



The World Bank

FIRST INCLUSIVE GROWTH PROGRAMMATIC DPF (P167889)

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PGD52

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$500 MILLION TO THE

ARGENTINE REPUBLIC

FOR THE

FIRST INCLUSIVE GROWTH PROGRAMMATIC DPF

August 16, 2018

Macroeconomics, Trade And Investment Global Practice
Latin America And the Caribbean Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

Argentine Republic
GOVERNMENT FISCAL YEAR

January 1 - December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of August 16, 2018)

Currency Unit: Argentinean peso (AR\$)

US\$ 1 = AR\$ 29.81

ABBREVIATIONS AND ACRONYMS

AFIP	Argentina's Revenue Agency (<i>Administración Federal de Ingresos Públicos</i>)
AMBA	Metropolitan Area of Buenos Aires (<i>Area Metropolitana de Buenos Aires</i>)
ANSES	National Social Security Administration (<i>Administración Nacional de la Seguridad Social</i>)
AR\$	Argentine Peso
AUH	Universal Child Allowance (<i>Asignación Universal por Hijo</i>)
BCRA	Central Bank of the Republic of Argentina (<i>Banco Central de la República Argentina</i>)
CAF	Development Bank of Latin America (<i>Corporación Andina de Fomento – Banco de Desarrollo de América Latina</i>)
CET	Common External Tariff
CPF	Country Partnership Framework
CPI	Consumer Price Index
CPS	Country Partnership Strategy
DPF	Development Policy Financing
DSA	Debt Sustainability Analysis
EIA	Environmental Impact Assessment
FRR	Fiscal Responsibility Regimen
FM	Financial Management
FoGAR	Public Credit Guarantee Fund (<i>Fondo de Garantías Argentino</i>)
GDP	Gross Domestic Product
GRS	Grievance Redress Service
GVCs	Global Value Chains
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IDS	Integrated Delivery System
IFC	International Finance Corporation
IMF	International Monetary Fund
IT	Information technology
LAC	Latin America and Caribbean



LEBACs	Short-term Central Bank Securities (<i>Letras del Banco Central</i>)
MAyDS	Ministry of Environment and Sustainable Development (<i>Ministerio de Ambiente y Desarrollo Sustentable</i>)
MSMEs	Micro, Small and Medium Sized Enterprises
MTI	Macroeconomic, Trade and Investment Unit
NCD	Non-communicable diseases
NFPS	Non-Financial Public Sector
NTM	Non-Tariff Measures
OECD	Organisation for Economic Co-operation and Development
OS	Social Security Health Insurers (<i>Obras Sociales</i>)
PFM	Public Finance Management
PLR	Performance and Learning Review
PSIA	Poverty and Social Impact Analysis
PPP	Public-Private Partnerships
SAS	Simplified corporation (<i>Sociedad por Acciones Simplificadas</i>)
SBA	Stand-By Arrangement
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SGR	Mutual Guarantee Company (<i>Sociedades de Garantía Recíproc</i>)
SIDIF	Integrated Financial Information System (<i>Sistema Integrado De Información Financiera</i>)
SME	Small- and Medium-sized Enterprises
SOE	State-Owned Enterprises
SRL	Limited Liability Company (<i>Sociedad de Responsabilidad Limitada</i>)
ST	Social Tariff
SUBE	Transit Smartcard (<i>Sistema Único de Boleto Electrónico</i>)
TSA	Treasury Single Account
TST	Transit Social Tariff (<i>Tarifa Social Federal de Transporte</i>)
U.S.	United States
US\$	United States Dollar
UHC	Universal Health Coverage

Regional Vice President:	Jorge Familiar
Country Director:	Jesko S. Hentschel
Senior Practice Director:	John Panzer
Practice Manager:	Maria De los Angeles Cuqui Gonzalez Miranda
Task Team Leader:	Stefano Curto, Emily Sinnott



