

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
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August 4, 2003

Mr. Roberto Lavagna
Minister of Economy
Ministry of Economy
Hipólito Irigoyen 250
1310 Buenos Aires, Argentina

Re: Argentina: Loan No. 4578-AR
(Provincial Reform Adjustment Loan- Catamarca)
Amendment to Loan Agreement

Dear Minister Lavagna:

Please refer to the Loan Agreement (Loan No. 4578-AR) dated August 17, 2001 entered into between the Argentine Republic (the Borrower) and the International Bank for Reconstruction and Development (the Bank).

In response to the Borrower's request of March 21, 2003 for changes in certain second and third tranche conditions of said Loan, the Bank hereby agrees to amend the Loan Agreement mentioned above as follows:

I. Loan Agreement:

1. Whereas clauses (A) and (B) are hereby amended to read in their entirety as follows:

“WHEREAS (A) the Bank has received a letter, dated May 2, 2003, from the Argentine Republic's Province of Catamarca (the Province) describing a revised program of actions, objectives and policies designed to achieve adjustment of the public finances, public administration and social sectors of the Province (hereinafter called the Revised Program), declaring the Province's commitment to the execution of the Revised Program, and requesting assistance from the Bank in support of the Revised Program during the execution thereof;

(B) the Borrower has indicated to the Bank that the actions and conditions set forth in the Revised Program and in Schedules 3 and 4 to this Agreement, described therein as agreed between the Province and the Bank, are consistent with the Borrower's national policy framework regarding provincial reforms;”.

2. Section 1.02 (c) is hereby amended by deleting the word “and” at the end thereof.

3. Section 1.02 (d) is hereby amended by substituting the period at the end thereof with the word “; and”.

4. A new paragraph (e) is hereby added at the end of Section 1.02, to read in its entirety as follows:

“(e) “Arg\$” means Argentine Peso, the lawful currency of the Borrower.”

5. Section 2.03 is hereby amended to read in its entirety as follows:

“Section 2.03. The Closing Date shall be December 31, 2003 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.”

6. Paragraph (e) of Section 2.02 is hereby amended to read in its entirety as follows:

“(e) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$45,700,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

- (i) with the progress achieved by the Province in the carrying out of the Revised Program;
- (ii) that the macroeconomic policy framework of the Borrower is satisfactory; and
- (iii) that the actions described in Schedule 4 to this Agreement (all of which have been agreed to by the Province and are consistent with the Borrower’s policy framework regarding provincial reforms) have been taken in form and substance satisfactory to the Bank.

If, after said exchange of views, the Bank shall have given notice to the Borrower that the applicable conditions referred to in this paragraph have not been fulfilled and, within 90 days after such notice, such conditions continue to be unfulfilled, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.”

7. Schedule 3 is hereby amended to read in its entirety as set forth in Annex I to this Amendment Letter.

8. Schedule 4 is hereby amended to read in its entirety as set forth in Annex II to this Amendment Letter.

9. The word “Program”, wherever it appears in Whereas clause (D) and Sections 1.01 (a), 2.02 (b), 2.02 (d) (ii), 3.01 (a), 3.01 (b), 3.01 (c), 4.01 (a) and 5.01 (b), is hereby replaced with the words “Revised Program”.

II. Effectiveness:

Please confirm your agreement to the foregoing amendments by signing and dating this letter in the spaces provided below. This Amendment Letter will be executed in two counterparts, each of which shall be an original. Upon your confirmation, please return one fully executed original to us. The provisions of this Amendment Letter will become effective as of the date first above written upon receipt by the Bank of one fully executed original of this Amendment Letter.

