revenues (-0.4), current expenditure (-0.4), and total expenditure (-0.5). It also points out to an average reduction in total public debt equivalent to 1 percentage point of GDP, requiring a projected annual rollover of maturing debt equivalent to 9 percent of GDP. For 2006, the budget presents a projected reduction in net financing equivalent to nearly US\$1,000 million.
- 1.5 The Stand-By arrangement approved in September 2003 was not fully implemented because of a decision by the Argentine authorities to delay key structural elements of the program until completion of their debt restructuring. On early January 2006, Argentina paid in full its outstanding obligations to the IMF amounting to US\$ 9,600 million originally scheduled for repayment throughout 2006-2008 and the Stand-by arrangement with Argentina was terminated. The bulk of this repayment was made by the non-financial public sector using Central Bank reserves in exchange for long-term treasury bonds. While this transaction eases the repayment profile of the NFPS, it does not significantly alter its outstanding debt obligations.<sup>1</sup>
- 1.6 Despite formal arrangements based on monetary targets and a floating exchange rate regime, monetary authorities have intervened heavily in the foreign exchange market, stabilizing the exchange rate at around three pesos per dollar through reserve accumulation. But the associated monetary expansion clearly puts pressure on monetary targets and inflation, the ultimate Central Bank objective. Increased inflationary pressures have been observed over the past few months. The accumulated inflation up to December 2005 reached 12.3 percent and the inter-annual variation reached 9.6 percent. These values were above the maximum band established by the Central Bank for all of 2005 (8 percent). The Central Bank responded by intensifying its sterilization policy through the placement of monetary regulation instruments (Lebacks, Repos), which led to significant rise in nominal

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<sup>1</sup> This transaction translates into a gain in debt service obligations due to lower interest rates and longer repayment profile at the expense of a lower stock of liquid foreign reserves of the Central Bank which were reduced from US\$28,000 million to about US\$18,600 million in early January 2006. Originally scheduled amortizations due to the IMF in 2006 were equivalent to US\$ 1.626 million.

interest rates, although still negative in real terms. Expected inflation for 2006 is of 12.8 percent.<sup>2</sup>

- 1.7 The inflationary memory in Argentina is a vulnerability that makes the containment of inflation paramount. The recent surge in prices and the microeconomic interventions it prompted to keep them under control suggest that macroeconomic policies are not fully coordinated to ensure low inflation. Intervention in the exchange rate market to sustain real exchange rate levels is prone to have inflationary consequences that may endanger monetary policy and inflationary expectations, especially in the absence of decisive monetary sterilization. The government is addressing these concerns by improving the effectiveness of monetary policy through the targeting of broader monetary aggregates. However, there is some uncertainty about the consistency of monetary and exchange rate policies to control inflation.
- 1.8 At current levels and after debt restructuring, the fiscal position looks strong, as measured by standard sustainability analysis.<sup>3</sup> Furthermore, while balance of payments vulnerability increased due to the sizable reduction in the country's international reserves used to pay off IMF debt, the level of the remaining reserves offers standard levels of protection against foreseeable balance of payments shocks (barring those that would call for IMF emergency support).
- 1.9 However, the government's challenge in the medium-term is to work on the identification of and credible commitment to alternative sources of revenue or expenditure phase-outs that will ensure a smooth transition to a more appreciated real exchange rate and lower inflation levels while keeping the strong fiscal position that the authorities have shown is possible to attain. Such a policy would keep expectations of a fiscal crisis at bay, indeed a critical element to encourage investment and ensure future growth. This is particularly relevant for Argentina given that, just like many other countries faced with output collapse following systemic capital market turmoil, the economy recovered in a context of lagging investment.
- 1.10 As stated in the IDB country strategy with Argentina 2004-2008 of November 2004 (GN-2328-1), for Argentina to achieve sustainable and more equitable growth, it will need to raise its investment levels and the productivity of its physical and human capital, so that it can create jobs in the formal sector and increase production levels and the value-added of goods and services. Recovery of investment levels will depend firstly on the maintenance of macroeconomic stability, the strengthening of the financial system and the construction of a robust and efficient institutional framework with stable and transparent rules. This will enable

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<sup>2</sup> Forecasts by the Central Bank's weekly survey of economists of January, 2006.

<sup>3</sup> For more detailed information, see Supplementary information in "Argentina Macroeconomic Framework", January, 2006.

Argentina's institutions to regain credibility, reduce uncertainty and create an environment in which economic agents can make long-term decisions. The resolution of pending agreements and the definition of the regulatory framework regarding public utilities will be a key element in this endeavor, particularly regarding its effects on the energy sector.

- 1.11 Going forward, to sustain high economic growth will require addressing structural challenges that may inhibit long-term investment decisions. The current strong economic condition provides the authorities with the opportunity to define a solid program facing the country's medium and long-term challenges.

## **2. Financial management at the national government level**

- 1.12 Passage of the 1992 National Public-Sector Control Systems and Financial Management Act (Law 24,156) has enabled Argentina to make major improvements in the area of financial management over the past decade. This law clearly defines the duties and responsibilities of all parties involved in the budget cycle. The **Executive Branch**, through the Ministry of Economic Affairs and Production (MECON), is primarily responsible for drafting the budget bill. **Congress** must pass the bill. If it does not, the budget for the preceding year remains in effect. Once the bill has been passed, MECON's Treasury Department is in charge of placing limits on budget performance based on the resources available, and there is a single cash system that centralizes execution through the Single Treasury Account administered by the Argentine Treasury. Amongst the agencies now exempt are the Social Security Administration (ANSES), the Legislative Branch, and the Judiciary. The **Office of the Comptroller-General**, which is attached to the Executive Branch, and the **Office of the Auditor-General**, which is attached to the Legislative Branch, are responsible for maintaining ex post internal and external controls. The Sistema Integrado de Información Financiera [Integrated Financial Information System] (SIDIF) provides the technological tools used for financial management functions. One of the main achievements of the reform effort's first stage was the incorporation of almost all agencies of government into the SIDIF, which has endowed the budget process with a high degree of integrality.

### **a. Public investment**

- 1.13 Public investment projects are linked through the Sistema Nacional de Inversiones Públicas [National Public Investment System] (SNIP). This system, created by Act 24,354 of 1994, has two chief objectives: (i) to create and update an inventory of public-sector investment projects; and (ii) to design and manage projects within the framework of the Plan Nacional de Inversión Pública [National Public Investment Plan] (PNIP). Executive Decree No. 720 created the Banco de Proyectos de Inversión Pública [Public Investment Project Bank] (BAPIN) and established its objectives, scope and operational guidelines. In 2004, MECON Resolution No. 175 defined the conditions to be met by projects in order to qualify for inclusion in the

PNIP and in the national budget. These provisions require projects to be designed within the BAPIN framework.

- 1.14 The Dirección Nacional de Inversiones Públicas [National Public Investment Office] (DNIP) of MECON's Economic Policy Department is responsible for coordinating the PNIP and assessing the impact of investment projects. Its duties are: (i) to prepare the PNIP; (ii) to draw up a short list of public investment projects to be financed by the government during each budget year; (iii) to maintain the BAPIN; and (iv) to monitor and evaluate PNIP projects and to coordinate them with other public investment projects at the provincial and municipal levels.
- 1.15 There are currently **three major problem areas** in the management of public investment projects. **First**, there is no direct exchange of information between BAPIN and SIDIF. As a result, advances in budget execution are not immediately reflected in the progress made by BAPIN projects. This leads to the following types of budget-management problems: (i) lag times between the physical advance of projects and the corresponding payments; and (ii) manual reconciliation of the two systems, which brings with it the risk of errors and delays in the transmission of information. The **second problem area** has to do with the quality of project monitoring and evaluation tools. Systems for programming, conducting ex ante impact assessments, and monitoring investments are in place, but there is no system for analyzing the impact and actual outcomes of public investments in order to generate feedback for future investment decisions.
- 1.16 The **third problem area** is the coordination and monitoring of investment plans and projects at the provincial and municipal levels. The SNIP provisions notwithstanding, coordination between investments at the provincial and national levels is limited, given the substantial degree of budgetary autonomy enjoyed by the provinces. It is also difficult to merge the information provided by these two levels of government. The national government has been moving forward with the implementation of a comprehensive BAPIN system for all levels of government so that the terms of this legislation can be fully applied.

#### **b. Management for results and budgeting**

- 1.17 After more than a decade of progress and reforms, the advent of the crisis exacerbated a series of budget management problems. **These problems**, which pose major policy challenges, **can be grouped into three broad categories**. The **first** has to do with budget management. During the budget cycle, the focus normally falls primarily on financial considerations and on compliance with formal allocation procedures, with less attention being devoted to defining and then achieving the intended outcomes for each jurisdiction. This occurs despite the existence of a formal system for programming, monitoring, and assessing both physical and financial program outputs, because the system is actually underutilized. The situation is compounded by the fact that the relevant

organizations and agencies make very little use of the multiyear budget as a medium-term planning tool.

