We welcome this discussion on the joint IBRD/IFC Country Assistance Strategy for the Argentine Republic, which poses a totally different kind of challenge. Here is a country with a per capita income of over US$ 8,000, a healthy banking sector, substantial foreign investment, near universal literacy, where even the poor have assets like refrigerators/washing machines/TV sets, and which has seen generally robust export performance in its contemporary economic history. Yet, Argentina is unable to sustain macro-economic stability because of its’ vulnerability to external shocks. Also, growth has led to a widening of disparities and with employment actually falling in most of the formal sectors over the past decade inequity has assumed serious social and economic connotations.

2. The Staff of the World Bank Group have really worked hard, and in collaboration with each other, in working out viable options that will essentially widen the benefits of growth and reduce the country’s vulnerability (para 38 and Box 4 refer). Essentially the two are substantially inter-linked. Only broad based growth that ensures dispersed employment across the spectrum of activities, can give stability. This, in turn, is contingent upon upgradation of labor skills and access to finance for SMEs. A factor that must be taken into account while planning any development strategy is, what is euphemistically called the dollarization of the economy. This has enormous implications for the economy. Added to this is the fact that the banking sector is almost wholly foreign owned in Argentina.

3. In this background, we have following observations to make:

   (i) The focus of the state on secondary and vocational education is well thought out. Development of a more market friendly curriculum would not only increase its’ credibility, but presumably reduce the “boredom” that a child says caused him/her to drop-out. The need for the higher education sector to reflect true costs is in the right direction. Many of our countries have concentrated our resources on providing almost free higher education without ensuring that its
feeder system is universal. The inadequate representation of students belonging to the poorest sections of society, who enroll in universities, and their failure to graduate, has to be tackled. Similarly, the benefits of additional years of schooling must be made increasingly available to the poor, who actually need it the most. Is the process of re-orienting the system to making the poor feel more at ease, so that ultimately their earning capacity goes up, underway?

(ii) The efforts at revamping the health sector by de-emphasizing the hospitals and giving a larger role to primary health centers, is a step towards more equitable availability of health services. The Obras Sociales need restructuring so that their viability increases. Economies of scale and wider options would benefit their members, thereby reducing the load on the public hospitals. The gaps, however, must be covered so that where their policies do not offer super-speciality treatment, access is still open to common people. Are the doctors being trained and made accountable to the people whom they are to serve? Are steps being taken to ensure these?

(iii) Reduction in labor force, or what we prefer to call rationalization, has played a major role in increased profitability of the blue-chip sector. The unit labor costs in both manufacturing and in infrastructure- increasingly privatized- have fallen substantially since 1993(Figure 1 of Annexure A). In fact, the latter has seen the largest fall, from around 110 pesos in 1993 to 70 pesos in 1998. Services, where the small entrepreneur still has a strong presence, has seen its’ unit labor costs actually go up. We are also informed that employment in the newly privatized enterprises have fallen from 300,000 to 50,000. This scenario is repeated across the spectrum of Argentina’s blue-chip corporate sector. The number of the unemployed went up from 6 million in 1991 to 18 million in 1996, fell slightly and has since gone up again. Yet, we argue for greater labor flexibility since the present regulations make firing a difficult proposition. Is emphasis on ‘firing’ appropriate?

(iv) Let us look at availability, or rather lack of, long-term finance for the middle market and the SME sector. It is unusual for such a developed export oriented economy to have such a thin capital market, with a paucity of financial intermediaries/instruments. Corporates are unable to leverage their equity bases to raise finances for capital investments. Credit as a percentage of GDP is very low and the banking sector prefers to deploy its assets elsewhere – its’ net worth to net assets ratio is exceptionally high, in a situation where at the slightest sight of trouble, bank credit to the private sector, falls. One would have expected a whole variety of financial services and activities to have developed in Argentina as this is a country that has been the pioneer in privatization of infrastructure and services, from ports, roads, airports to water supply, sanitation, railways and the national postal system. Recourse to safe government paper is one such reason, that the CAS document has rightly brought out. But a 1.5 % deficit cannot explain the whole picture, particular as public debt seems largely foreign owned. The other reason, not touched upon, is that foreign owned Argentine Banks have (total?) access to the global market, and their management are more comfortable dealing with global/cosmopolitan issues. Does this not prevent them from increasing their exposure to the local market, which is naturally unstable and vulnerable?

4. While a total change in approach is neither possible or desirable, it is our conviction that the IFC can really step into the picture and correct this distortion. In Argentina it has played a pioneering role in frontier areas like financing of privatization of infrastructure and in lending to
corporates. It has thus valuable institutional expertise. Could we advocate that IFC’s exposure to the financial sector be expanded to promote the development of the capital market, with special emphasis on the secondary market? There is but a solitary program at present. Could this not be expanded to include, for example, the promotion of investment and guarantee institutions so that middle market firms and SMEs have greater access to term funding? The Country Assistance Strategy suggests that IFC may lend directly to SMEs. The problem of headroom has been partly mitigated when the Board approved the rebalancing exercise on the 22nd of June. A more rigorous exit policy from some of these successful blue chips would release some resources. This could be tried.

5. Once again we welcome this opportunity to discuss the CAS for Argentina which in so many ways has been a pioneer in evolving development policies. A greater degree of involvement of the poor in programmes of development and job creation need emphasis. The World Bank Group has itself to play an important role in expanding access to opportunities to the people of Argentina.