



1. Project Data:		Date Posted : 07/28/2004	
PROJ ID: P083074		Appraisal	Actual
Project Name: Argentina Economic And Social Transition Structural Adjustment Loan	Project Costs (US\$M)	\$500	\$500
Country: Argentina	Loan/Credit (US\$M)	\$500	\$500
Sector(s): Board: EP - Sub-national government administration (50%), General public administration sector (20%), Other social services (20%), Health (10%)	Cofinancing (US\$M)	0	0
L/C Number: L7171			
	Board Approval (FY)		03
Partners involved :	Closing Date	08/29/2003	08/29/2003
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
<p>The stated objectives of this operation (the Economic and Social Transition Structural Adjustment Loan -- ESTSAL) were to support the country in (i) taking incremental steps towards laying a sound basis for growth, and (ii) strengthening efforts to protect social programs. However, the more important underlying purpose of the loan was to transfer Bank resources to Argentina as part of an overall external financing support package by the IFIs, under pressure by the G7 and aimed at achieving a sufficient resource transfer to permit debt servicing during a political transition period.</p>			
b. Components			
<p>There were four policy components .</p> <ol style="list-style-type: none"> 1. Continued deficit reduction efforts by the provinces, through the signing of yearly fiscal agreements between the central and provincial governments . 2. The establishment of a Monetary Unification Program for redeeming so-called quasi-moneys. Quasi-moneys are paper obligations issued by both the Federal Government and many provinces during the 2001/02 crisis, which circulated as currencies in parallel to the Argentine peso . 3. Enhancement of the social safety net, including through improved monitoring and efficiency . 4. Ensured coverage of basic health services for the most vulnerable . <p>While the loan was a one-tranche operation disbursed upon completion of initial actions, there were also clearly identified expected outcomes which were to be monitored .</p>			
c. Comments on Project Cost, Financing and Dates			
<p>Protracted negotiations with the IMF during the crisis year 2002 had failed to result in an agreement on a sustainable medium-term program. Upon urging of the G7, an IMF Stand-by Arrangement was approved in January 2003 to run through August 2003. The Bank's ESTSAL was a US\$500 million adjustment loan, prepared while there was an interim Government in place, approved on 5/22/2003 and fully disbursed at loan effectiveness on 5/28/2003. A new President was inaugurated in late May 2003.</p>			
3. Achievement of Relevant Objectives:			

The operation reached or surpassed all of its targets, some by a considerable margin. Provincial deficits were reduced; monetary unification was achieved; social expenditures were protected and there is now better information available for monitoring; and, emergency health programs were covered. Above all, economic growth resumed and was far above expectations. The latter owed much to favorable terms of trade and also represented a rebound from the severe income drop in 2002. Also, several of the component outcomes reflected the impact of the economic recovery and of other Bank funding .

4. Significant Outcomes/Impacts:

The operation's most significant contribution was to the monetary unification program which was virtually complete by end-2003. This achievement allowed a resumption of orderly fiscal and monetary policy, and hence contributed to the achievement of stabilization and thus to the resumption of growth .

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

This was a stop-gap operation. Because of the transitional nature of the Government at the time the loan was developed, the operation could not address the fundamental structural issues confronting Argentina, such as a long-term (as opposed to yearly) solution to the fiscal relations between the central and provincial governments, a restructuring of the defaulted public debt, the financial sector crisis or the needed restructuring of the private corporate debt. See further comments under "6. Outcome rating" below.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	The major issue is whether this loan should have been made at all given that it did not address the major structural obstacles in a country that has been a chronic non-performer. The dilemma of lending in a crisis, with reduced leverage of the Bank, and international pressure to lend to a large borrower in crisis, should be examined in the context of the Bank's overall assistance program to Argentina during the past few years, not in the context of this loan only. Notwithstanding these concerns, OED rates the outcome of this loan satisfactory because it achieved its narrow objectives.
Institutional Dev .:	Modest	Modest	
Sustainability:	Likely	Unlikely	Sustainability is rated as unlikely. The resilience to risk of the net benefits flows over time is very low. First, the benefits of an operation of this kind are unlikely to be sustained unless the needed fundamental reforms in Argentina are addressed; second, while the considerable risks of backtracking were acknowledged in the President's Report, the loan design (single tranche, quick disbursement) left the Bank with no tools to mitigate risks.
Bank Performance:	Satisfactory	Satisfactory	The performance of line management and staff in preparing this operation in a very short period of time was highly satisfactory. At the same time, quality at entry suffered because the design did not include a meaningful strategy to manage the risks. Also, except for the Monetary Unification Program, the other policy components of the loan endorsed already ongoing programs.

Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

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

7. Lessons of Broad Applicability:

All four components were successfully implemented because there was ownership.

8. Assessment Recommended? Yes No

Why? See 6. Outcome comments above.

9. Comments on Quality of ICR: