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Statement by Eugene Miagkov

Argentina -- Country Assistance Strategy

We support the proposed Country Assistance strategy for Argentina as appropriate for the country's current goals and objectives. We would like to congratulate the Argentine authorities on continued strong performance of their reform effort which allowed the country to overcome the recent crisis and achieve economic growth. However, much is yet to be done in order to sustain this growth, and the proposed Country Assistance Strategy is designed to help the Government in this endeavor. I would like to address two areas in more detail, financial sector development and social sector strategy.

Financial sector. The effects of the recent regional crisis demonstrated the inherent instability of the currency board regime and its vulnerability to external shocks. One of the major tasks facing Argentina is to address this vulnerability and prevent the repetition of the unfortunate events of the recent past. The report does not do justice to the scope or the consequences of the financial crisis nor to the international effort required to overcome it. We would like to hear the staff's comments as to the lessons from the crisis and their incorporation into the Strategy. In particular, we would like to know more about the steps taken or planned to improve the supervisory function of the Central Bank designed to prevent crises in the future.

Furthermore, while the Strategy includes financial sector development as one of its elements, it remains very sketchy on the subject. What is proposed in the area of improved banking supervision? What has been done to date? What is being done to restructure and recapitalize provincial banks, which are major borrowers of resources in international markets? The experience of such reforms in Argentina is going to be important in many other countries facing similar problems.

Social sectors. We particularly welcome the importance given in the new CAS to the issues of poverty alleviation and social development. Increased welfare of the population is both the goal of economic reforms and a necessary prerequisite for their success, and in this context the emphasis on social development is crucial for sustained growth. In addition, since the country's access to the world capital markets is improving, the involvement of the World Bank should

concentrate on areas where it has a comparative advantage, of which human development and poverty alleviation are examples.

One of the important tasks facing Argentina is to improve the quality and access to basic social services. Disappointing record of education on all levels may become a major deterrent to growth if it is not addressed. We support the proposed projects in secondary and higher education, and welcome the coordination with the IDB which carries out projects supporting primary education and vocational training.

Poverty remains a serious concern in Argentina despite recent macroeconomic improvements. In our view the close link between poverty and unemployment warrants special attention to labor market reform and programs of selective employment support. However, both increased labor market flexibility and temporary employment schemes are likely to benefit only part of the poor, those whom the report calls the vulnerable, or cyclical, poor. We would like the staff to comment on the measures which could be taken to improve the position of the other categories, the stagnant poor and the indigent. In particular, we would like to know whether programs of education and/or vocational training are seen as a promising solution to this problem, and if so, whether these programs should be targeted or universal. If possible, we would also like to hear about the recent trends in the structure of poverty, i.e. about the movements among the various categories of the poor as a result of macroeconomic reforms.

We welcome the growing role of support to provincial reform in the Bank's program in Argentina. Local capacity building is an essential condition for the success of decentralization and effective service delivery in the social sectors, and we believe this is an area where the World Bank could play an important role. The proposed mechanism of transfer of funds to the regions strikes a good balance between selectivity based on performance (rewarding strong performers designed to encourage emulation) and need-based assistance in social sectors. We would like the staff to clarify whether it is planned to lend any money directly to provinces, and if so which projects have this provision.

Finally, we would like to support the proposal of agreeing with the Government on a set of monitorable indicators necessary for graduation. We agree that the per capita income alone does not suffice and that terms of access to capital markets and social indicators should also be taken into account.