

Republic of Argentina

Province of Buenos Aires

Improved Public Financial Management for Better
Service Delivery in Health and Education Sectors

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Abbreviations and Acronyms

ABL	Spanish acronym for municipal lighting, sweeping, and cleaning fees
ARBA	Spanish acronym for Buenos Aires Province Tax Collection Agency
ATNs	Spanish acronym for National Treasury Contributions
BAPRO	Spanish acronym for Bank of the Province of Buenos Aires
B40	Bottom 40 percent
CABA	Spanish acronym for Autonomous City of Buenos Aires
CAPS	Spanish acronym for Primary Care Centers
COSO	Committee of Sponsoring Organizations
CPS	Country Partnership Strategy
DGCyE	Spanish acronym for Directorate General of Culture and Education
DNCFP	Spanish acronym for National Directorate of Fiscal Coordination with the Provinces, (National) Ministry of Economy and Public Finance
DPCM	Spanish acronym for Provincial Directorate of Municipal Coordination
DPDCP	Spanish acronym for Provincial Directorate of Public Debt and Credit
DPP	Spanish acronym for the Provincial Directorate of Budgeting
DPPT	Spanish acronym for the Provincial Directorate of Tax Policy
FFE	Spanish acronym for the Educational Financing Fund
FFPS	Spanish acronym for the Social and Sanitation Program Strengthening Fund
FFS	Spanish acronym for the Federal Solidarity Fund
FID	Spanish acronym for the Teacher Incentive Fund
FMIS	Spanish acronym for the Municipal Fund for Social Inclusion
FFRM	Spanish acronym for the Strengthening Municipal Resources Fund
FSP	Spanish acronym for the Provincial Solidarity Fund
GAO	General Accounting Office
GDP	Gross domestic product
GFS	Government finance statistics
GGP	Gross geographic product
HTC	Spanish acronym for Honorable Court of Accounts, Buenos Aires Province
INDEC	Spanish acronym for National Institute of Statistics and Census
INTOSAI	International Organization of Supreme Audit Institutions
IOMA	Spanish acronym for the Institute of Medical Assistance
IT	Information technology
LAF	Spanish acronym for Provincial Financial Management Law
MDA	Ministries, departments, and agencies
MDGs	Millennium Development Goals
OECD	Organization for Economic Co-operation and Development
PBA	Province of Buenos Aires
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PRODIABA	Spanish acronym for Program for the Prevention, Diagnosis, and Treatment of Diabetic Patients
PRMM	Public Resource Mobilization and Management Unit, Governance Global Practice
RAFAM	Spanish acronym for Financial Administration Reform in the Municipal Scope
RV	Spanish acronym for municipal Road Network fee
SAE	Spanish acronym for School Lunch and Snack Program
SAI	Supreme audit institution
SAMO	Spanish acronym for System of Organized Medical Attention
SDGs	Sustainable Development Goals
SF	Financial System
SIAPE	Spanish acronym for Provincial Single System of Personnel Management
SICOINCE	Spanish acronym for the Integral Accounting Information System of School Boards
SIGADE	Spanish acronym for the Public Debt Management and Administration System
STA	Single Treasury Account

TISH Spanish acronym for Municipal Security and Health Inspection Fee
VAT Value-added tax

Currency Equivalent (June 23, 2015)
1\$US = 9.06 Argentine Peso

Preface

In preparation of the World Bank Argentina Governance Strategy, the authorities of the Province of Buenos Aires agreed to conduct a sectoral public financial management (PFM) assessment. The Province of Chaco was selected as well; however, unforeseeable circumstances precluded its inclusion at this stage.

The assessment was conducted in March 2015 by a team composed of Alejandro Solanot, Franck Bessette, Ana Grofsmacht, and Daniel Nogueira-Budny. The team is especially grateful for the help of Ana Kuschnir. The preparation of this report benefited greatly from extensive comments from Svetlana Klimenko, as well as from Daniel Boyce, and Zafer Mustafaoglu; Juan Carlos Serrano addressed the comments received from the Province. The assessment team would like to thank Luis Perez, Sr. Public Health Specialist (GHNDR) and Diego Ambasz, Sr. Operations Officer (GEDDR) for their input and collaboration. It is expected that this assessment as an entry point for the Bank to begin offering provincial-level assistance to build more sustainable PFM capacity in specific sectors.

The team would like to thank the government team of the Province of Buenos Aires, led by Ms. Silvina Batakis, the Minister of the Economy, particularly Ms. Karina Angeletti and Mr. Daniel Berazadi, both of the Undersecretary for Coordination with States and International Financial Organizations (SCEOCI), without whose support the mission would not have succeeded.

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Executive Summary

- i. The objective of this report is to assess PFM systems existing at the level of PBA with a particular focus on the health and education sectors, and to understand linkages existing between the institutional settings in these two sectors and PFM processes. By doing so, the report shows the direct impact of poor PFM on service delivery in health and education. Since these two sectors have significant effects on the bottom 40 percent of the population, this will help Argentina’s subnational governments allocate and use public resources more efficiently, and with greater accountability for their expenditure.¹
- ii. To achieve this objective, this assessment used a unique framework, partially based on a select number of PEFA indicators, but customized to “tell the story” linking PFM processes to the quality of service delivery. Thus, it provides a detailed overview of intra-governmental institutional and fiscal arrangements existing in health and education sectors, and examples of how the quality of service delivery at the provincial level can be affected by the performance of PFM systems and institutions.
- iii. While improving the efficiency and effectiveness of public expenditure is always valuable, and particularly so for the poorer citizenry that disproportionately relies on public services, this effort is especially timely in the context of the Sustainable Development Goals (SDGs), which are to replace the Millennium Development Goals (MDGs) that guided the global effort to reduce poverty and human deprivation through collaborative action since the Millennium Summit of the United Nations in 2000. The growing consensus around the need to move from “billions” in official development assistance to “trillions” in overall development financing² has two fundamental prongs: (a) supporting countries in taking the lead in mobilizing their own domestic resources to foster sustainable development, and (b) supporting countries in taking the lead in improving the efficiency, efficacy, and transparency of public spending. The latter prong involves, among other things, providing increased technical and financial support to improve tax administration, public expenditure policies and practices, financial integrity, and public debt management.

Intergovernmental Dynamic

- iv. Argentina has witnessed the gradual transition of responsibility for social services from the federal level to the provincial (and, in select cases, municipal). The federal level provides the general objectives and criteria for the sector, as well as the follow-up of results and the provision of technical assistance to lower levels. The provincial level has the

¹ This report was prepared by the Public Resource Mobilization and Management Unit of the World Bank, with the assistance of the government of the Province of Buenos Aires (PBA). The findings and recommendations should serve as an entry point for the World Bank Group to begin offering provincial-level assistance in building more sustainable PFM capacity at the sectoral level.

² “From Billions to Trillions: Transforming Development Finance: Post-2015 Financing for Development—Multilateral Development Finance” (2015). Development Committee Discussion Note, prepared jointly by the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Monetary Fund, and World Bank Group.

operational responsibility to implement policies and adapt them to the province. The municipal level takes care of the provision of more simple services.

- v. PBA's 135 municipalities have their own budgets, voted on by municipal councils and implemented by municipal administrations. Municipalities now provide a growing array of services, including in education and health. It is quite difficult to measure the extent of these services, however, at least as they relate to the PFM system given the absence of consolidated data and the opacity of financial flows.

Institutional Set-Up

- vi. PBA's constitution provides the framework for PFM. Its Financial Management Law defines the province's four financial administration sub-systems—budget, credit and debt, treasury, and accounting—and identifies a monitoring and supervision entity.
- vii. The Law reflects the provisions of the Constitution regulating the provincial control system, which is comprised of the General Accounting Office (GAO), the Public Prosecutor's Office, and the Court of Accounts (HTC). These create a checks-and-balances mechanism within the executive branch.
- viii. PBA's Directorate General of Culture and Education (DGCyE) is responsible for the administration and provision of all education services. Since 1994, administrative aspects of education service are decentralized at the municipal level: school boards serve as coordinators that plan and execute provincial educational funds for schools.
- ix. PBA's Ministry of Health administers public health programs and entities stemming from the country's three different levels of government. As with education, provincial health care is decentralized, with sanitary regions acting as the coordinators among health care providers. Sanitary regions also assist the Ministry in the strategic planning, supervision, and management of its hospitals. Basic health services are provided by primary care centers (CAPs), which are funded by the Ministry but maintained at the municipal level.

Funding of Provincial Service Delivery

- x. Most public service delivery expenditures occur at the subnational level in Argentina; however, revenue collection remains strongly centralized. Provincial service delivery is funded through two main sources of revenue: various forms of central government transfers—including earmarked resources from public service funds and programs—and taxes and fees collected at the provincial level. At the municipal level, service delivery is funded by provincial government transfers (including municipal co-participation), national government transfers through earmarked public service funds and programs, and fees collected within the municipality.
- xi. Overall, education services in PBA are funded by the DGCyE's budget, national funds, municipal co-participation, and targeted provincial funds paid for by provincially collected taxes. Although a relatively large percentage of PBA's budget is destined for the DGCyE; this is essentially a pass-through function as 97 percent of the Directorate's funds goes to teacher salaries.
- xii. Health services in PBA are funded by a combination of sources: national- and provincial-level programs and funds, as well as resources earmarked in the provincial budget for the Ministry of Health. The Ministry manages four national-level and 29 provincial-level programs. The 12 sanitary regions serve as a nexus between area hospitals and 2,092 CAPs,

help administer the 75 (non-autonomous) provincial hospitals, and run the national-level health programs within the region.

PFM and Service Delivery in the Health and Education Sectors

- xiii. PFM literature considers the three functions of a PFM system as fiscal discipline, strategic allocation of resources, and efficient service delivery, with the first two functions in large measure in service of the third. Thus, the ultimate issue in assessing sector-level PFM performance centers on service delivery, one metric of which is the PEFA³ Performance Framework and Indicators, reflected in the following bold-faced, italicized paragraphs; direct impact that these PFM factors may have on service delivery are detailed in box texts in the report.
- xiv. ***Budget Credibility.*** PBA's budget is a credible instrument and a good predictor of the actual allocation of resources, notwithstanding in-year changes that substantially impact appropriations and constant pressure on salary expenditure.
- xv. ***Budget Comprehensiveness and Transparency.*** PBA's budget is a comprehensive document covering all provincial government resources and expenditures, as well as detailed flows from the federal level and to decentralized levels of government. Although substantial information is made available in a complete and timely manner, the existing accountability framework is opaque and legal channels for redress are absent.
- xvi. ***Policy-Based Planning and Budgeting.*** Comprehensive revenue forecasts covering the coming fiscal year are prepared, and three-year forecasts at a more aggregated level are also published as part of the budget documentation. A clear tax policy is established under the responsibility of the Tax Policy Directorate. However, there is no general guidance on the preparation of sector strategies. Moreover, there is substantial room for improvement in DGCyE and Health Ministry sectoral strategy. Thus, planning exercises are fragmented and not formalized within a single document that could provide operational guidance, with strategy costs disaggregated by investment and recurrent expenditures.
- xvii. ***Performance Information for Achieving Efficiency in Service Delivery.*** The budget document does not include a discussion of performance. The budget classification does include a programmatic classification; however, these generally just mirror administrative classifications. These programs do help link budget appropriations to policies, but they do not include a performance measurement framework. There is also no clear link between service delivery performance/monitoring and resource allocation mechanisms.
- xviii. The Provincial Directorate of the Budget has initiated an innovative exercise to build a framework to evaluate physical and financial targets, with indicators for all provincial administration entities. While promising, results-based-budgeting remains at an embryonic stage.
- xix. ***Asset and Liability Management.*** PBA keeps public asset and debt registries; however, they are not an integrated component of PBA's PFM system. The Province uses cash accounting, meaning that asset depreciation is not captured and analyzed as part of the Public Investment Management process.

³ The Public Expenditure and Financial Assessment (PEFA) exercise is a diagnostic tool developed by a partnership program comprising the World Bank, the International Monetary Fund, the European Commission, UK's Department for International Development, the French Ministry of Foreign Affairs, the Swiss State Secretariat for Economic Affairs, and the Norwegian Ministry of Foreign Affairs.

- xx. **Predictability and Control in Budget Execution.** Quarterly budget execution reports in PBA are released approximately six months after the period covered, but with limited utility with respect to monitoring and management purposes. Almost 95 percent of provincial entities use the provincial Treasury Single Account (TSA). Cash flow forecasts are established at the start of the new fiscal year and updated on a monthly basis. PBA does not usually experience liquidity problems.
- xxi. Internal controls for non-salary expenditures are quite effective. They are implemented by the GAO, the Office of the Public Prosecutor, and the General Government Advisory Unit. However, there is some overlap of controls, which could potentially generate delays and reduce the effectiveness of budget execution. Payroll controls and the less than optimal linkage between personnel records and the wage bill are major concerns for PBA.
- xxii. There is no provincial-level body governing the public procurement system and responsible for proposing policies and regulations. Thus, each ministry applies general provisions of the provincial Accounting Law – Decree 7764/71 and Procurement Regulation Decree 3300/72, but adopts *ad hoc* specific procurement procedures and their own information systems. Planning deficiencies lead to a high percentage of procurement procedure exceptions, through the use of non-competitive methods and the splitting of purchases in order to be able to use non-competitive methods.
- xxiii. **Accounting, Recording, and Reporting.** Annual financial reports are based on budget execution accounting, not financial accounting. The comprehensiveness of PBA's financial reports has increased substantially over the last 3-4 years, with the inclusion of various social security institutions and decentralized entities. However, the utility information thus produced is limited, as PBA continues using cash-based accounting. Furthermore, expenditure data reporting from entities managing and receiving public service funds, such as school boards and sanitary regions is very limited, which severely undermines efforts to analyze historical data on service delivery/expenditures in the health and education sectors.
- xxiv. **External Scrutiny and Audit.** In recent years, PBA's Supreme Audit Institution, the HTC, has begun undertaking performance audits. While in the early stages and not integrated into regulatory audits, performance audits show much promise.

Main Conclusions and Recommendations: “Doing More with Less”

- xxv. Sector-specific PFM reforms can potentially lead to quicker wins at lesser cost. They can provide ready solutions to real problems that have a direct, tangible effect on those in the bottom 40 percent of the income scale (B40). The impact of such reforms on service delivery, however, varies widely, based on the context and a combination of inputs, and requires additional analysis which lies beyond the scope of this assessment. Ideally, proposed PFM reforms should be prioritized according to their level of impact on service delivery in a target sector(s).
- xxvi. PBA has made substantial improvements in its PFM performance in recent years, including increased integration of information technology (IT) in the PFM system, the establishment of an STA in 2013, increased capacity of the HTC to audit the wage bill in the education sector, and pilot performance audits by the HTC. Despite this progress, challenges remain. Most critically, as discussed above, there is substantial room for improvement in sector planning, programs, and a performance measurement framework. Past performance

in health and education sectors is poorly linked with future resource allocation; accountability framework and controls need improvement; elements of accrual-based accounting are missing; and asset, debt, and cash management systems are not integrated.

- xxvii. This report provides a number of recommendations which could be implemented through harmonized reforms focused on service delivery and PFM performance in health and education sector. Broadly speaking, these reforms could be grouped around vertical and horizontal dimensions focused on the consolidation of fiscal intra-governmental relationships and simplification of funds flow in these two sectors, as well as on the strengthening of institutional and PFM arrangements at the provincial level. Such integrated approach is likely to be more effective than single-issue interventions because it builds multi-dimensional institutions and processes needed for sustainability.
- xxviii. The World Bank stands ready to discuss the detailed recommendations provided in this report. It is in position to engage in future interventions that could provide technical assistance at the sector level. As part of this work it can draw on the successful engagements focused on similar set of issues, such as a series of health projects in Indonesia which assisted the government in shifting responsibilities for planning and management of resources to district authorities.

Argentina: Improved Public Financial Management for Better Service Delivery in Health and Education Sectors

1. Introduction

1. The Argentina Country Management Unit of the World Bank requested the Public Resource Mobilization and Management Unit (PRMM) for Latin America and the Caribbean of the Global Governance Practice to conduct a customized assessment of the links between performance of the public financial management systems in the health and education sectors and service delivery, at the *provincial* level. To this end, in March 2015 a Bank mission surveyed the performance of public financial management (PFM) in the implementation of fiscal policies, management of state activities, and distribution of limited resources in the province of Buenos Aires (PBA).

A. Report Objectives

2. The objective of this report is to assess PFM systems existing at the level of PBA with a particular focus on the health and education sectors, and to understand linkages existing between the institutional settings in these two sectors and PFM processes. Since these two sectors have significant effects on the bottom 40 percent of the population, this will help Argentina's subnational governments allocate and use public resources more efficiently, and with greater accountability for their expenditure. The report proposes specific recommendations to improve performance of the PFM systems, with a particular focus on those areas that have the highest impact on the performance of health and education sectors. However, a detailed analysis of the differential impact of each reform on service delivery was outside the scope of this report (such analysis is expected to be conducted by a follow-up assessment). As different PFM reforms have varied impacts on service delivery, such an analysis, followed by a prioritization of reforms based on level of impact, is key to ensuring that education and health service delivery is strengthened for the sake of Argentina's poor.

