

**Document of
The World Bank**

Report No: ICR88

**IMPLEMENTATION COMPLETION AND RESULTS REPORT
(Loan No. 4578-AR)**

ON A LOAN

IN THE AMOUNT OF US\$70.0 MILLION

TO THE

ARGENTINE REPUBLIC

FOR A

PROVINCIAL REFORM ADJUSTMENT LOAN

TO SUPPORT THE PROVINCE OF

CATAMARCA

March 28, 2007

LATIN AMERICA AND CARIBBEAN
Argentina, Chile, Paraguay and Uruguay Country Management Unit
Poverty Reduction and Economic Management
Latin America and the Caribbean Regional Office

CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2006)

Currency Unit = Argentine Peso

US\$1.00 = Arg\$3.07

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
CREMA	Rehabilitation and Maintenance Contract (<i>Contrato de Recuperación y Mantenimiento</i>)
DPV	Provincial Roads Directorate (<i>Dirección Provincial de Vialidad</i>)
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
ICR	Implementation Completion and Results Report
IFI	International Financial Institutions
IMF	International Monetary Fund
MOP	Memorandum to the President
OSEP	Provincial Health Insurance Agency (<i>Obra Social de los Empleados Provinciales</i>)
PDO	Program Development Objective
PFO	Orderly Financial Agreements (<i>Plan de Financiamiento Ordenado</i>)
PRESSAL	Provincial Health Sector Reform Project
PRL	Provincial Reform Loan
PROAPS	Primary Health Care Program
PRODYMES	Secondary Education Decentralization Project
PROMIN	National Program for Maternal and Child Nutrition and Health
PSR	Project Status Report
SINTyS	National System for Tax and Social Identification (<i>Sistema de Identificación Nacional Tributario y Social</i>)
SNSS	National Health Insurance superintendente (<i>Superintendencia Nacional de Seguro de Salud</i>)
UBN	Unsatisfied Basic Needs

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Argentina
PROVINCIAL REFORM ADJUSTMENT LOAN - CATAMARCA

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A. Basic Information			
Country:	Argentina	Program Name:	PROVINCIAL REFORM ADJUSTMENT LOAN - CATAMARCA
Program ID:	P044447	L/C/TF Number(s):	IBRD-45780,JPN-26839
ICR Date:	03/29/2007	ICR Type:	Core ICR
Lending Instrument:	SAD	Borrower:	REPUBLIC OF ARGENTINA
Original Total Commitment:	USD 70.0M	Disbursed Amount:	USD 45.7M
Implementing Agencies: Ministerio de Economia y Produccion			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	01/06/1999	Effectiveness:	09/20/2001	09/20/2001
Appraisal:	10/15/1999	Restructuring(s):		08/01/2003
Approval:	09/14/2000	Mid-term Review:		
		Closing:	03/31/2003	03/31/2006

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Satisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Moderately Satisfactory
Overall Bank Performance:	Moderately Satisfactory	Overall Borrower Performance:	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Program at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Unsatisfactory		

D. Sector and Theme Codes		
	Original	Actual
Sector Code (as % of total Bank financing)		
Banking	8	8
General education sector	46	16
Health	15	34
Roads and highways	8	8
Sub-national government administration	23	34
Theme Code (Primary/Secondary)		
Administrative and civil service reform	Primary	Primary
Education for all	Secondary	Secondary
Public expenditure, financial management and procurement	Primary	Primary
State enterprise/bank restructuring and privatization	Secondary	Secondary
Tax policy and administration	Secondary	Secondary

E. Bank Staff		
Positions	At ICR	At Approval
Vice President:	Pamela Cox	David de Ferranti
Country Director:	Axel van Trotsenburg	Myrna L. Alexander
Sector Manager:	Ronald E. Myers	Ernesto May
Program Team Leader:	Fernando Rojas	Mark V. Hagerstrom
ICR Team Leader:	Fernando Rojas	
ICR Primary Author:	Maria Cecilia Zanetta	

F. Results Framework Analysis

Program Development Objectives (from Project Appraisal Document)

The Program Development Objective was to help the Province of Catamarca to reform and restructure its government so as to ensure an efficient and responsive delivery of public services within fiscally sound policies.

Specific objectives within each of the policy areas were:

a. Public Finance and Administration: (i) Improving tax collection and administration to promote higher reliance on own-source revenues and increased accountability; (ii) reforming civil service, including reduction in the wage bill and redundant personnel; improved training and compensation; controls to lower absenteeism and overpayments; and, (iii) rationalizing public expenditures and prioritizing government spending, with emphasis on privatization and outsourcing to improve the reliability and quality of public services.

b. Education Reform: (i) Increasing low student/teacher ratios; (ii) reducing disproportionate use of temporary and substitute education personnel; (iii) improving the incentive for quality improvements; (iv) enhancing private sector participation; and (v) reducing administrative costs.

c. Health Reform: (i). Extending coverage to the uninsured poor; (ii) ensuring the financial viability of the provincial health insurance carrier; (iii) reallocating resources to non-personnel spending; (iv) promoting essential public health services; (v) promoting hospital autonomy (vi) and implementing quality assurance systems.

Key Indicators were not explicitly defined during appraisal; instead they were embedded in the Policy Matrix and Letter of Development Policy (see Annex 9). The Bank and provincial authorities reached an agreement on a detailed set of Key Performance Indicators (including both impact/outcome and output indicators) by December 2001 (see Project Status Report, Dec. 2001). Impact indicators were designed to meticulously measure sector performance in the various policy areas, including, among many others, the percentage of roads in bad condition, savings resulting from class consolidation, improvements in repetition and desertion rates, and improvements in intra-hospital rates of infection. Unfortunately, the corresponding baselines and targets were never finalized, as their development was halted by the December 2001 economic collapse. Instead, a more succinct set of impact indicators was adopted. Output indicators reflected the policy conditionalities included in the Policy Matrix

Revised Program Development Objectives (if any, as approved by original approving authority)

PDO were not revised during implementation. However, output indicators, which reflected the operation's policy conditionalities, were tacitly modified in June 2003, when a number of loan conditions corresponding to the second and third tranche disbursements were amended as part of the operation's overall restructuring (see Section 1.6)

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Improved and sustainable fiscal situation (Overall Balance/Current Revenues)			
Value (quantitative or Qualitative)	-12% (13.3% for all provinces)	Overall balance		6.9% (2.2% for all provinces)
Date achieved	12/31/1999	03/31/2003		12/31/2005
Comments (incl. % achievement)	Achieved. Catamarca's fiscal performance has been remarkable. While in 1999 its overall fiscal deficit was comparable to that of other provinces, in 2005 its overall surplus relative to current expenditures was three times that of all provinces as a whole			
Indicator 2 :	Reduction in infant mortality rates (per 1,000 live births)			
Value (quantitative or Qualitative)	25.6 (per 1,000 live births)	No target set		22.0
Date achieved	12/31/1999	03/31/2003		12/31/2003
Comments (incl. % achievement)	Achieved. Catamarca's key health statistics have improved relatively more than other provinces as a whole.			
Indicator 3 :	Improved student test scores			
Value (quantitative or Qualitative)	48.6% and 50.8% correct answers in language and math, respectively.	No target set		50.2% and 52.2% correct answers in language and math, respectively. The NOA ranked 4th out of 5 regions.
Date achieved	12/31/1999	03/31/2003		12/31/2003
Comments (incl. % achievement)	Undetermined due to the lack of national standardized evaluations (ONE) at the provincial level since 1999. Data for the NOA Region suggests that quality of education in the NOA Provinces—including Catamarca—remains among the poorest in the country.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Improved tax administration (Increase in monthly property tax collections relative to 1997)			
Value (quantitative or Qualitative)	Arg\$291,583	At least 25% increase (Arg\$364,500)		244% increase (Arg\$710,128)

Date achieved	12/31/1997	03/31/2003		06/30/2006
Comments (incl. % achievement)	Achieved. Catamarca has made substantial efforts to enhance the administration of its property taxes. In terms of its overall fiscal effort, Catamarca has increased its overall tax revenues between 1999 and 2005 at the same rate as provinces as a whole.			
Indicator 2 :	Increased spending devoted to non-salary expenditures (Personnel expenditures/Current revenues)			
Value (quantitative or Qualitative)	59% (58.1% for all provinces)	56%		41.2% (45.1% for all provinces)
Date achieved	12/31/1999	03/31/2003		12/31/2006
Comments (incl. % achievement)	Achieved. Catamarca has reduced its personnel expenditures as a proportion of current revenues. However, over 5,000 employees were hired in 2004, increasing the number of provincial employees per 1,000 inhabitants from 74 to 81 between 1999 and 2004.			
Indicator 3 :	Increase in non-salary expenditures in education			
Value (quantitative or Qualitative)	96% of budget for salaries	94% of budget for salaries		90% between 2002 and October 2005
Date achieved	12/31/1999	03/31/2003		10/31/2005
Comments (incl. % achievement)	Achieved as of October 2005. Recent salary increases may make it unsustainable.			
Indicator 4 :	Student/teacher ratio (Students per teacher)			
Value (quantitative or Qualitative)	14:1 at EGB I and II n.a. for EGB III and Polimodal levels	16:1 at EGB I and II 9:1 for EGB III and Polimodal levels for all schools (2nd tranche) 20:1 at EGB I and II 10:1 for EGB III and Polimodal levels for all schools (3rd tranche)	16:1 at EGB I and II 9:1 for EGB III and Polimodal levels for urban schools only (2nd tranche) and for all schools (3rd tranche)	Revised targets met for urban areas in 2003. For the province as a whole, revised targets met only for EGB III and Polimodal
Date achieved	12/31/1999	03/31/2003	12/31/2004	10/31/2005
Comments (incl. % achievement)	Partially achieved as amended (over 60%). The province successfully reached targets in urban areas (corresponding to 60% of total), as required by second-tranche conditions. Third-tranche conditionality would have been met only partially.			
Indicator 5 :	Public subsidies to private schools being allocated based on objective criteria			
Value (quantitative or Qualitative)	0 private schools	All private schools		0 private schools
Date achieved	12/31/1999	03/31/2003		03/30/2006
Comments (incl. % achievement)	Not achieved. The new law was never presented to the legislature.			

achievement)				
Indicator 6 :	Increased spending on public health programs, including reproductive health			
Value (quantitative or Qualitative)	6% of health budget	8% of health budget		10% of health budget in 2002 and 2003, but less than 8% in 2004
Date achieved	12/31/1999	03/31/2003		10/31/2005
Comments (incl. % achievement)	Partially achieved. Despite achieving these targets in 2002 and 2003, the resources assigned to health expenditures decreased substantially in 2004, as well as the share of the funds designated for health programs.			
Indicator 7 :	Health care program for the uninsured poor			
Value (quantitative or Qualitative)	No program under implementation	PROAPS in 5 and 10 health zones, respectively		PROAPS in 10 health zones
Date achieved	12/31/1999	03/31/2003		10/31/2005
Comments (incl. % achievement)	Achieved. The PROAPS is currently being replaced by the Nacer Program, with Catamarca being one of the pilot provinces.			
Indicator 8 :	Increase financial autonomy of provincial hospitals			
Value (quantitative or Qualitative)	No hospital is recovering costs from insured patients	Two hospitals accounting for 70% of all hospital expenditures are recovering costs from insured patients		16 out of the 17 provincial hospitals, including the two largest ones, are recovering costs from insured patients
Date achieved	12/31/1999	03/31/2003		10/31/2005
Comments (incl. % achievement)	Achieved.			

G. Ratings of Program Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	12/22/2000	Satisfactory	Satisfactory	0.00
2	06/28/2001	Satisfactory	Satisfactory	0.00
3	12/10/2001	Satisfactory	Satisfactory	25.70
4	05/20/2002	Satisfactory	Unsatisfactory	25.70
5	12/09/2002	Satisfactory	Unsatisfactory	25.70
6	06/14/2003	Satisfactory	Unsatisfactory	25.70
7	12/05/2003	Satisfactory	Satisfactory	45.70
8	06/18/2004	Satisfactory	Unsatisfactory	45.70
9	12/20/2004	Unsatisfactory	Unsatisfactory	45.70
10	05/04/2005	Moderately	Moderately	45.70

		Unsatisfactory	Unsatisfactory	
11	12/21/2005	Moderately Unsatisfactory	Moderately Unsatisfactory	45.70

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
08/01/2003	N	S	U	25.70	

1. Program Context, Development Objectives and Design

1.1 Context at Appraisal:

Following the flight of private capital flows to emerging markets in 1998 as a result of the Asian and Russian crises, and the devaluation of the Brazilian Real in early 1999, Argentina's economy slipped into recession, as evidenced by negative growth rates and a sharp deterioration of social indicators experienced from 1999 onward. As a result of the prolonged economic downturn combined with weak fiscal discipline during a national election year, Argentina's fiscal program went astray in 1999, resulting in a fiscal deficit of approximately 4.1 percent of GDP, 37 percent of which was generated by provincial governments. In 2000, the incoming De la Rúa administration initiated a set of economic reforms in an attempt to revitalize economic activity and boost the confidence of foreign and domestic investors. In addition, the government negotiated a three-year US\$7.4 billion stand-by agreement with the International Monetary Fund (IMF) that included a deficit target for the national government as well as a consolidated deficit target for provincial governments. The Bank was asked to assist the larger provinces in meeting these deficit targets and to support second generation reforms at the provincial level, focusing mainly on health and education spending. The Bank and the government agreed to replicate the model piloted by the Second Provincial Reform Loans (PRL-II) in Tucumán, Salta, San Juan and Río Negro. These operations sought to ensure an efficient and responsive delivery of public social services within fiscally sound policies by providing support to three pillars of the provinces' reform program: public finance, education, and health. Catamarca, a small and poor province in Argentina's Northwest region, was selected to be the first province in this new phase. The choice of Catamarca was based on its track record of reform from the mid-1990's onward, its pressing needs to enhance the efficiency and quality of social sector spending, and the potentially strong demonstration effect it could have on other provinces given its historical reputation as a poorly-run province.

Approved in September 2000, Catamarca's PRL was consistent with the objectives of the Joint IBRD-IFC Country Assistance Strategy (CAS) covering FY 2001-2004 (Report No. 20354-AR, dated September 8, 2000), which was discussed by the Executive Directors on June 27, 2000, shortly after the new administration had taken office. Specifically, the 2001-2004 CAS identified the need to: (i) enhance social development, including poverty alleviation and human resource development; (ii) improve the performance of the state, particularly at the sub-national level; and (iii) consolidate structural reforms. Together with continuing support for reform in revenue-sharing, individual provincial reform programs were identified as the main pillars of the Bank's continued support for provincial reform in Argentina. Likewise, the operation reflected the recommendations from OED's Country Assistance Evaluation (July 2000), which emphasized the need to concentrate lending on social sectors and provincial reform, without neglecting the reform of federal institutions. As discussed in the Board Paper (R96-55) approved in April 1996, the fiscal justification for sub-national reform lending rested on the link between fiscal deficits and pressures on the current account of the balance of payments, as provincial fiscal deficits increased country risks and added to Argentina's vulnerability to external shocks. In addition, provinces were considered an important focal point for achieving development objectives in social development, as they accounted for almost all public spending in health and education, as well as being responsible for providing basic infrastructure services (pp. 15-18, FY 2001-2004 CAS).

1.2 Original Program Development Objectives (PDO) and Key Indicators (as approved):

The Program Development Objective was to help the Province of Catamarca to reform and restructure its government so as to ensure an efficient and responsive delivery of public services within fiscally sound policies.

