

Provincial Banks Privatization Sector Loan

ARGENTINA

SECTOR: Finance

PROJECT NAME: Provincial Banks Privatization Sector Loan
(865/OC-AR)

TOTAL COST: \$1,500 million

FINANCING:

IDB	\$ 750 million
OTHER	\$ 500 million (IBRD)
LOCAL	\$ 250 million

DATE OF APPROVAL: May 10, 1995

GENERAL DESCRIPTION: The main objective of this program is to continue the public sector reforms initiated under other Bank operations and promote the economic development of Argentina's provinces through the privatization or closure of eligible provincial and municipal banks. All privatization will be carried out through international or local public auction, in accordance with standard banking practices for these types of transactions.

The program represents a unique opportunity to introduce major structural reforms in the provincial and municipal banking system, thus reforming simultaneously both the public provincial and financial sectors. The loan is a fast-disbursing operation to be released in three equal tranches of \$250 million each over a period of two years. Loan funds will finance the CIF costs of eligible imports. In addition, the government will establish a Trust

Fund in local currency at the Banco de la Nación Argentina (BNA), which will be channelled to eligible provinces to cover short-term liquidity needs, up to the point of sale, of provincial banks to be privatized. It will also provide long-term financial support to pay for the costs of privatization.

More specifically, funds will be used to: (a) pay back private deposits; (b) repay short-term advances from Banco Central de la Republica Argentina (BCRA) and BNA; (c) repay other bona-fide liabilities; (d) fund voluntary reduction-in-force programs; and (e) cover costs associated with hiring advisors and consultants to draw up the documents for privatizing eligible banks.

CONSULTANTS:

Consultants will be hired to draw up the bidding invitations and auction documents for privatizing eligible banks.

GOODS AND SERVICES:

Proceeds of the loan will finance the CIF cost of eligible imports from Bank member countries. Eligible imports would be determined according to a negative list; the customary limitations excluding the financing of military equipment, luxury consumer goods and hazardous materials would be applied.

EXECUTING AGENCY:

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