B. Methodological Approach

Selection of the Province of Buenos Aires

3. The World Bank Group's FY15-18 Argentina Country Partnership Strategy (CPS) stresses "the need to sustain social goals achieved in recent years and expand social inclusion in an efficient and sustainable manner, while supporting Argentina in mitigating the risks to vulnerable groups of economic downturns and external shocks."⁴ The CPS also sets target outcomes for improvements in the lives of the B40.

⁴ World Bank. 2014. *Argentina – Country Partnership Strategy FY2015-2018*. Washington, DC: World Bank Group.

4. PBA was selected because it is home to the country's largest number of poor people—this is a function of the size of PBA's population (its gross domestic product per capita is above the national average). According to the 2008 household survey by the National Institute of Statistics and Census (INDEC), 4.4 percent of the province's total population is poor, 0.3 percentage points higher than the national average. Given a 2010 population of 15,625,084,⁵ this translates to almost 690,000 people. As such, any effective subnational strategy to improve the lives of Argentina's poor must start with PBA.

5. PBA was also selected as the provincial case study because it is home to almost 39 percent of the total population, and is the country's most representative province.⁶ Excluding it from the study would compromise the assessment's ability to speak accurately to the national situation.

6. The province's economy, which makes up approximately 36 percent of the overall Argentina gross domestic product (GDP), is well diversified. According to the Provincial Directorate of Statistics of the Ministry of Economy, slightly more than one-quarter of the provincial GDP derives from industry; of particular importance are chemical manufactures, food and beverages, and iron and steel. Slightly more than 17 percent comes from transport services, 13.3 percent from real estate, 12 percent from tourism, and almost 6 percent from construction. While agriculture makes up a small share of the province's economy, it is a highly dynamic sector that has been growing exceptionally since 2003.

7. A significant share of the province's primary expenditures goes to public sector salaries. The exact share is unknown, since, even though Buenos Aires does have a provincial-level employee database at the Ministry of Economy's Directorate of Labor Economy, it is not publically available online. According to the *national* Ministry of Economy and Public Finance's National Directorate of Fiscal Coordination with the Provinces (DNCFP), PBA employed 654,435 people in 2012, the latest year for which data is available. This is equal to 41 employees per 1,000 people, giving PBA the third lowest ratio of the provinces included in the database.⁷ However, according to data from PBA's 2015 budget law, there are 461,832 permanent and temporary employees (of which 228,898, or 48.3 percent of the total, are employed by the provincial Directorate General of Culture and Education).⁸

Assessment methodology

⁵ Argentina's most recent census took place in 2010.

⁶ Argentina is a federal republic composed of 23 provinces and the Autonomous City of Buenos Aires, the nation's capital, which is commonly referred to as CABA for its Spanish acronym. For administrative and political purposes, the Autonomous City of Buenos Aires lies *outside* of the Province of Buenos Aires; as such, this assessment is of PBA, *not* CABA. For the purposes of this report, reference to Argentina's "provinces" includes the subnational entity of CABA.

⁷ Information is not available for six provinces and CABA.

⁸ Most provincial public servants interviewed by the Bank mission cited a number between 500,000 and 650,000, leading the report to rely upon the national number, not those found in the provincial budget. The reason for this significant discrepancy is unclear.

8. This service delivery assessment used a unique framework, based in large part on a select number of PEFA indicators. However, it has been customized to “tell the story” linking PFM processes at the provincial level to the “vertical” institutional arrangements in health and education sectors, including national, provincial, and municipal levels. Particular attention was paid to budgetary and flow-of-funds arrangements existing in these two sectors due to a high level of interconnectedness in these areas between the three levels of Government. This report has sought examples of how the quality of service delivery can be affected by the performance of PFM systems, particularly at the budget preparation and execution stages. The former involves determining the choice of performance indicators, links between strategic planning and past performance, and rules guiding the allocation of available resources; the latter involves procurement, internal controls, assets and cash management, and preparation of financial information. This approach is intended not only to seek ways to help ensure that public funds are providing value for money, but also to enable the efficient and effective delivery of public services so that the social and economic conditions of Argentina’s B40 are improved.

9. The mission conducted interviews with a number of government agencies and officials from PBA. Offices within the Ministry of Economy consulted include the Undersecretary for States and International Financial Organizations Coordination, Budget, Tax Policy, Accounting and Auxiliary Services, Public Expenditure Analysis, and Municipalities Coordination. Other agencies consulted included the General Treasury, the General Accounting Office, the Honorable Court of Auditors, the Directorate General of Culture and Education (DGCyE),⁹ and the Ministry of Health. A complete list of interviews can be found in Annex 1.

Roadmap

10. Following this Introduction, Chapter 2 discusses the dynamics at play between Argentina’s three levels of government, including advances and challenges in intergovernmental coordination. Chapter 3 describes PBA’s institutional context, its 135 municipalities, and its relevant PFM institutions. Chapter 4 explains the composition of PBA’s revenue base, as well as that of its municipalities. Chapter 5 explains how the main PFM pillars link to and impact service delivery. Finally, Chapter 6 proposes a series of recommendations to enhance public sector management and governance in ways that address the provincial-level development challenges affecting the lives of Argentina’s B40.

2. Intergovernmental Dynamic

11. Over the last quarter century, Argentina has witnessed the gradual transition of responsibility for public services from the federal level to the provincial and, in some cases, municipal. Today, the roles of the three levels of government have been established as follows:

⁹ PBA does not have a “ministry of education”; rather, per its constitution, education is administered by the Directorate General, which is one of 19 decentralized entities consolidated within the central administration.

- a. The *federal* level provides general objectives and criteria for the sectors, as well as follow-up of results and provision of technical assistance to lower levels;
- b. The *provincial* level has the operational responsibility to deliver service delivery and implement policies and adapt them to the provincial circumstances;
- c. In certain provinces (including PBA), the *municipal* level takes care of the provision of basic services in health through primary care centers and municipal hospitals, which in several municipalities often provide in-hospital medical care services, and in education through kindergartens (although, in general, municipal participation in education is less than in health).

i. Social Service Decentralization

12. From approximately 1978 to 1982, Argentina's central government transferred a large number of public service responsibilities to the provinces. Services assigned to provinces included primary education and management of a number of medium-sized hospitals in 1978, followed by primary education for adults, electricity, water, irrigation, and more hospitals from 1980-1982.

13. Between 1992 and 1994, the Argentine central government then devolved all public secondary schools to the provincial governments. Along with this responsibility transfer was the 1991 Educational Fund Law (23.906), which established the transfer of 65 percent of the federal government's earmarked educational funds directly to the provinces; the remaining 35 percent went to the Ministry of Education. Since then, provinces have been in charge of both the administration and provision of basic education services, while the federal government is responsible for regulating and evaluating the education system.

14. Health services underwent a similar devolution. However, as the Argentine health sector had long developed in a decentralized manner, health transfers to the provinces in the 1990s were relatively small in comparison to those of the then more-centralized education sector. In 1992, the federal government transferred a number of its public hospitals and programs dealing with minors and the family to PBA, CABA, and Entre Rios.

15. In the 2000s, following Decree 930/00, PBA's hospitals gained increased authority to define and formulate their policies and programs and prepare and manage their own budgets, under the authority of a board. With Decree 3377 of 2006, decentralization was extended to PBA's 12 "sanitary regions" (*regiones sanitarias*), which have since operated under the same regulations as hospitals.

B. The Province as the Center of Health and Education Service Delivery

16. Argentine provinces provide service delivery through three key channels: (a) provincial-level implementation of federal programs, (b) direct provision of services

through provincial budget proceeds, and (c) transfers to the municipal level of government and to decentralized entities (hospitals, schools, etc.).

17. The provision of education in Argentina is now mainly the responsibility of the province, with only minor parts executed at the federal level (in certain provinces, such as PBA, the amount of municipal participation has grown but still pales in comparison to the amount of education services provided by the province). In recent years, the federal level has contributed to education spending through programs, such as 700 Schools, More Schools, and More Schools II, as well as directly through the budget of the federal Ministry of Education. Other federal resources are provided through the Teacher Incentive Fund (FID) or educational programs such as Connect Equality, which seeks to bridge the country's digital, educational, and social divide.

18. The same logic is at play in health, although the system involves the private sector and the social security system, with their related transfer mechanisms (through subsidies to non-public systems and collection of fees from those who receive medical attention in non-public schemes).¹⁰ Federal health programs are less numerous and important in volume than in education, with the exception of Nacer/SUMAR. With support from the World Bank, Argentina's federal government provided critical, results-based health care services to women and newborn infants through the Nacer Plan (2004-2011), which evolved into SUMAR in 2012.¹¹ The national program involved offering payments from the National Ministry of Health to provincial governments based upon the number of beneficiaries provinces enrolled in Nacer, as well as upon achievement of specified health indicators. Provincial governments would then use these transfers to make fee-for-service payments to their health facilities based upon the number and quality of services they provided.

C. The “Municipalization” of Service Delivery

19. As mentioned earlier, certain Argentine provinces have witnessed a “municipalization” of service delivery, particularly in health. Indeed, PBA's 135 municipalities have been widening the scope of their mandate in health and education, as well as in other sectors. Some 40 PBA municipalities now manage at least one municipal hospital, some of which cover a wide range of complex pathologies.

20. The incentive for this widening of service provision at the municipal level has been largely fiscal. PBA's municipalities enjoy ample fiscal and administrative autonomy: they have their own budgets that are voted on by municipal councils and implemented by municipal administrations. Furthermore, most of them are in quite good fiscal standing—

¹⁰ The principal such non-public health entity is the System of Organized Medical Attention, whose Spanish acronym is SAMO.

¹¹ This targeted service was widely seen as contributing to the country's significant reduction in the infant mortality rate between 2002 and 2010. To build on Nacer's success, in 2012 the government scaled up the program into SUMAR, extending coverage to 5.7 million children and adolescents, as well as 3.8 million women between the ages of 20 and 64. The results have been widely lauded: the World Bank has documented a significant decline in both low birth weight and in-hospital deaths of babies in the first 28 days of life for Program beneficiaries.

particularly in comparison to the more constrained fiscal space of the Province—with wage expenses largely under control, thus leaving space for other types of expenditures, such as those on public services.¹²

21. Municipalities provide far less services in education than in health, although they are usually responsible for the delivery of some professional and special education. Some have opened a few municipal primary and secondary schools; however, the number of municipal schools is negligible compared to the number of provincial schools. Although it is clear that municipalities now provide a growing array of services, lack of consolidated expenditure data—as well as lack of expenditure data disaggregated by sector—and the opaque nature of their financial flows complicate measurement, assessment and planning of their involvement in the provision of services by sector.¹³

22. The challenge of “municipalization” is to ensure that services rendered at the municipal level are subject to sufficient accountability, quality assurance, and control mechanisms, and that they are coordinated with the strategic sector objectives determined at the provincial and federal levels. While a degree of coordination does currently occur at the regional or local level, through school councils and sanitary regions, more needs to be done to improve public service delivery for the B40.

3. The Institutional Set-up

i. Key PFM Institutions

23. PBA’s constitution provides the framework for PFM. The roles of the executive and legislative branches are clearly laid out and empower the former to conduct financial operations and provide an account of government operations to the latter. All uses of public funds must flow through an annual budget. The Provincial Accountant General and the Treasurer General are named by the legislature and are responsible for ensuring that the use of public funds is limited to that authorized in the budget. Lastly, the Constitution provides for the independent review of the administrative acts and renderings of the executive through the Court of Accounts (*Honorable Tribunal de Cuentas*, HTC), whose appointees are independent of the executive.

24. PBA has paved the way in Argentina for the development of financial management into effective systems and processes at the provincial level. Its 2007 Financial Management Law (*Ley de Administración Financiera*, LAF, 13.767) defines the four sub-systems of the province’s financial administration—budget, credit and debt, treasury, and accounting—and identifies a monitoring and supervision entity responsible for each of the sub-systems (*órgano rector*). It also reflects the constitutional provisions regulating the province’s control

¹² In particular, provincial transfers to municipalities have increased 430 percent between 2007 and 2013 and play an increasingly significant role in the financial balance of municipalities. See *Municipios de la Provincia de Buenos Aires: Evolución Económico Financiera 2007-2013*.

¹³ These data do exist; however, as will be subsequently explained, they are not available to the Ministry of the Economy.

system, comprised of the General Accounting Office (*Contaduría General*, GAO), the Public Prosecutor's Office (*Fiscalía General*), and HTC.

25. The LAF provides a comprehensive definition of the provincial public sector as the Public Administration, province-owned enterprises and agencies, and the fiduciary funds. The last of which are mechanisms to earmark resources to specific objectives, like the Fiduciary Fund for the Development of the Infrastructure Provincial Plan. The Public Administration comprises central and decentralized administrations, as well as social security institutions.

26. PBA's Ministry of Economy is responsible for the province's financial management through the Under-secretariat of Treasury, the Provincial Directorate of the Budget (DPP), the Provincial Directorate of Public Debt and Credit (DPDCP), and the provincial GAO, as established by the Constitution.

27. The HTC is in charge of external control of PBA's public sector. Its functions are established by the provincial Constitution and the Organic Law (Province Law 10.869). It exercises ex-post control and is the supreme audit institution (SAI) of the province. HTC annually audits all public sector revenues and expenditures, with the exception of the Provincial Institute of Lottery and Casinos, Bank of the Province of Buenos Aires (BAPRO), Police Retirement and Pension Fund System, and Institute of Social Security; it has permanent delegations in most large entities.

28. Created in 1821, the Provincial General Treasury (*Tesorería General*) is a constitutional entity that enjoys independence and high institutional stature in PBA. It manages PBA's income and spending, bank accounts, and financing. The GAO is in charge of accounting and internal control and has complete functional independence. The Public Prosecutor's Office is part of the provincial control system and is responsible for protecting in court the public interest and assets. Tax collection is the responsibility of an autonomous provincial agency, ARBA (*Agencia de Recaudación de la Provincia de Buenos Aires*).

B. Education

29. Education holds a specific status in PBA's constitution: "education is the non-delegable responsibility of the region." The organization, administration, and execution of educational policy in PBA falls under the Directorate General of Culture and Education (*Dirección General de Cultura y Educación/DGCyE*), a decentralized entity consolidated within the province's central administration.¹⁴ Provincial Education Law 13.688 of 2007 charges the Directorate with financing, planning, organizing, and supervising the province's education system; guaranteeing access to education through the creation, regulation, financing, and administration of educational establishments; and regulating, supervising,

¹⁴ There are also three provincial-level universities: Provincial University of the Southwest, Provincial Pedagogical University, and the Provincial University of Ezeiza. These universities function as decentralized entities consolidated within the central administration, meaning that their budgets and administration are autonomous of the DGCyE.

and serving as comptroller to private educational establishments, regardless of whether they receive public funds.

30. Originally established in 1817, the DGCyE has undergone a number of changes, particularly over the last 40 years, resulting in more authority, responsibility, and resources. Education expenditure in PBA is both pro-poor and progressive: out of the total PBA public expenditures on education, 54.7 percent benefit the B40 (see Table 3.1).

Table 3.1. Allocation of PBA Education Expenditures by Revenue Quintiles (2012)

Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Education Expenditure
28.8%	25.9%	22.4%	15.1%	7.7%	24.2 billion pesos

Source: Provincial Directorate of Studies and Economic Projections, Ministry of Economy, PBA.

31. The 2006 National Education Law (26.206), which included modifications to the 1993 Federal Education Law (24.195), established a common educational structure for all regions. The national Education Financing Law (26.075) reaffirmed the state's responsibility to provide free and universal education for all children aged five through the end of the secondary education cycle.¹⁵ PBA's provincial-level education law, 13.688, took effect in 2007.

32. DGCyE's director is designated by the Executive Branch and is supported by one education undersecretary, one administrative undersecretary, one auditor general, and a technical advisory board. The Directorate is responsible for the majority of schools located in the province, although efforts toward further decentralization have led to a slight increase in the number of municipal schools. With the 1994 reform of the Provincial Constitution, school boards (*consejos escolares*) were established as decentralized organs of the Directorate to administer the schools within each municipality. They serve as the primary source of coordination between schools within a given municipality.