ARGENTINE REPUBLIC

FIRST INCLUSIVE GROWTH PROGRAMMATIC DPF

TABLE OF CONTENTS

SUMMARY OF PROPOSED FINANCING AND PROGRAM	3
1. INTRODUCTION AND COUNTRY CONTEXT	5
2. MACROECONOMIC POLICY FRAMEWORK.....	7
2.1. RECENT ECONOMIC DEVELOPMENTS.....	7
2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY	14
2.3. IMF RELATIONS	19
3. GOVERNMENT PROGRAM	20
4. PROPOSED OPERATION	21
4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION	21
4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS	23
4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WORLD BANK GROUP STRATEGY	39
4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS	40
5. OTHER DESIGN AND APPRAISAL ISSUES	41
5.1. POVERTY AND SOCIAL IMPACT	41
5.2. ENVIRONMENTAL ASPECTS	44
5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS.....	45
5.4. MONITORING, EVALUATION AND ACCOUNTABILITY	47
6. SUMMARY OF RISKS AND MITIGATION	48
ANNEX 1: POLICY AND RESULTS MATRIX.....	52
ANNEX 2: FUND RELATIONS ANNEX.....	55
ANNEX 3: LETTER OF DEVELOPMENT POLICY	60
ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS	69
ANNEX 5: FISCAL IMPACT OF ARGENTINA’S UNIVERSAL HEALTH COVERAGE (UHC) STRATEGY	91



The operation was prepared by the World Bank Group in close cooperation with the International Monetary Fund.

The overall operation was co-led by Stefano Curto (Senior Economist, MTI) and Emily Sinnott (Program Leader, LCC7C). The operation was prepared under the guidance of Maria Gonzalez Miranda (Practice Manager, MTI) and Paloma Anos Casero (Director, MTI). The team is grateful for the support and guidance from Jesko Hentschel (Country Director, LCC7), and for the close and productive cooperation with the IMF team.

The team included Alberto Leyton; Alejandro Espinosa-Wang; Alejandro Roger Solanot; Andrew Sunil Rajkumar; Bujana Perolli; Carole Megevand; Camila Rodriguez Hernandez; Charl Jooste; Christian De la Medina Soto; Elizabeth Grandio; Ernesto Franco Temple; Ewa Joanna Korczyc; Fernando Giuliano; Gonzalo J. Varela; John Pollner; Jose E. Signoret; Juan Martin Moreno; Julian Folgar; Lourdes Rodriguez Chamussy; Marco Larizza; Maria Ana Lugo; Maria Virginia Hormazabal; Mariana Iooty De Paiva Dias; Markus Kitzmuller; Martha Martinez Licetti; Marvin Ploetz; Pilar Gonzalez; Rafael P. Rofman; Silvana Kostenbaum; Sylvia Solf; Steen Byskov; Tanja K. Goodwin; Tuuli Johanna Bernardini; Vanina Camporeale; Veronica Raffo, and Zafer Mustafaoglu.

The team is also appreciative of the excellent collaboration from the Government of Argentina throughout various stages of this operation. The team acknowledges the leadership of Ministry of the Treasury, led by His Excellency Minister Nicolás Dujovne.



SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P167889	Yes	1st in a series of 2

Proposed Development Objective(s)

The Development Objectives of the operation are the following: (i) strengthening the foundations for private sector-led growth, and (ii) strengthening the social safety net and enhancing fiscal equity.

