SECTOR PROGRAM IN SUPPORT OF THE FEDERAL COMMITMENT TO GROWTH AND FISCAL DISCIPLINE

(AR-0280)

EXECUTIVE SUMMARY

Borrower and guarantor:	The Argentine Nation	
Executing agency:	Ministry of Economy, through the Subsecretariat of Provincial Relations of the Secretariat of Finance	
Amount and source:	IDB: (OC) Total:	US$500 million US$500 million
Financial terms and conditions:	Amortization period: Grace period: Disbursement period: Interest rate: Inspection and supervision: Credit fee: Currency:	20 years 5 years 15 months variable 1% 0.75% United States dollars from the Single Currency Facility

Objectives: The program is intended to support the Argentine government in achieving fiscal consolidation and in implementing fiscal and structural reforms, in the context of the "financial armor-plating" support package agreed on with the IMF, the Bank and other lending institutions. The specific objective of the program is to support the national and the provincial governments in implementing the accords under the Federal Commitment to Growth and Fiscal Discipline, signed in November 2000.

Description: The program consists of a fast-disbursing sector loan of US$500 million, to be disbursed in two tranches, one of US$255 million and the other of US$245 million, each over an estimated execution period of 15 months. Annex II of the Project Report presents the Matrix of Policy Actions that will condition disbursement of the two tranches. The program contains two components: (1) modernizing and regularizing fiscal administration, and (2) improving intergovernmental relations.

1. Modernizing and regularizing fiscal administration

This component is intended to implement, at the national and provincial levels, a new policy for financial, budgetary and tax management that will be more transparent and programmatic and will be consistent with the goals of fiscal consolidation, including actions to enhance the efficiency of social expenditure management and to introduce rules and standards to underpin greater fiscal discipline in the provinces. The areas of activity and the conditions attaching to this component are as follows:

Fiscal management: The program will facilitate the adoption of policies conducive to greater fiscal discipline on the part of the provincial governments, consistent with the achievement of fiscal balance by 2005. As a condition of the **first tranche**, agreements will enter into force in at least 11 provinces on implementing fiscal accountability laws that make it possible to achieve financial balance by 2005, at the latest, and financial administration laws, consistent in each case with existing national legislation. For the **second tranche**, the program will be conditional upon entry into force of those laws in at least 11 provinces. The expected outcome of these policy measures includes establishment of a legal framework to prevent unsustainable growth in primary spending and provincial public borrowing, and to regulate the use of provincial public resources.

Budgetary programming: The program will support the introduction of new budgetary policies that allow for better programming and monitoring of priorities in the allocation of government funds. As a condition for the **first tranche**, the program will promote the entry into force of an agreement between the national government and the provinces on the adoption of multi-year budgets, covering at least the period 2002-2004. For the **second tranche**, conditions will include the submission of these multi-year budgets to the national Congress and the legislative branches of at least 11 provinces. These measures are expected to result in increased efficiency and transparency in the allocation and utilization of public funds.

Fiscal transparency: The program will seek to introduce policies for enhancing the transparency of financial and fiscal management at both the national and provincial levels, as a means of improving the administration of public funds. The **first tranche** of the program will be conditional upon quarterly publication of federal and consolidated provincial financial and fiscal data on budgetary performance, and project borrowing, with a lag of no more than three months. For the **second tranche**, conditions will relate to release of the above-mentioned data, fully updated to date of disbursement and of the

budgetary performance and individual borrowing of at least 13 provinces. These policy actions are expected to institutionalize regular publication of harmonized national and provincial financial and fiscal information as a means for civil society to exert control.

Social expenditure management: The program will support the decentralization of employment and social development programs until now managed by the national government, and the financing of those programs. For the **first tranche**, the program will be conditional upon entry into force of at least 14 agreements for decentralized execution of employment and social development programs, while the **second tranche** will require evidence that additional funds have been transferred during 2001 for execution of those programs in provinces that have signed such agreements. The program will also include as a condition of the **second tranche** the introduction of a single register of beneficiaries for all social programs in at least two provinces. These policy measures are expected to result in more efficient social spending and a substantive improvement in the information available on social programs and their beneficiaries.

Tax administration: The program will facilitate greater and more effective control over taxpayer compliance. The program will include, as a condition for the **first tranche**, the entry into force of contracts for introducing the national tax-revenue collection system (OSIRIS) or a similar system in at least four provincial tax administrations. For the **second tranche**, program conditionality will relate to satisfactory progress in implementing these revenue collection systems in at least 11 provinces. These measures are expected to result in the timely availability of updated information on formal compliance and payment of tax obligations by taxpayers conducting activities in the provinces.

2. Improving intergovernmental relations

This component is intended to help improve intergovernmental relations and facilitate the adoption of policies to simplify and lend greater efficiency and predictability to the distribution of federal revenue-sharing transfers to the provinces. As well, policies will be adopted leading to reform of provincial tax systems and the gradual elimination of distortions in economic activity. As a broader goal, the program will encourage and support the negotiation of policy understandings between the national government and the provinces in the area of modernization of the State. The areas of activity and the conditions attached to this component are as follows:

Revenue-sharing regime: The program will support the adoption of policies to establish new mechanisms for distributing federal revenue-

sharing transfers among the provinces. As a condition of the **first tranche**, the program will bring about the entry into force of a pact between the national and provincial governments to give greater predictability to the primary distribution of revenue-sharing transfers, by setting fixed levels for monthly transfers during 2001 and 2002 and establishing minimum monthly transfers for the years 2003, 2004 and 2005, on the basis of moving annual averages. The **first tranche** will also include as a condition the preparation of an action plan (paragraph 2.10) for reforming the revenue-sharing system over the medium term, including aspects relating to institutionalized supervision and control over the new regime, rules and mechanisms for primary and secondary distribution of revenue-sharing transfers, and the establishment of countercyclical mechanisms in the transfer regime. For the **second tranche**, the program will be conditional upon verification of the stipulated monthly transfers, and preparation of draft legislation to reform the revenue-sharing regime, and discussion of this draft with a representative number of provinces. These efforts are expected to result in tangible progress in reforming the revenue-sharing regime, including strengthening and institutionalized supervision of the regime.

Provincial tax reform and harmonization: The program will support strategies for harmonizing provincial taxation systems and minimizing the distortions that certain provincial taxes exert on production. The program's **first tranche** will involve preparation of a framework strategy for minimizing existing distortions in the provinces' productive sectors caused by the current tax systems, and submission of evidence of progress in implementing that strategy. For the **second tranche**, the program will be conditional upon preparation of a draft federal tax harmonization and administration pact, and a plan for implementing it, which will include: reducing the dispersion of tax rates now imposed on items of a similar nature; harmonizing the definition of taxable items and exemptions, and shifting the incidence of the gross-revenue tax to the final stage of a commercial transaction. The program is expected to result in effective implementation of policy measures to minimize the distortionary effects of provincial taxation.

Modernization of the State: The program will support the negotiation of an agreement between the national and provincial governments on policies to encourage the reform of the State. The **first tranche** of the program will seek to achieve consensus between the national and provincial governments on a pact for modernizing the State, in order to achieve greater efficiency in the public sector, deepen the decentralization process, facilitate citizen control over government management, and optimize the quality of public spending. A condition of the **second tranche** will be entry into force of that pact, and

presentation of a strategy for implementing it in the following areas: a new model for public management by results; human resources; modernizing government procurement systems; and an institutional structure to spur and monitor the process of modernization. The measures taken under the program are expected to produce conditions and incentives for a joint national-provincial policy approach to modernizing the State.

The Bank's country and sector strategy: The Bank's strategy for Argentina gives priority to the following objectives: (i) sustained growth in output and greater productivity; (ii) poverty reduction and higher living standards; (iii) reform of the State and fiscal equilibrium; and (iv) deepening of regional integration. The proposed program is consistent with that strategy, and will help consolidate public sector reform in the fiscal area and to strengthening the management and transparency of the related public bodies. Specifically, the program will support progress in designing and implementing instruments in support of fiscal federalism, through implementation of the Federal Commitment to Growth and Fiscal Discipline agreed on between the national and provincial governments.

The program is also consistent with the strategy approved by the Board of Executive Directors for the development of subnational governments (document GN-2125), which stresses efforts to create conditions whereby these levels of government can shoulder the responsibilities delegated to them in the process of decentralization, both in terms of public services and economic development infrastructure. To this end, the program will help to establish a context in which the allocation of responsibilities will be accompanied by the required revenue generating mechanisms, thereby making revenues more predictable and establishing a closer correspondence between expenditure and revenue-raising efforts. This will provide incentives for the provinces to adopt consistent measures and give them greater autonomy in designing their fiscal policies.

Environmental and social review: Given the nature of the operation and the policy measures it will support, the program is not expected to have any direct negative environmental impacts. It should have a positive social impact in the impetus it will give to decentralization of employment and social development programs to the provincial level and the transfer of resources for financing them, and in its contribution to greater efficiency in the management of social spending, through improved information on social program beneficiaries.

Benefits: One of the program's principal benefits will be its contribution to modernizing and regularizing fiscal administration in its federal context. On the revenue side, efficient revenue collection systems will

be introduced that will provide timely, cross-referenced information on compliance and payment of tax obligations, which will result in higher levels of fiscal revenues. Similarly, on the expenditure side, the program will allow the adoption of modern budgetary management tools that will lend greater efficiency, predictability and transparency to the budget cycle, and this in turn will lead to better allocation, utilization and monitoring of public funds. In addition, the program will help to establish a regulatory framework that will encourage greater fiscal discipline and the achievement of medium-term financial equilibrium.

Another expected benefit of the program will be an improved fiscal framework for national-provincial relations, a key element in achieving and sustaining fiscal balance in Argentina. In this respect, the program will contribute to reforming the revenue-sharing regime and updating the distribution of federal revenue, which in turn will lay the basis for improving living standards in the various provinces. As well, by supporting policies for harmonizing provincial taxation systems, it will help to eliminate tax-induced economic distortions and enhance the competitiveness of the economy. Finally, it will facilitate a joint policy approach between the national and provincial governments to modernizing the State.

The program reflects the Bank's commitment to the "financial armor-plating" support package for Argentina. In this respect, its immediate impact will be to help restore confidence in the country's economy and in its capacity to meet its financial commitments, which should contribute to reducing the country risk and improving credit conditions.

Risks: Some of the anticipated policy actions fall within provincial responsibility, and this introduces an element of risk to program execution that could potentially affect the timing of disbursements by the Bank to the Argentine Nation. To mitigate this risk, the program calls for these actions to be implemented by a representative number of provinces, over which - quite apart from their political willingness to support and implement such actions—the national government will in fact have considerable influence since its financial support for refinancing their short-term debts will be conditioned upon their compliance with fiscal goals and their progress with structural reforms consistent with the policy thrust of the program (paragraph 4.7).

Again, while all provinces that have signed the Federal Pact are expected to support the program fully, the national government has only limited direct influence over the larger provinces. This situation should not undermine the program's impact on those provinces, however, considering that, in the case of the Province of Buenos Aires

	for example, there is a Fiscal Pact with the national government whereby the province undertakes, among other things, to publish financial and fiscal information and to work towards harmonizing provincial taxation. As well, in addition to the commitment by all signatory provinces to carry out the activities called for under the Federal Commitment to Growth and Fiscal Discipline (which has the status of law), the program will help to lay the foundations for incentives to the larger provinces to adopt substantive fiscal reform measures.
Special contractual clauses:	In addition to the standard contractual conditions for disbursement of this sector loan, the disbursement of the **first tranche** will be conditional upon: (i) maintenance of an appropriate macroeconomic policy framework consistent with program objectives and with the country's arrangements with the IMF; (ii) fulfillment of the policy conditions specified in the Matrix of Policy Actions (Annex II); (iii) opening of a special account to receive the proceeds of the loan; and (iv) establishment of the Program Coordinating Unit. Disbursement of the **second tranche** will be conditional upon: (i) maintaining an appropriate macroeconomic policy framework, consistent with program objectives and with the country's arrangements with the IMF; and (ii) satisfying the conditions for the second tranche, as stipulated in the Matrix of Policy Actions. Compliance with the conditions for each disbursement will be analyzed using the means of verification agreed on with the borrower, as described in the technical documentation for the operation.
Poverty-targeting and social sector classification:	This operation does not qualify as a social-equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).
Exceptions to Bank policy:	None
Procurement:	Funds from the proposed loan could be used to cover cumulative foreign exchange costs for eligible imports from member countries of the Bank. In this case, Bank procedures for sector loans, which do not require international bidding, would apply.