33. The boards are composed of four-to-ten councilors¹⁶ elected for four-year terms. Boards play an administrative role, including planning and execution of provincial educational funds destined for their schools; these include funds for capital expenditures and materials and maintenance, but not salaries (see Annex 2 for more details). They have full responsibility over the management of their resources and can generally procure goods and services without limitation.¹⁷

34. School boards budgets are funded from three different provincial sources: (a) the approximately 3 billion pesos allocated in the provincial budget to the Social Development Ministry for the School Lunch and Snack Program (SAE), which supports the provision of

¹⁵ It also successfully set a minimum wage floor for public sector teachers and stipulated that educational expenditures must increase incrementally to six percent of GDP by 2010, with the financial responsibility split 60-40 between the provincial and national governments, respectively.

¹⁶ The exact number of councilors is based on the number of schools in a given municipality.

¹⁷ Boards must seek authorization from DGCyE for public tenders over 1.2 million pesos, which are also subject to the review of provincial control bodies according to the Accounting Law (Decree Law 7.764/71).

food to more than 1.8 million students in PBA; (b) the Provincial Compensation Fund for the Maintenance of Educational Buildings (214 million pesos in 2014), funded from a percentage of the gross revenue tax (*impuesto sobre los ingresos brutos*) collected by the Province from small taxpayers, which is then decentralized to municipalities (cf. Law 13,850); and (c) earmarked funds allocated in the DGCyE annual budget for small refurbishment works and maintenance of schools premises. These funds have had a dynamic growth rate in recent years.

35. The DGCyE has administrative control over its budget resources transferred to school boards under the Provincial Compensation Fund for the Maintenance of Educational Buildings (FPMEE), of which 40 percent are earmarked for school maintenance. Boards contract and execute maintenance, make payments and render the accounts to the DGCyE. Given the increasing amounts of funding received by the Boards, in 2014 the HTC approved and introduced the Integral Accounting Information System of School Boards (SICOINCE). Boards are required to maintain accounting books, record transfers received and payments made, and submit monthly expenditure reports. However, in reality, Boards are considerably under-audited, since the HTC only has five auditors dedicated to the province's 135 Boards.

C. Health

36. Legally set forth in the Law of Ministries (12.856), PBA's Ministry of Health is responsible for the prevention, recovery, and maintenance of the population's mental and physical health. The Ministry, an overwhelming portion of which is composed of provincial hospitals, is a highly decentralized body that administers public health programs and entities stemming from the country's three different levels of government. For instance, PBA contains not only 75 provincial hospitals, but also 215 municipal hospitals and three national hospitals. Furthermore, PBA is one of only two other Argentine provinces—the others being Santa Fe and Cordoba—that establish municipalities as the populace's primary health care provider (elsewhere, responsibility for the provision of primary health care remains with the province).

37. Owing to its more decentralized history, the health system has had more time to institutionalize at the subnational level; it has become far more complex as well. Today, the Health Ministry regulates, supervises, evaluates, approves the budget, and controls hospitals. Expenditures on hospitals constitute a substantial portion of the Ministry's annual budget. However, hospitals also have their own sources of revenues—in particular, through SAMO.

38. Another key player in provincial health care provision is the Institute for Medical Assistance (IOMA). A decentralized agency, IOMA collects contributions from PBA government employees, who are mandatorily affiliated, and from the various provincial line departments and agencies. The health management organization's annual budget—14 billion pesos in 2015—is partially used for staffing, but mostly for health service provision to its public sector subscribers. The Province typically provides extra contributions to cover IOMA deficits.

39. The Ministry also plays a coordinating role through its Provincial Directorate for Primary Health Care, as well as through its 12 sanitary regions. Originally established in 1965 through Law 7,016 and regulated by Decree 805/67, sanitary regions have evolved (particularly following Decree 3,377/06, which elevated the administrative status of the 12 regions), gradually receiving more responsibilities and funding.

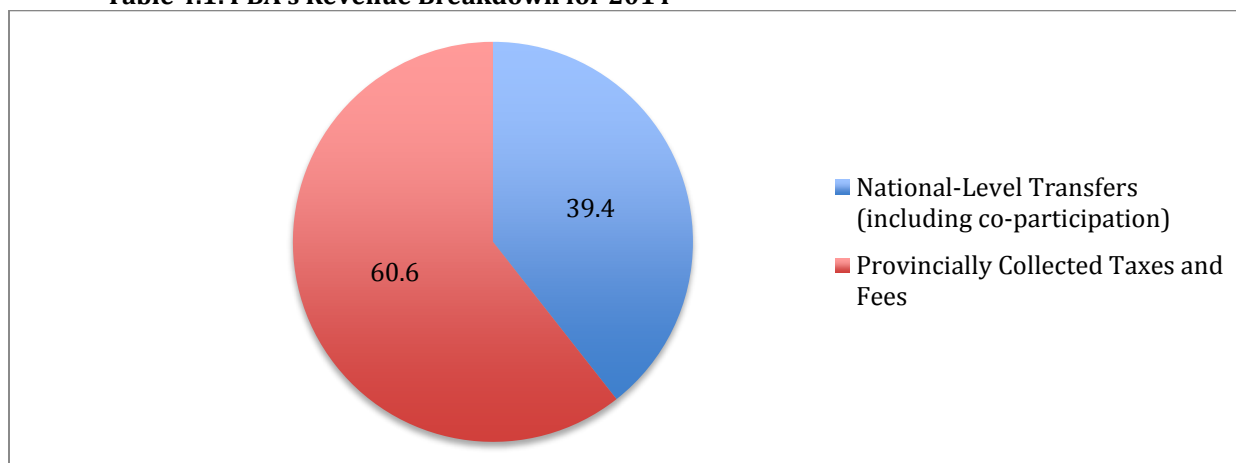
40. Sanitary regions are decentralized and de-concentrated units of PBA's Ministry of Health. While the Ministry funds the regions out of its annual budget, the regions are governed by a Board, not the Province. Sanitary regions assist the Ministry in terms of strategic planning, supervision, and management of hospitals; directors of all health entities report to the executive director of their sanitary region. It is the sanitary regions that distribute the Province's health funds destined for supplies; regions also provide some specific services, such as vaccines, training, and the transport of patients (see Annex 3).

41. In addition to 215 hospitals, PBA's 135 municipalities also maintain more than 2,000 primary care centers (CAPs), which provide basic services to the populace. CAPs are managed by municipalities and coordinated by sanitary regions, which serve as a nexus for CAPs and area hospitals, ensuring that health care providers at all three levels of government within a given region coordinate with one another.

4. Funding of Provincial Service Delivery

42. As Argentina is a fiscally decentralized country, most expenditures associated with public service delivery occur at the subnational level. However, revenue collection remains strongly centralized. Funds then flow from the central government down to the provinces through an automatic funds transfer process known as co-participation (*coparticipación*), as well as through other types of transfers, as explained below.

43. Overall, provincial service delivery is funded through two main sources: various forms of central government transfers—including earmarked resources from public service funds and programs as well as co-participation—and taxes and fees collected at the provincial level. PBA is one of a few Argentine provinces for which such self-administered taxes and fees are an important source of revenue (see Table 4.1 and Chart 4.1); most provinces rely far more upon central government transfers.

Table 4.1. PBA's Revenue Breakdown for 2014

Source: Ministry of Economy Provincial Directorate of Tax Policy (Dirección Provincial de Política Tributaria, DPPT), PBA.

A. Co-participation and Other National Transfers and Funds

44. Argentina has the highest total tax revenue as a percentage of GDP in Latin America.¹⁸ Its Constitution establishes which taxes the federal government collects;¹⁹ subnational governments are entitled to collect those taxes to which the tax power has not been delegated to the central government. Overall, the bulk of taxes is collected by the central government.

45. A fixed share of the overall tax revenue collected by the federal government is automatically transferred (co-participated) to provinces. Co-participation is un-earmarked, meaning each province's revenue share is unconditional. There is a designated *primary distribution*, determining the percentage of eligible funds to be transferred from the central government to provinces, and a *secondary distribution*, determining the allocation ratio of said funds among Argentina's provinces. The Federal Co-participation of Fiscal Resources Law of 1988 governs these distributions, as well as those taxes (and percentage of those taxes) that are deemed eligible for transfer.

46. Care should be taken when comparing each province's co-participation ratios, as there are a number of other transfers, such as National Treasury Contributions (ATNs), which also flow into provincial coffers. Furthermore, there are a number of earmarked, national-level funds as well. These include the Educational Fund, set forth under the Law of Education Financing (26.075), as well as the Federal Solidary Fund (FFS), which is funded by 30 percent of export taxes on soya beans and earmarked for capital expenditure.

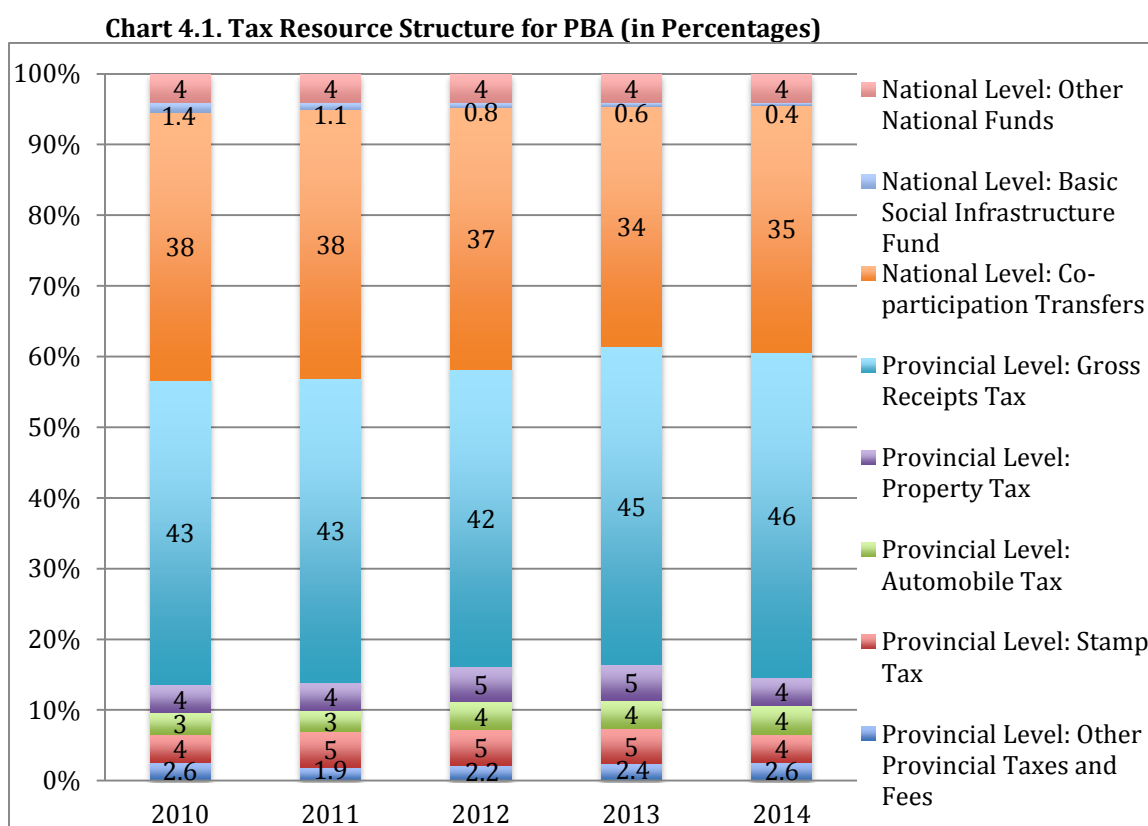
¹⁸ OECD, Inter-American Development Bank, and United Nations Economic Commission for Latin America and the Caribbean (2014). *Revenue Statistics in Latin America 2014*, OECD Publishing.

¹⁹ These include the income, alternative minimum, value-added, social security, bank account, asset, excise, and property transfer taxes, as well as import/export tariffs.

B. Provincial Taxes and Fees

47. Provinces in Argentina can collect their own sales, property, automobile, and stamp taxes, as well as fees; municipalities can collect fees and redistributive taxes for services provided, as well as certain types of property taxes. For PBA, provincial-level taxes and fees compose 61 percent of provincial revenue (see Table 4.1). This has gradually increased over the past seven years, from 54 percent, thanks to an improvement in the province's fiscal capacity as well as a concerted, redistributive effort through progressive taxation.

48. The bulk of PBA's provincial tax revenue comes from the gross revenue tax; the stamp, automobile, and property taxes each make up approximately 4 percent of total tax revenue (see Chart 4.1).



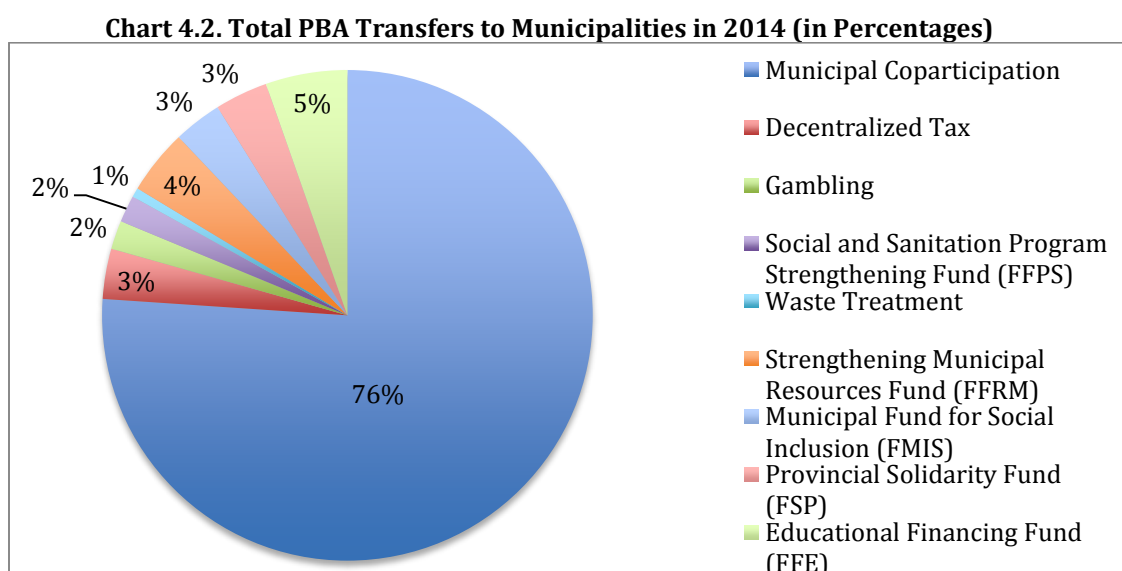
Source: DPPT, PBA.

C. Funding to Municipalities

49. At the municipal level, service delivery is funded by (a) provincial government transfers (including municipal co-participation), (b) national government transfers through earmarked public service funds and programs, and (c) taxes and fees collected within the municipality.

50. As established by Law 10.559, PBA also co-participates to municipalities a fixed share—16.14 percent—of its total income received in the form of taxes, fees, and provincial co-participation. Secondary distribution is determined through a complex process involving three regimes: 58 percent is distributed on the basis of a formula comprised of municipal population, area, and underutilized tax capacity; 37 percent is distributed on the basis of a formula containing five health-based parameters (i.e., the number of hospital beds, medical consultations, etc.); and the remaining five percent is distributed on the basis of “social action” (i.e., the number of non-health public services that have been transferred to municipalities from the province). This regime driven by health-based parameters, in particular, creates perverse incentives: a large portion of these funds are contingent upon interning people rather than providing out-patient treatment, thus financially handicapping municipalities that do not have health centers with intern capacity.

51. The percentage of municipal resources coming from the provincial level varies dramatically from municipality to municipality, depending on the amount of other funds and fees collected by a given municipality.²⁰ Overall, these provincial transfers increased by 430 percent between 2007 and 2013, according to the Provincial Directorate of Municipal Coordination (*Dirección Provincial de Coordinación Municipal/DPCM*), as a consequence both of an increase in provincial tax collection, as well as the establishment of new decentralization funds. In 2014, PBA transferred 26.8 billion pesos to its municipalities (see Chart 4.2).



Source: DPCM, PBA.

²⁰ Other transfers to the municipalities include through the Educational Financing Fund (FFE, created in 2013 to fund education and science and technology expenditures), the Social and Sanitation Program Strengthening Fund (FFPS, Law 13.163), the Municipal Fund for Social Inclusion (FMIS, Law 13.863), the Provincial Solidarity Fund (FSP, Law 13.976, which is composed of 30 percent of PBA’s proceeds from the federal fund and is used to finance infrastructure investments, including in health and education), and the Strengthening Municipal Resources Fund (FFRM, Law 13.850).

52. In addition to provincial transfers and capital resource transfers from the national- or provincial-level (such as the Provincial Solidarity Fund), municipalities also collect their own taxes.²¹ According to the DCPM, between 2007 and 2013 approximately 48 percent of the municipalities' total resources on average came from such taxes and fees. The tax structure of municipalities is quite complex, with each having a different framework.²² PBA is currently discussing the establishment of an entity for tax coordination at the municipal level.

