

1. Project Data:		Date Posted : 10/27/2008	
PROJ ID : P057449		Appraisal	Actual
Project Name : State Modernization	Project Costs (US\$M):	43.3	46.7
Country: Argentina	Loan/Credit (US\$M):	30.3	29.9
Sector Board : PS	Cofinancing (US\$M):		
Sector(s): Central government administration (100%)			
Theme(s): Technology diffusion (100% - P)			
L/C Number: L4423			
	Board Approval Date :		12/17/1998
Partners involved :	Closing Date :	12/31/2001	12/31/2007
<b>Evaluator :</b>	<b>Panel Reviewer :</b>	<b>Group Manager :</b>	<b>Group :</b>
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## 2. Project Objectives and Components:

### a. Objectives:

To assist the Government of Argentina, on an urgent basis, to prevent or minimize the disruption in the country's social and economic infrastructure that would be caused by the failure of critical central government systems to process dates properly after December 31, 1999 due to the Y2K problem.

Project Development Objectives (PDO) were revised three times during the project's life cycle. They were all approved by the Board on a non-objection basis.

Y2K issues presented fewer disruptions than expected which left most original project resources unutilized. The government and the Bank decided to use these available funds towards a public sector modernization program for Argentina. The **First Amendment** (June 27, 2000) would produce a plan for this public sector modernization, as reflected in the project's PDO: "to assist the GoA in designing a program to modernize the public sector in Argentina, both at the federal and provincial level." The **Second Amendment** (July 3, 2001) renamed the project "State Modernization" and provided details regarding the implementation strategy of the plan designed under the First Amendment. Original PDOs were expanded to include the following two components: "(b) to assist the GoA in designing and implementing a program to modernize the non-financial public sector in Argentina at the federal level and (c) to strengthen the institutional capacity at the GoA's provincial level."

However, progress with project implementation was halted between 2002 and 2003 because Argentina experienced economic and political instability. The difficult environment made reform of the magnitude envisioned in the First and Second Amendments unfeasible. Only in 2005 was the project taken up again and the Bank agreed to support the government's approach of "strategic incrementalism" towards state modernization in which reform of key areas and agencies would serve as catalysts for changes in other public sector areas. In accordance to this new vision, the project went through a **Third Amendment** (December 14, 2005) in which PDOs were changed to: "implement the GoA's strategy to strengthen public sector management tools to improve transparency, and civil society participation as well as increase the efficiency and quality of management by selected areas of public services".

### b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

If yes, did the Board approve the revised objectives /key associated outcome targets?

Yes

Date of Board Approval: 06/27/2000

**c. Components (or Key Conditions in the case of DPLs, as appropriate):**

Components and committed amounts changed throughout the project's cycle reflecting each amendment's priorities as can be seen in the following table:

<i>Component</i>	<b>Amendment</b>			<b>Actual</b>
	<b>Y2K</b>	<b>1st &amp; 2nd</b>	<b>3rd</b>	
A. Support Activities	26.4	2.2	2.5	2.5
B. Project Administration	2.1	1.8	2.9	3.8
C. Preparation of Program of the Public Sector		1.2	0.5	0.5
D. Streamlining Macro Structure of the National Government		0.5	0.2	0.2
E. Establishment of a New Public Management Model		10.5	10.5	10.5
F. Reform of Selected Public Agencies and Decentralized Entities		11.6	4.4	4.4
G. Promotion of Provincial Government Reform		1.5	0.5	0.5
H. Social and Fiscal National Identification System (SINTyS)			8.0	7.9
fees/contingencies/unallocated funds	1.8	1.0	1.0	
<b>Total</b>	<b>30.3</b>	<b>30.3</b>	<b>30.3</b>	<b>30.3*</b>
Actual spent	2.5	9.6	17.8	

\* At project closing US\$29.9m had been disbursed and the GoA requested a grace until June 30, 2008 to disburse the totality of the US\$30.3m.

The original project components where the following :

**A. Support Activities** : This component would carry out activities to support Y 2K remediation including: Initial estimates of entities and systems at risk, a publicity campaign to alert public and private sector entities to the Y 2K problem, technical analysis of diagnostics and evaluation of the economic impact of non -Y2K-compliance, and the development of common administrative systems for economies of scale and simplicity . Additionally, it would provide remediation and rescue activities through the implementation of remediation subprojects for selected agencies .