Organizations

Borrower:	ARGENTINE REPUBLIC
Implementing Agency:	MINISTERIO DE HACIENDA

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	500.00
-----------------	--------

DETAILS

International Bank for Reconstruction and Development (IBRD)	500.00
--------------------------------------------------------------	--------

INSTITUTIONAL DATA

Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

High

**Results**

Indicator Name	Baseline	Target
Number of anti-competitive practices resolved through sanctions or corrective measures by the new competition authority (accumulated)	0 (2017)	8 (2020)
Share of intermediate and capital goods imports, by value, subject to reduced tariffs or automatic licenses	74 percent (2017)	84 percent (2020)
Share of commercial companies registered as simplified corporations (<i>Sociedad por Acciones Simplificadas, SAS</i>)	5 percent (2017)	50 percent (2020)
Share of firms that issue securities that are using the streamlined multiple issuance pre-authorization	0 percent (2017)	59 percent (2020)
Number of integrity plans registered in the Government procurement platforms for goods, services, and public works	0 (2017)	80 (2020)
Share of beneficiaries of social programs that receive social tariffs	22 percent (2017)	27 percent (2020)
Share of sales tax (<i>Ingresos Brutos</i>) in total provincial own revenues	72 percent (2017)	66 percent (2020)
Number of social programs included in the Single Window system	0 (2017)	10 (2020)
Number of provinces actively implementing the new UHC system	0 (2017)	20 (2020)



IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO ARGENTINE REPUBLIC

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The programmatic DPF series accompanies Argentina's efforts to strengthen the foundations for inclusive economic growth.** This first proposed Development Policy Financing operation (DPF 1)—the first in a series of two operations—is in the amount of US\$500 million. The DPF series supports policy measures to: (i) strengthen the foundations for private sector-led growth (Pillar 1), and (ii) strengthen the social safety net and enhance fiscal equity (Pillar 2). The First DPF operation has been prepared as part of the international efforts to support Argentina's program for economic stabilization, including the exceptional access Stand-By Arrangement (SBA) provided by the International Monetary Fund (IMF).

2. **The DPF series complements the Government's macroeconomic stabilization plan by focusing on the agenda for medium-term growth, and strengthening the safety net and enhancing fiscal equity.** Achieving higher growth and job creation in the private sector is critical for Argentina, particularly in a period when there will be increased consolidation in the public sector. The DPF series supports continued efforts to spur on private sector growth through measures that enhance competition, decrease barriers to trade, reduce business costs, encourage capital markets development, and enhance anti-corruption efforts. Core to the World Bank's support is a focus on the protection of the most vulnerable from the effects of a deterioration in economic activity and to further strengthen the social safety net system so it can be relied on when needed. In this context, the World Bank program complements the IMF program's social protection measures by contributing to social safety net design and enhanced social monitoring. In doing this, the DPF series builds on the World Bank's experience working with Argentina on enhancing the social safety net system. The focus of the first DPF is on actions that facilitate access to government services for the most vulnerable population, create fiscal space, improve the impact of fiscal policy on equity and the effectiveness of health care provision for the less well-off. If social conditions were to deteriorate, the second DPF operation is expected to provide room for stronger social safety net support. In addition, the triggers in the second DPF operation can be adjusted in case a more adverse economic situation requires further efforts to mitigate a worse than envisaged social outturn and deeper fiscal consolidation measures.

3. **This first operation in the DPF series has been prepared in a context of financial volatility triggered by a combination of domestic and external factors.** The domestic factors stem from the deep-rooted macroeconomic imbalances that emerged at the beginning of this decade. General government expenditures had increased at an unprecedented rate from 23.2 percent of GDP in 2004 to 39.5 percent of GDP in 2015 and this led to a rapid deterioration in the primary fiscal balance from a 3.3 percent surplus to a 5.9 percent deficit over the same period. Growing fiscal imbalances put pressures on the real exchange rate and current account, which were met with increasingly protectionist policies and discretionary regulations—policies which the current Government began to roll at end-2015. In addition, the lack of access to international credit markets resulted in increasing financial assistance from the Central Bank (BCRA) to the Treasury, fueling inflation. As a result, productivity substantially declined, private job creation almost stalled, and the economy stagnated between 2011 and 2015, alternating between growth and recession years.

