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Country Strategy

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ABBREVIATIONS

AGN	Office of the Auditor General
ANSES	National Social Security Administration
AySA	Argentine Water and Sanitation (Agua y Saneamientos Argentinos S.A.)
BCRA	Central Bank of Argentina
BM- WB	World Bank (Banco Mundial)
CAF	Andean Development Corporation [Corporación Andina de Fomento]
CAIT	Climate Analysis Indicators Tool
CAMMESA	management Company for Electric Wholesaler Market (Compañía Administradora del Mercado Mayorista de Electricidad S.A.)
CCLIP	Conditional Credit Lines for Investment Projects
CTI	Science, Technology and Innovation
DIGPFE	Office of Projects with External Financing (Dirección General de Proyectos con Financiamiento Externo)
DINIECE	Office of National Information and Evaluation on Educational Quality (Dirección Nacional de Información y Evaluación de la Calidad Educativa)
EBP	Country Strategy (Estrategia Banco País)
ENCC	National Strategy for Climate Change (Estrategia Nacional de Cambio Climático)
ESCI	Emerging and Sustainable Cities Initiative
FONARSEC	Argentine Sector Fund (Fondo Argentino Sectorial)
FONPLATA	Financial Fund for the Development of the Plata Basin (Fondo Financiero para el Desarrollo de la Cuenca del Plata)
GCI-9	Ninth General Increase in the Resources of the Bank
GDP	Gross Domestic Product
GEF	Global Environment Facility
HTBCA	Honorable Court of Auditors of the Province of Buenos Aires
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
INDEC	National Institute of Statistics and Census (Instituto Nacional de Estadísticas y Censos)
INV	National Institute of Viticulture (Instituto Nacional de Vitivinicultura)
IRI	International Roughness Index
MAGyP	Ministry of Agriculture, Livestock and Fisheries
MI	Ministry of industry
MIF	Multilateral Investment Fund
MINCyT	Ministry of Science, Technology and Innovative Production
NEA	Northeast of Argentina
NOA	Northwest of Argentino
NSG	Non-sovereign guaranteed
OCDE-OECD	Organization for Economic Cooperation and Development
OPS-PAHO	Pan American Health Organization (Organización Panamericana de la Salud)
PEA	Agro-food and agro-industrial Strategic Plan (Plan Estratégico Agroalimentario y Agroindustrial)
PPP	Purchasing Power Parity
R&D	Research and Development
RICyT	Science and Technology Indicators' Network (Red de Indicadores de Ciencia y Tecnología)
RMI	Risk Management Index
RNG	Region of Norte Grande
RR	Risk Reduction
RVN	National Road Network

RVP	Provincial Road Network
SACT	Secretariat for Scientific Technological Coordination (Secretaría de Articulación Científico Tecnológica)
SAyDS	Secretariat of Environment and Sustainable Development
SCF	Structured and Corporate Finance Department
SEPYME	Secretariat for the Small and Medium-Sized Enterprise
SIDIF	Integrated Financial Management System
SIIA	Integrated Agricultural Information System (Sistema Integrado de Información Agropecuaria)
SMEs	Small and Medium-Sized Enterprise
TFFP	Trade Finance Facilitation Program
TIC	Information and communication technology (Tecnología de la Información y la Comunicación)
UBN	Unsatisfied Basic Needs
UEPEX	Executing Units for Externally-Financed Projects
UMCE	Monitoring Unit of foreign trade (Unidad de Monitoreo de Comercio Exterior)
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
WRI	World Resources Institute

EXECUTIVE SUMMARY¹

Country Context	Argentina's economy is currently in transition from high rates of growth towards a more moderate rate of expansion. GDP grew at an annual average rate of 6.9% in 2007-2011, supported by favorable external conditions and strong redistributive and market expansion policies. Macroeconomic projections for 2012-2015 included in the 2013 budget proposal point to yearly growth of between 3.4% and 4.4%, consistent with the global financial crisis in coming years Argentina faces a number of development challenges that could curtail the rate of growth and poverty reduction in the medium term. These challenges need to be addressed within an overall framework that ensures fiscal, environmental, and urban sustainability, consistent with the country's objectives of promoting capital accumulation alongside greater economic diversification and social inclusion.
The IDB in Argentina	The Bank has historically been the main multilateral partner involved in Argentina's development, with annual approvals averaging US\$1.36 billion in recent years. The current active public sector portfolio encompasses 54 operations for a total approved value of US\$9.2064 billion, with an undisbursed loan balance of US\$3.8747 billion (42.1%). The portfolio is distributed as follows: 61% dedicated to projects supporting the promotion of growth and competitiveness (transportation, energy, science and technology, rural and agricultural development, tourism); 28% in the area of social development (potable water and sanitation, education, health, social development, urban development); and 11% in the area of governance (modernization of the state, fiscal management, citizen security).
Country Strategy for 2012-2015	In order to ensure that Bank interventions in the country have maximum impact, a geographical focus is proposed for the strategy, involving emphasis on interventions and funding for two critical areas: the Norte Grande region and the Greater Buenos Aires area. The first of these areas exhibits the lowest relative level of economic development in the country, together with the highest incidence of poverty and social exclusion. The second suffers from high levels of social exclusion, with major challenges for urban sustainability. Given the proposed geographic focus, the Bank's strategy is based on the following objectives: (i) the alleviation of obstacles to growth with a special focus in Norte Grande; (ii) social and economic inclusion of the population, focused on both regions; and (iii) urban sustainability and habitat improvement, with particular emphasis on the Greater Buenos Aires area.
Financing Framework	Annual approvals of US\$1.5 billion (totaling US\$6 billion for 2012-2015) are projected under the financing framework. These are tentative projections, subject to the availability of Bank funding and the results of the annual programming exercise. Positive net capital flows to the country under this scenario are estimated at US\$485 million. This figure is consistent with stability in the IDB's share of multilateral debt (approximately 57%) and total debt (approximately 5%). It is also consistent with the country's debt to the Bank of 2.2%-2.3% of GDP. Multilateral debt is expected to average approximately 8.8% of total public debt over the period.

¹ The country strategy period will begin upon the approval of this document by the Bank's Board of Directors and end in December 2015.

Strategy Implementation	Strategy implementation will be supported by a program consisting entirely of investment loans. The attainment of proposed strategic objectives will depend to a substantial extent on the ongoing sector dialog between the Bank and the government, within the framework of the Conditional Credit Lines for Investment Projects (CCLIPs) already agreed with the country. These CCLIPs will continue to be implemented through the design of global multiple works programs, the structure of which will be tailored to the needs of each of the sectors targeted for support.
Risks	Argentina shows adequate indicators of macroeconomic sustainability, but in the case of a hypothetical adverse global shock the country could face some risks in terms of external liquidity, fiscal liquidity and price stability.

Results Matrix²

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
Alleviating Obstacles to Growth in Norte Grande	Transportation	Improve the Coverage, Quality and Security of National and Provincial Paved Highways System	Improvement of the Targeted Road System	International Roughness Index (IRI)	The IRI of Roads before intervention (2013)	IRI Reduction of 75% in Roads intervened with Improvement Roads. IRI Reduction of 55% for Roads intervened with Rehabilitation Works (2016)	DPV
			Increase Coverage in the National (RVN) and Provincial (RVP) Road System	Kilometers of Paved Roads in Norte Grande	58,612 km (2010)	58,900 km (2014)	RVP RVN
			Reduction of Highway Accident Statistics	Victims / 10,000 Registered Vehicles	2.35 (2010)	2.10 (2014)	Roads Observatory of the National Agency for Road Security

² The indicative targets will be reviewed or replaced, as the case may be, through the Country Programming Documents that will be prepared during the Country Strategy period.

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
Alleviating Obstacles to Growth in Norte Grande	Electrical Energy	Increase in the Dependability and Coverage of the Electric System	Increase in the Infrastructure of Electrical Services	Km of transmission lines	12,190 (2011)	14,811 (2016)	Energy Secretariat /CAMMES A / INDEC
				Increase in Service Coverage (% of Households with Electrical Service)	98.8 % (2010)	99 % (2016)	
				Energy Exchanged between Provinces and Neighboring Countries as a proportion of the Energy used by the Provinces	2.33% (2010)	Increase by 10% the level of Integration between the NOA-NEA Provinces and Neighboring Countries (2016)	
		Energy Matrix with participation of Renewable Sources	Increase in Electricity Generation from Renewable Sources	% Proportion of Electricity Generation from Renewable Sources	4 % (2011)	8 % (2016)	
		Promotion of Energy Efficiency	Reduction in Energy Consumption from Energy Efficiency Programs	Reduction of Energy Consumption at the National level as a consequence of Implementation of Energy Efficiency (GWh/year)	2.6 % ³ (2011)	Decrease by 10% the rate of Consumption Increase as per the Country's Energy Production (2016) ⁴	

³ This value does not incorporate the savings produced by prohibition of incandescent lamps.

⁴ Savings of 10,221 GWh per year at the national level. Energy production estimated for 2015 is 104.165 GWh.

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
Alleviating Obstacles to Growth in Norte Grande	Agriculture-livestock and Rural Development	Improvement of capacities for generation and transfer of technology for agriculture, livestock, forestry and fisheries innovation and sanitation systems	Production Increase	Grain Production (millions of tons)	100 (2010)	120 (2015)	MAGyP (SIIA)
		Improvement of rural infrastructure in regional economies, principally irrigation and drainage, that contribute to improving productivity and access to markets	Expansion of irrigated cultivated areas	Number of rehabilitated hectares	200,000 (2010)	250,000 (2015)	MAGyP (SIIA)
			Increase of coverage and quality of rural infrastructure in zones beyond the “pampas”	Number of producers with improved access to road systems and/or energy sources	150,000 (2010)	170,000 (2015)	MAGyP (SIIA)
		Support for family agriculture to facilitate the adoption of more income-producing, productive and environmentally sustainable technologies and innovation	Increase in competitiveness of small producers in family agriculture	% of participation in the Gross Production Value of Family Agriculture	27% (2010)	Similar or greater (2015)	INDEC - MAGyP
		Support for forestry development	Increase in implanted forests in forested areas	Forested areas (millions of hectares)	1.2 (2010)	1.3 (2015)	MAGyP (SIIA)

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
Alleviating Obstacles to Growth in Norte Grande	Private Sector Development	Private Sector Development. Access to Credit for SMEs of Norte Grande	Improve private sector credit indicators in Norte Grande (trying to approximate national indicators)	Loans to the Private Sector in terms of Gross Domestic Product	8 % (2011)	13 % (2015)	BCRA
		Increase in business innovation capacities, knowledge transfer and increased productivity for SMEs	Greater investment in R&D for the private sector o	% of total expenditures in R&D financed by businesses	22.52 % (2009)	33 % (2015)	RICyT
		Improve distribution of resources between horizontal and sector programs, improve the regional concentration of expenditures in R&D	Businesses supported outside the Buenos Aires and the central region	% of businesses supported by IDB-financed instruments in regions other than central and Buenos Aires	20 % (2010)	30 % (2015)	MINCYT / Agency and SEPyme
			More investment in sector projects	Annual investments in sector projects (FONARSEC)	\$ 5 million (2010)	\$ 25 million (2015)	MINCYT / Agency, FONARSEC and DIGPFE
		Facilitate the access to businesses of highly qualified human capital	More researchers in businesses	% of researchers in the private sector (in EJC)	9.6 % (2009)	15-17 % (2015)	RICyT
		Increase institutional capacities to efficiently understand the changing needs of businesses	Improve the articulation of CTI public policies with the private sector	Number of institutions that participate in scientific equipment networks	79 (2010)	140 (2015)	Register MINCYT, Resolution SACT.

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source

Alleviating Obstacles to Growth in Norte Grande	Tourism Development	Expansion of tourism activity towards new rural-natural areas	Increase in tourism expenditures in the northern region of Argentina	Average expenditure for international overnight stays in the northern region of Argentina	US\$ 78.8 (2009)	US\$ 93.8 (2016)	Tourism Survey (INDEC)
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Social and Economic Inclusion of the Population	Education	Guarantee the inclusion and school retention of children and youth for vulnerable sector	Increase in the percentage of youth between 12 and 24 years of age who complete the obligatory secondary schooling	School enrollment rate of youth between 12 and 17 years of age from quintile 1 in the income distribution	74.4 % (2010)	80 % (2015)	Ministry of Education - DINECE
				Youth between 18 and 24 years of age registered in permanent education programs for youth and adults ⁵	630,000 (2010)	To be determined (2015)	
		Total coverage for Kindergarten (for 5 years of age and increasing the incorporation of children of 3 and 4 years old) y secondary school	Expansion of spaces in kindergarten and secondary education	Students benefitting from new spaces in educational centers that respond to unsatisfied demands for kindergarten and secondary education	502,000 (2010)	1,000,000 (2015)	

⁵ This refers to the completion of secondary schooling in the modality of education for youth and adults, alternative to the formal model of education. The goal of the Federal Plan for Permanent Education of Youth and Adults is that 100 % of youth between 18 and 30 years of age complete secondary studies by 2015.

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
Social and Economic Inclusion of the Population	Education	Improve quality of education	Improvement of curriculum in primary and secondary education	Reduction in the % of students in the 6th level (completion of primary and completion of secondary) that obtain low scores in National Evaluation Operatives (ONE)	6th level (2007) ⁶ : (In %) Math 36.2% Language 33.7% Science 44% Secondary Completion (2010) ⁷ : Math 30 Language 26.3 Science 34.3	6th level (2015) (In %) Math 31.2 Language 28.7 % Science 39 % Secondary Completion (2015) Math 28 Language 24.3 Science 32.3	Ministry of Education - DINIECE
	Health	Strengthen and re-orient services and health networks for better management of chronic non-transmissible diseases	Increased effective access of the lower income populations to preventive health services	Population with hypertension with Exclusive Public Coverage (CPE) who knows they have this condition with respect to the total population with hypertension and CPE	45 % (2009)	50 % (2016)	Ministry of Health of Argentina
			Improved quality of attention for lower income populations with cardiovascular risk	Population with hypertension with CPE who knows they have this condition and is undergoing treatment with respect to the total population with hypertension and CPE	12 % (2009)	20 % (2016)	

⁶ No data is available for 2010 for this level.