Specific objectives within each of the policy areas were:

a. Public Finance and Administration: (i) Improving tax collection and administration to promote higher reliance on own-source revenues and increased accountability; (ii) reforming civil service, including reduction in the wage bill and redundant personnel; improved training and compensation; controls to lower absenteeism and overpayments; and (iii) rationalizing public expenditures and prioritizing government spending, with emphasis on privatization and outsourcing to improve the reliability and quality of public services.

b. Education Reform: (i) Increasing low student/teacher ratios; (ii) reducing disproportionate use of temporary and substitute education personnel; (iii) improving the incentive for quality improvements; (iv) enhancing private sector participation; and (v) reducing administrative costs.

c. Health Reform: (i) Extending coverage to the uninsured poor; (ii) ensuring the financial viability of the provincial health insurance carrier; (iii) reallocating resources to non-personnel spending; (iv) promoting essential public health services; (v) promoting hospital autonomy; and (vi) implementing quality assurance systems.

Key Indicators were not explicitly defined during appraisal; instead they were embedded in the Policy Matrix and Letter of Development Policy. The Bank and provincial authorities reached an agreement on a detailed set of Key Performance Indicators (including both impact/outcome and output indicators) by December 2001 (see Project Status Report, Dec. 2001). Impact indicators were designed to meticulously measure sector performance in the various policy areas, including, among many others, the percentage of roads in bad condition, savings resulting from class consolidation, improvements in repetition and desertion rates, and improvements in intra-hospital rates of infection. Unfortunately, the corresponding baselines and targets were never finalized, as their development was halted by the December 2001 economic collapse. Instead, a more succinct set of impact indicators was adopted. Output indicators reflected the policy conditionalities included in the Policy Matrix.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and Reasons/Justification:

PDO were not revised during implementation. However, output indicators, which reflected the operation's policy conditionalities, were de facto modified in August 2003, when a number of loan conditions corresponding to the second and third tranche disbursements were amended as part of the operation's overall restructuring (see Section 1.6).

1.4 Original Policy Areas Supported by the Program (as approved):

Catamarca's Provincial Reform Loan (PRL) provided support to the province's own reform program in three policy areas: (i) public finance and administration; (ii) education reform; and (iii) health reform. The specific objectives within each of the policy areas were as follows:

Public Finance and Administration: Traditionally, Catamarca's fiscal performance had been weak, with inadequate management and controls, and high current expenditures stemming from the large-scale incorporation of workers into the public sector. The longstanding problems with fiscal management translated to high levels of indebtedness, inefficiencies in spending, and low quality of public services. However, from the mid-1990s onwards, Catamarca demonstrated a commitment toward public sector reform and improved fiscal responsibility. After faltering somewhat toward the end of 1999, the commitment toward reform and fiscal responsibility was renewed and deepened in early 2000, as incoming provincial authorities correctly diagnosed the need to strengthen fiscal adjustment in the face of the ongoing deterioration of macroeconomic conditions. Emergency measures were adopted, including a ten percent reduction in public salaries and the freezing of automatic salary increases for years of service. With the support of the PRL, the government also undertook several actions aimed at reaching a sustainable fiscal situation, with a focus on:

- *Strengthening public finances*, including conducting a resources and expenditure review program and reaching specific fiscal targets in terms of primary balance, overall balance, personnel expenditures and debt stock.
- *Enhancing the mobilization of own-source revenue* by eliminating distortions in local taxes and increasing property tax revenues.
- *Enhancing human resources management* by establishing a retrenching program for redundant personnel and implementing a merit-based salary scale.
- *Rationalizing public investments* by: (i) privatizing and concessioning the provincial bank and the water company, respectively, which had traditionally drained provincial resources without fulfilling their missions effectively; and (ii) reforming the Provincial Road Directorate (*Dirección Provincial de Vialidad – DPV*), including a strategy to modernize its administration, enhance its road improvement and maintenance programs, and piloting the use of rehabilitation and maintenance contracts (*Contrato de Recuperación y Mantenimiento - CREMA* contracts) that introduced private sector participation in road maintenance.

Education Reform: Catamarca had one of the country's highest unitary cost (expenses per student), which was only partially explained by the need to service a dispersed population. In contrast, the quality of education in Catamarca was the lowest in the country based on the 1998 national evaluations. Likewise, the levels of school attendance, grade repetition and absenteeism in Catamarca were significantly poorer than the national averages. To address these shortcomings, the specific actions supported under the program focused on:

- *Rationalizing education expenditures* by limiting the share of personnel expenditures, increasing the student/teacher ratios, reducing the disproportionate use of temporary and substitute education personnel, decentralizing administration of own resources at the school level, and reducing the number of teaching training institutes.
- *Improving quality* by establishing performance-based incentives in teacher's pay and the allocation of school bonuses, and implementing strategies to boost retention and target the performance of poorly performing groups.
- *Enhancing equity and private sector participation* by allocating public subsidies among private schools based on objective criteria related to quality of education and characteristics of the student population—e.g., number, socio-economic status.

Health Reform: In 1999 Catamarca's spending on public health was at par with the national average at about US\$300 per capita. However, health indicators were poor. The child mortality rate in 1995 was 26.1 per 1000 births, well above the national average of 22 per 1000, with high

rates of birth and teenage pregnancies, as well as high prenatal mortality. The program supported several actions aimed at improving Catamarca's health system, focusing on:

- *Rationalizing health expenditures* by reallocating resources to non-personnel spending, increasing spending in essential public health services such as immunizations, child and school health programs, and prevention and control of communicable diseases.
- *Restructuring public health delivery* by promoting hospital financial autonomy through cost-recovery mechanisms, enhancing quality of services, and extending coverage to the uninsured poor.
- *Ensuring the financial viability of the provincial health insurance carrier (Obra Social de los Empleados Provinciales - OSEP)* by implementing automatic deductions of state and municipal employees, and attaining operational balance.

1.5 Revised Policy Areas (if applicable):

N.A.

1.6 Other significant changes:

Restructuring: By restructuring the operation in August 2003, the Bank sought to address the profound changes that followed the economic collapse of December 2001, while preserving the overall objectives of the loan. The decision to restructure the operation instead of canceling the two undisbursed tranches was based on Catamarca's solid fiscal management, even in the face of crisis, and the substantial progress it had made in the implementation of the reforms in the areas of public finances and administration, and health. Restructuring provided the opportunity to reframe the province's program in a manner that was feasible given the macroeconomic uncertainties without deviating from the operation's original development objectives.

Although Catamarca was able to maintain a fiscal program consistent with the original fiscal conditionalities, fiscal stringency together with rising social pressures prevented the province from fully pursuing all the reforms at the pace originally envisioned. Overall, a total of 16 out of 42 conditions were amended—seven and nine conditions corresponding to the second and third tranches, respectively. The majority of the amendments were related to education (i.e., nine conditions), reflecting the difficulties experienced in carrying out the reforms in this sector. The amended conditionalities in the education sector scaled back the original outcomes, while the amendments in the other two policy areas constituted adjustments needed to reflect the post-2001 conditions that did not significantly affect the operation's original key outcomes (see Tables 7.1 and 7.2, Annex 7 for individual amendments and overall impact of the restructuring, respectively). By restructuring the operation as opposed to canceling it, the Bank offered the province its support as well as substantial incentives to continue with the implementation of the critical set of reforms supported by the operation despite the heightened fiscal and social pressure.

Cancellation: The current Argentina CAS, which was discussed by the Board in June 2006, proposes a US\$3.3 billion lending program that, at the request of the authorities, is made up exclusively of investment operations. In this context, in agreement with the government, the three provincial reform loans, including Catamarca's PRL, which were approved prior to the 2004-2005 CAS, were closed on March 31, 2006, and undisbursed tranches totaling US\$226 million were cancelled. These loans are envisaged to be replaced with new investment operations in the provinces concerned, including a US\$25 million provincial investment project in Catamarca (pp. 44, 49, CY 2006-2008 CAS).

2. Key Factors Affecting Implementation and Outcomes

2.1 Program Performance (supported by a table derived from a policy matrix):

Tranche	Amount	Expected Release	Actual Release Date	Release
First Tranche Effectiveness	25,000,000.00 USD	12/31/2000	09/21/2001	(1) Regular
Second Tranche	20,000,000.00 USD	12/31/2001	09/12//2003	(2) Waiver
Third Tranche	24,300,000.00 USD	12/31/2003	Canceled	(3) Canceled

First Tranche – Effectiveness	Status
1. Maintain supportive macroeconomic framework in Argentina	Met
2. Agreed resource and expenditure program	Met
3. Simplification of tax administration.	Met
4. Legal basis for privatization/concessioning of water company and provincial bank	Met
5. Study completed for reforming salary system for public employees	Met
6. Road surveys underway and policy statement to reform Roads Directorate	Met
7. Education expenditure review completed	Met
8. Staffing targets for schools agreed	Met
9. Agreement on reforming teacher work rules	Met
10. Teacher training institutes reduced to 16 (from 26 in 1995).	Met
11. Proposals for decentralizing to school level	Met
12. Agreement to tighten teacher leave control.	Met
13. Agreement to reformulate private education law	Met
14. Health expenditure review completed; budget for 2000 includes 6% for selected public health programs	Met
15. Drafting of a law to provide for cost recovery in public hospitals from insured patients	Met
16. Reconversion plan to bring financial stability to provincial HMO for public employees	Met
Second Tranche	Status
17. Maintain supportive macroeconomic framework in Argentina	Met
18. Balance in current spending	Met
19. Carrying out tax simplification program	Met
20. Provincial public bank has been either privatized or liquidated	Met
21. Water company for the Central Valley has been concessioned	Met
22. Improved remuneration system for public employees has been designed	Met
23. Reform of the Road Directorate underway	Met
24. Salary expenditures in education are no more than 96% of the total	Met
25. Student teacher ratios in urban areas at 16:1 in primary and 9:1 in upper secondary	Met
26. Management and supervisory positions are selected through a competitive process; supervision decentralized; and teacher leave system operating effectively	Met
27. Teacher Training Institutes reduce to no more than 14	Met
28. Quality improvement policies are being implemented	Met

29. Ten public schools are operating in a decentralized manner with regard to maintenance and non-salary operational expenses	Met
30. Reduction in outlays for substitute teachers	Met
31. Draft law to reform subsidies for private schools	Met
32. Salary expenditures in health at no more than 85% of total budget	Met
33. Sustained budget commitment in health and increase to 8% devoted to public health programs	Met
34. Health program for the uninsured operating in at least 5 health zones	Met
35. Payroll deductions from municipal and decentralized workers in the public sector directly to public employee HMO	Met
36. Legal framework for cost recovery in public hospitals in place	Met
37. Management performance contracts with two largest public hospitals	Met
Third Tranche (Although cancelled, progress was made on several policy conditions)	Status
38. Maintain supportive macroeconomic framework in Argentina	Not met (continuing uncertainties in medium-term macro framework)
39. Overall fiscal balance	Met
40. Salary expenditures at less than 56% of total budget	Met
41. Agreement with Federal government with fiscal and debt targets	Met
42. Increase in property tax receipts	Met
43. Provincial bank privatized/liquidated	Met
44. Water concession in operation with program for increasing coverage to poor	Met
45. Merit-based remuneration included in salary system for public employees	Met
46. Roads Directorate reform program underway, including granting a CREMA contract and a concession for road maintenance	Partially met
47. Salary expenditures at no more than 94% of education budget	Met
48. Student/teacher ratios	Partially met
49. Competition in selection process for school directors and supervisors; teacher leave system operating effectively	Partially met
50. Teacher Training Institutes at no more than 12	Partially met
51. Evaluations of quality improvement policies	Under implementation
52. Program of decentralizing non-salary spending authority to public schools	Under implementation
53. Reduction in outlays for substitute teachers	Under implementation
54. Improved formula for awarding private school subsidies	Not Met
55. Salary outlays at no more than 80% of health budget	Met
56. Sustained budget levels for health and 8% devoted to public health programs	Not met as of Dec. 2004 (no data thereafter)
57. Cost recovery in public hospitals	Met as of Dec. 2004
58. Health program for the insured in at least 10 health zones	Met as of Dec. 2004
59. At least half of public health services are included under performance contracts	Met as of Dec. 2004
60. Public employee HMO operating in balance with no increase in debt.	Under Implementation

2.2 Major Factors Affecting Implementation:

Following the Board's approval in September 2000, there was rapid progress in the implementation of various reforms, reflecting the strong commitment on the part of the provincial authorities, the thoroughness of the preparation process, and the overall effectiveness of the PRL model. However, the initial momentum was caught short by the rapid deterioration in Argentina's macroeconomic conditions that ultimately led to a full-blown economic and political crisis in December 2001. In face of the ensuing economic and institutional chaos, provincial authorities turned their attention to crisis management and many reforms were postponed due to lack of adequate fiscal resources and mounting social tensions. In 2003, Argentina began to emerge from the depth of the crisis. Economic growth rebounded, reaching 8.8 percent growth in GDP in 2003, as a result of the country's improved competitiveness due to the currency depreciation of 2002, favorable international market and financial conditions, and sound fiscal management. Given Catamarca's sound fiscal management, both before and during the crisis, and its continued progress in the implementation of its health and fiscal and public administration reforms, even throughout the difficult 2001-2002 period, the PRL was given a new lease on life in August 2003, when it was restructured to adapt its policy conditionalities to the post-crisis environment. The restructured second tranche amounting to US\$20 million was disbursed in September 2003. Although the US\$25 million third tranche was cancelled in March 2006, Catamarca continued to make progress in the areas of public finances and administration, as well as health reforms. Education reforms, however, continued to lag behind (see Section 2.1, Tranche Release Binding Conditions). The various aspects affecting implementation can be summarized as follows:

Strong Borrower's Commitment at the Provincial Level: The operation benefited from strong commitment on the part of provincial authorities. The newly elected governor was closely involved in preparation activities and tailored his key cabinet positions in health and education to the requirements of the program—for example, the Minister of Finance of the outgoing administration was appointed Minister of Education. The governor also enjoyed the support of the legislature, where his political party held a majority. The policy actions supported by the operation reflected the province's own reform program as outlined in its Letter of Development Policy (August 22, 2000), thus enhancing the province's ownership of the operation. Catamarca's reform program also benefited from its political continuity, as it built upon the Participatory Development Program (*Plan Estratégico Consensuado*, December 1996) that had been developed by the previous administration. To a lesser degree, such political continuity remained even after the departure on the administration sponsoring the PRL-supported program, which ensured some level of support of the actions supported by the operation—i.e., the Minister of Finance and his team, who had been key actors in the conception and implementation of the reform program remained in their posts until January 2006, two years into the new administration.

Uneven Support from the National Government: The PRL program was designed to support reform efforts in selected provinces in a manner consistent with national sector policy. Indeed, in many cases national government saw the reforms efforts spearheaded by provincial governments as cutting-edge, and hoped they would have a demonstration effect on more hesitant provincial governments. As such, the reform programs were vetted by the national ministries and, in some cases, with promises of technical assistance and political support. This was particularly case in Catamarca's education program, as a new reformist national minister was prepared to help the ambitious program put together by the province. With the change in the national administration in late 2001, such support was less forthcoming. Conversely, the health minister appointed at the national level by the post-2001 administration proved to be an even stronger supporter of the reforms that were being pursued at the provincial level. It is also important to note that the devaluation had an adverse impact in those provinces engaged in reform and investment

operations with the World Bank and IADB vis-à-vis those provinces who had borrowed from commercial banks. Specifically, the provinces that had borrowed from development banks saw the burden of IFI (International Financial Institution) loans tripled overnight, as the loans had been passed on them in U.S. dollars and they had to bear the exchange risk.

