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PERFORMANCE AUDIT REPORT

ARGENTINA

FINANCIAL SECTOR ADJUSTMENT LOAN (LOAN 3558 AR)

May 23, 2000

Operations Evaluation Department

Currency Equivalents

Currency Unit = Peso
US$ 1.00 = .99

Fiscal Year

January 1 - December 31

Abbreviations and Acronyms

BANADE	Banco Nacional de Desarrollo – National Development Bank
BCRA	Banco Central de la Republica Argentina – Argentina Central Bank
BHN	Banco hipotecario nacional – National Housing Bank
BNA	Banco de la Nacion Argentina – Argentine National Commercial Bank
BPBA	Banco de la Provincia de Buenos Aires – Bank of the Province of Buenos Aires
CAJA	Caja Nacional de Ahorro y Seguro -- National Savings and Insurance Bank
CNV	Comision Nacional de Valores – National Securities Commission
DDSRL	Debt and Debt Service Reduction Loan
FSAL	Financial Sector Adjustment Loan
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IMF	International Monetary Fund
PBPL	Provincial Banks Privatization Loan
SEF	Superintendencia de Entidades Financieras – Superintendency of Banks

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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

May 23, 2000

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on Argentina Financial Sector Adjustment Loan (Loan 3558-AR)

Attached is the Performance Audit Report for the Argentina Financial Sector Adjustment Loan (FSAL, Loan 3558-AR) in the amount of US$400 million. The FSAL, approved on February 16, 1993, was fully disbursed 15 months ahead of the original closing date of December 31, 1995. The first tranche was disbursed in March 1993, the second in December 1993, and the third in September 1994. Co-financing for the project was furnished by the Export-Import Bank of Japan in the amount of US$200 million equivalent.

The loan was extended to support Government reforms in the financial sector as part of a comprehensive structural reform program. The areas targeted by this project were (a) the reduction of state participation in the financial system, (b) the strengthening of banking supervision, and (c) the support of Argentina's external debt restructuring with commercial bank creditors.

During implementation, progress toward reducing the role of the state in the banking system was mixed. Several smaller public banks were privatized, and initial steps were taken to reduce the role of the provincial banks. However, operations of the largest government-owned Banco de la Nacion, which the FSAL had aimed at rationalizing, were little affected. More successful was achievement of the bank supervision and debt reduction goals. The regulatory and enforcement capabilities of the Superintendence of Banks, including new examination techniques, were significantly strengthened, and the FSAL provided a vital set-aside for the GOA's Brady debt renegotiation. In retrospect, the urgency to provide resources to the Brady debt renegotiation may have operated at cross purposes with the longer-term goals of financial sector reform.

The outcome of the FSAL, albeit mixed, is judged *satisfactory*. While state participation in the banking system contracted modestly, the strengthening of the bank supervisory framework proved effective and timely in the face of the 1995 convertibility crisis. Moreover, the Brady debt set-aside contributed modestly toward successful completion of that transaction. In line with these results, Bank and Borrower performance were rated *satisfactory*.

The benefits of this operation are considered of *likely sustainability*, given the subsequent progress achieved in privatizing provincial banks and in maintaining enhanced oversight of the banking system. Likewise, pro-growth reforms introduced during and after the period of FSAL implementation have made good use of the financial space created by the debt and debt service reduction to provide durable benefits to the Argentine population. Finally, the institutional development impact is rated *substantial*, reflecting the major improvements in the Superintendence of Banks, and the more modest changes in the structure of the banking system.

Contents

This report was prepared by Manuel Lasaga (Consultant) and reviewed by John Johnson (Task Manager). Betty Casely-Hayford provided administrative support.

Preface

This is the Performance Audit Report (PAR) on the Argentina Financial Sector Adjustment Loan (Ln. 3558-AR), approved on February 16, 1993 for US$ 400 million. The loan was fully disbursed about 15 months ahead of the original Closing Date of December 31, 1995. The first tranche was disbursed in March 1993, the second in December 1993, and the third in September 1994. Co-financing for the project was furnished by the Export-Import Bank of Japan in the amount of US$200 million equivalent.

The loan was extended to support Government reforms in the financial sector as part of a comprehensive structural reform program, which included a special currency regime under the Convertibility Law of 1991. The areas targeted by this project were the reduction of state participation in the financial system, the strengthening of banking supervision, and the support of Argentina's external debt restructuring with commercial bank creditors.

The PAR is based on the Implementation Completion Report prepared by the Latin America Regional Office and issued on March 19, 1996, the President's Report, the legal documents, project files, related economic and sector work, discussions with Bank staff, government and Central Bank documents.

An OED mission visited Argentina in May 1999 to discuss project performance with Government officials, members of the banking and business communities, and World Bank field staff. Their generous cooperation and assistance in the preparation of this report is gratefully acknowledged.

The draft PAR was sent to relevant officials in the Government for comments. However, no comments were received.

Ratings and Responsibilities

Performance Ratings

	ICR	*PAR*
Outcome	Satisfactory	Satisfactory
Sustainability	Likely	Likely
Institutional Development Impact	Substantial	Substantial
Borrower Performance	Highly Satisfactory	Satisfactory
Bank Performance	Satisfactory	Satisfactory

Key Project Responsibilities

	Task Manager	*Division Chief*
Appraisal	Stefan Alber	Paul Meo
Completion	Stefan Alber	Paul Levy

1. INTRODUCTION

Background

1.1 After several failed attempts at reform in the 1980s, President Menem took office in July 1989, as monthly inflation hit 200 percent and the economy was in the throes of a decade-long stagnation. The new Administration embarked on an ambitious reform program to eradicate hyperinflation, to liberalize markets, and to reduce the role of the state in the economy.

1.2 The Government's highly successful structural reform program, the Convertibility Plan, was named after the Convertibility Law, which was approved in April 1991. The program, which set the stage for the FSAL, consists of five principal components:

- The Convertibility Law, which fixed the peso at a rate of 1:1 to the US dollar and assured its convertibility into US dollars. Under this law, the Central Bank was required to maintain a 100 percent backing of currency and reserve liabilities – high-powered money, with international reserves, although 20 percent of the reserve coverage could be met with dollar denominated government bonds. This created a bi-monetary system;

- Fiscal reform, a major improvement in tax administration which was followed by a redefinition of tax instruments and rates;

- Public sector reform, through divestiture and deregulation of markets;

- Social Security reform, to eliminate the huge burden on fiscal finances from the highly inefficient pay-as-you-go system, and to promote private sector participation in the development of the capital markets; and

- Trade policy reforms, tariff and non-tariff barriers were brought down, followed by entry into MERCOSUR.[1]

1.3 The structural reforms of the federal government and the monetary authority were supported by the Bank's Public Sector Reform Loan (July 1991), and the Public Sector Reform Technical Assistance Loan (July 1989). In early 1992, the Government reached an agreement with the International Monetary Fund (IMF) on a three-year program under the Extended Fund Facility. After the Government successfully negotiated a debt agreement with commercial bank creditors in 1992, the Bank supported this effort with a Debt and Debt Service Reduction Loan (January 1993).