**B. Project Administration** : Project coordination and administration activities .

The First Amendment reflected the project's new focus on public sector modernization and added the following component:

**C. Modernization Program of the Public Sector** : This component would provide technical assistance and training to staff for state modernization in systemic reforms (human resource management, training, and information technology), agency-specific reforms involving results orientated administration and strategic reforms of national performance evaluation systems and modernization of provincial governments .

The Second Amendment, set up the state modernization program and added the following components :

**D. Streamlining the Macro -Structure of the National Government** : This component analyzed the macro-structure of the non-financial public sector, federal level, in order to find duplicate and overlapping functions and contribute to reduce fiscal expenses and design a program to inform about the results of this analysis .

**E. Establishment of a New Public Management Model** : Technical assistance and training for public agencies and decentralized agency staff who would undergo reforms, including determining performance measures, monitoring performance, design an integrated human resource management system, an information and telecommunications technology program, streamlining administrative procedures and public procurement .

**F. Reform of Selected Public Agencies and Decentralized Entities** : Pilot reforms of the following three specific agencies: the tax administration office (AFIP), National Social Security Administration office (ANSES), and the Ministry of Education (MOE).

**G. Promotion of Provincial Government Reform** : Supported capacity building of provincial level government through the Federal Council on Public Administration (Consejo Federal de la Función Pública CFFP)

In the Third Amendment, Component D above was dropped in order to reflect the incremental approach to state modernization requested by the GoA. A new component was added to the project:

**H. Social and Fiscal National Identification System (SINTyS) - Phase II**: This component supported the second phase of the SINTyS project, a national identification program and institutionalized information exchange . The first phase had been implemented under a previous APL project .

#### **d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:**

Both costs and dates were modified during the project's cycle. Of the original US\$30.3m, only US\$2.5m was disbursed under the project's original objectives. The First Amendment authorized US\$1.2m to design a state modernization plan that was used to develop the project's Second Amendment. At the time of the Third Amendment US\$20.1m remained unallocated, US\$8m of which were used for the SINTyS component. At project closing US\$29.9m had been disbursed and the GoA requested a grace period until June 30, 2008 to disburse the totality of the US\$30.3 m.

The GoA originally committed US\$13.3m towards the project. At project closing, the government had spent US\$16.8m.

The project's closing date was extended four times. The first extension was from the original December 12, 2001 date to December 31, 2003 after the Second Amendment to the project. The project was subsequently extended to December 31, 2004 at the GoA's request. Under the Third Amendment the closing date was extended twice, first to December 31, 2006 and later to December 31, 2007 due to delays in the GoA's approval of the Third Amendment.

#### **3. Relevance of Objectives & Design:**

The project's **original objective** of preparing the GoA for disruptions related to the Y2K transition was relevant to the country's circumstances at the time. Y2K was perceived as a worldwide threat and the GoA requested urgent assistance to address the issue. Due to the uncertain nature of these events, the project adopted a flexible design through which estimates of economic and social impacts and prioritized plans of action for critical systems would be part of the project itself. However, this design resulted in an overestimation of the problem and most resources were left unused.

The **First and Second Amendment** objectives were also relevant to country conditions and were aligned with bank strategy. The incoming President De la Rúa government prioritized public sector modernization as part of their government plan and Bank strategy picked it up in the 2000 CAS's second pillar of improving the performance of the state. The project set itself an overly ambitious agenda of a comprehensive public sector reform, and the design underestimated the appropriate institutional support required to do so. For example, the project assumed a centrally designed reform would be implemented horizontally at both federal and provincial levels without any hesitation. Many agencies resisted changes directed from the president's office and the reform's key champion, Vice President Alvarez, resigned early in the process. Moreover, the reforms were to be implemented in the aftermath of the 2001 political and economic crisis, which resulted in riots and a succession of four presidents in two years time.