⁷ Results ONE 2010, DINIECE

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
Urban Sustainability	Potable Water, Sanitation and Solid Wastes	Increase the potable water coverage in the Buenos Aires Corridor and in Norte Grande	Population that has a connection to a network of potable water	Number of persons with a connection to a network of potable water	Buenos Aires Urban Corridor: 7,108,673 (2010) Norte Grande: 6,853,244 (2010)	Buenos Aires Urban Corridor: 8,900,000 (2015) Norte Grande: 7,780,000 (2015)	Management Report from Operators (AySA and Provincial operators)
				% of persons with a connection to a network of potable water	Buenos Aires Urban Corridor: 72.1% (2010) Norte Grande: 84% (2010)	Buenos Aires Urban Corridor: 85.0% (2015) Norte Grande: 91% (2015)	
		Increase sanitation coverage in the Buenos Aires Urban Corridor and in Norte Grande	Population that has a connection to a network of sewer systems	Number of persons with a connection to a network of sewer systems	Buenos Aires Urban Corridor: 4,069,028 (2010) Norte Grande: 3,344,970 (2010)	Buenos Aires Urban Corridor: 7,400,000 (2015) Norte Grande: 6,140,000 (2015)	
				% of persons with a connection to a network of sewer systems	Buenos Aires Urban Corridor: 41.3% (2010) Norte Grande: 41% (2010)	Buenos Aires Urban Corridor: 71% (2015) Norte Grande: 72% (2015)	
		Reduce the quantity of urban solid wastes disposed of in open landfills and waste dumps	Increase the quantity of waste managed integrally and disposed of in sanitary landfills	Annual tons of urban solid waste managed integrally and disposed of in sanitary landfills	0 ton/year (2010)	1,115,000 ton/year (2015)	

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
Urban Sustainability	Potable Water, Sanitation and Solid Wastes	Improve the sustainability of service operation in Norte Grande and Buenos Aires Urban Cone	Operating margin of the water and sanitation operators that have been strengthened	% of operational margin (Operational Income – O and M costs/ Operational Income)	0 % (2010)	15 % (2015)	Management Report from Operators (AySA and Provincial operators)
	Urban Development	Integral Improvement of Neighborhoods	Reduce the number of families living in slums and settlements	Number of beneficiary families in slums and settlements	0 (2012)	84,000 (2015)	Ministry of Planning, Public Investment and Services – Deputy Secretariat for Urban Development and Housing (Territorial Strategic Plan)
		Renewal and endowment of urban infrastructure	Expand urban coverage of integrated basic services	Index of Unsatisfied Basic Needs (UBN)	Average in neighborhoods with interventions ⁸ (2012)	Decrease of 30% with respect to the base line (2015)	Ministry of Planning, Public Investment and Services – Deputy Secretariat for Urban Development and Housing (Territorial Strategic Plan)
		Strengthening of local governments	Development of Metropolitan Agendas	Number of metropolitan regions that have agendas for metropolitan administration	0 (2012)	5 (2015)	

⁸ It is the average value of the UBN of each neighborhood with interventions. Infrastructure projects at the municipal level are included by demand.

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
Cross-cutting Areas	Environmental Sustainability and Climate Change	Reduction of carbon foot print in the country's economy	Reduction of emissions of GEI ⁹	Emissions of CO2 per \$ of GDP (PPP) (metric tons per million PPP international 2005 USD)	862.3 (2005)	776.1 (2016)	Data from CAIT, WRI
		Institutional strengthening through the adequate use of information and knowledge dissemination	Development of management capacities of public servants in climate change, environmental sustainability and risk management at national and sub-national levels	Percentage change (%) between 2012 and 2016 in national and sub-national public institutions of: staff assigned and specific policies for the implementation of plans and programs of mitigation, adaptation, risk management and environmental sustainability	Federal: 0% Provincial: 0% (2012)	Federal: 40% Provincial: 20% (2016)	IDB
		Development of policy instruments for climate change	Approval and implementation of a national strategy for climate change	Number of strategies and/or national plans for mitigation and adaptation approved and developed	0 (2012)	2 (2016)	SAyDS

⁹ Indicators, a base line and disaggregated indicative targets at the project level will be defined in order to measure the contribution from other Bank sector interventions to the expected outcome, during the strategy execution period. Indicators for adaptation to climate change and environmental sustainability will be incorporated at the Project level according to the specific characteristics that each one has.

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
Cross-cutting Areas	Youth Development	Actively promote and safeguard youth citizens' rights	Strengthen the relevance and quality of services and policies specifically for youth within the framework of an integrated management model for their administration	Youth between 15 – 24 years of age who are not enrolled in a training or educational program and do not have full or part-time job as a proportion of all youth ages 15-24 ¹⁰	18.3 (2011)	16.5 (2016)	Permanent Households survey
		Promote the implementation of multisectoral policies and programs for youth	Development of management tools to facilitate inter-sectoral coordination between youth programs	Entities (national or territorial level) where at last two Ministries coordinate Youth programs with at least (i) one multi-sectoral operational manual; and (ii) an interface which permits communication between the both Ministries information systems.	0 (2012)	2 (2016)	IDB

¹⁰ Although this indicator depends in principle on the economic cycle, within the last ten years it has been relatively stable, with maximum values in 2009 of approximately 20% and a minimum of 17.5% in 2010. The achievement of educational indicators related to educational quality and retention contribute directly to its attainment. Additionally, Bank interventions that support prevention and mitigation of risky behaviors among youth will contribute to improvements in the family and community environment.

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
Strengthening of the External Control system (AGN)- and the Procurement National Office (ONC)	And Strengthening of Country Systems		<p>a) Supreme Audit Institution strengthened in the sub indicators with mid or incipient level of development identified in the diagnostic performed in 2010-2011¹¹</p> <p>b) Federal portal of public procurement implemented at the national and subnational levels</p>	<p>a) Level of development of the sub indicators ID3 to ID 12 and ID 14</p> <p>b) Number of subnational governments operating the procurement portal</p>	<p>a) Mid level of development on indicators ID3 to ID12 and low level of development on indicator ID 14</p> <p>b) 0</p>	<p>Target:</p> <p>a) High level of development on indicators ID3 to ID12 and mid-level of development on indicator ID 14</p> <p>b) 4 subnational governments using the procurement portal</p>	IDB

¹¹ The indicators refers to the sub indicators included in the Bank's methodology for measuring the level of Development of Public Financial Management Systems (Pillar V)

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source

Use of fiduciary country systems			1. Informative systems. Validate the Public procurement electronic system for its use on IDB operations	1, 2, and 3) % of the portfolio with Sovereign Guarantee uses the following subsystems: informative system, individual consultancy, shopping	Informative system: 20%	1,2, and 3) 80 % of the Sovereign Guarantee Portfolio use the informative system, individual consultancy and shopping subsystems.	
			2. Individual consultancy Validate the processes for individual consultancy		Individual consultancy : 0%		
			3. Shopping Validate the processes for price comparison		Shopping: 0%		
			4. External control Validation of the Supreme Audit Institution at subnational level		External control: 0		
					Treasury: %0		
				4): number of loans at subnational level that are audited by the Supreme Audit Institution at subnational level		4): 1 IDB financed loan at subnational level is audited by the Supreme audit institution at subnational level (HTCBA)	
				5): % of IDB financed operations that use the treasury subsystem		5): 50% of the portfolio uses the treasury subsystem	

IDB Strategic Action Lines	Priority Areas	Principal Strategic Objectives per Sector	Expected Outcomes of the Strategy	Monitoring Indicators			
				Indicator	Base Line	Indicative Targets	Source
			<p>(Tribunal de Cuentas de la Provincia de Buenos Aires - HTCBA) through a diagnostic on its public auditing capacity</p> <p>5. Treasury – Treasury subsystem is used on IDB financed projects</p>				

I. COUNTRY CONTEXT

- 1.1 Argentina's GDP grew at an average annual rate of 6.9% over the 2007-2011 period. Macroeconomic projections for 2012-2015 included in the 2013 budget proposal point to yearly growth of between 3.4% and 4.4%, consistent with the persistence of the global financial crisis over the next few years. Adjusted measures of total factor productivity (controlling for factor quality and intensity of use) show that this variable grew at an annual average rate of 0.5% from 2002 to 2010, below the rate of 1% seen in 1990-1998.¹² The employment rate rose from 42.1% to 43% between 2007 and 2011, while the level of poverty fell from 20.6% to 6.5% of the population. The segment of the population with Unsatisfied Basic Needs (UBN) remains high in the Northwestern (15.8%) and Northeastern (16.7%) regions.¹³ The rate of inflation in the Buenos Aires metropolitan area, at year end 2011 was 9.5% (10.9% in 2010).¹⁴
- 1.2 Closing income and sector development gaps between the Norte Grande region and the rest of the country remains a major challenge, requiring that the Bank continue to support the alleviation of obstacles to growth in this region through improvements in productive infrastructure and private sector development.¹⁵ Urban sustainability is also a significant issue, particularly in the Greater Buenos Aires area, which accounts for 24% of the country's population and in which more than 12.9% of residents (approximately 1.3 million people) have unsatisfied basic needs.¹⁶ The Bank's support in this geographical area will be focused on investments in urban public service infrastructure, with a view to reducing the level of UBN. The challenge of improving economic and social inclusion—particularly in these two regions—is also an important one.¹⁷ The Bank will continue supporting the strengthening of subnational capacities for the provision of education, health, and youth development services, with emphasis on early childhood education, chronic non-communicable diseases, and links between education and vocational training and the needs of business sectors (with a view to improving the employability of young people).

¹² See Coremberg, A. (2010), "The Argentine Productivity Slowdown", World Economics (press reports). Data from official Argentine sources report an increase in average labor productivity, with an accumulated growth of 35% between the second quarter of 2006 and the second quarter of 2011: Source: Ministry of Industry of the Republic of Argentina – Center for Productivity Studies.

¹³ Source: Permanent Households Survey (PHS), second quarter 2012. According to the methodology used in Argentina, UBN requires that one of the following five conditions must be met: (i) overcrowding: households with more than 3 people in a one-bedroom dwelling; (ii) Housing: located in an emergency settlement, or if it is a rental room, a hotel/pension room or a premise not constructed as a living space; (iii) Sanitary conditions: Households without a toilet; (iv) School attendance: children between ages 6 and 12 who do not attend school; and (v) Subsistence capacity: More than 4 people in a household with only one employed adult and head of household without education (without completion of primary school or special education)

¹⁴ Average annual inflation reported by the statistics divisions of the provinces of San Luis, Santa Fe, and Misiones reached 26.5% in 2010 and 24.3% in 2011.

¹⁵ GDP per capita in Norte Grande is equivalent to 47.5% of the country average. With 20.7% of the total population, Norte Grande accounts for only 9.8% of GDP and 10% of national exports. While 87% of the national road network and 22% of the provincial network are paved, the corresponding figures for Norte Grande are 77% and 16%. At the national level, 94% of households have access to electricity, while in Norte Grande the figure is only 85%. In Norte Grande, 4% of households have access to a broadband internet connection, compared to 11% at the national level. Research and development spending is only 0.44% of regional GDP, compared to 0.52% for the country as a whole. See electronic links: López, A. et al. (2012), "Argentina Development Diagnostics", Meloni, O. (2012) "Norte Grande Regional Development Diagnostics".

¹⁶ In the Greater Buenos Aires area, 27.9% of households lack access to the public water system, while 58.7% lack access to the sanitation network (PHS, second quarter 2012).

¹⁷ Despite achievements in the area of education, there are still young people (particularly in poor and rural areas) that are unable to complete obligatory schooling, graduate within the envisioned time period, and attain expected educational results. Quality measurements for education in Norte Grande are 8% lower than the national figure at the primary level, and 22% lower at the secondary level. The proportion of overage students at the primary level is higher than the national average in almost all of the provinces in Norte Grande and Cuyo. In the case of Corrientes and Santiago del Estero, the number of overage students in primary schools is twice the level for the country as a whole. Repetition rates are high at the primary level in Corrientes, Formosa, Santiago del Estero, San Luis, and Santa Cruz. Primary dropout rates in Norte Grande are double the national average. Although the country's health indicators are reasonably good, there are enormous inequalities in the provincial interiors. Norte Grande has the highest rates of total fertility and infant mortality, as well as the lowest levels of life expectancy. There is a large divergence between national rates of maternal mortality during childbirth (0.055%) and tuberculosis incidence (0.26%), and the corresponding figures for Norte Grande (0.0% and 0.34%, respectively). Youth unemployment at the national level is 3.5 times greater than for the adult population.

II. THE IDB GROUP IN ARGENTINA

- 2.1 The Bank has historically been one of the country's main international creditors, with annual approvals averaging US\$1.36 billion in recent years. Over the last five years, the Bank's share of public external debt has risen from 12.5% to 14.6%, and its share of total multilateral public debt from 53.4% to 57.5%.¹⁸ The IDB is also an important provider of technical assistance to the country, particularly in the area of preinvestment. Although recent IDB activity has focused on the public sector, the Bank's private sector windows have worked with a significant number of sectors in Argentina.
- 2.2 The current active public sector portfolio (consisting entirely of investment loans) encompasses 54 operations for a total approved value of US\$9.2064 billion. The undisbursed loan balance as of 31 August 2012 stood at US\$3.874 billion (42.1% of the approved portfolio). The portfolio is substantially focused on the areas of growth and competitiveness, and social investment and urban development.^{19 20} A significant share of the portfolio is accounted for by Conditional Credit Lines for Investment Projects (CCLIPs) in areas such as transportation, education, science and technology, water and sanitation, urban development, rural and agricultural development, and preinvestment.²¹ This instrument has been used to support policy dialog and the programming of operations with the country, with a view to both maintaining Bank presence in key sectors and supporting an ongoing sector dialog focused on the medium to long-term.
- 2.3 In relation to the private sector (Structured and Corporate Finance Department, SCF) portfolio, this consists of five investment operations for US\$93.9 million, focused on logistics, small and medium-sized enterprise, agribusiness, and industry. A total of US\$45.8 million in current guarantees have also been issued under the Trade Finance Facilitation Program, out of a total of US\$175 million in uncommitted contingent lines approved for ten local financial institutions under this program. For its part, Opportunities for the Majority has one investment project in the agriculture sector, with an active portfolio of US\$1.25 million. The MIF has 31 projects in operation, for a total value of US\$47.4 million. The Inter-American Investment Corporation has an active portfolio of US\$79.8 million across the sectors of agriculture, food and beverages, manufacturing, livestock and poultry, petroleum and mining, public services and infrastructure, transportation and storage, and financial services.