Sincerely yours,

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

By /s/Axel van Trotsenburg
Director
Country Management Unit
Argentina, Chile, Paraguay and Uruguay
Latin America and the Caribbean Region

AGREED AND CONFIRMED:

ARGENTINE REPUBLIC

By: /s/Roberto Lavagna
Authorized Representative

Name: Roberto Lavagna

Date: September 1, 2003

SCHEDULE 3

Provincial Actions Referred to in Section 2.02 (d) (ii) (C) of this Agreement

Public Finances

1. The Province has incurred, for the period covered by any six continuous months among the nine months immediately preceding the Second Tranche Release Date, provincial public sector current expenditures equal to or less than provincial public sector current revenues (i.e., has operated without a current deficit for the aggregate of said period). For purposes of this Schedule:

(a) unless the text indicates otherwise, "provincial public sector" means all components of the provincial public sector (except for parastatal enterprises and social security entities) for which funding is allocated as part of the annual consolidated provincial budgets approved by the Province's legislature;

(b) "current revenues" means: (i) revenues from taxes; (ii) non-tax revenues from the sale of goods and services and from property rentals; and (iii) revenues from federal revenue-sharing transfers (*fondos de coparticipación*; excluding those for the financing of public works expenditures, such as those from *Fondo Nacional de la Vivienda*, from *Fondo Especial de Desarrollo Eléctrico del Interior* and from other such funds); and

(c) "current expenditures" means expenditures incurred for payment of personnel, expenditures incurred for the use of goods, facilities and services, expenditures incurred for interest on public sector debts and transfers for which there is no consideration, but excluding severance payments made to personnel departing from the provincial public sector.

2. The Province is carrying out, and adhering to the terms of, its tax simplification program for small and medium-sized businesses set forth in its Law no. 4994 (or analogous successor law) and regulations thereunder.

3. Either: (a) in conformity with a privatization initiative approved by the Province's legislature and in effect as of the Second Tranche Release Date, a winning private sector bidder has been chosen by the Province to be awarded ownership of at least fifty-one percent (51%) of the capital stock, and concomitant managerial and operational control, of the *Banco de la Provincia de Catamarca* (Catamarca Province Bank); or (b) the Province has complied with all disbursement conditions, specified in its September 16, 1998 agreement (*Convenio de Asistencia Financiera para la Privatización del Banco de la Provincia de Catamarca*; Financial Assistance Agreement) with the Borrower's *Fondo Fiduciario para el Desarrollo Provincial* (Provincial Development Trust Fund), for which the compliance period set forth in said Financial Assistance Agreement has passed as of the Second Tranche Release Date.

4. In conformity with a privatization initiative approved by the Province's legislature and in effect as of the Second Tranche Release Date, a winning private sector bidder has been chosen by the Province to be awarded a concession to exercise full managerial and operational control of the water and sewerage utility (*Obras Sanitarias de Catamarca*) serving the Province's Capital, Valle Viejo and Fray M. Esquiú departments.

5. Studies, undertaken by the Province under terms of reference satisfactory to the Bank, have been completed and resulted in the design of an improved salary scale (including a merit-based component) for public employees of the Province, as well as in the public announcement by the Province of a plan for voluntary retirement of public employees of the Province (without affecting the quality of provincial public sector staff) and/or for retraining the number of redundant public employees of the Province.

6. The Province's *Dirección Provincial de Vialidad* (Provincial Roads Directorate; DPV) has:

(a) prepared a multi-annual provincial roads investment program (for road improvements, rehabilitation and maintenance) using the Highway Design and Maintenance Standards model applied in the project partially financed by Bank loan number 4093-AR;

(b) formally adopted a plan of action to improve DPV's productivity and efficiency, which plan calls for, *inter alia*: (i) the award of at least one CREMA contract for a portion of the provincial road network (a CREMA contract being one between DPV and a private sector contractor, whereby the contractor is obligated to undertake all phases of road rehabilitation and maintenance work as a single package, from design and programming of the works, through the execution of such works, for a year or more with respect to the identified portion of the network); (ii) the award of at least one annual maintenance contract for a portion of the provincial road network not covered by a CREMA contract (said maintenance contract being one between DPV and a private sector contractor, whereby the contractor is obligated to execute maintenance works for a year with respect to the identified portion of the network); and (iii) evaluation through objective indicators of performance under the contracts referred to in subparagraphs (b) (i) and (b) (ii) of this paragraph.