The **Third Amendment** incorporated lessons learned from the previous implementation period and reflected the interests of the incoming government of President Nestor Kichner. In the *State Modernization* component, rather than a comprehensive reform, the project proposed an approach of "strategic incrementalism" in which specific areas of the public sector would become islands of innovation that other agencies could replicate. The project included components ranging from procurement to human resources and from the federal to the agency specific level reflecting government requests and entry points identified at the time. Even though the design was client responsive, the breadth of interventions makes the design seem unfocused and might have affected the project's achievements. The *SINTyS* component was added in the Third Amendment in order to facilitate the expansion phase of this system and was incorporated in this project due to the limited resources under the 2004-2005 CAS envelope. As a self-standing operation, this component had a good results framework linking specific activities, such as updating information on civil registries, to objectives, improving social service delivery. Both components, established a monitoring and evaluation framework though indicators were often output and not outcome indicators. In terms of the overall project designing, two separate projects makes understanding overall achievements more difficult and can have affected the project's achievements.

A results framework with performance indicators was only implemented after the First Amendment. However, many of these indicators were not always clearly defined, lacked baselines or assessed outputs rather than outcomes.

#### **4. Achievement of Objectives (Efficacy):**

##### **Original Design :**

The original design's objective was to prevent and minimize disruptions caused by Y2K. Major interruptions did not take place as a result of the millennium transition. One hundred twenty seven remediation action plans were formulated under the project and more plans could have been completed but didn't so because of delays in authorization. In general, the Y2K issue proved to be less problematic worldwide, which explains why the objective was achieved. Additionally, it is not possible to attribute the project's specific contribution given that the project lacked a robust results framework. Achievement: *modest*

##### **First and Second Amendments :**

The objective of these Amendments was to design and implement a program to modernize the non-financial public sector and to strengthen institutional capacity at the provincial level. The difficult political and economic context under which these phases took place made achieving the goals set by this phase of the project challenging. As mentioned before, the resignation of the reform's key champion as well as the lack of support from the ground for some of the reforms proposed made progress difficult. Regarding state modernization, modest achievements were observed in increased tax revenues and reductions in average period between retirement and receipt of social security payments, however in both cases it is difficult to attribute this to the project. In terms of outputs, during this phase legislation was set in place for horizontal reforms in procurement and e-government and plans in a few agencies were actually implemented, but the overarching goal of a comprehensive modernization was unfeasible given the political crisis and lack of support from the authorities. No mayor achievements were obtained in strengthening institutional capacity at the provincial level. Achievement: *negligible*

**Third Amendment :**

The Third Amendment's objective was to implement the GoA's strategy to strengthen public sector management tools to improve transparency, and civil society participation as well as to increase efficiency and quality of management by selected areas of public services. Accordingly, achievement of PDO's can be assessed in terms of the following categories:

Transparency: **E-government** tools, such as those implemented under the SINTyS system, have provided more transparency on family relationships, vital statistics, student population, and registration of judicial systems for up to 9 percent of the population. Additionally, the enactment of the Digital Signature Law and the development of the ICT platform has ensured the transparency in e-government applications. With regards to the **human resources management** system, progress has been made to register public servants in the central administration, although it is still only 20 percent of all employees. In **procurement**, legislation and an online portal have been established but only 5 percent of national administration purchases are being procured this way. Achievement: *modest*

Civil society participation: Achievements have been substantial. 50 agencies (90 percent of total) adopted **Citizen's Charters**, which provided information on citizen's rights and agency procedures. The Charters incorporated mechanisms to collect feedback from beneficiaries. These systems indicate user's perception of 80 percent improved service on specific performance and service delivery standards. In **e-government**, the government portal was set up to provide information targeted towards citizens, businesses and foreigners. Electronic publication of **administrative procedures** provided tools for civil society participation. Achievement: *substantial*

Efficiency: In **e-government**, the creation of SINTyS and the National Technology Information Office (ONTI) has provided a forum of electronic exchange of information. This exchange of information has improved the efficiency of social services through the detection of ineligible beneficiaries resulting in over US\$ 60 million in benefits between 2006 and 2007. Less progress has been observed in exchange of fiscal information because, according to the ICR, "reluctance of tax agencies at the national and provincial levels to share their information". The expected efficiency gains from implementing an integrated **human resources** management system have not materialized, in part due to resistance from public employees. There has also been limited progress in the area of **procurement**. New legislation was approved as well as a centralized portal and the procurement office was strengthened, but supporting regulations and procedures have not been fully implemented. Achievement: *modest*