1.4 Decades of economic instability had seriously eroded the financial sector's capacity to facilitate resource mobilization between savings and investment. The size of

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[1] See World Bank, *Argentina: The Convertibility Plan: Assessment and Potential Prospects*, Report No. 15402-AR, July12, 1996.

the financial system (measured by the ratio of M2 to GDP) reached its lowest point ever in 1990, approaching 5 percent, down from over 40 percent in the early 1940s.[2] Following the passage of the Convertibility Law in 1991, a new Central Bank charter was passed in September 1992, which turned the Central Bank into a currency board. Extensive Central Bank lending to the provincial banks in the past had resulted in a low quality asset in its balance sheet. Recovery of these loans was thus essential for the financial solvency of the Central Bank. Argentine banking had been dominated by national and provincial public sector banks, which held about 60 percent of credit and deposits. The largest by far was Banco de la Nacion Argentina (BNA). On the other hand, The National Development Bank (BANADE) was effectively in liquidation from 1992 onward. Many of the provincial banks were in a state of disrepair.

1.5 Preparation of the Financial Sector Adjustment Loan (FSAL) was initiated one year after the Government of Argentina launched a dramatic stabilization program with an ambitious structural adjustment agenda. In 1992, the Bank concluded that the Government's dramatic economic reform program, which had been introduced in 1991, had achieved sustainable macroeconomic stability. This encouraged the Bank to step up lending to Argentina, after a period of low lending during the 1980s.

2. OBJECTIVES AND DESIGN OF THE LOAN

2.1 As per the President's Report and the Implementation Completion Report (ICR), the main objectives of the FSAL were:

(i) To reduce the role of the state in the financial sector through privatization and through the rationalization of the activities of the Central Bank and of the state-owned banks.

(ii) To strengthen the banking sector through a more rigorous supervisory framework, including the adoption of new prudential regulations, and assure their enforcement, specially improved capital requirements; and

(iii) To facilitate Argentina's return to the international financial markets by providing resources for Argentina's debt and debt service reduction arrangement with commercial bank creditors.

2.2 The objectives focused on three key areas: first, reducing the role of the state in the financial sector; second, strengthening banking supervision; and third, supporting Argentina's return to the international financial markets. Not only were these objectives critical components of the Government's reform agenda, but they were also highly inter-related. Reduction of the role of the state in the financial sector was to be achieved through privatization, which at that time relied heavily on foreign investment and thus inflows of capital. The prospects for capital inflows were in turn dependent on the

[2] See the President's Report, Financial Sector Adjustment Loan, January 25, 1993, Report No. P-5862-AR.

normalization of Argentina's relations with the international financial markets. At the same time, the shift to a much bigger role for private sector intermediaries, within a more competitive environment, called for enhanced supervision. As experience in Mexico subsequently showed, privatization without an adequate regulatory framework could result in a disastrous outcome.

2.3 In order to achieve the above mentioned objectives, the project was designed as follows (the numbers in parentheses refer to the tranche conditionality):

General Conditions:

- Macroeconomic policy framework is consistent with the objectives of the program (1, 2, 3).
- Non-reversal of interest rates liberalization (1, 2, 3).

Reducing the Size of the State in the Financial Sector:

- Curtail Central Bank lending to provincial banks other than to cover liquidity (1, 2, 3).
- Strengthen and consolidate the institutional structure of BNA based on extensive diagnostic work to be performed under the project (1, 2, 3).
- Privatize the *Caja de Ahorro Nacional (Caja), (1, 2).*
- Transform Banco Hipotecario Nacional BHN into an exclusively 2nd tier intermediary (1, 2, 3).
- Non-reversal of the closure and liquidation of BANADE (1, 2, 3),

Strengthening Banking Regulations and Supervision:

- Issue of new capital requirements according to the Basle criteria (2, 3).
- Effective implementation of regulation limiting provincial banks lending to the public sector (2, 3).
- Complete on-site inspection of 97 percent of banks. (2, 3).
- Tighten financial and supervisory standards applied to provincial banks, and to continue to support their restructuring (2, 3).

Supporting the Debt Service Reduction Program:

- Provide resources to finance the acquisition of the collateral that would be used to securitize the Brady Bonds.

2.4 Project design was consistent with the objectives. Maintenance of the government's excellent track record on the macroeconomic policy front was essential for the success of financial sector reforms. Non-reversal of interest rate liberalization was essential to the healthy development of a competitive private sector-led banking system. While most of the conditions were expected to be fulfilled within the first two tranches,

the loan was extended to a third tranche in order to add further actions regarding the rationalization of BNA.[3]

2.5 The FSAL picked up on long-standing objectives of downsizing government involvement in the financial sector. The four institutions targeted for closure, privatization, or restructuring were *Banco de la Nacion* (BNA), *Banco Nacional de Desarrollo* (BANADE), *Caja de Ahorro* (Caja), and *Banco Hipotecario Nacional* (BHN).

2.6 In addition, the FSAL supported initial steps towards reducing the role of the provincial banks. Specifically, the Central Bank was prohibited from lending to the provincial banks, while at the same time it was instructed to seek repayment of outstanding loans in the most expedient fashion. The design of the Central Bank objectives was influenced by earlier work as part of a technical assistance component of the Public Sector Reform I loan approved in 1991(Ln 3394-AR). The Superintendence was in turn urged to apply the same standards of supervision to the provincial banks as to other banks in the system. Working with the Borrower to expand on remedial measures concerning the provincial banks, the Bank subsequently approved a Provincial Banks Privatization loan in 1995, which accelerated the privatization process and thus contributed to the shrinking of the state's role in the banking system.

