



<b>1. Project Data:</b>		<b>Date Posted :</b> 07/24/2001	
<b>PROJ ID:</b> P051695		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> P.rfm(r.negro)	<b>Project Costs (US\$M)</b>	75	50
<b>Country:</b> Argentina	<b>Loan/Credit (US\$M)</b>	75	50
<b>Sector(s):</b> Board: PS - General education sector (35%), Health (26%), Sub-national government administration (22%), Health insurance (9%), Other industry (8%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L4218			
	<b>Board Approval (FY)</b>		98
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/1999	06/30/2000
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Michael R. Lav	Poonam Gupta	Ruben Lamdany	OEDCR

**2. Project Objectives and Components**

**a. Objectives**  
To assist Rio Negro to reduce the role of the public sector in the regional economy, promote participation of the private sector, restructure the provincial government and ensure the efficient delivery of public services .

**b. Components**  
A. Fiscal and public finance: (1) improve tax collection and administration to promote higher reliance on own source revenues. (2) Reform civil service and reduce personnel expenditure as percentage of net revenues . (3) rationalize and prioritize spending to ensure that the Three Year Public Expenditure Plan reflects the priorities of government (social sectors, poverty alleviation, including education, health, potable water and environment ). B. Improve efficiency in the education sector and extension of mandatory education and access to the poor within current budget constraints: (1) increase student/teacher ratio and the ratio of staff actively teaching to total staff, (2) reduce the disproportionate use of temporary staff, (3) improve incentives for quality achievement, (4) increase participation of the private sector, (5) reduce administration costs. C. Health reforms to improve efficiency and equity in the health sector, (1) separate the provision and financing of health services, (2) increase cost recovery, (3) consolidate hospital facilities, (4) reduce excessive staff and reallocate resources to non -personnel categories, (5) improve targeting to the poor, and (f) increase health insurance coverage (within health budget constraints).

**c. Comments on Project Cost, Financing and Dates**  
The project cost was US\$75 million and was financed by an IBRD loan for US\$ 75 million in three tranches, each of US\$25 million. However, the third tranche was cancelled and the project cost reduced to US\$ 50 million. The project was appraised in April, 1997, approved by the Board on August 26, 1997, made effective on December 22, 1997, and closed on June 30, 2000, 6 months late.

**3. Achievement of Relevant Objectives:**

A. Fiscal and public finance: (1) tax revenues increased and own -revenues met the target of 25% of resources in 1998 but declined below the target in 1999. (2) While public employment and wage expenditure was reduced, public employment remains 25% higher on a per capita basis compared to other provinces which successfully completed these reforms. Civil service reform was limited to some downsizing based on early retirement and voluntary separations. (3) While health and education expenditures were protected, capital expenditure was inadequately reduced and non-personnel expenditure was not controlled which undermined the fiscal program . B. Education (1) the student/teacher ratio was increased from 1:15 to 1:17. (2) Use of substitute teachers was greatly reduced, and expenditures for them reduced from 26.5% of the amounts spent on regular teachers in 1993 to 10.0 % in 1999. (3) the quality enhancement effort fell short; merit pay has not yet been introduced, efforts to develop models for decentralized schools was largely unsuccessful . (4) the law to improve the transparency of subsidies to private schools has not yet been implemented (5) administrative costs have been reduced; teachers have been reassigned from nonteaching administrative positions . C. Health reforms: (1) the provision of health services has not been separated from financing, which was the major reform sought in health care; (2) cost recovery appears to have

Improved, but no quantitative evidence is given in the ICR; (3) no activities were included in the project to consolidate hospital facilities; (4) the share of wages in expenditures was decreased but spending on goods and services preempted an increase in capital expenditure; (5) there was no improvement in targeting of services to the poor; (6) A few small steps have been taken to increase health insurance coverage but this falls far short of progress envisaged by the project.

**4. Significant Outcomes/Impacts:**

Even though the project did not achieve many of its goals, it has helped to make Rio Negro more aware of its fiscal constraints and ways in which these might be addressed, and set in motion tax and other reforms which are helping to address these issues.

**5. Significant Shortcomings (including non-compliance with safeguard policies):**

1. Fiscal reforms were unable to adequately reduce wages and public employment, and fiscal sustainability remains in doubt. 2. Education sector reforms were not successful in introducing incentives to improve quality. 3. Health sector reforms were not successful in helping to target the poor, nor were they successful in improving health insurance coverage.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Unsatisfactory	Unsatisfactory	
<b>Institutional Dev.:</b>	Modest	Modest	
<b>Sustainability:</b>	Unlikely	Unlikely	
<b>Bank Performance:</b>	Satisfactory	Satisfactory	Quality at entry was satisfactory and the Bank intensively supervised this project.
<b>Borrower Perf.:</b>	Unsatisfactory	Unsatisfactory	
<b>Quality of ICR:</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

1. Provincial governments may need to rely on a national framework for reform, and, in this case, governors needed to be seen to be carrying out fiscal reforms within a clear national program for reform. Public support for reforms at the provincial level can be undermined if it is thought that the national government might reverse some progress made at the provincial level. In the case of Rio Negro, the population thought that the national government might loosen the fiscal constraints faced by the province, thereby undercutting popular support for fiscal reforms. 2. Lending vehicles need to be synchronized carefully with the reforms they are supported. The disbursement profile of this project was too short to support the wide-ranging reforms it sought to support. 3. The formulation of effective reforms at the provincial level needs to be informed by Institutional and Social Assessments. 4. Clear output indicators as contained in this project documentation (including the ICR) are central to effective evaluation.

**8. Assessment Recommended?**  Yes  No

**Why?** This, along with three similar projects in Argentina, would be a useful cluster of subnational projects from which a number of broader lessons might be learned for subnational projects in general.

**9. Comments on Quality of ICR:**

The ICR is very clearly written and contains a substantial amount of relevant information. The Borrower's comments are an interesting addition to the body of the ICR.