- 1.18 A series of measures are called for in order to meet this challenge. First of all, steps need to be taken to strengthen and refine the budget evaluation system in order to bring it into line with a results-based management approach, especially with respect to social sectors (health, education, and social development) and the National Budget Office. The outcomes sought through the use of a results-based management system often extend beyond the end of any given fiscal year, and a multiyear budgetary framework is therefore a key factor in the proper operation of such a system. Second, while it is true that a three-year budget cycle has been in use since 1998, the results indicate that the budget preparation process within each jurisdiction needs to be improved. Third, the situation is much the same with regard to each agency's budget drafting process. Many government agencies do not draw up a preliminary budget, or at least do not do so using the methodology recommended by the National Budget Office.
- 1.19 Fourth, as part of the move toward a results-based management model, procedures for upgrading financial management systems also need to be improved. One step in this direction is the design of a new version of SIDIF that works in an Internet environment (the "Internet SIDIF"). This new Internet version of SIDIF will make it possible to expand the links between financial management systems and physical resource management systems and to achieve a greater degree of operational decentralization. This design process is currently in its initial stages, and support is therefore needed in order to bring it to a successful conclusion. Fifth, it is important to continue implementing replicas of the Sistema Local Unificado [Unified Local System] (SLU). These systems will allow public agencies to improve their management procedures, cut information-system maintenance costs, and lay the groundwork for the Internet SIDIF's implementation. Finally, it is imperative to increase transparency and upgrade the quality of information in order to facilitate ex post control. More specifically, support should be provided for the certification of the record-keeping system used for public financial management purposes. This would allow financial control units to function more efficiently, since the achievement of results and compliance with rules and standards are equally important objectives within the framework of the public expenditure management scheme advocated by MECON.
- 1.20 **The second category of problems** has to do with the national budget's increasing loss of the integrity that was one of the principal successes of the reforms undertaken in the 1990s. There are currently various public funds and agencies on which insufficient information is provided or which are simply not included in the national budget. A number of these agencies used to be part of the civil service structure but, either on the strength of operational issues or because of their funding sources, after the crisis erupted their budgets were removed from that structure. Allocations for these units and funds represent 16% of the national budget. This

situation weakened MECON's role in the management of public expenditure and led to a loss of transparency in terms of the budget information supplied to Congress when it has the budget bill under consideration.

- 1.21 The Federal Fiscal Responsibility Regime Act (Law 25,917) of 2004 sets forth measures for changing this situation. Article 3 of that statute states that, with due consideration for the operational characteristics of each agency or fund, by the end of fiscal 2007 the government's budget should include authorizations for all expenditures and projections of all revenues. The way in which agencies not yet included in the national budget are going to be incorporated into it therefore needs to be defined, as do the required improvements in the information on certain types of expenditures, such as the trust funds on which information is not sufficiently disaggregated. The main financial management procedures also need to be analyzed with a view to determining whether improvements are called for in order to avoid the "flight" of agencies and/or funds from the financial management system or the creation of new agencies and/or funds outside that system.
- 1.22 The **third type of policy-related problems** has to do with the serious and growing degree of regulatory dispersion. As noted earlier, the legal framework in this area is provided by the National Public-Sector Control Systems and Financial Management Act (Law 24,156), the Ancillary Standing Budget Act (Law 11,672 of 1999), the Fiscal Solvency Act (Law 25,152), the Federal Fiscal Responsibility Regime Act (Law 25,917), and the budget act for each fiscal year, together with numerous resolutions, provisions, and circulars issued by MECON and the Department of the Treasury. This legal framework set the stage for significant progress in improving the organization and management of the budget, as well as the generation and administration of financial information, and these advances played a crucial role in the country's solid fiscal performance during the crisis that broke out at the start of this decade. Nonetheless, myriad, subsidiary (non-legislative) provisions have not been updated or compiled into an organized system of texts or comprehensive decrees.

### **c. Public borrowing**

- 1.23 In Argentina, public debt management has undergone sweeping changes in recent years, primarily as a result of two main factors: the complex debt restructuring process, and changes in the rules and regulations governing fiscal management. These factors have engendered new and different operational and administrative requirements and make it necessary to adapt the National Public Debt Office's procedures and systems so that they can function efficiently in this new economic and regulatory environment. To meet these new demands, the government will have to work through the National Public Debt Office to deal with three main challenges.
- 1.24 **First**, when the government was restructuring its debt and arranging for a debt swap, in order to encourage its creditors to participate, it offered them a choice

among three new debt instruments and repayment schedules: (i) growth-linked coupon bonds; (ii) debt-repurchase commitments based on higher GDP growth rates; and (iii) debt-repurchase commitments based on unused payment capacity. The price of the first two of these debt instruments is open, but can be calculated each year based on GDP growth for the preceding year. The last of the three does have a specified price based on the amount of debt exchanged. In order to meet these obligations, the government must develop and establish registration procedures for these new instruments and design a methodology for estimating the anticipated value of coupons and the debt repurchases each year.

- 1.25 **Second**, regulatory changes established under Law 25,917 (the Federal Fiscal Responsibility Regime Act) have added the new conditions to public debt management, particularly with regard to the amount of information that must be provided in multiyear budgets on the debt position and outlook, including balances, maturity profiles, and borrowing guidelines by source of financing. These new obligations have direct implications in terms of public debt registration procedures, calculations, and disclosure that make it necessary to update the National Public Debt Office's rules, processes, and systems. The database on public debt operations therefore needs to be checked, corrected, and updated so that detailed information can be provided on the different types of operations, lenders, and borrowers, and on the financial terms and conditions of the operations in question. In order to work toward meeting this challenge, the national government's borrowing guidelines and financing strategies have to be updated. This includes the development of detailed projections on debt service, financing requirements for the period in question, and possible sources of funding.
- 1.26 The requirements set forth in Law 25,917 will also be binding upon provincial governments and the City of Buenos Aires if they adhere to this regime. This signals a fundamental change in public debt management because this law is expanding the range of agencies and units for which this information needs to be processed and disclosed. Expanding this universe will entail the task of modernizing the Argentine government's public debt registration and reporting procedures and systems at all levels. In addition to the two challenges mentioned earlier, a number of the reforms (particularly the pension reform) carried out in the 1990s have generated liabilities whose impact needs to be quantified. This constitutes a **third challenge** that this program should begin to address. Public debt management procedures should include the quantification, registration, and analysis of any contingent liabilities and fiscal contingencies that may become specific obligations whose servicing is chargeable to the national budget.

## **B. Program strategy and rationale for Bank participation**

- 1.27 One of the consequences of a crisis as severe as Argentina's is that, above and beyond the domestic and external economic, social, and political factors involved, the relevant institutions (i.e., the ground rules) collapse—no matter what level or



degree of institutional development they may have achieved prior to the crisis—and the organizations that represent those institutions have a very difficult time achieving the objectives they have set themselves in terms of institutional refinement and modernization. The public sector's financial administrative structure has not been exempt from this dynamic. Thus, as noted in previous sections, the recovery and improvement of the Argentine public sector's financial architecture is a high-priority public policy at the federal government level for the coming years.

- 1.28 The strategy for this program rests therefore on two basic premises that seek to endow it with institutional sustainability. First, it will focus on supporting the government's efforts to restore and update that organizational and institutional fabric. In each of the relevant policy areas, a package of coordinated and complementary measures has been selected that will lay the groundwork for the restoration of that structure. Second, the program policy areas concentrate exclusively on the national level and, within it, those areas falling within the purview of the Executive Branch and, more specifically, MECON. This strategy may appear to be somewhat limited, since it does not address some of the major challenges facing Argentina's public financial management system—such as the financial relationship with the provinces or domestic and external control at the national and provincial levels. What it does do, however, is to lay a foundation that will help to ensure that efforts to meet these challenges will be more successful in the future than they have been in the past.

### **C. Scaling of the program**

- 1.29 This operation of US\$500 million will contribute to the Bank's support to the country's overall financing needs, in line with the policy-based lending guidelines (CS-3633) aimed at covering borrowing requirements within the framework of a medium-term economic program for consolidating economic growth and ensuring the sustainability of public debt. For the period 2006-2009, financial projections present an average annual financing gap of about \$2,350 million. Total amortizations with the IDB and World Bank for the period 2006-2008 are of US\$3,730 million and US\$2,950 million, respectively.
- 1.30 According to the policy letter submitted by the government, the financing policy for 2006 on will be funded by its primary surplus and the deepening of domestic debt operations begun in 2005 in order to cover the obligations maturing during that period. Most of these liabilities are BODEN's (dollar-denominated federal government bonds), secured loans, and newly restructured debt. Financing will also continue to be provided by the Central Bank.

### **D. The Bank's strategy with the country and the sector**

- 1.31 The chief aim of the Bank's strategy with the country for 2004-2008 is to support the country's efforts to achieve sustainable and more equitable growth by taking

action in three areas: (i) institution-strengthening to support improved governance and fiscal sustainability; (ii) creating a more conducive environment for investment and productivity growth; and (iii) poverty reduction, replenishment of human capital, and promotion of sustainable, inclusive social development. This project clearly falls into the first of these areas, since fiscal sustainability is a prerequisite for modern, effective, and efficient financial management.

- 1.32 The Bank has worked in this area at both the federal and subnational levels to support reform of fiscal federalism and the modernization of executive branches at the national, provincial, and municipal levels. In 2002, execution of the Consolidation of Administrative and Financial Reform Program (826/OC-AR) was completed. This was the program under which the SIDIF was set up and work on the development of the SLU began. The aim of these initiatives was to provide the public sector with a consolidated financial management and administration tool for use in integrating an array of local systems and saving on maintenance costs. Program AR-L1009 will support the modernization, refinement, and expansion of the SIDIF and SLU as part of an effort that reflects the high priority that the country continues to place on managing the national budget more appropriately and transparently.