2.7 As explained in the President's Report, legal limitations on the Borrower's ability to intervene in the affairs of the provincial banks precluded a more aggressive approach to their closure or privatization. On the other hand, BANADE's fate had already been prescribed by the 1992 decision to merge its operations into *Banco de la Nacion* (BNA) followed by a decree in May 1993 calling for its liquidation. Since BANADE was already a done deal at the time of project preparation, the Bank could have addressed perhaps an equally important issue of how the Government could create a successor institution that would avert the pitfalls of its predecessor. In 1992, the Government created another development financing institution known as *Banco de Inversiones y Comercio Exterior* (BICE). The Bank could have placed greater focus on the development of BICE and how it could efficiently achieve the Government's role in development financing.

2.8 With respect to the *Caja* and BHN, the goals were clearly defined and congruent with the Government's privatization objectives. Nevertheless, as the President's Report affirms, the *Caja*'s privatization process was already well underway at the time of loan approval with the preparation of bid documents already advanced.

2.9 On the other hand, the goal of strengthening and consolidating BNA was somewhat ambiguous. As the largest financial institution in the country, any significant downsizing of this institution would have had a measurable impact on the public sector's role in the financial system. While the Government was opposed to its privatization, there could have been room for cutbacks in the number of branches, which could have

[3] See *Minutes of the Loan committee Meeting*, July 14, 1992.

been sold to private banks, and in the number of personnel, which would have increased productivity.

2.10 The design of the regulatory objectives was very appropriate in view of the diminished role played by the Superintendence (SEF) at the time of appraisal, its lack of resources, and weaknesses in the areas of bank analysis and examinations.

2.11 The loan's conditionality called for the SEF to examine at least 97 percent of all banks and to have received favorable opinions from external auditors. Considering that an Initial Concept Paper in February 1991 had called for the SEF to implement the CAMEL system of rating, the condition on achieving a specific number of examinations took a proactive approach to ensuring that regulators applied the new more vigorous examination standards.

2.12 The areas highlighted for improvement of banking supervision were the adoption of risk-weighted capital requirements, the enhancement of regulations on loan-loss provisioning, and the application of supervisory remedies on an equal basis to both public and private banks. In view of the subsequent problems brought on by the Mexican crisis, more emphasis might have been given to liquidity management by commercial banks and the assessment of payment system risk. The use of a fixed exchange rate combined with a strict monetary rule made the banking system vulnerable to external shocks. The novelty of this currency arrangement should have led to greater analysis of potential systemic weakness at the time of appraisal.

2.13 One of the drivers for this loan was the urgency to support Argentina's external debt restructuring with commercial banks. As part of the process of returning to the marketplace, Argentina was negotiating a so-called "Brady" debt deal, which was first announced by U.S. Treasury Secretary Nicholas Brady in March 1989. The basic strategy of the Brady program was the securitization of external debt. Under this scheme existing external debt, including arrears, were converted into bonds backed by U.S. Government zero coupon bonds. Agreement with commercial banks had been reached in April 1992. However, closing of the operation depended on Argentina obtaining the foreign exchange necessary to purchase the collateral, which was in part financed from the proceeds of this loan.

2.14 Most of the Bank financing for the Brady bond collateral was provided by the Debt and Debt Service Reduction Loan (DDSRL) (Loan 3555-AR) for US$450 million approved in December 1992. However, it was necessary to include contingent funding through two other loans, the FSAL, which contained a set-aside of US$200 million, and the Public Enterprise Restructuring Loan (PERAL II), with US$100 million set-aside. These additional commitments were needed since at the time of loan preparation it was still unclear what options the commercial bank creditors would select in the restructuring and thus how much collateral would be needed. However, it is not clear why it was necessary to introduce set-asides in other basically unrelated loans, when the Bank could have arranged for a DDSRL II using the same structure as in the first operation.

2.15 The urgency to provide the resources needed to close the Brady bond deal accelerated the appraisal and negotiations process for the FSAL. Commercial bank creditors had urged the Bank to provide the additional resources on a timely basis in order to successfully close the deal. The mixing of short-term financial objectives with medium-to long-term policy goals can detract from the effectiveness of a project. Specifying as conditions actions that had already been initiated prior to loan approval, such as the privatization of BANADE and the Caja, may have been a response to the pressures to quickly structure a loan that would disburse in an expedient manner. The need to clinch the Brady deal may have affected the quality of FSAL design. In this regard, the Bank and the Borrower may have settled for fewer substantive reforms, and may have precluded further analysis of the options in downsizing the role of the state in the financial sector.

3. IMPLEMENTATION

3.1 As indicated in the ICR, the FSAL closed one year ahead of schedule in September 1994. One of the contributing factors was the strength of the Argentine economy during the implementation period. GDP averaged 6.8 percent per annum during 1993-1994. Inflation had dropped to a minimal 4.2 percent, a walloping improvement from the 3,079 percent when President Menem took office in 1989. These as well as other notable breakthroughs in the fiscal, public sector, and trade policy reform fronts, boosted confidence in the financial sector and provided ample opportunities for banks to finance production activities in the private sector. With a robust economy, the financial system was posting healthy profits. The success of the Brady deal also opened up the international financial markets to Argentinean financial institutions as well as the first-tier corporate.

3.2 Some minor backtracking was noted in the area of interest rate policy. However, non-reversal of interest rate liberalization became at times a contentious issue between the Bank and the Borrower. Although interest rates had been liberalized since the late 1980s, Bank staff noted reversals in two areas: first, a small enterprise lending program; and second, BNA lending in general. With respect to BNA, the case could not be proved definitively. Perhaps if BNA were privatized and thus subject to market discipline, the issue of interest rate subsidies would disappear. Even if BNA were privatized, the government, through BICE, could still play a role in development financing. While the government can justify its role in development banking due to so-called "market failures," there is no basis for its involvement in commercial banking. Experience amply demonstrates that state-owned commercial banks have not been as efficient as their private sector counterparts. When compared to private sector banks, government-owned commercial banks show a lower interest rate spread, a higher rate of problem loans, and a lower profitability ratio.

3.3 More importantly, the Government's strong commitment to the Convertibility Plan precluded any policy shifts regarding market-determined interest rates. Because of the rigid monetary rule dictated by the Convertibility Law, the tampering with domestic interest rates could have seriously undermined the stability of the system. Any attempts

to subvert market risk premia in the peso – dollar interest rate equation would have triggered massive capital flows, and wreaked havoc on the monetary aggregates.