III. THE BANK'S COUNTRY STRATEGY WITH ARGENTINA FOR 2012 – 2015

- 3.1 Given the identified need to focus the strategy geographically, with emphasis on interventions in the Norte Grande region²² and Greater Buenos Aires²³ (without excluding the possibility of interventions in other geographical areas), it is proposed that the strategy be implemented on the basis of the lines of

¹⁸ Over the same period, the role of the Andean Development Corporation (CAF) in providing finance to the country has become increasingly important, with the CAF's share of public external and multilateral debt rising from 2.2% to 8.8%. The World Bank's share, on the other hand, fell from 8.1% of public external debt to 7.6%, and from 34.7% of multilateral debt (total debt owed to the IDB, the World Bank, CAF, and FONPLATA) to 30%.

¹⁹ The sectoral distribution is as follows: transportation (22%), social investment (14%), education (12%), water and sanitation (11%), energy (11%), urban development and housing (9%), rural development and agriculture (8%), health (2%), private sector and small and medium-sized enterprise development (2%), public sector reform and modernization (2%), financial markets (2%), sustainable tourism (1%), and the environment, natural disasters, and trade (1%).

²⁰ The World Bank's portfolio is concentrated in the health sector (23%), followed by transportation (20%), and water and sanitation (16%). The CAF's portfolio consists almost entirely of infrastructure loans.

²¹ Ten CCLIPs were approved for Argentina in the 2006-2012 period, for a total value of US\$10.200 billion. Of this, US\$3.962 billion has been disbursed, leaving an available balance of US\$6.238 billion for use in new operations.

²² Norte Grande is divided into 2 subregions containing 9 of the country's 23 provinces (Northeast— Tucumán, Jujuy, Salta, Santiago del Estero, and Catamarca; Northwest— Formosa, Chaco, Corrientes, and Misiones).

²³ Greater Buenos Aires was defined by the National Statistics and Census Institute in 1993 as consisting of 24 districts of Buenos Aires province (but not including the autonomous City of Buenos Aires).

activity set out below.²⁴ These areas of intervention will be guided by a number of cross-cutting themes, including youth development, environmental sustainability, and climate change.

- (i) Alleviating obstacles to growth: There are significant development gaps in all of the economic and social sectors that could be the subject of intervention in Norte Grande.²⁵ These gaps limit the region's ability to converge with average levels of income and human development for the country as a whole. The Bank's objective under this line of activity will be to continue to support the economic development of Norte Grande, through improvements to productive infrastructure (transportation and logistics; energy transmission, rural electrification; irrigation) and private sector development (strengthening of research and development capacities in agriculture, livestock farming, forestry, and fishing; technological innovation; business development). Support will also be provided for investments in education and health that help to boost growth by improving the availability and quality of human capital in Norte Grande.
- (ii) Social and economic inclusion of the population: During the last few years, there have been noteworthy advances in reducing levels of poverty and indigence in the country, and in access to social services.²⁶ Nonetheless, significant challenges remain in terms of improving the employability, education, and health indicators of the population, as well as reducing risky behaviors and enhancing the readiness of young people for the labor market. High levels of UBN also persist, particularly in Greater Buenos Aires and Norte Grande. The Bank will continue supporting the strengthening of social investments aimed at improving the coverage of UBN, with emphasis on activities that strengthen inclusive policies (gender and diversity),²⁷ as well as education, health, and basic sanitation policies that target lower-income groups, particularly in Norte Grande and Greater Buenos Aires. These investments would be complemented by labor market policies that are consistent with greater employability for poorer groups (particularly young people) and improved labor productivity. The Bank will continue to support the strengthening of subnational capacities for the provision of education, health, and youth development services, with emphasis on early childhood education, chronic non-communicable diseases, and the links between education and vocational training and the needs of business sectors, with a view to improving the employability of young people.
- (iii) Urban sustainability and habitat improvement: Argentina is the second most urbanized country in Latin America and the Caribbean, with 91% of the population concentrated in urban areas (considerably higher than the regional average of 78%). Although the last decade has seen some improvements in living standards, investment in urban infrastructure has generally lagged behind population growth. In the Greater Buenos Aires area, the difficulties experienced in coordinating investment in urban public services infrastructure (transportation, social housing, water and sanitation, solid waste disposal), together with the inadequate level of that investment, are problems that need to be addressed. They have hindered transmission of the benefits of the substantial economic growth seen in recent years, partly explaining the persistence of high levels of inequality. The Bank plans to deepen its existing support in the area of urban development and habitat improvement, extending it further within the framework of the Sustainable Cities Initiative.

²⁴ The criteria used to select these lines of activity included: government priorities; consistency with mandates under the Ninth General Increase in the Resources of the Bank (GCI-9); maximization of value added in Bank interventions; strategic relevance for the country's socioeconomic development; and comparative advantage and Bank experience in supporting these objectives.

²⁵ See electronic links: López, A. et al. (2012), "Argentina Development Diagnostics", Meloni, O. (2012) "Norte Grande Regional Development Diagnostics".

²⁶ Coverage in education achieved universal access (99%) for primary school and 89% in secondary school. Additionally, free medical coverage for pregnant women and children six and under (for those without access) reached 4,847,906 people. Source: Census 2010

²⁷ The Bank will promote the inclusion of gender and diversity indicators in the results matrices of those projects to be implemented under the Country Strategy that are most relevant to this area.

A. PRIORITY AREAS²⁸

- 3.2 The priority areas for Bank support under the proposed lines of activity are set out below. The private sector windows will seek opportunities to develop their portfolio throughout the country, consistent with both these proposed lines of activity and priorities under the Bank's Ninth General Capital Increase (GCI-9).²⁹ The Structured and Corporate Finance Department (SCF) and Inter-American Investment Corporation (IIC) windows will direct their support to companies or projects in sectors such as agribusiness, natural resources, biofuels and energy efficiency, logistics, ports, tourism, education and health. They will also continue to finance external trade and small and medium-sized enterprises under the lines designed for this purpose.

1. Alleviating Obstacles to Growth

(i) Transportation³⁰

- 3.3 Despite improvements in recent years, various international benchmark indicators point to significant investment needs in Argentina's transportation infrastructure, which is considered relatively weak compared to other countries with similar average income levels. The national road network consists of approximately 38,300 km of roads, which are mostly paved (80%). Surfacing of the provincial road network, which is almost five times as large, is mostly low-grade.³¹ Significant parts of the paved network are thought to be in poor condition, a situation that is worse in the provincial networks. An important part of the roads network was constructed between 1950 and 1960 and the design is inadequate for the current transit with an increased use by trucks (narrow roadways and unpaved shoulders)³². These problems with respect to the service quality of the road network are heightened by the major imbalance in the transportation matrix in favor of road transport.³³ They translate into high logistics costs³⁴ and poor access to a number of important areas of the country, such as Norte Grande.³⁵ They have a fundamentally negative impact on the country's ability to produce and export attractive goods and services.³⁶ The high level of accidents on interurban roads is also noteworthy.³⁷

²⁸ The technical notes prepared for each of the priority sectors/areas take into account the need for geographical focus, and thus provide the diagnostic and analytical elements necessary to better define the possibilities for Bank support. Multidisciplinary teams also prepared three technical documents concerning cross-cutting issues (climate change; youth; environmental sustainability), which will help to orient the approach to these issues in each of the priority sectors, as warranted. For greater detail of these analyses, see the technical notes in the list of electronic links.

²⁹ MIF's activities will remain focused mainly on local development, agricultural markets, job and enterprise skills, and private sector delivery of basic services. The Opportunities for the Majority window will seek operations supporting the base of the pyramid.

³⁰ This priority area has benefited from a US\$2.5 billion CCLIP (AR-X1016) approved in 2009, in support of the Program for Productive Road Infrastructure. Two operations worth US\$320 million have so far been approved under this credit line, the second of which was in 2011 for US\$200 million.

³¹ The primary and secondary provincial network consists of 188,100 km of roads, of which only 38,000 (20%) are paved.

³² The national road network includes less than 800 km. of two-lane roads and paved shoulders, of the 1100 km. of paved single-track roads.

³³ Trucks currently account for approximately 94% of the ton-km transported in the country. Rail accounts for only 5%—far below potential. This imbalance has a significant impact in social, economic, and energy terms.

³⁴ Logistics costs as a proportion of product value reach 27% in Argentina, almost three times the level in the US (9.5%) and the OECD (9%), and higher than in Chile (18%) or Mexico (20%).

³⁵ As a result of the long distances that separate Norte Grande from the center of the country (where the main consumer markets and export facilities are located), this region faces major logistics challenges that have a negative impact on development prospects. It is estimated that as a result of these distances, as well as the state of transportation networks and other inefficiencies in the transport system (such as weak intermodality and unproductive return journeys along the south-north axis), logistics costs in Norte Grande are almost 50% higher than the average for the rest of the country.

³⁶ The existence of an efficient and multimodal network of transportation and logistics services that is capable of sustaining demand growth is necessary in order to reduce production and export costs and improve the competitiveness of the local economy. As a result, Argentina needs to promote the development of intermodal infrastructure, with bulk break centers and logistical platforms that support more efficient transportation operations, particularly in areas close to ports and border crossings, as well as on the outskirts of major urban centers.

³⁷ According to the International Road Federation, road safety issues alone account for 10 deaths in Argentina per 100,000 population.

- 3.4 The underlying cause of problems in the sector is weak institutional capacity in certain public entities involved, mainly at the provincial and municipal level³⁸. These weaknesses can be seen on several levels, including challenges in the development of public policies and for organizational regulatory reforms.³⁹
- 3.5 As a result, the country needs to address the challenge of securing ongoing improvement in mobility conditions for both passengers and cargo (in the urban and interurban context). Based on this, the Bank's support for the sector should focus on⁴⁰: (a) improvement and preservation of the country's road infrastructure, through projects involving road maintenance, traffic capacity expansion, the resolution of critical points of restricted traffic flow, and the paving of national and provincial roads; and (b) the promotion of interurban road safety, through studies and investments aimed at reformulating existing infrastructure in areas with high numbers of accidents.
- 3.6 An important Bank contribution to the sector's development should focus on the modernization and technical training of diverse public stakeholders involved in sector public policy and in the complete transportation project cycle in order to facilitate the structuring of interventions that will allow reaching the originally designed targets. For this purpose, the implementation of a gradual strategy is proposed, that in addition to providing technical assistance will also promote the participation of key social actors and the definition and selection of activities based on multi-stakeholder dialogue.

(ii) **Energy**

- 3.7 Electricity service coverage in Argentina is high at more than 98% of the population. However, there are important variations in service distribution across the different regions of the country. While coverage is very high (at almost 100%) in Buenos Aires province and the federal capital, in the Norte Grande region it is weak.⁴¹ The latter is the case for both generation and renewable energy sources, as well as backbone and regional transmission capacities. Installed generation capacity rose from 23,600 MW in 2002 to 29,500 MW in 2011. In parallel, maximum system demand rose from 13,965 MW to 21,564 MW, implying a reduction in available reserves in cases of failure and a decline in reservoir capacity from 40% to 27%. A reliance on thermal generation⁴² leads to the production of almost 42 million tons of CO₂.⁴³ Argentina needs to emphasize electricity generation based on non-conventional renewable energy sources into its energy matrix, supporting diversification and reducing dependence on fossil fuels.^{44 45} The country's transmission network consists of 30,974 km of lines, of which 13,194 km belong to the 500 kW transmission network, and 17,212 to the regional transmission

³⁸ The country's federal structure adds many diverse subnational entities to the stakeholders in the sector. In the transportation of heavy cargo, the relative technical and financial weaknesses of the provincial entities, particularly in the roads sector (with some exceptions) has prompted a concentration of investment at the federal level to the detriment of the provincial level, deepening the financial and technical weaknesses of the provincial entities. With respect to passenger transport, the institutional difficulties are similar, faced with a context of increasing mobility in medium-sized cities in the interior and in the capital.

³⁹ The Bank considers that it is necessary to continue reviewing the regulatory frameworks in order to ensure the viability of Bank interventions in the sector, (including transportation costs) particularly in public passenger transport and road concessions.

⁴⁰ The Bank will continue its dialogue with the country in support of improvements to logistical efficiency (rail and fluvial cargo transport) and the development of infrastructure for regional integration (ports, integration corridors, and border crossings) In the case of the Bank's private sector windows, there may be opportunities in areas such as logistics and ports.

⁴¹ In the northeastern region of Argentina, coverage is only 88%, while in the northwest it is slightly over 90%.

⁴² Approximately 60% of current installed capacity is thermal in nature, with 38% based on hydroelectric sources, and 3% nuclear.

⁴³ In 2011, Argentina was ranked 64th in terms of per capita greenhouse gas emissions.

⁴⁴ In order to satisfy energy demand, almost 100% of conventional energy sources are used, including: (i) thermal generation through gas-fired plants (55%); (ii) hydraulic (40%); (iii) nuclear (4%); and (iv) energy imports (1%). The use of non-conventional, renewable sources for generation is low.

⁴⁵ The government has used Law 26.190 (2006) to promote the use of renewable energies in electricity generation. Among other things, the law mandates an increase in the share of renewable energy sources in national electricity consumption to 8% over a ten year period, as well as a series of fiscal and economic incentives for developers of new and existing renewable energy plants. (Priority is given to wind power generation as a non-conventional, renewable source and to hydroelectric generation from both domestic and binational plants as a conventional source, in light of its greater competitiveness).

network. There are 391,618 km of low-voltage distribution lines that support transportation of energy from generation centers to consumption locations.