4. **The Government has made important progress toward addressing the most pressing challenges and initiating structural reforms.** At the same time, macroeconomic imbalances made Argentina



vulnerable to debt rollover risks and a change in investor sentiment. A more gradual pace of fiscal adjustment, aimed to prevent a deterioration in economic activity and to mitigate the adverse impacts on the most vulnerable, led to a slow decline, in the still sizable, primary fiscal deficit. Interest spending increased rapidly, as the BCRA financing was replaced with public debt issuances. The slower than anticipated pace of disinflation has brought additional uncertainties. Second-round effects from the normalization of utility tariffs and some backward indexation of contracts have resulted in significant inflation inertia. The revision of inflation targets in late December 2017, and the subsequent easing of policy rates cast doubts among investors on the authorities' commitment to lowering inflation and the BCRA independence. At the same time, the build-up of the BCRA short-term securities (LEBACs) brought additional uncertainties since a substantial share had to be rolled over every 28 days.¹ The combination of these factors, together with the tightening of global financial conditions and the strengthening of the U.S. dollar, led in April 2018 to a generalized run on Argentine assets, further currency depreciation, a reduction in international reserves, and an increase in the country risk. The authorities' response included a large policy rate hike to ensure the successful rollover of the LEBACs and to ease the pressure on the exchange rate. The Government also requested an exceptional access Stand-By Arrangement with the IMF and committed to accelerate key reforms. However, Argentina remains vulnerable to market sentiment and changes in global financial conditions, as evidenced by the spillover effect of market pressures on the Turkish Lira in August 2018.

5. **On June 20, 2018, the IMF's Executive Board approved a three-year US\$50 billion Stand-By Arrangement to strengthen Argentina's economy by restoring market confidence.** The Arrangement supports a Government program which accelerates fiscal consolidation efforts to achieve a fiscal balance in 2020 rather than in 2021 as originally envisaged. The 2018 Federal Government's primary deficit target was revised to 2.7 percent of GDP (from the Government's original target of 3.2 percent), and the subsequent targets have been made more ambitious, i.e. a deficit of 1.3 percent of GDP in 2019 (from 2.2 percent) and a balanced budget in 2020. The Government's program reaffirms the commitment to tackle the management of provincial finances agreed in the Fiscal Pact with the provinces of November 2017. The Government announced in June 2018 that measures will be taken to strengthen the Central Bank's independence; moreover, BCRA financing of the fiscal deficit will immediately come to an end. The Government is committed to reducing the large stock of short-term Central Bank securities (LEBACs) and taking measures to encourage re-intermediation through the banking system to strengthen the BCRA's control over peso liquidity.

6. **This operation is part of a package of coordinated financial assistance from international partners prepared in response to the ongoing financial markets turmoil that began in April.** The operation and its policy content complements and is complemented by other international partners efforts, including the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), and the Development Bank of Latin America (CAF). The World Bank's DPF 1 was prepared on an accelerated timeline to help the Government cover some its immediate and large gross financing needs in an environment in which there may be limited or costly access to market financing. The DPF 1 is part of a broader World Bank Group efforts to support strengthening the foundations for inclusive growth and protecting the vulnerable. This support includes the following additional elements: (i) mobilization of the current portfolio of IBRD operations to support the Government response; (ii) technical support in

¹ On May 15, 2018, LEBACs issued 28 days earlier had to be rolled-over. The LEBACs issued in the May 15 auction had a maturity of 35 days.



assessing the fiscal, growth, as well as poverty and social impacts of the Government's reform program; and (iii) active support on the part of the IFC to the private sector through bilateral facilities to existing, and also new clients and projects. The operation is accompanied by an additional investment financing of US\$450 million for the family allowances program (P167851) to provide financial support to contribute to the Government's protection of the system during fiscal consolidation, and to expand the coverage of the family allowances program to make it a more effective safety net.