Thorough Preparation Process: The Bank dedicated a significant amount of resources to the preparation of this operation, which resulted in technical soundness of the policy actions it supported. Specifically:

- *Internal consistency with the Bank's overall strategy:* As mentioned above, the operation reflected the objectives of the overall Bank's strategy as outlined in FY 2001-2004 and OED's Country Assistance Evaluation (July 2000).
- *Synergies with other sector operations:* The Bank's team effectively capitalized on the experience and know-how developed by national-level sector operations, including PRISE, the Secondary Education Decentralization Project (PRODYMES-I) in education reforms, the National Program for Maternal and Child Nutrition and Health Project (PROMIN), the Provincial Health Development Project (PRESSAL) and the Health Insurance Reform and Technical Assistance Projects in health reforms, the Water Sector Reform and the Provincial Roads Projects for water and transport sectors, and the Second Provincial Development (PDP-II) and the Provincial Bank Privatization Loan in public sector reform.
- *Technical soundness:* A series of sector studies was conducted as part of the preparation, including expenditure reviews in the health and education sectors, the characteristics of municipal governments, and assessments of the province's roads program, contracting procedures, the structure of the water sector, and tax administration. These studies, which involved the main actors within each sector, contributed to enhancing the technical soundness of the province's reform program and expanding its support by key actors.
- *Sensitivity toward gender issues:* A gender assessment was conducted as part of loan preparation, which concluded that the reforms supported by the operation could potentially have important effects on reducing inter-gender disparities in accessing social services (both health and education), as well as enhancing professional opportunities for achieving gender equity in public sector management.
- *Participatory process:* Building upon the participatory approach of the 1995 Provincial Development Program, the Bank's team and provincial authorities gave particular importance to public input during the design process, which significantly enhanced the legitimacy of the reform program. Results from a social assessment, which included a survey of the general population and focus groups with the major stakeholders, indicated that the program objectives resonated within civil society. In addition, the Bank held a public forum in Catamarca to discuss the Bank's diagnosis of the fiscal situation and social services in the province and present the program being supported under the PRL. The forum, which was attended by the Bank's country director and major stakeholders, was followed by a press conference that received ample media coverage.

Operation's Design: Overall, the operation effectively built upon the PRL model and effectively incorporated the lessons learned during the pilot PRL-II operations. However, policy conditionalities were overly complex and, in the education sector, the technical experience required for their successful implementation was lacking. Specifically, the strengths and weaknesses of the operation's design can be summarized as follows:

- *Effectiveness of the PRL model:* The operation replicated the PRL model previously piloted under the four preceding PRL-II operations. Actors at all levels, including national and provincial authorities and professional staff, as well as the Bank's task managers and sector

specialists, noted the particular strengths of the PRL's cross-sector approach to public sector reform, which simultaneously addressed the need to enhance efficiency and service delivery in the social sectors while maintaining a sustainable fiscal framework, thus, enhancing the medium- and long-term sustainability of the development process. Likewise, by lending directly to provincial governments, operations such as Catamarca's PRL can tailor policy actions to the specific needs of the provinces, as well as coordinate at the provincial level the various sector operations being sponsored at the national level.

- *Incorporation of lessons learned:* Catamarca's PRL effectively incorporated the lessons learned from the previous four PRL-II loans, including, among others: (i) the need to ensure the appropriate sequencing of social sector reforms, thus selecting provinces such as Catamarca that have already achieved a level of control in their fiscal and debt situations; (ii) the need to extend the life of the operation beyond 12 to 18 months to adapt more realistically to the time needed to implement reforms and show initial results; (iii) the need to have broad political support for the reform program, including not only the executive power and legislative branch, but also larger civil society; (iv) the benefits from including social assessment and participatory mechanisms as a part of the project's preparation to help ensure the implementation and sustainability of reforms; (v) the importance of capitalizing on ongoing sector operations to provide the needed know-how to implement sector reforms; and (vi) ensuring that most legislation required for the program, including those involving privatization and hospital decentralization, were already in place.
- *Excessive complexity of the policy conditionalities:* The Policy Matrix was too complex, with a total of 20 and 22 conditions for the second and third tranches, respectively. Moreover, these conditions did not exhibit a clear hierarchy, as key policy actions (such as the liquidation of the provincial bank and concessioning of the water company) and agreed performance targets (such as attaining fiscal balance) had the same weight as technical inputs (such as conducting studies on specific topics or adopting action plans). This complexity made it more difficult to focus on central issues, particularly as the implementation environment itself grew more complex. The elimination of those policy conditions related to technical inputs (such as adopting action plans) would have helped streamline the Policy Matrix.
- *Lack of technical feasibility of the education reforms:* In hindsight, the education reforms were too ambitious, from both a political and technical standpoint. Politically, the teachers' unions effectively capitalized on the fragility of the political environment in the 2001-2002 period to pose resistance to the proposed reforms aimed at enhancing accountability. Provincial authorities anticipated strong technical support from the national government in the implementation of their education reforms, given their conceptual alignment; however, this support failed to materialize.

Risk Assessment: At appraisal, the Bank's team correctly identified the main risks affecting the operation and put in place measures to minimize their impact. Key risk factors included the deterioration in the macroeconomic environment, the potential erosion of political commitment, and the reversibility of some of the reforms in the case of political changes. To minimize these risks, the program was designed to be fully implemented during the earlier years of the provincial administration's four-year term. While the political commitment of provincial authorities was considered to be strong, the program included key upfront actions such as the passage of a law supporting the privatization or liquidation of the provincial bank, to further demonstrate their resolve. The program also required legislation to support the policy changes, thus substantially reducing the risk of reversal.

Although at the time of appraisal it was expected that the measures taken by the De la Rúa administration would succeed in averting a major economic crisis, in retrospect it is now clear

that the risk of deteriorating macroeconomic conditions was underestimated by the markets, governments, and international financial institutions.

Economic and Political Collapse 2001-2002: When the project was eventually declared effective after several months of delays, mainly as a result of a succession of Ministers of Economy at the national level, the economic, the political and social situation was deteriorating rapidly. By the end of the year, capital flight led to the imposition of banking controls, a policy that proved highly unpopular and the cause of massive protests. In December 2001, President De la Rúa resigned and was succeeded by several interim presidents in the month after his resignation until President Duhalde was appointed by the national congress to complete the existing presidential term through May 2003. During the interim presidencies, the parity between the peso and the dollar was abandoned, and the government announced that it would not service its external debt (except for that with the IFIs). Meanwhile, the country continued to sink into a deeper recession, with GDP falling by 11 percent in 2002. The social costs of the crisis were profound, with poverty gripping more than 50 percent of the population by July 2002.

While Catamarca was better prepared than other provinces, managing the effects of the country's economic and political debacle absorbed the full attention of provincial authorities. Despite the initial momentum, progress on various fronts, such as the implementation of a merit-based pay scale for public employees and the implementation of the road maintenance program, had to be postponed due to lack of financial resources. At the same time, the 2001 crisis severely affected the legitimacy of government, resulting in the evaporation of much political capital. Thus, reforms that were met with significant opposition, such as the ones in the education sector, lost momentum. Given the highly unfavorable implementation environment, the achievements of Catamarca's PRL and the sustained support of the provincial authorities for its reform program are particularly noteworthy.

Post-Crisis Economic Environment: Despite the very difficult macroeconomic context, the federal and provincial governments took extraordinary measures to contain the fiscal situation during 2002, which led to the eventual stabilization of federal-provincial fiscal relations. The national government entered into bilateral agreements (*Programa de Financiamiento Ordenado de las Finanzas Provinciales - PFO*) with 17 of the 24 provinces, including Catamarca, agreeing to support debt restructuring and servicing in exchange for the provinces meeting specific fiscal and debt targets. The government also agreed on a transition program with the IMF, covering the period January through August 2003. In view of the more promising macroeconomic prospects, the original closing date of March 2003 was extended to December 2003 to allow for the operation's restructuring, which was completed in August 2003 and the second tranche was disbursed in September of the same year. After two additional extensions, the operation was finally closed on March 31, 2006. The US\$25million corresponding to the third tranche were cancelled, due to lack of progress toward some of the policy conditions—mainly in the education sector—as well as continuing uncertainties in the country's macro framework over the medium term, including concerns regarding the lack of engagement on the part of national authorities on structural issues affecting investment climate and private sector participation. As noted below under lessons learned, the experience of Catamarca's PRL shows that failings or uncertainties at the macro level that are beyond the sphere of influence of provincial governments can override substantial achievements at the provincial level.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization:

(a) M&E Design: As mentioned earlier, the design of the monitoring and evaluation indicators was not fully developed at appraisal, particularly in terms of the operation's overall impact. However, the Policy Matrix effectively operationalized the major aspects of Catamarca's reform strategy and the main project outputs associated with the operation. To bring the operation to current design standards, a logical framework was subsequently retrofitted in July 2005, which has been partly used to measure impact as part of this ICR. However, as with the set of impact indicators developed in 2001, baseline values were not identified and the Borrower was not made responsible for reporting them, which severely limited their usefulness.

(b) M&E Implementation: As noted earlier, implementation was severely disrupted by the 2001-2002 economic crisis, which also affected the continuity and fluidity of supervision efforts during that period (it is important to note, however, that PSRs were still completed periodically). Full-fledged supervision efforts resumed in early 2003 to determine the viability of restructuring the operation and assess the progress made toward the accomplishment of second tranche policy conditions. During supervision, the Policy Matrix and the corresponding sections in the legal agreement (Schedules 3 and 4) functioned as the main *de facto* M&E tool for the operation given that lack of other predetermined indicators.

(c) M&E Utilization: Particularly noteworthy are the performance contracts between public hospitals and the province, which constituted a particular useful M&E tool designed as part of the health component. Specifically, these contracts clearly specify performance targets on an annual basis, which are formally agreed by the hospital directors and the Ministry of Health. These performance contracts have been very useful in monitoring progress and assessing the impact of the reforms implemented in individual hospitals. Their effectiveness is attested by the fact that the new Minister of Health has adopted them for all public hospitals within the province, although under PRL conditionality they were only required for the two main hospitals. Likewise, the director of the San Juan Bautista Hospital, who became familiar with performance contract under the PRL, has adopted them to define agreed performance targets with each of the service areas within the hospital.

2.4 Expected Next Phase/Follow-up Operation (if any):

The current CAS reflects a significant shift from development policy lending to an investment-led strategy. As a result, policy-based operations like Catamarca's PRL are not envisioned in the near future despite a potentially substantial demand at the provincial level. Nevertheless, there are several operations within the current CAS that can support Catamarca's efforts to further strengthen public sector management and the delivery of basic infrastructure and social services. Specifically, the Sub-National Governments Modernization Loan (Loan No. 7352-AR, approved December 2005) is designed to support provincial governments in their efforts to improve their institutional capabilities, and those of their municipalities, to effectively manage their resources and improve the quality of public services. Based on a set of eligibility conditions designed to gauge progress in the core areas of public sector management—i.e., financial administration, tax administration, cadastres, and property registries—provincial governments can participate in a Basic Module to complete and consolidate the modernization of these core areas and, those that are more advanced in their modernization efforts, can also participate in the Advanced Module to focus on the modernization of other areas in their provincial or municipal administrations. While Catamarca could potentially be eligible to participate in this operation to continue the public management reforms started under the PRL, the province has not yet expressed an explicit interest.

In the health sector, Catamarca is currently participating in the ongoing Maternal-Child Health Insurance APL (Loan No. 7225-AR; approved October 2003), which supports the implementation of the country's flagship maternal-child health program (*Plan Nacer*) in the nine poorest provinces. The *Plan Nacer* constitutes a direct follow-up of the reforms initiated under the PRL, including establishing a health insurance program for uninsured and linking it to cost recovery mechanisms. The province could also be potentially eligible to participate in the Essential Health Services Program (Loan No. 7412-AR; approved November 2006), which will replicate the incentive and governance structures introduced under the *Plan Nacer* in public health functions at the provincial level, including vaccination, as well as implementation of provincial health prevention and promotion activities for HIV/AIDS, infectious diseases, and health monitoring. In the education sector, Catamarca is currently participating in the ongoing Rural Education Improvement Project (Loan No. 7353-AR, approved December 2005), which aims to increase school attendance among children in rural areas.

Sector operations focusing on basic infrastructure include Catamarca's Provincial Investment project, which is expected to focus on upgrading water supply, irrigation, and water resources management in the province. To deepen the actions taken to modernize Catamarca's DVP under the PRL, the province is eligible to participate in a technical assistance component that is part of the recently approved Provincial Roads Infrastructure Project (Loan No. 7301-AR, approved June 2005), which aims to support the use of CREMA contracts in participating provinces and strengthen the provincial road agencies. Another opportunity to carry out further reforms in the road sector with the Bank's support will open in FY 2009, with the Provincial Roads III Project.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation (to current country and global priorities, and Bank assistance strategy):

As a result of the uncertainties regarding the medium-term macroeconomic framework, together with the Bank's limited dialogue with the national government in key policy areas, the current CAS does not include policy-based lending operations. Consequently, policy-based lending operations directed at provincial governments such as Catamarca's PRL are not included in the CY 2006-2008 CAS. However, the objectives of this operation are still consistent with those established under the current as well as the 2004-2005 CAS. Specifically, by focusing on advancing reforms in the social sectors while maintaining fiscal responsibility, Catamarca's PRL is fully consistent with the current CAS objectives of promoting sustained growth with equity, social inclusion, and improved governance (p. 30, CY 2006-2008 CAS).

3.2 Achievement of Program Development Objectives (including brief discussion of causal linkages between policy actions supported by operations and outcomes):

In retrospect, the macroeconomic framework that existed at the time of Board approval proved to be unsustainable in light of the traumatic events of late 2001 and the first half of 2002. In particular, the vulnerability of the economy to the volatility of private capital flows and the imbalance in relative factor prices seem to have been underestimated. Also, in retrospect, the debt situation at the national level turned out to be more one of insolvency than illiquidity, as believed at the time the international financing package was put together. As a result, despite Catamarca's fiscal adjustment during 2000 and 2001, the operation's general objective of supporting macro stability and, implicitly, the convertibility of the exchange rate was not met. However, with its

emphasis on fiscal responsibility, Catamarca's PRL has contributed to restoring macroeconomic stability during the post-crisis period.

The operation has partially met its specific development objective of promoting an efficient and responsive delivery of public services within fiscally sound policies. With the support of the PRL, Catamarca succeeded in advancing critical reforms in the health sector, ensuring a more efficient and responsive delivery of health services. Likewise, the province has succeeded in enhancing the quality of its public expenditures, increasing the relative share of non-salary expenditures for the province as a whole and within the education and health sectors. It has also eliminated contingent liabilities by liquidating the provincial bank and concessioning the water company. These accomplishments have been done in the framework of fiscally sound policies and despite the economic, political and social upheaval that ensued after the 2001 crisis. In the education sector, accomplishments are more modest, as strong interest groups—including teacher's unions and private schools—effectively blocked critical reforms such as those aimed at introducing performance-based criteria in salaries and the allocation of resources among public and private schools. Achievements under the various policy areas can be summarized as follows:

Public Finances: Satisfactory Performance. Catamarca was one of the few provinces that took preemptive fiscal measures to respond to the deterioration of macroeconomic conditions in early 2000, almost two years before the crisis of 2001. With the full support of the incoming governor, the new economic team adopted strict adjustment measures aimed at reducing provincial expenditures, obtaining legislative approval for an Emergency Salary Law that included a ten percent across-the-board reduction in salaries, and a set of complementary measures aimed at improving efficiency and rationality in the use of public funds. The PRL was seen as a key component of the overall reform strategy, which helped maintain focus on fiscal targets and other key reforms.