I. FRAME OF REFERENCE

A. Background

1. Economic performance in the '90s

Table I-1. First-generation reforms
The first generation of reforms modified the role of the State in the economy, and included the following areas: *Monetary and financial*. Amendments to the charter of the Central Bank, prohibiting it from financing the public sector and limiting its capacity as lender of last resort; privatization of State banks; and establishment of minimum capital requirements. Trade. Elimination of export taxes, non-tariff barriers to imports and reduction of customs duties to an average and more uniform level of 9%. *Public finances*. Simplification of the national tax structure, based on fewer, more broadly based taxes, decentralization of public education and health services to the provinces, deregulation of various tax-related activities, social security and privatization, and amendments to the civil service regime. *Social security*. Creation of a voluntary individual pension funding system in which funds are administered by private entities in coexistence with the public system, which provides benefits to pensioners and those who opted to remain in the old system. *Privatization*. Privatization of 90% of public enterprises, generating revenues of approximately US$27 billion.

1.1 The macroeconomic discipline that was introduced with the Convertibility Plan of 1991, together with the broad agenda of first-generation structural reforms undertaken during the last decade (Table I-1), succeeded in reversing the hyperinflation of the 1980s and sparked episodes of rapid economic growth. In between 1991 and 1999 Argentina's economy grew at an average annual rate of 4.9%, while increases in consumer prices remained low, in the single-digit figures after 1994, reflecting the impact of stabilization measures.

1.2 Despite this progress, and in the context of an increasingly interdependent world, the Argentina's economic structure proved vulnerable to disturbances in international financial markets, primarily because of its dependence on external sources to cover its financial needs, given the low rates of domestic savings.

1.3 As a result of the Mexican crisis, the country saw its access to international credit severely restricted during 1995, and this had an impact on economic activity, reflected in a contraction of 2.8% in GDP and an increase in the unemployment rate to 18%. The government responded promptly, adjusting its fiscal policy to these financial constraints and issuing new provisions that helped to stem the outflow of capital and alleviate pressure on the banking system. These provisions included new rules for banking supervision, minimum capital requirements and moves to privatize the provincial banks. Emerging from the crisis in 1996, the Argentine economy returned to a growth rate averaging 5.5% between 1996 and 1998.

1.4 During the second half of 1998 and early 1999, the Argentine economy was once again affected by the volatility of international markets, resulting from the crises in

Southeast Asia and in Russia. These had the effect of reducing credit, primarily to emerging countries, leading to significant increases in country risk premiums and making it more costly to place both public sector and private sector debt. In this context, the government found it difficult to meet its short-term financing needs (for the fourth quarter of 1998 and the year 1999) at reasonable terms, and it turned to the multilateral lending agencies, including the Bank and World Bank. These two institutions funded a Special Program of Structural Adjustment and Strengthening of Banking System Safeguards in 1998, through two parallel loans of US$2.5 billion (loan 1163-OC/AR) and US$3 billion, respectively.[1]

1.5 Despite these efforts, the Argentine economy slowed markedly and fell into recession in 1999, when GDP contracted by 3.4% in real terms and the unemployment rate reached 14.2%. The public finances suffered from the recession's impact on tax collections, higher debt servicing payments, and increased levels of public expenditure, both at the national and provincial levels. As a result, the consolidated public sector deficit stood at 4.2% of GDP in 1999, compared with 2.1% in 1998, and the stock of debt rose to 47% of GDP compared with 41% in the previous year. Table I-2 presents national and consolidated provincial[2] fiscal indicators for the period 1998-2000.

Table I-2: Public Sector Fiscal Indicators: National and Consolidated Provincial

	1998		1999		2000	
	N	P	N	P	N	P
Deficit* (-) / Current revenues	(7.4)	(7.7)	(13.2)	(14.9)	(12.3)	(10.8)
Primary balance / Current revenues	4.4	(4.0)	1.6	(10.3)	4.8	(4.9)
Current balance / Current revenues	(1.4)	(6.9)	(7.8)	(2.2)	(7.6)	(1.6)
Personnel costs / Current revenues	12.2	52.6	13.2	58.1	12.3	59.2
Stock of debt / Current revenues	252.5	53.8	262.1	61.2	262.0	67.7
Debt service / Current revenues	46.4	12.32	50.8	12.39	51.8	14.8
Tax revenues /Total spending	66.4	38.7	61.1	35.5	64.2	37.0
Tax revenues/ Total revenues	71.2	40.9	66.1	40.1	71.9	40.9
National transfers/Total revenues		50.6		51.0		51.1

Source: Ministry of Economy
N = National Government; P = Consolidated provincial
* Deficit calculations exclude proceeds from privatizations.

---

1 The program approved under the financial conditions set by the Bank for emergency loans consisted of 2 complimentary credit transactions: a quick-disbursing structural adjustment loan for the equivalent of US$2.0 billion (IDB) and US$2.5 billion (IBRD), and a loan for strengthening banking system safeguards, in the equivalent of US$500 million (IDB) and US$500 million (IBRD). Both operations were intended to secure the achievements of the reforms and ensure their progress and continuity. The reforms supported by the program related to the financial sector, social security, the regulatory capacity of public services and the harmonization of fiscal relations between the national government and the provinces. In this last sector, measures included revisions to the federal revenue-sharing program and certain aspects of provincial taxation systems.

2 In this paper, the term "provinces" refers to the 23 provincial governments and the government of the Autonomous City of Buenos Aires (GCBA).

1.6 A number of factors, in addition to persistent borrowing difficulties, contributed to plunging the economy into recession during 1999: these included a sharp reduction in external demand for Argentina's tradable goods and a deterioration in the terms of trade with its principal trading partners,[3] compounded by political uncertainty over the upcoming presidential elections. Other factors of a more structural nature also had a negative impact on fiscal and financial management of the national and provincial governments, such as the procyclical nature of public spending and the lack of incentives for sub-national levels of government to enhance their own revenues through a greater "tax effort". These factors all related to the system of federal revenue-sharing transfers, the principal problems of which are summarized in Table 1-3.

Table I-3. Federal Revenue-sharing Regime
The current system of federal revenue-sharing transfers includes mechanisms for distributing fiscal resources between the national and provincial governments (primary distribution) and subsequently among the provinces (secondary distribution), on the basis of distribution coefficients originally established in Law 23,548 of 1988, presented in Annex III. The major weaknesses of this regime are: *Complexity*. There are many channels for distributing revenues, a situation that clouds the transparency of financing: in addition to the main body of shareable funds there are a number of individual, "earmarked" tax funds, such as those dedicated to the National Housing Fund; as well, there is a discretionary transfer mechanism (National Treasury Contributions) that is not bound by the objective distribution coefficients, although it is less significant at this time. *Inadequate secondary distribution*. Secondary distribution is not done in accordance with explicit objectives. The secondary distribution coefficients at present reflect no objective formula and are the result of formalizing partial adjustments that were made to the regime prior to 1988 and that reflect financial emergencies and the negotiating capacity of the various provinces during the later stages of amendments to the regime. There are great discrepancies in transfer levels per capita, for example, and these are completely out of line with equalization criteria based on the degree of development of each province (see Annex III). *Inadequate provincial taxation structure*. Improving the revenue-sharing regime will eventually depend on reforming the provincial taxation systems, which include taxes that distort output but that, because of their great impact on provincial revenues, are difficult to replace. The greatest distortions arise with the gross-revenues tax which is collected directly by the provinces and which applies at all stages of production and marketing, up to the final consumer, with a significant cascading effect: at each stage of the production and marketing chain this tax is taken as a cost and results in a significant increase in the price of the product, and a consequent loss of competitiveness. The stamp tax, which applies primarily to legal acts, also introduces major distortions. In addition, there are other taxes, some applied to specific sectors, that impose burdensome distortions on economic activity, investment and employment. *Lack of fiscal proportionality*. There is no apparent proportionality between expenditure and financing decisions at the various levels of government, which means that there is little incentive for the provinces to make a greater tax effort: consequently there is no direct correspondence between the burden that provincial taxpayers must pay and the public services they receive. *Institutional and structural shortcomings*. The institutional structure of the current revenue-sharing regime needs to be modernized to institutionalize supervision and control over the regime by the various levels of government involved.

3 The Brazilian crisis that involved devaluation of the *real* in January 1999 represented a major shock to Argentina's terms of trade with its principal trading partner in MERCOSUR, which accounts for roughly 30% of its exports, and raised the price of Argentine goods by up to 40% on Brazilian markets.

2. The current government, reform and recent economic performance

1.7 In December 1999, the current government of Argentina submitted an economic program that focused in its broad lines on achieving fiscal equilibrium and introducing structural reforms to improve the economy's productivity and competitiveness. The government's strategy is based on enhancing market confidence in the Argentine economy through a gradual reduction in the level of indebtedness as a proportion of GDP, and thereby reducing the country risk and improving credit conditions. This would in turn allow for higher levels of economic activity and a return to sustained growth in output and employment. In this context, the government has given the highest priority to implementation of the Fiscal Responsibility Law, approved in September 1999. This law establishes limits on the growth of primary spending and the stock of debt, and establishes the goal of achieving fiscal equilibrium in the nonfinancial public sector by the year 2005.

1.8 In terms of adjustments to taxation policies, the new government launched a package of measures that were expected to have a sharp impact on tax revenues: these included increases in taxes on personal income, capital and selected items, and a broadening of the base for the value added tax. At the same time, a moratorium was decreed in an effort to recover tax debts. Progress was also made in other areas of the reform, to varying degrees, as shown in table I-4.

Table I-4. Progress with the Reform Program
Labor reform. Congress approved measures in May 2000 to enhance employment opportunities by: (i) extending the probation period to between three months and one year (for small businesses); (ii) reducing employers' contributions to social security by up to one-third (in the case of net employment increases); (iii) mandating the negotiation of new contracts instead of extending existing ones indefinitely; and (iv) establishing the predominance of collective agreements at the enterprise level over sectoral ones.
Health sector. By Executive Decree, the quality of health services will be improved, as of January 2001, by introducing competition to the network of service providers. As well, restructuring of the health system for pensioners is continuing, with a view to eliminating its liabilities and reducing costs. As a result of a lawsuit brought by groups representing social agencies against the measures proposed by the Executive, these measures have not yet been implemented.
Financial sector. Reforms involved restructuring the banking system, including privatization, consolidation and closures, and establishment by the Central Bank of banking regulation and supervisory mechanisms consistent with international best practice and the solvency and liquidity requirements recommended by the Basel Committee on Banking Supervision.
Social security reform. Executive Decrees have been issued: (i) broadening the system's coverage with funds freed up by the reduction in the basic universal pension and extending the retirement age for women from 60 to 65 years; and (ii) improving supervision by strengthening the regulatory and supervisory framework for private pension plans. The government is examining the possibility of major reforms to the legislation governing private and public pension systems, with assistance from Bank loan 1295/OC-AR.
Market functioning. Priority is being given to strengthening mechanisms for defending competition by modernizing the ministry responsible for the enforcement of antitrust legislation, and by renegotiating sector contracts as they expire.

1.9 Despite the government's progress, economic recovery did not materialize during 2000. Sharp tax increases produced initial improvements in the fiscal situation and helped to reduce the country risk premium. Yet this lower risk was not reflected in any reduction in interest rates, and thus did little to stimulate the economy. The net

result was a drop in disposable incomes, associated with the fiscal adjustment,[4] a decline in domestic confidence and a relapse into recession. GDP contracted by 0.2% in real terms, prices deflated by 0.7% and unemployment rose to 15%. In this context, the fiscal adjustment was not achieved, and the consolidated public sector deficit rose to some US$6.5 billion (3.6% of GDP), underlining the need for greater efforts and progress in rationalizing public finances, including those of the provinces, whose aggregate deficits accounted for US$3.3 billion (1.8% of GDP).

1.10 During 2000, therefore, the country's recovery prospects collapsed, and an "armor plating" rescue package was needed to stave off the possibility of a moratorium on a debt payments. The first quarter of 2001 closed with a deficit equivalent to US$3.1 billion, while the IMF agreement had stipulated a deficit not to exceed US$2.1 billion. In these circumstances, further measures were adopted to keep the fiscal accounts consistent with the goals of the IMF program and to restore the economy's competitiveness as outlined in Table I-5.