#### **E. Lessons learned**

- 1.33 The experience gained during the reform process supported by the Bank in recent years points to the following lessons: (i) *Political backing, legal support, and institutional leadership*. The depth of any reform is directly proportional to the authorities' degree of commitment and their perception of how necessary such changes are. The policy matrix is a reflection of MECON's commitment to the reforms that the government deems to be viable and that this program seeks to carry forward; (ii) *Vision and sequencing*. The reform process must grow out of a comprehensive, long-term vision in order for the corresponding actions to be properly sequenced. This operation is designed to backstop the government's efforts to ensure the sustainability of the strategy it is using to overcome the effects of the crisis and get the reform process back on track, with emphasis being placed on the national level; (iii) *Economics of reform*. Experience suggests that it is best for programs to have an "owner". This program therefore focuses on a single institution: MECON. A study conducted in order to evaluate financial management reform programs (*Evaluación de los Programas de Reforma de la Administración Financiera*<sup>4</sup>) delineates the main lessons learned in this area, as follows: (i) prior analysis is a critical step in more successful system implementation. This project can draw upon the stock of detailed analysis provided by a recent Public Expenditure Review (PER) and a Country Financial Accountability Assessment (CFAA), which is now under review and is being coordinated with this operation. There are also many detailed studies available on every aspect of Argentine

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<sup>4</sup> Quasar Consultants, 2005, OVE.

financial management. Consultants have been engaged to compile information on each one of the relevant issues and to apply the lessons to be learned to this project.

- 1.34 The design of the various elements of this operation also carefully considers the Bank's quality-at-entry guidelines. These guidelines reflect the Bank's wealth of experience with development projects, and particularly its experience with policy-based lending. The consistency matrix showing how these guidelines are reflected in the project is available in the technical files and is linked to the table of electronic links and references.

#### **F. Coordination with other international agencies**

- 1.35 The project team has been working with both the IMF and the World Bank. The scope of this operation has been discussed with the IMF and it has been asked, in accordance with IDB operational guidelines, to furnish an evaluation of the macroeconomic situation in Argentina.<sup>5</sup> The project team is coordinating closely with the World Bank on the initial stages of the work involved in updating the CFAA. The joint mission carried out during the third week of August 2005 and the Government of Argentina agreed to conduct the CFAA in two stages. During the first stage, which will last six months, the main financial management processes at the national level will be analyzed. This study will focus on the control environment, the management of foreign aid, intergovernmental transfer mechanisms, and the management of revenues and the public debt. During the second stage, the work will focus on subnational levels of government.
- 1.36 The Project on Strengthening the Public Investment System began to receive funding from the World Bank in 1977 and was renewed in 2000, when Stage II was launched. The central objective was to support MECON's effort to design and implement a national public investment system to help build the public sector's capacity for preparing, monitoring, and evaluating public investment projects. Stage II of the Project on Strengthening the Public Investment System incorporated components aimed at strengthening the administrative system at the federal level. This project ended in 2005. Its main results were as follows: (i) in the area of public investment management, it developed the BAPIN and provided training in its use; (ii) in the area of financial and budget management, it set up the SLU in 50% of the national civil service, began to develop the conceptual model for the Internet SIDIF, which will be a technologically and functionally updated version of the existing SIDIF, and developed the conceptual framework for the implementation of a results-based budget management system. In conjunction with the World Bank, work is now proceeding on the design of a new loan project that could continue to support these actions.

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<sup>5</sup> The IMF Executive Board completed the Article IV consultation on 20 June 2005.

## **II. THE PROGRAM**

### **A. Objectives and description**

- 2.1 The project's **objective** is to support the Argentine government's efforts to strengthen public financial management as a means of increasing its effectiveness, efficiency, and transparency through improved investment planning, budget management, and public debt management.
- 2.2 To implement the reforms proposed in the program, it is assumed that macroeconomic conditions will remain stable and be compatible with the program objectives. The proposed amounts are consistent with Argentine government forecasts of external financing requirements programmed for the next few years. As indicated in paragraphs 1.29 and 1.30, financial projections show that Argentina will require funding in an average annual amount of US\$2.350 billion. Accordingly, the scaling of this operation was based on the Bank's support for the country's financing requirements for the period.

### **B. Program areas**

- 2.3 The proposed program loan will be disbursed in two tranches and will involve actions in four policy areas: macroeconomic environment; strengthening public investment; strengthening financial management; and strengthening the public debt system. The expected outputs and conditions for each tranche of the operation are listed in the program policy matrix included in Chapter V.

#### **1. Macroeconomic context**

- 2.4 As a general macroeconomic condition precedent to disbursements under the program, the Government of Argentina will be required to maintain a macroeconomic environment that is in keeping with the program's goals. The specific components of this program are outlined in the policy letter in which the government sets out its commitments in this connection.

#### **2. Strengthening public investment**

- 2.5 This component will focus on improving in the management of public investment projects and the use of results-based evaluations to support this effort. Three main elements are involved: (a) linking the budget information contained in SIDIF and BAPIN; (b) providing better tools for evaluating results; and (c) improving the coverage and control of public investment at the provincial level through the expansion of BAPIN.

- 2.6 An effort will be made **to integrate BAPIN with SIDIF** as a means of improving the supply of information on the budget performance of public investment projects. In the program phase corresponding to the **first tranche**, an action program will be developed for the integration of BAPIN with SIDIF in 2006. During the phase corresponding to the **second tranche**, progress made in implementing the action program formulated during phase one will be verified.
- 2.7 In order to develop **tools for measuring and evaluating investment project outcomes**, steps will be taken to strengthen the tools used to assess public investment project outcomes and impacts. To this end, a methodology for analyzing outcomes and effects will be developed, and a report on the work done will be prepared for the Plan Nacional de Inversiones Públicas [National Public Investment Plan] (PNIP) 2006-2008. During the **first phase**, the terms of reference for the design of this methodology will be drawn up. In phase **two**, detailed reports will be prepared on the methodology's design and implementation and on the outcomes from with the use of this methodology for the 2006-2008 PNIP.
- 2.8 In order to expand BAPIN's coverage and promote the coordination of public investment at the provincial level, BAPIN will be made available to the provinces for use in managing their investment projects. To this end, agreements will be signed between the National Public Investment Office and the provinces on BAPIN's adoption as a project management tool under the terms of National Public Investment System Act (Law 24,354). During the **first phase**, 23 jurisdictions are to sign agreements with the National Public Investment Office for the introduction of BAPIN. During the **second**, at least 18 jurisdictions will have set up the system and will have trained personnel to run it.
- 2.9 More information consistency will be achieved in terms of development effectiveness and as a result of program-supported policy measures in public investment to be implemented in the medium term (2008-2010). Information on public investment will be consistent with information on current spending; information on national government spending will be consistent with provincial government spending; and the development impact of all these series of spending will be actually measured on the basis of their development effectiveness. Under the National Public Investment Plan for 2006-2008, real direct investment for projects to be carried out by the national government in 2006 amounts to approximately US\$1.3 billion. When capital transfers are factored in (financial transfers from the national government to the provinces for project execution), public investment as a share of the national budget soars to nearly US\$3.5 billion. These amounts point to the importance of coordinating financial and investment information as well as to the potential savings and the benefits generated by carefully coordinating national and provincial investment.
- 2.10 Success in coordinating efforts between the different levels of government together with effectively implementing prior and post impact evaluation methodologies,

could represent in terms of present value as much as 10% of the national government's annual public investment assuming that these policy measures together raise the internal rate of return by one percentage point. With public investment of approximately US\$3.5 billion, this would mean additional returns in present value of about US\$350 million. Achieving these additional returns will only be possible if policy measures for integrating the BAPIN and the SIDIF are adopted, tools for measuring spending effectiveness are developed, and investment at the different levels of government is properly coordinated.

### 3. Strengthening financial management

- 2.11 e component on strengthening financial management will include four elements: (a) strengthening results-based financial management; (b) integrating funds and agencies into the national budget in accordance with the Federal Fiscal Responsibility Regime; (c) modernizing the financial management system (SIDIF); and (d) consolidating budgetary and financial management rules and procedures.
- 2.12 The element aimed at **strengthening results-based financial management** will focus on reinforcing the system for programming and evaluating the physical and financial aspects of budget performance, medium-term (multiyear) budget programming, and the drafting of preliminary budget proposals. For the **first tranche**: (i) reports will be prepared on the selection process used to identify five jurisdictions, jurisdictional subdivisions, or agencies (the five agencies should include social development, health, and education), output indicators and targets, and the system used by the National Budget Office to monitor the progress made toward those targets; (ii) multiyear budgeting tools and methodologies will be strengthened by means of a proposal for a new multiyear budget circular and a report comparing it with the previous rules and procedures; and (iii) the budgeting tools and methodologies used to prepare the draft budget will be improved through the formulation of a new set of rules and procedures (a new draft budget manual and a report comparing the new guidelines with those set forth in the preceding circular).
- 2.13 For the **second tranche**: (i) information to be furnished will include the output indicators for the five jurisdictions, jurisdictional subdivisions, or agencies selected during phase 1 (or those that may be substituted for them subject to written notification to the Bank) as provided for in the 2007 budget bill, a report on the methodology for evaluation and monitoring of the indicators, the benchmarks included in the 2007 budget process, a report on the incorporation of indicators throughout the budget cycle, and the design of a supplementary report to the 2008 budget bill setting forth the indicators and targets used for the 2007 budget year; (ii) a report comparing the budget bill for 2007 with the multiyear budget for 2006-2007 will be prepared; and (iii) the new multiyear and draft budget circulars will be updated and implemented.