As a result of its preventive adjustment and the actions taken under the PRL, Catamarca was better prepared to weather the crisis than other provinces, succeeding in maintaining a solid fiscal performance without major social and political disruptions, and meeting its payroll obligations on time even at the worst of the crisis. The province was able to meet the second tranche condition calling for a current account surplus and, although the third tranche was cancelled, it would have met the corresponding fiscal targets including overall balance, personnel expenditures and property tax revenues. In 2005, the province met its performance targets under the national Fiscal Responsibility Law (*Ley Federal de Responsabilidad Fiscal*; Law No. 25.917), which sets general rules in terms of fiscal performance and public debt sustainability for the Argentinean public sector, including the provincial governments.

Table 1. Fiscal Indicators for Catamarca and All Provinces – 1999-2005

	1999		2005	
	Catamarca	All Provinces	Catamarca	All Provinces
Fiscal Performance				
Current Account Balance / Current Revenues	-0.1%	-2.1%	24.8%	14.7%
Overall Balance / Current Revenues	-12.9%	-13.3%	6.9%	2.2%
Fiscal Effort				
Own-Source Revenues / Current Revenues	7.8%	35.5%	7.8%	32.1%
Δ Property Tax Revenues (Base = 1999)	1	1	1.9	1.4
Δ Gross Receipts (Base = 1999)	1	1	2.5	2.3
Discretionary Transfers / Current Revenues	2.0%	3.7%	2.4%	7.0%
Expenditures				
Personnel / Current Revenues	58.6%	58.1%	39.7%	45.1%
Public Employees / 1000 Inhabitants	74	36	81	37
Real Capital Investment / Current Revenues	12.5%	10.7%	19.1%	12.5%
Water connections	88%	70%	91%	77%
Sewerage connections	23%	36%	30%	43%
Debt				
Stock of Debt (US\$ Million)	401	16,565	432	25,339
Δ Debt Stock in US dollars (Base = 1999)	1	1	1.1	1.5
Stock / Current Revenues	80.6%	53.3%	118.8%	115.6%

Source: National Directorate for Fiscal Coordination with the Provinces, MECON (1999, 2005).

The accomplishment of the specific objectives under public finances and administration can be summarized as follows:

- Fiscal Performance: **Accomplished.*** Catamarca's fiscal performance has been remarkable, even in the face of the economic crisis. The province met all but one of the original fiscal targets agreed under the PRL. Specifically, it has maintained a current account surplus from 2002 onward, equivalent to roughly 25 percent of current revenues in 2005. Likewise, it has maintained an overall fiscal surplus from 2003 onwards, equivalent to 6.9 percent of current revenues in 2005. In addition, personnel expenditures represented roughly 40 percent of current revenues in 2005, well below the specified PRL target of 56 percent. With regard to personnel expenditures, a word of caution is appropriate, as personnel expenditures increased by 38 percent between 2004 and 2005 and further salary increases have been granted in 2006. The third-tranche condition requiring that the stock of debt be equal to or less than 99 percent of total revenues was the only original target that was not met, as in 2005 Catamarca's stock of debt represented 119 percent of current revenues. However, the province met the targets agreed with the national government under the PFO, thus meeting the third-tranche condition as amended. Moreover, despite the devaluation of the peso in early 2002, Catamarca's debt stock in U.S. dollars increased by a factor of only 1.07 between 1999 and 2005, compared to 1.5 for the provinces as a whole, reflecting the province's sound financial management before, during, and after the crisis.
- Improved tax collection and administration: **Accomplished.*** As a small and relatively poor province, Catamarca is heavily dependent on automatic transfers from the national government and can improve its fiscal performance through local revenue mobilization only marginally. However, with the support of the PRL, the province has taken steps to eliminate economic distortions from local taxes and excessive administrative burdens on local firms by

simplifying the tax regime for small and medium firms through Law No. 4.994 and its subsequent modifications (Laws No. 5.022 and 5.024). In addition, Catamarca has made substantial efforts to enhance the administration of its property taxes. Taking advantage of the cadastre system implemented under the PDP-I and II, Catamarca has increased property tax revenues by 85 percent between 1999 and 2005, compared to an average 42 percent for all provinces (see Table 1). Monthly revenues averaged Arg\$710,000 between January and July 2006, equivalent to a 240 percent increase relative to 1997 (almost ten times as much as required by the third tranche condition that required a 25 percent increase with respect to 1997). In terms of its overall fiscal effort, Catamarca has increased its overall tax revenues by 224 percent between 1999 and 2005, at about the same rate as the average for all provinces (223.5 percent). In terms of discretionary transfers, Catamarca receives roughly a third of the average for all provinces.

- *Enhanced civil service: **Accomplished as amended.*** The PRL supported the province in its efforts to reduce the wage bill, eliminate redundant personnel, and introduce a merit-based compensation scheme. A voluntary retrenchment program was set in place but has not elicited a significant response on the part of provincial employees—only 167 employees chose to participate out of 27,000 provincial employees. In view of its poor results, the province has decided to terminate the program. An incentive-based system for salary increases, the Fund for Productivity-Based Incentives (*Fondo Provincial de Productividad – FIP*) was set in place in June 2004 and has been used as a key instrument to channel a large proportion of salary increases granted in the provincial administration since the Emergency Salary Law was rescinded in 2003. In addition, the province succeeded in reducing its personnel expenditures as a proportion of current revenues. Specifically, Catamarca reduced the level of personnel expenditures as a proportion of current revenues by 17.4 percentage points (from 58.6 to 41.2 percent) between 1999 and 2005, compared to just 13 percentage points for all provinces (see Table 1). However, this ratio will not be maintained, as substantial salary increases have been granted during 2005 and 2006, which will not be fully reflected in the payroll until August 2006. Moreover, the province added over 5,000 employees to its payroll in 2004, after maintaining the number of provincial employees stable since 2000. As a result, the number of provincial employees per 1,000 inhabitants increased from 74 to 81 between 1999 and 2004.
- *Rationalization of public expenditures: **Accomplished.*** Overall, Catamarca’s level of investment in infrastructure has been traditionally higher than that of other provinces (12.5 compared to 10.7 percent for the provinces as a whole in 1999). This difference has accentuated between 1999 and 2005, when Catamarca increased its investments in infrastructure by over 7 percent compared to less than 2 percent for the provinces as a whole (see Table 1). This higher level of investments translates, for example, to a larger proportion of the population having water connections (91 versus 71 percent for all provinces in 2005). While the number of sewerage connections is still lagging behind (30 versus 43 percent for all provinces in 2005), it increased at the same pace as in other provinces (7 percent) between 1999 and 2005. The PRL supported Catamarca’s efforts to prioritize government spending, with emphasis on the privatization of the provincial bank, the outsourcing of the water company and the modernization of the Provincial Road Directorate (*Dirección Provincial de Vialidad – DVP*).
 - a) Provincial Bank: In accordance with the second and third tranche conditionalities, the province liquidated its provincial bank in December 2000, after no offers were presented for the purchase of its stock offered in an international public bid. In this way, the province has effectively eliminated a serious contingent liability, as the Bank had required periodic influxes of capital from the provincial treasury—equivalent to US\$56 million between 1992 and 1999.

- b) Water Company: The province met all second-and third-tranche conditionalities related to the concession of the water company. A private concessionaire assumed full managerial and operational responsibility of the water and sewerage utility company servicing the capital and adjacent areas. Although the concession set off to a good start, the drastic change in the macroeconomic and social environment as a result of the 2001 crisis made it infeasible to satisfy key conditions of the original concession contract, such as tariff increases and levels of investment. As a result, the province and company have jointly agreed to rescind the current contract. A new bid is expected to be offered in the next few months (see Section 4). In addition, a regulatory entity has been operational since 1995, when the electric company was first concessioned. The regulatory entity has generally fulfilled its responsibilities for the regulation of the electric and water companies. A subsidy for the poor has been in place since 2000, when the concession was first granted. Approximately 10,000 out of the 50,000 water users currently receive subsidies amounting to 80 to 90 percent of their water bill, representing 11 percent of the total billing (*facturación*).
- c) Road Directorate: Under the PRL, Catamarca's DVP has taken some steps towards its modernization and enhanced performance. Specifically, it has accomplished all but one of the policy conditions corresponding to the second and third tranches. In accordance with the PRL, the DVP now prepares a multi-year plan for road maintenance and rehabilitation. As a result of two studies conducted under the PRL, the DVP is also relocating its maintenance workshop and studying options for providing fee-based services to other provincial agencies. Likewise, the environmental impact assessment department has been revamped and environmental guidelines and procedures are being reviewed. In addition, the province successfully concessioned the maintenance of 150 km of a gravel provincial road, which is currently under implementation. Awarding a CREMA contract was the only condition that was not met. Although the province sought twice to bid out the rehabilitation and maintenance of 130 km of provincial roads using the CREMA protocol, no offers were presented. The main reason was the relative unattractiveness of the work given its remote location and limited scale.

Education: *Moderately Unsatisfactory Performance.* Catamarca's performance in the education sector is rated moderately unsatisfactory, as the actual achievements are below the levels anticipated both at project design and at restructuring. Conceptually, the reforms were too ambitious and, although they coincided with the policies being promoted at the national level at the time, their implementation required a technical know-how and experience that surpassed the province's institutional capacity. In addition, the opposition that they generated from the teachers' unions was stronger than anticipated.

Despite the partial achievement of the province's reform program supported under the PRL, Catamarca now ranks better than it did in 1998 in several indicators measuring education quality and efficiency, such as illiteracy, repetition and promotion rates, and student/teacher ratios (see Table 2). Unfortunately, the lack of data at the provincial level on standardized test scores (results at the provincial level were last made public in 1999) prevents inter-year comparison of quality of education for individual provinces. At the regional level, Catamarca is one of the provinces of the Northwest Region (NOA), which ranks fourth out of five regions in both math and language scores, indicating that the quality of education among the NOA provinces remains among the lowest in the country.

Table 2. Education Indicators for Catamarca and All Provinces – 1998-2003

	1998			2003 (Latest available at the national level)		
	Catamarca		All Provinces	Catamarca		All Provinces
	Indicator	Rank	Indicator	Indicator	Rank	Indicator
% Over-age students ⁽¹⁾	29.9	18	21.4	29.3	17	22.8
Repetition rates ⁽¹⁾	7.7	14	6.3	5.7	7	6.5
Promotion rates ⁽¹⁾	90.6	12	91.8	91.9	10	91.7
Inter-year drop-out rates ⁽¹⁾	1.7	11	2.0	2.3	16	1.8
Overall student / teacher ratio ⁽²⁾	14.3	21	17.6	14.7	18	18.0
% Correct answers - language	48.6	23	65.7	52.2	⁽⁴⁾ n.a.	57.2
% Correct answers - math	50.8	23	68.7	50.4	⁽⁴⁾ n.a.	56.3
Illiteracy - 11 years-old or more ⁽³⁾	4.5	13	3.7	2.9	9.5	2.6

⁽¹⁾ *Ciclo Básico I y II.*

⁽²⁾ Data corresponds to 2004.

⁽³⁾ Based on INDEC census data for 2001, Annual Health Basic Indicators 2005.

⁽⁴⁾ Performance tests correspond to highest-grade of Intermediate Level (*Fin del Nivel Medio o Polimodal*) corresponding to 1999 and 2003; 2003 test scores are only reported at the regional level, which precludes inter-year comparison of quality of education.

Note: Rank ranges from 1 to 24, with 1 being the best performing province and 24 being the worst one.

Sources: *Dirección Nacional de Información y Evaluación Educativa*, 1999, 2003, 2004; *Operativo Nacional de Educación* 1999, 2003.

Accomplishment of the specific objectives in the education sector can be summarized as follows:

- *Increasing low student/teacher ratios: Partially accomplished.* Under the PRL, the province intended to increase the student/teacher ratio to at least 20:1 at *EGB I* and *II* levels, and 10:1 for *EGB III* and *Polimodal* levels. At restructuring, these targets were modified to 16:1 and 9:1, respectively. The province successfully reached these targets in urban areas, as required by second-tranche conditions. Third-tranche conditionality would have been met only partially, as only the targets corresponding to *EGB III* and *Polimodal* levels were achieved for the province as a whole.
- *Reducing disproportionate use of temporary and substitute education personnel: Accomplished.* The PRL supported the tightening of teacher leave regulations and the implementation of an outsourced system for medical checks on sick leave. By mid-2003, the province had succeeded in reducing the share of salary expenditures for substitute teachers to only 3.6 percent of all salary expenditures in education, compared to 25 percent in 1998. A new control system for medical leaves was implemented under the PRL.
- *Modifying teachers' work rules (Estatuto Docente): Partially accomplished.* With the support of the PRL, the province sought an ambitious reform of the Teacher's Statute that governs teacher pay and conditions of employment to include, among others, a teachers' salary scheme with incentives for quality, results and attendance, the selection of directors and teachers at the school level through a competitive system, the reformulation of the criteria allocating school bonuses based on educational risk and ability of individual schools to reverse drop-out, repetition rates, and the implementation of a decentralized supervision system. However, the conditions requiring the adoption of a new performance-based salary scheme and performance-based school bonuses were waived at restructuring due to strong opposition from teachers' unions. The main outcome was the passage of a law mandating that the designation of supervisors be based on competitions (*concursos*). While the competition was carried out in 2003, the process largely failed as a result of technical and political factors (for example, the competition called applicants to prepare an overly complex 'supervision

project' and was conducted only a couple of months before the inauguration of the new governor). Only a fraction of the supervision posts were granted based on the results of the competition (36 percent); however, those who were not selected but had been serving as supervisors until that time were reconfirmed in their posts. While the decree is still active, it is not clear whether it will be applied in the future.

- *Reallocating resources to non-personnel spending: **Accomplished.*** With the support of the PRL, salaries in the education budget grew at a slower pace than the education budget as a whole between 2002 and October 2005, when this condition was last supervised. The relative share of salaries has remained below 90 percent, introducing more flexibility in education expenditures. The hefty salary increases recently granted to teachers in Catamarca are likely to undo some of this flexibility.
- *Improving the incentive for quality improvements: **Accomplished.*** A decentralized management model was implemented in ten schools as a way to enhance accountability. Under the new model, schools are responsible for the administration of maintenance and other operating expenses.
- *Enhancing private sector participation: **Not accomplished.*** About 6.5 percent of the education budget is transferred to private schools as subsidies. The allocation of these funds, however, provides little incentive for improvements, as it is largely based on historical agreements and normally on the number of teachers employed. Second-tranche conditionality called for the passage of a law modifying the formula used to allocate these subsidies, basing it on objective criteria, including the number of students, their socioeconomic background, and the quality of schools. At restructuring, this condition was postponed for the third tranche. The law was never presented to the legislature.
- *Reducing the number of teachers' institutes: **Partially accomplished.*** Of the 26 institutes operating in 1995, the province reduced the number to 13, exceeding the second tranche target (14 teachers' institutes) but one short of the target corresponding to the third tranche conditionality (12).