Table I-5. The Competitiveness Law and the Special Powers Law
On March 24, 2001, Congress approved the Competitiveness Law (Law No. 25,413) which imposed a new tax on financial transactions: the tax rate was initially set at 0.25%, and was subsequently increased to 0.4%, and applies to all current or checking account transactions. Revenues from this tax will be deposited in a Public Emergency Fund to support the competitiveness of small and medium-scale enterprises, as well as to improve the balance on the fiscal accounts. This new tax is to remain in force until December 31, 2002. The Competitiveness Law also reduced from Arg$10,000 to Arg$1,000 the size of payments that must be settled by check in order to be recognized as valid. The law also reduces the customs tariff on imports of capital goods to zero and raises the import duty on certain consumption goods to 35% (subsequently reduced to 27%).
On March 29, 2001, Congress approved the Law Delegating Special Powers to the Executive Branch (Law No. 25,414) as a public emergency measure, granting the government legislative powers until March 1, 2002, in specified areas of administration and other, broader matters. This law will allow the government to correct regulations hindering investment, fixing prices and restricting competition, and to introduce measures to improve public management and the efficiency of tax collection and public expenditure. Specifically, the law delegates powers for: (i) merging or decentralizing central administrative agencies; (ii) transforming autonomous entities and decentralized offices into public enterprises, State-owned corporations or other legal entities; (iii) deregulating and improving the functioning and transparency of the capital and insurance markets; (iv) modifying the Ministries Law; (v) repealing legislative rules governing the operations of administrative entities in order to make administration more efficient; (vi) creating and abolishing exemptions, reducing taxes and charges under national responsibility, authorizing refund, credit or compensation against other taxes, and amending regulatory regimes and payment facilities; (vii) amending customs, taxation and social security contribution procedures; (viii) establishing special rates for infrastructure projects; (ix) introducing special taxation measures (deferrals, refunds, deductions) in provinces facing employment difficulties as a result of the privatization of public enterprises; and (x) pursuing economic deregulation by repealing or amending national legislation prejudicial to the economy's competitiveness.
These delegations of powers exclude privatization or the transfer of public enterprises or any other State property in guarantee, and require that the powers so delegated may not be used in ways that will provoke layoffs or reduce wages and pension rights.
Under the delegated powers, the government decreed spending cutbacks amounting to Arg$859 million, expanded the coverage of the VAT, and reduced its rate from 21% to 10.5% for purchases of capital goods. In addition, on June 15, 2001, the government announced the following supplementary measures: establishment of a differential exchange rate for foreign trade transactions, excluding fuels, equal to the simple average of quotes for the dollar and the euro: the initial value would be Arg$1.08 to the U.S. dollar; an increase of 16% in

[4] Together with the tax measures, a cut of 12-15% in nominal public sector wages was decreed for public servants with incomes exceeding Arg$1000.

employers' social security contributions (paid to the VAT account); an increase in family deductions for purposes of the profits [*ganancias*] tax, for incomes up to Arg$7,000 monthly; elimination of the VAT exemption for public transit; an amendment to the system for collecting this tax; a reduction in the VAT rate to 16% and elimination of the presumed minimum income tax within a time period to be determined. As well, on June 21, 2001, Congress approved an extension of the convertibility regime to set the value of the peso at a simple average of the dollar and the euro, once those two currencies reach parity.

3. The financial "armor plating" package

1.11 On December 18, 2000, the government reached agreement with the IMF, the Bank, the IBRD, other lending institutions and the government of Spain on a package amounting to US$39.7 billion to meet financing needs for the year 2001 and a portion of 2002 (see Table I-6).[5]

Table I-6: Public Sector Financial Requirements (US$ millions) *

	2001					2002				
	I	II	III	IV	Total	I	II	III	IV	Total
Financial Requirements	**7,021**	**5,293**	**5,317**	**4,394**	**22,025**	**4,513**	**7,104**	**5,513**	**7,613**	**24,743**
- Fiscal deficit	2,100	1,700	1,300	1,400	6,500	1,343	895	1,343	1,268	4,850
- Amortization and interest	4,621	3,393	3,717	2,794	14,525	2,920	5,959	3,920	6,095	18,893
- Other	300	200	300	200	1,000	250	250	250	250	1,000
Sources of Financing	**7,021**	**5,293**	**5,317**	**4,394**	**22,025**	**4,513**	**7,104**	**5,513**	**7,613**	**24,743**
- Bonds	2,323	4,099	3,269	2,424	12,115	3,727	5,248	4,285	5,439	18,699
- IDB	**200**	**250**	**520**	**250**	**1,220**	**430**	**430**	**430**	**430**	**1,720**
- IMF	2,921	1,264	1,264	1,264	6,713	990	990	990	990	3,960
- IBRD	0	300	250	250	800	0	0	500	0	500
- GAP	1.072	(786)	(151)	42	177	(634)	436	(691)	754	(136)
- Other	505	165	165	165	1.000	0	0	0	0	0

Source: Ministry of Economy
*Information to March 2001.

1.12 In return for this financial package, the government committed itself to meeting fiscal targets that would see equilibrium reached in 2005 (see Table I-7), and to pursue a series of structural reforms, such as that of the pension system referred to above. The government is aware that while this financial package will help to reduce the currently high country risk premium, restoring the economy to growth over the medium and longer term will depend primarily on the recovery of investor and consumer confidence in the national economy. Rationalizing public finances will be a key element in restoring this confidence. Public sector fiscal consolidation will be dependent in large part on success in improving provincial public finances, given the financial impact of the debt and deficits of many provinces.

---

[5] IMF support consisted of extending the existing US$7.2 billion program with Argentina to US$14 billion, while the Bank was to contribute US$2.4 billion (of which US$900 million was already approved in loans 1295/OC-AR and 1324/OC-AR), the IBRD US$2.5 billion (of which US$900 million in new loans), the Spanish government US$1 billion, private domestic banks US$10 billion and local pension funds US$3 billion. A further US$7 billion was to be raised through government bond swaps.

Table I- 7: National and Consolidated Provincial Budget Projections 2001-2005 (US$ millions)						
Item		**2001**	**2002**	**2003**	**2004**	**2005**
Nation						
I. Total revenues		58,837	60,108	62,628	65,752	69,463
II. Interest		11,453	11,853	12,230	13,059	13,465
III. Primary spending		54,211	53,670	54,020	54,998	55,949
IV. Total spending (II+III)		65,665	65,523	66,250	68,057	69,414
V. Financial balance (I-IV)		(6,827)	(5,415)	(3,621)	(2,305)	48,7
VI. Financial balance without privatizations		(6,827)	(5,415)	(3,621)	(2,305)	48,7
Consolidated Provincial						
I. Total revenues		33,484	33,619	34,925	35,974	36,685
II. Interest		2,345	2,792	3,049	3,284	3,308
III. Primary spending		33,485	32,772	32,932	33,075	33,167
IV. Total spending (II+III)		35,830	35,564	35,982	36,359	36,476
V. Financial balance (I-IV)		(2,346)	(1,944)	(1,056)	(384)	208
VI. Financial balance without privatizations		(2,758)	(1,944)	(1,056)	(384)	208
Indicators of indebtedness (%)						
Nation	Service /Current revenues	57.7	53.4	50.5	45.6	38.8
	Stock / Current revenues	236.5	243.3	242.3	235.4	226.3
Consolidated Provincial	Servic /Current revenues	20.0	18.9	19.6	20.9	20.1
	Stock / Current revenues	68.3	73.2	73.8	73.0	71.1

Source: Ministry of Economy

4. The provincial finances

1.13 Argentina's provinces are responsible for some 40% of aggregate public sector spending,[6] including the provision of basic health services and primary and secondary education. Table I-8 shows the primary spending responsibilities and taxation powers of the three levels of government.

Table I- 8: Responsibilities and Powers by Level of Government			
1. Spending Responsibilities and Principal Functions			
Nation	**Nation & Provinces**	**Provinces**	**Municipalities**
Defense	Regional Infrastructure and Econ. Development	Basic education	Urban roads
External Relations	Social Welfare	Technical education	Urban sanitation
Regulation of Foreign Trade, Posts and Telecoms	Environment (planning, prevention and pollution control)	Post-secondary (non-university) education and teacher training	Public lighting
Higher Education	Regulation of Public Services	Health	Drainage
Federal Justice		Sanitation	Green spaces
National Roads		Housing	Urban planning
Social Security		Provincial roads	
		Civil defense	
		Justice (Civil & commercial)	
		Social welfare (non-transferred funds) b/	

[6] The municipalities account for an average of 10% of aggregate public sector spending.

2. **Taxation powers**		
Nation	**Provinces**	**Municipalities**
Value Added Tax Social Security Profits tax Fuels Foreign trade Specific consumption taxes Personal property Payroll	Gross revenues Real estate a/ Stamps Automobile licenses a/ Social welfare (non-transferred funds) b/	Utility charges Street lighting and cleaning Cemeteries Improvements tax

a/ In some provinces, real estate taxes and automobile license fees are collected by the municipalities.

b/ The pension funds of the following provinces have not been transferred to the Nation: Buenos Aires, Córdoba, Corrientes, Chaco, Chubut, Entre Ríos, Formosa, La Pampa, Misiones, Neuquén, Santa Cruz, Santa Fe and Tierra del Fuego.

1.14 More than 50% of provincial spending is financed through transfers from the national government.[7] Table I-9 illustrates the vertical imbalance that existed in 2000 under the current distribution of spending responsibilities and taxation powers between the nation, the provinces and the municipalities.

Table I-9: Vertical Imbalance for the year 2000
(in percentage terms)

Jurisdiction	Revenues (R)	Expenditure (E)	Imbalance (R-E)
Nation	74.8	48.7	26.1
Provinces	17.8	40.6	-22.8
Municipalities	7.4	10.7	-3.3
Total	100.0	100.0	

Source: Ministry of Economy

1.15 The transfer of responsibilities to sub-national levels of government meant, in the last four years, that while the national government was able to hold its primary spending constant, provincial spending rose by US$1.9 billion (an increase equal to 0.7% of GDP) and was financed largely by borrowing. This performance continued the history of procyclical public spending at the provincial level.

1.16 The consolidated provincial deficit for 2000 amounted to 1.8% of GDP (compared with an average provincial fiscal deficit of 0.9% of GDP between 1991 and 1998). The deterioration in provincial finances since 1999 reflected both the shrinkage of tax revenues and the increase in provincial spending implied by the Federal Education Pact[8] and recession-induced social demands, coupled with the provinces' limited revenue-raising capacity. A factor of growing importance in the public accounts in recent years has been the burden of interest on provincial debt, and the

---

[7] In some provinces, the government's own revenues are barely sufficient to finance 20% of expenditures.

[8] The Federal Education Pact, ratified by Law No. 24,856/97, calls for the expansion of compulsory schooling to children aged 5 to 14. This change has had a sharp impact on financial requirements for school construction and the hiring and training of teachers.

impact on interest rates that the series of domestic and international crises has had during that time. Paralleling the increase in provincial fiscal deficits, accumulated debt for the 24 provinces amounted in 2000 to 67.7% of their total current revenues (equal to 8.2% of national GDP), thereby severely limiting future growth capacity. Table I-10 shows the present level and composition of provincial debt, as well as debt stock and debt service by province.