53. Since 2000, PBA has been advocating for municipalities' adoption of a single information technology (IT) and regulatory system for municipal budget management, known by the acronym of the reform that created it, the Financial Administration Reform in the Municipal Scope (RAFAM, Decree Law 2.980/00). Today, RAFAM is used by 124 of 135 PBA municipalities. However, RAFAM is not interconnected and does not enable central monitoring, aggregation of data, or fiscal comparisons.

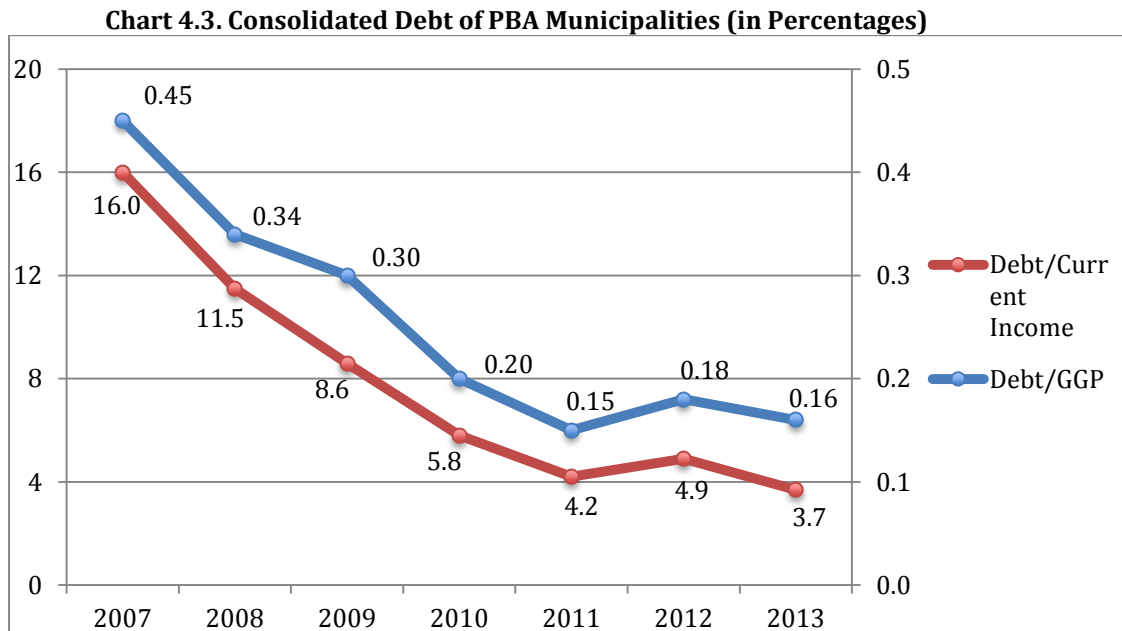
54. Provincial government monitoring of municipal finances has improved in recent years but remains insufficient. Data on revenues, transfers, and debts are complete, disaggregated, and up-to-date, and are analyzed by the Ministry of Economy's DPCM every trimester and then published. However, given the high level of municipal autonomy, the Ministry has access neither to consolidated expenditure data nor expenditure data by sector in a timely manner, and voluntary reporting on this is quite limited.²³ Financial information received by the Ministry of Economy from other recipients of funds, such as school boards, sanitary regions, hospitals, schools, and CAPS, is not integrated, is limited, and is often delayed. This complicates its ability to aggregate expenditures based on economic classification so as to monitor municipal and other spending units' expenses in health and education, for instance. This situation leads to suboptimal strategic planning outcomes.

55. In terms of expenditures, PBA municipalities spent 45 billion pesos in 2013, a 39 percent year-on-year increase, according to the DPCM. However, municipal-held consolidated debt is falling (see Chart 3.3) and the fiscal situation of the municipalities has been consistently improving, in large part because of the significant increase in provincial transfers from 2007 to 2013. The average composition of municipal expenditures from 2007 to 2013 was 44 percent on personnel, 34 percent on goods and services, 17 percent on capital expenditures, and 5 percent on other current expenses.

²¹ Article 227 of the Organic Law for Municipalities 6769/58 states that the meaning of the word "tax" is generic and comprises all taxes, fees, and other obligations that municipalities impose on tax payers in accordance with the provisions of the Constitution and the Organic Law for Municipalities,

²² On average, each municipality collects 25 taxes. Approximately one-third of municipal tax resources come from lighting, sweeping, and cleaning fees (ABL); another third from the Security and Health Inspection Fee (TISH); and the rest from a variety of other fees, including the Road Network (RV) fee.

²³ Municipalities are required by law to prepare annual financial accounts, submit them for approval to municipal councils, and then have them reviewed by the HTC. These fiscal reports capture 100 percent of municipal expenditure data. However, neither the data nor HTC's financial audits are shared with the provincial Ministry of the Economy (although the HTC audits are published). As such, the Ministry—and, particularly, the DPCM—does not have access to the expenditure data to see if municipalities actually spent their revenue according to their budget proposals.



Source: Municipios de la Provincia de Buenos Aires: Evolución Económico Financiera 2007-2013.

D. PBA Budget: Health and Education Sector Funding

56. Public service funding in PBA is complex, given the three levels of government present in the health and education sectors, as well as the high level of decentralization within public service delivery. It is also characterized by a relatively high degree of uncertainty, trickling down from the uncertain amount of money provinces receive from the nation through co-participation. The nation makes an initial estimate of revenue based on the national budget law, which it then shares with provinces; however, estimates are subject to change, and they frequently do. This complicates efforts to increase the effectiveness of public finances by limiting the possibilities of long-term strategic planning.

57. In PBA's 2015 Budget Law (14.652), 68.5 billion pesos went to the DGCyE, while 15.7 billion were destined for the Ministry of Health. Given an overall budget of 246 billion, just shy of 28 percent of the provincial budget went to the former, and 6.4 percent to the latter. In terms of overall provincial funds earmarked for the two sectors, 73.7 billion was destined for education while 17.1 billion was destined for health. The discrepancy between these numbers and the budgets of the sectors' respective ministries is a consequence (particularly with respect to education) of the fact that capital expenditures are paid by other central agencies. Indeed, the Ministry of Infrastructure, whose 2015 budget was 3.7 billion, is responsible for the construction and upkeep of the vast majority of educational, as well as many health, facilities.

58. Although a relatively large percentage of the provincial budget is destined for the DGCyE, the overwhelming majority of its funds—97 percent—are spent on teacher

salaries.²⁴ The exact number of education employees is anywhere from 222,898—the number cited in PBA’s 2015 Budget Law—to more than 300,000, according to discussions with the Directorate General. Using the Budget Law numbers, slightly more than 50 percent of PBA’s employees work for the Directorate General. The remaining 3 percent of budgeted funds are used for transportation, services, emergencies, and a small amount of capital expenditures.

59. Overall, education services in PBA (see Table 4.2) are funded not only by the DGCyE’s budget, but also by national funds, municipal co-participation, and targeted provincial funds, paid for by provincially collected taxes (such as automobile and real estate taxes). Money transferred to provinces from the FFS, funded by export taxes on soya beans, is also earmarked for capital expenditures. Furthermore, 25 percent of the revenue from PBA’s gross revenue tax goes into a Provincial Compensation Fund for the Maintenance of Educational Establishments (cf. Law 13010, amended by Law 13.850). Authority over the construction of new schools—and hospitals, for that matter—lies with the Ministry of Infrastructure. See **Annex 2** for further information about Funds Flow and Transfers as related to the Education sector.

Table 4.2. PBA Education Expenditure by Levels of Education

Levels	2003		2007		2012	
	Million pesos	%	Million pesos	%	Million pesos	%
Total elementary	1,741	46.1	3,322	30.3	8,088	25.2
Elementary Initial	313	8.3	731	6.7	2,279	7.1
Elementary Primary (EGB)	1,428	37.8	2,591	23.6	5,809	18.1
Middle School	922	24.4	3,711	33.9	10,848	33.8
Tertiary	110	2.9	272	2.5	867	2.7
Total Private Sector Education*	559	14.8	1,524	13.9	4,429	13.8
Subtotal, Designated Levels	3,331	88.2	8,829	80.6	24,231	75.5
Subtotal, Undesignated	442	11.8	2,131	19.4	7,863	24.5
Total	3,777	100%	10,960	100%	32,095	100%

* The total for private sector represents the provincial public subsidies to this sector. In 2012, 963,897 students were attending private schools in the province and 1,979,902 were attending public schools.

Source: Ministry of Economy, PBA.

60. Procurement for schools is performed by school boards, which are funded by the Province. In 2014, a total of 216.8 million pesos were transferred to the boards, according to the DPCM. As mentioned earlier, boards possess a significant degree of autonomy and discretion over the management and use of provincial educational funds destined for their municipalities’ schools.

²⁴ Teacher performance is currently not taken into account when determining salaries; rather, salaries are agreed upon following extended, oftentimes tense, negotiations between the Province and teachers’ unions. It should be noted that elsewhere in Argentina—notably, in CABA—performance mechanisms for assessing public teachers are being introduced and gradually implemented.

61. Like education, health services in PBA are funded by a combination of sources, from national- and provincial-level programs as well as resources earmarked in the provincial budget for the Ministry of Health. The Ministry manages four national-level and 29 provincial-level programs.

62. Health is also highly decentralized, with services provided by all three levels of government, as well as by national programs. In PBA, as elsewhere in Argentina, health care is provided through one of three means: private sector coverage, *obras sociales* (state-regulated health care entities that provide health insurance schemes funded by employers and employees), or the public sector (see Table 4.3). The private sector is small, albeit substantial. It grew significantly in the 1980s and 1990s, and is often contracted by *obras sociales* to provide medical care to their beneficiaries. *Obras sociales* were initially established to cover specific groups of formal workers. They are mostly funded by compulsory payroll contributions and administered by trade unions; however, the state oversees *obras* and much of the state's health expenditure is channeled through them.

Table 4.3. Health Care Service Coverage in PBA

Public Sector	<i>Obras Sociales</i>	Private Sector
36.7%*	58.6%	4.8%

* According to the 2010 national census, in PBA 5,674,243 people out of a total population of 15,482,751 received health care from the public sector.

Source: 2010 National Census.

63. Provincial spending on health is primarily geared toward assisting the population without formal work (and thus lacking *obras sociales* or the resources to purchase private coverage) and otherwise providing adequate health care services to the poor. Approximately 58 percent of the Ministry's funds go to paying salaries²⁵ (as previously noted, the Ministry of Infrastructure helps fund health-related capital expenditures). Basically, wages of doctors, nurses, and auxiliary staff working at hospitals and CAPs are funded by the Ministry of Health, which also pays for hospital basic services and other non-medical functions, such as janitorial services. Regions are responsible for coordination of the national and provincial programs (e.g., Plan Nacer/SUMAR). Hospitals and CAPs, in coordination with sanitary regions, decide how to spend funds received under these programs within their given areas. See Annex 3 for further information about Funds Flow and Transfers as related to the Health sector.

64. A central component of health sector funding is the System of Organized Medical Attention (SAMO). SAMO links patients, *obras sociales* and other private health insurances, and PBA public hospitals.²⁶ After offering care, provincial hospitals bill the *obras*. Of the money received, 10 percent goes to the Provincial Health Fund (used for financial support and procurement at the central level), 50 percent is used for staff bonuses, and 40 percent is used for operational expenses and minor capital goods. For municipal hospitals, 10 percent

²⁵ Approximately 14 percent goes to consumer goods, 14 percent to non-personnel services, 2 percent to fixed assets, and 12 percent to transfers.

²⁶ According to MHO sources, in 2014 SAMO revenue collection amounted to AR\$ 400 million.

goes to the Provincial Health Fund, while the remaining 90 percent can be used freely on operational expenses, minor capital goods, and hospital maintenance and repair.

65. SAMO resource collection estimates are calculated by the SAMO Department in the Ministry of Health and included in its annual budget. SAMO revenue projections included in the budget are annually adjusted on the basis of actual collections by hospitals through an executive order, which adds some administrative burden for processing. SAMO resources are implemented and recorded by hospitals directly in the PBA budget information system (SF), from which financial reports are produced monthly. SAMO revenue collection is deposited into each health care center's bank account.

5. PFM and Service Delivery in Key Sectors: Health and Education

66. PFM literature considers the three functions of a PFM system as fiscal discipline, strategic allocation of resources, and efficient service delivery, with the first two functions in large measure in service of the third. Thus, fiscal discipline is a means to an end: it allows for sustainable service delivery, while strategic allocation of resources ensures that those services deemed a priority or policy objective are indeed delivered. As such, the key issue when assessing sector-level PFM performance centers on service delivery one metric of which is the PEFA²⁷ Performance Framework and Indicators (see Table 5.1), which frame this Chapter's analysis.

Table 5.1. Potential Impact of PFM Performance Pillars on Service Delivery

PFM System Performance Pillars	Impact on Service Delivery Performance
Credibility of Budget	<ul style="list-style-type: none"> - Adjustments may fall disproportionately on non-salary recurrent expenditures, which is likely to have significant impact on the efficiency of resources used at the service-delivery level. - Non-compliance with the budget may lead to a shift across expenditure categories, reflecting personal preferences rather than efficiency of service delivery.
Comprehensiveness and Transparency	<ul style="list-style-type: none"> - Lack of comprehensiveness is likely to increase waste of resources and reduce the provision of services. It limits competition in the review of the efficiency and effectiveness of the different programs and their inputs. It may also facilitate the development of patronage or corrupt practices by limiting the scrutiny of operations, expenditures, and procurement processes not integrated into budget management and reporting arrangements. - Lack of transparency limits information on the resources available for the service delivery units. This weakens the capacity of local communities to exercise scrutiny on the resources allocated and used at the service delivery units.
Policy-Based Planning and Budgeting	<ul style="list-style-type: none"> - A poor budget process does not allow discussions about efficiency in the use of resources. In particular, it does not allow an orderly review of existing policies and new policy initiatives. The lack of multi-year perspective may

²⁷ The Public Expenditure and Financial Assessment (PEFA) exercise is a diagnostic tool developed by a partnership program comprising the World Bank, the International Monetary Fund, the European Commission, UK's Department for International Development, the French Ministry of Foreign Affairs, the Swiss State Secretariat for Economic Affairs, and the Norwegian Ministry of Foreign Affairs.

	contribute to inadequate planning of the recurrent costs of investment decisions and of the funding for multi-year procurement.
Performance Information for Achieving Efficiency in Service Delivery	- Assessing the quality of the annual performance information at different stages of the budget cycle helps gauge the extent to which the nature and coverage of annual information on public service is likely to promote greater operational efficiency in service delivery. It is also important to understand whether resources reach service delivery units as planned to enable the achievement of annual and medium-term performance targets as well as strategic sector observations.
Asset and Liability Management	- Public investments are viewed as a key prerequisite to address national service delivery needs. Public investment in physical assets such as public infrastructure or in health or education facilities contribute to improvements in human capital. The quality of non-financial assets monitoring , such as maintaining up-to-date registers of non-financial assets allows government to better utilize assets such as infrastructure, as well as plan investment programs and maintenance.
Predictability and Control in Budget Execution	- Lack of predictability in resource flows undermines the ability of front-line service delivery units to plan and use those resources in a timely and efficient manner . It may also foster an environment in which controls are habitually by-passed. - Non-observance of competitive tendering process practices for the procurement of goods and services is likely to limit the efficiency of existing programs by raising the costs of procuring the goods or by leading to supply of goods of inadequate quality. - Inadequate controls of payrolls, procurement, and expenditure processes may create the opportunity for corrupt practices, leakages, and patronage .
Accounting, Recording, and Reporting	- A lack of information on how resources have been provided and used for service delivery is likely to undermine the planning and management of services . Inadequate information and records would reduce the availability of evidence that is required for effective audit and oversight of the use of funds and could provide the opportunity for leakages, corrupt procurement practices, or use of resources in an unintended manner.
External Scrutiny and Audit	- Limited scrutiny may reduce the extent to which government is held accountable for efficient and rule-based management of resources, without which the value of services is likely to be diminished. In addition, inadequate audit means that the accounting and use of funds is not subject to detailed review and verification.

Sources: 2005 PFM Performance Management Framework and World Bank.

i. Budget Credibility

67. Implementation of the budget as approved is an important aspect of the government's ability to deliver public services, as expressed in budgetary documents, output commitments, and work plans. The reason is two-fold. First, budgetary adjustments may fall disproportionately on non-salary recurrent expenditures (such as goods and services), which directly impacts the efficiency of resource use at the service-delivery level. Second, adjustments may lead to shifts in expenditure categories based on criteria other than service delivery efficiency. In both situations, the suboptimal use of resources leads to a decline in the quantity and/or quality of public service delivery, to the detriment of the B40, the primary beneficiaries of public health and education services.