Health Reforms: *Satisfactory Performance.* Under the PRL, Catamarca made substantial progress in the reforms of the health sector. The actual achievements are similar to the levels anticipated at project design, which were not substantially modified by the 2003 amendment. The PRL provided the framework for the province to define a comprehensive policy framework for the health sector and to provide continuity throughout the 1999-2005 period. Catamarca's efforts in the health sector were centered on three pillars: (a) strengthening of basic health network (*red de atención primaria*); (b) enhancing the financial sustainability and equity of the health system by improving cost recovery; and (c) setting the foundations for a health insurance system for the poor. Its success is reflected in the improvement in health indicators, which has been better than for provinces as a whole (see Table 3). Specifically, considering a five-year average for the periods 1995-1999 and 2000-2004, infant mortality in Catamarca was reduced by 4.3 deaths per 1,000 births compared to 3 for provinces as a whole.¹ Likewise, the percentage of births taking place in health facilities has increased by an impressive 8 percentage points between 1998 and 2003. The percentage of population without health insurance or a medical plan has increased from 36 to 45 percent between 1998 and 2003. This is, however, better than the national trend that shows roughly 12 percent of individuals with formal health insurance either discontinued, or reduced their coverage due to rising unemployment and falling real wages during the crisis.

¹ The five-year average is a better measure of infant mortality for Catamarca given the significant annual variations experienced due to the small population and the small number of births, which make annual infant mortality rates very sensitive to random factors, reporting problems, migratory movements, etc. As an illustration, annual birth mortality rate in Catamarca ranged between 15.5 and 22 deaths per 1,000 births between 2001 and 2004 (INDEC, 2004).

Table 3. Health Indicators for Catamarca and All Provinces – 1998-2004

	1998			2004 (Latest available at the national level)		
	Catamarca		All Provinces	Catamarca		All Provinces
	Indicator	Rank	Indicator	Indicator	Rank	Indicator
Infant mortality (per 1,000 births)						
Annual rate (1998; 2004)	23.3	21	19.1	22.0	22	14.4
Five-year average (1995-99; 2000-04)	24.1	22	19.1	19.8	18	16.1
% of births in health facilities (*)	89.4	22	97.5	97.5	19	99.0
% population without health coverage or medical plan (*)	36.2	10	n.a.	45.0	7	48.1

(*) Data for births in health facilities corresponds to 2003, and population without health coverage corresponds to 2001.

Note: Rank ranges from 1 to 24, with 1 being the best performing province and 24 being the worst one.

Source: Ministry of Health and Environment, Annual Health Basic Indicators (1999, 2005); INDEC, Infant Mortality by Province, 1980-2004 (2004).

Accomplishment of the specific objectives in the health sector can be summarized as follows:

- Promoting hospital autonomy: **Accomplished.** The PRL was highly successful in helping establish the legal framework for cost recovery by individual hospitals and supporting its implementation. All provincial hospitals have adopted the cost-recovery modality and 16 out of 17 are effectively collecting payment, with monthly collections averaging Arg\$100,000 during the first half of 2006. Cost recovery for smaller hospitals is done centrally with the support of the Ministry of Health. The two largest hospitals—the San Juan Bautista and the Children’s Hospitals that account for 70 percent of all provincial hospital expenditures—are responsible for their own cost recovery and are currently billing all insured patients and recovering between 60 and 70 percent. Collections from private health insurance providers, PAMI, and the national health insurance providers registered in the database of the National Health Superintendence (SNSS) exhibit very high levels of cost recovery, close to 95 percent. However, the provincial health insurance agency (OSEP) has had an uneven payment history. Being the main health insurance provider in the province (it provides health insurance to 42 percent of the population), OSEP’s performance is critical in determining the success of the cost recovery efforts by individual hospitals. Despite being granted a 50 percent reduction with respect to other providers, OSEP has paid only 30 percent of its bill during 2006, obstructing the overall cost recovery efforts by individual hospitals. The situation is expected to improve now that OSEP has a more stable flow of resources.
- Extending coverage to the uninsured poor: **Accomplished.** With the support of the PRL, the province developed and implemented a system sponsored by the national government to identify poor non-insured people, and a plan of medical assistance with preventive components and first-level of prevalent and seasonal diseases, maternity and childhood and access to ambulatory medicine, with a particular focus on rural areas (Primary Health Care Program – PROAPS). In accordance with second tranche conditionality, such health care benefits for the uninsured poor were being provided in five of the province’s 12 health zones and, as of December 2004, the third tranche condition of expanding coverage to ten zones was also being met. The PROAPS has been replaced by the Maternal-Child Health Insurance Program (*Plan Nacer*), which is the central pillar of the Kirchner administration’s health sector reform agenda. The *Nacer* program allows provinces to provide uninsured mothers and infants with a package of essential prevention, diagnostic and treatment health services. Enrollment is voluntary for all uninsured children up to their sixth birthday, pregnant women,

and mothers for up to 45 days past their date of delivery or unintended abortion. Catamarca is one of the nine provinces in which the *Nacer* Program is being piloted.

- Ensuring the financial viability of the provincial health insurance carrier (OSEP): **Under implementation.** As noted above, OSEP provides health insurance coverage to 42 percent of Catamarca's population; therefore, its fiscal solvency is critical to the sustainability of the province's health system. Under the PRL, critical actions were implemented aimed at stabilizing the financial situation of OSEP, including implementing automatic payroll deductions from all municipal employees and OSEP beneficiaries, and additional contribution for high-complexity interventions (Law No. 5.116/2004, *Ley de Transplante*). Further actions were taken in the past two years, including passage of new legislation regulating work rules and salaries for provincial health workers (Law No. 5.161/2005), *Ley de Carrera Sanitaria*, for which salary supplements are subject to OSEP contributions on the side of both the province and the employee. In 2006, new legislation (Law No. 5.186/2006, *Ley de Recursos de la Obra Social*) was approved to increase the rate of contribution on the part of the province from 4 to 9 percent, resulting in an overall rate of 13.5 percent. Although OSEP still registered a deficit of almost Arg\$1 million (equivalent to 15.2 percent of its resources) as of April 2006, an operational surplus is anticipated for the second half of the year, in accordance with the PRL conditionality for the third tranche. While the modernization of the agency is being done incrementally, OSEP now has a more transparent and predictable flow of resources that is in line with its obligations.
- Promoting essential public health services: **Partially accomplished.** The PRL has ensured that the level of health expenditures are maintained, with a adequate level of support for critical health programs such as immunizations, health promotion, reproductive health, child health, school health, environmental health, sanitary control, and surveillance and control of communicable diseases. A budget of Arg\$119.5 million was approved for 2002 and 2003, amply exceeding the Arg\$98 million minimum specified as a condition for the second tranche. Likewise, 10 percent of the resources were allocated to fund the identified set of critical health programs, exceeding the 8 percent target. Succeeding in protecting the health budget during the crisis was a particularly noteworthy achievement of the PRL, in view of the scarcity of fiscal resources. In 2004, however, the resources assigned to health expenditures decreased substantially to Arg\$83.2 million, and so did the share of the funds designated for health programs (Arg\$2.6 versus Arg\$7.8 million required by third tranche conditionality). Among the factors contributing to the reduction in Catamarca's health budget was the decision of the national government to provide provinces with ambulatory and HIV medicines, as well as reproductive health supplies during 2004, which have resulted in corresponding reductions in provincial health budgets.
- Reallocating resources to non-personnel spending: **Accomplished.** With the support of the PRL, the share of salaries in the health budget has decreased to 77 percent at the time of the disbursement of the second tranche, and 61 percent in December 2004. The need for non-salary expenditures in health is essential for quality and effective services.
- Establishing quality assurance systems: **Accomplished.** With the support of the PRL, Catamarca has successfully adopted performance contracts between hospital directors and the Ministry of Health. These contracts have proved to be highly successful in introducing improvements in administrative management and setting clear performance targets for individual hospitals in terms of levels of production, quality of services and client attention standards. These contracts were successfully piloted in the two largest hospitals—the San Bautista and the Children's Hospitals—and were subsequently extended to all hospitals. Some of the specific issues covered under these contracts are: enhancement of the medical records (*historia clínica*), the implementation of a mechanism for customer feedback (*buzón de quejas*), use of IDs by hospital staff, and the establishment of medical committees

responsible for systematically tracking and studying inter-hospital infections, mortality causes and tumor pathologies.

3.3 Justification of Overall Outcome Rating (combining relevance, achievement of PDOs):

Rating: Moderately Satisfactory

Although the operation fell short of fully achieving its development objectives in the education sector, it was successful in enhancing health services in Catamarca in a framework of fiscal responsibility. Despite of the difficult macro environment, the province succeeded in implementing an ambitious structural reform program, exhibiting sound fiscal management before and during the 2001 crisis. Provincial authorities also showed strong determination to eliminate chronic sources of provincial deficit by liquidating the provincial bank and concessioning the water company. Some of the key outcome targets as reflected in the loan's policy conditionalities were formally revised at restructuring to reflect the macroeconomic and social changes that resulted from the economic collapse of December 2001. Thus, the operation's overall outcome rating has been assessed against both the original and revised key outcome targets, in accordance with the Harmonized Evaluation Criteria for ICR and IEG Evaluations and the new ICR guidelines issued in August 2006.

With respect to the original key outcomes, the operation is rated 'Moderately Satisfactory.' Development objectives for the public finance and administration component were fully met and the level of achievement has been in line with the outcome targets specified at approval (except for the debt stock target and the concession of a second road maintenance contract that do not constitute significant deviations from original key outcomes). The same is true for health reforms, where development objectives were fully met and key outcomes largely reflect original key outcomes (except for lower health expenditures in 2004 and the financial equilibrium of OSEP, which, although not yet achieved, it is expected for the second half of 2006). In the case of education reforms, development objectives were only partially met, as the improvements in the delivery of education has been very limited. At restructuring, several key outcome targets were scaled down to better respond to the technical and political limitations facing provincial authorities. In this way, conditions calling for the incorporation of performance-based monetary incentives for both teachers and schools were waived, and the decentralization pilot program was made less ambitious by forgoing the administrative decentralization of salary resources as well as a stronger role in decision making for school advisory councils. Other targets, such as student/teacher ratios, were also cut back. Moreover, original outcome targets that were not modified at restructuring were not fully met (see Section 7.2, Annex 7). Thus, despite the impressive performance in the areas of public finance and administration, as well as the health sector, the operation is rated 'Moderately Satisfactory' with respect to with respect to the original key outcomes.

With respect to revised key outcomes, the operation is rated 'Moderately Satisfactory.' In contrast with the stellar performance in the areas of public finance and administration, as well as the health sector, progress toward education reforms remained below expectations. Several revised key outcomes were only partially met, including those regarding increasing student/teacher ratios, reducing the number of teachers' institutes, and adopting a performance-based selection process for school supervisors. There was no progress toward modifying the allocation of public subsidies among private schools as the corresponding law was never presented to the legislature (see Section 7.2, Annex 7).

Taking into consideration the operation's overall achievement, Catamarca's PRL is considered 'Moderately Satisfactory' (see Table 7.3, Annex 7). Catamarca has exhibited remarkable fiscal responsibility before, during and in the aftermath of the 2001 crisis. Even in the face of highly unfavorable macroeconomic conditions and dismal business climate, Catamarca met all original fiscal targets, except the one relating to its debt stock. The province also succeeded in liquidating the provincial bank, thus eliminating a chronic source of provincial deficit. Catamarca also not only succeeded in concessioning its water company and setting in place a regulatory entity but, unlike other provinces, is determined to ensure that the water company remains within the private sector. Health reforms have succeeded in strengthening the basic health network, improving cost recovery in public hospitals, and setting the foundations for a health insurance system for the poor. The operation has also resulted in significant institutional strengthening by supporting the adoption of sound management tools and legislation. Likewise, Catamarca's PRL helped protect the public safety net that provided support to the poor during the 2001-2002 period. However, while the operation has been successful in introducing substantial improvements into the management of provincial resources and in enhancing the delivery of health services, progress in the education sector has been limited, casting a shadow over the operation's overall performance. In terms of the operation's overall relevance, the objectives pursued by the operation are still highly pertinent vis-à-vis the current priorities of both the Kirchner administration and the Bank's current CAS. The Moderately Satisfactory rating represents an upgrade from the Moderately Unsatisfactory rating at the last PSR prepared in December 2005. The higher rating is justified by the impressive performance in fiscal and public finances areas, including the liquidation of the provincial bank and the concessioning of the water company which are structural reforms that are likely to be sustained and which have generated permanent improvements in Catamarca's fiscal structure. Improvements in the health sector are also structural and likely to be sustained. While the education program was only partially implemented, Catamarca has improved its ranking on certain education indicators.

3.4 Overarching Themes, Other Outcomes and Impacts (if any, where not previously covered or to amplify discussion above):

(a) Poverty Impacts, Gender Aspects, and Social Development

The Province of Catamarca belongs to the part of Argentina with the lowest social and economic indicators. In the late 1990s, its per capita income, at Arg\$4,500, was about half the national average, and 17th out of 24 provinces. Under the PRL, Catamarca successfully introduced the specific goal of enhancing health services to the poor by providing basic health coverage to non-insured indigent population. As uninsured households are generally unemployed or work in the informal sector, they have a much higher likelihood of being poor than the insured households. Although basic health statistics, such as infant mortality, are not disaggregated by socio-economic stratum, the improvements observed in infant mortality and number of births at health facilities observed Catamarca between 1999 and 2003 are likely to be related to the expansion of health coverage among the uninsured. Also, as noted above, the PRL supported the implementation of a subsidy for the poor as part of the concession of the water company. Approximately 20 percent of all water users being served by the concessionaire currently receive subsidies amounting to 80 to 90 percent of their water bill, representing 11 percent of the total billing. Beneficiaries receive a water bill that shows the total payment, the subsidy and the payment due in a disaggregated manner; the province is responsible for transferring the subsidies to the concessionaire. This subsidy is in addition to an already affordable water bill—the median water bill amounts to roughly Arg\$24 per month, well below the average for other NOA provinces. There have been some shortcomings, however, in the actualization of the roster of beneficiaries, which has remained pretty much unchanged since the inception of the program. The subsidy is expected to

be maintained under a new concession and even expanded to cover the tariff increase for the next socio-economic stratum.

During the period 1991-2001, Catamarca reduced the percentage of the population with unsatisfied basic needs (UBN) from 28.2 to 21.5 percent—equivalent to a 6.7 percentage point reduction compared to 2.2 percentage points for all provinces (INDEC 2001). Although it is difficult to establish direct causality between the operation and Catamarca's superior performance in reducing UBN vis-à-vis that of the country as a whole, it is likely to be linked to the sustained commitment of provincial authorities toward fiscal discipline from the mid-1990s onward and, in 2000, their ability to anticipate the impending economic crisis and take the necessary steps to cushion its impact. In this way, the province was able to continue to pay salaries and provide social services regularly even through the worst of the crisis.

(b) Institutional Change/Strengthening (particularly with reference to impacts on longer-term capacity and institutional development)

Catamarca's PRL has introduced innovative management practices and tools that are likely to enhance public management and institutional development over the medium and long term. Perhaps the most important achievement has been the successful implementation of cost recovery mechanisms by individual hospitals. The success of this intervention is mainly the result of an impeccable sequencing of the reforms and the creation of a sound system of incentives. In terms of sequencing, the PRL supported first the adoption of the needed legal framework and subsequently, its actual implementation and actual results. It benefited from the progress achieved under other operations, such as the creation of a national registry of beneficiaries of all national insurance carriers that is currently maintained by the SNSS. Without this database, the implementation of cost recovery mechanisms would be infeasible. In addition, the PRL supported enhancing financial viability of OSEP, another key component for the success of the overall strategy. In terms of incentives, cost-recovery proceeds from individual hospitals are used to fund salary bonuses rewarding increased billing and reductions in absenteeism in that same hospital, creating a clear link between performance and rewards. In its initial stage, the awards were distributed uniformly among all personnel within each hospital. Although not theoretically perfect, this approach constituted a good first step to help overcome resistance and gain support among the staff. As it turned out, those making a real effort to increase billing and reduce absenteeism are now pressuring those perceived as free riders to do more. In the next stage, rewards will be allocated based on the performance of individual operational units within each hospital in meeting performance targets mutually agreed with the hospital director. In the case of other innovations introduced under the PRL, such as the concession contracts for road maintenance, the competitions for school supervisors, the administrative decentralization of educational resources to individual schools, their future sustainability and their full impact is still pending.