Reducing the Size of the State in the Banking System

3.4 Implementation of the financial sector component was in compliance with the Loan's conditionality. The sale of the Government's shares in the *Caja* were delayed about a year due to a conflict of interest that arose during the offering period; nevertheless, the task was completed in 1994. No reversal was noted in terms of the closure and liquidation of BANADE. With respect to the provincial banks, the project went beyond the limited objectives of complying with the tighter banking regulations. During implementation, progress was achieved in the privatization of the provincial banks, and the Bank seized on this opportunity by structuring the subsequent Provincial Banks Privatization Loan (1995) which helped to consummate the sale of several provincial banks. As agreed, BHN was restructured as a second-tier lending institution. However, after loan closing, it was restructured as both a retail and mezzanine lender. Interestingly though, the Government has successfully privatized a significant share of the bank and it has become one of the innovators of securitization in Argentina.

3.5 The better than expected performance in terms of the provincial banks can be attributed to two factors: one internal and the other external. The Government's strong commitment to reducing the fiscal imbalance led to strong pressures on the provinces to improve their finances. The success of the Convertibility Program hinged on achieving sharp cuts in the public sector deficit. Total operating losses of the provincial banks in 1994 represented about 31 percent of provincial government deficits, and the provinces thus had to find a way to eliminate their banks' chronic losses. The 1995 international liquidity crisis also heightened pressures to close insolvent provincial banks. A flight to quality spurred by the crisis further aggravated the funding problems of the provincial banks, since they had by then been cut off from Central Bank financing.

3.6 The Provincial Banks Privatization (PBP) loan provided the resources necessary to close and to privatize the banks. In order to attract investors, the provincial banks had to be restructured inline with market conditions. Most of the banks were in poor financial condition as a result of a large non-performing loan portfolio, mostly to their own provincial governments. The clean up of the banks' balance sheet called for the injection of fresh funds. The bad loans were then transferred to a Fund, financed by the Bank's PBP loan, thus leaving the provincial banks with "good" assets. In addition, the provincial governments had to assume the pension fund liability of the banks' employees. Through this mechanism, the number of provincial banks was reduced from 29 in February 1995 to 15 as of December 1998 through a combination of closures and privatization.

3.7 BNA implemented a modest organizational restructuring. Greater emphasis has been placed on lending to small business. As a consequence, the percentage of loans to the public sector has declined. The bank's Board also adopted more stringent financial performance standards. Nevertheless, little progress was noted in terms of consolidation

and downsizing. As a bank official noted, all significant decisions still have to be approved by the Ministry of Finance, which usually results in undue delays. In view of the limited degrees of freedom available to the Central Bank in providing liquidity support to the financial sector, the Government felt strongly that BNA would have to serve as a safety valve in the event of sudden capital outflows from the system. For that reason, BNA has undergone only limited institutional changes, and thus continues to play a dominant role within the financial sector.

3.8 BNA does not appear to have conformed to the new directives of stronger financial performance. The bad loan portfolio is 17.9 percent of loans, which is dramatically higher than the 5.8 percent for private sector banks. Part of this problem can be attributed to the Government's decision to use BNA as a lender of last resort during the 1995 crisis, when the bank purchased about $1 billion of loans from illiquid banks. This raises the possibility that the bank's reported ROE and ROA are overstated, depending on how the problem loans are treated in the financial statements. On a positive note, as of November 1998, BNA's loans to the public sector represented 13.5 percent of its total loans, down significantly from the exposure prior to the FSAL.

3.9 The bank's reorganization program did achieve a modest decline in employment during this period of 6 percent. Nevertheless, total assets under management of 1.1 million pesos per employee were 32 percent below the average for the private banking system.

3.10 With respect to BHN, implementation was satisfactory, except that after loan closing, management re-introduced direct lending, but this time, quite successfully. As part of a restructuring during 1989-1993, BHN's debt with BCRA, its principal funding source prior to 1993, was reduced form Ps. 5.6 billion to Ps. 789 million. At that time BHN exited from its direct lending activities and shifted to a second-tier lending role. Its deposit base was transferred to BNA. Loans on the books at the time of the restructuring were written down substantially to better reflect their recovery value. In 1995, after this loan had closed, a new management team concentrated its efforts on development of a new strategic plan, which included the following main goals: i) resume origination of residential mortgages; ii) establish standard underwriting criteria; iii) continue to address the problems of the pre-restructuring portfolio; iv) upgrade technology and MIS; v) introduce new products and services; and vi) establish a loan securitization program.[4]

3.11 In 1995 BHN began to work on mortgage securitization, with the first issue completed in October 1996. In this regard, BHN has been a pioneer in the local capital market, and is recognized as a leader in this area. The bank's program involves two types of activities: 1. On-balance sheet securitization of peso-denominated loans; and 2. Off-balance sheet US$ denominated mortgage loans. The initial securitization of US$ denominated mortgages occurred at the end of 1996, and to date three issues have been placed for $305 million.

[4] Even though this new strategy was already known in 1995, it is not mentioned in the ICR (March 1996).

3.12 With the passage of the BHN privatization law in 1997, the bank's indebtedness to BCRA was forgiven, thus enhancing its sale value. An initial offering of 28 percent of the bank shares was sold in 1999 to a foreign investor, the Soros Group (50 percent), and to local pension funds (50 percent). The success of the privatization underscored the effectiveness of the Government's restructuring program for BHN. On the other hand, this outcome is in contrast with the Bank's-own diagnostic during loan appraisal that BHN had to be transformed exclusively into a second-tier institution. When interviewed for this report, management felt that if BHN had continued to operate as a second-tier institution, it would not have been able to achieve profitability. While the Borrower did not comply with the letter of the Loan Agreement, it certainly complied with the spirit of the Agreement in spades.

Improving Banking System Performance Through Strengthening of the SEF

3.13 A key accomplishment of the FSAL, and perhaps the more successful one, was the strengthening of the banking sector regulator (SEF). The introduction of new examination techniques and the passage of new regulations giving SEF greater powers in carrying out its responsibilities were on target. Nevertheless, these institutional reforms need time to mature, as the aftermath of the Mexican crisis demonstrated, experience cannot be learned. The Mexican crisis also pointed to a stronger need for supervisory actions in the area of liquidity and asset/liability management, as will be discussed in the subsequent section on Sustainability.