68. Far more so than is the case for Argentina’s national budget,²⁸ the PBA budget is a credible instrument and a good predictor of the actual allocation of resources. Nevertheless, changes during the year have had a substantial impact on “credits,” or budget appropriations (increases/decreases or transfers between budget lines). Even in such cases, however, the changes do not always result in major deviations as expressed in actual outlays (see Table 5.2).

Table 5.2. PBA Budget Execution in Million Pesos (2011-2013)

Year	Initial Budget Allocation	Final Budget Allocation	Total Paid	Variation Initial/Paid
2011	87,996	105,813	102,646	6%
2012	63,818	63,464	56,885	-9.2%
2013	77,221	85,483	76,171	-1.4%

Source: GAO, PBA.

69. There is a constant pressure on salary expenditure, which generated an average increase of budget allocations during the fiscal years 2011-2013 of 5-6 percent. This was even the case for 2012, in which the modifications led to an overall decline of open credits; in that year, salary credits increased 19 percent over the year. In total, more than half of total additional credits were not actually spent, while only 29 percent of the additional credits specifically allocated for salaries remained unspent. In parallel, there is pressure during the fiscal year to reduce non-salary current expenditure. This is particularly the case for the execution of health and education budgets (see Tables 5.3 and 5.4).

Table 5.3. PBA Ministry of Health Budget Execution in Million Pesos (2011-2013)

Year	Initial Budget Allocation	Final Budget Allocation	Total Paid	Variation Initial/Paid
2011	5,500	6,601	6,101	10.9%
2012	7,383	8,420	7,650	3.6%
2013	9,165	9,506	9,036	-1.4%

Source: GAO, PBA.

²⁸ Since 2006, the Argentine presidency has formally held extraordinary budgetary faculties, at the expense of Congress. Following the institutionalization of the presidency’s so-called “budgetary superpowers,” which granted permanently to the Executive Branch one of Congress’s primary powers, the Argentine presidency has almost unlimited capacity to change the budget negotiated in Congress. In this way, the annual budget laws approved by Congress have become less credible, since the bill can be—and often is—amended by the Presidency.

Table 5.4. PBA DGCyE Budget Expenditure in Million Pesos (2011-2013)

Year	Initial Budget Allocation	Final Budget Allocation	Total Paid	Variation Initial/Paid
2011	24,325	28,906	28,901	18.8%
2012	32,894	37,967	35,011	6.4%
2013	41,919	47,183	41,323	-1.4%

Source: GAO, PBA.

70. Except in 2013, the variance between the approved budget and the final expenditure in health and education was greater than for the overall budget. In 2011, which was an electoral year that saw the rise to power of a new majority, education expenditures surpassed the voted budget by 18.8 percent and health expenditures by 10.9 percent. An important part of this variance was the increase of additional credits during the year for salary expenditures. In 2013, the increase in salary credits (14 percent) during the year was marginally compensated by a decline of almost 50 percent of credits for consumption goods.

Box 5.1. What Budget Credibility Means for Service Delivery in PBA

Education
Unanticipated spending increases from salaries directly affect service provision in education by forcing recurrent expenditure cuts, such as in educational materials, to balance the budget. For instance, in 2013, increased spending on salaries necessitated a 50 percent reduction in other current expenditures (consumer goods). This is partly to blame for the lack of education material cited by teachers; in some cases, books and other learning materials had to be purchased by students' families. For those families in the B40 with limited resources, not being able to purchase the requisite learning materials prevents their children from receiving the adequate quality of education.

Conclusions and Recommendations

71. **The impact of PBA's budget credibility on health and education is tied to the Province's ability to prepare and implement an accurate fiscal strategy supporting delivery of public services to its citizenry.** At the Ministerial level the PBA's budget is sufficiently credible since fluctuations in the Ministry of Health's and DGCyE's approved budget and final expenditures are relatively small; however, as noted earlier, DGCyE's budget is almost exclusively used for recurrent expenditures, namely teachers' salaries. As such, it is insufficient for strategic planning to solely focus on the Directorate's budget when analyzing public service delivery, as capital expenditures—a key factor in the quality of public services—are not captured in its budget. A similar situation applies to the Ministry of Health. To strengthen this dimension, the PBA could consider the following recommendations:

- b. **Annual budget should be prepared in such a way as to keep fluctuations between initial and final budget allocations to a minimum.** Indeed, PBA's voted budget is substantially modified during the year, often resulting in a reduction of available credits for non-salary current expenditures. Accurate forecasting of

available revenues and planned expenditures at the onset of the fiscal year will help ensure that planned activities and projects are implemented in the most efficient manner, and that there are no procedural disruptions or delays adversely affecting delivery of services.

- c. ***To ensure credibility of the budget allocated to each sector, both capital and non-capital budgets should be analyzed together.*** As was discussed in paragraph 57, the budget of the Ministry of Infrastructure funded construction of education and health facilities. To ensure that the budget allocated to a given sector is credible, and that the Province is using its resources in an optimal manner, preparation of fiscal strategies and strategic planning must take place at the sector, not ministerial, level, thus taking into consideration both capital and non-capital projects and activities.

ii. **Comprehensiveness and Transparency**

72. The absence of a comprehensive budget and of an adequate framework (including information) for exercise of oversight of fiscal risk undermines the ability to ensure that all government activities and operations take place in accordance with the government fiscal policy framework and are subject to adequate budget management and reporting arrangements—with consequent adverse implications for resource use and efficient provision of services. Limiting public access to fiscal and budget information clearly reduces external scrutiny of government policies and programs and their implementation, prominently including service delivery that disproportionately affects the lives of the B40.

73. The PBA budget is a comprehensive document covering all provincial government resources and expenditures, as well as detailed flows from the federal level and to decentralized levels of government (i.e., local governments and decentralized entities). Some decentralized entities are consolidated within the budget (DGCyE or ARBA) while others—the Provincial Lottery, the Provincial Bank, the pension agency for provincial personnel, and other social security schemes—but all are nevertheless fully covered by fiscal reports.

74. Budget classifications are administrative (or institutional), programmatic,²⁹ by object, economic, functional, by financing source, and geographic. A budget classification manual (*Manual de Modificaciones Presupuestarias*) was published in February 2014 and is accessible on the Ministry of Economy’s website.

75. PBA’s LAF does not mention any obligation to allow public access to key fiscal information. Nevertheless, in practice, substantial information is made available in a complete and timely fashion on the websites of the Ministry of Economy and/or the GAO. In

²⁹ Budgets use a programmatic classification by program, subprogram, project, activity, and work. This classification links financial elements with real ones (i.e., intermediary and final goods and services), as well as the allocation of financial resources with governmental policies. It also provides a basic tool for prioritizing the allocation of resources. However, PBA budget programs and final delivery of goods and service performance measurement is limited or non-existent, which in practice means these do not operate as real programs.

particular, all budget proposal documentation, including the pre-budget statement, in-year budget execution reports (with six-month delays or more), medium-term budget framework, and end-of-year accounts are published. However, SAI audits of the *final general accounts* are not made available on its website; indeed, in general, few compliance and financial audit reports are publicly available.

76. In general, PBA’s accountability framework is clearly laid out by the provincial Constitution, the Financial Management law, and other regulations. Nevertheless, there are no mechanisms in place to facilitate citizen access to information, including fiscal reporting. This complicates the citizenry’s ability to understand oversight roles and responsibilities. A strong body of evidence shows that, if given the opportunity, citizens can contribute to better public services by holding policy-makers, service providers, and those government officers responsible for programs accountable. There are currently no participatory budget mechanisms in place in PBA; however, PBA’s Ministry of Economy is currently looking into the possibility of implementing some form of participatory institutions, such as a “citizen budget.” The province is also considering the possibility of establishing a Single Fund for Provincial Financing to provide greater transparency in health spending.

Box 5.2. What Comprehensiveness and Transparency Mean for Service Delivery in PBA

Education	Health
<p>The absence of an access to information law complicates accountability, diminishing external pressure from parents and education-themed civil society groups to ask for improved services. Indeed, parental participation in and control of the educational process is limited in PBA. Parents lack tools to facilitate access to and understanding of resources available to schools (PBA’s annual budget is public, but is difficult to understand).</p> <p>Parents also lack legal channels for redress over the quality of education provided to their children. According to the HTC, the Provincial Executing Unit of the DGCyE, which is responsible for the execution of programs with external or federal funding does not have properly defined accountability mechanisms, resulting in diluted responsibilities and a lack of transparency in the execution of a significant portion of the sector’s resources.</p>	<p>Lack of transparency and comprehensive information disclosure around healthcare provision in PBA means that outside groups have less means of pressuring the government to improve its services and track the performance of hospitals and health centers.</p> <p>As in the case for the education sector, civil society groups do not have legal mechanisms to air their grievances or otherwise comment on the quality of service provision. Such external control could have played a key role in flagging service delivery bottlenecks for government officials in real time, shedding light on sector inefficiencies, or otherwise bringing accountability to play in the sector.</p>

Conclusions and Recommendations

77. The impact of PBA’s budget comprehensiveness and transparency on health and education is tied to the provincial citizenry’s ability to access relevant information, and to hold government representatives in check on the fulfillment of their obligations and

electoral promises. To strengthen this dimension, the PBA could consider the following recommendations:

- a. ***To ensure better accountability of the public sector, a clarification of parties responsible for public services, as well as their specific roles in its provision, is needed.*** This would involve distinguishing the responsibilities of various levels of government (i.e., federal, provincial, and municipal) and the various provincial entities responsible for service delivery (i.e., provincial government, school boards, sanitary regions).
- b. ***Audit reports should be publically disclosed*** to ensure that government programs are being implemented as designed.
- c. ***The empowerment of participatory institutions, such as participatory budgeting, would provide an extra layer of external scrutiny by increasing citizen participation in the budget process.*** Given their closer proximity to the communities they serve, school boards and sanitary regions could spearhead such initiatives.

iii. Policy-Based Planning and Budgeting

78. Policy-based planning and budgeting processes are important to public service delivery because they enable the government to align its mobilization and use of resources with fiscal policy and national strategy. An inadequate budget process hinders analysis of the efficiency of the government's use of resources and an orderly review of existing policies and new policy initiatives. Failure to engage in multi-year fiscal planning and budgeting can lead to inadequate planning of the recurrent costs and investment decisions and the funding for multi-year procurement—as before, the B40 are at greater risk of inefficiencies in service delivery as they disproportionately depend upon them.

79. In PBA, there is no general guidance on the preparation of sector strategies. There is substantial room for improvement in DGCyE and Health Ministry sectoral strategy. This does not mean that there is no planning, but rather, that planning exercises are fragmented and not informed by operational guidance that includes investment and recurrent expenditures. In part this is because of difficulties in coordinating the three levels of government from a sector perspective. In the case of education and health, the fact that the public systems co-exist with private sectors and, for health, an intermediate sector (*obras sociales*) makes strategic-level comprehension of the sectors even more problematic. Furthermore, given the separation of capital and recurrent expenditures among ministries (and decentralized entities), strategic planning can only effectively be generated at the provincial level, not the ministerial.

80. In the absence of well-defined sector strategies, there is also no proper, sector-based budgeting. There are only embryonic programs many of which are aligned with administrative units, as will subsequently be discussed.

81. Medium-term fiscal envelopes are provided and published as part of the budget package. Comprehensive revenue forecasts—all sources of revenues, including taxes, service user charges, sales of tangible and intangible assets, as well as transfers from the central government—are available. These detailed forecasts cover the coming fiscal year; three-year forecasts at a more aggregated level are also published as part of the budget documentation. A tax policy is established under the operational responsibility of the Tax Policy Directorate. Automatic transfers from the federal government are clearly established by law and are accurately reflected in the budget.³⁰ Detailed data on the execution of budgeted revenue forecasts is available and regularly published on the GAO's website, disaggregated by main types of revenue according to government finance statistics (GFS). Tax liquidation and collection is undertaken by an autonomous government agency, ARBA. However, there is no evidence that the multi-year projections are used to set financial ceilings on subsequent budgets or that any bottom-up element is taken into consideration when establishing these envelopes.³¹

82. One consequence of the poorly defined sector planning and budgeting process is that there are insufficient linkages between service delivery monitoring and resource allocation mechanisms in PBA. The formulas for municipal co-participation, as well as for some federal and provincial programs, are based on criteria that can create arbitrage opportunities or are disconnected from the services they are supposed to fund. For instance, with respect to arbitrage, the number of hospital beds is partly driving the allocation of municipal co-participation, which creates an incentive for municipalities to multiply the offering of beds without matching it with the capacity to offer medical services.

83. The Educational Financing Fund (FFE) set forth under the federal Law of Education Financing (26.075) is an example of inefficient allocation of funds deriving from a disconnect between funding and performance of intended services. FFE provides additional earmarked funds for education to provinces and municipalities. In 2013 PBA collected approximately 7 billion pesos,³² of which 84 percent was allocated to the DGCyE and 16 percent was transferred to municipalities. Since transfers follow a predetermined distribution formula,³³ earmarked education funds were transferred to some municipalities that do not even have schools.

³⁰ It should be noted that the distribution of budget surpluses by the federal government, as well as some non-automatic transfers such as the National Treasury Contributions (ATNs: *Aportes del Tesoro* in Spanish), are sometime made in a discretionary manner, complicating the ability of PBA and other provinces to plan strategically.

³¹ The Ministry of Economy, through the Provincial Directorate of Budgeting (DPP), prepares a timetable for each stage of the budget formulation. During 2011-2013, the budget formulation process began between July and September. During 2011-2013, PBA's legislature consistently approved the budget in a timely manner before the beginning of the fiscal year. The budget law has always been published before December 31.

³² Approximately US\$1.1 billion.

³³ According to provincial law (10559) on the co-participation of taxes to municipalities.

Box.5.3. What Policy-Based Planning and Budgeting Means for Service Delivery in PBA

Education	Health
<p>The absence of policy-based planning and budgeting leads to suboptimal service delivery because it hinders foresight needed to efficiently invest in future demands, both in terms of human and financial resources.</p> <p>For instance, infrastructure shortages in sub-regions with the high population growth—a result of poor planning—can lead to overcrowded schools, hastening the “wear and tear” of existing facilities as well as leading to poorer quality of educational services as the student-to-teacher ratio increases.</p> <p>Another example of constrain posed by the absence of policy-based budgeting is diminished capacity of the government to provide timely, efficient, and targeted support to the groups most in need, such as students with learning disabilities or Afro-Argentines.</p>	<p>The Ministry of Health (MOH) budget structure is organized around a number of different budget programs³⁴. This budget program structure does not include specific policy-based health targets which limits its capacity to capture and measure the achievement of policy-based health goals as a result of the programs referenced earlier. For example, a health goal could be set in the annual budget so as to increase the number of children with eye condition receiving medical treatment and glasses. A group of patients may receive eye medical treatment through the maternal child health program while another group of individuals may be treated directly by a doctor in a provincial or municipal hospital. Both health interventions contribute to the same health care objective of treating children with eye condition. However, the current budget structure has no mechanism in place to capture information on medical conditions and treatments provided across budget programs; and does not allow to measure whether these budget programs are effectively meeting its objectives.</p>

Conclusions and Recommendations

84. The impact of policy-based planning and budgeting on service delivery is tied to the quality of sectoral strategies. Poorly defined strategies, or strategies that do not combine capital and recurrent budget expenditure data allow for haphazard, unjustified investments, while leaving important performance gaps unattended. In case of Argentina, the complexity of intergovernmental dynamics and funding flows it renders difficult to draw a comprehensive sectoral picture, in particular in education and health, in which private or semi-private entities are active. To strengthen this dimension, the PBA could consider the following recommendations:

- a. ***Development of comprehensive, multi-year, costed strategies in the health and education sectors will provide a solid foundation for the implementation of development programs, and help ensure that the interests of the B40 are adequately taken into consideration.*** In Argentina, this is not a straightforward process because of the complex intergovernmental relationships, and participation of various stakeholders (including the public and private sectors), which may call for the customization of the process. However, the benefits of having a strategy for multi-year development in place, outweigh associated challenges.

³⁴ Some of these programs are linked to lifetime cycle conditions such as the maternal and child health program; while others deal with specific health conditions; such as HIV and diabetes disease treatments. Another important budget chapter includes hospitals and a few recently created province primary health-care centers.

- b. *To enhance its strategic sector-based planning and budgeting capacity, the PBA should develop an approach and mechanisms for monitoring and analyzing expenditures at the sectoral levels.* Results of such expenditure reviews could then be used to inform strategic planning and resource allocation processes.

iv. Performance Information for Achieving Efficiency in Service Delivery

85. The quality, availability, and usefulness of annual performance information in terms of outputs and outcomes at different stages of the budget cycle is important to public service delivery. Promoting operational efficiency in public service delivery is a core objective of the PFM system. The inclusion of performance information within budgetary documentation is considered to be international good practice. Indeed, increasingly, budget committees within legislatures are demanding details of past service delivery performance and future targets for expansion or quality improvement as part of their consideration of the executive's budget proposal.