(c) Other Unintended Outcomes and Impacts (positive or negative)

The PRL has helped provide continuity throughout changes in administration within the various ministries and appears to have played a significant role in coordinating the reform efforts across ministers under the leadership of the Ministry of Finance. While it is clearly not desirable that such a role be played by a lending operation—rather, mechanisms should be embedded within the province's organizational structure—it is nevertheless positive that the operation served to fill such a critical purpose.

3.5 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops:

N.A

4. Assessment of Risk to Development Outcome

Rating: Moderate

Presently, the risk that development outcomes will not be maintained is considered moderate in most respects. In general, policy actions undertaken under the PRL have either survived or were implemented during the traumatic 2001-2002 period, which is a good indicator of their sustainability. Other factors contributing to the sustainability of the operation's development outcomes include the favorable macroeconomic conditions prevailing in Argentina since 2003 and a robust flow of public revenues due to increases, primarily in automatic transfers from the national government (*coparticipación*) but also own-source revenues. At the national level, the Fiscal Responsibility Law establishes fiscal performance indicators and provides for the monitoring over time of fiscal results as well as for possible sanctions in the case of deviations from the provisions of the law. While the high level of discretion and the consensual approach under the Fiscal Responsibility Law create a potential risk that fiscal discipline will not be sustained, such an approach may also increase provincial ownership, which is critical given Argentina's strong federal character. It remains to be seen whether the Fiscal Responsibility Law will be more successful in improving provincial and national fiscal performance than the many national and provincial fiscal responsibility laws that preceded it, despite its relatively less stringent provisions when compared to similar pieces of legislation adopted in other countries in Latin America, such as Brazil.

Catamarca's current provincial administration has demonstrated its support for the previous reforms and, in some cases such as the health sector, has taken them even further. Likewise, the provincial administration has expressed its intention to maintain the water and electric company in the private sector, despite heightened tensions at the national level with the concessionaires of public services. In addition, the policy agenda of the newly appointed Minister of Education seems to be in line with the reforms originally envisioned under the PRL, opening the possibility of future progress in this sector. Specific observations regarding the degree of the sustainability of the reforms pursued under the various policy areas can be summarized as follows:

Public Finances and Administration: While the sustainability of the reforms in the area of public finances and administration is considered to be generally likely (with the exception of human resources management), there are some worrisome trends to be noted in the areas of public finances. Specifically:

- *Public finances*: Although Catamarca's financial situation enjoys general good health, several factors are increasingly burdening the province's finances and limiting its room for maneuver during future economic downturns. These include:
 - a) *Hefty salary increases*: The monthly provincial wage bill has increased by 158 percent between January 2005 and January 2006—from Arg\$29 to Arg\$46 million, respectively. A further salary increase became effective in August 2006.
 - b) *Increased municipal transfers*: Automatic transfers to municipalities have also increased substantially, from 17 percent to 25 percent of all provincial tax revenues, including both

- provincial taxes and those transferred automatically by the national government (*coparticipación*). Moreover, before the passage of the new law, roughly half of transfers to municipalities were automatic transfers and the other half were discretionary transfers. Now, with the passage of the law, all of them are automatic.
- c) *Debt servicing*: Given the structure of Catamarca's debt, the province will now be facing higher debt payments than in the past.
 - d) *National Education Funding Law* (Law No. 26.075): As a result of a newly enacted national law that ties education spending to growth in GDP (a 6 percent target for 2006), Catamarca's education budget is expected to increase by almost 20 percent in 2006—equivalent to Arg\$50 million.
 - *Human resources management*: Despite the impressive progress attained during the mid-1990s, prospects for the sustainability of the civil service reforms are not encouraging, as signs of reversal are already apparent. For example, the province has decided to interrupt the retrenchment program in view of its poor results. Moreover, although the number of provincial employees remained stable until 2003, it increased by over 20 percent in 2004, when more than 5,000 employees were added to the provincial payroll.
 - *Privatization and concessioning*: The provincial bank was effectively liquidated; thus, its sustainability is not an issue. The water company was also concessioned as originally envisioned and, although the current contract will soon be rescinded, it is expected that a new concession will be in place within the next few months. Specifically, the conditions in the original contract became infeasible after the 2001 crisis, particularly with regard to the tariff structure and investment schedule originally anticipated. The water company has failed to make the scheduled investments (mainly due to the higher prices for PVC, a key material used in water systems) and the province is currently subsidizing the entire electrical supply required for water production to compensate for higher energy prices. The province has been working jointly with the company to annul the current contract. A new bid for the water concession has been prepared with input from the current concessionaire to be offered in the next few months—the rationale behind seeking input from the current concessionaire is that, if the bid is attractive for the current provider, it is also likely to attract other providers, thus increasing competition. Provincial authorities have expressed their commitment toward re-concessioning the water company.
 - *Provincial roads*: Although modest, the achievements under this area are considered to be sustainable. The DVP is moving ahead with the relocation of its maintenance workshop and is studying options for its restructuring. Likewise, the positive experience resulting from the concession for road maintenance that was implemented under the PRL has reportedly encouraged the DVP to explore other opportunities for concessions, although marginally with respect to the bulk of its operations.

Health: The sustainability of the achievements under the health sector is considered to be very likely. The passage of the law regulating work rules for public health workers (*Carrera Sanitaria*) provides clear rules for employment and career advancement. Cost recovery by provincial hospitals is also considered to be sustainable over time, as all provincial hospitals are actively implementing it under the legal framework provided by a provincial law. The cost recovery mechanism provides sound incentives among hospital workers through salary increases and training; thus supporting its sustainability. Moreover, as mentioned earlier, some of the innovative management tools introduced by the operation, such as management contracts between the province and the hospitals, have been extended to all provincial hospitals, exceeding the loan requirements. Likewise, these contracts are also being used within individual hospitals. The province is also continuing its policy to provide health insurance to the poor, now under the *Nacer* program that focuses on mothers and their children. Likewise, as a result of recently enacted legislation, the financing of the provincial health insurance (OSEP) is now in line its needs.

Finally, the passage of a new law that regulates work rules for public health workers (*Carrera Sanitaria*) illustrates the thrust of the reforms in the health sector. Although not required under the PRL, the new law provides clear rules for employment and career advancement, as well as performance-based salary incentives such as attendance and productivity.

Education: Achievements in education have been generally limited, thus their sustainability is not an issue. However, the recently appointed Minister of Education seems to have a vision for the sector consistent with that articulated by the PRL. This constitutes a change in support of the reform agenda that had been defined for the sector by the preceding administration. Reportedly, new efforts will be made towards modifying teachers' work rules (*Estatuto Docente*), enhancing education quality, promoting professional training, and enhancing the management of resources, including the approval of a new *Estatuto*.

5. Assessment of Bank and Borrower Performance (relating to design, implementation and outcome issues)

5.1 Bank Performance:

(a) Bank Performance in Ensuring Quality at Entry (i.e., performance through lending phase)

Rating: Moderately Satisfactory

The Bank's performance in identifying, preparing and appraising the operation was moderately **satisfactory**. The Bank devised an effective strategy towards public sector reform at the sub-national level by focusing resources on select provinces with demonstrated willingness and ability to implement reforms, thus capitalizing on the window of opportunity provided by the presence of reform-minded administrations at the provincial levels. Likewise, the Bank's strategy correctly identified the need to promote reforms in the social sectors—education and health—in a framework of fiscal soundness. These two sectors are central to the medium and long-term success of any provincial reform strategy, as they represent a significant share the Catamarca's budget. Moreover, the services in these two sectors are critical in determining the level of human capital development of the province in the medium and long term.

Catamarca proved to be a sound choice for participating in the PRL. The province had demonstrated a commitment toward reform, strong political support from the legislative branch, and a fiscal situation that, although in need of improvement, was not structurally flawed. Despite the unprecedented difficulties posed by the 2001-2002 implementation environment, Catamarca's performance under the PRL successfully demonstrated that small, poor provinces can successfully advance on difficult reforms and maintain a framework of fiscal responsibility when there is substantial political will.

The Bank embarked on a thorough preparation process, including in-depth technical analysis within the various sectors as well as participatory mechanisms to gather input from key stakeholders and the civil society in general. The Bank's staff helped to identify and prepare an operation consistent with both the Borrower's interests and the Bank's Country Assistance Strategy. A gender assessment was performed as part of the loan preparation to ensure that the reforms would not pose negative gender impacts but, rather, reduce inter-gender disparities. The Bank worked in close collaboration with the provincial government and maintained a high degree of coordination between the PRL and other Bank operations, both provincial and sector loans. The Policy Matrix effectively operationalized key aspects of Catamarca's reform strategy

supported by the operation that were ambitious but still feasible in the areas of public finance and administration as well as health. However, the limited progress in the implementation of the education reforms was partly determined by the operation's quality at entry in this area, as the reforms were overly ambitious and lacked the technical experience required for their successful implementation.

(b) Quality of Supervision (including M&E arrangements)

Rating: Satisfactory

Even under normal circumstances, policy development operations pose a challenge in terms of supervision, as they require both precision and agility. In the case of Catamarca's PRL, this challenge was exponentially more complex given the extraordinary circumstances under which the operation was implemented during 2001 and 2002. Once the macroeconomic environment improved, the Bank moved quickly to restructure the operation in order to adapt it to the new realities. The supervision team that was constituted by staff from various networks succeeded in supporting the implementation of reforms in multiple sectors while maintaining internal cohesiveness. In this regard, PREM provided overall coordination and encouraged the other networks to take responsibility for supervising their sector reform programs; in turn, the Infrastructure and Human Development networks were fully cooperative and fully supported the operation. Thus, the experience of Catamarca's PRL—as well as those in Santa Fe and Catamarca—could be considered an example of successful cross-sector coordination between multiple networks—PREM, Infrastructure, and Human Development. In turn, the supervision team forged a close relationship with provincial authorities through periodic visits and fluid communication. At times when relations were tense between the government and IFIs, the task manager and the PRL team succeeded in maintaining the channels of communication open with provincial authorities and the professional staff working in the various sectors covered under the operation. During the interviews conducted as part of the ICR preparation, professional staff and authorities repeatedly praised the input of their Bank counterparts in terms of policy making and rigorous monitoring, reporting it as an important value-added benefit of the operation. The project was very well documented, as all official records, communications, e-mails and reports presented by the borrower and sector task managers during the life of the project were archived in the Bank's IRIS (Integrated Records Information System). This reflects a substantial effort, as many of the lengthy reports produced by the borrower were presented as hard copies, which required their manual scanning.

(c) Justification of Rating for Overall Bank Performance

Rating: Moderately Satisfactory

Given the severity of the economic collapse of December 2001, it is, of course, relevant to question whether the Bank should have predicted such an outcome. However, given the many different views on the causes of the crisis and whether it might have been avoided, this question can be more adequately addressed as part of the evaluation of the overall Bank strategy toward Argentina than as part of this ICR, which focuses on the specific reforms supported by the operation. Although the debate over what was the appropriate strategy under the conditions prevailing at the time is likely to continue, the implementation of Catamarca's PRL indicates that adjustment operations can help ensure the sustainability of ongoing reforms during difficult periods. Moreover, the specific reforms supported by the operation were necessary in any event, as illustrated by their impact on provincial management and service delivery as well as the sustained momentum for their continuing implementation, particularly in the areas of public

finance and administration as well as health. In the case of education reforms, they lacked the needed technical expertise at the time of appraisal, which contributed to their partial implementation. For the reasons and those outlined above, the Bank's performance is considered Moderately Satisfactory with regard to the preparation and implementation of this particular operation.

5.2 Borrower Performance:

(a) Government Performance

Rating: Moderately Satisfactory

During preparation, the province provided full collaboration. Staff from the various provincial ministries and agencies participated in the preparatory work, ensuring that the proposed actions were consistent with the province's reform program. Catamarca had strong ownership of the reform program, illustrating the ideal case in which a Bank operation fully supports provincial objectives. The highly transparent and participatory approach used by Catamarca's authorities was critical in developing support for the program being supported under the PRL. Most of the reforms were subjected to the scrutiny of the legislature and public input was actively sought on specific reforms (e.g., privatizations and concessions).

The supervision of the program was entrusted to an Executing Unit located in the province's Ministry of Finance. While the Ministry of Finance took the lead in implementing the reform program, the Ministries of Education and Public Health participated actively as well. The performance of the Executing Unit was highly satisfactory, serving as an effective interface between the different actors, including the governor, the provincial ministries, the Bank, and the executing units of other related projects. The supervision team was kept well informed of all relevant developments—both of progress and occasional difficulties—that took place during the implementation of the program. Adequate documentation was made available to support the request for disbursement of the second tranche. The province demonstrated a strong internal cohesiveness during the implementation of the operation, articulating political support from the top with a demonstrated ability for implementation throughout the end of 2003. This fluidity was particularly noteworthy in the management of public finances and the health sector, which, despite its complexity, benefited from a unifying vision. From 2004 onwards, the level of political support for the reform program has been uneven. Conversely, reforms in the health sector were supported and advanced even further under the incoming administration. In the education sector, the province was unable to make progress in some of the key reforms. Because of its performance in the education sector, the government's performance is rated Moderately Satisfactory despite a stellar performance in other areas of reform.

(b) Implementing Agency or Agencies Performance

N.A.

(c) Justification of Rating for Overall Borrower Performance

Rating: Moderately Satisfactory

The lack of fiscal resources and the mounting social tensions that resulted from the country's economic collapse posed a difficult test for provincial authorities and their commitment toward reform. However, as opposed to abandoning their reform program, the provincial authorities continued with their efforts, pushing for difficult reforms on various fronts, except in the

education sector. In the education sector, provincial authorities could have been more decisive in the implementation of these reforms, particularly as part of the recent salary renegotiations, which rendered Catamarca's teachers at the top of the pay-scale for teachers in the country. At the national level, the operation benefited from the clearly defined framework established by the national government for managing the fiscal situation of the provinces in the aftermath of the 2001 crisis, using the orderly financing agreements first, and subsequently the Fiscal Responsibility Law. For these reasons and the ones noted above, the Borrower's overall performance is considered Moderately Satisfactory.

6. Lessons Learned (both operation-specific and of wide general application)

Provincial policy development operations such as Catamarca's PRL are only appropriate under stable macroeconomic conditions. While this type of operation requires an overall satisfactory macroeconomic policy framework, such framework is the responsibility of the national government and beyond the sphere of action of provincial authorities. As illustrated by the experience of Argentina's last series of PRLs, particularly those for Córdoba and Santa Fe, failings or uncertainties at the macroeconomic level can override substantial achievements at the provincial level, leading to loan cancellation.

Under stable macroeconomic conditions, policy-based operations supporting a well-defined set of reforms can be effective tools in promoting structural adjustment at the sub-national level. Direct provincial lending using fast-disbursing operations have the advantages of: (i) addressing the needs of individual provinces more specifically; and (ii) introducing a critical mass of financial incentives and technical support that can effectively accelerate the pace of the reform process within individual provinces. In addition, operations such as Catamarca's PRL foster provincial ownership, internal consistency of provincial sector policies, and cross-sector coordination during their implementation. As reported by provincial authorities, the direct relationship with the Bank also brings added legitimacy and credibility to the province's reform program, as well as valuable technical assistance in the development of sector policies and methodological rigor in implementation, monitoring and evaluation.