7. **The programmatic DPF series builds on strong policy dialogue and close collaboration with the authorities across the DPF-supported policy areas as well as the recently-completed Systematic Country Diagnostic.** Since 2016, the World Bank has engaged with the Government in a wide range of analytical and advisory work in the areas related to public finance, growth and poverty. Examples include technical assistance and analytical work on public expenditure reforms, advisory work on capital markets development, transparency and access to information, and a report outlining detailed options for increasing trade, investment and competition. The World Bank has also been involved over the past decade in supporting Argentina's social protection and employment reforms. These analytical underpinnings have helped to identify measures to tackle the critical challenges of fostering growth and strengthening the social safety net in the short and medium term in Argentina. The measures supported in this DPF series build directly on close collaboration with the Government across these priority areas. This operation also fits within the policy priorities to promote sustainable growth and shared prosperity identified in the 2018 Systematic Country Diagnostic.

8. **The risks associated with the proposed operation are high.** While there is a strong consensus around the World Bank-supported reform agenda to strengthen the foundations of inclusive growth, there are downside risks that could delay or complicate the implementation of structural reforms. Full adherence to the fiscal and monetary targets of the IMF program will contribute to a stable macroeconomic framework. Nonetheless, macroeconomic risks are high as weakening external demand and/or a tightening of global financial conditions for emerging markets could dampen growth prospects and impact on the willingness of investors to rollover Argentine assets. In addition, political uncertainty ahead of the 2019 Presidential elections and potential social discontent add to these risks.

2. MACROECONOMIC POLICY FRAMEWORK²

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **Argentina has been engaged in a reform agenda to transform its economy, while confronting the challenge of unwinding macroeconomic imbalances and mitigating the social costs of the transition.** In December 2015, the Government faced the challenge of pervasive macroeconomic imbalances, large microeconomic distortions, and a weakened institutional framework: large fiscal deficits, financial repression, monetization of the deficit, high inflation, and low investment, were accompanied by price controls, large and regressive subsidies, trade restrictions, and the rationing of foreign currency. The Government eliminated foreign exchange controls and moved to a flexible exchange rate regime, put in

² The First Review of the IMF's SBA program is currently ongoing and the macroeconomic policy framework—which anchors both the IMF program and the proposed operation—is being revised to take into account domestic and global developments.

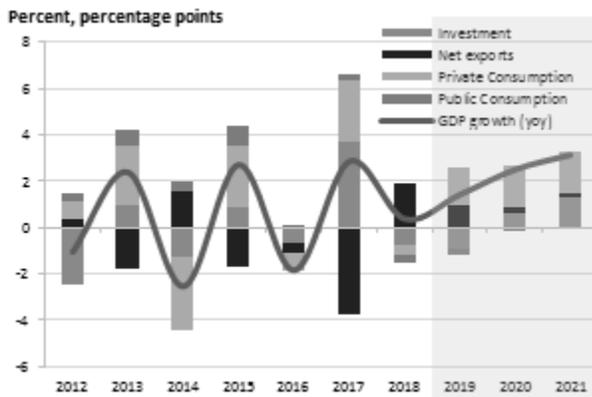


place an inflation-targeting framework for monetary policy, initiated the process of realigning utility prices and reducing subsidies, and improved official statistics. The Government also initiated structural reforms to strengthen the competitiveness of the economy and remove distortions holding back private sector-led growth, including reducing export taxes and easing import controls. However, the country remained vulnerable to market sentiment and changes in global financial conditions.

10. **Growth, which had become increasingly reliant on domestic consumption fueled by high commodity prices, significantly moderated in this decade.** The consumption-led growth model fueled by expansionary fiscal and monetary policies has showed signs of exhaustion over the last five years, with macroeconomic imbalances becoming increasingly large. As the commodity boom waned and external conditions worsened, the country’s GDP growth rate fell from an average of 6.4 percent over 2003-2011 to an average of 0.0 percent over 2012-2016, with challenges posed by a changing external environment magnified by the lack of access to international capital markets. Investment was weak, before rebounding in 2017, while net exports contributed little or negatively to growth (Figure 1). Expansionary fiscal and monetary policy in the context of decelerating potential output contributed to mounting inflation, declining investment levels, and increasing indebtedness.