86. PBA's budget document does *not* include a discussion of performance and so performance measurement is not part of the budget preparation process. The budget classification does, however, include a programmatic classification. For instance, the Health Ministry's 2015 budget is organized into 104 programs; each program is included in the budget with a short narrative presentation and the number of budgeted positions related to the program (see Box 5.4). In Health sector, programs are generally—although not always—synonymous with administrative units; for example, PRODIABA is implemented by multiple units within the Ministry of Health.³⁵

Box 5.4. Example of Health Program in Ministry's 2015 Budget

Program: 0090

Name: Coordination of Sanitary Regions

Responsible Unit: Directorate of Sanitary Regions

The program's objective is to implement, in a decentralized fashion within the sanitary region, the health policies, plans, and programs laid out by the Ministry, in coordination with the municipalities of the region, with the objective of raising the health indices of the population. It integrates the regional health council and represents the Provincial Ministry in the municipal health councils and other mixed competencies settings. The present programmatic category involves 540 agents for its operational management in this budget.

Source: 2015 Budget, PBA.

87. In coordination with line ministries, the DPP has initiated an innovative exercise in PBA to try to build a framework to evaluate physical and financial targets and indicators for all provincial administration entities, including the DGCyE and Health Ministry. This has involved ongoing dialogue with relevant entities and the elaboration of data collection and

³⁵ Some 74 programs cover individual hospitals and are presented in the same form. The DGCyE's 2015 budget is organized into 34 programs.

presentation manuals. The objective is not only to evaluate budget execution and short-term projections, but also to enhance budget formulation processes in the future. While promising, this task is at an early stage and requires further efforts to be fully implemented (see Box 5.5).

Box 5.5. Issues to Address when Introducing Performance Measurement

- Lack of clear responsibility at the program level may weaken the incentive and ownership mechanisms not only to achieve targets, but also even to provide the necessary data. The quality of data, especially physical data, can be only guaranteed by the entity providing the data, which thus requires a strong involvement and ownership from this entity.
- Lack of support at a level higher than the Minister of Economy, such as the governor.
- Lack of stability of programs, which can change from year to year, complicating the establishment and projection of medium-term targets.
- Tendency to think in terms of output instead of outcome targets. Performance is about overall outcomes, not outputs. The large number of programs (more than a hundred for Health, as currently defined) makes it difficult to think in terms of broad objectives and outcomes and tends to fragment the measurement of performance.
- Tendency toward too many indicators per program. The number of indicators should be simplified and based on the availability of data (for instance, Program 12 for Health, “Attention to AIDS Epidemic,” has five indicators).
- Lack of a performance evaluation entity. Furthermore, it does not seem that the internal auditors of the Ministry of Economy or line ministries are involved in the process;
- Absence of a medium-term perspective in the budget process, except for in an aggregate fashion, makes it difficult to have a vision of the attainability of targets and resources within a multi-year perspective.

Box. 5.6 What Performance Information Means for Service Delivery in PBA

Health

A lack of performance information means that health service delivery is not based on demand or results. This negatively affects service delivery in the health sector by leading to inefficiencies in the budgeting process: programs that perform well may be starved of resources, while those that are not performing are allowed to expand; sub-regions with higher per-capita expenditures are provided more funding, while poorly-funded sub-regions see their budgets slashed. As mentioned earlier, 37 percent of the total revenue received by the province is shared among the municipalities that have official health care establishments. This automatic resource transfer mechanism is not based on an evaluation of the quality or nature of the health services provided by the municipalities, but rather, on static formulas. Indeed, these formulaic regimes end up discriminating financially against municipalities that do not have health centers with intern capacity—exactly those areas that could use more health investment.

In general, there are no established mechanisms to evaluate either the institutional capacity or the financing needs in the health sector. Furthermore, available budget information does not make it possible to generate incentives to promote greater operational efficiency in the provision of health service at the provincial and municipal levels. In addition, the lack of performance information leads to suboptimal healthcare delivery by complicating the government’s efforts at targeting specific populations in need of specialized treatment.

Conclusions and Recommendations

88. The impact of performance measurement on service delivery is tied to the government’s ability to monitor and assess efficiency and progress in the

implementation of sector strategies. However, in order to achieve meaningful audits and performance evaluations, actual programs need to be well defined. From these well-defined programs, indicators can then be developed and used to monitor and evaluate program success. To strengthen this dimension, the PBA could consider the following recommendations:

- a. ***Develop well-defined programs.*** To produce proper, sector-based budgeting, actual programs supporting implementation of strategic development priorities in the health and education sectors are needed (as distinct from those aligned with administrative units).
- b. ***Design program performance framework and indicators that enable meaningful monitoring.*** This would allow PBA to gauge the success of its programs and engage in strategic planning and sector-based budgeting. Indicators should be specific, measurable, assignable, realistic, and time-bound.
- c. ***Produce periodic impact evaluations to track and divulge program performance.*** Such reports could be similar to those conducted by the Ministry of Economy on externally funded programs.
- d. ***Strengthen linkages between service delivery monitoring and resource allocation mechanisms.*** A comprehensive resource allocation mechanism based on service delivery data, and possibly even on performance, would increase the efficiency of resource allocation and expenditure.

v. **Asset and Liability Management**

89. Ineffective asset and liability management means that public investments are not providing value-for-money, thus siphoning resources from public service delivery for the poor. Maintaining a register (or registers) of fixed assets is a prerequisite for a reliable assets management system, as it enables government to better utilize available assets, as well as plan public sector investment and maintenance programs. Such registers should reflect significant events that increase the life of an asset, its value, or lead to change in the use of an asset (such as renting, reconstruction, etc.).

90. Public asset registration in PBA is, in general, quite comprehensive. Articles 90 and 91 of the LAF mention the obligation of the GAO to maintain a system for recording state assets and liabilities. Moreover, LAF Article 94 provides for an assets registry system to be maintained by the GAO and to include recognition of stocks, changes in assets composition, and new investment. Final accounts of the Province, prepared by the GAO, include statements providing information on public assets by categories based on line ministries' and decentralized agencies' registries.

91. Asset registries are *not*, however, an integrated part of the PFM information system. Instead, each line ministry maintains a separate, non-financial asset registry, which includes infrastructure. In addition, there is limited evidence of periodic reconciliation between physical assets and the registries. Absence of integration of asset registries into PBA's general ledger, and incomplete information about their condition (e.g., the state of basic

school assets)³⁶ may lead officials responsible for programs to take less-than-optimal decisions about public investment and borrowing, thus adversely affecting the quality of public service delivery to the B40. For instance, the Provincial Directorate of School Infrastructure (*Dirección Provincial de Infraestructura Escolar*, DPIE) is responsible for consolidating the needs for school infrastructure, prioritizing them, and obtaining financing solutions. However, it does not have the relevant systems to integrate the information and monitor the state of the facilities and the efficacy of actions taken with respect to them. In some cases the same problem was addressed with different funds and by different programs, which shows a lack of control of the buildings and their maintenance.

92. SIGADE (*Sistema de Gestión y Administración de la Deuda Pública*), the public sector debt reporting system, maintains a comprehensive debt registry; however, it is not fully integrated into the province's PFM information system. In addition, there is a risk that government liabilities are understated in the annual accounts, because of limitations of the cash-based accounting methodology currently used by the PBA. In the absence of well-developed sector planning, there is little coordination between the Public Sector Investment Management process and Debt Management process.

Box. 5.7 What Asset and Liability Management Means for Service Delivery

Education	Health
<p>Poor asset and liability management affects education service delivery through the inefficient capital investment expenditure, resulting in 1) in the waste of limited resources and less resources spent elsewhere (such as on educational materials for teachers), and 2) a disconnect between spending on education facilities and actual need of said facilities. Indeed, there are no explicit criteria for execution of a school infrastructure project (i.e., school construction, expansion, remodeling, and maintenance) among the various financing alternatives, (FUDIE, Annual Work Plans, or Administrative Decentralization Program, among others). This lack of coordination among different parts of the government makes it possible to obtain resources from different sources (national government, UCO, U.E.P., loans, etc.) for the same project, starving other facilities or areas of needed funding. In terms of service delivery, this translates into too few educational facilities in some areas, or the absence of infrastructure improvements in others.</p>	<p>As with education, poor asset and liability management within the health sector translates into suboptimal health service delivery through inefficient investment strategies. Public investment in health is financed through funds from both the national and provincial government, complicating management of investments in hospital buildings and equipment.</p> <p>In addition, the lack of the comprehensive, updated property records makes it difficult to effectively manage maintenance and improvement of fixed assets, and to make necessary investments in a timely manner to prevent obsolescence of the hospital equipment. This leads to poorly planned hospitals, the disrepair of some facilities, and unnecessary capital improvements elsewhere. As a result, patients sometimes have to travel further, spending additional time and limited resources to access the adequate medical care.</p>

³⁶ As will be explained later in the report, since PBA uses cash-based accounting, there is no information about the depreciation of existing fixed assets.

This phenomenon is exacerbated by the lack of updated property registers, which makes it very difficult to analyze and project the infrastructure investment needs.

Similarly, there are no updated property registers of school furniture, which makes it impossible to measure the extent of existing needs and deficiencies, and establish priorities for investment. The DGCyE owns a school furniture factory; however, since there are no stock registries, one cannot evaluate the factory's performance or efficiency.

Conclusions and Recommendations

93. Adequate assets and liability management has a profound impact on service delivery, as it informs the Public Investment Management process and the sectoral financing strategy, including the issuance of public debt—critical factors for the achievement of the health and education sectors' development objectives in the medium to long term. To strengthen this dimension, the PBA could consider the following recommendations:

- a. ***Asset Registries should be periodically reconciled with physical assets and integrated fully into the provincial general ledger.*** This ensures that responsible officials have updated information about their sector's assets, which they can use to make evidence-based investment decisions.
- b. ***Debt, assets, and cash management functions should be fully integrated into PBA's PFM systems.*** A thorough analysis of assets, cash, and existing debts should take place prior to issuing more debt or making related financing decisions. Furthermore, without integration, the government does not have a complete picture of the province's investment needs and priorities.
- c. ***The adoption of accrual-basis accounting*** would allow PBA to record depreciation and keep track of the actual state of physical assets.

vi. Predictability and Control in Budget Execution

94. Predictability and control in budget execution refers to whether the budget is executed in an orderly and predictable manner, and whether there are arrangements for the exercise of control and stewardship in the use of public funds. This is critical to public service delivery outcomes for three reasons. First, the lack of predictability in resource flows undermines the ability of public service providers to plan and use resources in a timely and efficient manner, hampering their ability to deliver much-needed public services to the B40. Second, non-competitive tendering processes limit the efficiency of existing sectoral programs by increasing the costs of procuring goods and/or leading to the supply of goods of inadequate quality. Third, inadequate control of payrolls, as well as of procurement and

expenditure processes, may allow for corruption and patronage, increasing the costs associated with, and reducing the quality of, service delivery.

In-year Budget Execution Reports

95. In PBA, monthly and quarterly budget execution reports are released approximately six months after the period covered and are published on the GAO's website. They use the same classification as the budget, though not at the more detailed analytical levels and with the administrative classification missing. Transfers are also separately accounted for in these reports. These reports are used for financial purposes but not for management purposes.

96. Municipal-level expenditure is neither prepared nor consolidated by the GAO. As such, the periodic reports mentioned above only include the amounts transferred by the province to the municipalities and do not mention municipal expenditures. Municipalities prepare their own financial accounts and fiscal reports, which they are required to submit to the GAO for review. However, municipal budget execution reports are not used by the provincial Ministry of Economy for analysis to ensure a more efficient allocation of province budget resources.

Cash Management

97. The General Treasury is designated by the Constitution as the entity that makes payments for expenses authorized by the GAO. The majority of these payments are now made in electronic form. A Treasury Single Account (TSA) was established in record time—approximately seven months—in 2013, and is maintained at the Provincial Bank. Some 95 percent of provincial entities use the TSA. Older bank accounts have been closed and all remaining accounts are linked to projects and programs financed by donors or at the federal level. The balance is calculated automatically on a daily basis, reconciled automatically with bank statements, and is used to calculate the daily transfers to municipalities through co-participation or specific programs. PBA's TSA is actively managed to maximize revenues for transitory surpluses.

98. Cash flow forecasts (*presupuesto anual de tesorería*) are established at the start of the new fiscal year and updated on a monthly basis. They lay the basis for the monthly credit openings for commitments or liquidation (*cuotas presupuestarias de compromiso o devengado*) the DPP sends to ministries, departments, and agencies (MDAs). MDAs are provided with reliable indication of actual resources available for commitments approximately 15 days in advance of the quarter. Each line ministry has its own ministerial treasury that makes the payments supported by General Treasury cash transfers.

99. The TSA is used mainly for collection accounts; there are still separate bank accounts, which have to be authorized by the General Treasury (GT). These accounts receive transfers from the GT and are used by each MDA treasury to make monthly payments of employees' salaries and petty cash only.

100. The General Treasury is given substantial powers in the budget execution cycle. It decides on "payment policy"—that is, on prioritization of expenses and on the share of the voted budget appropriations that will be spent. This role is supported by the LAF, which

stipulates that every credit is considered executed when liquidated (but that liquidated credits are not necessarily paid). This system constitutes a very powerful element of fiscal discipline, especially since the provincial treasurer is independent of the Ministry of Economy (though both work in close coordination).

101. The DPP works closely with the Treasury General and controls budget commitments by establishing MDA commitment ceilings. These ceilings are based on strict cash availability data and projected revenue collection produced by the Treasury. In practice, budget execution is very much driven by actual cash constraints; if faced with liquidity problems—which has not been the case for years—cash rationing is used instead of the issuing of new debt.

Modifications of Credits or Budget Allocations during the Year

102. Various modifications of budget credits are allowed by law. This is the case for transfers or credit increases, as well as for incorporation of previous years' residual credits. In particular, these modifications can be incorporated in cases of emergency or exceptional circumstances. Credit increases *must* be compensated by a corresponding increase in revenue: for example, to address emergency housing needs following a devastating flood in the provincial capital of La Plata in 2013, PBA had to cut spending elsewhere.

103. Transfers are not authorized between ministries or between central and decentralized entities. Salary expenditures are protected from these modifications,³⁷ which means that in case of cuts it is capital expenditures that will likely be affected.

Internal Controls

104. Internal controls for non-salary expenditures are quite effective. The absence of a general accounting function and the fact that there exists only budget execution accounting (there are no accrual accounts—the system only reflects budget and payments), which is a common feature of PFM systems in the region, has led to the establishment of a strong internal control mechanism for budget expenditures. This system was established by the LAF reflecting the provisions of the Constitution, and includes various entities whose existence and functions are independent of the Ministry of Economy and are guaranteed by law.

105. Internal controls are implemented through the available computerized systems and by the GAO, the Office of the Public Prosecutor, and the General Government Advisory unit (*Asesoría General de Gobierno*). The controls are comprehensive at all budget execution stages. Furthermore, the GAO has a procedures manual that disseminates and communicates internal control rules. All employees involved in expenditure management are familiar with the regulatory framework compiled in the financial administration legislation that is published on the provincial government's website.

106. However, there is some overlap of controls, which can potentially generate delays and reduce the effectiveness of budget execution. For example, prior to the commitment stage, MDAs' expenditures have to be reviewed by representatives from three control entities: the

³⁷ For more information, see the *Manual de Modificaciones Presupuestarias* (February 2014).

General Government Advisory unit, the GAO, and, for certain types of expenses (e.g., asset investments), the Office of the Public Prosecutor (through *ex ante* intervention). As such, better coordination and a clear definition of the respective control duties assigned to internal and external control institutions would encourage a focus on strategic issues, allowing for a better use of the various institutions' comparative advantages, and improving timeliness and efficiency. One of the consequences of this complexity is that simplified procedures are occasionally used without further justification.

Computerization

107. Financial, budgeting, and accounting management is supported by the Financial System (SF), which is a web-based IT system developed by the GAO that is mandatory for all entities of the central government and decentralized entities; municipalities, for their part, use RAFAM. It is composed of interconnected modules (accounting, expenditure budgeting, treasury, creditors, payments, and orders). A revenue module and one for asset and inventories—functions that are currently managed through older systems—are currently in development. Control entities and the DPP have access, and access to the system is secure. The FS is directly producing fiscal reports.

Payroll Controls

108. As mentioned earlier, PBA has an integrated employee database, but it is not available to the public. Payroll controls and the linkage between personnel records and the wage bill are major concerns in PBA (see Box 5.8). In general, the Ministry of Economy exercises limited control over the wage bill that is estimated and paid by sector ministries, as well as over the number of employees through the DPP. Line ministries employees' salaries are paid by the General Treasury while decentralized agencies personnel salaries are paid by each agency treasury.