Provincial operations can be effective complements of sector reforms and operations at the national level. While sector-specific investment operations targeting provincial governments provide for a sharper sector focus and longer term engagement, multi-sector provincial-level operations such as Catamarca's PRL can help promote sector objectives by boosting political will to take key policy actions at the provincial level. This is particularly important in the case of Argentina, where highly autonomous provinces play a predominant role in providing critical public services, such as education and health. On the downside, direct provincial lending concentrates risk on specific provinces—as opposed to national sector operations that diversify risk among multiple participating provinces.

For reforms to be successful, they have to follow the right sequence, take into consideration interrelationship of needed reforms, and be supported by a sound incentive system. The successful implementation of the cost-recovery mechanisms by public hospitals underlines the importance of having in place not only an adequate legal framework but also the tools needed for implementation—in this case, the national register of beneficiaries of national insurance carriers. Likewise, the financial viability of OSEP determines the overall success of the cost recovery system, given that it provides health insurance to over 40 percent of the population. In addition, the reward system tying cost recovery to salary bonuses for hospital workers ensures that there are strong incentives ensuring its sustainability.

For provinces to be fiscally responsible over the long term, a consistent system of incentives must be in place at the national level. A clear strategy of the national government towards the provinces is a prerequisite for broader fiscal adjustment among sub-national governments, such as the determination to avoid bailouts of fiscally irresponsible provincial governments. In this regard, the operation has benefited from the clearly defined framework established by the national government for managing the fiscal situation of the provinces in the post-2001 period, using the orderly financing agreements first, and subsequently the Fiscal Responsibility Law. It is important to note, however, that the high level of discretion and political nature of bilateral financing arrangements under the Financial Responsibility Law generates uncertainties as to whether the law will ultimately lead to sustained fiscal discipline.

The Bank's continuous engagement during critical periods can help sustain ongoing reforms and protect previous achievements. The experience of Catamarca's PRL indicates it was beneficial to have an operation in place providing a clear roadmap for enhancing service delivery in key social sectors during times of economic, political and institutional chaos. The substantial financial resources attached to the PRL became even more attractive in face of the overall lack of liquidity in the country in 2001-2002, providing the province additional incentives to sustain the ongoing reforms in the short and medium term. The experience of Catamarca's PRL also shows that sector reforms are possible even when the overriding priority is fiscal adjustment; however, sector budgets need to be protected, in particular to ensure that cost savings from efficiency gains can be reinvested into the sector.

Within a difficult lending and operational environment, focusing on the consolidation of more mature reforms appears to have been an effective strategy. The experience of Catamarca's PRL indicates that adjustment operations can be effective in consolidating mature reforms, as those in the health and banking sectors. In these sectors, the province was able to build upon previous institutional work done under other operations, using the PRL's financial incentives to support the implementation of key actions still pending. Alternatively, the reforms in the education sector that lacked the same level of know-how and maturity proved hard to push forward.

The success of SAL loans depends on a combination of factors, the most important of which is strong political support. In the case of Catamarca, the ambitious set of reforms supported under the PRL succeeded as a result of a unique combination of strong political support from the governor and the provincial legislature, as well as a solid leadership in those sectors exhibiting the best performance—i.e., provincial finances and health.

Loan conditionality should focus on results, going beyond the enactment of legislation or executive decrees. Like many structural adjustment operations, Catamarca's PRL illustrates the danger of having conditionality that can be legally met despite not having any significant impact. In this particular case, there is no guarantee that the law requiring the selection of school supervisors on a competitive basis will be sustained. Alternatively, the loan's conditionality for the cost recovery by public hospitals focused on both legal instruments and outcomes, providing incentives for its successful implementation.

Overly complex operations with a large number of conditionalities that lack a clear hierarchy are difficult to implement and supervise. These difficulties became evident during the implementation of Catamarca's PRL, which initially included over 50 conditionalities to cover the province's ambitious reform program. Reducing the number of conditionalities and establishing a clear hierarchy between them can improve overall design. In this regard, it might be useful to focus primarily on major policy actions and the achievement of specific targets,

rather than including the satisfactory completion of technical inputs, such as studies and action plans, as policy conditions.

Cross-sector operations at the provincial level require strong coordination during both preparation and implementation. On the side of the borrower, this type of operation requires strong coordination efforts, both horizontal (i.e., between across multiple government agencies at the provincial level) and vertical (i.e., between ministries at the national and provincial levels). On the Bank side, operations such as Catamarca's PRL demand strong cooperation and coordination between the various sector teams. While successfully achieved in this case, the need for effective coordination could pose risks to other operations of similar complexity.

Key impact and monitoring indicators have to be developed during appraisal, including baselines and targets. Otherwise, there is the risk that they will never be completed, thus hampering the effective supervision and evaluation of the operation.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/Implementing agencies

[This is a summary of the Borrower's Report—the actual report has been archived in the project's files]

Catamarca's Provincial Reform Loan was considered not only an important project in itself, but also a pilot experience, given that the challenges faced by provincial authorities were similar to those of many provinces. There were several factors that made Catamarca a good candidate for success, including its sound financial management from 2000 onward as well as its previous progress toward reform in the context of various Bank-financed operations, including the First and Second Provincial Development Projects and sector loans in the areas of health, education and transport.

Both the Bank and provincial authorities were highly committed to ensuring a sound project design, where substantial resources and effort were assigned to project preparation. As a result, the operation correctly targeted key problems and identified critical objectives together with technically sound courses of action to ensure the achievement of such objectives. Provincial authorities maintained their strong commitment toward such objectives during implementation, not only under the administration that initiated the project but also its successor. The fact that the team in the province's Ministry of Finance, which played a central role in the operation's original design and subsequent implementation, remained on board until January 2006, roughly two years into the new provincial administration, attests to the commitment of the incoming provincial authorities to ensure the sustainability of the operation.

Achievement of Objectives: Although it is clear that the difficult macroeconomic situation negatively affected the province's performance, both within and beyond the scope of the project, overall achievement is considered highly positive. Although the third tranche was not disbursed, the operation effectively supported the province in its efforts to enhance public management and service delivery while maintaining a healthy financial management, which continues to the present day. The liquidation of the provincial bank and the concession of the water company are just two examples of the critical structural reforms implemented under the project. In addition to the specific objectives that were achieved in each of the policy areas—fiscal performance, health and education—the province's ability to continue to pay salaries and deliver services during the

difficult 2001-2003 period, avoiding additional hardships on the population, was a direct result of the province's sound financial management and the reforms supported by the operation.

The partial achievement of the education component is partly related to the impact of the 2001 crisis, as the negative social impact of the crisis created additional resistance within teachers' unions to the structural reforms supported under the project. While achievement was limited within the education component, it is important to note that the province has continued to take steps to improve education delivery in a manner that is consistent with the strategy delineated under the Provincial Reform Project. Some of the specific actions include: the adoption of salary incentives to discourage absenteeism and the abuses in the use of personal licenses, the implementation a program aimed at increasing enrollment and reducing desertion and repetition rates, and training for rural teachers. The province has also continued in its efforts to increase the student/teacher ratio, although population patterns in the province make this objective particularly challenging—70 percent of school buildings are located in rural areas, accounting for only 30 percent of the province's student population.

Bank's Performance: The Bank's performance is considered more than satisfactory, being particularly noteworthy the fluidity of the relationship of the Bank's staff with that of the province during the entire life of the project, including preparation, implementation and evaluation.

Future Operations: The province is currently assessing the possibility of participating in the Sub-national Governments Modernization Program (Loan 7352-AR) to continue with the implementation of its reform program. Moreover, it would be of utmost interest to the province to resume discussions with the Bank regarding the possibility of obtaining financing to support the modernization of water resources management, a top priority for Catamarca.

Lessons Learned and Recommendations:

- Project management presents additional challenges to provinces like Catamarca, in which highly qualified human resources are not in abundance. To overcome this limitation, top advisors within each of the policy areas were made responsible for project coordination and implementation. However, top advisor positions tend to be political appointments that change with each administration, thus disrupting project implementation. Thus, for future operation, it would be best to create a Project Executing Unit constituted by permanent provincial personnel from the various areas to be targeted under the project.
- Training and capacity building should be an important component of any future operation, regardless of the specific area of intervention.
- It would have been very helpful for the province to have the documentation related to the project, including initial diagnostic studies, project documents, and the final evaluation, in Spanish. Although these documents can, of course, be translated, the specificity of the terminology makes it difficult for non-technical translators to capture the text's full meaning.
- It would be important to adapt national CREMA contracts to reflect local conditions within individual provinces. The failure of the CREMA bidding processes conducted as part of this operation was primarily the result of lack of enough technical capacity on the part of local firms.

(b) Cofinanciers

N.A.

(c) Other partners and stakeholders (e.g. NGOs/private sector/civil society)

N.A.

Annex 1 Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/Specialty
Lending			
Alexandre V. Abrantes	Country Program Coordinator	LCC5A	Health
Marcelo Becerra	Education Spec.	AFTH3	Education
Raul Osvaldo Benitez	Consultant	LCSHD	Tax/PSM/Privatization
Fabio M. Bertranou	Consultant	LCSHD	M&E/Gender
Richard M. Bird	Consultant	PRMPS	Tax
William Experton	Lead Education Specialist	AFTH2	Education
Mark H. Fairless	Consultant	LCSPS	Natural Resources
Asif Faiz	Country Manager	AFMSD	Roads
Mark V. Hagerstrom	Country Sector Leader	LCSHD	TTL
Olympia Beatriz Icochea	Consultant	LCSHH	Health
Yoko Katakura	Sr Financial Analyst	ECSSD	Water
Gerard L. Liautaud	Consultant	LCSTR	Roads
Jose Oscar Libonatti	Consultant	LCSPE	Fiscal
Federico Ricardo Manuel Mejer	Consultant	AFTH2	Education
Luis Orlando Perez	Sr Public Health Spec.	LCSHH	Health
David Rosenblatt	Lead Economist and Sector Lead	LCSPR	Fiscal
John K. Wilkins	Consultant	PRMPS	Tax
Supervision/ICR			
Raul Osvaldo Benitez	Consultant	LCSHD	Consultant
Sergio España	Consultant	LCSHS-DPT	Education Reforms
Arturo E. Gil Moore	Consultant	LCSHD	PSM/Privatization
Olympia Beatriz Icochea	Consultant	LCSHH	Impact/Outcome indicators
Gerard L. Liautaud	Consultant	LCSTR	Provincial Roads
Luis Orlando Perez	Sr Public Health Spec.	LCSHH	Health Reforms
Juan Luis Sanguinetti	Consultant	LCSHH	Public Finances

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY00	31	205.33
FY01	7	4385
Total:	38	249.18
Supervision/ICR		
FY00		27.09
FY01	9	89.57
FY02	9	104.87
FY03	12	101.17
FY04	5	46.33
FY05	4	32.30
FY06	8	67.66
Total:	47	468.99

Annex 2. Beneficiary Survey Results (if any)

N.A.

Annex 3. Stakeholder Workshop Report and Results (if any)

N.A.

Annex 4. Summary of Borrower's ICR and/or Comments on Draft ICR

The Borrower's Report, in Spanish, is available in full in IRIS.

Annex 5. Comments of Cofinanciers and Other Partners/Stakeholders

N.A.

Annex 6. List of Supporting Documents

- Consejo Federal de Responsabilidad Fiscal (2006), *Evaluación del cumplimiento del Régimen Federal de Responsabilidad Fiscal – Ejercicio Fiscal 2005*, Junio 2006, Bs. As., Argentina.
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- Ministry of Health (2005), *Indicadores Básicos de la Salud*, Buenos Aires, Argentina.
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- World Bank (2003), *Catamarca's Provincial Reform Adjustment Loan*, Tranche Release Document, 23 July 2003, Washington, D.C.
- World Bank (2001), *Argentina: Country Strategy Update*, Report No. 22049-AR, 25 June 2001, Country Management Unit, Washington, D.C.
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- World Bank (1998-2005), Documents in Project's Electronic File, including Aide Memoirs, Back-to-Office Reports, Project Status Reports, Project Financial Assessments, and Project Procurement Assessments; IRIS, Washington, D.C.
- World Bank (1995), *Argentina: Country Assistance Strategy*, Report No. 14278-AR, Washington, D.C.

List of Interviews

Provincial Authorities:

- C.P.N. Mamerto E. Acuña, Minister of Finance
- Dra. Ester Aguirre, Under-Secretary of Health
- Prof. Claudia Ruibal, Under-Secretary of Education and staff
- C.P.N. Graciela Pioli (Health)
- Lic. Fernando Liendo (Finances)
- Ing. Marcelo Bazan (UEPFOI)
- C.P.N. Juan Pablo Fripp (Public Debt)
- C.P.N. Gerardo A. Diaz (UEPFOI)
- Dr. Rene Vergara (Health)
- Ing. Oscar Doering (Public Services)
- Ing. Dal Bon (Provincial Transportation Dept.)
- Dr. Patricia Bollada, Director of Hospital San Juan Bautista and staff
- Dr. Gladys Buschaski (Director, Provincial Health Under Secretary) and staff
- Former Provincial Authorities
- Jorge Greco (former Minister of Finance)
- Raul Giné (former Minister of Finance and former Minister of Education)
- Marcelo Guerra (Finance)
- Roxana Azurmendi (Finance)

National Authorities:

Gerardo Hita (Ministry of Economy)
Anibal López (Ministry of Economy)
Alejandra de la Serna (Ministry of Economy)

World Bank Reviewers:

Jim Parks (PREM)
Ron Myers (PREM)
Jesko Hentschel (HD)
Juan Gaviria (FPSI)
Mark Hagerstrom (former TTL and Argentina's Country Officer)
Zeinab Partow (Public Finances)
Sergio España (Education)
Luis Perez (Health)

Annex 7. Additional Annexes

7.1 Restructuring

By restructuring the operation in August 2003, the Bank sought to address the drastic changes that followed the economic collapse of December 2001 while preserving the overall objectives of the loan. The decision to restructure the operation instead of canceling the two undisbursed tranches was based on Catamarca's solid fiscal management, even in the face of crisis, and the substantial progress it had made in the implementation of the reforms in the areas of public finances and administration, and health. Restructuring provided the opportunity to reframe the province's program in a manner that was feasible given the macroeconomic uncertainties without deviating from the operation's original development objectives.

Although Catamarca was able to maintain a fiscal program consistent with the original fiscal conditionalities, fiscal stringency together with rising social pressures prevented the province from fully pursuing all the reforms at the pace originally envisioned. Overall, a total of 16 out of 42 conditions were amended—seven and nine conditions corresponding to the second and third tranches, respectively. The majority of the amendments were related to education (i.e., nine conditions), reflecting the difficulties experienced in carrying out the reforms in this sector. The amendments in the education sector scaled back the original outcomes, while the amendments in the other two policy areas constituted adjustments needed to reflect the post-2001 conditions that did not significantly affect the operation's original key outcomes. By restructuring the operation as opposed to canceling it, the Bank offered the province its support as well as substantial incentives to continue with the implementation of the critical set of reforms supported by the operation despite the heightened fiscal and social pressure. Table 7.1 provides a detail of the individual amendments, and Table 7.2 shows the overall impact of these amendments on the original outcome targets.