3.14 As described in the ICR, the SEF was restructured and upgraded in terms of supervisory practices.[5] The CAMEL rating system was introduced in the early 1990s, and the FSAL supported an aggressive SEF strategy to improve the frequency and depth of individual bank examinations. The enhancement of examination policies and procedures was based on international practices such as those adopted by the U.S. Fed and the OCC. In addition, SEF introduced a proactive supervisory system labeled **BASIC**, which stands for issuance of **B**onds, supervision of external **A**uditors, ensuring high standards of banking **S**upervision, presentation of accurate and frequent **I**nformation about the banks, and use of rating agencies to evaluate the **C**redit quality of banks.

3.15 SEF's BASIC program has introduced several innovative programs, which include the supervision of external auditors and the development of a credit bureau. SEF established a department charged with the supervision of external auditors. The goal is to set standards for external auditors, to monitor their performance, and to use the auditor's analysis as input in their own evaluations. For example, special examinations were made of the external auditors of problem banks in response to the 1995 liquidity crisis, and in some cases SEF recommended that the bank change its auditors. SEF is increasingly relying on the output of external auditors in their own supervisory process. Another important innovation has been the development of a central credit bureau, which monitors system wide credit information on corporations, individuals, as well as

[5] See also *Argentina: Financial Sector Review*, The World Bank, Report No. 17864-AR, September 1998 for in-depth discussion of institutional changes at the SEF.

information on payment problems such as identifying those accounts affected by the return of checks for insufficient funds.

3.16 Implementation of the SEF program has exceeded expectations. Bankers interviewed for this report perceive the staff of SEF as professional and thorough. They have adopted many new regulations. Nevertheless, moving through the learning curve is a slow process, and examiners thus need to deepen their base of experience. At the same time, the financial sector has undergone rapid changes in the past several years, with further consolidation anticipated. New financial instruments and technologies will have to be monitored carefully. One banking consultant mentioned that SEF scores high on technical expertise, although there is still some weakness in terms of institutional capacity. For instance, it is still very difficult to close down an insolvent institution, and actions taken in this regard have been more under the direct control of the Governor of the Central Bank, rather than the Banking Superintendent.

Supporting the Debt Service Reduction Program

3.17 According to the ICR for the DDSRL, the set-asides were disbursed in March 1993. The financing consisted of $450 million from the DDSR Loan, $75 million from the FSAL, and $100 million form the PERAL II. With respect to the FSAL, the remaining $125 million was reallocated to financing of imported goods.[6] All the proceeds were used to establish a 12-month rolling interest guarantee fund both for the Discount and the Par bonds.

4. OUTCOME

4.1 Overall the FSAL was successful in achieving its objectives. The project was highly effective in terms of strengthening banking regulations and supervision. The debt service reduction program went smoothly, and in fact, only $75 million of the original $200 million set-aside was utilized. The goal of reducing the size of the state in the financial sector was marginally successful, although it did pave the way for the subsequent PBPL.

Reducing the Size of the State in the Banking System

4.2 The goal of reducing the role of the public sector in the financial system was realistic. The FSAL's conditionality associated with this goal represented a first, though perhaps tepid, step in this process. However, the goal was not specific in terms of what would constitute a satisfactory reduction in the role of the state. The objective of a "reasonable reduction" could have been measured in terms of assets, deposits, the number of banks, the number of employees, or the relative size of the loan portfolio.

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[6] Apparently there is a discrepancy between the DDSRL ICR which reports $75 million utilization from FSAL set-asides (par. 17), and the FSAL ICR which reports $85 million (par.20).

4.3 This Audit Report agrees with the ICR's satisfactory rating in the privatization of the *Caja*, and the complete closure and liquidation of BANADE. But it differs in the assessment of the BNA objectives and of the overall goal of reducing the role of the state in the financial sector. With respect to the provincial banks, the project went beyond the limited objectives of complying with the tighter banking regulations. During implementation, progress was achieved in the privatization of the provincial banks, over and above the original conditionality, and the Bank seized on this opportunity by structuring the subsequent Provincial Banks Privatization Loan (1995) which helped to consummate the sale of several provincial banks.

4.4 The goal of transforming BHN into an exclusively second-tier institution was not achieved. In fact, after loan closing, it was restructured as both a direct retail lender and as a second-tier lender. Interestingly though, the Government has successfully privatized a significant share of the bank and it has become one of the innovators of securitization in Argentina.

4.5 The strengthening and consolidation of BNA proved to be a more difficult task to accomplish. BNA is still the largest bank in Argentina, and has a long history of supporting small to medium-scale enterprises. In view of the limited degrees of freedom available to the Central Bank in providing liquidity support to the financial sector, the Government felt strongly that BNA would have to serve as a safety valve in the event of sudden capital outflows from the system. This introduced yet another mission for a bank whose shifting multiple identities seem to follow the political will of the wisp. As a consequence, BNA has undergone only limited institutional changes, and thus continues to play a dominant role within the financial sector.

4.6 Even if privatization were still out of the question, downsizing of BNA would still present a formidable challenge politically. Nevertheless, its downsizing would not have interfered with the Government's goal of having access to BNA as a lender of last resort. Yet, if the Government's primary goal had been to assure recourse to a lender of last result, then would this not have defeated the purpose of a rigid monetary policy rule such as the Convertibility Law?

4.7 While much progress has been achieved in certain areas, the reduction of the state's role in banking is not conclusive. In other financial markets such as Europe and the U.S., the public sector accounts for a much lower percentage of total assets and deposits. As of November 1998, four years after closing of the FSAL, public sector banks still accounted for 30 percent of total banking assets, down from 44 percent in February 1995. Private banks accounted for the remaining share, which increased to 70 percent from 56 percent in the same period. However, in terms of deposits, the share of public sector banks declined by a lesser degree from 42 percent in February 1995, to 36 percent in November 1998. Out of the 18 remaining public sector banks, BNA and *Banco de la Provincia de Buenos Aires* account for 27 percent of total deposits. In other words, the other 16 state banks account for only 9 percent of total deposits. In this regard, the unfinished agenda as far as reducing the role of the state in the banking system would have to focus almost exclusively on the downsizing or privatization of

BNA and *Provincia.* The Government can seize on the good progress achieved with the privatization of the other provincial banks to garner support for the privatization of BNA and *Provincia.*

Improving Banking System Performance through Strengthening of the SEF

4.8 A key accomplishment of the FSAL was the strengthening of the banking sector regulator (SEF). The introduction of new examination techniques and the passage of new regulations giving SEF greater powers in carrying out its responsibilities were on target. Nevertheless, these institutional reforms need time to mature, as the aftermath of the Mexican crisis demonstrated, experience cannot be learned. The Mexican crisis also pointed to a stronger need for supervisory actions in the area of liquidity and asset/liability management.