Public Education Sector

7. The Province has attained, for the period covered by any six continuous months among the nine months immediately preceding the Second Tranche Release Date, a level of provincial public education sector personnel salary and benefits expenditures equal to no more than ninety-six percent (96%) of provincial public education sector expenditures. For purposes of this paragraph, "provincial public education sector expenditures" means those of the Province's *Ministerio de Cultura y Educación* (Ministry of Culture and Education), but excludes transfers made by the Province to privately-administered schools.

8. The Province has attained and thereafter maintained in schools located in urban areas, a students to teacher position (cargo) ratio of no less than 16:1 for public primary school *Educación General Básica* (General Basic Education; EGB) I and II levels, and no less than 9:1 for EGB III and Polimodal (ages 15-17) levels, (for purposes of this paragraph, a teacher position (cargo) is defined as each bloc of twenty teaching hours paid for by the Province per week, regardless of whether the teaching paid for actually takes place or whether each such bloc is paid for one teacher or shared among various teachers).

9. (a) Presentation by the Province's executive branch, to the Province's legislature for approval thereby, of a bill of law to change the Province's *Estatuto del Docente* (Teachers' Statute) so that said Teachers' Statute would require that the positions for public school directors, subdirectors and supervisors be limited to a four-year term and selected through a competitive system at local levels.

(b) Issuance by the Province's executive branch of decrees requiring: (i) establishment of a public and private school supervision system, with decentralized supervision nodes throughout the Province as opposed to the current concentrated basing of supervisors in the Province's capital; and (ii)

application to all Province public school teaching staff of a tightened annual and sick leave regime aimed at reducing the opportunities for abuse of leave rights.

10. The Province has reduced to no more than fourteen (14) the number of training institutes (*Institutos de Estudios Superiores Estatales*) it is operating for purposes of, *inter alia*, training new teachers-to-be.

11. Entry into effect and initial implementation for public schools in the Province of written quality improvement policies aimed at: (a) lowering student drop-out rates; and (b) achieving further integration of low-performance student groups into the public school system, assisting such groups to improve their learning performance and providing remedial courses therefor.

12. Full operation of at least ten (10) public schools in the Province under a statutorily supported administrative decentralization scheme whereby each of said schools, *inter alia*, self-administers its own resources to meet its maintenance and other non-salary operational expenses.

13. For the aggregate of at least three continuous months among the six school-in-session months immediately prior to the Second Tranche Release Date, the Province has reduced the number of average hours per month for which it has hired substitute teachers for its public schools by an amount equal to at least twenty-five percent (25%) of the number of average hours per month for which such teachers were hired in 1998.

14. Presentation by the Province's executive branch, to the Province's legislature for approval thereby of a bill of law and accompanying regulations requiring an improved formula (based on objective criteria relating to school quality, number of students and their socioeconomic background) for awarding provincial public subsidies to private schools in the Province.

Public Health Sector

15. The Province has attained, for the period covered by any six continuous months among the nine months immediately preceding the Second Tranche Release Date, a level of provincial public health sector personnel salary and benefits expenditures (excluding such expenditures consisting of merit pay) equal to no more than eighty-five percent (85%) of provincial public health sector expenditures. For purposes of this paragraph, "provincial public health sector expenditures" means those of the Province's *Ministerio de Salud y Acción Social* (Ministry of Health and Social Action), excluding those financed with amounts collected by said Ministry from private insurance providers such as the *Obra Social de los Empleados Públicos* (OSEP) which serves provincial public sector employees, as well as those incurred for social action programs.

16. The Province's legislature has approved, for each fiscal year beginning after the Effective Date (up to and including the fiscal year during which the Second Tranche Release Date falls), annual budgets for the provincial public health sector which:

(a) make available for use in the provincial public health sector an annual amount equivalent to at least Arg\$46 million; and

(b) allocate at least eight percent (8%) of said amount to finance public health programs involving, *inter alia*, health promotion, immunizations, reproductive health, child health, school health, environmental health, surveillance and sanitary control and surveillance and control of communicable diseases.