Table I-10: Level and Composition of Provincial Debt at December 2000 (US$ 000)
Debt Stock and Debt Service Indicators for the year 2000

Province	Total	Banks and Financial Institutions	Securities	Financial Assistance and Fiscal Reform Program	Internat. Agencies	Other	Debt Stock/ Revenue (%)	Debt Service/ Revenue (%)
GCBA	804,930	0	575,530	0	45,200	184,200	25.0	6.0
Buenos Aires	4,679,581	474,700	3,336,481	0	868,400	0	53.6	7.7
Catamarca	480,884	203,033	21,436	137,000	43,624	75,790	101.2	28.9
Córdoba	1,201,414	995,748	25,008	0	142,028	38,631	49.5	16.7
Corrientes	875,045	390,076	347,373	0	73,070	64,526	120.7	49.1
Chaco	1,321,506	420,748	444,542	211,000	129,559	115,657	147.8	26.5
Chubut	396,247	236,524	13,859	50,000	50,451	45,413	68.8	20.4
Entre Ríos	834,713	551,642	71,186	0	121,402	90,483	75.1	25.4
Formosa	1,076,461	642,903	178,645	116,346	57,730	80,836	179.3	38.2
Jujuy	833,878	428,078	72,842	84,962	14,941	233,053	139.9	37.4
La Pampa	97,443	64,865	0	0	32,578	0	19.4	2.8
La Rioja	366,794	189,225	14,321	0	20,427	142,821	66.5	8.5
Mendoza	1,123,330	409,067	297,708	0	83,586	332,969	90.3	21.2
Misiones	985,502	451,845	289,526	0	99,253	144,878	134.2	22.9
Neuquen	646,472	383,942	17,428	148,000	91,146	5,956	60.8	16.4
Rio Negro	1,012,466	455,896	141,145	188,758	143,287	83,379	152.2	35.4
Salta	708,648	455,696	82,045	0	93,385	77,522	82.3	21.8
San Juan	662,871	305,276	183,545	0	67,777	106,272	99.7	20.6
San Luis	66,288	0	0	0	15,143	51,146	12.7	1.1
Santa Cruz	220,462	44,091	19,742	0	30,000	126,628	29.8	4.7
Santa Fe	736,121	223,020	108,419	0	222,265	182,417	30.6	3.5
Santiago del Estero	289,262	8,497	142,444	0	43,204	95,116	38.2	11.0
Tucuman	1,099,245	167,189	445,726	168,761	144,366	173,204	110.2	31.2
Tierra del Fuego	472,124	60,839	30,250	35,000	14,147	331,888	119.3	14.3
TOTAL	20,991,688	7,562,900	6,859,203	1,139,828	2,646,970	2,782,786		

Source: Ministry of Economy

1.17 As can be seen from the previous table, provincial debt is concentrated under the heading of banks and financial institutions and issue of securities (69%), with an average maturity profile of five to six years. The consolidated stock of provincial debt relative to current revenues is approximately 67.7%, with a dispersion range among the provinces of between 12.7% and 179.0%. Debt service as a proportion of current revenues is 14.8% for all provinces together, with a dispersion of between 1.5% and 49.0%. In general, the maturity profile of the debt represents for most provinces a greater problem in terms of public finance management than the actual level of indebtedness. Yet there are some very delicate indebtedness situations that compromise prospects for future growth. Thus, for the year 2000, nine provinces had debt succeeding 100% of current revenues, while for 13 provinces debt service claimed more than 20% of their revenues.

1.18 To deal with the threat of major difficulties in indebtedness levels and debt service, the national government established additional instruments of provincial debt control in 2000, as shown in Table I-11. These provincial debt regulation instruments should make it possible in the short-term to coordinate the financing of sub-national governments and to establish annual financing plans for the national and provincial public sectors consistent with the goals of fiscal equilibrium.

Table I-11. Regulation of Sub-National Indebtedness: Status and Outlook
The 1990s saw the establishment of a regulatory framework for sub-national indebtedness, via: (i) Resolution 1075/93, which required provinces and municipalities to seek authorization from the Ministry of Economy to borrow in foreign currencies; and (ii) Central Bank communications 3054 and 3063 prohibiting financial entities from providing assistance to the public sector (national, provincial or local) without authorization from the Ministry of Economy. In addition, most provinces have their own constitutional restrictions making it a general rule that debt service must not exceed 20%-25% of their revenues. Since 2000 there have been three new provisions limiting the indebtedness capacity of the provinces: (a) article 8 of the CFCDF requires the provinces to adopt "fiscal solvency or responsibility" laws, an aspect that will be supported by the proposed program, for achieving fiscal balance by the year 2005. These laws would establish a declining trend in the growth of debt, the level of which would stabilize as of 2005; (b) the Financial Assistance and Fiscal Consolidation Program, agreed with 11 provinces for the year 2001, which prohibits borrowing on financial markets to cover fiscal deficits; and (c) minimum capitalization requirements established by the Central Bank for financial entities lending to government, which impose a limit on the ability of banks to lend to the public sector as a whole.
In addition to the present system for controlling and regulating provincial indebtedness, the Ministry of Economy will seek technical assistance from the IMF (as stated in the latest Economic Policy Memorandum agreed with that institution) to examine new mechanisms for strengthening its ability to coordinate and control provincial borrowing, consistent with Argentina's federal system of government. At the same time, the World Bank's program loan (paragraph 1.30) will help the government to strengthen the system for regulating existing sub-national indebtedness, and to move towards effective coordination between the national and provincial governments in harmonizing access to the financial system, consistent with the objectives of the economic program agreed with the IMF, by conditioning disbursements of the loan to the maintenance and effective use of existing control instruments.

1.19 In this context, the national government signed the Federal Pact for Growth and Fiscal Discipline (CFCDF, the "Fiscal Pact")[9] with 23 of the 24 provinces, in November 2000, as a condition for finalization of the "armor plating" accord, calling for major adjustments in the system of transfers from the national government to the provinces for the period 2001-2005 and establishing expenditure goals for achieving fiscal balance within that period. The Fiscal Pact also includes an agreement whereby the provinces will reform their public administration, budget management and tax administration. As well, it includes an initial agreement on criteria governing reform of the current revenue-sharing regime. A key element of the CFCDF is the national government's commitment to extend the Financial Assistance and Fiscal Consolidation Program to 2005, in order to support the most heavily indebted provinces in refinancing their short-term debts, in return for their commitment not to increase their primary spending levels and to approve legislation compatible with the National Fiscal Responsibility Law and the State Financial

[9] Passed by the Congress as Law No. 25,400 of January 8, 2001, and ratified to date by the provincial legislatures of 20 provinces, including those of Buenos Aires, Cordoba, Santa Fe and Mendoza.

Administration Law, and to adjust their budgetary processes beginning in the year 2001. Table I-12 summarizes the principal elements of the Fiscal Pact.

Table I-12. Federal Pact for Growth and Fiscal Discipline

Principal terms of the pact:

The transfers regime:

- The primary distribution (between the nation and the provinces) of revenue-sharing resources is amended until 2005: in 2001 and 2002, the provinces will receive a fixed monthly amount equal to $1.36 billion, while in 2003-2005 transfers for each year will be equal to a moving average of the previous three years, calculated using the current distribution coefficients, with a monthly guaranteed minimum of $1.4 billion for 2003, $1.44 billion for 2004 and $1.48 billion for 2005. Setting these minimum amounts represents an important incentive for provinces to participate in the Fiscal Pact.
- It has been agreed to submit draft legislation to reform the current revenue-sharing regime in 2001. Until this reform comes into effect, current legislation governing secondary distribution (among the provinces) of revenue sharing until 2005 will remain in force. The Fiscal Pact includes the rules for the reform regime: (a) all resources for distribution would be unified in a single sharable fund that will exclude only taxes on foreign trade; (b) this shareable fund will include savings in the financing of social security, resulting from reduction of the pension deficit; (c) establishment of a countercyclical fund; (d) elimination of tax pre-sharing; (e) and use of multiyear averages for calculating transfers.

Social programs:

- Up to $225 million will be transferred to the provinces in 2001 for employment (80%) and social development (20%) programs, and these funds will be administered exclusively by the provincial governments. The provinces undertake to compile a single registry of beneficiaries under all provincial and municipal social programs. As of 2002, provinces will be responsible for between 30 and 50% of any future employment program, financed from future social transfers, 50% of which will be distributed equally among all provinces, and 50% in accordance with the coefficients of the revenue-sharing regime.

Provincial finances:

- The national government commits to continuing the provincial debt refinancing plan until 2005 (Financial Assistance and Fiscal Consolidation Program).
- Provinces with fiscal deficits undertake to freeze their levels of primary spending.
- The national government and provinces agreed to eliminate any measures that allow for automatic increases in public servants' pay.
- The provinces are to adopt multiyear budgets, including substantiated revenue and expenditure projections.
- The provinces are empowered, during the life of the Fiscal Pact, to make free use of up to 50% of transfers earmarked for specific purposes.
- The government agrees to pay outstanding debts under the National Housing Fund by 2003.

Modernization of the State:

- Greater transparency in fiscal and financial management at the different levels of government, through publication of information, including the geographic distribution of provincial expenditures similar to those of the Nation.
- Improve provincial tax and pension administration by introducing registration and collection systems.

A pact will be signed laying the basis for reforming and harmonizing provincial taxation in order to reduce the distortive effect of certain provincial taxes.

5. The importance of the Fiscal Pact

1.20 The Federal Pact for Growth and Fiscal Discipline constitutes a central pillar of the government's economic program, and is crucial to the implementation and consolidation of structural reforms. The Fiscal Pact is important in terms of

modernizing the fiscal administration, including providing it with greater transparency, improving fiscal relations between the national government and the provinces, and enhancing fiscal discipline. As well, this pact lays the basis for dealing with the structural problems cited in paragraph 1.6.

1.21 Support for modernizing fiscal administration. The Fiscal Pact lays the foundation for much greater transparency in the public sector, by including provisions for broad dissemination of information on public sector financial management; making public the list of beneficiaries under national, provincial and municipal social programs; allowing for the audit of national and provincial tax collection agencies by independent entities; and promoting the adoption of appropriate administrative systems for recording and managing provincial revenues.

1.22 Better fiscal order and discipline. The Fiscal Pact, by extending the financial consolidation program for the provinces until 2005, allows the Ministry of Economy to monitor provincial finances and gives it authority to negotiate quarterly targets with the provinces, as a key element of achieving medium-term fiscal equilibrium. On the other hand, the new methodology of calculating provincial transfers using annual moving averages based on the last three years is essential for countering the procyclical pattern of transfers, and hence of expenditures, and will facilitate the establishment of the stabilization fund.

1.23 Improving intergovernmental fiscal relations. The Fiscal Pact simplifies the currently complicated system of transfers. At the same time, it lends predictability to the transfers regime by defining fixed amounts of transfers to the provinces and guaranteeing minimum transfers until 2005, the deadline for entry into force of a new revenue-sharing regime. As well, it makes provincial financial management more flexible by allowing free use of up to half of the funds transferred for specific purposes. Finally, the CFCDF will have the effect of decentralizing to the provinces a significant portion of the social programs that were until now administered by the national government.

1.24 The proposed program will help the national government to implement the accords under the Fiscal Pact as they relate to modernizing and regularizing the national administration, and improving intergovernmental fiscal relations, by supporting action on the issues referred to in the preceding paragraphs.

B. Bank strategy and involvement

1. Bank strategy

1.25 The Bank's strategy for Argentina gives priority to the following objectives: (i) sustained growth in output and greater productivity; (ii) reducing poverty and raising living standards; (iii) reforming the State and achieving fiscal equilibrium; and (iv) deepening regional integration. The proposed program is consistent with

that strategy, and will contribute to consolidating public sector reform in the fiscal area and to strengthening the management and transparency of the related public bodies. Specifically, the program will support progress in designing and implementing instruments in support of fiscal federalism, through implementation of the Federal Pact for Growth and Fiscal Discipline (the Fiscal Pact) negotiated between the national and provincial governments.

1.26 The program, through its proposed support for reform of the State and the achievement of fiscal equilibrium, is also consistent with the strategy approved by the Board of Executive Directors for the development of governments at the sub-national level (GN-2125), which stresses efforts to create conditions whereby these levels of government can shoulder the responsibilities delegated to them in the process of decentralization, in terms of both public services and economic development infrastructure. To this end, the program will help to establish a context in which the re-allocation of responsibilities will be accompanied by the required revenue generating mechanisms, thereby making revenues more predictable and establishing a closer correspondence between expenditure and revenue-raising efforts. This will provide incentives for the provinces to adopt consistent measures and will give them greater autonomy in designing their fiscal policies.

2. Bank involvement

1.27 The Bank has been supporting the process of reforming the State and efforts to re-establish fiscal equilibrium, at both the national and provincial levels. At the national level, the loans for Administrative and Financial Reform of the State (826/OC) and Establishing the Federal Public Revenue Administration, AFIP (1034/OC) are aimed, respectively, at rationalizing and providing greater transparency for expenditure administration and strengthening tax collection for the national government. The new operation is designed as an instrument to adapt and implement, among the provincial administrations, some of the systems already developed, which have proven their effectiveness in terms of administrative efficiency and economy (the OSIRIS tax filing and collection system, and introduction of the single account). The loan for Structural Adjustment and Strengthening Safeguards for the Banking System (1163/OC) revised the current revenue-sharing regime and led to a proposed reform that will be taken into account in executing this operation. Finally, the loan in support of Fiscal Balance and Social Management (1295/OC) will help to reduce the major social policy factors that impact on fiscal equilibrium by: (i) generating basic information for identifying and correcting the evasion of social contributions; (ii) supporting efforts to rationalize the benefits under the Pension Reform Law; and (iii) establishing mechanisms for assessing national social programs in order to reduce unnecessary expenses and improve the quality of expenditure.

1.28 In terms of direct loans to the provinces of Buenos Aires (979/OC) and Cordoba (1287/OC) and to the City of Buenos Aires (1107/OC), they have, in addition to

their investment component, a component for reform of the State that seeks to improve fiscal management, a point that will be taken as a requirement for release of investment funds. It should be noted that, as guarantor of loans to the provinces, the national government has conditioned its guarantee on a commitment by the provinces to achieve fiscal goals consistent with the Fiscal Pact's objective of fiscal balance.