- 3.8 Electricity consumption rose from 76.6 TWh/year in 2002 to an estimated 118.6 TWh/year in 2011 (representing annual growth of 4.4%). Infrastructure for the generation, transmission, and distribution of electricity has expanded in response to this growing demand, although with a number of deficiencies related to the technical, economic, and institutional sustainability of the system. In order to ensure viability of Bank interventions in the sector, the IDB considers that it is important for Argentina to continue reviewing the regulatory framework.⁴⁶
- 3.9 Against this backdrop, and in the light of considerable demand for financing in the sector,⁴⁷ the Bank will support the Government of Argentina in the following ways: (i) technical assistance for the design of investment projects and financing for the long-term expansion of the sector, focusing initially on transmission and energy efficiency projects in the Norte Grande region; and (ii) financing for renewable energies projects, particularly wind power and preferably large-scale hydroelectric plants that support regional energy integration.
- 3.10 The risks to Bank activities in the electricity sector are related to: (i) the tariffs and subsidies structure, which could limit the scope for Bank activity (in this case, the Bank will take the necessary steps to ensure that service providers are able to cover at least operating and maintenance costs); and (ii) the complexity of the coordination between national and provincial authorities in the selection of both generation and transmission (backbone and regional) projects, which could delay the respective designs and internal processes. (In this case, the Bank will use technical assistance to support the regulatory bodies for the sector, as well as the design of frameworks that promote sector sustainability. It will also facilitate dialog between the national and regional governments.)

(iii) Rural and Agricultural Development⁴⁸

- 3.11 The potential for Argentina to further intensify agricultural and livestock production is enormous. This would help to support food security in the region, not only in cereals, oilseeds, meats, and dairy products, but also in fruits and vegetables, industrial raw materials, and regional products, with a favorable impact on employment and the development of non-pampas regional economies, particularly Norte Grande.⁴⁹ In order for this to occur, the following challenges must be addressed: (i) the deteriorating sustainability of productive ecosystems as a result of growth in the amount of land dedicated to agricultural and livestock production, as well as monocultural production patterns and the shifting of livestock activity to marginal areas suitable for forestry.⁵⁰ This deterioration, together with vulnerability to climate change, requires the development and adoption of technologies with improved practices for the management and conservation of soil and water, as well as the control of pests and diseases; (ii) regional deficits in drainage and irrigation infrastructure, as well as rural roads and

⁴⁶ In light of the completed contract re-negotiation process with the companies in the sector and the new adopted tariff measures, the Bank considers that it is necessary to continue reviewing actions in the sector in order to promote increased investment.

⁴⁷ Projected investment demand in the electricity sector for the 2012-2015 period is expected to reach approximately US\$12 billion, based on infrastructure replacement requirements and demand growth. Of this, US\$6 billion relates to investment in generation, US\$1.8 billion to transmission, and US\$4.2 billion to distribution. Almost 85% of the overall financing requirement remains unmet. Multilateral organizations are expected to finance part of the amount.

⁴⁸ This priority area has been the subject of two CCLIPs: (i) the US\$700 million Provincial Agricultural Services Program (AR-X1006), approved in 2008. Two operations have been approved under this line, for a total value of US\$430 million (the second in 2011, worth US\$230 million); and (ii) the US\$300 million Agri-food Health and Quality Management Program (AR-X1007), approved in 2008. One operation, for a total of US\$100 million, has been approved under this line.

⁴⁹ The agri-food and agroindustrial sector accounted for 19% of GDP, 36% of employment, and exports of more than US\$39 billion in 2010. More than 34 million hectares were cultivated in the same year, with another 55 million dedicated to livestock, yielding total production of almost 100 million tons of grains and 2.6 million tons of beef.

⁵⁰ The growth in production of soybeans and other grains seen over the last decade has been particularly marked in the northeastern and northwestern provinces, in which it is estimated that an additional 2.9 million hectares have been dedicated to production of these crops.

electrification;⁵¹ (iii) limited access of family farms to modern technologies and sources of credit, which aggravates inequalities and erodes the competitiveness of small-scale producers in several regions of the country, particularly the Norte Grande provinces;⁵² (iv) the deterioration of native forest and low levels of plantation forestry;⁵³ and (v) deteriorating fish stocks, which require effective measures to ensure the rational exploitation of this resource and the sustainability of sea fishing.⁵⁴ Government agricultural development policies aimed at addressing these challenges are set out in the Agri-food Strategic Plan, which defines sector priorities through 2020.⁵⁵

- 3.12 The Bank proposes supporting the government in the sector dialog to address these challenges, including actions aimed at improving the quality of public expenditure in the sector and continued financing for investments in the following key areas that are considered to be of strategic importance: (i) improvement of capacities for the generation and transfer of innovative technology in the agricultural, livestock, forestry, and fishing sectors, as well as for agricultural health systems; (ii) basic rural infrastructure for regional economies (principally drainage and irrigation), with a view to improving productivity and market access; (iii) support for family agriculture, in order to facilitate the adoption of more profitable, productive, and environmentally sustainability technologies and innovations; (iv) support for development of the country's enormous forestry potential, which also represents an opportunity to increase levels of carbon sequestration; and (v) improvements to systems for the regulation of fishing activities. Within this framework, there are also opportunities for the development of projects with financing from the private sector windows.⁵⁶
- 3.13 The main risk to these interventions lies in the limitations faced by producers, particularly the small and medium sized farmers, to expand their level of investment, improve competitiveness and access to markets as well as adopt environmentally sustainable agricultural practices and technologies. In order to mitigate this risk, the Bank proposes intensifying the sector dialogue to collaborate with the country in the design and formulation of policies aimed at generating public goods that promote innovation and adoption of cutting edge technology, reduce failures in the product markets and factors that will allow increasing sector competitiveness, while at the same time generating appropriate incentives for producers to increase their productivity and profitability.

(iv) Private Sector Development

- 3.14 Of Argentina's approximately 703,000 firms, 90% have less than 10 employees, while 5.5% have between 11 and 100, and 1.5% more than 100.⁵⁷ In relation to sectors, the largest are trade and industry, with 53.7% and 11.3%, respectively. In regional terms, more than 70% of economic activity is

⁵¹ Some 1.2 million hectares of land are irrigated, but it is estimated that this could potentially rise to 6 million. Close to 20,000 farming units are thought to have restricted or zero access to rural roads and sources of electricity.

⁵² Around 220,000 of Argentina's 333,000 farms are family-based. Of these, approximately 60% have a potential level of production that would allow them to compete efficiently in markets, but do not enjoy sufficient access to the technology or sources of credit that would allow them to realize this potential. The majority of these farms are located in the rural areas of Norte Grande.

⁵³ The country's 1.2 million hectares of forest plantations (out of an estimated potential of 20 million hectares) produce 89% of the wood demanded by the associated industrial market. The rest is met through the exploitation of native forest, which covers 34 million hectares. The annual rate of deforestation is estimated at 200,000 hectares.

⁵⁴ Over the last two decades there has been excessive exploitation of fishing resources, to the point of placing the reproductive capacity of these ecosystems at serious risk. The improvement of regulatory systems and their rigorous enforcement is urgently required if fishing activities are to be returned to sustainable levels.

⁵⁵ The Agri-food Strategic Plan envisions a wide variety of interventions in support of its objectives. These are organized according to four strategic axes (economic-productive, socio-cultural, environmental-land usage, and institutional), each of which have concrete targets and benchmarks.

⁵⁶ For example, projects to support expansion of export capacity in the sector, and/or greater efficiency and productivity of sustainable crop production or the value chain. Other operations could support higher value added in the industry, or the creation of linkages between large projects and the chain of small and medium-sized producers, with a view to assisting the latter with best practices, the latest technology, global markets, etc.

⁵⁷ Data from the last economic census carried out by the National Statistics and Census Institute.

concentrated in the central region and Buenos Aires, and 10% in Norte Grande. Argentina has a significant network of institutions aimed at promoting enterprise development, among which are a number responsible for the development of business services for small and medium-sized enterprises (SMEs), the promotion and regulation of credit, support for innovation and the diffusion of technology, and for the strengthening of production chains and enterprise networks.⁵⁸ Despite improvements in recent years, international indicators point to a level of total factor productivity in Argentina that is considerably lower than the median for OECD countries.⁵⁹ The situation with respect to the perceptions about the local business climate is the same.⁶⁰ As these indicators are significantly influenced by the relative number of firms of different sizes, it is essential for the country to concentrate its efforts on public policies and programs that will help to close these gaps by providing support for SMEs.

- 3.15 A number of factors are responsible for this relatively weak performance. In relation to the production efficiency of local companies, the following issues are of importance: (i) low levels of enterprise investment in innovation⁶¹ and technical training in the workplace;⁶² (ii) varying levels of regional development;⁶³ and (iii) weak coordination at the level of policies and between public institutions and firms. At the same time, the country's business climate is affected by flaws in market functioning in areas that are key for firm performance, including: (i) a lack of financial system depth;⁶⁴ and (ii) credit access conditions,⁶⁵ particularly for SMEs.⁶⁶
- 3.16 Given these issues, and in coordination with policies, instruments, and public institutions in Argentina, the Bank will focus its technical and sovereign-guaranteed financial support in the area of competitiveness and innovation on the following activities: (i) improvement of innovation and management capacities in firms and production clusters through co-financing for business services and technological research and development activities; (ii) incentives for the adoption of policies through programs that promote the provision of specific public goods for firms belonging to production chains and clusters, with emphasis on the Norte Grande provinces; (iii) support for the building of human capital for enterprise innovation, through grants for short-term courses and master's degrees abroad; and

⁵⁸The country has a number of institutions that are responsible for the generation and transfer of knowledge and technology to the private sector. The largest ones, in terms of budget, are the Consejo Nacional de Investigaciones Científicas y Tecnológicas [National Scientific and Technological Research Council] (CONICET), the Instituto Nacional de Tecnología Agropecuaria [National Agriculture and Livestock Technology Institute] (INTA), the Instituto Nacional de Tecnología Industrial [National Industrial Technology Institute] (INTI), the Comisión Nacional de Energía Atómica [National Commission for Atomic Energy] (CNEA), and the Comisión Nacional de Actividades Espaciales [National Commission for Space Activities] (CONAE). The universities, particularly public ones, also play an important role in terms of scientific research and knowledge transfer to society. In relation to the interface between research centers and firms, the Unidades de Vinculación Tecnológica [Technological Linkage Units] (UVTs) are of key importance. The regulation and promotion of credit is the responsibility of the superintendencies of the Central Bank of the Republic of Argentina.

⁵⁹The PTF in Argentina is 79% of the median PTF of OECD countries. This gap has been consistent in the last few decades. Source: IADB, *The Era of productivity*. Official Argentine data indicate an increase in median labor productivity, with an accumulated increase of 35% between the second quarter of 2006 and the second quarter of 2011. Furthermore, in the manufacturing sector worker productivity increased 21.6% between 2006 and 2010, while the productivity for each hour worked increased 24.8% during the same period. Source: Ministry of Industry – Republic of Argentina: Center for Productivity Studies.

⁶⁰The Global Competitiveness Index of the World Economic Forum includes some indicators with respect to investment climate, in which Argentina faces important challenges: “efficiency in market for goods” and “efficiency in labor markets” (both in position 140 out of 144). However there is a more favorable positioning in the areas of “technological readiness”, where it holds position 67 out of 144, and in “higher education and training” (53/144). In this regard, the Argentine government highlights that the first two indicators measure the business men’s perceptions and that the sample of respondents for the survey was made up of 96% executives.

⁶¹Investment in research and development (0.52% in 2008) is below the average for the region (0.67%) and for the OECD (2.29%).

⁶²Private sector support for researchers rose to 9.6% in 2009 and 13.1% in 2011 (Central Bank Report, December 2011). This is lower than in other Latin American countries such as Brazil (28.2%), México (37.65%) and Chile (29.50%), and well below the level for the OECD (64.85%).

⁶³The disparity at the regional level is also reflected in spending on research and development and on scientific and technological activities, which have a high level of geographic concentration.

⁶⁴The total level of financing to the private sector in Argentina (of the order of 12.1% of GDP) is the lowest in a large sample of developing countries.

⁶⁵Credit to the private sector stands at only 12.1% of GDP; of this amount, 29% is at terms of less than one month, 34% less than one year, 11% less than two years, and the remaining 26% at terms of more than two years.

⁶⁶The low level of lending to SMEs is a result of well-known information barriers.

(iv) support for the coordination of policies, instruments, and institutions to support the productive sector.

- 3.17 The Bank will also support measures to ensure greater convergence in financial development indicators—particularly those relating to the provision of credit to SMEs in the Norte Grande region—with those at the national level, through support for the following activities: (i) viable second-tier financial mechanisms to facilitate medium and long-term lending suited to the characteristics of firms, businesses, and the productive cycles of the different value chains in Norte Grande; (ii) strengthening of the System of Guarantee Associations and Funds and other private financial risk management instruments, with the aim of leveraging the supply of finance through reductions in SME credit risk; (iii) SCF support to financial institutions offering special purpose credit lines; and (iv) the provision of financing and technical assistance to microfinance institutions, as well as support for the implementation of the regulatory and registration frameworks for these institutions.
- 3.18 Bank support for the sector faces a number of challenges, such as management fragilities that in the past have hindered the effective execution of a number of programs in this area (high turnover among technical staff and the authorities, and weaknesses in information systems), coordination difficulties (particularly at the regional sector level), and a scarcity of local human resources. In order to mitigate these risks, the design of Bank will take them into account, and support will be provided to the country in the form of technical cooperation.

(v) Tourism Development

- 3.19 Argentina's level of tourism development remains below potential, particularly given the scale of the country's natural assets.⁶⁷ In order to maximize tourism potential, Argentina faces the key challenge of overcoming the current geographic concentration of tourist visits.⁶⁸ This demand phenomenon encourages a similar concentration of tourism investment, with little geographic diversification.⁶⁹ This situation is the result of spontaneous, unplanned development, as recognized in the Federal Strategic Plan for Sustainable Tourism (PFETS).⁷⁰ It is also the consequence of limited connectivity, given that despite the investments of recent years, access to attractions located outside the main population centers is usually difficult. Different estimates suggest that tourism activities generate significant benefits for the country in terms of employment, output, and fiscal revenues. For this reason, efforts to expand tourism activities to new geographic areas appear justified. In addition, an assessment of the impact of tourism on poverty levels in the northern region,⁷¹ based on integration models, demonstrates that there is a negative correlation between tourist expenditure and the number of households below the poverty line.⁷²
- 3.20 Given this context, the Bank can assist in maximizing the tourism potential of remote rural areas, as a viable strategy for the reduction of poverty levels. To this end, the Bank intends to support the capture and increase of tourist expenditure⁷³ in rural areas with lower levels of tourism development, through

⁶⁷ According to the World Economic Forum's 2011 Travel & Tourism Competitiveness Index, Argentina was ranked 20th in the world in the category of natural resources. However, a comparison of tourism income in destinations with similar natural tourism resources located in other regions of the world demonstrates that there is still room for growth. According to data from *Tourism Highlights 2012*, the World Tourism Organization, per capita tourist expenditure in 2011 was \$945 in Argentina, compared to US\$5,352 in Australia, US\$2,124 in New Zealand, and US\$1,144 in South Africa (all countries with extreme southern latitude ecosystems).