17. For at least six continuous months immediately prior to the Second Tranche Release Date, provincial public health insurance benefits are being offered to all the otherwise uninsured poor residents of at least five (5) health jurisdictions (*áreas programáticas*) of the Province.

18. Implementation by the Province of a mechanism whereby there is automatic deduction, from the payrolls of employees of the Province's municipalities and other insurance premium-contributing OSEP beneficiaries, of their premium contributions for OSEP use.

19. The Province's legislature has approved a law, which law and regulations thereto have entered into effect, establishing that all the Province's public sector hospitals can recover their own service costs from insurers and pre-paid health plans, as well as providing that hospitals engaged in such recovery are eligible, not as an entitlement but on the basis of complying with performance targets specified in their management contracts of the type referred to in paragraph 20 of this Schedule, for receiving special provincial budgetary allocations and having access to special provincial stimulus funds.

20. Separate management contracts (requiring hospital compliance with targets set forth in the letter of even date herewith from the Province to the Bank), have been entered into between the Province and each of its public interzonal hospitals *Nuevo Hospital Interzonal San Juan Bautista* and *Hospital Interzonal de Niños*, and each of said hospitals has, for any six continuous months during the nine months immediately preceding the Second Tranche Release Date, met the targets set forth in its particular management contract.

SCHEDULE 4

Provincial Actions Referred to in Section 2.02 (e) (ii) (C) of this Agreement

Public Finances

1. The Province has incurred, for the period covered by any six continuous months among the nine months immediately preceding the Third Tranche Release Date, provincial public sector total expenditures equal to or less than provincial public sector total revenues. For purposes of this Schedule:

(a) unless the text indicates otherwise, "provincial public sector" means all components of the provincial public sector (except for parastatals and social security entities) for which funding is allocated as part of the annual consolidated provincial budgets approved by the Province's legislature;

(b) "total revenues" means: (i) current revenues as defined in paragraph 1 (b) of Schedule 3 to this Agreement, but including federal revenue-sharing transfers for the financing of public works expenditures; and (ii) capital revenues; and

(c) "total expenditures" means: (i) current expenditures as defined in paragraph 1 (c) of Schedule 3 to this Agreement; and (ii) capital expenditures.

2. The Province has attained, for the period covered by any six continuous months among the nine months immediately preceding the Third Tranche Release Date, a level of provincial public sector personnel salary and benefits expenditures (excluding severance payments) equal to no more than fifty-six percent (56%) of provincial public sector current revenues (as defined in paragraph 1 (b) (i) of this Schedule).

3. (a) The Province has entered into a bilateral accord with the Borrower for the year 2003 (within the framework provided by the Borrower's Decrees Nos. 2263/2002 of November 8, 2002 and 297/2003 of February 17, 2003 (*Programa de Financiamiento Ordenado de las Finanzas Provinciales*), for the purposes of reducing its provincial public sector deficit and attaining fiscal equilibrium in accordance with the quarterly targets set forth therein.

(b) the Province's legislature has approved the bilateral accord referred in paragraph above, and said accord is in full force and effect; and

(c) the Province has attained the quarterly targets on provincial debt set forth in the bilateral accord for the period between January 1, 2003 and the calendar quarter immediately preceding the Third Tranche Release Date.

4. The Province has, for the period covered by any six continuous months among the nine months immediately preceding the Third Tranche Release Date, increased the average amount of revenues collected per month through its property tax (*impuesto inmobiliario*) by an amount equal to at least twenty-five percent (25%) of the average amount (which average amount was 291,583 Argentine pesos) so collected per month during 1997.