4.9 Comprehensive regulations and intensive bank examinations have moved SEF very quickly up the learning curve. In fact, SEF introduced an innovative supervisory program called BASIC. Bankers who were interviewed reported that bank examinations had become much more rigorous. In some cases they mentioned that the examinations were a bit long. Nevertheless, there has been a notable quality improvement in the process.

4.10 Perhaps one area where the effectiveness of SEF's institutional reforms could be enhanced is the establishment of SEF as an autonomous agency. One of the critical elements for effective supervision is an autonomous supervisory agency, which provides ongoing rigorous training to its staff of examiners. Historically, the Central Bank has also played the role of banking regulator. Yet independence of the SEF from the Central Bank may be more desirable in order to separate the monetary from the supervisory policy agenda, particularly in view of the great sensitivity of the Central Bank to liquidity risk under the confines of the Currency Board arrangement. This could give rise to a conflict of goals, for example, by adopting restrictive monetary policy, the Central Bank may hesitate in applying tighter standards in loan classifications by financial institutions. Apparently there have been instances when the Central Bank Board has not acted on the recommendations of the SEF staff regarding problem banks.

Supporting the Debt Service Reduction Program

4.11 One of the drivers for this loan was the urgency to support Argentina's external debt restructuring with commercial banks. As stated earlier, the mixing of short-term financial objectives with medium-to long-term policy goals detracted from the effectiveness of this project. In this case, the haste to get closure on the Brady deal may have worked against setting a more rigorous specification of loan conditionality that dealt with the role of the state in the financial sector. A more efficient approach would have been to expand the DDSRL for the additional amounts needed to cover the purchase of the collateral for the Brady bonds.

5. OVERALL ASSESSMENT

5.1 The outcome of the FSAL is adjudged to be satisfactory. The goal of reducing the role of the state in the banking system achieved mixed results. In fact, it is unclear as to whether there has been a sizeable contraction in the state's participation, even after taking into consideration the subsequent Provincial Banks Privatization Loan. The goal of strengthening the banking sector through a more rigorous supervisory framework was well timed and necessary. In fact, thanks to the upgrading of supervisory techniques and reinforcement of the Central Bank's function, Argentina was able to overcome the challenges posed by the Mexican crisis in 1995. A Bank loan approved in November 1998 (Special Structural Adjustment Loan) provides $505million in resources to support the 1996 Contingent Repo Facility that has improved Argentina's capacity to manage liquidity problems. The set-aside component of the funds used for the Brady debt restructuring, while an annex to another Bank loan that was arranged for that purpose, was nevertheless instrumental in completing the transaction between Argentina and its bank creditors, and thus opened the door to the international financial markets. Nevertheless, the crisis pointed to other areas of the banking system that need further attention.

BANK PERFORMANCE

5.2 Overall Bank performance is considered satisfactory. During loan identification and preparation performance was highly satisfactory. Bank sector work dated back to a 1986 report, "Banking Sector: The Need for Reform," plus other substantive economic and sector reports. The project picked up on long-standing objectives and policy dialogue that had been initiated during the late 1980s when a similar loan was being prepared, but was postponed due to the hyperinflationary crisis in 1989. There was a strong relationship between Bank staff and Argentine officials. A good working relationship led to productive involvement by the Borrower during preparation. This was particularly the case of the SEF in formulating an institutional development strategy. Some weakness was noted in the design of the loan with respect to the debt service reduction component, which as mentioned earlier may have resulted in the softening of other conditions.

5.3 Performance during implementation of the loan was also satisfactory. The Bank supported the development of SEF at a critical time. For instance, SEF began to apply the CAMEL rating system around 1992, and Bank staff paid close attention to this area during implementation. Concern over interest rate subsidies in certain special lending programs led Bank staff to take a strong position on this issue. In view of the Borrower's decision to transform BHN into a first-tier lending institution and to develop the securitization market, perhaps closer supervision by the Bank would have flagged this change in loan compliance for further investigation.

BORROWER PERFORMANCE

5.4 The Borrower performance was also satisfactory. The Government was strongly committed to fiscal and monetary reforms, and it has continued to support these policies. Borrower ownership of the program was a determining factor in the successful outcome. In fact, the Government had already implemented the bulk of the macroeconomic policy reforms prior to loan preparation. There was close agreement with the Bank with respect to the loan's three basic objectives. Indeed, the efficiency of Borrower implementation was evident in the earlier than expected closing of the loan. Implementation of some initiatives, such as the closure of the National Development Bank (BANADE) and privatization of the National Savings and Investment Bank had already commenced prior to loan preparation.

5.5 The SEF made an exemplary effort to improve its effectiveness as a banking regulator. This work enabled the SEF to effectively navigate through the 1995 banking liquidity crisis. Government actions during the crisis were also instrumental in quickly regaining the confidence of the international financial community. The Government responded effectively to the reforms and complied in a satisfactory manner with program conditions. Some weakness was noted in terms of political commitment to the downsizing of BNA, including the use of targeted interest rate subsidies for two special credit facilities.

6. SUSTAINABILITY

6.1 The sustainability of the loan is judged as likely, although there is significant risk of liquidity problems in the banking system. The Mexican crisis sounded an alarm concerning the vulnerability to external shocks. Quick and forceful actions on the part of the Government averted a major crisis. Once again global financial turbulence found its way to Argentina in August 1998, this time originating in Russia and transmitted via the contagion effect. Interest rates rose significantly, but only to 10.34 percent during September for peso deposits and the interest rate spread increased to 6.60 percentage points. The banking system was able to accommodate this shock without any major dislocation. This positive outcome can be attributed to better liquidity management, both by the Central Bank and the financial intermediaries.

IMPACT OF THE MEXICAN CRISIS

6.2 Several months after the closing of the FSAL, in December 1994, Mexico experienced a sharp devaluation of its currency, followed by an acute crisis in the banking system which was fortunately resolved through massive liquidity support from the government and the Central Bank. The turmoil and financial panic triggered by the Mexican incident cast a dark cloud over the rest of Latin America as international investors began to pull out their capital. The countries most vulnerable to this shock were the ones that had been most reliant on short-term capital. This external shock challenged

Argentina's currency regime. Many banks were subjected to severe liquidity pressures and the economy plunged into a recession.