- 2.14 As part of the project element to **integrate funds and agencies into the national budget under the Federal Fiscal Responsibility Regime**, an effort will be made to integrate other agencies not included and trust funds into financial and budgetary management systems under the terms of the Fiscal Responsibility Act. This initiative will be implemented through the preparation and submission of the national budget bill for 2007, which will include provisions covering the incorporation of centralized agencies, decentralized agencies, and trust funds that are not yet covered in the budget. For the **first tranche**, an updated listing will be drawn up of agencies and trust funds that should be included in the 2007 budget bill under the terms of the Fiscal Responsibility Act and supplementary regulations in effect. In addition, a report will be prepared covering the rules and regulations, classified by legal status, for incorporating such agencies and funds into the budget. For the **second tranche**, a report will be submitted that sets forth the provisions included in the budget bill for 2007 relating to the incorporation of those agencies and trust funds not yet included. In addition, a study will be prepared setting forth a diagnostic analysis and policy proposals for resolving the main rigidities in the country's financial management procedures. The 2007 budget bill will then be drafted and sent to Congress. This bill will include the above-mentioned provisions and information on trust funds at the same level of disaggregation as the data furnished on other agencies and units included in the 2007 budget bill.
- 2.15 The element focusing on the **modernization of the financial management system (SIDIF)**: (i) will expand the SLU's implementation; (ii) will develop the conceptual model for the comprehensive Internet version of SIDIF; and (iii) will obtain certification from the Instituto Argentino de Normalización y Certificación [Argentine Standardization and Certification Institute] (IRAM) for the record-keeping procedures used to track the government's financial management functions. For the **first tranche**: (i) the SLU will be set up in 15 new agencies or units, and a timetable will be submitted together with a list of 10 facilities in which it is to be introduced in 2006; (ii) a technical report will be prepared on the development of the conceptual model for the comprehensive version of the Internet SIDIF; and (iii) reports will be submitted on at least three preliminary audits at Levels D, C and B by IRAM and on the main areas in which shortcomings (observations or findings of noncompliance) have been identified by those preliminary audits. For the **second tranche**, the following materials will be submitted: (i) a report on the introduction of the SLU in 10 new facilities in 2006, together with a timetable and a list of facilities in which implementation is planned for the future, in coordination with the Internet SIDIF project, and reports on Internet SIDIF covering the development of the conceptual model, the timetable, implementation costs, and the development of the conceptual model for the budget module; and (ii) the final audit report on IRAM ISO 9001:2000 certification and a report containing policy proposals concerning record-keeping mechanisms for tracking documents pertaining to financial management functions.

- 2.16 The element to **consolidate budgetary and financial management rules and procedures** will include the preparation of a newly structured text of the Supplemental Budget Act (Law 11,672). This text will include all articles from the budget acts for 2000-2005. All the provisions relating to the Financial Management Act that are currently found in a range of different texts will be brought together in a new, consolidated regulatory decree for the National Public-Sector Control Systems and Financial Management Act (Law 24,156). For the **first tranche**, a decree, to include a newly structured text for Act No. 11,672 and a preliminary draft of the regulatory decree for Law 24,156, will be prepared. For the **second tranche**, these decrees will have entered into force and will thus apply to the 2007 budget act. A proposal concerning mechanisms for updating them on an ongoing basis will also be submitted.
- 2.17 In terms of development effectiveness and as a result of program-supported policy measures in financial management to be implemented in the medium term (2008-2010), the principle of budgetary universality will be restored as all publicly funded resources are incorporated with similar levels of information; the transparency of public financial information will be improved, which will eventually be reflected in comparative budgetary transparency indicators; and federal public administration in Argentina, now focused on the control of inputs not management by results, will be reformed.
- 2.18 There is broad consensus among OECD member countries that the adoption of performance management standards will lead to improved decision making and more effective use of resources.<sup>6</sup> Although it is tempting for medium-income countries such as Argentina to adopt indicators of this kind very quickly, experience has shown that a strategic policy change of this kind is only possible if experience in establishing programs and their objectives and in measuring outputs and outcomes gradually builds up over time. According to the literature, the critical step in this process may be the introduction of a system that provides feedback on investment and public spending decisions and this can only be done over the course of several budget cycles.
- 2.19 These lessons are reflected in the design of the targets and the policy measures in the present program. It is based on a situation in which public budget administration is restricted exclusively to input control. Hence, as the Bank provides support, performance management is only introduced a limited number of areas (five initially), in an effort to reach 50% of national entities in the medium term (2008-2010). This is a medium-term process and in the case of Argentina the policy measures in the present program indicate the government's commitment to follow the direction of performance management.

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<sup>6</sup> See "Establishing a Performance Management Framework for Government", Jack Diamond, IMF, Fiscal Affairs Department, March 2005.



- 2.20 Based on comparative levels of current spending in just education, health, and social development, this amounts to approximately US\$5.5 billion. If the program achieves a 4% improvement in spending effectiveness this would mean US\$220 million in savings, or say greater productivity. If by the end of the decade, at least 50% of total central government spending (approximately US\$30 billion) is effectively subject to a spending effectiveness regime, the result would be an improvement equivalent to 4% in effectiveness, a sum exceeding the entire amount of the present policy loan.

#### **4. Strengthening the public debt system**

- 2.21 The component on strengthening the public debt system will include four policy areas: (a) developing and consolidating procedures for registering and servicing new public debt instruments; (b) updating State financing policy guidelines and strategies; (c) enhancing the quality and reliability of the State's public debt information systems; and (d) fiscal contingencies and contingent liabilities.
- 2.22 In the area that will focus on **developing and consolidating procedures** for registering and servicing new public debt instruments, support will be provided for the design and implementation of systems for computing and recording payment obligations related to the growth-linked coupons in the Sistema de Gestión y Análisis de la Deuda [Debt Management and Analysis System] (SIGADE). Support will also be provided for the design of computational systems and procedures for the repurchase of bonds linked to higher GDP growth rates and unused payment capacity.
- 2.23 During the **first phase**: (i) reports will be prepared on how coupon payments are calculated and on estimated debt repurchases in 2006; (ii) the 2006 budget bill will include estimated payments on coupons maturing in December 2006 and for repurchase; and (iii) multiyear budget projections will incorporate estimated coupon payments for 2007 and 2008 and estimated debt repurchases for those same years. During the **second phase**: (i) the dynamic estimation methodology for coupon payments on GDP-linked bonds will be presented and incorporated into SIGADE; (ii) the 2007 budget bill will include estimated payments on coupons maturing in December 2007 and for the debt repurchases; (iii) multiyear budget projections will include estimates of coupon payments for 2008 and 2009 and estimated debt repurchases for those same years; and (iv) a report will be submitted on bidding and settlement procedures for use in debt repurchases.
- 2.24 As to the **updating of State financing policy guidelines and strategies**, the Bank will help establish a medium-term financing policy. To this end, policy guidelines will be developed that are in keeping with the new realities facing public finances and the government's fiscal strategies. In the **first phase**, the national government's borrowing requirements for 2006-2008 will be quantified. During the **second phase**, its borrowing requirements for 2007-2009 will be computed. These

- calculations will be based on the provisions of the Fiscal Responsibility Act. A document will also be presented that outlines financing policies, guidelines, and strategies for the national government in accordance with the Fiscal Solvency Act (Law 25,152) and the Fiscal Responsibility Act (Law 25,917).
- 2.25 **Improving public debt information systems** and bringing them into line with the Fiscal Responsibility Act and new financing modalities will focus on refining the available information on the public debt as a basis for moving forward with the implementation of the Federal Fiscal Responsibility Regime. In the **first phase**, a report will be submitted on the problems and requirements entailed in refining the national public debt database. A work plan for the refinement and improvement of the information contained in the national public debt database will also be presented. During the **second phase**: (i) a report on the outcomes of the effort to refine the public debt database and its impact on the multiyear budget for 2007-2009 will be submitted; (ii) a new methodology for displaying the documentation that should be incorporated in draft texts of the budget act and the *Boletín Fiscal* will be developed; and (iii) the Department's web page will be redesigned to make it more accessible and easier to understand, in keeping with the guidelines set out in the Fiscal Solvency Act and the Fiscal Responsibility Act.
- 2.26 In the **generation of information on fiscal contingencies and contingent liabilities**, work will begin on studies and analyses of the State's contingent liabilities. In the **first phase**, the terms of reference will be submitted for a study to identify the main causes of existing fiscal contingencies and contingent liabilities and the impact they had on public debt in 1989-2001. In the **second phase**, the study's findings will be presented. This output is to fulfill the substantive requirements outlined in the terms of reference approved during the first phase.
- 2.27 In terms of development effectiveness and as a result of program-supported policy measures in public debt to be implemented in the medium term (2008-2010), three main objectives will be attained. First, successful negotiation of the debt crisis through the restructuring of private debt has meant that so far there have been no new roles linked to growth in the debt management system (SIGADE) and budget-related information circuits have not been closed. This situation poses a potential risk of inconsistent information. Consistently closing these circuits will make it possible during a second phase to incorporate information on budgetary forecasts for debt repurchases in the multiyear budget information consistent with the 2007 Budget Act and subsequent legislation. In addition, all of this information will make it possible to produce a public paper outlining policies, views, and strategies for State financing suited to new legal requirements and financial market conditions after the swap and to standardize procedures for registration and recording of new public debt instruments. These two outcomes, the standardization of payment requirements of the new instruments and the attainment of structural consistency with budget performance and programming, should contribute to improvements in country's creditworthiness.

- 2.28 Lastly, in public financial management, the governments normally can produce and report four fiscal results: revenue, spending, the deficit, and public debt. The most recent and best international practices indicate the need to estimate and present not only revenue, spending, the deficit, and debt but also to include and present estimates of contingent liabilities and their potential impact on the consolidated public sector balance<sup>7</sup> In Argentina, it is estimated that between 1989 and 2001 fiscal contingencies in an approximate amount of US\$25 billion were generated. There is not yet any comprehensive analysis of this process or any comprehensive estimate of its eventual budgetary impact. The policy measures in the program are conducive to such a diagnostic and analysis of the impact of fiscal contingencies and liabilities on national public debt in the 1989-2001 period and the causes behind it.

**C. Cost and financing**

- 2.29 This Ordinary Capital loan will be in the amount of US\$500 million. The loan will be disbursed in two tranches: the first for US\$150 million and the second for US\$350 million.