Table 7.1 Restructuring of Catamarca’s Provincial Reform Loan – Original and Amended Policy Conditionality

Policy	Original Condition	Amended Condition
Public Finance		
Debt Stock	<i>Third Tranche</i> Stock of debt to be equal to or less than 99 percent of total revenues.	<u>Meet the quarterly debt targets included in its bilateral PFO agreement with the National government.</u>
Public Sector Compensation	<i>Third Tranche</i> Implementation of the new salary scale system, including a merit-based component and a program for voluntary retirement.	Implementation of the salary scale system <u>linked explicitly to savings derived from its rationalization program.</u>
Road Maintenance	<i>Second-Tranche</i> a) To develop a multi-annual plan for road improvement, rehabilitation and maintenance and provide funding the first year; and b) complete studies on the reorganization of the central repair stop, for providing assistance to the municipalities and, a survey of the road network.	To develop a multi-annual plan for road improvement, rehabilitation and maintenance <u>(with funding requirements for the first year waived).</u> <u>(Studies postponed until the third tranche.)</u>
	<i>Third Tranche</i> Choose a winner private sector bidder for two pilot contracts introducing private sector participation in road maintenance.	<u>Award</u> two pilot contracts introducing private sector participation in road maintenance.
Education Reform		
Student / Teacher Ratio	<i>Second Tranche</i> Student-teacher ratios of no less than 16:1 for EGB I and II and 9:1 for EGB and <i>Polimodal</i> in effect for <u>all</u> schools.	Student-teacher ratios of no less than 16:1 for EGB I and II and 9:1 for EGB and <i>Polimodal</i> in effect <u>only in urban areas.</u>
	<i>Third Tranche</i> Student-teacher ratios of no less than 20:1 for EGB I and II and 10:1 for EGB and <i>Polimodal</i> in effect for all schools.	Student-teacher ratios of no less than <u>16:1</u> for EGB I and II and <u>9:1</u> for EGB and <i>Polimodal</i> in effect for all schools.
Teacher’s Work Rules	<i>Second Tranche</i> (a) Law to be presented to the legislature modifying work teachers’ rule (<i>Estatuto Docente</i>) to: i) establish incentives in teachers’ pay to reward performance; ii) select the appointment of school administrators through competition (<i>concursos</i>); and (b) Decrees establishing: i) criteria for awarding bonuses among schools based on needs and abilities to address, <i>inter alia</i> , dropout and repetition rates; ii) a decentralized supervision system; and iii) a tighter sick leave regime to reduce abuse.	a) Law to be presented to the legislature modifying work teachers’ rule (<i>Estatuto Docente</i>) to select the appointment of school administrators through competition (<i>concursos</i>). <u>(Performance-based incentives for teachers’ pay waived.)</u> b) Decrees establishing: i) a decentralized supervision system; and ii) a tighter sick leave regime to reduce abuse. <u>(Performance-based bonuses for schools waived.)</u>

**Table 7.1 Restructuring of Catamarca’s Provincial Reform Loan –
Original and Amended Policy Conditionality (cont.)**

Policy	Original Condition	Amended Condition
Education Reform (cont.)		
Decentralization	<i>Second Tranche</i> Pilot decentralization program implemented in ten schools, with schools administering own resources for maintenance and non-salary operational expenses in consultation with School Advisory Councils.	Pilot decentralization program implemented in ten schools, with schools administering own resources for maintenance and non-salary operational expenses. (<u>Consultation with School Advisory Councils waived.</u>)
	<i>Third Tranche</i> a) Administrative decentralization implemented in all schools; and b) ten schools also administering resources for salary expenses as well.	Administrative decentralization implemented in all schools. (<u>Administration of resources for salary expenses by ten schools waived.</u>)
Transfers to Private Schools	<i>Second Tranche</i> A law has entered into effect determining the level of subsidies to individual private schools based on objective criteria.	A law determining the level of subsidies to individual private schools based on objective criteria <u>has been presented to the legislature.</u>
	<i>Third Tranche</i> Such law is being applied to all private schools that have not previously received subsidies.	Such law has entered into effect and is being applied to <u>all private schools currently receiving subsidies.</u>
Teaching Institutes	<i>Second Tranche</i> Number of teachers’ training institutes to be reduced to 12 or less.	Number of teachers’ training institutes to be reduced to <u>14</u> or less.
Health Reform		
Cost Recovery	<i>Second Tranche</i> a) Legal framework enabling cost recovery by public hospitals in place; b) the San Juan Bautista and Children’s Hospitals to be carrying out cost recovery at agreed targets.	Legal framework enabling cost recovery by public hospitals in place. (<u>Condition requiring two individual hospitals to be carrying out cost recovery at agreed targets postponed.</u>)
	<i>Third Tranche</i> Public hospitals representing 70 percent of all provincial hospital expenses (including the San Juan Bautista and Children’s Hospitals) to be carrying out cost recovery at agreed targets.	The San Juan Bautista and Children’s Hospitals (<u>as opposed to hospitals accounting for 70 percent of provincial hospital expenses</u>) to be carrying out cost recovery at agreed targets.
Provincial Health Insurance	<i>Third Tranche</i> OSEP to achieve an operational balance.	a) OSEP to achieve an operational balance <u>net of the revenue limitations imposed by the Economic Emergency Law;</u> and b) <u>not to increase its debt stock above the 2003 level.</u>

Table 7.2. Restructuring of Catamarca’s Provincial Reform Loan – Original and Amended Policy Matrix by Type of Conditionality

Catamarca's Provincial Reform Project - Original Policy Matrix			
	Board Approval	1st Tranche	2nd Tranche
Public Finance and Administration			
Public finances			
Tax administration			
Privatization provincial bank			
Concession of water company			
Human resources			
Provincial roads maintenance plan			
Concessions of road maintenance			
Education Reform			
Education expenditures			
Resource allocation			
Professionalization of teachers			
Other incentives			
Teaching institutes			
Improving quality			
Decentralization			
Human resources			
Private sector privatization			
Health Reforms			
Health expenditures			
Legal framework for cost recovery			
Cost recovery by hospitals			
Management contracts			
Insurance for the poor			
Provincial health insurance (OSEP)			

Technical
 Performance Target
 Key Policy Action

Table 7.2 Restructuring of Catamarca's Provincial Reform Loan – Original and Amended Policy Matrix by Type of Conditionality (cont.)

Catamarca's Provincial Reform Project - Amended Policy Matrix			
	Board Approval	1st Tranche	2nd Tranche
Public Finance and Administration			
Public finances			Equivalent
Tax administration			
Privatization provincial bank			
Concession of water company			
Human resources			Weaker
Provincial roads maintenance plan		Weaker	
Concessions of road maintenance		Partly postponed	Stronger
Education Reform			
Education expenditures			
Resource allocation		Weaker	Weaker
Professionalization of teachers		Weaker	Weaker
Other incentives		Weaker	
Teaching institutes		Weaker	
Improving quality			
Decentralization		Weaker	Weaker
Human resources			
Private sector privatization		Weaker	Stronger
Health Reforms			
Health expenditures			
Legal framework for cost recovery			
Cost recovery by hospitals		Postponed	Weaker
Management contracts			
Insurance for the poor			
Provincial health insurance (OSEP)			Stronger

Technical
 Performance Target
 Key Policy Action

7.2. Rating the Outcome of Projects with Formally Revised Objectives:

As noted earlier, the operation's development objectives—i.e., to promote an efficient and responsive delivery of public services within fiscally sound policies—remained unchanged at restructuring. While operation has largely met its development objectives, some of the key outcome targets as operationalized by the loan's policy conditionalities were formally revised at restructuring to reflect the macroeconomic and social changes that resulted from the economic collapse of December 2001. Thus, the operation's overall outcome rating has been assessed against both the original and revised key outcome targets in accordance with the Harmonized Evaluation Criteria for ICR and IEG Evaluations and the new ICR guidelines issued in August 2006.

Assessment of outcome with respect to original key outcome targets: *Moderately Satisfactory.*

The operation has clearly succeeded in supporting Catamarca in its efforts to enhance efficiency and responsiveness in the delivery of public services, most notably health, within fiscally sound policies. Despite highly unfavorable macroeconomic conditions, the province succeeded in implementing an ambitious set of restructuring reforms, including liquidating the provincial bank and concessioning the water company. Fiscal management has been remarkable, before, during, and after the 2001 crisis. Reforms in the health sector have also been largely implemented as originally envisioned. However, some of the key outcome targets envisioned at approval were not achieved. The level of achievement was particularly poor in the education sector, as strong vested interests, including teachers' unions and private schools, succeeded in blocking some of the reforms. Moreover, original key outcomes in the education were significantly scaled down at restructuring, the most significant being the removal of conditions calling for the incorporation of performance-based monetary incentives for teachers and schools. Thus, despite the substantial achievements in the areas of public finance and administration, as well as the health sector, the operation is rated 'Moderately Satisfactory' with respect to with respect to the original key outcomes. The operation's achievement can be summarized as follows:

A. Public Finance and Administration: Most of the original key outcomes were either achieved or exceeded. The level of attainment of this component was remarkable, especially in face of the unfavorable macroeconomic conditions and business climate, pointing to the sound fiscal management and strong determination of provincial authorities to proceed with the reform program. As mentioned above, Catamarca met all original fiscal targets, except the one relating its debt stock. The province also succeeded in liquidating the provincial bank, thus eliminating a chronic source of provincial deficit. Catamarca also succeeded in concessioning its water company and setting in place a regulatory entity and, unlike other provinces, Catamarca is determined to ensure that the water company remains within the private sector. Only two of the original targets were not fully met, as follows:

- *Debt stock*: The original fiscal target regarding the debt stock calling for a ratio not greater than 99 percent of current revenues was not met as a result of the peso devaluation with respect to the U.S. dollar. In 2005, Catamarca's debt stock represented 119 percent of current revenues in 2005. However, the province's debt stock increased less than that of other provinces, by 8 percent between 1999 and 2005 compared to 53 percent for provinces as a whole.
- *Road Directorate*: The original third-tranche condition required the province to select a winner private sector bidder for two pilot contracts introducing private sector participation in road maintenance. The province succeeded in awarding only one contract, as there were no offers when the province attempted twice to bid out the second contract.

B. Education Reforms: This component did not reach several original key outcomes, including:

- *Student/teacher ratios*: This outcome target was partially achieved. For the second tranche, the province successfully reached the original targets but only for urban areas as amended, as opposed to the province as a whole as originally agreed. In addition, original outcome targets calling for student/teacher ratios of at least 20:1 at EGB I and II levels, and 10:1 for EGB III and *Polimodal* levels were reduced at restructuring—the modified targets were modified to 16:1 and 9:1, respectively. Only the targets corresponding to EGB III and *Polimodal* levels were achieved for the province as a whole.
- *Modifying teachers' work rules*: This outcome target was partially achieved. Among the various modifications envisioned of the Teachers' Statute, conditions requiring the adoption of a new performance-based salary scheme and performance-based school bonuses were waived at restructuring. The remaining conditions regarding were met as amended.
- *Enhancing private sector participation*: This outcome target was not achieved. Second-tranche conditionality called for the passage of a law modifying the formula used to allocate these subsidies, basing it on objective criteria, including the number of students, their socioeconomic background, and the quality of schools. The law was never presented to the legislature.
- *Administrative decentralization*: Although a decentralized management model was implemented in ten schools as a way to enhance accountability in the administration of resources, except for salary expenses, which was waived at restructuring. Likewise, the requirement that school administrators administer decentralized resources in consultation with school advisory councils was also waived at restructuring.
- *Reducing the number of teachers' institutes*: This outcome target was partially achieved. For. Of the 26 institutes operating in 1995, the province reduced the number to 13 one short of the original outcome target of 12.

C. Health Reforms: All but one of the original key outcomes were largely achieved or exceeded. While the minimum spending targets for health care were amply exceeded in 2002 and 2003, the resources assigned to health expenditures decreased substantially in 2004, and so did the share of the funds designated for health programs. Among the factors contributing to the reduction in Catamarca's health budget was the decision of the national government to provide provinces with ambulatory and HIV medicines, as well as reproductive health supplies during 2004, which have resulted in the corresponding reductions in the health budgets.

Assessment of outcome with respect to revised key outcome targets: *Moderately Satisfactory*. All conditions of the restructured second tranche were met and the corresponding tranche was disbursed. Although the third tranche was cancelled in agreement with the government as part of the negotiations of the new CAS envelope, most conditions regarding public finance and administration, as well as health have been met. Progress toward education reforms has been partial on most fronts and no progress was made toward modifying the formula allocating public subsidies to public schools. Thus, despite the substantial achievements in the areas of public finance and administration, as well as the health sector, the operation is rated 'Moderately Satisfactory' with respect to its revised key outcomes. Specifically:

A. Public Finance and Administration: All of the revised key outcomes have been either achieved or exceeded, except for awarding the second contract for road maintenance as explained above.

B. Education Reforms: Although several of the key outcomes in the education sector were revised at restructuring, education reforms continued to stall. Several of the revised key outcomes have being only partially met.

- *Student/teacher ratios*: This outcome target was partially achieved, as revised targets EGB I and II were not achieved for the province as a whole.
- *Modifying teachers' work rules*: This outcome target was partially achieved. Although a competition (*concurso*) was held for the selection of school supervisors as required by the PRL revised conditionality, the results have had little impact on the actual appointment of supervisors.
- *Reducing the number of teachers' institutes*: This outcome target was partially achieved. The province reduced the number of teachers' institutes from 26 to 13—although the original outcome target indicated a maximum of 12 teaching institutes, this still constitutes a significant accomplishment.
- *Enhancing private sector participation*: This outcome target was not achieved. As mentioned above, the law modifying the formula used to allocate these subsidies was never presented to the legislature.

C. Health Reforms: All of the revised key outcomes have been either achieved or exceeded, except for two conditions. First, as explained above, minimum spending targets for health care were not met for 2004. Second, although measures aimed at ensuring the financial sustainability of the provincial health insurance carrier are now in place and an operational surplus is expected for the second half of the 2006, OSEP still registered a deficit as of April 2006.

Weighted Overall Project Outcome: *Moderately Satisfactory*. Weighing the operation's ratings with respect to original and revised objectives based on the share of actual disbursements before and after the revision took place renders an overall outcome of Moderately Satisfactory, as shown on Table 2.3.

Table 7.3 Rating of Project Outcome Against Original and Revised Key Outcomes

Steps	Against Original Key Outcomes	Against Revised Key Outcomes	Overall Rating	Comments
1. Rating	Moderately Satisfactory	Moderately Satisfactory	--	<p>Despite a highly unfavorable implementation environment, the province has either met or exceeded most original key outcomes in the areas of public finances—including the liquidation of the provincial bank, and the concessioning of the water company—and health. However, some of the original key outcomes were not met, particularly in the education sector. The most notable ones are:</p> <ul style="list-style-type: none"> • Debt stock target • Student/teacher ratios • Performance-based Incentives for teachers and schools • Public subsidies to private schools based on objective criteria
2. Rating value ¹	4.0	4.0	--	
3. Weight	56%	44%	100%	<p>The province has largely achieved or exceeded revised key outcomes in the areas of public finances and health. However, performance in the education sector continued to lag behind after restructuring, with some revised key outcomes being either partially achieved or not achieved.</p> <p>US\$25.7 million and US\$20 million for the first and second tranches, respectively out of US\$45.7million.</p>
4. Weighted value (2) x (3)	2.24	1.76	4.0	
5. Final rating (rounded)	-	-	Moderately Satisfactory	<p>PDO were fully met in the areas of public finance and administration as well as health. PDO were partially met in the area of education. With PRL support, the province underwent significant restructuring despite unfavorable macroeconomic conditions. The implementation of needed reforms supported by Catamarca's PRL has had a substantial impact on health services delivery and public resource management.</p>

¹ The values corresponding to each rating are: Highly Satisfactory = 6, Satisfactory = 5, Moderately Satisfactory = 4, Moderately Unsatisfactory = 3, Unsatisfactory = 2, and Highly Unsatisfactory = 1.

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