1.29 The Bank's operations program with Argentina for 2001 includes two operations of national and provincial impact, namely the Sector Program to which this project report relates, and the loan to the national government for institutional strengthening of the local economic climate in the relatively less-developed provinces (AR-0232). As well, it includes a Financial Sector Program that, like the proposed operation, will contribute to the financial "armor plating" of the Argentine economy. That sector program was approved by the Board of Executive Directors on June 13, 2001 (loan 1324/OC), and will support reforms in the areas of pensions, insurance and capital markets. Table I-13 reviews the execution status of Bank operations in the sector, as well as the projects included in the 2001 Operations Program.

Table I-13: Fiscal Sector Projects relating to Reform of the State

		Projects in Execution (at June 19, 2001)	Amount (US$ millions)	
No.	**Approval**	**Title**	**Approved**	**Disbursed**
826/OC-AR	11/94	Reform of State Fin. Admin.	47	44.0 (93.7%)
1034/OC-AR	09/97	Establishment of the AFIP	96	77.0 (80.2%)
1163/OC-AR	12/98	Structural Support and Safeguards for the banking System	2.500	2,005.0 (80.2%)*
979/OC-AR	12/96	Support to Prov. Buenos Aires	350	323.1 (92.3%)
1107/OC-AR	06/98	Fiscal Reform City of Bs. As	200	10.3 (5.2%)
1287/OC.AR	12/00	Modernization State Prov. Córdoba	215	0.0
1295/OC.AR	12/00	Fiscal Balance and Social Management	400	204.0 (52.0%)
1324/OC.AR	06/01	Financial Sector Program	500	0.0
		TOTAL	3.808	2,663.4 (69.9%)

Projects in 2001 Operations Program

No.	Title	Amount (US$ millions)
AR-0280	Sector Support Program CFCDF	500
AR-0232	Less-Developed Provinces	20
	TOTAL	520

* Loan 1163/OC-AR has an undisbursed balance of US$ 495 million, representing contingency funding.

1.30 The Bank's involvement is also complementary to support that the World Bank will be providing to the country through a program loan, consisting of three sector loans totaling US$900 million. That program, which is expected to be approved in the second quarter of 2001, will cover activities in the areas of health, education, social security and fiscal management. Specifically, the proposed operation is consistent with the thrust of the World Bank program in the fiscal area, primarily as it relates to reform of the federal revenue-sharing regime, and provincial tax reform, fiscal

transparency and modernization of provincial tax administrations. Despite this complementarity, the proposed program includes no cross-conditionality with the World Bank's program loan.

3. Lessons learned

1.31 The proposed sector program draws upon lessons learned in other operations of this kind in Argentina,[10] which may be summarized as follows:

a. **The probability of success with the reform program depends crucially on the degree of acceptance and government commitment to that program.** In this respect, the proposed program, which is based on implementing an existing pact between the national and provincial governments, should have a relatively high probability of success.

b. **Crisis situations create political conditions favorable to reforms, especially if they have a fiscal impact.** Because the program will be implemented in a macroeconomic setting that required financial "armor plating" for the Argentine economy, it should be possible to adopt a series of policy actions and commitments that will establish conditions and incentives for greater fiscal order and discipline.

c. **It is important that program design should have a conceptual and theoretical framework for justifying each policy, defining its relevance and establishing an execution schedule for the entire program.** The proposed program has its conceptual and theoretical framework in the policy guidelines of the Fiscal Pact. That pact represents a coherent body of measures and instruments for consistent, step-by-step progress in establishing conditions whereby the national government and the provinces can define an efficient new revenue-sharing regime that will help to equalize levels of development, standards of living and economic opportunity throughout the country.

d. **It is essential to set realistic time limits for executing the operation, taking into account the bodies that will be involved in fulfilling the program conditions.** On this point, the Bank's team, together with the executing agency, has assessed the risks of delay in taking the measures and policy actions called for in the operation, and believe that the planned execution period, at 15 months, should be sufficient. As an essential input in defining this timetable, specific verification measures for each condition established in the Matrix of Policy Actions have been defined and agreed with the authorities.

---

[10] The lessons learned have been extracted from evaluation reports prepared by the Bank's Office of Evaluation for the following projects: Investment Sector Loan (773/OC-AR); Public Sector Reform Program (633/OC-AR); and Provincial Bank Privatization Program (865/OC-AR).

e. **For ensuring the sustainability of any reform, the existence of legislation provides a strong guarantee, but it can at times impede compliance with conditionality.** The project team, together with the executing agency, has assessed the probability of approval of the legislation that the program is intended to promote. It concluded that there are instruments and incentives that will allow such legislation to be approved and adopted, and this should reduce the associated risks (paragraphs 4.7 and 4.8).

f. **Direct government involvement in managing and pursuing the program is essential.** The proposed program calls for the Ministry of Economy to appoint a Program Coordinating Unit, with appropriate organization, functions and personnel, to take the lead in executing the program. The officials who will make up this unit have been actively involved throughout the process of designing the operation.

C. Program Design

1.32 Achieving and sustaining fiscal balance is a necessary condition for relaunching sustained growth in the Argentine economy. Reaching such balance will depend to a large extent on whether the national and provincial governments can consolidate fiscal and structural reforms designed to achieve greater transparency and efficiency in the programming and management of public expenditure (including establishment of a legal framework supportive of fiscal rationalization); improving the management of tax collection; and strengthening the relationship between the national and provincial governments in terms of distributing federal revenues and establishing a greater degree of correspondence between expenditure responsibilities and revenue-raising powers. The proposed program will help the country to implement policies to achieve these objectives, in the context of the CFCDF.

1.33 Effective implementation of the required reforms will require time horizons of varying length, which in some cases will extend well beyond the life of the program. Given this fact, the program is designed to be self-contained, in the sense that it will emphasize measures that will have a visible impact from the outset, and through the medium term. The program will thus include policy actions that can be verified within its execution horizon. For example, preparation of an action plan for reforming the revenue-sharing regime will be a condition of the first disbursement, and progress in implementing it will serve to trigger subsequent disbursements. This approach should avoid situations where verification of tangible progress is delinked from the operating framework.

1.34 Progress in achieving fiscal rationalization is, of course, a task involving the national government and all the provinces. Given the scope and complexity of the assistance that would be required for addressing the fiscal situation of all the provinces under a single sector operation, and for reconciling the various issues

involved in generating the appropriate incentives, the program is targeted on improving the fiscal situation of provinces with the greatest relative imbalances (primarily in terms of their capacity to generate current revenues).[11] This focus on the provinces with the most delicate indebtedness and deficit problems, for the most part the smaller and medium-sized provinces, is complementary with other initiatives that the Bank and other lending institutions have undertaken to provide individual support for the larger provinces, and holds good prospects for success, considering the effective influence that the national government will have, through its financial assistance, in encouraging the provinces to take the actions that lie within their responsibility (paragraphs 4.7 and 4.8).

1.35 Improving the relationship between the national government and the provinces is one of the most critical aspects for achieving and sustaining fiscal balance in Argentina. The dynamics of this relationship have so far allowed for only partial and at times inconsistent amendments to the federal revenue-sharing regime. The program does not aspire to completing the process of reforming that regime, which must be a long-term goal, but it will take advantage of the recent accords negotiated between the national and provincial governments to define and adopt actions towards this goal, including the preparation and discussion of a draft reform law. Similarly, the program will help to improve intergovernmental relations by supporting progress in the reform and harmonization of provincial taxation systems.

[11] Among these provinces are those participating in the Financial Assistance and Fiscal Consolidation Program (PAFSF), under which the national government is helping to refinance the short-term debts of provinces with unsustainable levels of indebtedness. These provinces are: Catamarca, Tierra del Fuego, Tucumán, Río Negro, Formosa, Jujuy, Chubut, Chaco, Neuquén, Misiones and San Juan. These provinces are representative of the problems associated with provincial debt, considering that of the 14 provinces with the highest ratios of deficit to current revenues, 11 are participating in the PAFSF. As well, the 11 provinces of the PAFSF account for 39% of the total stock of provincial debt and as much as 48% excluding the province of Buenos Aires, which alone accounts for 19% of aggregate provincial debt.

II. ELEMENTS OF THE PROGRAM

A. Objective

2.1 The program is intended to support the Argentine government in achieving fiscal consolidation and in implementing fiscal and structural reforms, in the context of the "financial armor-plating" support package agreed with the IMF, the Bank and other lending institutions. The specific objective of the program is to support the national government and the provincial governments in implementing the accords under the Federal Pact for Growth and Fiscal Discipline (the "Fiscal Pact") signed in November 2000.

B. Description

2.2 The program consists of two components: (1) modernizing and regularizing fiscal administration, and (2) improving intergovernmental relations.

1. Modernizing and regularizing fiscal administration

2.3 This component is intended to implement, at both the national and provincial levels, a new policy for financial, budgetary and tax management that will be more transparent and programmatic and will be consistent with the goals of fiscal consolidation, including action to improve the efficiency of social expenditure management and to introduce rules and standards to underpin greater fiscal discipline in the provinces.

2.4 Fiscal consolidation. The program will promote the adoption of policies conducive to greater fiscal discipline on the part of the provincial governments, consistent with the achievement of fiscal balance by 2005. Specifically, as a condition of the first tranche, agreements will enter into force in at least 11 provinces for implementing fiscal responsibility laws that will make it possible to achieve financial balance by 2005, at latest, and financial administration laws, consistent with existing national legislation, under the terms agreed with the Bank. For the second tranche, the program will be conditional upon entry into force of those laws in at least 11 provinces. The expected outcome of these policy measures includes establishment of a legal framework that will prevent unsustainable growth in primary spending and public indebtedness at the provincial level, and will regularize the use of the provincial funds.

2.5 Budgetary programming. The program will support the introduction of new budgetary policies that will allow for better programming and monitoring of priorities in the allocation of government funds, and for meeting the established goals, in a context of fiscal stability. Specifically, the program will include, as a condition for the first tranche, conclusion of an agreement between the national

government and the provinces on the adoption of multi-year budgets, covering at least the period 2002-2004, including at least the following information: (i) revenue projections, by item; (ii) expenditure projections, by purpose, function or economic nature; and (iii) description of the budgetary policies underlying the projections and the anticipated economic and financial outcome. For the second tranche, conditions will include the finalization of these multi-year budgets at the national level and in at least 11 provinces. These measures are expected to result in increased efficiency and transparency in the allocation and utilization of public funds.

2.6 Fiscal transparency. The program will seek to introduce policies for enhancing the transparency of financial and fiscal management at both the national and provincial levels, as a means of improving the administration of public funds. Specifically, the first tranche of the program will be conditional upon quarterly publication of financial and fiscal information at the national and the consolidated provincial levels, relating to budgetary performance and debt projections, with a lag of no more than three months. For the second tranche, conditions will relate to publication of the above-mentioned information, updated to time of release, and to the budgetary performance and individual indebtedness levels of at least 13 provinces. These policy actions are expected to institutionalize regular publication of harmonized national and provincial financial and fiscal information as a means for civil society to exert control.

2.7 Social expenditure management. The program will also contribute to greater efficiency in the management of social expenditure, by supporting the decentralization of employment and social development programs until now were managed by the national government, and the provision of financing required for the proper functioning of those programs. This decentralization of social programs will be based on implementing the System of Integrated Employment and Training Services (SERINTEC) in the provinces, and use of the methodology developed through the National Tax and Social Identification System (SINTyS) for rationalizing and transferring social development programs to the provinces. Both methodologies were developed under loan 1295/OC-AR, and are currently at the implementation stage. Specifically, for the first tranche, the program will be conditional upon entry into force of at least 14 agreements for decentralized execution of employment and social development programs, while the second tranche will require evidence that additional funds have been transferred during 2001 for execution of those programs in provinces that have signed such execution agreements. The program will also include as a condition of the second tranche the introduction of a single register of beneficiaries for all social programs in at least two provinces. These policy measures are expected to result in bringing responsibility closer to the level of government most familiar with social problems in the provinces, and to the direct recipients of social programs at the sub-national level, and in a substantive improvement in the information available on the beneficiaries of social programs.