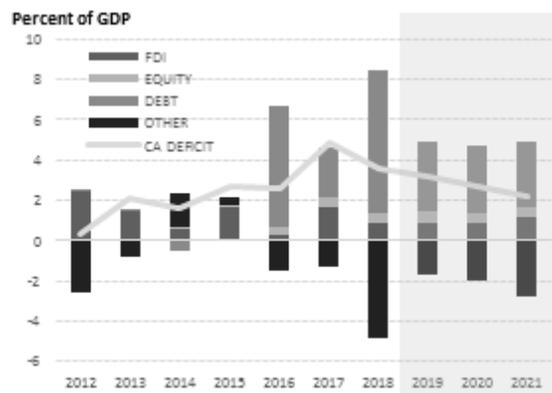
11. **External vulnerabilities have been also steadily mounting, with the current account deficit increasing from 0.4 to almost 5 percent of GDP over 2012-2017.** Consumption-led growth led to real exchange rate appreciation pressures and caused imports to outpace exports, despite the controls in imports that were in place over 2012-2015. The lifting of quantitative import restrictions in December 2015 and the continued real appreciation of the peso widened the current account deficit in 2016-2017 (Figure 2). Over recent years, Argentina has increasingly relied on external debt to finance its growing external financing needs.

Figure 1. GDP Growth Decomposition by Demand Component, Percent and Percentage Points



Source: INDEC and IMF projections.

Figure 2. Current Account Deficit and Composition of Financial Account, Percent of GDP



Source: INDEC and IMF projections.

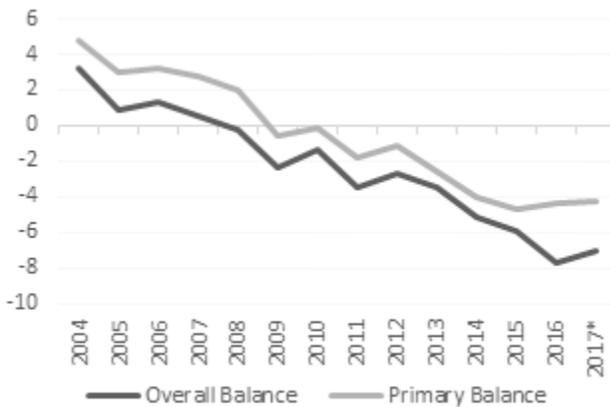
12. **Inflation—at double-digit rates for over a decade—remained high despite policy efforts.** Despite being gradually phased out (from 4.4 percent of GDP in 2015 to 1.5 percent of GDP in 2017), the BCRA financial assistance to the Treasury limited the effectiveness of monetary policy and affected the pace of disinflation. In addition, second-round effects from the normalization of utility tariffs and backward



indexation of contracts have resulted in significant inflationary inertia, which further reduced monetary policy effectiveness. As a result, inflation remained high. Despite high real interest rates, the peso depreciated significantly during the first half of 2018 amid heightened inflation expectations due to the changed monetary policy stance from end-December 2017 and investors increasingly pulling out of peso assets.

13. **The deterioration of the fiscal position over most of the past decade has been a key driver of recent macroeconomic developments.** The overall balance of the General Government declined from a surplus of 0.2 percent of GDP in 2007 to a deficit of 6 percent of GDP in 2015 (Figure 3). Public spending grew from 23.2 percent to 41.2 percent of GDP over 2004-2016, while tax pressure increased to record levels (Figure 4). The exceptional growth in public expenditure was almost entirely driven by rigid current spending. More than three-quarters of the increase in expenditures was due to increases in pensions, subsidies, and the wage bill. The fiscal position of sub-national governments followed a similar trend. While the provinces have shown a relatively small and stable fiscal deficit over the past decade (Figure 5), they have relied heavily on federal transfers and the easy-to-collect and distortive sales tax.³