### **III. PROGRAM IMPLEMENTATION**

**A. Borrower and executing agency**

- 3.1 The borrower will be the Argentine Nation. The executing agency will be the Ministry of Economic Affairs and Production (MECON).

**B. Program administration and processing of disbursements**

- 3.2 The Economic Policy Secretariat's National Office of Projects with International Lending Agencies will coordinate the work of the MECON secretariats taking part in the program. In order to ensure the satisfactory completion of the actions planned as part of this program, MECON will be in charge of: (i) monitoring the progress made; (ii) putting together a technical team to oversee compliance with the matrix conditionalities; (iii) submitting progress reports once every four months and a final report to the Bank; (iv) keeping the pertinent records for any ex post evaluation of the program; and (v) submitting to the Bank all supporting documentation to show that commitments assumed in connection with the loan have been fulfilled, coordinating the work with the participating secretariats on an ongoing basis, and ensuring that this is done in such a way as to ensure that the documentation required to authorize disbursements is submitted to the Bank for processing in due form and time.

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<sup>7</sup> See for instance, Allen Schick, "The role of Fiscal Rules in Budgeting", OECD, Journal of Budgeting, Vol. 3, No. 3, 2004.

- 3.3 Disbursement of the proceeds of each tranche will be conditional on fulfillment of the actions agreed upon for that tranche, as specified in Chapter II. For the purposes of this operation, the Economic Policy Secretariat of MECON will maintain a streamlined operational structure headed by a general coordinator with experience in managing projects funded by international agencies. For each of the program components, there will be at least one staff member who will liaise with the coordinator.
- 3.4 The borrower, through the executing agency, will be responsible for keeping proper accounting and financial records on the use of the loan proceeds, for preparing and submitting disbursement requests, and for ensuring that this documentation is available for inspection by the Bank and/or external auditors. The borrower will maintain a special account for the management of the loan funds and will submit information on this account to the Bank prior to the first disbursement. These funds may not be used to purchase items appearing on the negative list or goods from countries that are not members of the IDB. The project team will assess the information submitted by the country to demonstrate completion of the agreed policy actions and will draw up the corresponding reports for Management and the Bank's Board of Executive Directors with a view to seeking authorization for disbursements of the financing.

**C. Implementation period and conditions for the processing of disbursements**

- 3.5 The program will be executed over an 18-month period, and the proceeds of the loan will be disbursed in two tranches of US\$150 million and US\$350 million, respectively. The conditionality matrix sets out the requirements to be met in order to qualify for the two tranches. These conditions refer to: (i) maintenance of a stable macroeconomic environment; and (ii) reform measures in each of the areas covered by the program. In addition, specific means of verifying fulfillment of disbursement conditions have been agreed upon, as indicated in the matrix on means of verification.

**D. Monitoring and evaluation**

- 3.6 Meetings will be held every six months in order to monitor the progress of the program based on reports covering the advances made in policy implementation, problems and risks, and proposals for overcoming them. An ex post evaluation of the program is not planned. MECON will, however, maintain the necessary information in case it is subsequently decided that an ex post evaluation should be performed within the framework of the program baseline and output matrix. The Bank's project performance monitoring report (PPMR) system will be used to keep track of the operation's progress.

**E. Policy letter**

- 3.7 The government has forwarded a draft policy letter to the Bank in which it describes the main components of the government strategy and policies being carried forward to ensure that the macroeconomic environment is suitable and consistent with program objectives. It also outlines the government's financial management priorities and indicates its commitment to pursue the policies outlined in the policy matrix agreed upon between the Bank and the country.

**F. Procurement**

- 3.8 The proceeds of the loan are to be deposited in a special account(s) opened exclusively for the program. The executing agency will maintain accounting and financial records on the receipt and use of loan funds. The executing agency will also keep records of the supporting documentation justifying payments or detailed indications as to where this information may be found for inspection by the Bank and/or external auditors. The accounting system should provide sufficiently detailed information to permit the verification and identification of the use to which program resources have been put and to demonstrate that these funds have not been used for the procurement of ineligible goods and services. The accounting system should also be such as to generate timely financial statements and other reports, as required, and to permit audits.

**G. External audits**

- 3.9 The borrower undertakes to submit an audited financial report to the Bank if so requested on the use made of loan resources within ninety (90) days after the Bank's request for such a report. The accuracy of this report will have been verified by independent auditors acceptable to the Bank in accordance with terms of reference previously approved by the Bank. The borrower or the executing agency, as appropriate, will authorize the auditors to furnish the Bank with any documents and/or additional information that it may reasonably request concerning the audit and the financial statements or auditor's reports.

**H. Inspection and supervision**

- 3.10 The Bank will establish inspection procedures as it sees fit to ensure the satisfactory execution of this loan operation. To that end, the borrower will cooperate fully and will provide any assistance and/or information that may be required.

## **IV. VIABILITY AND RISKS**

### **A. Institutional viability**

- 4.1 As in the case of previous sector loans, MECON will serve as the executing agency for the proposed program. MECON has been an effective coordinator in preceding operations and has worked successfully with sector ministries and other domestic agencies. The loan structure and conditions are entirely manageable under the agreed scheme. In addition, since no agency other than MECON is responsible for the relevant policy measures, these internal coordination functions are institutionally more viable than they would be if external agencies or more than one organization were involved.

### **B. Technical viability**

- 4.2 The 2001 crisis interfered with the financial management modernization process that had begun in the 1990s (see paragraphs 1.27 and 1.28). Most of the technical teams that were working in this area have been maintained, however. As a result, one of the key elements in determining the technical viability of any operation—i.e., skilled and knowledgeable staff—is clearly present. The technical design of the necessary actions to implement these policy measures is based on proven technologies in whose use the executing agency has a great deal of experience. This is true in the case of the SIDIF's modernization, the updating of SIGADE, BAPIN's expansion, and the introduction of external certification processes for MECON documentation based on international quality standards. The large pool of analytical work on financial management in Argentina that has been done by the government<sup>8</sup> and by specialized foundations and international organizations points to policy areas that are in line with these proposals. Only actions, which are part of the government's medium-term plans, fall within its priorities, and are technically viable in the short run have been included in this program.
- 4.3 In designing the operation, various alternatives for each of the components were discussed and analyzed with the Argentine authorities and in each case the alternative that was most feasible from a technical and institutional standpoint and with most development effectiveness potential was selected. Summarized below are the alternatives for each component.
- 4.4 In the public investment strengthening component, the three main problems identified (see paragraphs 1.13 to 1.16) have to do with inconsistencies between budgetary information and public investment, the unreliable nature of project evaluation and monitoring tools and limited coordination between public

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<sup>8</sup> See <http://www.mecon.gov.ar>. See, for example, the work of local foundations such as Poder Ciudadano or Grupo Sophia, Public Expenditure Review, CFAA, OECD.

investment at the national level and public investment at other levels of government. To address these problems, particularly the first two, and to verify the significant progress in meeting the policy targets set, an instrument will need to be selected whose sequencing and timing for submission to the Legislative Branch is consistent with the deadlines scheduled for program execution. In the period for execution of the present program which is 18 months, it is advisable to use the 2008 Budget, to be sent to the Legislature in mid-2007. Accordingly, it was decided to use the national public investment plan for 2006-2008 as an instrument of verification and not the 2008 Budget itself. As to the third challenge of coordinating provincial investment, the alternatives examined have to do mainly with the times required for implementing the BAPIN in the provinces. The national government now has a detailed plan of facilities envisaged based on agreements that have already been signed, a plan whose implementation is considered more viable.

- 4.5 In the financial administration strengthening component, other design options were examined, mainly those concerned with the “velocity” of implementation of performance management and the options for public control and integration of funding and agencies into the national budget rules in accordance with the Fiscal Accountability Act. On the first point, there is a consensus in the performance management and development effectiveness literature that it is a structural change that calls for major reforms of institutions, procedures, and standards. Chile, the country farthest along in this area in the region, has more than 10 years’ experience implementing performance management. The experience of the most developed countries<sup>9</sup> also suggests a gradual process of take your time in implementing such a system. This gradualism does not mean leaving out critical sectors of the public sector. On the contrary, the Argentine government is committed to initiating actions in the social areas (social development, health, and education programs) and to add them to the 2007 Budget for the second phase and to have at least 50% of public entities in the system as the final outcome in the 2008-2010 period.
- 4.6 As to integration of Funds and Entities not now integrated into the budget system, the Fiscal Accountability Act was taken as a basis for designing and selecting the alternatives. An initial option or alternative could consist in moving forward immediately with the external audits of the Funds. Argentine law establishes, however, that the Auditor General has the legal authority to perform such audits. More importantly, each Fund is based on a legal framework (law or decree) that sets out the “rules” for its administration and a contract between the administrator and the trustee (for instance the Ministry of Planning and Banco de la Nación). With the existence of multiple funds, it is not viable from a legal, technical, or institutional standpoint to include as a conditionality the external audit of all the funds. Many different contracts would be monitored and administered, the legislation would need to be reviewed, some with force of law as a result of which

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<sup>9</sup> See for instance Office of the Auditor General of Canada, “Implementing Results-Based Management: Lessons from the Literature”, 1996 and 2000.

it would be mandatory to apply to the Legislative Branch for amendment. In addition, this would mean coordinating closely with at least three ministries (Economy, Planning, and the Interior), at least two banks, the Auditor General who reports to the Legislative Branch and possibly a number of provincial governments that stand to benefit from the transfer of funds. Lastly, given the program's 18-month execution period, finalizing these multiple audit contracts is not clearly established. As this challenge is technically, politically, and institutionally complex, the team has decided to rule out this option.