Box 5.8. Effectiveness of Payroll Controls in PBA

The effectiveness of payroll controls depends on the extent to which payroll information is integrated into a personnel database. This database, sometimes called the “nominal roll,” should provide a list of all staff who should be paid every month; it should also be verifiable against the approved establishment list and the individual personnel records (or staff files). The link between the personnel database and payroll is a key control. Any amendments to the personnel database should be processed in a timely manner through a change report, and should result in an audit trail.

In BPA, the wage bill represented 52 percent of total budgeted expenditures in 2015.

Degree of integration and reconciliation between personnel records and payroll data. Payroll data is not fully integrated with the human resources dataset through an integrated information management system, which prevents the undertaking of on-line consistency checks and controls between actual payments and corresponding beneficiaries. Human resources records are semi-manually loaded into the payroll system. Based on this information, the General Treasury calculates monthly payroll payments and transfers the corresponding funds to MDA treasuries. Consolidated reconciliation between payroll payments and accounting records exists, but with some limitations: (i) the calculation and payment of the wage bill is not compared to the wage bill of the previous month for error detection purposes; and (ii) the reconciliation with the human resources data is less regular, usually taking place after changes are entered in personnel records.

Timeliness of changes to personnel records and the payroll. Changes in personnel records are recorded in the Provincial Single System of Personnel Management (*Sistema Único Provincial de Administración de Personal*, SIAPE), but typically with a lag (in some cases up to three months, especially for employees in distant locations), leading to frequent retroactive payroll adjustments.

Internal controls on changes to personnel records and the payroll. All changes related to human resources and payroll follow very clear rules. Modifications to statutes and wages are registered by qualified personnel. To hire new employees, a decree from the executive branch is required that also authorizes the incorporation of the new employees' records into the database. However, these controls are not enough to allow timely checks on the integrity of the data, again leading to frequent retroactive payments.

Existence of payroll audits. The HTC annually audits payroll balances, and conducts a review of payroll internal control procedures. However, the latter focuses on financial aspects only, and does not cover all MDAs.

Source: PFM-PR, 2012.

109. The DGCyE, in particular, has had extreme difficulties managing its payroll. It has been reported that there are up to six-month delays between changes in personnel records through hiring and retirement, for instance, and the relevant change in the salary payment system. Retirement-related delays in particular can lead to unjustified and almost unrecoverable payments of up to nine million pesos per month. A pilot system, which is currently being tested in various districts, to automate the link between personal data and payments seems quite promising.

110. Strengthening internal controls in payroll management would be particularly beneficial to the DGCyE, whose budget expenses accounted for approximately 28 percent of the province's total budget in 2015. Despite the controls in place (as mentioned earlier), there is substantial room for improvements in personnel database and payroll controls that could also contribute to savings in salary expenditures. These savings could then be reallocated to capital expenditures, such as building and maintaining schools.

Internal Audits

111. The General Audit Directorate, under the GAO, is in charge of internal audits in PBA; it only performs *ex post* audits, however. Its activities are part of the internal control system and follow the guidelines in the Committee of Sponsoring Organizations (COSO) report. The audits primarily focus on issues of legal compliance; internal controls are defined in the Directorate's annual plan, and focus on the activity of the entities being audited. Audits are performed in a timely manner and cover most of the ministries. The General Audit Directorate provides a report after concluding each audit. The conclusions and recommendations are sent to the audited jurisdictions. Follow-up and implementation of internal audit recommendations are not systematic.

112. In Education, the DGCyE has an internal audit unit (Auditoría General) whose work is primarily disciplinary; however, it also monitors quality norms at the administrative level. It is also responsible for evaluating the efficiency and effectiveness of programs and projects and undertakes a number of different types of audits of entities.

Efficiency, Transparency, Competition, and Complaint Mechanism in Procurement

113. There is no provincial-level body governing the public procurement system and responsible for proposing policies and regulations. The absence of such a body manifests itself in the fact that, since 2009, PBA has had a law on public procurement (Law 13.891) as well as another one on electronic procurement procedures (Law 14.149) enacted in 2010, neither of which are applicable for lack of regulation. It is the Accounting Law (Decree Law 7.764/71), adopted in 1971, and its amendments,³⁸ that currently govern procurement procedures for goods and services in the Province. It is also worth noting that only Title III, on procurement, and Title V, on the management of assets of the Province, both of Chapter II, are currently in force; the rest of the chapters and sections were repealed by the 2007 LAF.

114. Procurement procedures are conducted in a decentralized fashion by each provincial ministry or agency. In turn, within each jurisdiction, procurement occurs in a decentralized fashion in each of PBA's 75 provincial hospitals and 135 school boards. There are limitations up to the ceiling on private bidding procedures in health,³⁹ but not in education. Given PBA's geography and widely dispersed populace, the current regime is logistically efficient.

115. The absence of a modern regulatory framework adapted to the current demands of the province means that each ministry necessarily adopts *ad hoc* procurement procedures. Decentralized procurement units in PBA's health and education sectors have low capacity and are characterized by poorly qualified staff with high turnover rates. The Ministry of Health has partially addressed these issues in recent years by implementing a procurement control system through which each process must be approved and validated. For its part, the DGCyE has standardized its procedures by developing a procurement instructive.

116. As confirmed by the HTC, planning deficiencies, coupled with an excessively bureaucratic bidding process, lead to a high percentage of procurement procedure exceptions, through the use of non-competitive methods and the splitting of purchases in order to be able to use non-competitive methods. HTC estimates that a very high percentage of processes are currently made under exceptional conditions.⁴⁰ In the education sector, for instance, advanced purchase orders are used as a way of extending existing contracts over periods equal to that in which the service was contracted (for instance, the renting of portable toilets for different schools, or river transport services for teachers and students). In this way, the service extension is not technically considered direct contracting under the terms of the law.

117. The lack of an information system that collects annual procurement planning and completed procurement processes by ministry complicates efforts at monitoring and evaluating the province's use of public resources. Without this, one cannot adequately analyze performance or measure the impact of goods and services procurement related to the delivery of health and education services. Information that is currently available is sparse, unreliable, and unavailable to the public.

³⁸ The latest amendments are from 2008 and its regulations, approved by resolutions of the GAO in 2007.

³⁹ Private bidding procedures are permitted up to 1.2 million pesos (roughly US\$140,000) ceiling.

⁴⁰ The mission was not able to verify this.

118. There is, however, a single, open portal where the Province publishes all invitations for bids and bidding documents, both current and dating back to 2001. However, awarded contracts are not available. Only through the generation of reports can one obtain agency-specific information of suppliers and contract amounts. This lack of integration hinders the accessibility of contract data, rendering the system opaque and complicating the ability to hold to account the Province's use of public resources. Additionally, each provincial body publishes calls for bidder on its own website, the official gazette, and a newspaper, but likewise does not provide contract information.

Box.5.9 What Predictability and Control in Budget Execution Mean for Service Delivery in PBA

Education	Health
<p>A lack of predictability and control in budget execution translates into suboptimal education service delivery. For one thing, poor management of human resources, particularly as it relates to the financing and payment of teacher salaries, leads to poor results by pulling teachers out of the classroom. Use of the outdated computer system by the DGCE's results in numerous errors when it comes to the accrual and payment of salary. These errors generate numerous complaints that teachers can only file in the provincial capital of La Plata. This means that teachers end up leaving their teaching duties to be able to register complaints or consult with the DGCE on issues relating to their salary. Missed class days, of course, have a direct negative impact on the quality of education.</p> <p>Another issue affecting education service delivery is the limited capacity of the DGCE to plan their procurement process. In order to ensure that schools receive the necessary goods and services on time, the DGCE resorts to non-competitive bidding. Spending more on goods and services detracts from the quality of education service delivery by taking resources away from other areas.</p>	<p>Poor predictability and control in budget execution negatively affect service delivery in the health sector by leading to wasteful spending that takes away limited resources from patients. For instance, in PBA health-related purchases are made in a decentralized manner at the hospital level (except in a select few cases i.e. purchase of the gamma globulins). This prevents the sector from taking advantage of economies of scale and establishing framework agreements or using its purchasing power to negotiate lower rates from providers. Greater spending on such purchases leads to less resources available to spend elsewhere in the sector.</p>

Conclusions and Recommendations

119. The impact of predictability and control in budget execution on public service delivery is tied to the efficiency of resource expenditure. Unpredictable resource flows undermine the ability of public service providers to do their job. Additionally, non-competitive tendering and poor payroll management lead to a waste of resources, reducing those available to provide public goods and services. The province's procurement process adversely affects service delivery; particularly given Argentina's high rate of inflation, nominal costs for substantial works rise during execution. To strengthen this dimension, the PBA could consider the following recommendations:

- a. **Better utilize in-year budget reports for management purposes** in order to gain a better picture of the difference between approved resource use and actual resource use.
- b. **Implement a province-wide employee database fully integrated with payroll data.** This would lead to improved payroll management and control salary expenditures. Fully integrating payroll data with human resources data through an integrated information management system would be particularly beneficial to DGCyE. It would allow for significant improvement in timely processing of changes to personnel records, reduced need for retroactive adjustments, and timely internal checks on data integrity.
- c. **The HTC should increase its capacity to audit payroll.** HTC began doing this for the first time in 2013; it should scale up its efforts to provide needed external auditing.
- d. **Internal audits and controls should focus more on adding value instead of mere compliance.** To be fair, this is difficult given the current absence of well-defined programs.
- e. **Increase the budget for contingencies and emergency expenditures.** In health in particular, service delivery needs can be linked to unexpected events or health crises. The lack of budget for contingent or emergency expenditures (for instance, to allow for a temporary increase in medical personnel to cover a flu epidemic) can be detrimental.
- f. **Allow for more flexibility in the use of budgeted resources.** The resources budgeted for SAMO are estimates that are not adjusted in a flexible manner on the basis of actual revenue collection during the year. In the event that revenue collection exceeds the budgeted amounts, a special decree, signed by the Ministers of Economy and Health, is required in order to use it. Similarly, the fact that budget appropriations are systematically canceled at the end of the year can result in inefficiencies in the budget execution of specific programs financed by multilateral donors. For instance, the budget allocation of programs receiving transfers from the federal level is canceled at the end of the year and, in practice, the programs start receiving transfers in March/April. This adversely affects service delivery in the first quarter and results in inefficiencies in the last quarter because of the rush to spend. A similar issue happens for hospitals that have difficulties spending the resources collected in the last quarter, creating a disincentive to collect these resources from third-party beneficiaries. The latter problem may be solved by allowing previous year revenue collected by hospitals from *obras sociales* to be carried over and spent the following fiscal year, under certain conditions.
- g. **Establish a regulatory agency to govern public procurement at the provincial level.** The agency would be responsible for proposing policies and regulations, organizing information, monitoring and evaluating procedures, establishing operational guidelines, proposing strategies, and conducting studies on the efficient use of public resources.

- h. ***Make effective the Public Procurement Law and Electronic Procurement Procedures.*** This could help ensure the use of more agile procurement procedures that can respond to the specific needs of each provincial body in a timely manner.
- i. ***Design and implement a unified procurement management system to promote the efficient and transparent use of public resources.*** The system should also allow performance analysis on successfully completed procurement processes (contracts awarded) compared to procurement process planned, and original contract values at award vs. actual completion cost of contracts

vii. Accounting, Recording, and Reporting

120. Adequate records and information are generally produced, maintained, and disseminated to meet decision-making, control, management, and reporting purposes. The lack of information on the provision and use of resources for public service delivery can undermine the planning and management of said services. It also reduces the availability of evidence needed for the effective audit and oversight of the use of funds. As such, poor accounting, recording, and reporting could adversely affect planning and budget preparation processes, and potentially allow for leakages, the use of resources in unintended ways, and/or even corrupt procurement practices.

121. In PBA, annual financial reports are based on budget execution reports and include an aggregated and comprehensive statement reflecting both short- and long-term liabilities produced by the provincial Directorate of Public Credit and Debt (DPCDP). Financial reporting comprehensiveness has increased substantially in PBA over the last 3-4 years with the inclusion of various social security institutions and decentralized entities (both consolidated and unconsolidated). Reports are published on the GAO website, albeit with some delay. Reports use the same classification as the budget, though not at the more detailed analytical levels.

122. However, since PBA uses cash-based accounting (meaning that assets and liabilities are not recorded in the accounting record), the comprehensiveness—and thus usefulness—of financial reports is limited. For example, hospital medicines and medical goods are sometimes delivered and used before they are paid for. Under cash accounting, the health services provided or the stock of medicines acquired and/or used will not be reflected in Ministry of Health reports until the timing of the related cash receipts and payments. Under accrual accounting, medicines would be recognized at the time of receipt by the hospital, regardless of the associated cash flow timing. Thus introduction of accrual or modified-accrual accounting would help PBA systematically determine the full cost of health services, including noncash costs (such as asset depreciation).

123. Expenditure reporting from those provincial units that receive public service funds, such as sanitary regions and school boards, as well as hospitals, schools, and CAPs is suboptimal. Per PBA's constitution, municipalities enjoy a high degree of autonomy,

including the power to allocate resources and approve annual budget spending through municipal councils. Municipalities are required to record their budget execution and prepare annual accounts for the HTC; however, they are not required to report this data in real time to the provincial Ministry of the Economy. This means that, while there are periodic municipal financial reports, there is no aggregate information or comparison of budget resources and spending among municipalities in real time. This prevents PBA from monitoring and making comparisons between the amounts allocated, actual spending, and the quality of services provided by municipalities mainly in health but also in education.

Box 5.10. What Accounting, Recording, and Reporting Mean for Service Delivery in PBA

Education and Health

Accounting, recording, and reporting have an impact on education and health service delivery by preventing effective oversight and auditing of the use of resources. In order to ensure that funds are being used efficiently (and, for that matter, not being misused) and to keep service providers accountable, oversight mechanisms and units need evidence; such evidence comes from data, information, and records collected by the DGCyE. In this way, poor financial records—particularly at the municipal level of government, where a growing percentage of services are now being delivered—prevents overall improvements in service delivery which could be facilitated by the timely identification and flagging of wastefulness, malfeasance, or other issues negatively affecting the sector.

Conclusions and Recommendations

124. The absence of comprehensive data on budget execution, as well as data on changes to assets and liabilities, has an adverse impact on public service delivery in PBA. The lack of this data makes analysis more difficult, thus impeding the government’s decision-making processes. Furthermore, the lack of real time access to municipal expenditure data on the part of the provincial Ministry of Economy complicates efforts to ensure that revenues transferred from PBA to municipalities are used properly and municipalities are indeed providing the public services expected of them. To strengthen this dimension, the PBA could consider the following recommendations.

- a. ***The adoption of elements of accrual-based accounting*** would increase the quality—and therefore usefulness—of accounting and financial reporting in PBA. These reforms could stimulate the development and improvement of linked systems, such as asset registers, payroll controls, and procedures for better planning and management of assets and liabilities, creating the environment for improved provision of education and health services to PBA’s B40. It should be noted, however, that, since accrual accounting requires the preparation of a statement of financial performance, which involves the identification, measurement, and periodic reporting of line ministries and decentralized agencies’ assets and liabilities, its adoption in PBA would require a more systematic approach for identifying, monitoring, and valuing all assets and liabilities.
- b. ***Municipal governments and units that are recipients of public service funds should share expenditure data with the Ministry of Economy for the purposes of aggregation, comparison, and analysis.*** Consolidating municipal budget figures, as well as sanitary region and school board expenditures, would allow

PBA to monitor municipalities' fiscal data and analyze the quality of services provided vis-à-vis resources spent. This would provide the tools to improve coordination among the local, regional, and provincial levels regarding public service provision. The resulting data could also be used to help encourage sanitary regions and school boards to prepare their budgets under more strict expenditure thresholds.

viii. External Oversight and Audit

125. External oversight and audit are arrangements for the scrutiny of public finances by the legislative branch and through external audits to hold the executive branch to account for its fiscal and expenditure policies, as well as policy implementation. Inadequate scrutiny can reduce government accountability for efficient and rule-based resource management, thereby lessening the value of government services. Limited auditing means that the accounting and use of funds is not subject to detailed review and verification, further diminishing the value of services.

126. In PBA, there is a certain degree of overlap in the role played by the various provincial control agencies (i.e., HTC, GAO, and the Public Prosecutor's Office). Simplification and streamlining the ex-ante control procedures could be extremely useful to smooth administrative processes. Disentangling each agency's functions would improve the provincial administration's controls, thus improving the quality of government programs and effectiveness of government expenditures.

127. The HTC audits the annual budget execution reporting (the so-called "*Cuenta General del Ejercicio*") prepared by the GAO and submitted to the Legislature within three months of the regular legislative period. The HTC renders its opinion on the budget reporting within 12 months of the report's submission. This opinion is communicated to the Executive, Legislative, and Judiciary branches and is publicly disclosed through the official gazette and the HTC website. Strictly speaking, this goes beyond the "official" mandate of the HTC, since neither the Constitution nor the LAF mandates the SAI to send its financial or compliance audits on budget execution accounts to the Legislature (although Article 144 of the Constitution establishes that the governor is accountable to the Legislative regarding the province's finance and public investment).