6.3 The Mexican crisis underscored an inherent weakness in Argentina's financial system. From November 1994 though April 1995, total deposits declined by 18 percent, of which peso deposits fell by 21 percent and US dollar deposits by 15 percent. The latter suggesting some flight to foreign currency denominated deposits. The contraction in liquidity triggered an increase in interest rates. Peso rates on time deposits jumped from 8.72 percent to 19.38 percent in four months, while US dollar rates went from 5.82 percent to 11.09 percent. The interest rate spread in pesos went from a pre-crisis level of 1.5 percentage points, to 14 percentage points in April 1995, and did not return to the pre-crisis levels until May 1997. A similar pattern was shown by the spread on US dollar rates. These indicators point to a fairly high sensitivity of the banking system to external shocks. On the other hand, the relatively rapid stabilization of interest rates following the recovery of deposits is a testimony to the Government's swift and effective response to the crisis. The crisis raised concerns about liquidity management and interest rate risk in the banking system.

6.4 A strong and effective regulator is a pre-condition for a sound banking system. However, in addition to the standard norms of effective supervision, it is important to focus on those particular characteristics of the banking system that call for special attention. For example, in some countries it may be the volatility of interest rates or exchange rates, or the predominance of a particular sector in the economy. In the case of Argentina it is the rigidity of the monetary system through a fixed exchange rate regime. This would call for increased attention to the management of assets and liabilities, such as the reliance by banks on borrowed funds versus core deposits.

6.5 The Government's response to the liquidity crisis was very effective. A number of private sector and provincial government banks, which incurred huge losses as a result of the crisis, were either closed or sold. According to SEF, regulators were able to recover 100 percent of deposits in 16 of the 18 banks that were closed. One of the lessons learned from the 1995crisis was to take a pro-active approach to the management of problem banks. Since then, BCRA appears to have adopted a strategy of suspending banks with serious liquidity problems and then finding a buyer among the larger and better-capitalized banks. While this strategy helps to avoid a bigger problem when the bank becomes insolvent, it nevertheless has given the Central Bank a high degree of discretion in problem resolution. Normally, SEF's standard procedures of banking supervision should provide early warning signals of bank problems. The recent actions by the Central Bank may indicate some weakness in the SEF's normal supervisory process, in that the affected banks should have been placed on some type of performance program under close supervisory scrutiny prior to the actions taken by the Central Bank.

6.6 In order to buttress the banking system against future financial shocks, regulators have adopted higher capital and liquidity standards. The minimum risk-based capital ratio was raised to 11.5 percent of assets, one of the highest in the world. The actual percentage could be higher depending on the bank's CAMEL rating, as well as additional

capital depending of the Value at Risk of the investment portfolio and the degree of interest rate risk. The liquidity requirement ratio was also raised to 20 percent applicable to most liabilities. Another innovative scheme to act as a buffer against a liquidity crunch is the Contingent Repo Facility. Signed in December 1996, the Repo was subscribed by foreign banks and gives the Central Bank the option to enter into a repurchase agreement in the event of a sudden outflow of deposits from the banking system. This facility is extended every three months with a commitment period of two years and currently amounts to $6.7 billion. The repurchase is negotiated using US$ denominated bonds issued by the Government as well as certain mortgage backed securities.

6.7 Continued progress in the consolidation and strengthening of the domestic banking system has also enhanced the ability of the system to avoid systemic problems due to domestic or external shocks. The FSAL was instrumental in guiding this process early on.

6.8 Nevertheless, even with these improvements, the banking system still remains vulnerable to external shocks due to the rigid structure of the foreign exchange and money markets. This risk may be unavoidable under the circumstances. While the requirement of complete dollar backing of the monetary base has contributed to a stable M1 multiplier, the increasing use by banks of purchased funds overseas has led to a rising trend in the M3 multiplier. For example, the M1 multiplier has increased moderately from 1.5 times the monetary base in 1995, to 1.7 in 1998; whereas the M3 multiplier has risen from 2.5 times in 1995, to 3.2 times in 1998. Because of the rise in the M3 multiplier, a sudden pull back by foreign creditors could impose more severe liquidity pressures on domestic banks than earlier incidents. Also, the Contingent Repurchase Facility is designed to provide liquidity to banks that are able to put up acceptable collateral in terms of liquid assets. However, the assets of weak banks are usually rather illiquid, thus raising the possibility that the Facility may not be sufficient to stabilize the banking system during a liquidity crisis.

6.9 The effective actions undertaken by the regulators since 1995 to immunize the banking system from future shocks raise some questions as to their impact on the sustainability of financial sector development. First, a policy issue, eight of the top ten private banks in the country are foreign owned, representing 43 percent of deposits and 51 percent of assets of the banking system. The role of foreign-owned banks in the banking system needs to be studied. Is the expansion of foreign banks consistent with market needs? Second, the high liquidity standards and impressive capital requirements may actually hinder financial intermediation activity. The high liquidity ratios limit the banks' ability to optimize return on invested assets. At the same time, risk-weighted capital ratios above 14 percent, sharply higher than the Basle's 8 percent, greatly reduce profitability in the banking system. This could lead to undesirable risk taking on the part of the banks. With respect to the foreign-owned banks, their own global high cost of capital rates would not justify a low return in the Argentinean market. And third, the convertibility law intensifies the vulnerability of the banking system to liquidity risk. In response to this problem, regulators are in the process of implementing a new system to measure interest rate risk. Banks are now required to measure the impact of interest rate

changes on the present value of their assets and liabilities, in order to gauge the impact on the bank's net worth. Based on the degree of sensitivity, additional capital would be required. More analysis of currency exposure would be helpful. For example, in December 1998, the banking system had a net long position in foreign currency equivalent to 12 percent of assets. This imbalance could pose a liquidity problem to the banks during times of interest rate volatility.

6.10 On the other hand, there may be a high cost to maintaining banking system stability in terms of real, or inflation adjusted, interest rates, low profitability, and concentration in foreign-owned banks. This may be a reflection of the constraints on economic management imposed by the Convertibility Law. On numerous occasions Bank staff has cautioned about the risks to the banking system arising form the Convertibility Law. The increase in the regulatory burden could be acting as a constraint on the development of financial intermediation activities. Further analysis of this issue would be desirable.

7. LESSONS LEARNED

7.1 There are several lessons that emerge from the FSAL experience:

- Whenever possible, objectives should include specific descriptions of the outcome such as quantitative targets. In the case of the FSAL, the goal of reducing the state's role in the financial system is not associated with a specific size dimension, such as percentage of assets or deposits.