- 4.7 In addition, given that the central problem to be addressed is transparency, a better alternative was considered: to support the government in adopting the measures requiring these funds to have the same standards for reporting to the Legislative Branch as all other entities in the APN. Furthermore, it was decided to include entities such as PAMI and AFIP, which are not now subject to the rules of the rest of the APN. These two entities together account for more resources than all of the Trust Funds.
- 4.8 Lastly, in the public credit system strengthening component, the main design options or alternatives have to do with the coverage and scope of fiscal contingencies to be analyzed for possible recognition. The choice of cut-off date (2001) for this analysis was based on the fact that any official information on potential contingencies after 2001 could have repercussions on litigation in which the Argentine Republic is a party. Obtaining and consolidating information on pre-2001 fiscal contingencies and producing an official report is a critical step towards public administration policy reform in Argentina.

### **C. Benefits**

- 4.9 The principal benefit is that the program will strengthen financial management in the Argentine public sector in the aftermath of a deep crisis. This project's implementation will assist the Government of Argentina to continue with its institutional restoration in an area of critical importance to the administration of the State and to rebuild the organizational structure that was so severely shaken by the 2002 crisis. The main benefits of its various components are set out below.
- 4.10 Public financial administration in Argentina lost universality, transparency, and effectiveness as a result of the crisis. At present, Argentina has a budgetary transparency index of 7 out of 10<sup>10</sup>, below the average of 8.15 for the countries of Latin America and the Caribbean surveyed. Moreover, not all budget-financed public spending is included in the budget which follows legislative procedures and the return on public investment and its impact are generally not known. As a result of the program and the policy measures implemented, Argentina is expected to

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<sup>10</sup> Budgetary transparency index. "Budget Institutions and Fiscal Outcomes", Scartascini and Filc (2004), OVE, IADB.



improve its budgetary transparency score to 8.5 or at least to the average of the countries surveyed, with assurances of an average return on public investment of at least 12%.

- 4.11 The main benefits flowing from each component are described below. The main benefit of the **strengthening of public investment** component is that it will ensure the consistency of the budget performance information on each investment project registered in BAPIN and SIDIF. This, in turn, will help to ensure that decisions on current spending are aligned with public investment decisions. This component will also reinforce the ex post evaluation process for all investment projects by integrating the information on project execution with the information on budget performance; the outcomes and impacts of 100% of the public investment plan for 2006-2008 are to have been evaluated by 2010. Once BAPIN has been installed in 90% of the provincial jurisdictions, 85% of Argentina's total public investment ought to be covered by internally consistent information systems. These achievements represent a major step in linking up public investment with the budget process, and in coordinating public spending more effectively at the various levels of government. The improved coordination will in turn generate major savings through in the possible duplication of efforts that now exist between government spending at the national and provincial levels. It is estimated that, if all the policy measures proposed under the present program were to raise the rate of return on public investment by one percentage point, this could produce additional savings or revenue in present value of about US\$350 million.
- 4.12 The **strengthening of financial management** component will provide four main types of benefits: consolidation of results-based management and the development effectiveness of spending, the use of budget processes as a medium-term strategic tool, greater transparency of budget information, and a system that upholds the principle of universality in relation to the budget. As to the effectiveness of public expenditure and results-based management, at least 50% of the central government ministries have introduced the system of indicators and benchmarks for 2008-2010, and the results-based budget management model is to have been introduced throughout the Administration. Another aim of this program is to strengthen the budget's position (primarily the multiyear budget) as a strategic management tool that will make greater use of actual and financial indicators and benchmarks throughout the process. These advances represent a significant step forward in achieving the development effectiveness of Argentine public spending.
- 4.13 Public disclosure of 100% of the indicators and benchmarks for the 2008-2010 national budget is expected to add transparency to the budget process. Uniform, easy access to the multi-layered, complex web of rules and regulations governing financial management functions is to be facilitated through the approval of a new set of regulatory instruments that will consolidate the various provisions into "structured texts". An effort will also be made to streamline financial management procedures by eliminating overlapping and unnecessary guidelines and regulations.

At the same time, the program is expected to reinstate the principle of “universality” in budget management, a central feature of a country’s public financial administration. This principle has been undercut by information failures in trust funds and other agencies that do not meet the same requirements as other public agencies at the central government level. The program is also designed to lead to IRAM ISO 9001:2000 certification of the record-keeping procedures used to track the government’s financial management functions for fiscal 2006. In addition, the initiation of the IRAM ISO certification process for at least five processes used by the Office of the Deputy-Secretary of the Budget in 2008-2010 is of key importance in achieving greater transparency and consistency in the information provided.

- 4.14 The **strengthening of the public debt system** component will provide two main types of benefits: First, the government’s new debt instruments will be fully integrated into MECON’s information systems. This will make it possible to provide transparency in the definition and estimation of the methodology for calculating the sum of growth-linked coupons and entering them into SIGADE, as well as permitting their incorporation into the country’s array of financial management tools. Second, the program will lead to the preparation of a document setting out State financing policies, guidelines, and strategies that are consistent with newly established legal requirements and actual financial market conditions in the wake of the debt swap. Last but not least important, the program will help provide a diagnostic analysis of the country’s fiscal contingencies’ and contingent liabilities’ impact on Argentine public debt in 1989-2001 and their causes. Some preliminary government estimates show that fiscal contingencies consolidated as part of the debt could amount to US\$25 billion. A proper understanding of the reasons for these contingencies is a major advance in producing and formulating budgetary management and fiscal policies.

#### **D. SEQ and PTI classification**

- 4.15 This operation does not qualify as a poverty-targeted investment (PTI) or as a social equity enhancing project as described in the indicative targets mandated by the Bank’s Eighth Replenishment (document AB-1704). Given the nature of this operation, no negative environmental impacts are anticipated.

#### **E. Social and environmental impacts and proposed measures**

- 4.16 The proposed program will not have any adverse environmental impacts because all of its activities will be focused on strengthening public-sector financial management. The CESI reviewed and approved the project concept document for this operation on 23 September 2005. It requested that environmental indicators be added to the impact indicators to be developed for public investment projects. The

Argentine laws governing the National Public Investment System<sup>11</sup> lay down a number of guidelines. These guidelines suggest that the prefeasibility stage of all public investment projects should include an environmental impact assessment.

## **F. Risks**

- 4.17 **The first type of risk is macroeconomic in nature** and is associated with the possibility that the country might not be able to maintain a stable macroeconomic environment that would be conducive to the achievement of fiscal sustainability and price stability over the medium term. Argentina's short-term macroeconomic environment is sound. The medium-term risk, however, is whether it can ensure a gradual transition toward a lower real exchange rate and lower inflation while at the same time maintaining a sound fiscal position. The government therefore needs to look for alternative sources of revenues or means of cutting expenditure that will allow it to maintain its current state of fiscal and public-debt sustainability. A sustainable position in these areas is a key consideration in decisions regarding fresh investments that can underpin a robust pace of economic growth. In addition, the future treatment of bondholders that did not accept the swap, the current price policy, and progress in the renegotiation of contracts with public utilities, along with the associated regulatory issues, all introduce some degree of uncertainty into the assumptions made regarding the medium-term macroeconomic situation. These policies are particularly important right now because, although low interest rates and high prices for its exports have combined to create a highly favorable international economic environment, the situation could take a turn for the worse at any time. The government has indicated that the present macroeconomic policy framework is the strongest in decades.
- 4.18 **The second type of risk is an institutional one** and has to do with possible shortcomings in the coordination of the various policy measures included in the program or of the various MECON secretariats taking part in it. This risk is mitigated by two factors. First of all, the Economic Policy Secretariat has a great deal of experience in coordinating the entire Ministry, not only internally but externally as well. Second, institutional responsibilities as they relate to each policy area are clearly defined and, although some of them call for inter-secretariat coordination (such as, for example, the integration of BAPIN and SIDIF), the assignment of responsibility for overall coordination reduces this risk to a minimum.
- 4.19 The **third type of risk** has to do with factors that could affect the monitoring of the policy targets set for **each of the program components. In the macroeconomic area**, the absence of a program with the IMF poses the risk of not having a significant input with which to determine whether the macroeconomic framework is viable. The evaluation arising from periodic Article IV reviews and the

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<sup>11</sup> Law 24,354 of 1994, Decree 720 of 1995, and Ministry of Economic Affairs Resolution 720 of 2004.

government's commitment to supply such information as is necessary could mitigate this risk. In the **strengthening of public investment** component, there are two main risks. First, there is the possibility of technical and/or operational difficulties arising in the process of merging BAPIN and SIDIF. The government has reported that, in order to mitigate this risk, and particularly because this sector operation is not paired with a technical-cooperation component, it is allocating all the necessary technical and financial resources to attain these objectives. In addition, the plan to monitor progress at meetings to be held every four months will allow any problems to be detected well in advance. The second risk is that difficulties may arise in extending BAPIN's coverage to the provinces. During the analysis of this operation it was found, however, that, in view of the Ministry's recent track record in reaching operational agreements of this sort with the provinces, this risk is sufficiently mitigated by MECON's successful experiences.

- 4.20 The **strengthening of financial management** component also faces two main risks. First, the usefulness of the results-based management model depends on government agencies' willingness to apply it. This risk is mitigated by two factors. First, the government will select a number of pilot agencies prior to the first disbursement. Second, as a "culture" of the use of physical and financial indicators to monitor progress, particularly in social areas, already exists, resistance to this type of change should be minimal. The second major risk is the possible recalcitrance of organizational units and trust funds not currently subject to the rules governing the rest of the national civil service. To mitigate this risk, the units chosen for this first stage will be ones whose inclusion will not entail any legislative changes and whose legal framework is such that MECON enjoys sufficient powers under the Fiscal Responsibility Act to move forward on this front. In the case of the component on **strengthening the public debt system**, the main risk is that difficulties may arise in compiling the necessary information to prepare a study on contingent liabilities and fiscal contingencies. To mitigate this risk, MECON will coordinate the necessary actions with the other participating ministries and agencies and will report on its progress to the Bank every four months.