2.8 Tax administration. The program will facilitate the adoption of tax policies that will make possible greater and more effective control over taxpayer compliance, as part of the battle against tax evasion and arrears. Specifically, the program will include, as a condition for the first tranche, the entry into force of contracts for introducing the national tax-filing and collection system (OSIRIS) or a similar system (which will allow for use of the Single Taxpayer Identification Code and reconciliation of collection records) by at least four provincial tax administrations. For the second tranche, program conditionality will relate to satisfactory progress in implementing these collection systems in at least 11 provinces. These measures are expected to result in the timely availability of updated information on formal compliance and payment of tax obligations by taxpayers conducting activities in the provinces.

2. Improving intergovernmental relations

2.9 This component is intended to help improve intergovernmental relations and facilitate the adoption of policies to simplify and lend greater efficiency and predictability to the distribution of federal revenue-sharing transfers to the provinces. As well, policies will be adopted leading to reform of provincial tax systems and the gradual elimination of their distorting effect on economic activity. As a broader goal, the program will encourage and support the negotiation of policy understandings between the national government and the provinces in the area of modernization of the State.

2.10 Revenue-sharing regime. The program will support the adoption of policies to establish new mechanisms for distributing federal revenue-sharing transfers, primarily in terms of secondary distribution (i.e. among the provinces), including the initial design of the structure and functions of a Federal Fiscal Agency to supervise the revenue-sharing regime,[12] and the institutionalization of countercyclical mechanisms for the regime's operations. Specifically, the program will include, as a condition of the first tranche, entry into force of a pact between the national and provincial governments to give greater predictability to the primary distribution of revenue-sharing transfers, by setting fixed levels for monthly transfers during 2001 and 2002 and establishing minimum monthly transfers for the years 2003, 2004 and 2005, on the basis of moving annual averages. The first tranche will also include as a condition the preparation of an action plan[13] for reforming the revenue-sharing system over the medium term, including aspects relating to institutionalized supervision and control over the new regime, rules and

---

[12] The initial design of the Federal Fiscal Agency will take account of international experience and an analysis of the various functions of that agency, including control over provincial indebtedness.

[13] The action plan will include terms of reference for any necessary technical studies; presentation of the strategy for negotiating the various aspects and issues of reform with the provinces; definition of specific products for the action plan, and time limits for achieving them; and the potential scope of the draft legislation that is to be a condition of the second tranche.

mechanisms for primary and secondary distribution of revenue-sharing transfers, with a view to ensuring greater equity and greater tax effort under the regime, and the establishment of countercyclical mechanisms in the transfer regime. For the second tranche, the program will be conditional upon verification of the stipulated monthly transfers excluding those for the energy funds (up to the month preceding the month in which compliance with a condition is to be verified), and preparation of draft legislation to reform the revenue-sharing regime, and discussion of this draft with a representative number of provinces. These efforts are expected to result in tangible progress in reforming the revenue-sharing regime, including strengthening and institutionalizing supervision of the regime and the regulation of provincial debt.

2.11 Provincial tax reform and harmonization. The program will support the preparation, evaluation and implementation of strategies for harmonizing provincial taxation systems and reducing the economic distortions that some of those systems now induce. Specifically, the program's first tranche will require preparation of a framework strategy for minimizing existing distortions in the provinces' productive sectors caused by the current tax systems, and evidence of progress in implementing that strategy. For the second tranche, the program will be conditional on preparation of a draft national-provincial pact for harmonizing tax administration, and a plan for implementing it, which will include reducing the dispersion of tax rates now imposed on items of a similar nature, harmonizing the definition of taxable items, and shifting the incidence of the gross-revenue tax to the final stage of the commercial transaction. The program is expected to result in effective implementation of policy measures for minimizing the distorting effect of provincial taxation.

2.12 Modernization of the State. The program will support the negotiation of an agreement between the national and provincial governments on policies to encourage the reform of the State. The first tranche of the program will seek to achieve consensus between the national and provincial governments on a pact for modernizing the State, in order to achieve greater efficiency in public management, deepen the decentralization process, facilitate citizen control over government management, and optimize the quality of public spending. A condition of the second tranche will be entry into force of that pact, and presentation of a strategy for implementing it in the following areas: a new model for public management by results; human resources; modernizing government procurement systems; and an institutional structure for promoting and monitoring the process of modernization. The measures taken under the program are expected to produce conditions and incentives for a joint national-provincial policy approach to modernizing the State.

2.13 Annex II presents the Matrix of Policy Actions promoted by the program, which includes the means of verification to be used in evaluating compliance with the required measures.

C. Financing

2.14 Bank financing for the program will amount to US$500 million, drawn from the Single Currency Facility of the Bank's Ordinary Capital (OC). The total amount of financing has been dimensioned as a function of: (i) the efforts and progress required to implement the proposed reforms under the present operation, and their expected impact on the various areas of the program; and (ii) the government's financial needs for the period 2001-2002, under the financial "armor-plating" support package for Argentina.

III. PROGRAM EXECUTION

A. Borrower and Executing Agency

3.1 The program borrower will be the Argentine Nation and the Executing Agency will be the Ministry of Economy, through the Office of National-Provincial Relations (SSRP), part of the Department of Finance.

3.2 The Office of National-Provincial Relations, pursuant to Decree No. 431/2001, has the following principal objectives and functions: (i) to coordinate all aspects of regional economic programming; (ii) to program appropriate financial instruments in support of regional development; (iii) to coordinate fiscal, economic and financial aspects of the relationship between the national government and the provincial and municipal public sectors; (iv) to evaluate and monitor the public accounts of sub-national levels of government; (v) to work with the corresponding agencies in implementing the revenue-sharing regime; and (vi) to help monitor and enforce legislation and rules governing revenue-sharing and special regimes for transferring national resources to the provinces. Its activities under the proposed program will be consistent with these responsibilities.

B. Program execution and administration

3.3 The Office of National-Provincial Relations will establish a Coordinating Unit (CU) for substantive execution and administration of the program. The CU will be composed of: the Undersecretary of National-Provincial Relations, the National Director of National-Provincial Fiscal Coordination, the Director of Consolidated Financial Information on the Provinces, the National Director of Projects with International Lending Agencies and staff of those bodies, as necessary to carry out the functions referred to in the preceding paragraph. As a condition precedent to disbursement of the first program tranche, the Executing Agency will present to the Bank evidence that the CU has been constituted.

3.4 The Coordinating Unit will be responsible for executing and monitoring the operation. Specifically, the CU will be charged with the following activities: (i) coordinating the manner and timing of implementation of the agreed reforms; (ii) monitoring the activities of all participants in the program; (iii) compiling and preparing information on compliance with actions in the Policy Matrix, and presenting this information to the Bank in support of disbursement requests; (iv) monitoring the allocation and use of program resources, in light of Bank rules and policies; and (v) preparing reports as requested by the Bank.

3.5 In its continuous monitoring of the program, the Coordinating Unit will be supported by permanent staff of the National Directorate of Fiscal Coordination with the Provinces, under the SSRP, which has a professional staff of 36 distributed

as follows: monitoring budgetary performance and projections of provincial and municipal finances (15); monitoring provincial financing (8); operations under the revenue-sharing regime (5); coordination of bilateral and multilateral assistance to the provinces (4); monitoring and analysis of the provincial tax structure (4).

C. Procurement

3.6 Loan funds under the sector program may be used to finance cumulative foreign exchange costs for eligible imports from member countries of the Bank. In this case, Bank procedures for sector loans, which do not require international bidding, will be followed.

D. Execution and disbursement periods

3.7 The program will be executed and disbursed over 15 months. The Bank loan will be disbursed in two tranches, one of US$255 million and the other of US$245 million. Funds will be disbursed upon request of the borrower, accompanied by evidence of compliance with all contractual conditions agreed with the Bank for each tranche. The first disbursement is expected in September/October of this year, while the second disbursement would occur in the third quarter of 2002.

E. Accounting and audit

3.8 The borrower will be responsible, through the Executing Agency, for keeping accounting and financial records on the use of loan funds and for preparing and submitting disbursement requests to the Bank, and guaranteeing that those documents will be available for inspection by the Bank or by external auditors. The borrower will maintain a specific bank account to handle loan funds, and will provide the Bank with evidence that the account has been opened, as a prerequisite to the first disbursement.

3.9 The Bank reserves the right to request financial reports from the borrower on use of the loan funds, audited by independent auditors previously accepted by the Bank.

F. Disbursement conditions

3.10 The disbursement of the first tranche will be conditional upon: (i) maintaining an appropriate macroeconomic policy framework consistent with the objectives of the program and maintenance of the IMF accords; (ii) fulfilling the policy measures identified for this event in the Matrix of Policy Actions (Annex II); (iii) opening a special account to hold proceeds of the loan; and (iv) establishing the Program Coordinating Unit. Disbursement of the second tranche will be conditional upon: (i) maintaining an appropriate macroeconomic policy framework consistent with the objectives of the program and maintenance of the IMF accords; and (ii) fulfilling the conditions for the second tranche, as stipulated in the Matrix of Policy Actions (Annex II).

3.11 Actions required for each of the disbursements will be analyzed using means of verification agreed with the borrower, as found in the technical documents for the operation.

3.12 To date, the SSRP authorities have submitted to the project team documents relating to the means of verification for conditions No. 3, 5, 7, 11, 13 and 15 of the Policy Matrix, in order to speed up review of evidence that these conditions have been fulfilled. The project team agreed to review with SSRP this initial documentation and advise the authorities accordingly during negotiation of the operation.

G. Control and evaluation

3.13 The Executing Agency, through the CU, will provide quarterly reports to the Bank during program execution, covering activities in compliance with the disbursement conditions. The first report will be submitted 90 days after signature of the loan contract. Reports will describe progress against each disbursement condition, and will identify those aspects of reform that are to be addressed in the current or following periods. The quarterly reports will include trend indicators of fiscal performance against the economic program goals monitored by the International Monetary Fund. These indicators will cover the national government, consolidated provincial performance and those provinces with which the national government has reached agreements for control of their financing, as indicated in the Policy Letter (paragraph 3.17).

3.14 The Executing Agency will present to the Bank, 30 days prior to the estimated date for the second disbursement, a report on activities in compliance with the disbursement conditions. The Bank's project team will assess that information and prepare the corresponding reports for consideration by the Executive Board in accordance with Bank policies.

H. Inspection and supervision

3.15 The Bank will conduct inspection visits and other procedures in order to verify progress made and to ensure that proper records are being kept for satisfactory program execution and supervision. The borrower, through the Executing Agency, will provide assistance and information to facilitate the Bank's inspection and supervision work.

I. Ex post evaluation

3.16 In accordance with Bank policies, the Executing Agency was consulted as to its interest in performing an ex post evaluation of the program; this was declined. Nevertheless, the Bank team will ensure that the Executing Agency will provide a series of reports during program execution so that the Bank can conduct an ex post evaluation if it considers this necessary.

J. Government Policy Letter

3.17 The Bank has agreed with the government on the macroeconomic and sector policies contained in the draft Policy Letter attached as Annex I. This letter describes the principal policy actions that will be implemented under the sector program, and the government's commitment to the Bank to undertake the reforms and measures agreed and to present quarterly reports on the progress of the fiscal performance indicators mentioned in paragraph 3.13.

IV. Feasibility, Benefits and Risks

A. Institutional feasibility

4.1 The program has been designed to be strictly congruent with the Federal Pact for Growth and Fiscal Discipline (the Fiscal Pact), conduct and monitoring of which, on the national side, is the responsibility of the Ministry of Economy, through the Office of National-Provincial Relations (SSRP). All activities will therefore be consistent with the tasks assigned to the various directorates and units of the SSRP (paragraph 3.2). During the design of the sector program, it was confirmed that officials of the Executing Agency who will make up the Coordination Unit have demonstrated the capacity and knowledge to guide and monitor execution of the operation. The program therefore has the necessary "ownership" to ensure that the operation will be well accepted and properly executed.

4.2 Given the nature of this program, the CU does not need special staffing to ensure compliance with Bank policies on procurement and record-keeping. As noted in the previous section, the unit has sufficient resources to meet the Bank's information requirements. In fact, the SSRP has used coordinating units similar to the one that would be responsible for the proposed operation in its execution of previous programs: Provincial Pension Reform (cofinanced by the Bank and the IBRD), Provincial Reform (IBRD) and Provincial Reform Loans (IBRD). In both cases, the project completion report found the execution mechanism satisfactory.