- Borrower commitment to a program is critical to its success. In the case of the FSAL, strong government support of reforms proved to be a crucial factor in the effective management of the 1995 liquidity crisis.

- In designing adjustment loans, focusing on a few areas will greatly enhance the probability of success and also borrower satisfaction. The FSAL focused on two key policy areas: the role of the state in the financial system and the strengthening of banking supervision.

- On the other hand, mixing of short-term financial objectives, under intensive time pressure, with complex policy reforms could affect the quality at entry. In the haste to meet the deadlines for the Brady Bond deal, the Bank and the Borrower may have settled for fewer substantive reforms, and may have precluded further analysis of the options in downsizing the role of the state in the financial sector.

Table 1: Number of Banks				
	03/31/91	*02/28/95*	*12/31/98*	
Federal	4	3	3	
Provincial/Municipal	29	29	15	
National / Private	56	66	45	
Foreign	30	31	37	
Cooperatives	46	36	4	
Total	165	165	104	
Source: BCRA and Presidents Report, *Bank Reform Loan*, June 1995				

Table 2: Total Deposits in the Banking System				
	02/28/95		*11/31/98*	
	(US$ million)	*(percent of total)*	*(US$ million)*	*(percent of total)*
Federal	10,775	19.1	11,853	15.5
Provincial/Municipal	13,064	23.1	15,397	20.2
National / Private	18,148	32.1	15,005	19.6
Foreign	9,746	17.3	32,608	42.7
Cooperatives	4,714	8.4	1,545	2.0
Total	56,447	100.0	76,408	100.0
Source: BCRA and Presidents Report, Bank Reform Loan, June 1995				

Table 3: Total Assets in the Banking System				
	02/28/95		*11/31/98*	
	(US$ million)	*(percent of total)*	*(US$ million)*	*(percent of total)*
Federal	18,533	21.5	22,921	15.2
Provincial/Municipal	19,418	22.6	22,653	15.1
National / Private	26,793	31.2	25,997	17.3
Foreign	14,800	17.2	76,434	50.9
Cooperatives	6,422	7.5	2,312	1.5
Total	85,966	100.0	150,317	100.0
Source: BCRA and Presidents Report, Bank Reform Loan, June 1995				

Annex 1

BASIC DATA SHEET

FINANCIAL SECTOR ADJUSTMENT (LOAN 3558-AR)

Key Project Data

	Appraisal Estimate (US$M)	Actual Estimate (US$M)
IBRD/IDA	400	400
Cofinancing	200	200
Total	600	600

Cumulative Estimated and Actual Disbursements

	FY93	*FY94*	*FY95*
Appraisal Estimate	205	300	400
Actual	205	300	400
Actual as % of Estimate	100%	100%	100%
Date of Final Disbursement			09/02/94

Project Dates

Steps in Project Cycle	*Date Planned*	*Actual Date/or Duration*
Identification (Initial Executive Project Summary)		1992
Preparation		10 months
Appraisal		July 1992
Negotiation		October 19-27, 1992
Board Presentation		February 16, 1993
Signing		February 16, 1993
Effectiveness	February/March, 1993	February 16, 1993
Closing Date	December 31, 1995	September 31, 1994

Staff Inputs[1] (Staff Weeks)

	Planned		*Revised*		*Actual*	
Stage of project cycle	*Weeks*	*US$*	*Weeks*	*US$*	*Weeks*	*US$*
Through appraisal	34	153	38	172.8	38.4	172.8
Appraisal-Board	11	49.5	13	57.6	12.8	57.6
Board-effectiveness[2]					-	-
Supervision	40	181.8	49	218.3	40.7	183.1
Completion	10	45	10	45	11	49.5
TOTAL	95	429.3	110	493.7	104	463.0

[1] Estimated cost in constant FY94 $'000. Based on LA4's staff year cost

[2] The loan was approved, signed and made effective on the same date (2/16/93)

Mission Data

Stage of Project Cycle	*Month/Year*	*Number of Persons*	*Days in Field*	*Specialized Staff Skills Represented*	*Performance Rating*		*Types of Problems*
Through Appraisal	Preparation Mission-March 1992	2	12	B,f			
	Pre-Appraisal Mission-April 1992	4	15	A,b,d,f			
Appraisal through Board Approval	Appraisal Mission-July 1992	4	16	A,d,e,f			
Board Approval through Effectiveness		-	-				
Supervision	1st-May 1993	3	8	A,c,d	S	HS	None
	2nd-Oct. 1993	6	7	A, 2b, d, f	HS	HS	None
	3rd-July 1994	3	2	A,b,c	HS	HS	None
Completion	1995	2	-	A,c	HS	HS	None

[1/]

[1/] Key to specialization:
a. Task Manager
b. Financial Specialist
c. Bank Specialist
d. Financial Analyst
e. Consultant
f. Sr. Economist

Other Project Data

Related Bank Loans/Credits

Loan	*Purpose*	*Amount (US$ million)*	Year of Approval	Status (12/31/95)
1. Banking Sector Loan	Banking	400	1987	Canceled
2. Trade Policy I & II (Loans 2815 and 29996)	Trade Reform	500	1987 & 1988	Disbursed Disbursed
3. Public Enterprise Reform I & II (Loans 3291 and 3556)	Privatization of Public Enterprises	300 300	1991 1993	Disbursed Disbursed
4. Public Sector Reform I (Loan 3394)	Fiscal Revenues and Expenditures, and BCRA	325	1991	Disbursed
5. Tax Administration I and II Following Operations (Loans 3015 and 3460)	Tax Administration	6.5 20	1989 1992	Disbursed Undisbursed $2.8 M
6. Capital Market Development (Loan 3709)	Capital Market Development	500	1994	Undisbursed
7. Provincial Reform Loan (Loan 3836)	Provincial Reforms	300	1995	Second Tranche Disbursed
8. T.A. Capital Markets (Ln 3710)	Improvement of Capital Markets	8.5	1994	Undisbursed $7.2 M
T.A. Public Sector Reform (Loan 3362)		23	1991	Undisbursed $1.0M
9. Provincial Bank Privatization[1] (Loan 3878)	Privatization of Provincial Banks	500	1995	Second Tranche Disbursed
10. Bank Reform Loan[2] (Loan 3926)	Private Bank Restructuring	500	1995	First Tranche Disbursed

[1] Approved in May 1995
[2] Approved in July 1995