## V. POLICY MATRIX

Issue/Assessment	Policy conditions		
Macroeconomic framework	Tranche 1	Tranche 2 commitment	Expected output
	<ul style="list-style-type: none"> <li>Maintenance of a macroeconomic framework that is in keeping with program objectives</li> </ul>	<ul style="list-style-type: none"> <li>Maintenance of a macroeconomic framework that is in keeping with program objectives</li> </ul>	Suitable macroeconomic framework
<b>Component 1: Strengthening public investment</b> This component is designed to upgrade the management of public investment projects by strengthening the capacity of the Economic Policy Department's National Public Investment Office. This process will revolve around three main elements: (a) linking the budget information contained in SIDIF with BAPIN; (b) providing better tools for evaluating results; and (c) improving the coverage and control of public investment at the provincial level through the expansion of BAPIN.			
<i>(a) Integration of BAPIN and SIDIF</i>			
BAPIN is not now linked to any version of SIDIF. As a result, information on the programming and monitoring of public investments is not cross-referenced with the financial information on those same projects. BAPIN data and SIDIF data are therefore not integrated.	<ul style="list-style-type: none"> <li>Actions scheduled for 2006 to work toward integrating BAPIN and SIDIF</li> </ul>	<ul style="list-style-type: none"> <li>Substantial compliance with the goods envisaged in the action program</li> </ul>	<u>Commitment 1:</u> Integrate BAPIN with SIDIF as a means of improving information on the budget performance of public investment projects.
<i>(b) Tools for measuring and evaluating investment project outcomes</i>			
Although the government has BAPIN-linked systems for investment programming and for ex ante evaluation of the impacts of investment projects, it lacks a system for analyzing the actual impact and outcomes of public investments as a means of providing feedback for future investment decisions.	<ul style="list-style-type: none"> <li>Terms of reference for the design of a methodology for analyzing outcomes and impacts for the PNIP</li> </ul>	<ul style="list-style-type: none"> <li>Report describing the methodology design and implementation</li> <li>Report on the results obtained using this methodology for the 2006-2008 PNIP</li> </ul>	<u>Commitment 2:</u> Strengthen the tools used to assess public investment project outcomes and impacts. To this end, a methodology for analyzing outcomes and impacts will be developed, and a report on the work done will be presented for the 2006-2008 PNIP.
<i>(c) Coverage and coordination of public investment at the provincial level through the expansion of BAPIN</i>			
Although the provinces have budgetary autonomy, coordination between investments at the provincial and national levels is limited, and information does not flow freely between the two levels. The national government has been working on implementation of a uniform system for the various levels of government to ensure the effective application of the National Public Investment System Act (Law 24,354).	<ul style="list-style-type: none"> <li>23 jurisdictions have signed agreements with the National Public Investment Office for the introduction of BAPIN.</li> </ul>	<ul style="list-style-type: none"> <li>At least 18 jurisdictions have set up the system and have trained personnel to operate it.</li> </ul>	<u>Commitment 3:</u> BAPIN will be made available to the provinces for use in managing their investment projects. To this end, agreements will be signed between the National Public Investment Office and the provinces for BAPIN's adoption as a project management tool under the terms of the National Public Investment System Act (Law 24,354), and staff will be provided and trained.

Issue/Assessment	Policy conditions		
<b>Component 2: Strengthening financial management</b> The component on strengthening financial management will include four elements: (a) strengthening results-based financial management; (b) integrating funds and agencies into the national budget in accordance with the Federal Fiscal Responsibility Regime; (c) modernizing the financial management system (SIDIF); and (d) consolidating budgetary and financial management rules and procedures.			
<i>(a) Strengthening results-based financial management</i>			
Budgetary management places too strong an emphasis on financial aspects, while less attention is devoted to defining and then achieving the intended outcomes for the relevant jurisdictions and agencies. A series of technical adjustments will have to be made in the existing budget programming and evaluation system so that the budget can be drafted and evaluated on the basis of the outcomes sought. Physical targets usually take the form of parameters for the production levels of budgetary programs, but their relationship to the results being sought needs to be clarified and reinforced, especially in social sectors, as part of an effort to strengthen budget management using a results-based model.	<ul style="list-style-type: none"><li>• Report identifying the five jurisdictions, jurisdictional subdivisions or agencies that have been selected</li><li>• Report setting out the indicators and targets selected</li><li>• Report on the system for monitoring outcome indicators</li></ul>	<ul style="list-style-type: none"><li>• Output indicators for the five jurisdictions, jurisdictional subdivisions, or agencies selected during Phase 1, or those that may be substituted for them, together with the relevant indicators, subject to prior written notification to the Bank, and their incorporation into the budget bill for 2007</li><li>• Report on the methodology to be used for evaluation and monitoring of indicators</li><li>• Public dissemination of output indicators included in the 2007 budget bill</li><li>• Report on the incorporation of indicators throughout the budget cycle</li><li>• Design of a supplementary report on the 2008 budget, to include the outcome indicators and targets for the 2007 budget year</li></ul>	<u>Commitment 4:</u> Strengthen the budget evaluation system by incorporating indicators and benchmarks for five jurisdictions, jurisdictional subdivisions, or agencies into the 2007 budget process. The five agencies should include coverage of social development, health, and education.
The budget process is strongly focused on each fiscal year, while little attention is devoted to medium-term planning. One of the reasons for this may be the country’s recurrent economic crises, which cause budget estimates to become quickly outdated. Although a multiyear budget is in place, little use is made of it as a medium-term planning tool. Use of this instrument therefore needs to be reinforced, especially at the jurisdictional level and in terms of its consideration by Congress.	<ul style="list-style-type: none"><li>• Proposal for a new multiyear budget circular</li><li>• Report comparing the proposed guidelines with previous rules and procedures</li></ul>	<ul style="list-style-type: none"><li>• Issuance of an updated multiyear budget circular by the National Budget Office (NBO)</li><li>• Implementation of the NBO multiyear budget circular</li><li>• Report comparing the 2007 budget with the 2006-2008 multiyear budget</li></ul>	<u>Commitment 5:</u> Strengthen multiyear budget instruments and methodologies by updating and implementing new multiyear budget rules and procedures.

Issue/Assessment	Policy conditions		
<p>In preparing their preliminary draft budgets, the different jurisdictions are not devoting sufficient attention to the programmatic distribution of the financial limits set for them on the basis of existing priorities. Senior officials are largely uninvolved in this stage, and internal coordination to match up objectives with expenditure requirements is nonexistent. The rules, procedures, and methodologies in use since 1996 therefore need to be updated in order to turn this situation around.</p>	<ul style="list-style-type: none"> <li>• Proposal on a new draft budget manual</li> <li>• Report comparing proposed and existing guidelines as set out in the draft budget circular</li> </ul>	<ul style="list-style-type: none"> <li>• Updating of NBO draft budget circular</li> <li>• Implementation of NBO draft budget circular</li> </ul>	<p><u>Commitment 6:</u> Strengthen draft budget instruments and methodologies by updating and implementing a new set of rules and procedures.</p>
<i>(b) Integrating funds and agencies into the national budget in accordance with the Federal Fiscal Responsibility Regime</i>			
<p>In recent years there has been an increasing decline in the integrity of the national budget; integrity had been one of the key successes of the reforms undertaken in the 1990s. There are a number of agencies whose budgets are not included in the national budget (e.g., AFIP, PAMI) or that do not provide disaggregated budget information (trust funds). Under the recently enacted Fiscal Responsibility Act (Law 25,917) with due consideration for the operational characteristics of each agency or fund, all such expenditures must be incorporated into the national budget for fiscal 2007.</p>	<p>Updated listing of agencies and trust funds that should be included in the 2007 budget under the terms of the Fiscal Responsibility Act (Law 25,917) and associated rules and regulations</p> <ul style="list-style-type: none"> <li>• Report covering the rules and regulations, classified by legal status, applying to the incorporation of such agencies and funds into the budget</li> </ul>	<ul style="list-style-type: none"> <li>• Report covering the provisions included in the 2007 budget bill to incorporate into the budget agencies and funds that had previously been excluded.</li> <li>• Study setting forth a diagnostic analysis and policy proposals for resolving the main rigidities of the country's financial management procedures.</li> <li>• The 2007 budget bill sent to Congress included the above-mentioned provisions and information on trust funds with the same level of disaggregation as the data presented on the other agencies covered in that bill.</li> </ul>	<p><u>Commitment 7:</u> Integrate outside agencies and trust funds into financial and budgetary management systems under the terms of the Fiscal Responsibility Act. This initiative will be implemented through the preparation and submission of the national budget bill for 2007, which will include provisions covering the incorporation of centralized agencies, decentralized agencies, and trust funds that are not yet covered in the budget.</p>
<i>(c) Modernizing the financial management system (SIDIF)</i>			
<p>The Office of the Deputy Secretary for the Budget is developing a procedure for implementing the SIDIF Local Unificado [Unified Local SIDIF] (SLU) in the civil service. This process will allow the agencies to improve their management procedures, consolidate the various systems they use, cut maintenance costs, and lay the groundwork for the SIDIF Internet implementation.</p>	<ul style="list-style-type: none"> <li>• Report on the installation of the 15 new SLUs</li> <li>• Timetable and list of 10 facilities in which the SLU is to be introduced in 2006</li> </ul>	<ul style="list-style-type: none"> <li>• Report on the installation of the 10 new SLUs</li> <li>• Timetable and list of facilities in which implementation is planned, in coordination with the SIDIF Internet project</li> </ul>	<p><u>Commitment 8:</u> Expansion and installation of the SLU in 25 financial management systems.</p>