B. Benefits

4.3 Modernizing and consolidating fiscal administration. One of the program's principal benefits will be its contribution to modernizing and consolidating fiscal administration in its federal context. On the revenue side, efficient tax-filing and collection systems will be introduced that will provide timely, cross-referenced information on compliance and payment of tax obligations, which will result in higher levels of fiscal revenues. Similarly, on the expenditure side, the program will allow the adoption of modern budgetary management tools that will lend greater efficiency, predictability and transparency to the budget cycle, and this in turn will lead to better allocation, utilization and monitoring of public funds. In addition, the adoption of decentralization measures and a single registry of social program beneficiaries will lead to greater efficiency and transparency in social spending, which will facilitate more effective control by civil society. Finally, the program will help to establish a legal and regulatory framework that will encourage greater fiscal discipline consistent with the goals of medium-term financial equilibrium.

4.4 Improving intergovernmental relations. The program will support an improved framework for the conduct of national-provincial fiscal relations, a key element in achieving and sustaining fiscal balance in Argentina. Specifically, the program will

contribute to reforming the revenue-sharing regime and updating the distribution of federal transfers. The proposed design of a new revenue-sharing regime will allow for incorporating dynamic elements that will lay the basis for improving living standards in the various provinces. As well, by supporting policies for harmonizing provincial taxation systems, the program will help to eliminate tax-induced economic distortions and enhance the competitiveness of the economy. Finally, it will offer conditions and incentives to facilitate a joint policy approach between the national and provincial governments to modernizing the State.

4.5 The financial support package. The program reflects the Bank's commitment to the "financial armor-plating" support package for the Government of Argentina. In this respect, it will have the immediate benefit of helping to restore confidence in the country's economy and in its capacity to meet its financial commitments, which should contribute to reducing the country risk and improving credit conditions.

4.6 Implementing the Fiscal Pact. Benefits will also flow from the program's support for implementation of the CFCDF. In the first place, it will allow a shortening of the time limits originally agreed between the national and provincial governments for taking the various policy actions described in the previous chapters of this report, and which have to date been slow in materializing.

C. Risks

4.7 Some of the anticipated policy actions fall within provincial responsibility, and this introduces an element of risk to program execution that could potentially affect the timing of disbursements by the Bank to the national government. To mitigate this risk, the program calls for these actions to be implemented by a representative number of provinces, over which - quite apart from their political will to support and implement the actions described - the national government will in fact have considerable influence, since its financial support for refinancing their short-term debts will be conditioned upon their compliance with fiscal goals and their progress with specified structural reforms.[14] The national government's financial support will be conditional upon the passage of laws on fiscal discipline, financial administration and economic emergencies, varying from province to province, and upon meeting the quantitative goals for primary and financial balances. What makes these provinces representative is the fact that they face especially severe fiscal and debt problems,[15] and if they were to default on their service this would redound negatively on the country risk.

---

[14] In principle, it is expected that at least 11 heavily-indebted provinces receiving financial assistance from the national government for refinancing their short-term debts, and participating in the Financial Assistance and Fiscal Consolidation Program, will fulfil the policy conditions to trigger disbursements under the program.

[15] In addition to the 11 provinces participating in the PAFSF, the provinces of Buenos Aires (see paragraph 4.8), Mendoza and Entre Rios also face delicate debt situations.

4.8 Again, while all provinces that have signed the Fiscal Pact are expected to support the program fully, the national government has only limited direct influence over the larger provinces, apart from Corrientes, which has been placed under direct administration ("intervened") and Cordoba, which has a program with the Bank consistent with the major results expected from this sector program. This situation should not undermine the program's impact on those provinces, however, considering that, in the case of the Province of Buenos Aires for example, there is an accord with the national government[16] whereby the province undertakes, among other things, to make progressive reductions in its fiscal deficit until fiscal balance is achieved in 2005, in light of which it has agreed to freeze its primary spending as of 2002; to publish financial and fiscal information; and to work towards harmonizing provincial taxation. As well, in addition to the commitment by all signatory provinces to carry out the activities called for under the CFCDF (which has the status of law), the program will help to lay the foundations for incentives to the larger provinces to adopt substantive fiscal reform measures.

D. Social and environmental impact of the program

4.9 Given the nature of the operation and the policy measures it will support, the program is not expected to have any direct negative environmental impacts. On the other hand, it will have a positive social impact in the impetus it will give to decentralization of employment and social development programs to the provincial level and the transfer of resources for financing them, and in its contribution to greater efficiency in the management of social spending, through improved information on social program beneficiaries.

---

[16] Accord for Growth, Improved Economic Competitiveness, the Preservation of Public Credit and Fiscal Balance, signed between the National Government and the Government of the Province of Buenos Aires on April 10, 2001.

Buenos Aires, 23 July 2001

Mr. Enrique Iglesias
President
Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C.

Re: Policy Letter – Program Of Support For The Federal Pact For Growth And Fiscal Discipline

Dear Mr. Iglesias,

1. As you are aware, the Government of Argentina is determined to give greater impetus to the macroeconomic reforms that have been under way in the last few months, with a view to placing the country firmly on the path to sustained economic growth.

2. The government's macroeconomic program, with the support of the IMF, aims to achieve fiscal balance over the medium-term in both the national and the provincial accounts. The new initiatives in this area, reflected in the Competitiveness Law (Law No. 25,413 of March 24, 2001), contain measures to strengthen fiscal revenues, to reduce public expenditure and to improve the competitiveness of the economy's productive sectors.

3. Consistent with these efforts, the national government is convinced of the need to reform the public service as a key pillar in modernizing and regularizing fiscal administration and intergovernmental relations.

4. The Government of Argentina is aware that if the reform of the public sector is to be successful, it will have to involve actions at all levels of government. In this respect, consensus has been reached with the provincial governments to adopt fiscal management policies similar to those pursued by the national administration. This effort reflects the Federal Pact for Growth and Fiscal Discipline, signed between the national government and the provinces in November 2000.

5. In this context, the Government of Argentina is requesting financial support from the Inter-American Development Bank to promote effective implementation of the Fiscal Pact and to pursue the fiscal and structural reforms mentioned above.

6. Following is a description of the macroeconomic setting and the contents of the Fiscal Pact, within which the requested assistance would be applied.

I. THE MACROECONOMIC SETTING

7. The Argentine government has taken a series of measures for fiscal consolidation and has introduced structural reforms to enhance the competitiveness of the economy, to facilitate the growth of economic activity and employment, and to reduce the fiscal deficit over the medium term. On the basis of these objectives, the national government signed a letter of intent with the International Monetary Fund in February, 2000.

8. At the beginning of November 2000, the government announced a series of additional measures to reduce the public sector deficit and to restore investor confidence. These measures include an agreement with the provinces to control the provincial deficit; to strengthen tax administration; to rationalize public spending and move forward with reforms to the State pension plan; to modernize labor registration; and to strengthen the domestic financial system.

9. The measures listed above served as the basis for a new program with the IMF, which was approved by that institution in January 2001. The standby program with the IMF was increased to US$13.7 billion, and was supplemented by US$26.0 billion in additional funding from multilateral and bilateral agencies, local banks and private pension funds.

10. A key aspect of the policy package is the strategy of reducing the fiscal deficit by reforming fiscal administration at all levels of the public sector, in order to cut indebtedness levels substantially in relation to GDP over the medium term, and to achieve fiscal balance by the year 2005. It is in this context that the Program of Support for the Federal Pact for Growth and Fiscal Discipline has been designed.

11. For the national government, efforts to eliminate the deficit include cuts of US$125 million in spending on various public programs that rely on international financing, and this will have a dual impact on the fiscal balance by reducing both public spending and external indebtedness. This measure, together with rationalization and restructuring of social security contributions and other administrative decisions, will produce expenditure savings in the order of US$859 million, and will thereby facilitate compliance with the goals agreed with the IMF.

12. In terms of the provincial governments, the Fiscal Pact includes expenditure-restraint measures that project a declining trend in provincial fiscal deficits consistent with the goal of achieving fiscal balance by the year 2005. In May, 2001, the government signed a new letter of intent with the IMF setting limits on spending and deficits for the Nation and for the sub-national levels of government, and describing structural measures that will be taken to promote competition and to encourage better allocation and use of resources in the economy.

13. It is expected that international financial support, together with the policy measures referred to, will serve to strengthen investor confidence and to revive economic growth and employment. GDP is projected to grow at between 2.0% and 2.5% in 2001. Over the medium term, it is expected to GDP growth can be sustained at around 4%.

14. The performance of these variables and of the inflation rate, which is expected to remain lower than that of the country's principal trading partners, should improve relative prices and enhance the competitiveness of the Argentine economy. The external trade balance is expected to improve in 2001, through a sustained growth in exports. As a result, the current account deficit is projected to decline slightly, although this will be offset in part by higher interest payments abroad.

15. Maintenance of this policy framework will make it possible to implement and achieve the objectives of the Program of Support for the Federal Pact for Growth and Fiscal Discipline for which Bank support is sought.

II. THE FEDERAL PACT FOR GROWTH AND FISCAL DISCIPLINE

16. The Federal Fiscal Pact highlights the willingness of the national government, the provinces and the city or Buenos Aires jointly to introduce fiscal and financial policies for resolving the fiscal problems confronting the country in the process of modernizing the State and to eliminate the distortions that affect both the private sector and the governmental sphere, and that have an impact on employment levels, which have been strongly affected by the recession that the Argentine economy has experienced in recent years.

17. The Fiscal Pact calls for freezing primary spending, and thereby paving the way to achieving fiscal balance in accordance with the National Public Resources Administration Law (Law No. 25,152 of August 25, 1999) and for national government efforts to strengthen the Program of Financial Assistance and Fiscal Consolidation for provincial governments in financial difficulty. Similarly, it includes a commitment by the national government to increase budgetary allocations for social and employment programs and to transfer funds for exclusive administration by the provincial governments. In addition, it proposes negotiation of a new federal revenue-sharing regime, in the form of a draft Revenue-Sharing Law to be presented to the Legislature by December 31, 2003.

18. The Fiscal Pact also provides for fiscal transparency by encouraging the publication of fiscal accounts. Moreover, it stresses the objective of tax harmonization between the different levels of government, so as to reduce the distortions that some taxes now impose on productive activities, and it also proposes negotiation of a Federal Pact for Modernization of the State.

19. A further very significant point is that, through the Fiscal Pact, the parties agree to introduce and enforce a system to ensure proportionate remuneration for public officials in all jurisdictions, thereby contributing to the objectives of austerity, equity and transparency in the public service.

20. Finally, this Fiscal Pact reaffirms much of what was agreed in the federal pact signed on December 6, 1999, and ratified by Law No. 25,235 of December 30, 1999, which included a series of measures, several of which have produced significant results.

III. Program Of Support For The Federal Pact For Growth And Fiscal Discipline

21. The sector program in support of the Federal Pact for Growth and Fiscal Discipline that the national government has requested of the Bank will help in the effective implementation of the agreements and encourage pursuit of the actions called for in two priority areas under the pact: modernization and regularization of fiscal administration, and improving intergovernmental relations.

Modernization and regularization of fiscal administration

22. In the area of fiscal administration, the government's intention is to pursue the adoption at both the national and provincial levels of a new policy for financial, budgetary and tax management, one that is more transparent, programmatic and consistent with the goals of fiscal consolidation, including efforts to improve the efficiency of social expenditure management and to introduce rules in support of greater fiscal discipline in the provinces.

23. In this respect, in order to bolster fiscal revenues and improve the management of public spending, the government will promote the implementation of fiscal responsibility laws and financial administration reforms at the provincial level; adoption by the national and provincial governments of multiyear budgets and the publication of financial and fiscal information; decentralization of social program administration to the provinces; and adoption by the provinces of efficient systems for controlling tax obligations.

24. These actions for fiscal modernization and regularization are part of the national government's strategy for achieving a harmonious and sustainable fiscal relationship over time. For monitoring implementation of these measures and their impact on the objectives of the Fiscal Pact, the national government undertakes to provide the Bank with quarterly information on the trends of the principal fiscal and financial indicators for the national and consolidated provincial levels, and for those provinces with which the national government has negotiated agreements for controlling their financing.

Improving intergovernmental relations

25. In this area, the government intends to improve intergovernmental relations and adopt policies to simplify and lend greater efficiency and predictability to the distribution of federal revenue-sharing transfers between the nation and the provinces. As well, it will adopt policies for moving towards the reform of provincial taxation systems and gradually eliminating the existing distortions on productive activity. As a broader goal, it seeks to encourage and support the negotiation of policy accords between the national and provincial governments in the area of modernization of the State.

26. In order to pursue reform of the federal revenue-sharing regime, the government intends to undertake early discussions with the provinces on a draft law to reform the regime. Consistent with that reform, it intends to pursue creation of a new Federal Fiscal Agency, the functions of which would include controlling provincial indebtedness, and which would constitute a forum for analyzing expenditure quality issues. This agency will require a permanent technical staff to prepare the basic studies needed for decision-making, for monitoring and identifying any shortcomings, and for improving public credit operations, at both the national and provincial levels.