⁶⁸ Just two of the country's six tourist regions (the Buenos Aires region and Patagonia) account for 60.5% of overnight stays in hotels and other forms of accommodation. The Buenos Aires region alone accounts for 42.1%.

⁶⁹ From 2003 to 2012, the Buenos Aires region absorbed almost 40% of total investment in accommodation.

⁷⁰ The PFETS prioritizes thirty tourist areas distributed throughout Argentina's six tourism regions, with emphasis on rural and natural spaces. The objective is to achieve balanced development that breaks current patterns of concentration in tourism supply and demand.

⁷¹ The northern region includes cities such as Jujuy, Salta, Catamarca, Santiago del Estero, and Tucumán.

⁷² The estimated model indicates that a 1% increase in tourist expenditure reduces the percentage of poor households in the northern area of Argentina by 2.75%.

⁷³ Tourist expenditure constitutes an injection of external financial resources into the local economy. It triggers a multiplier effect that translates into income generation and the creation of new businesses and employment. In other words, spending by tourists in the course of their travels is

activities aimed at: (i) upgrading of natural and cultural attractions that are public goods; (ii) reinforcement of the tourism value chain, with emphasis on the inclusion of poor and vulnerable groups; (iii) improving the connectivity of attractions belonging to national and transnational tourism circuits; and (iv) preservation/promotion of environmental quality in tourism destinations. There may be opportunities for a number of individual non-sovereign guaranteed (NSG) operations in the sector in different areas of the country.

- 3.21 The specific risks that must be taken into account relate to the difficulty of correctly identifying obstacles to the positive impact (direct, indirect, and induced) of tourism on poor households, and the possibility of a lack of coordination between state institutions (federal, provincial, and municipal), particularly in relation to public decisions affecting geographic connectivity. To mitigate these risks, the Bank will provide technical support to reinforce public tourism management and local-level monitoring capacity.

2. Social and Economic Inclusion of the Population

(i) Education⁷⁴

- 3.22 Education levels in Argentina—whether measured in terms of average years of schooling, educational coverage, or numbers of secondary and tertiary level graduates—are good in comparison to the rest of Latin America, and are in line with middle-income countries. This achievement is the result of substantial progress in relation to coverage at all levels,⁷⁵ supported by legislative changes⁷⁶ and a significant increase in investment in education.⁷⁷ Despite this progress, efforts to reach the entire population need to continue. A significant percentage of young people, particularly in poor and rural areas, are unable to complete obligatory studies⁷⁸ and obtain expected educational results.⁷⁹ The main challenge for the educational system is to improve student learning at both the primary and secondary levels. To this end, the groundwork must be laid for the attainment of three simultaneous objectives: (i) student access to the system; (ii) the retention and graduation of students in the system; and (iii) a sustained improvement in student learning. Pending challenges in relation to coverage and the quality of learning are concentrated at the primary and secondary levels, while the problem of retention is found mainly at the secondary level.
- 3.23 In accordance with the Ministry of Education's strategies,⁸⁰ the Bank will focus its support on actions to achieve the following objectives: (i) the expansion of educational coverage to include excluded

the variable that initiates the entire cycle of the tourism multiplier effect in the local economy (through direct, indirect, and induced impacts), and that can reduce poverty levels in a destination.

⁷⁴ This priority area is supported by a US\$2.7 billion CCLIP for the Program to Improve the Quality and Equality of Education Policy, approved in 2008. Two operations for a total of US\$1.122 billion have already been approved under this line, the last of which was in 2010 for US\$492 million.

⁷⁵ Coverage is almost universal at the primary level (98.7%) and very high in early childhood education for five year olds (95.9%). The net enrollment rate at the secondary level is 82.5%, and has tended to grow over time. Gross enrollment rates for third-level education stand at 45% among 20 to 24 year olds, with university enrollment at 33.8%.

⁷⁶ In particular, since 2005: (i) [Law 26.058](#) of 2005, which establishes the regulatory and financing framework for technical and professional education; (ii) [Law 26.075](#) of 2006 governing financing for education, which establishes a target of 6% of GDP in 2010 for consolidated expenditure on education, and also sets out objectives for early childhood education coverage, extension of the primary school day, and improvement of quality at the primary level; and (iii) National Education [Law 26.206](#) of 2006, which aims to resolve problems of fragmentation and inequality affecting the education system, and to create the foundations for quality education. It also extends obligatory schooling from 10 to 13 years.

⁷⁷ Education spending rose from 4.66% of GDP in 2000 to 6.3% in 2010.

⁷⁸ Of the 20-24 age groups, 35% have not completed secondary level. This proportion rises to more than 60% for the same age group belonging to the poorest quintile. (Source, estimates based on the Permanent Households Survey 2010).

⁷⁹ According to the results of the Program for International Student Assessment (PISA), 48% of 15-year-old students in Argentina achieved level 2 (compared to 52% on average for Latin America and the Caribbean and 82% for the OECD countries). Level 2 is considered the minimum knowledge threshold for a fulfilled and productive adult life. Within the poorest quarter of the population, the percentage reaching level 2 is only 34%.

⁸⁰ The Ministry of Education's strategies are focused on: (i) expanding education services, based on an increase in the number of schools in those levels for which coverage is insufficient (particularly early childhood education and secondary) with a view to expanding access; (ii) increasing the quality of education through improvements to school infrastructure and equipment, teacher training and practices, education processes, and

populations (particularly at the early childhood education and secondary levels) and meet requirements for expansion of the primary school day; (ii) the improvement of retention and graduation rates in secondary education, with actions to support both supply and demand for traditional education, and alternative strategies to meet the needs of young people that have not completed secondary level; (iii) improvements in the quality of education, particularly for the most vulnerable groups, prioritizing actions to support areas of proven effectiveness in the improvement of learning results (teacher development and training; quality education materials; increased hours of instruction; and increased coverage and quality of early childhood development centers); and (iv) reinforcement of institutional capacity for the attainment of objectives in the education sector, with a view to enhancing the capacity to plan, manage, and monitor education projects.

- 3.24 One risk to the implementation of Bank programs in the sector lies in divergences in technical and operational capacities in the country's 24 provinces. In order to mitigate this risk, initiatives to improve the technical and operational capacities of the provincial Ministries of Education (including their planning, monitoring, and evaluation capacities) need to be maintained and strengthened.

(ii) **Health**

- 3.25 Chronic non-communicable diseases are the main cause of death and illness in Argentina. In 2009, they caused (or were a factor in) 79% of deaths in the country. In addition to their impact on health, chronic diseases have negative repercussions for economic growth and impose significant financial costs on both the state and those households affected. They disproportionately affect lower-income individuals, who are more exposed to predisposing factors and have less effective access to health services. For example, in 2009 54% of adults in Argentina who had not completed primary level education suffered from hypertension, compared to 26% of the population who had completed secondary level. Although the prevalence of these diseases is greater in urban centers and more developed areas, they are also the main cause of death in Norte Grande, where they coexist with a high level of communicable, maternal, perinatal, and metabolic diseases.
- 3.26 There are a number of public and individual health solutions with proven cost-effectiveness for the prevention and treatment of the more prevalent chronic diseases, which have common risk factors. Their implementation in Argentina, however, faces at least three difficulties: (i) the high level of fragmentation of the country's health system, which hinders (among other things) the timely, integrated, and continuous movement of the population along medical care lines; (ii) the lack of a culture of health care that would encourage preventive visits, particularly among lower-income population groups; and (iii) the prevalence of a curative and specialized approach to the treatment of these pathologies, to the detriment of treatment capacity at the primary level. The latter, from both the health care and financial points of view, should be the point of entry for health services.
- 3.27 In accordance with the Federal Health Plan for 2011-2016, Bank support will focus on: (i) raising the profile of primary health care through actions to enhance its treatment capacity, such as the provision of basic medicines and materials; (ii) integrating health services along care lines, principally through the provision of medical and information technology; and (iii) strengthening the administrative and health care management capacities of the provinces and their medical teams, through training, the development of IT systems, and the development of financing mechanisms that provide incentives for the implementation of best practices for the prevention and care of chronic diseases.
- 3.28 The federal nature of the health sector demands the strengthening of provincial capacities for the management of chronic diseases (planned under the Bank's target areas), and imposes a complex process of consensus building between the provinces and the central government (which regulates the

curricular content; and (iii) developing strategies and allocating resources so as to guarantee the inclusion and retention of children and young people belonging to vulnerable groups, thus contributing to equality of opportunities in the education system.

health system). For this reason, the regional focus of the Bank's activities in this area is vulnerable to political cycles in the relationship between levels of government. The generation of solid data at the local level relating to the effectiveness of the activities that the Bank plans to emphasize will be a critical element in the decision of the provinces to implement these of their own accord, independently of their political relationship with the central government.

3. Urban Sustainability and Habitat Improvement

(i) Potable Water, Sanitation and Solid Waste⁸¹

- 3.29 The sector assessment indicates that access to the sewage network is 54% and potable water 84%. Less than 20% of waste water is treated, while the rate of losses in the water supply system and in terms of unaccounted-for water is relatively high in the majority of service providers.⁸² Despite the important efforts put forth, in the northern region of the country and in the Greater Buenos Aires area, there are more than 10 million residents without access to sanitation services, and more than 4 million without access to potable water. Some 17 million tons of solid waste are generated in the country each year, of which only 65% are disposed of in landfills. A large number of municipalities have only limited waste collection and disposal services, and suffer from inadequate coverage and compacting, poor management of leachates in landfills, and poor management of controlled dumping sites. The provision of water and sanitation services in the major urban centers is decentralized—mostly through provincial service providers and, in smaller towns, through municipal and cooperative bodies. The provision of solid waste collection, transport, and disposal services falls to the municipalities and, in a number of cases, to companies or cooperatives. In the case of water and sanitation, the effective delivery of services has been affected in recent decades by prolonged processes of transition between public and private management models; both sectors have also been affected by declining funding for operational costs. Most provinces have independent policy and regulatory bodies. The main challenge for these bodies is the consolidation of both long-term development plans and monitoring and control instruments that promote the sustainability of these services.
- 3.30 Against this backdrop, and with a view to reducing the identified weaknesses in the provision of these services, the Bank's actions in the sector will focus mainly on: (i) increasing the coverage of water, sanitation, and solid waste service delivery, through investments and activities aimed at increasing coverage levels in the north of the country and the Greater Buenos Aires area; (ii) promoting improvements in the management of service providers (through programs to enhance measurement, energy efficiency, and information systems), and in their financial sustainability through implementation of a policy of cost recovery; and (iii) strengthening of the institutional and regulatory framework, through technical assistance and support for public policies to create a framework of incentives favoring efficient service delivery. The programs in execution are consistent and coherent with the objectives and basic conditions of the Public Household Services Policy. Their structure is based on a gradual approach, as indicated in the guidelines for this sector, and this approach will be maintained in the design of future programs. Satisfactory implementation of these programs is expected to place participating public service companies onto a sound long-term financial footing.

⁸¹ This priority area is the subject of three CCLIPs: (i) a US\$360 million Potable Water and Sanitation for Smaller Communities Program (AR-X1005) approved in 2007, with one US\$120 million operation already approved; (ii) a US\$720 million Water and Sanitation Program for the Buenos Aires Metropolitan Area (AR-X1013) approved in 2009, with two operations already approved for a total value of US\$400 million (the second in 2011 for US\$200 million); and (iii) a US\$710 million Potable Water and Sanitation Program for Urban and Suburban Centers (Pays) (AR-X1017) approved in 2010, with one US\$200 million operation already approved.

⁸² The level of unaccounted-for water is estimated at 40%. However, this figure should be treated with caution given the low rate of metering in the country, which hinders closure of the measurement gap between water produced and water consumed. (Inter-American Network of Science Academies, IANAS, March 2012)

- 3.31 The main risks to the effective implementation of the proposed actions and achievement of sector priorities⁸³ include the inadequate adoption and implementation of planned activities in support of institutional strengthening, financial sustainability, and the improvement of regulatory, monitoring, and control frameworks. In order to mitigate these risks, Bank programs will include technical assistance for institutional and normative issues. The satisfactory implementation of these activities will support the long-term sustainability of service provision, within the framework of the public household services policy.

(ii) Urban Development⁸⁴

- 3.32 Argentina exhibits the second highest degree of urbanization in Latin America and the Caribbean.⁸⁵ The seven largest metropolitan areas account for 70% of national GDP, and 50% of the country's manufacturing and services enterprises. Given the high level of urbanization, and the social context experienced in the larger metropolitan areas, the following problems can be observed: (i) expansion of urban areas, resulting from low-density patterns of occupancy;⁸⁶ and (ii) low-quality infrastructure and insufficient public investment, particularly in the case of irregular settlements.⁸⁷ In smaller cities, the main challenge lies in improving the capacity of local governments to engage in land planning and meet the demands of a rapidly-growing population. The government's 2008 Strategic Territorial Plan (PET) is the main policy framework for urban and territorial development. It aims to channel investments towards urban centers with the greatest development potential.
- 3.33 Given the strategic framework set out in this plan, the Bank's actions will be focused on support for: (i) neighborhood improvement programs that benefit low-income groups living in shanty towns and settlements, with priority given to the needs of the Greater Buenos Aires area and the main Norte Grande cities; (ii) the Emerging and Sustainable Cities Initiative (ESCI) aimed at addressing fiscal, environmental, and urban issues in the case of eligible cities; (iii) specific investment programs for cities encompassing more than one municipality, with reference to elements of the ESCI platform; and (iv) programs to close urban infrastructure gaps in large and intermediate cities, as well as to support the comprehensive urban development of smaller cities. (In these cases, infrastructure deficits would be tackled through multiple works projects based on the demand of subnational bodies).⁸⁸ The divergent assessments relating to the Greater Buenos Aires area and Norte Grande (including differences within each of these regions) imply the need for differentiated programs. The latter, in turn, will be designed based on the size of each city and will require individual studies for each case.
- 3.34 Risks related to these activities include the institutional framework, which requires the development of collaborative institutional arrangements between the different levels of government. The lack of institutional coordination curtails the impact of urban planning and associated investments, representing a risk for the effectiveness of Bank interventions. The design of flexible institutional arrangements that might be introduced in the case of priority sectors (e.g. solid waste management) would facilitate future progress towards more comprehensive management schemes.