Quality of management: In terms of **management-by-results**, plans have been designed in most agencies but have been only systematically implemented in AFIP and ANSES. A national monitoring and evaluation (M&E) system reporting back to the Chief of Cabinet office is working in a few agencies. Information is still not used for budget allocation purposes. Achievement: *modest*

The project made progress in other minor related areas such as the implementation of Community Justice Centers and promoting policy dialogue for provincial government reform, although these were not directly related to the above Third Amendment objectives.

**5. Efficiency (not applicable to DPLs):**

The project's efficiency was not estimated neither at appraisal nor in the ICR.

**a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :**

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

\* Refers to percent of total project cost for which ERR/FRR was calculated.

**6. Outcome:**

Following IEG/OPCS guidelines for restructured projects, the outcomes' rating is obtained by weighing the rating under each amendment with the disbursed amount in each phase of the project .

**Original PDO (Disbursements : US\$2.5m):** Mayor disruptions did not take place after Y2K and some project components were able to diagnose problems correctly . However, in particular with regards to the former, it is difficult to attribute this to the project . Additionally, the project overestimated the problem and allocated too many resources to it. Rating is moderately satisfactory .

**First and Second Amendments (Disbursements US\$ 9.6m):** The project was unable to achieve it's outcome of modernizing Argentina's non-financial public sector . It made some progress in diagnosing key issues, setting up important legislation and designing plans for a few agencies . Achieving outcomes seemed unfeasible from the start given a design that relied heavily on a champion to move reform forward . This in addition to the inherent circumstances of the country made progress unfeasible . Thus the rating for this phase is moderately unsatisfactory .

**The Third Amendment (Disbursement US\$ 17.8m):** This review agrees with the ICR's assessment that: "the overall gains in transparency and civil society participation, efficiency and quality of management in the targeted areas have been only moderate." Achievements in only one of these components, civil society participation, were substantial while for the other three were modest as discussed in section four . There has been progress in setting up e-government and citizen's charters as well as setting up systems for procurement and human resources, but they are far from achieving the objectives of targeted strategy towards modernization of the state . Even under the "incrementalist" approach favored by the GoA, some of the targeted interventions (such as revamping procurement and human resource management systems ) have not been achieved explaining the modest results in efficiency and quality of management. Thus the rating for this phase is moderately unsatisfactory .

**a. Outcome Rating :** Moderately Unsatisfactory

#### **7. Rationale for Risk to Development Outcome Rating:**

The risk to development outcome is rated moderate . Institutional arrangements and capacity building created for e-government, Citizens Charters, and SINTyS will allow these achievements to be sustainable in the long run . Moreover, follow up operations such as a Second State Modernization and a Second SINTyS project will strengthen areas such as procurement and reform of specific agencies, in which initial steps were taken . However, for those components that are still pending (such as human resource management and results based management ) political support continues to be a key issue going forward .

**a. Risk to Development Outcome Rating :** Moderate

#### **8. Assessment of Bank Performance:**

Ensuring quality-at-entry is rated *moderately unsatisfactory*. The original design overestimated the extent of the Y2K problem. The First and Second amendments underestimated the political support necessary to implement a comprehensive reform of the public sector . During the Third Amendment, the Bank team was more cautious and tailored the project to the government's approach of "strategic incrementalism" of state modernization. However, in order to accommodate the government's requests, the project included too many components, some of which were not specifically contributing to the project's PDOs such as community justice sector components.

Quality of supervision is rated *satisfactory*. The Bank had shortcomings in foreseeing potential problems for project implementation in particular during the first two amendments . However, during the Third Amendment supervision of the project was improved substantially . Many project issues from this Amendment were carried to the follow up Second State Modernization project reflecting this improved supervision, such as greater results-orientation, capacity building elements, monitoring and supervision of consultants . These components were rated satisfactory and highly satisfactory in a recent QAG report of the follow up Second State Modernization project.