27. The government also intends to work towards a federal pact for harmonizing tax administration with the provinces, in order to achieve, among other goals: a reduction in the dispersion of tax rates applicable to similar items; harmonization of taxable items and exemptions; and focusing the burden of gross-revenue taxes at the final stage of the commercial transaction. These measures will facilitate the introduction of policies to minimize the distortive effect of provincial taxes on productive activities.

28. Finally, the government will seek to establish conditions and incentives for joint policy initiatives between the national and provincial governments in the area of modernization of the State, to which end it will seek entry into force of a federal pact in support of greater efficiency and public management; deepening the decentralization process; facilitating citizen control over government management; and optimizing the quality of public expenditure.

IV. FINAL CONSIDERATIONS

29. The national government intends to pursue the structural reforms undertaken during the 1990s, and which will necessarily involve active participation by the provincial governments.

30. In this respect, the program requested of the Bank is particularly important, since it will help to intensify agreements among the different levels of government and thereby make it possible to attain greater efficiency in the management of public funds and to achieve

fiscal balance in both the national and provincial accounts. The measures adopted will serve to improve living conditions and to reduce the "Argentina cost", and will thus facilitate economic growth by increasing local competitiveness.

31. The national government will therefore promote dialogue and joint efforts with the provincial governments on actions to improve tax administration, to harmonize and define clearly the taxation powers of each level of government, and to establish a new federal revenue-sharing regime, within the time limits stipulated by the Fiscal Pact, that will reflect the criteria set forth in that Pact, and in the National Constitution of 1994. The program requested of the Bank will reinforce these government efforts.

32. New bodies for articulating fiscal federalism will be designed and negotiated with the provincial governments, so as to coordinate and generate policies for addressing the entire set of public sector issues. International experience will be taken into account so as to capitalize on previous successes in the area of improving and reforming intergovernmental relations and establishing appropriate rules of the game that can be accepted jointly by all levels of government, regardless of their specific responsibilities.

33. The national government can point to recent achievements as clear evidence of its political determination to move forward in meeting its international commitments and in creating the conditions necessary for sustained economic growth in Argentina.

Yours sincerely,

[signature]
Domingo F. Cavallo,
Minister of Economy

MATRIX OF POLICY ACTIONS

Objectives	Expected outcome	First tranche ($ 255 million)	Second tranche ($ 245 million)
I. Improving the macroeconomic framework			
Establish a macroeconomic framework conducive to fiscal consolidation and a return to sustainable economic growth.	Tangible progress towards fiscal consolidation	1. Maintenance of an appropriate macroeconomic framework consistent with the program's objectives.	2. Maintenance of an appropriate macroeconomic framework consistent with program objectives
II. Program components			
A. Modernizing and reorganizing fiscal administration			
Greater fiscal discipline by the provinces, consistent with achieving fiscal balance in 2005.	Implementation of rules preventing unsustainable growth in primary spending and provincial public debt.	3. Entry into force of agreements for implementing fiscal responsibility laws (consistent with Law No. 25,152 on Administration of Public Funds, amended), under terms agreed with the Bank, in at least 11 provinces.	4. Entry into force of fiscal responsibility laws (consistent with Law No. 25,152 on Administration of Public Funds, amended), that will allow fiscal balance to be achieved, under the terms agreed with the Bank, in at least 11 provinces.
	Introduction of rules governing the use of provincial public funds.	5. Entry into force of agreements for implementing financial administration laws, or presentation of existing provincial financial administration laws consistent with Law No. 24,156 on Financial Administration, amended, under the terms agreed with the Bank, in at least 11 provinces.	6. Entry into force of financial administration laws, consistent with Law No. 24,156 on Financial Administration, amended, under terms agreed with the Bank, in at least 11 provinces.
Greater efficiency and transparency in the budget programming and execution cycle.	More efficient and transparent programming and monitoring of the allocation and use of public funds.	7. Agreement on preparation of multiyear budgets for the Nation and the provinces, for at least the years 2002-2004.	8. Multiyear budgets prepared and submitted to the legislatures of the Nation and of at least 11 provinces, for at least the years 2002-2004, including as a minimum the information agreed with the Bank.

Objectives	Expected outcome	First tranche ($ 255 million)	Second tranche ($ 245 million)
Greater efficiency in fiscal management in support of a better management of public resources	Regular publication of harmonized national and provincial financial and fiscal information.	9. Quarterly publication of national and consolidated provincial financial and fiscal information, including budgetary performance and indebtedness projections, with a lag of no more than three months.	10. Quarterly publication of national and consolidated provincial financial and fiscal information, of at least 13 provinces, including budgetary performance and indebtedness projections, with a lag of no more than three months. In addition, evidence of publication of budgetary performance for 2001 by the Nation and the provinces mentioned above.
Greater efficiency in the management of social spending.	Progress in decentralizing the administration of social programs until now managed by the national government. Improved information on social program beneficiaries.	11. Entry into force of at least 14 agreements for decentralized execution of employment and social development programs.	12. Transfer in 2001 of additional funds for employment and social development programs administered by those provinces that have signed agreements for the execution of such programs. Preparation completed for the single registry of beneficiaries under all social programs in at least two provinces.
Reduced tax arrears and greater recovery of tax debts.	Availability of updated information on formal compliance and on payment of tax obligations.	13. Entry into force of agreements for implementing the OSIRIS or similar collection system (using the Single Taxpayer Identification Code and allowing for reconciliation of collections) in at least four provinces.	14. Satisfactory progress in implementing the OSIRIS or similar collection system (using the Single Taxpayer Identification Code and allowing for reconciliation of collections) in at least 11 provinces.

Objectives	Expected outcome	First tranche ($ 255 million)	Second tranche ($ 245 million)
B. Improving intergovernmental relations			
Simplification and greater efficiency and predictability in the revenue-sharing regime.	Progress in reforming the revenue-sharing regime, including the strengthening of supervisory institutions	15. Entry into force of a pact for giving greater predictability to the primary distribution of shareable resources, by setting fixed monthly transfer levels from the Nation to the provinces during 2001 and 2002, and establishing minimum monthly transfers for the years 2003, 2004 and 2005.	16. Evidence that monthly transfers have been made to the provinces for the years 2001 and 2002 excluding transfers of energy funds (until the month immediately preceding that in which this condition is verified), as stipulated in the first tranche.
		17. Action plan for reforming the revenue-sharing regime over the medium term, in accordance with the guidelines established in the CFCDF, including institutional aspects of supervision and control over the new revenue-sharing regime, and institutionalizing countercyclical mechanisms, as agreed in advance with the Bank.	18. Draft legislation reforming the revenue-sharing regime discussed with a representative number of provinces, and including issues defined in the action plan and agreed with the Bank.
Reform and harmonization of provincial tax systems.	Progress in taking measures to minimize the distortive impact of provincial taxes.	19. Presentation of a framework strategy for minimizing existing distortions in provincial economies, caused by existing tax systems, and evidence of progress in implementing the strategy.	20. Proposal and implementation plan for a federal pact on tax harmonization and administration that includes: reducing the tax rate dispersion for similar items; harmonizing taxable items and exemptions; and focusing the burden of the gross-revenues tax on the final stage of the commercial transaction.

Objectives	Expected outcome	First tranche ($ 255 million)	Second tranche ($ 245 million)
Progress in modernizing the state.	Establishment of conditions and incentives for joint national-provincial efforts for modernizing the state.	21. Agreement between the Nation and the provinces, under the Federal Council of the Public Service, on a federal pact for modernizing the state with 19 provinces and the City of Buenos Aires, to achieve greater efficiency in public management; deepen the decentralization process; facilitate citizen control over government management; and optimize the quality of public spending	22. Entry into force of the Federal Pact for Modernization of the State between the Nation and at least 19 provinces and the City of Buenos Aires, and presentation of the strategy for implementing the pact in the following areas: new model of public management by results; human resources, modernizing government procurement systems; and an institutional structure for pursuing and monitoring the process.

CURRENT DISTRIBUTION OF FUNDS UNDER THE FEDERAL REVENUE-SHARING REGIME

The federal revenue-sharing regime was originally established in 1935 in response to the growing expenditure responsibilities of the various levels of government vis-à-vis the constraints on their capacities to generate revenues. To avoid distortions, arising through double taxation or disputes between jurisdictions, the national and provincial governments agreed to centralize the collection of certain taxes in the national government's hands, and to share the proceeds through a regime that would stipulate the percentages to which each jurisdiction was entitled. Currently, the regime is governed by Law 23,548, promulgated on Jan. 22, 1988, and covers the major national taxes (VAT, profits tax, domestic consumption taxes, and a portion of the fuel tax). That law established the following distribution of shareable revenues between the Nation and the provinces (primary distribution):

Nation	:	42.34%
Provinces	:	57.66%

Revenue sharing transfers to the provinces are not conditioned upon any specific use, but are freely available.

Law 23,548 also defined the distribution coefficients among the provinces (secondary distribution), as shown in column (A) of the following table. Effective transfer percentages to each province are different, however, as a result of amendments to Law 23,548 and the transfer, parallel to revenue-sharing funds, of additional funds (column B) specifically earmarked for financing expenditure responsibilities transferred from the nation to the provinces and the construction of housing (National Housing Fund), basic urban infrastructure works ("Conourbano" fund), electricity works (Special Fund for Electricity Development in the Interior), roads and education.

While the legislation governing the previous revenue-sharing regime (Law 20,221, valid until 1984) established percentages for distribution among the provinces based on a formula that included population, relative level of development and population density, the current secondary distribution coefficients do not reflect any specific formula, and are the result of formalizing partial adjustments that were made to the revenue-sharing regime between 1985 and 1987. Those coefficients also reflect urgent financial needs and the negotiating strength of the various provinces during recent amendments to the regime.

As the comparative table shows, the current transfers regime reflects the limitations of the current regional distribution, which bears no direct relationship to improving the distribution of incomes or reducing poverty indices: indeed, provinces with the same level of relative development (as measured by each province's share of Gross Geographic Product) receive varying proportions of transfers. On the other hand, densely populated provinces, with relatively high incomes per capita, benefit significantly from the current

transfers regime.[1] Consequently, secondary distribution of revenue-sharing transfers in Argentina, and total transfers to the provinces, are not designed to resolve discrepancies in the degree of regional development.

Current coefficients for secondary distribution and provincial contribution as a share of nominal Gross Provincial Product

Province	Revenue-sharing transfers (A)	Total transfers 1/ (B)	Nominal GPP
CGBA	1.5	1.0	25.2
Buenos Aires	21.4	23.6	32.6
Catamarca	2.7	2.5	0.5
Córdoba	8.7	8.0	8.0
Corrientes	3.6	3.5	1.3
Chaco	4.9	4.4	1.3
Chubut	1.5	1.9	1.3
Entre Ríos	4.8	4.6	2.2
Formosa	3.5	3.3	0.6
Jujuy	2.8	2.7	0.9
La Pampa	1.8	1.9	0.9
La Rioja	2.0	2.0	0.5
Mendoza	4.1	4.0	4.0
Misiones	3.2	3.3	1.4
Neuquen	1.7	1.9	1.9
Río Negro	2.5	2.5	1.5
Salta	3.7	3.7	1.5
San Juan	3.3	3.1	1.0
San Luiz	2.2	2.2	1.0
Santa Cruz	1.5	1.9	0.9
Santa Fe	8.7	8.3	7.8
Santiago del Estero	4.0	3.8	0.8
Tucumán	4.6	4.4	2.1
Tierra del Fuego	1.3	1.5	0.8
TOTAL	100.0	100.0	100.0

Source: Ministry of Economy
1/Includes transfers of specifically earmarked funds and National Treasury Contributions

---

[1] See, for example, Porto, A. and Sanguinetti, P. (1996): "Las Transferencias Intergubernamentales y la Equidad Distributiva: el Caso Argentino" [Intergovernmental transfers and distributive equity: the case of Argentina]. Politica Fiscal series, ECLAC/GTZ.

PROPOSED RESOLUTION

ARGENTINA. LOAN /OC-AR. TO THE NACION ARGENTINA SECTOR PROGRAM TO SUPPORT THE FEDERAL AGREEMENT FOR GROWTH AND FISCAL DISCIPLINE

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Nación Argentina, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Sector Program to Support the Federal Agreement for Growth and Fiscal Discipline. Such financing will be for the amount of up to five hundred million dollars of the United States of America (US$500,000,000), which are part of the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.