Issue/Assessment	Policy conditions		
An Internet version of the SIDIF is being developed in order to help shift budget management toward a results-based model. This new Internet version of SIDIF will make it possible to expand the links between financial management systems and resource management systems and to achieve a greater degree of operational decentralization.	<ul style="list-style-type: none"> <li>• Technical report on the development of the conceptual model for the comprehensive Internet version of SIDIF</li> </ul>	<ul style="list-style-type: none"> <li>• The report on the integrated Internet version of SIDIF should include: development of the conceptual model, timetable, and startup costs</li> <li>• The report on the budget module of the comprehensive Internet version of SIDIF should include: detailed development of the conceptual model, timetable, and startup costs</li> </ul>	<u>Commitment 9</u> : Develop the conceptual model of the comprehensive Internet version of SIDIF, and develop a detailed model of the budget module.
One of the objectives of the Office of the Deputy Secretary for the Budget is to upgrade the record-keeping system used for public financial management purposes. These measures will allow financial control units to function more efficiently by providing them with rapid, modernized access to supporting documentation and will increase the transparency of financial management functions.	<ul style="list-style-type: none"> <li>• Report on the three preliminary audits at Levels D, C and B by IRAM</li> <li>• Report on the main areas in which shortcomings (observations or findings of noncompliance) have been identified by the three preliminary audits</li> </ul>	<ul style="list-style-type: none"> <li>• Final IRAM ISO 9001:2000 certification audit report</li> <li>• Report setting forth policy proposals regarding financial management record-keeping systems</li> </ul>	<u>Commitment 10</u> : IRAM ISO 9001:2000 certification of the record-keeping procedures used to track the government's financial management functions.
<i>(d) Consolidating budgetary and financial management rules and procedures</i>			
In 1999, a structured text for Law 11,672 was issued. In recent years this law has been amended to adapt to changing demands in terms of budget management systems. Consequently, a new structured text, organized by subject matter, is needed in order to facilitate this instrument's use. The 2005 budget act authorized the National Executive Branch to update and restructure the rules and regulations.	<ul style="list-style-type: none"> <li>• Decree issuing a newly structured text for Law 11,672</li> </ul>	<ul style="list-style-type: none"> <li>• The decree issuing the newly structured text for Act No. 11,672 enters into effect in time to be applied to the 2007 budget bill.</li> <li>• Report prepared by the Office of the Deputy Secretary for the Budget containing proposals concerning a mechanism for updating the decree issuing the newly structured text for Act No. 11,672 on an ongoing basis</li> </ul>	<u>Commitment 11</u> : Draw up a newly structured text for the Supplemental Standing Budget Act (Law 11,672) that includes all the articles of the budget acts for 2000-2005.
Since its passage in 1992, the Financial Management Act has been amended by other laws. This is also true of the corresponding regulatory decree. A new regulatory decree therefore needs to be drawn up. The new text should include all the amendments and should consolidate these regulatory provisions in a single instrument.	<ul style="list-style-type: none"> <li>• Preliminary draft of a regulatory decree for the Financial Management Act (No. 24,156) prepared by the Office of the Under-Secretary for the Budget</li> </ul>	<ul style="list-style-type: none"> <li>• The regulatory decree for the Financial Management Act (No. 24.156) prepared by the Office of the Under-Secretary for the Budget enters into force in time to be applied to the 2007 budget bill</li> </ul>	<u>Commitment 12</u> : Consolidate all regulations and amendments to the Financial Management Act in a new regulatory decree for the National Public-Sector Control Systems and Financial Management Act (Law 24.156).



Issue/Assessment	Policy conditions		
<b>Component 3: Strengthening the public debt system</b> The component on strengthening the public debt system provides for a series of reforms needed in order to update the National Public Debt Office’s rules, processes, and systems. These reforms fall into the following categories: (a) developing and consolidating procedures for registering and servicing new public debt instruments; (b) updating State financing policy guidelines and strategies; (c) strengthening the State’s public debt information systems to enhance their quality and reliability; and (d) fiscal contingencies and contingent liabilities.			
<i>(a) Developing and consolidating procedures for registering and servicing new public debt instruments</i>			
The swap implemented in order to restructure and consolidate the external debt, which offered three different bond options (par bonds, discount bonds, and quasi-par bonds), included growth-linked coupons. This is an entirely new instrument, and there are no precedents or any detailed procedures to guide its administration (including how it is to be recorded in SIGADE and exactly how budget estimates for it are to be calculated).	<ul style="list-style-type: none"><li>• Report on how growth-linked coupon payment obligations are being calculated for 2006-2008.</li><li>• Inclusion in the 2006 budget bill of budget estimates for growth-linked coupon payments falling due in December 2006</li><li>• Inclusion in multiyear budget projections of estimates of the growth-linked coupon payments to be made in 2007 and 2008</li></ul>	<ul style="list-style-type: none"><li>• Design of a dynamic estimation methodology for projecting payment obligations in connection with the coupons based on GDP growth and its incorporation into SIGADE.</li><li>• Inclusion in the 2007 budget bill of budget estimates for growth-linked coupon payments falling due in December 2007.</li><li>• Inclusion in multiyear budget projections of estimates of the growth-linked coupon payments to be made in 2008 and 2009.</li></ul>	<u>Commitment 13</u> : Design and implement systems for computing and recording payment obligations related to the growth-linked coupons in SIGADE. These systems are to include guidelines for the calculation of service payments, the design and approval of the corresponding coupon payment procedures, and their authorization and operationalization prior to the date on which the first coupon payments are to be calculated (1 November 2006).
Detailed estimates of the liabilities represented by the debt repurchase commitments entailed in the swap for growth-linked bonds and bonds based on unused payment capacity are not available. Nor have procedures been defined for auctions, settlement, and incorporation of these obligations into the annual and multiyear budgets.	<ul style="list-style-type: none"><li>• Report containing the estimated amount of debt repurchase in 2006-2008</li><li>• Inclusion in the 2006 budget bill of budget estimates for debt buy-backs</li><li>• Inclusion in multiyear budget projections of estimates for debt buy-backs in 2007 and 2008</li></ul>	<ul style="list-style-type: none"><li>• Report on auction and settlement procedures to be used for debt repurchases</li><li>• Inclusion in the 2007 budget bill of budget estimates for debt buy-backs</li><li>• Inclusion in multiyear budget projections of estimates for debt buy-backs in 2008 and 2009</li></ul>	<u>Commitment 14</u> : Design computational systems and procedures for the repurchase of bonds linked to higher GDP growth rates and to unused payment capacity so that auction, appraisal, and settlement procedures for debt buy-backs provided for in the 2005 restructuring will have been designed and approved and will be operational by 2006.
<i>(b) Updating of criteria and strategies of the State’s financing policy</i>			
The magnitude of the crisis was such that the government found it necessary to place priority on restoring confidence before restructuring the debt. The national government’s medium-term borrowing requirements have still not been quantified in accordance with the Fiscal Responsibility Act (Law 25,917), however.	<ul style="list-style-type: none"><li>• Quantification of the national government’s borrowing requirements for 2006-2008.</li></ul>	<ul style="list-style-type: none"><li>• Quantification of the national government’s borrowing requirements for 2007-2009.</li><li>• Document outlining national government financing policies, guidelines, and strategies in accordance with the Fiscal Solvency Act (Law 25,152) and the Fiscal Responsibility Act (Law 25.917)</li></ul>	<u>Commitment 15</u> : Define a medium-term financing policy by developing State financing policy guidelines in keeping with new circumstances having a bearing on public finances and the government’s fiscal strategies.

Issue/Assessment	Policy conditions		
(c) Improving public debt information systems to bring them into line with the Fiscal Responsibility Act and new financing modalities			
Public debt information and databases reflect neither the new requirements introduced by the Fiscal Responsibility Act nor some of the types of new instruments created as part of the debt swap (D. 1735/04).	<ul style="list-style-type: none"><li>• Report on the problems and requirements entailed in refining the national public debt database</li><li>• Work plan for refining and upgrading the information contained in the national public debt database</li></ul>	<ul style="list-style-type: none"><li>• Report on the outcome of efforts to strengthen the public debt database and its impact on the multiyear budget for 2007-2009</li><li>• Development of a new methodology for the presentation of the documentation that should be incorporated in draft texts of the budget act and the Fiscal Gazette (<i>Boletín Fiscal</i>)</li><li>• Redesign of the Department's web page to make it more accessible and easier to understand, in keeping with the guidelines set out in the Fiscal Solvency Act and the Fiscal Responsibility Act</li></ul>	<u>Commitment 16</u> : Carry forward the implementation of the Federal Fiscal Responsibility Regime by bringing national public debt information closely into line with the provisions of the Fiscal Responsibility Act (Law 25.917) and the Fiscal Solvency Act (Law 25,152).
(d) Generating information on fiscal contingencies and contingent liabilities			
The government has not compiled information on the impact that contingent liabilities and fiscal contingencies had on the public debt in the 1989-2001 period.	<ul style="list-style-type: none"><li>• Terms of reference for a study to identify the main sources of fiscal contingencies and contingent liabilities and the impact they had on public debt in the 1989-2001 period</li></ul>	<ul style="list-style-type: none"><li>• Presentation of a study that substantively satisfies the terms of reference approved for phase one.</li></ul>	<u>Commitment 17</u> : Begin activities concerned with fiscal contingencies by initiating studies and analysis of the Argentine State's contingent liabilities in the 1989-2001 period.