5. Either: (a) at least fifty-one percent (51%) of the capital stock, and concomitant operational control, of the *Banco de la Provincia de Catamarca* (Catamarca Province Bank) has been sold by the Province to the winning private sector bidder referred to in paragraph 3 of Schedule 3 to this Agreement;

or (b) the Province has complied with all disbursement conditions, specified in its September 16, 1998 agreement (*Convenio de Asistencia Financiera para la Privatización del Banco de la Provincia de Catamarca*; Financial Assistance Agreement) with the Borrower's *Fondo Fiduciario para el Desarrollo Provincial* (Provincial Development Trust Fund), for which the compliance period set forth in said Financial Assistance Agreement has passed as of the Third Tranche Release Date.

6. (a) A water sector regulatory public agency, established through legislation of the Province, is staffed and operating with sufficient budget and appropriate written internal rules and procedures; and (b) the water and sewerage utility (*Obras Sanitarias de Catamarca*) serving the Province's Capital, Valle Viejo and Fray M. Esquiú departments, under a formal policy adopted thereby and consistent with applicable law and regulations, is offering water and sewerage service to indigent customers in said area at subsidized prices which allow said customers to benefit from the utility's services.

7. Incremental salary payments to the Province's public employees (which increase is based on the merit-based component of the improved salary scale referred to in paragraph 5 of Schedule 3 to this Agreement) have by no means exceeded, in the aggregate, the amount of savings resulting from the implementation of the voluntary retirement plan mentioned in said paragraph, as well as of those savings resulting from involuntary retirement of public employees.

8. The Province's *Dirección Provincial de Vialidad* (DPV):

(a) has initiated implementation of its investment program referred to in paragraph 6 (a) of Schedule 3 to this Agreement;

(b) (i) has carried out studies to: (A) assist the Province's municipalities in the maintenance of their municipal road networks; (B) create a separate DPV environmental department; (C) update environmental guidelines for all DVP programs and road projects; and (D) develop a program for the reform of DPV's central workshop; and (ii) furnished to the Bank a report on the findings and recommendations of said studies;

(c) has awarded: (i) the CREMA contract referred to in paragraph 6 (b) (i) of Schedule 3 to this Agreement, and (ii) the annual maintenance contract for the Provincial road No. 33 (said contract to be of the type referred to in paragraph 6 (b)(ii) of Schedule 3 to this Agreement); and

(d) has completed the annual survey on the physical condition of the Province's primary paved and gravel road network.

Public Education Sector

9. The Province has attained, for the period covered by any six continuous months among the nine months immediately preceding the Third Tranche Release Date, a level of provincial public education sector personnel salary and benefits expenditures equal to no more than ninety-four percent (94%) of provincial public education sector expenditures. For purposes of this paragraph, "provincial public education sector expenditures" means those of the Province's *Ministerio de Cultura y Educación* (Ministry of Culture and Education), but excludes transfers made by the Province to privately-administered schools.

10. The Province has attained and thereafter maintained a students to teacher position (carga) ratio of no less than 16:1 for public primary school *Educación General Básica* (General Basic Education; EGB) I

and II levels, and no less than 9:1 for EGB III and Polimodal (ages 15-17) levels (for purposes of this paragraph, a teacher position (cargo) is defined as each bloc of twenty teaching hours paid for by the Province per week, regardless of whether the teaching paid for actually takes place or whether each such bloc is paid for one teacher or shared among various teachers).

11. (a) Approval by the Province's legislature, and entry into effect accompanied by regulations thereto, of changes (referred to in paragraph 9 (a) of Schedule 3 to this Agreement) to the Province's *Estatuto del Docente* (Teachers' Statute), as well as continued implementation of the decrees referred to in paragraph 9 (b) of Schedule 3 to this Agreement.

(b) Approval by the Province's executive branch, and entry into effect of the Decrees referred to in paragraph 9 (b) of Schedule 3 to this Agreement).

12. The Province has not increased to more than twelve (12) the number of training institutes (*Institutos de Estudios Superiores Estatales*) it is operating for any purpose.

13. The Province has carried out an evaluation of the impact of the public school quality improvement policies referred to in paragraph 11 of Schedule 3 to this Agreement and designed a proposal, based on the outcome of such evaluation, for improving such policies.