**a. Ensuring Quality -at-Entry:** Moderately Unsatisfactory

**b. Quality of Supervision :** Satisfactory

**c. Overall Bank Performance :** Moderately Satisfactory

#### **9. Assessment of Borrower Performance:**

Government performance is rated *moderately unsatisfactory*. Ownership and commitment of the operation by the

government to achieve development objectives was highly volatile . Although the state modernization agenda was proposed by the De la Rúa government, their commitment diminished when the internal political environment deteriorated. Commitment regained force by the Third Amendment in 2005, specifically due to the interest of government officials at the agency level .

Implementing Agency Performance is rated *satisfactory*. During the Y2K phase the PIU lacked the power and mandate to implement the project, which significantly affected the achievement of its duties . During the First and Second Amendment, the PIU was constrained by the politicized environment . However, both of these factors were beyond the PIU's control but rather a reflection of poor government performance . Moreover, during the Third Amendment the PIU was able to comply with the requirements and led the project to completion both in the State Modernization and in the SYNTyS component .

**a. Government Performance** :Moderately Unsatisfactory

**b. Implementing Agency Performance** :Satisfactory

**c. Overall Borrower Performance** :Moderately Satisfactory

#### 10. M&E Design, Implementation, & Utilization:

The M&E system was weak. In terms of design, the original project did not identify any specific outcome or output indicators. The First and Second Amendments built a design framework including indicators to evaluate impact . However, out of the five indicators proposed only one truly measured results while the others measured outputs . The Third Amendment also included a results framework but the use of output indicators continued to be an issue and most of the indicators included did not have baseline information .

In terms of implementation, during the Third Amendment monitoring indicators and information were identified with the implementation agencies and tracked by them . However, it is unclear whether the information was used by agencies in their decision making process .

**a. M&E Quality Rating** : Modest

#### 11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

The bank sought to engage continually with the client throughout the project cycle, even during the most adverse circumstances. This was key in maintaining state modernization efforts alive and ultimately to allow the project to influence state modernization in Argentina . During the crisis period, officials within the implementing agencies continued dialogue with bank officials allowing the GoA to continue discussing state modernization albeit with a low profile. During the Third Amendment, state modernization regained force and was high in the public agenda as evidenced through seminars and newspaper coverage also as a result of the Bank 's continued dialogue with country stakeholders at all levels . Finally, this engagement has allowed the GoA to continue it 's modernization efforts with support from the Bank through the Second State Modernization and Second SINTyS operations .

12. Ratings :	ICR	IEG Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Moderately Satisfactory	Moderately Unsatisfactory	Progress under the Third Amendment was modest in three out of four of the key objectives of the project as explained in sections 4 and 6.
<b>Risk to Development Outcome:</b>	Moderate	Moderate	
<b>Bank Performance :</b>	Moderately Satisfactory	Moderately Satisfactory	Quality of supervision has been downgraded given lack of foresight with in implementation problems.
<b>Borrower Performance :</b>	Moderately Satisfactory	Moderately Satisfactory	The government's vacillating commitment affected the project's results.
<b>Quality of ICR :</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

**13. Lessons:**

This review concurs with the lessons derived in the ICR. In addition, it provides the following:

1. State modernization reform requires commitment from all relevant stakeholders within the process. As the experience in this project indicates, reform cannot rely on a key champion that implements reform from above. Conversely, the success of e-government reform in this project was possible because of bottom-up ownership of reforms in particular of technical staff.
2. State modernization should target key areas rather than attempting a comprehensive overhaul of the system. The experience of the First and Second Amendment showed the difficulty of attempting a widespread approach to reform.
3. Clearer outcome indicators in state modernization can focus reform efforts to achieve objectives. The SINTyS component used indicators that directly measured the impact of improved information systems which focused efforts, whereas areas in which indicators were output indicators (such as procurement) were less successful.

**14. Assessment Recommended?**  Yes  No

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

The ICR quality is rated satisfactory. It provides a very detailed outline of a highly complex operation taking place over a period of 10 years. The ICR makes a candid assessment of areas in which the project was successful and those in which it was not. However, it is sometimes confusing and lacks conciseness when it assesses project outcomes through a review of an exceedingly large number of small achievements and key indicators rather than through a focus on the main objectives.

**a. Quality of ICR Rating :** Satisfactory