(iii) Urban Transport

⁸³ The National Government set a target of reducing by 1/3 the deficit of coverage in water and sanitation between 2000 and 2015 and defined as a priority, improving the operational management of service providers.

⁸⁴ This priority area is supported by a US\$1.5 billion CCLIP for the Neighborhood Improvement Program (PROMEBA), approved in 2007. Two operations for a total of US\$750 million have already been approved under this line, the last of which was in 2011 for US\$400 million.

⁸⁵ 91% of the population is located in urban areas—significantly higher than the regional average of 78% (Population and Housing Census 2010).

⁸⁶ There has been a marked decline in population density in urban zones over the last 20 years. For example, in the period 1986-2008, population density (number of residents/surface area) in Gran San Miguel de Tucumán fell from 68 to 45, while in Gran Posadas-Candelaria the indicator declined from 93 to 54. (Strategic Territorial Plan, Strategic Guidelines for a National Urbanization Policy, 2011)

⁸⁷ The average level of UBN is 87%, with access to potable water at 38%, sewage 15%, gas 16%, and public lighting 37%. (Permanent Household Survey 2010)

⁸⁸ The NSG windows will seek opportunities to support the expansion of basic services through private sector involvement. For example, there is strong demand for the roll-out of a MIF gas supply scheme in the Greater Buenos Aires area, incorporating other services and regions.

- 3.35 Argentina also faces a series of challenges in the area of urban transport, resulting from a substantial increase in the number of motor vehicles. This trend has been driven by a decline in the quality of public transport services, as well as a failure to extend network capacity (particularly in the case of rail).⁸⁹ The high level of road accidents is also notable. Although these challenges are more prevalent in the Buenos Aires metropolitan area, similar trends can also be seen other centers in the country, such as Córdoba and Rosario.
- 3.36 As a result, the country needs to address the challenge of securing ongoing improvements in urban passenger mobility conditions. Bank support in this area will focus on: (i) promoting the implementation of sustainable transport solutions, through the design and implementation of mass transit alternatives and support for the formulation of public policies that address the problem of sustainability; and (ii) promoting urban road safety, through studies and investments aimed at reformulating existing infrastructure in areas with high numbers of accidents.
- 3.37 The Bank's involvement in the sector requires an increased coordination effort between the three levels of government involved in the urban transport sector – national, provincial and municipal⁹⁰ has been affected by complex institutional and regulatory arrangements, which have hindered the satisfactory structuring of interventions. In order to mitigate this situation, the Bank will offer technical assistance to support the institutional strengthening of stakeholder entities.

B. CROSSCUTTING ISSUES

(i) Environmental Sustainability and Climate Change⁹¹

- 3.38 Given the structure of Argentina's economy, the country is highly vulnerable to changes in temperature and precipitation.⁹² Over the last 30 to 40 years, the majority of Argentina's land extension has experienced climate change as a result of global warming.⁹³ Recent studies indicate that Argentina could experience a climate scenario with possible temperature increases between 2080 and 2090 period of up to 4°C in the north of the country and 2°C in the south. This would cause ongoing changes in rainfall patterns, raising the frequency of extreme events, reducing the availability of water reserves, and, consequently, necessitating greater levels of investment to support adaptation. In terms of the economic effects, the potential losses resulting from this phenomenon are estimated at 5% of GDP in 2020 and 12% in 2100 under the most conservative scenario.
- 3.39 Argentina has taken important steps to incorporate the concept of climate change into public management.⁹⁴ Despite these advances, there are still large management⁹⁵ and investment⁹⁶ gaps that

⁸⁹ In order to ensure viability of Bank interventions in the sector, the IDB considers that it is necessary to continue reviewing service costs and the regulatory framework

⁹⁰ In this respect, advances have been made with the creation of metropolitan transport agencies, such as the ones for the Metropolitan Region of Buenos Aires, Salta, Rosario, etc.

⁹¹ In July 2012, the Bank organized a Climate Change Forum that brought together national and international experts and sector authorities in the country. The event focused on the issue of climate change adaptation, and its links with vulnerability and risk management. The aide memoire for the Forum can be found using the following [link](#).

⁹² Some 19% of Argentina's GDP is accounted for by the primary agro-exporting sector, associated manufacturing industries, and hydroelectric production of energy.

⁹³ These changes include an increase in average annual rainfall across most of the territory, and an increase in the frequency of extreme rainfall in the center and eastern regions of the country. As a result, the isohyets that demarcate rain-fed agricultural areas have moved more than 100 km to the east. This development, combined with a number of other factors, has helped to push the agricultural frontier into areas that until 1960 were considered semi-arid.

⁹⁴ This has been reflected in the development of legal measures, norms, participation in international agreements, and small-scale pilot investment programs.

⁹⁵ The various assessments that have been carried out highlight the following key gaps and problems that need to be resolved: (i) weak institutional management capabilities at the sector and provincial levels; (ii) weak availability and dissemination of information regarding the impact of climate change at the sector and subnational levels; (iii) a lack of institutional coordination to address climate change adaptation issues and national disaster risk management; (iv) weak dissemination of information and the absence of processes of education, cultural change, and awareness-building among all levels of the population; and (v) an absence of regulatory frameworks.

need to be bridged if the challenge of climate change is to be addressed in a comprehensive and effective fashion. Moreover, development patterns in certain sectors (such as energy, transportation, agriculture) and in urban growth are of high environmental impact and intensive in the use of conventional, non-renewable natural and energy resources. This reflects the fact that there is still much to do at the level of policy and investment before sustainable models to reduce the carbon footprint are established, and before each sector has internalized adaptation measures.⁹⁷

- 3.40 Against this backdrop, and consistent with both government climate change priorities (as set out in the National Climate Change Strategy) and GCI-9 mandates, the Bank will concentrate its efforts on the following: reducing the carbon footprint of its operations; supporting the replacement, reconversion, and elimination of sources of greenhouse gas emissions in favor of environmentally sustainable sources; adopting adaptation measures; and promoting environmental sustainability across all of the sectors in which it is involved. To this end, the Bank will focus on two main areas: (i) the generation, use, and dissemination of information and knowledge, together with institutional strengthening to support crosscutting initiatives aimed at enhancing management capacities for climate change, risk management, and environmental sustainability at the national, provincial, and municipal levels, as well as contributing to the bridging of information and knowledge gaps and the effective application of incentive frameworks to encourage sustainability in both the public and private sectors; and (ii) raising levels of investment in the areas of adaptation and mitigation in the sectors with greatest representation within the Bank's portfolio. Specifically, a strategy of sustainability will be employed in sectors of greatest impact and vulnerability, such as transportation, electricity, potable water and sanitation, rural development (agriculture, forests, and protected areas) and urban development,⁹⁸ with emphasis on Norte Grande and the Greater Buenos Aires area.⁹⁹
- 3.41 The main risk to the achievement of these objectives lies in the institutional heterogeneity at the sub-national level which complicates the effective coordination and implementation of envisaged activities. Institutional capacity in a number of ministries and/or sub secretariats is also in need of strengthening, with a view to the effective formulation of public policies and use of the information that will be generated. The proposed activities set out above in relation to information management and capacity strengthening will help to mitigate these effects.

(ii) Youth Development

- 3.42 Argentina is undergoing a demographic transition that will be favorable for economic growth. However, it also presents significant challenges. The share of the young population (aged 15-24) within the population pyramid is at a historical maximum of 17%, and will continue to grow over the next two decades.¹⁰⁰ This trend offers a window of opportunity to enhance productivity in the economy, driven by an expansion of the workforce. However, it will also raise pressures for rapid growth in employment opportunities and stretch the capacities of programs aimed at developing youth work skills and reducing the vulnerability of young people to behaviors that might place their transformation into healthy and productive adults at risk.
- 3.43 Argentina faces at least three challenges in its efforts to take advantage of this "demographic bonus": (i) the expansion of employment opportunities for young people, given its status as one of the countries in

⁹⁶ According to various studies of public expenditure, Argentina's public investment in environmental management is among the lowest in Latin America as a share of GDP (less than 0.02%).

⁹⁷ See *Environmental Issues Paper* in the electronic links included in this document.

⁹⁸ The Bank will ensure that climate change and environmental sustainability issues form an integral part of project design.

⁹⁹ There may be opportunities for NSG operations to support climate or mitigation improvements, either through projects or indirectly, through special purpose lines for financial institutions. The biofuel industry may also offer possibilities.

¹⁰⁰ A detailed analysis of the dynamics of the region's population dependency ratio can be found in "The demographic bonus: an opportunity for progress in educational coverage and advancement", Economic Commission for Latin America and the Caribbean (2008).

the region with the highest share of young people within the unemployed population¹⁰¹; (ii) more effective skills development for young people entering the labor market, given evidence indicating a growing decoupling between the work skills of Argentina's young people and the demands of the labor market; and (iii) a reduction in the share of young people engaging in behaviors that place their health and productive capacity at risk (a share that various indicators show to be either increasing or higher than warranted by the country's level of development).¹⁰² The multisectoral nature of these challenges creates, in turn, a need for crosscutting policies: Argentina has a large number of programs aimed at supporting youth, but these have been developed in an isolated manner by different ministries and levels of government, despite their technical and operational complementarities. Opportunities for synergies are thus wasted, creating inefficiencies in the allocation of public resources.

- 3.44 Consistent with Argentine state policy towards young people (based on the restoration and active promotion of citizen rights)¹⁰³ and in accordance also with GCI-9 mandates in support of productivity with equality, the Bank will concentrate its efforts on enhancing the effectiveness of government programs and policies to support the transformation of young people into healthy and productive adults. This objective will be implemented through two lines of action: (i) the active identification of opportunities for coordination between sectors and levels of government in the case of operations that are expected to improve life and work skills among the young population, or in their family and community environments;¹⁰⁴ and (ii) support for programs or initiatives aimed at developing management tools that support implementation of comprehensive youth policies and programs, with emphasis on the jurisdictions of Norte Grande and the Greater Buenos Aires area.¹⁰⁵
- 3.45 The key risk related to the proposed strategies derives from possible coordination difficulties, given the multiplicity of actors and levels of interaction necessary for implementation. Mitigation of this risk will require the Bank to promote a sustained technical and political dialog among key actors in the area of youth. The development of management tools to support multisector work would also mitigate this risk, reducing transaction costs in the work of different actors.

C. AREAS FOR DIALOG

- 3.46 Areas for dialog include the following sectors: (a) integration and trade and services facilitation; (b) citizen security, in relation to policy issues and the national security system; (c) labor markets, in terms of informality, vocational training, and pensions; (d) national and provincial public management, in the areas of planning, budget, evaluation, human resources, procurement, and control systems; (e) electronic government and non-fiduciary country systems; and (f) housing, in the areas of mortgage financing, development of the rental market, and targeting of subsidies. If joint agreement is reached with the country on specific activities to support these areas, this country strategy may be updated to include details of the respective frameworks for action.

IV. FINANCING FRAMEWORK

¹⁰¹ Source for data from Latin America: SEDLAC (CEDLAS project and World Bank). Source for OECD data: *OECD Employment Outlook 2011*.

¹⁰² For example, although the level of teen pregnancy in Argentina is below the regional average, it is 67% above the level that would be expected given the country's stage of economic development. At the same time, consumption of alcohol by young people has increased rapidly in recent years. Finally, the number of young people who are neither studying nor working is at a high and stable level.

¹⁰³ Law for the Comprehensive Protection of the Rights of Children and Adolescents (2005).

¹⁰⁴ Particularly in the education, health, and urban development sectors.

¹⁰⁵ For example: (i) prioritization or targeting mechanisms that will eliminate contradictions between the operating rules of different programs; (ii) development of incentives frameworks to promote interinstitutional coordination; (iii) development of management capacities for multisectoral work; (iv) development of multisectoral information systems; and (v) mechanisms for multitreatment evaluation that will facilitate understanding of the contribution of individual programs and the interaction between them.

- 4.1 Annual approvals of US\$1.5 billion (US\$6 billion in total for 2012-2015) are projected under the financing framework. These are tentative projections, subject to the availability of Bank funding and the results of the annual programming exercise. Positive net capital flows to the country under this scenario are estimated at US\$485 million. This figure is consistent with stability in the IDB's share of multilateral debt (approximately 57%) and total debt (approximately 5%). It is also consistent with a country debt of 2.2%-2.3% of GDP to the Bank. Multilateral debt is expected to average approximately 8.8% of total public debt over the period.¹⁰⁶
- 4.2 In order to develop the financing framework for 2012-2015, the macroeconomic projections included in the multiyear budget for 2013-2015 were used. These include an average rate of economic growth of 4%-4.4% (3.4% in 2012) and primary fiscal surpluses of 2.3%-3.2% of GDP (0.5% in 2012). These projections result in a significant reduction in financing needs from 2013 onwards, and a stable debt-to-GDP ratio. Projections for amortizations and interest payments published by the Ministry for the Economy were also used. Analysis of the government's financial program for the strategy period suggests that projected Bank disbursements would cover 7.66% of estimated financing needs (US\$ 78.285 billion) for the period.

US\$ m	2012p	2013p	2014p	2015p	Average
Approvals	1,380	1,484	1,620	1,516	1,500
a) Disbursements	1,200	1,400	1,500	1,500	1,400
b) Repayments	897	900	954	910	915
Net lending (a-b)	303	500	546	590	485
c) Subscriptions	0	0	0	0	0
d) Interest and commissions	321	294	280	257	288
Net Cash Flow (a-b-d)	-18	206	266	333	197

Note: Data include regional loans and exclude non-sovereign guaranteed loans. Public debt does not include debt not presented for swap. Preliminary estimates based on Ministry for the Economy and Finance, World Economic Outlook (International Monetary Fund), and IDB.

