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Argentina: Country Assistance Strategy

1. We welcome this discussion on the Country Assistance Strategy for Argentina. We think this document is of high quality and we endorse the proposed lending scenario.
2. Argentina has performed well during the last decade, especially in light of its past history of stagnation and hyperinflation, and the external shocks that have had so much negative impact on its economy throughout the 1990s. The reform agenda of the last ten years has made the country better equipped in coping with external shocks. Liberalization of the economy and strengthening of the financial sector have clearly contributed to the relatively quick recovery of the economy after the Tequila crisis in 1995 and last year's recession. The Argentine Government should be applauded for these achievements and its commitment to the stabilization program.
3. According to OED, the ongoing work program in Argentina is among the best that they have ever seen in the Bank. This is a very encouraging outcome and we commend staff and management for excellent performance.

Poverty Focus

4. We have one main concern about the Bank's work program in Argentina : Progress to reduce poverty has been very limited and performance in the social sector is not satisfactory. While the overall welfare improved and GDP per capita increased in recent years, income equality deteriorated and the poverty rate went up. Although we know from reading the document that poverty reduction receives a lot of attention we are somewhat concerned that the Government's Development Strategy—as described briefly in paragraph 67 in the CAS—does not explicitly mention the focus on poverty reduction as a part of its long-term vision. In addition, the Bank's efforts to contribute to poverty reduction are perceived ineffective.

5. The OED Country Assistance Evaluation points out that the Government does not have a well-defined strategy for the social sectors. Weak language in the CAS on social development supports this assessment. In our view, the proposed Bank activities in the social sectors are appropriate and justified. While we acknowledge the performance indicators for social development in Annex B9 we would have wanted to see a more holistic approach to poverty reduction and social development in the CAS. We like OED's suggestion that the Bank should try to assist the Government develop a strategy for social development. We think that such strategy should contain clear objectives, a sound action plan and monitorable benchmarks. Whether the development of a social risk management framework, which is mentioned in paragraph 102 in the CAS, is a first step in that direction is unclear to us. We would welcome clarification from staff on that issue. Irrespective of the concept and purpose of the social risk management framework we would have liked to see a clear timeframe for this work spelled out in the CAS.

6. We are struck by the huge differences among the provinces, both in terms of income per capita and social indicators. The CAS explains that poverty rates in the Northeast and Northwest are much higher than in the rest of the country. We support that provincial reform should be the main pillar of the proposed work program but we are not convinced that efforts to reduce poverty in the poorer provinces are given sufficient weight in the program.

Other Issues

7. We welcome the discussion on private sector development, which includes better access to credits, capital market development etc. However, implementing the strategy needs to be done in an appropriate and careful manner, bearing in mind earlier difficulties of directed support. It is also commendable that the CAS discusses the challenges for the Government of Argentina in making the labour market more flexible and adaptable to changes in the need for labour.

8. On the prospects for the Argentine economy, the budget deficit is not so much elaborated upon in the CAS. The fixed exchange rate to the US dollar is only credible if the Government succeeds in keeping the public expenditure within limits. It should also be mentioned that the increased rate of interest might possibly herald lower than expected growth rates.

9. We welcome intensified selectivity for Bank operations and we see a justification for the Bank to reduce its involvement in the transport sector. We wonder, however, why the Bank will abandon efforts to reform higher education and withdraw from judicial reform. Is it because the policy environment is not favorable, do other institutions maybe have a comparative advantage in these areas, or is it because we don't want to jeopardize the Bank's excellent track record in Argentina?

10. With regard to the consultative process we are impressed by the efforts that were made to reach out to civil society during the preparation process of the CAS. The document identifies four areas where civil society had a common view how the Bank could make improvements in order to enhance its effectiveness. Unfortunately the CAS does neither

explain if or how these general proposals—nor other more specific suggestions—were incorporated in the final document, which in our view would have been an appropriate completion of a commendable consultation process. We would like staff to elaborate on to what extent they were able to accommodate recommendations received during the consultations.

11. We support the proposed base case lending program but we want to get some indication what would be the size of a low case lending scenario. As regards the proposed triggers we would like to get some clarification what are the "specific triggers" that partly constitute the base case lending program.

12. We commend the Bank for its gender work in Argentina. OED has evaluated that the Bank's gender approach is comprehensive and that important initiatives have been taken in this field in recent years. Still, there seems to be further room for better gender consideration in Bank projects according to the CAS (ref. Box 9). In our view the Bank's program in Argentina has the potential to become an example of best practice for how to mainstream the gender dimension in Bank operations and we urge the Bank to pursue that goal in cooperation with the Government.

13. We think that the overall proposed reduction in lending levels to Argentina is appropriate while we agree that graduation is not timely. In 1997 the Board asked management to work with the country authorities to develop a set of monitorable graduation indicators. We therefore would have wanted to see the document consider such indicators in a more direct way in the CAS. We urge the Bank to keep this issue under review.

14. Finally, we wish the Government of Argentina every success in the implementation of its economic program and we hope that in the spirit of transparency the Government will make the document public.