14. Full operation of all public schools in the Province under the statutorily supported administrative decentralization scheme referred to in paragraph 12 of Schedule 3 to this Agreement.

15. For the aggregate of at least three continuous months among the six school-in-session months immediately prior to the Third Tranche Release Date, the Province has reduced the number of average hours per month for which it has hired substitute teachers for its public schools by an amount equal to at least fifty percent (50%) of the number of average hours per month for which such teachers were hired in 1998.

16. The formula for awarding provincial public subsidies to private schools in the Province, referred to in paragraph 14 of Schedule 3 to this Agreement, has entered into effect and is being implemented, and all private schools currently receiving such subsidies are informed, through an official notification, of the amounts of public assistance corresponding to each school in 2004.

Public Health Sector

17. The Province has attained, for the period covered by any six continuous months among the nine months immediately preceding the Third Tranche Release Date, a level of provincial public health sector personnel salary and benefits expenditures (excluding such expenditures consisting of merit pay) equal to no more than eighty percent (80%) of provincial public health sector expenditures. For purposes of this paragraph, "provincial public health sector expenditures" means those of the Province's *Ministerio de Salud y Acción Social* (Ministry of Health and Social Action), excluding those financed with amounts collected by said Ministry from private insurance providers such as the *Obra Social de los Empleados Públicos* (OSEP) which serves provincial public sector employees, as well as incurred for social action programs.

18. The Province's legislature has approved, for each fiscal year beginning after the Effective Date (up to and including the fiscal year during which the Third Tranche Release Date falls), annual budgets for the provincial public health sector which:

(a) make available for use in the provincial public health sector an annual amount equivalent to at least Arg\$46 million; and

(b) allocate at least eight percent (8%) of said amount to finance public health programs involving, *inter alia*, health promotion, immunizations, reproductive health, child health, school health, environmental health, surveillance and sanitary control and surveillance and control of communicable diseases.

19. Pursuant to the law and regulations referred to in paragraph 19 of Schedule 3 to this Agreement, *Nuevo Hospital Interzonal San Juan Bautista* and *Hospital Interzonal de Niños*, during any four continuous months among the six months immediately preceding the Third Tranche Release Date, have been issuing invoices for no less than eighty percent (80%), in terms of value, of services rendered to patients who have health insurance or are covered by pre-paid health plans and have, up to one month prior to the Third Tranche Release Date, collected at least sixty percent (60%) of the amounts so invoiced or initiated legal action to collect such amounts if overdue (the percentage targets set forth herein refer to said hospitals in the aggregate; each hospital need not by itself meet the targets strictly for its own receivables).

20. For at least six continuous months immediately prior to the Third Tranche Release Date, provincial public health insurance benefits are being offered to all otherwise uninsured poor residents of at least ten (10) health jurisdictions (*áreas programáticas*) of the Province (including the five (5) such jurisdictions referred to in paragraph 17 of Schedule 3 to this Agreement, with the proviso that there have been no interruption in such offer of insurance in those five (5) jurisdictions since the Second Tranche Release Date).

21. Separate management contracts (requiring hospital compliance with targets set forth in the letter of even date herewith from the Province to the Bank), have been entered into between the Province and Province public hospitals (including the *Nuevo Hospital Interzonal San Juan Bautista* and *Hospital Interzonal de Niños*), accounting in the aggregate for at least fifty percent (50%) of all province public hospital expenditures during any six continuous months among the nine months immediately preceding the Third Tranche Release Date, and each of said hospitals has, for any six continuous months during the nine months immediately preceding the Third Tranche Release Date, met the targets set forth in its particular management contract.

22. For any four continuous months among the six months immediately preceding the Third Tranche Release Date, OSEP: (i) has attained an operational balance whereby its expenditures do not exceed revenues, net of the revenue limitations as imposed by Law 4989 (*Ley de Emergencia Económica*), while still serving its beneficiaries effectively; and (ii) has not increase its stock of debt above that of April 30, 2003 (Arg\$ 7,200,000).

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