<i>Debt Indicators</i>					
IDB debt	10,866	11,366	11,912	12,502	11,662
IDB debt/GDP	2.3%	2.3%	2.2%	2.2%	2.2%
IDB debt/total public debt	5.3%	5.1%	4.9%	4.9%	5.0%
IDB debt/public external debt	12.4%	10.7%	9.7%	9.0%	10.4%
External public debt/total public debt	28.9%	24.6%	23.6%	20.4%	24.2%
Total public debt/GDP	43.2%	44.9%	45.0%	45.0%	44.5%
<i>Multilateral Debt</i>					
IDB debt/multilateral debt	55.6%	57.1%	57.7%	58.3%	57.4%
Multilateral debt/total public debt	9.3%	8.9%	8.6%	8.3%	8.8%

V. STRATEGY IMPLEMENTATION

- 5.1 Strategy implementation will be supported by a program consisting entirely of investment loans. The attainment of proposed strategic objectives, as well as the indicative results set out in the results matrix for this country strategy, will depend to a substantial extent to the ongoing sector dialog with the government, within the framework of the CCLIPs already agreed with the country. These CCLIPs will continue to be implemented through the design of global multiple works programs, the characteristics of which will be tailored to the needs of each of the sectors targeted for support. The Bank also proposes to address a number of challenges in order to improve portfolio performance: (i) acceleration of the process of completion and closure of projects older than five years and with more than 80%

¹⁰⁶ Projections for multilateral debt are based on preliminary estimates from the international creditor organizations. Where estimates are unavailable, projections are based on trends in the previous period.

disbursed (20% of the number of active projects); and (ii) the creation of mechanisms for the strengthening of the Office of the Auditor General (AGN), with a view to achieving a more timely submission of audited financial statements.

A. Country Systems

- 5.2 The Bank uses the following country systems in the management and supervision of its operations: budgeting, accounting and reporting,¹⁰⁷ external control, and the procurement information system. Over the strategy period, the Bank will collaborate with the government in support of the gradual implementation of a Treasury Single Account and ongoing improvements in the SIDIF/UEPEX¹⁰⁸ module for Bank-financed projects. The aim is to enhance the operational efficiency of country financial management and, as a result, of the Bank's operations. In relation to the strengthening of the external control subsystem, support will be provided to the AGN to improve auditing techniques,¹⁰⁹ and initiate the implementation of international best practices in the area of government control for the Honorable Courts of Auditors or Provincial Control Organizations¹¹⁰, with the objective of gradually adopting these standards for the comprehensive and effective supervision of Bank-financed operations in the provinces. In the area of procurement, the Bank will work with the government on the implementation of measures to harmonize provincial systems with the national procurement system.¹¹¹
- 5.3 The following table summarizes the status of Argentina's country systems, and expected progress over the country strategy period.¹¹²

Use of country systems ¹¹³	2012 baseline	Expected use 2015	Planned actions
Financial Management			
Budget	100%	100%	N/A
Treasury	0%	50%	Assessment, acceptance, and support for the implementation of the Treasury Single Account
Accounting and Reporting	90%	95%	Ongoing support for UEPEX
Internal audit	0%	0%	N/A
External audit	46%	55%	1. AGN strengthening 2. Assessment, acceptance, and strengthening of HTCBA
Procurement:			
Information system	20%	80%	Support to the National Procurement Office for harmonization of the national system with the various provincial systems
Shopping	0%	80%	
Individual consultancy	0%	80%	
Partial NCB	0%	0%	No
Advanced NCB	0%	0%	No

B. Coordination with other development partners

- 5.4 The Government of Argentina coordinates the work of the different development partners mainly through the Ministry of Health, the Ministry of Federal Planning, and the Department for the Environment and Sustainable Development. The Bank is also engaged in periodic dialogue and works

¹⁰⁷ Budget, treasury, and accounting and reporting are part of Argentina's Integrated Financial Management System (SIDIF).

¹⁰⁸ Unidades Ejecutoras de Proyectos con Fondos Externos [Executing Units for Externally-Financed Projects].

¹⁰⁹ Aimed at improving indicators ID3-ID12 and ID14 of the Bank's guidelines for the measurement of the level of development of public financial management systems (pillar V), applied in Argentina in 2010.

¹¹⁰ Currently support is being provided to the Honorable Tribunal for courts of the Province of Buenos Aires (HTCBA)

¹¹¹ These actions are expected to facilitate the gradual use of the price comparison ("shopping") modality in Bank-financed operations.

¹¹² For greater detail, see Fiduciary Technical Note (electronic links).

¹¹³ Use: % of the Bank's active loan portfolio (operations) managed using country systems.

closely with the World Bank (in some sectors in particular). The two institutions hold periodic meetings aimed at monitoring projects in execution and discussing the design of operations that are in the preparation stage, in order to avoid the duplication of efforts. Coordination with the World Bank also occurs in shared technical spaces hosted by the public sector or other international organizations such as UNESCO and UNICEF. In these, issues such as (for example) the problems of young people outside the school system or the action plan for chronic non-transmissible diseases, are discussed. The Bank also participates in discussion roundtables with the Pan American Health Organization, regarding Argentina's e-health strategy. It also works in a coordinated fashion with CAF in the area of water and sanitation and transportation investments.

- 5.5 Coordination with the World Bank is close in the area of fiduciary issues, particularly in relation to the harmonization of procurement standards. In this sense, the Bank's decision to adopt the System for the Execution of Procurement Plans (SEPA) as a tool for the public dissemination of information and progress in procurement transactions under Bank-financed projects is of note. Implementation of an interface between this system and UEPEX is expected, as well as harmonization of national competitive bidding documents.

VI. RISKS¹¹⁴

- 6.1 **Risks related to the macroeconomic and financial context.** Argentina's sustainability indicators are satisfactory, but in the event of a hypothetical adverse global shock, could face some risks relating to external and fiscal liquidity, as well as price stability.¹¹⁵ On the external front, the Central Bank's international reserves and international liquidity ratios are at high levels, yet they face demand pressures stemming from different sources. In 2012, the decline in imports resulting from the economic slowdown, and the adoption of measures for sustaining industry and employment, in the context of a severe global financial crisis and employment, offset the negative effect of drought on agricultural exports. Argentina's external liquidity position is dependent on, among other factors, favorable terms of trade. Therefore, a negative global shock that would revert international prices for the country's exports and imports to 2002 levels would reduce international liquidity ratios to less than 100%; assuming constant volumes (see Annex III).
- 6.2 In the event of a hypothetical international trade and financial shock, which would have a negative impact on growth, the primary fiscal surplus, and the availability of international reserves, public sector financing needs for the 2012-2015 period would rise significantly, exceeding budget projections by US\$10.8 billion. The greatest impact (US\$8.152 billion) would be felt in the year of the crisis (see Annex III). With respect to prices, the greatest risk is that if this scenario were to materialize,—the authorities would resort to increased monetary financing of the budget, that would eventually place upward pressure on prices.

¹¹⁴ This chapter addresses the analysis of a hypothetical scenario with extreme risks in order to evaluate the adverse effects that would be projected on the relationship with the country.

¹¹⁵ As mandated under the GCI-9 framework, macroeconomic sustainability analyses are carried out on an annual basis for borrowing member countries.

ANNEX I – MACROECONOMIC CONTEXT AND MAIN SOCIOECONOMIC INDICATORS

GDP grew at an average annual rate of 6.9% during 2007-2011, supported by favorable external conditions and strong redistributive and domestic market expansion policies. Macroeconomic projections included in the 2013 budget proposal envisage annual growth of 3.4 to 4.4% for 2012-2015, in line with the persistence of the global financial crisis in the coming years. Adjusted measures of total factor productivity (controlling for factor quality and intensity of use) show average annual growth rates of 0.5% during 2002-2010, below the 1% recorded during 1990-1998.¹¹⁶

Public expenditure has expanded at an average annual nominal rate of 33.6% between 2007 and 2011, exceeding the growth rate of tax revenues (29.5%), and leading to a decrease in the primary fiscal surplus from 3.2% GDP in 2007 to 0.3% in 2011, with an official forecast of 0.5% for 2012. Since the restructuring of sovereign debt in 2005, the country has significantly reduced the debt/GDP ratio to about 42%, which is expected to stay relatively stable in the next four years based on the macroeconomic forecasts included in the 2013 budget.¹¹⁷ With the nationalization of pension funds in 2008, a 54.9% of the sovereign debt became intra-sector debt (June 2012), while since 2010, international reserves from the Central Bank have been utilized to service external debt to private creditors and multilateral organizations.

Credit to the private sector has been growing at very high rates since 2007, but it still does not exceed 17% of GDP, and comprises mainly short-term loans. Furthermore, bank deposits are about 26% of GDP, so that the banking sector enjoys ample liquidity. Currently, banks display strong liquidity and solvency indicators, low percentages of nonperforming portfolio and a reasonable level of exposure to the public sector.

Inflation rates for the metropolitan area of Buenos Aires reached 9.5% in 2011 (10.9% in 2010).¹¹⁸

The Trade Balance continues to be in surplus, due to the fall in imports resulting from the economic deceleration and the adoption of measures to support the industrial sector and employment within the context of a severe global financial crisis. In the face of capital outflows in 2011 (US\$21.5 billion), the government established capital controls. Central Bank's international reserves ratios to short-term external liabilities widely exceed the prudential threshold of 100%, and also cover the total amount of foreign-currency deposits in the local banking system. Short-term external debt measures considered are those reported by the Ministry of the Economy and Public Finance, and include the amounts owed to the Paris Club, which amount to about US\$6.4 billion without including punitive interest charges.

¹¹⁶ See Coremberg, A. (2010), "The Argentine Productivity Slowdown – The Challenge after Global Financial Collapse," *World Economics*, forthcoming.

¹¹⁷ The Government's macroeconomic projections, as per the multi-year 2013-2015 budget, include an average economic growth rate of between 4.0 and 4.4% (3.4% in 2012) and primary fiscal surpluses of between 2.3 and 3.2% of the GDP (0.5% in 2012), which lead to a stable relationship between the total public debt. A sensitivity analysis was carried out in which the Government's primary fiscal surplus during 2013-2015 reached only 0.5% of the GDP, but maintaining the other Government's macroeconomic projections. In such a hypothetical case, the relationship between total public debt and GDP would increase by 6.5 percentage points towards 2015 relative to the budget projections.

¹¹⁸ The average of annual inflation informed by the Directions of Statistics of the provinces of San Luis, Santa Fe and Misiones was 26.5% in 2010 and 24.3% in 2011.

Annex I. Social and Economic Indicators

	2004	2005	2006	2007	2008	2009	2010	2011
Real Sector								
GDP Growth	9.0%	9.2%	8.5%	8.7%	6.8%	0.9%	9.2%	8.9%
Current GDP (in millions of USD)	152,137	181,973	212,886	260,769	326,677	307,082	360,742	445,986
GDP per capita (USD per person)	3,980	4,715	5,463	6,626	8,219	7,651	8,903	10,904
Money and Prices								
CPI-GBA Annual Change	6.1%	12.3%	9.8%	8.5%	7.2%	7.7%	10.9%	9.5%
Monetary base growth	9.2%	10.5%	37.6%	25.4%	10.5%	11.5%	31.6%	34.6%
Nominal exchange rate (AR\$/USD)	3.0	3.0	3.1	3.2	3.5	3.8	4.0	4.3
Nominal Exchange Rate, Annual Change	1.4%	1.9%	1.3%	2.7%	9.6%	9.9%	4.7%	8.2%
Multilateral Exchange Rate, Annual Change	3.9%	-2.3%	-0.2%	9.5%	-8.4%	23.4%	-1.2%	0.2%
External sector								
Current Account Balance (% of GDP)	2.1%	2.9%	3.6%	2.8%	2.1%	3.6%	0.8%	0.0%
Capital and Financial Account (% of GDP)	1.0%	1.9%	-2.5%	2.2%	-2.4%	-3.0%	0.7%	-0.3%
Foreign Direct Investment (% of GDP)	2.7%	2.9%	2.6%	2.5%	3.0%	1.3%	2.0%	1.6%
International Reserves (millions of USD)	19,646	28,077	32,037	46,176	46,386	47,967	52,145	46,376
International Reserves (% of GDP)	12.9%	15.4%	15.0%	17.7%	14.2%	15.6%	14.5%	10.4%
Public Sector (% of GDP)								
Primary Balance	3.9%	3.7%	3.5%	3.2%	3.1%	1.5%	1.7%	0.3%
Overall Balance	2.6%	1.8%	1.8%	1.1%	1.4%	-0.6%	0.2%	-1.7%
Gross Public Sector Debt	127.3%	73.9%	64.0%	56.1%	48.8%	48.8%	45.3%	41.8%
External Debt of Public Sector	74.3%	34.8%	26.3%	24.1%	18.6%	18.2%	16.9%	14.2%
Social Indicators								
Population (millions)	38.2	38.6	39.0	39.4	39.7	40.1	40.5	40.9
Unemployment (fourth quarter)	12.1%	10.1%	8.7%	7.5%	7.3%	8.4%	7.3%	6.7%
Poverty (individuals, second quarter)	40.2%	33.8%	26.9%	20.7%	15.3%	13.2%	9.9%	6.5%
Extreme Poverty (individuals, second quarter)	15.0%	12.2%	8.7%	5.9%	4.4%	3.5%	2.5%	1.7%

Note: Data end of period.

Source: INDEC (Statistics Agency), BCRA (Central Bank) and Ministry of the Economy and Public Finance.

ANNEX II – FINANCING FRAMEWORK

Long-term financing needs. The multi-year budget program for 2013-2015 includes the forecast of a primary surplus between 2.3% and 3.2% of GDP (0.5% in 2012) which, together with the growth forecast (yearly rates between 4 and 4.4%, starting from 3.4% in 2012) and significant debt amortization payments due in 2012, lead to the expectation of a significant reduction in financing needs, both in absolute terms and relative to GDP over the strategy's horizon. This scenario may be affected by changes in the prices of exportable commodities or in the expected economic growth rates.