128. In recent years, PBA's HTC has begun engaging in performance audits (see Box 5.11). It is actively developing tools and skills to undertake performance audit based on good practices recommended by the International Organization of Supreme Audit Institutions (INTOSAI). The intention is to move toward comprehensive audits in which entities would be subject to regulatory and performance audit in an integrated fashion. This evolution is promising and the audit reports already produced present interesting findings.

Box 5.11. Performance Auditing of Maternal and Infant Health Program

The Buenos Aires Provincial Court of Accounts (HTC) has recently begun to modernize its formerly strictly legal and financial compliance-based controls by piloting performance evaluation audits of public

programs. (This initiative was supported by a series of World Bank-supported PFM reforms as well as the adoption of a program-based budgeting approach.) Performance audits (*auditorías de desempeño*) are currently in the planning stages for PRODIABA, the Program for the Prevention, Diagnosis, and Treatment of Diabetic Patients, and the Malvinas Argentinas Municipal Hospital for Trauma and Emergencies. Pilot audits have already been conducted on the Directorate of Roads, an organ of the Ministry of Infrastructure, as well as on the Maternal and Child Health Program from one of PBA's municipalities.

The performance audit of the latter evaluated the effectiveness, efficiency, and economy of the Program's Early Pregnancy Uptake process and its Care Delivery variable, both in terms of process success and in the reduction of infant and mother morbidity and mortality. The audit included the compilation and examination of program documents, interviews with officials, surveys of relevant impact indicators, and the analysis of program output data. The comprehensive study, which took place over the course of nine months, uncovered a number of issues contributing to less-than-optimal program performance, including:

- Inconsistencies between the list of personnel supplied by the Program and the payroll initialed by the HTC.
- Lack of management indicators within Human Resources.
- Budget formulation not completed based on preliminary draft budget.
- Imprecise definition of programmatic categories.
- Absence of budget execution records.
- No development of financial and physical budgetary management indicators.

The audit also provided detailed recommendations addressing the 15 flagged issues. However, a number of factors made the success of the pilot performance audit less than optimal. First, given that the audit was a pilot test, the team did not have a health specialist within its ranks. Furthermore, normative and technical insufficiencies in the program's budget formulation and output records prevented auditors from being able to gauge completely the effectiveness, efficiency, and economy of the program.

Weaknesses aside, this pilot audit is an important step in fostering cultural change in transforming the HTC into a more performance-oriented institution. Building upon these pilot initiatives to expand and improve further performance auditing will help hold provincial authorities more accountable for the more effective use of public resources. This will lead to higher quality public services that translate into tangible improvements for Argentina's B40.

Box.5.12 What External Oversight and Audit Mean for Service Delivery in PBA

Education	Health
External oversight and auditing are key to ensuring that public services are being delivered efficiently, and that service providers are kept accountable for the efficient use of available resources. In spite of the fact that, on average, 28 percent of total provincial spending went to the DGCyE over the past three years, an HTC delegation was only created for the DGCyE in 2012. Furthermore, only in 2013 did HTC start conducting audits and small samplings on specific aspects of the DGCyE payroll. These audits showed delays of up to four months in payment of salaries to teachers replaced by substitutes. Such audits are needed to identify and flag bottlenecks and inefficiencies that lead to wasted resources.	Lack of performance audits in the province's Ministry of Health put significant limitations on the measurement of the efficiency of health programs. It is certainly feasible that poorly functioning programs continue to get funded due to lack of systematic performance evaluation that otherwise would have indicated that change is needed. HTC has recently added performance evaluations of the sector to its responsibilities, alongside compliance and financial audits. In addition, limited external oversight means that patients and watchdog groups are less able to seek legal redress for malfeasance or avoidable errors on the part of healthcare providers.

Conclusions and Recommendations

129. Robust external scrutiny and audit arrangements are linked to the quality of service delivery in health and education sectors because they foster better oversight and accountability in the efficient use of government resources. This means, however, that audits must move beyond mere compliance, and align with other functions as well.

- a. ***Simplifying and streamlining the ex-ante control procedures*** could clarify the responsibilities of each control agency, diminish work overlap, and reduce unnecessary bureaucracy.
- b. ***HTC should increase its performance audit function and integrate them into regulatory audits.*** It could also work more at the policy level instead of at entity level. Performance audits are contingent upon a solid performance measurement framework.

6. Main Conclusions and Recommendations: “Doing More with Less”

130. These recommendations could be implemented as part of harmonized reforms focused on service delivery and PFM performance in the health and education sectors. Broadly speaking, such reforms could be grouped around vertical and horizontal dimensions focused on the consolidation of fiscal intra-governmental relationships and the simplification of funds flow in these two sectors, as well as on the strengthening of institutional and PFM arrangements at the provincial level. For a number of reasons, sector-specific PFM reforms can potentially lead to quick wins at limited cost. First, since sector-level interventions are, by definition, more targeted, they may end up tackling specific issues that are often not addressed by countrywide PFM reforms. As such, ready solutions to real problems related to sectoral service delivery could have more direct, tangible impact on the B40. Second, such sector-level interventions potentially require less time to demonstrate results since they are more “contained,” and thus, unlike “stand-alone” PFM projects, require fewer resources and can be more quickly implemented. Finally, since sector-specific PFM reforms can be included in broader sector-focused Bank projects, these recommendations can take advantage of economies-of-scale and be implemented with lower transaction costs. In these ways, the Province can “do more with less.” As the impact of each of these reforms on service delivery varies, however, it is important to prioritize recommendations and reforms based on which have the highest impact. Such a prioritization requires further analysis that is beyond the scope of this assessment, but that will be picked up by the subsequent report connecting PFM reforms to service delivery.

131. PBA already recognizes the importance of a well-functioning PFM system and its impact on public service delivery. It has made substantial improvements in its PFM performance in recent years. This is especially true when comparing current performance with that registered in the 2012 PEFA assessment, which covered the period 2006-2008. Worth noting are the following elements, among other accomplishments:

- Increased integration of the IT PFM system, which now covers the entire expenditure side (with the notable exception of procurement). Revenue management and asset and inventory modules are currently under preparation.

- Access to key financial information has also progressed and budget execution information is now disclosed, even if timeliness could be improved. End-of-year fiscal reports are easily accessible and comprehensive. Information on financing flows to municipalities (although not municipal expenditure reports) is also published in a comprehensive and user-friendly format.
- The establishment in record time in 2013 of a TSA is already producing positive effects. It would be useful to work on a similar consolidation-of-payment accounts.
- In coordination with line ministries, the Ministry of Economy has started a process of designing a monitoring framework to measure results of budget execution both in financial and real terms.
- The HTC has been building its capacity to audit the wage bill in the education sector, and in 2012 created a permanent delegation to the DGCyE. While this move is still incipient and current testing remains very limited in scope, it is of utmost importance and is a very promising first step, especially since the bill is under-audited and under-controlled.
- The HTC is starting to undertake performance audits on a pilot basis.

132. Despite the demonstrated progress, there remain a number of significant challenges that have been flagged in this report, both related to the PFM and sectors performance at the Provincial level as well as complexity and low efficiency of intra-governmental relationships. Most critically, fiscal arrangements between the three levels of government, (national, provincial, municipal), involved in service delivery in health and education sectors present significant opportunities for improvement, and comprise a variety of mechanisms, (co-participation, discretionary transfers, etc.), which are not well coordinated and do not necessarily follow the same strategy. At the provincial level, PBA lacks adequate sector-level planning and performance measurement, and will benefit from stronger accountability arrangements, and enhanced asset, debt, and cash management systems, which would ultimately support better performance of health and education sectors.

133. The following summarizes the recommendations introduced throughout this document to address these challenges, with the view to increasing the efficiency and effectiveness of public service delivery in the health and education sectors.

While some of these reforms could be implemented at the level of PBA, others would require the national-level engagement.

134. Credibility of Budget in Health and Education Sectors

- i. Engage more in the pre-approval budgetary planning to keep initial-final budget allocation fluctuations to a minimum.
- ii. Analyze and simplify consolidated intra-governmental funds flow, (comprising national, provincial and municipal levels), in health and education sectors
- iii. Analyze both capital and non-capital expenditures together to ensure the quality and quantity of public service delivery.

135. Comprehensiveness and Transparency

- i. Clarify those parties responsible for public services, as well as their specific roles in its provision.
- ii. Publically disclose internal audit reports to ensure that government programs are being implemented as designed.
- iii. Implement participatory budgeting to provide an extra layer of external scrutiny by increasing citizen participation in the budget process.

136. Policy-Based Planning and Budgeting

- i. Develop comprehensive, multi-year, costed strategies in health and education sectors, which will provide a solid foundation for the implementation of development programs.
- ii. Develop the capacity and mechanisms for monitoring and analyzing expenditures at the sector level.

137. Performance Information for Achieving Efficiency in Service Delivery

- i. Develop well-defined programs underpinning sector strategies in health and education.
- ii. Design program performance frameworks and indicators to allow for meaningful monitoring
- iii. Produce impact evaluations to track and divulge program performance.
- iv. To the extent possible, strengthen linkages between service delivery monitoring and resource allocation mechanisms.

138. Asset and Liability Management

- i. Asset Registries should be periodically reconciled with physical assets and integrated fully into the provincial general ledger.
- ii. Debt, assets, and cash management functions should be fully integrated into PBA's PFM systems.
- iii. PBA would benefit from adopting accrual or modified-accrual accounting.

139. Predictability and Control in Budget Execution

- iv. Better utilize budget execution reports to gain a clearer picture of the difference between approved resource use and actual resource use.
- v. Implement a province-wide employee database integrated with payroll data.
- vi. Develop further HTC's capacity to audit payroll.
- vii. Ensure that internal audits and controls focus more on adding value instead of merely reviewing compliance.
- viii. Increase the budget for contingencies and emergency expenditures.
- ix. Allow for more flexibility in the use of budgeted resources.
- x. Establish a regulatory agency to govern provincial public procurement.

- x. Make effective the Public Procurement Law and Electronic Procurement Procedures. This could help ensure the use of more agile procurement procedures that can respond to the specific needs of each provincial body in a timely manner.
- xi. Design and implement a unified procurement management system to promote the efficient and transparent use of public resources.

140. Accounting, Recording, and Reporting

- i. Adopt elements of accrual-based accounting to increase the quality—and therefore usefulness—of accounting and reporting.
- ii. Encourage municipal governments and units receiving funds for public service delivery to share expenditure data with the Ministry of Economy.

141. External Scrutiny and Audit

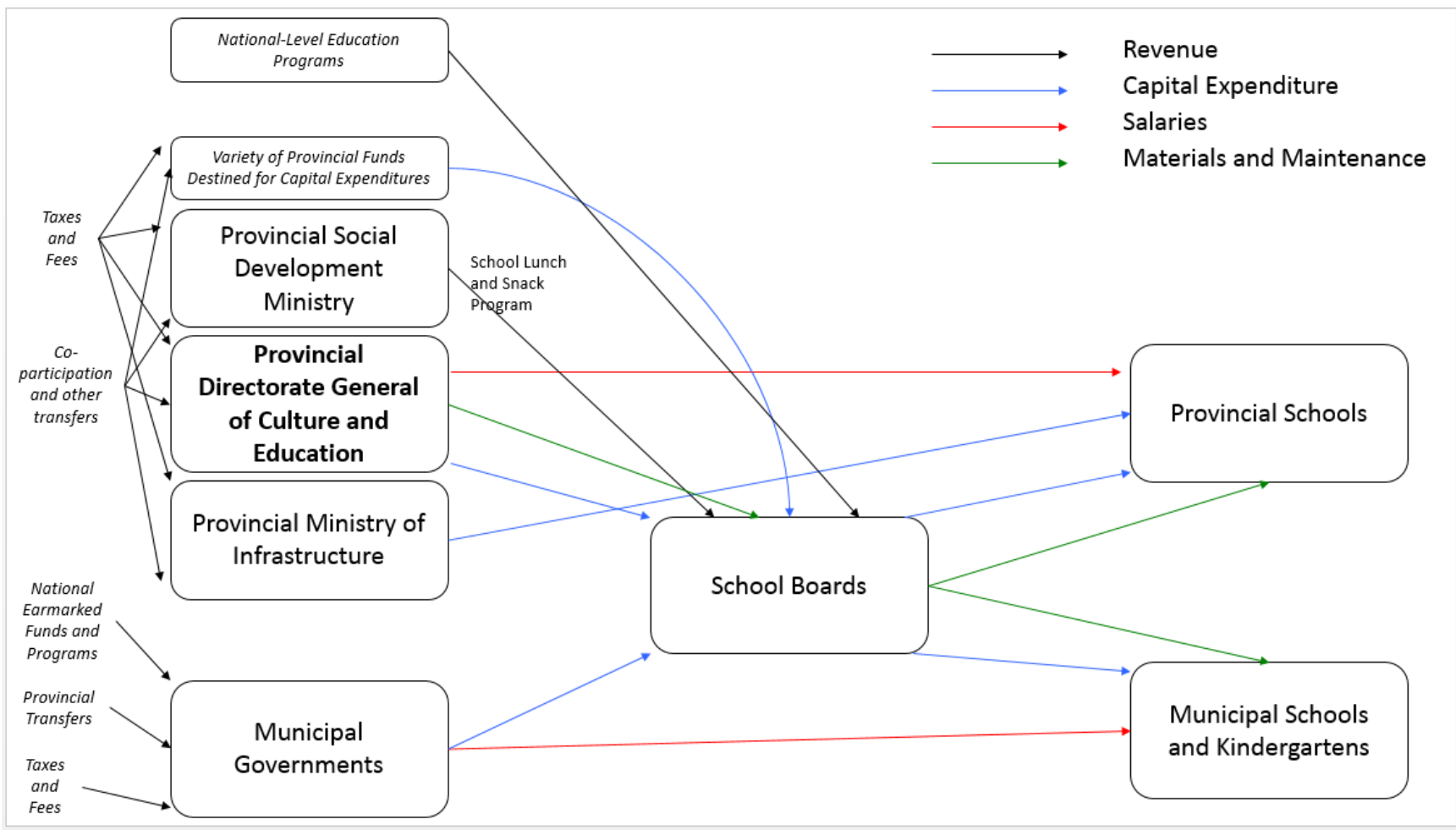
- i. Simplify and streamline the ex-ante control procedures to clarify the responsibilities of each control agency.
- ii. Strengthen the capacity of HTC so as to increase its performance audit function and integrate these audits into their program.

142. Finally, it should be noted that there are no specific performance indicators directly linking service delivery and PFM in Argentina, or anywhere else for that matter. As was explained above, the team instead adopted a number of broader PEFA indicators to the specific context of these two sectors. Although given the robust tools and data available much can be said about PFM in PBA's health and education sectors, and, with this information, much can be done to improve the lives of Argentina's B40, eventual development of specific performance indicators directly linking service delivery and PFM could significantly enhance the quality and precision of such analysis.

Annex I. Stakeholders Interviewed

- Batakis, Silvina—Minister of the Economy of the Province of Buenos Aires (PBA)
- Angeletti, Karina—Undersecretary for Coordination with States and International Financial Organizations (SCEOCI), SCEOCI, Ministry of Economy of PBA
- Antunes, Luis Osvaldo—Director of Accounting and Auxiliary Services, Ministry of Economy of PBA
- Azzato, Andrea Laura—Director of Administrative Management, SCEOCI, Ministry of Economy of PBA
- Berazadi, Daniel Eduardo—Director of Provincial Administration, SCEOCI, Ministry of Economy of PBA
- Buscemi, Sergio Javier—General Director of Administration, Directorate General of Culture and Education
- Chamorro, Mariano—Provincial Director of Municipal Coordination, Undersecretary of Economic Coordination, Ministry of Economy of PBA
- Comadira, Guillermo F.—Legal and Technical Secretary, General Accounting Office, Ministry of Economy of PBA
- Conti, Edgardo Raúl—General Secretary, General Treasury of PBA
- González, Julio—Provincial Budget Director, Ministry of Economy of PBA
- Guaras, Juan—Department of Assistance to School Boards, Directorate General of Culture and Education
- Mendiguren, Quito—Provincial Direction of Budget and Direction of Public Expenditure Analysis, Ministry of Economy of PBA
- Priolo, Ana Beatriz—General Director of Administration, Ministry of Health of PBA
- Sabugal, M. del Carmen—Honorable Court of Accounts
- Sotelo, Rodrigo—Advisor, SCEOCI, Ministry of Economy of PBA
- Trobo, Ricardo—General Treasury of PBA
- Zuñiga, Hernán García—Provincial Director for Multilateral Organizations, SCEOCI, Ministry of Economy of PBA

Annex 2. Resource Flows in PBA’s Education Sector



Annex 3. Resource Flows in PBA’s Health Sector