Financing Program and Needs 2012-2015				
<i>In millions of US dollars</i>				
	2012	2013	2014	2015
<u>Uses</u>	29,709	30,123	32,300	33,943
Principal payments ¹	20,728	19,297	20,195	21,693
Interest payments ²	8,981	10,826	12,105	12,250
<u>Sources</u>	29,709	30,123	32,300	33,943
Primary Suprlus	2,548	11,619	15,583	18,040
Financing Needs	27,161	18,505	16,716	15,903
Disbursements International Financial Institutions	2,602	2,481	2,636	2,707
Other Sources ³	24,559	16,024	14,080	13,196

1/ Net of Temporary Advances.

2/ Net of rollovers.

3/ Includes Loans from Banco Nacion, placements intra Public Sector, Debt Trust Funds and Net Temporary Advances.

Source: Own calculations based on Ministry of the Economy and Budgets for 2012 and 2013.

ANNEX III – MACROECONOMIC RISK ANALYSIS

General outlook. Argentina shows adequate indicators of macroeconomic sustainability, but in the case of a hypothetical adverse global shock the country could face some risks in terms of external liquidity, fiscal liquidity and price stability.

External sector. The international reserves in the Central Bank are high, but are facing demand pressures from different sources, including their use to service sovereign debt and private capitals outflows pressure, which is currently restricted by capital controls. The ratio of international reserves to short-term external debt (public and private) exceeds 100%, generating a reasonable level of external liquidity. However, there are risks. Argentina's external liquidity is supported by favorable terms of trade, which in 2012 were more than 40% higher than those observed in 2000, and is sensitive to the volatility of international prices of exportable commodities, which make up about 40% of Argentinean exports, and to the global prices of energy, which nowadays represent more than 10% of the country's imports. An adverse global shock that brings the international prices of Argentinean exports and imports back to their 2002 levels (which would imply drops of 49% and 28% respectively) would make the US\$10.4 billion trade surplus in 2011 turn into a US\$10.6 billion deficit, assuming constant volumes, and it would reduce international liquidity ratios to levels below 100%.

Non-Financial Public Sector Financing. The financing of the Public Sector could be affected by international trade and financial shocks that had a negative impact on economic activity and tax revenues, generating the need for countercyclical fiscal policies that would erode the primary fiscal surplus and put downward pressures on the level of international reserves of the Central Bank. At the same time, if the annual growth rate were below 3.26% in 2012, 3.22% in 2013 and 3.03% in 2014, the country would have no need to make payments on the GDP-Linked Unit, which would reduce financing needs by US\$3,720 million in the 2013 budget, US\$4,000 million in 2014 and US\$4,400 million in 2015. The following is a sensitivity analysis to a hypothetical adverse international shock in 2013, which could result from a combination of the outbreak of a financial crisis in Europe, a deceleration in China, a below-forecast growth rate in Brazil and the United States and a large increase in the harvest of soybeans and corn in the Northern Hemisphere, with negative impact on Argentina's terms of trade and export demand, on growth and tax revenue collection and generating stronger devaluation and capital outflow pressures. This hypothetical scenario also contemplates a moderate global recovery in 2014, which consolidates in 2015. In this scenario, we assume a growth rate of 1% in 2013 (similar to that of 2009, year of the international crisis) and of 3.4% in 2014, lower than those envisaged in the government's budget (4.4% in 2013 and 4.3% in 2014). We also assume a primary fiscal surplus of 0.5% of GDP in 2013, 1.9% in 2014 and 2.7% in 2015, lower than those envisaged in the budget (2.3, 2.9 and 3.2% respectively). Finally, we also assume that the hypothetical negative external shock induces a depreciation of the peso that is somewhat higher to the one envisaged in the budget.

Financing Program and Needs 2012-2015				
<i>In millions of US dollars</i>				
	2012	2013	2014	2015
<u>Uses</u>	29,709	28,986	26,478	31,966
Principal payments ¹	20,728	18,569	18,947	20,430
Interest payments ²	8,981	10,417	7,531	11,537
<u>Sources</u>	29,709	28,986	26,478	31,966
Primary Surplus	2,548	2,329	9,160	13,986
Financing Needs	27,161	26,657	17,318	17,980
Disbursements International Financial Institutions	2,602	2,413	2,520	2,596
Other Sources ³	24,559	24,244	14,799	15,385

1/ Net of Temporary Advances.

2/ Net of rollovers

3/ Includes Loans from Banco Nacion, placements intra Public Sector, Debt Trust Funds and Net Temporary Advances.

Source: Own calculations based on Ministry of the Economy and Budgets for 2012 and 2013.

In this scenario, financing needs for the whole period would go up by US\$10,832 million. The main part of the increase (US\$8,152 million) would take place in 2013, the year of the hypothetical global crisis, with an insignificant increase in 2014 (because of avoiding the need to make payments on the GDP-Linked Unit), and an increase of US\$2,000 million in 2015 (owing to the assumed lower primary fiscal surplus). In this scenario, the demand for financing from all International Financial Institutions, including the Bank, would surely increase. The Bank will analyze, should the case arise, its ability to meet this hypothetical larger demand based on the intertemporal availability of lending funds at that time.

In this hypothetical scenario, the adverse shock is concentrated in the second year of the strategy, with lesser effects in the following years. Other scenarios may be built, in which the adverse shock takes place later on, in which case the increase in the demand for funding from the Bank during the strategy period would be smaller.

Price stability. As analyzed in Annex I, the inflation rate in the metropolitan area of Buenos Aires has remained high, but stable, around an annual rate of 10% in 2010 and 2011, a situation that continued during the first semester of 2012¹¹⁹ Moving forward, the greatest risk is that, in case of a hypothetical adverse international trade and financial shock, a higher reliance on monetary financing, combined with a possible reduction in money demand, results in a negative impact on inflation.

¹¹⁹ The average of annual inflation reported by the Directions of Statistics of the provinces of San Luis, Santa Fe and Misiones was 26.5% in 2010 and 24.3% in 2011.

ANNEX IV – DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

COUNTRY STRATEGY: ARGENTINA (2012-2015)

STRATEGIC ALIGNMENT Measures two dimensions: (i) the extent to which the objectives of the strategy are consistent with the country's development challenges and with the government's priorities and plans; and (ii) use of a mix of products (financial, knowledge, technical assistance) to attain the objectives, and identification of other cooperation agencies and their areas of action.

Consistency of strategic objectives : The strategy proposes a geographical focus to prioritize the interventions in the Norte Grande region and Buenos Aires Urban Cone through 3 lines of action and the following intervention areas: (i) Alleviation of restrictions affecting growth (Transportation, Energy, Agriculture- livestock and rural development, Private Sector Development, Tourism Development); (ii) Social and economic inclusion of the population (Education, Health); (iii) Urban Sustainability (Potable Water, Sanitation and Solid Wastes, Urban Development, Urban Transportation). The topics of environmental sustainability and climate change, and youth development will be addressed as crosscutting issues in the strategy. All areas selected for Bank interventions address development challenges and are consistent with the priorities set by the Government of Argentina. In addition, the selected work areas result from the dialogue between the country and the Bank.

Mix of products and participation by other donors : The strategy proposes to use different Bank instruments, such as sovereign guarantee operations, non sovereign guarantee operations, and technical cooperation. The strategy takes into account interventions by other multilateral cooperation agencies including the World Bank, UNESCO, UNICEF and CAF, among others.

EFFECTIVENESS: Measures whether the country strategy is likely to achieve its intended objectives, through an examination of four dimensions of effectiveness.

Effectiveness dimensions	%
I. Sector diagnostics	
- Identifies the main problems based on empirical evidence	100
- Identifies the main beneficiaries	100
- Identifies and measures the factors that contribute to the problems identified	100
- Presents the policy framework and a sequence for Bank intervention	100
- The diagnostic corresponds to the objectives presented in the strategy	100
II. Results matrix	
- The expected outcomes are clearly defined	100
- The indicators are outcome indicators and are SMART	100
- The indicators have baselines	95

Fifteen sector notes were presented to support the strategy.

- All the notes clearly identify the main sector problems based on empirical evidence.
- All the notes identify the potential beneficiaries in each area of intervention.
- All the notes identify or measure the factors that contribute to the problems identified.
- All the notes identify the policy framework and a sequence for Bank actions.
- In 100% of the notes, there is consistency between the note and the proposed strategic objectives.

Results Matrix : The results matrix contains 31 strategic objectives for Bank action and 42 indicators to track progress.

- 100% of the strategic objectives clearly identify expected outcomes.
- 100% of the indicators used are SMART
- 95% of the indicators have baselines.

Country Systems : Different actions are expected to strengthen some of the financial management sub-systems(budget, accounting and reports and auditing) and acquisitions (information system). During the period covered by the strategy, the financial management and procurement subsystems will be used.

Lending Framework : The strategy contains an analysis of the country's financing requirements and provides an estimate of a scenario for the sovereign guarantee financing. The lending framework estimates an average annual approval of US\$1500M or US\$6000M for the period 2012-2015. These are tentative amounts and would be subject to the availability of Bank resources as well as the annual programming exercise.

RISKS. Measures three dimensions: (i) identification of factors that actually do or might affect attainment of the proposed objectives, (ii) definition of mitigation measures and (iii) monitoring mechanisms:

The strategy identifies the risks associated with bank participation in each of the strategic sectors and identifies mitigation measures. It also identifies macroeconomic and institutional risks.

ANNEX V –OVE EVALUATION OF THE COUNTRY PROGRAM (CPE)¹²⁰

OVE Recommendations in the Country Program Evaluation (CPE)	Response from Management and link with the Country Strategy for 2012-2015
<p>Recommendation 1: To address issues associated with the institution's relevance in Argentina, the Bank should make the technical investments that will allow it to maintain a policy-relevant engagement in complex development issues. It should deploy these resources during both programming and execution, in order to maximize its contribution to development. It should favor high-level dialogue as a mechanism to engage in controversial development issues.</p>	<p>Agree. Both during the period that the strategy update covered (2009-2011) and in the framework of the preparation of the 2012-2015 strategy, there were advances in increasing the Bank's technical background in different areas considered to be strategic for the Bank to support the country, which has made it possible to maintain a better and more effective policy dialog. Amongst them, it is worth noting the areas of education, water and sanitation, technological development and innovation, and competitiveness. The studies prepared, along with technical notes, served as a base to produce the sectorial and thematic diagnostics that led the dialog and, at the same time, they will serve for the definition of priorities that will guide the formulation of the operative program and the preparation of future projects in a geographical prioritization frame that mainly favors the areas that register the least relative development and the greatest concentrations of poverty in the country.</p>
<p>Recommendation 2: Given the persistence of the Bank's engagement in social protection, the Bank has an opening to continue to assist the country in its transition toward an integrated social protection system. The Bank should complement this opening with activities to help the country improve the coverage and effectiveness of Argentina's set of social protection programs. This necessarily includes renewed investments in assessment of coverage and program evaluation.</p>	<p>Partially agree. In the area of social protection, a large agenda to support the country in the transition towards the new "Universal Allocation per Child for Social Protection" was foreseen since 2009, and it turned in the main axis of the rearrangement of the Social Protection and Inclusion System. This agenda, which included actions to correct defects in the mechanisms of identification and focus of beneficiaries, in the articulation of the non-contributive policies with the sectorial offer in education, health and nutrition, and the consolidation of the inter-institutional framework, did not advance as it had been foreseen, because of the complexity of the technical dialog and the government's decision to channel the Bank's support to other areas of greater priorities.</p>
<p>Recommendation 3: The Bank should define a clear and evaluable competitive strategy with Argentina. It should clearly explain how the existing portfolio, and new operations proposed, work toward agreed objectives. The Bank should also expand its knowledge base on program effectiveness and use this assessment exercise as a mechanism to prioritize and order its competitiveness portfolio.</p>	<p>Agree. The Bank and FOMIN have been contributing to the development of competitiveness in Argentina through different programs related to the development of agricultural services, technological modernization, the promotion of innovation and the corporate restructuring to support SMEs in the areas of access to credit, export diversification, promotion of standards and quality certifications, business development services and encouragement of territorial competitiveness, among others. In the frame of challenges the country faces to increase its economy's productivity and competitiveness, and taking into account this recommendation from the OVE, it is foreseen for the Bank to continue to support the government's efforts in coordination with the private sector in relation to the promotion of productivity and competitiveness of Argentinean companies, especially SMEs. Insofar as the</p>

¹²⁰ These recommendations were taken from the Evaluation of the Country's Program 2003-2008, carried out by OVE (RE-361). There is no evaluation of the Update of Strategy for Argentina 2009-2011 (GN-2570), given that it maintained the strategic guidelines and Strategy sectors 2004-2008, and therefore the recommendations continue to be valid for the period the update covers.

	technical dialog permits, the definition and construction of a national strategy for competitiveness with clear objectives and determined goals will be promoted.
<p>Recommendation 4:</p> <p>The Bank should prioritize evidence of effectiveness when establishing long-term funding commitments. In order to do this the Bank should develop a specific and deliberate strategy linking future lending commitments to demonstrated program effectiveness and institutional capabilities.</p>	<p>Agree. This recommendation is related to OVE's perception that the use of the Conditional Credit Lines for Infrastructure Projects (CCLIPs) instrument may have been distorted and indiscriminate. Even though it is recognized that nowadays there is an important amount of CCLIPs in the portfolio, their use was deliberate and responded to a rationality whose purposes were: (i) maintaining, on the one hand, presence in key sectors for the Bank's core activities in the country (education, science and technology, transport, urban development, water and sanitation, agricultural production development) and, on the other hand, maintaining a minimum dialog of sectorial policies with at least a medium term dimension; (ii) strengthening the institutionality in key core activity sectors, and (iii) providing the opportune resources that confer continuity to the programs and personnel in executing agencies. The sectors that currently count with CCLIPs show adequate institutional capacities, and at the same time, the respective institutions are being the object of progressive institutional strengthening programs that will allow them to continue to reinforce its planning, execution and result evaluation capacities. Any other additional funding in the frame of implementation of the new country strategy that implies medium- or long-term commitments will have to comply with the exposed purposes.</p>