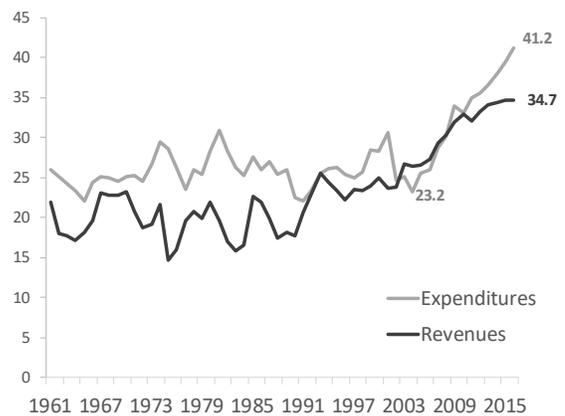
Figure 3. Argentina: Fiscal Balance of the General Government, Percent of GDP



Source: Argentina’s Ministry of Treasury.

Notes: * Estimate for 2017. Official data is reported on an accrual basis.

Figure 4. Argentina: Public Expenditures and Revenues, General Government, 1961-2016, Percent of GDP

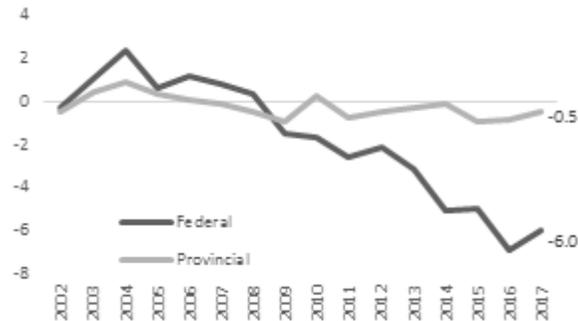


Source: Argentina’s Ministry of Treasury.

³ The provincial sales tax (*Ingresos Brutos*) is levied in full at each step of the production process, which creates incentives for vertical integration, underbilling and informality.



Figure 5. Argentina: Fiscal Balance at the Federal and Provincial Level of Government, 2002-2017, Percent of GDP



Source: Argentina's Ministry of Treasury.

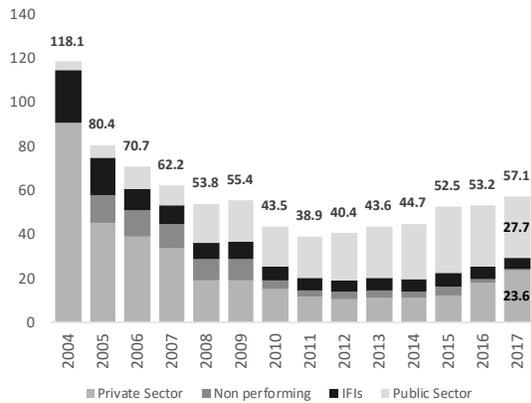
14. **After taking office in December 2015, the Government embarked on a gradual fiscal adjustment to prevent a deterioration of economic activity and to mitigate the adverse impacts on the most vulnerable.** The reduction in energy subsidies were offset by larger automatic transfers to provinces and higher spending on pensions leading to a slow reduction in the primary deficit as a share of GDP through 2016 and 2017. On the revenue side, the Government increased the minimum personal income tax threshold, reduced most export taxes, and introduced value added tax credits for basic staples for low-income households. Interest spending increased rapidly, as the BCRA financing was replaced with public debt, much of it in foreign currency.

15. **Argentina has become vulnerable to debt rollover risks.** The Federal Government's gross public debt reached 57.1 percent of GDP at end-2017 (Figure 6). Excluding debt owed to other government agencies, mainly the BCRA and the pension funds, this ratio falls to around 29 percent of GDP. Argentina's debt is highly exposed to exchange rate risk and external financial market developments as over 70 percent of its debt is denominated in foreign currency, mostly U.S. dollars, and the Government has relied substantially on external financing. Large upcoming U.S. dollar denominated debt redemptions (about 7.9 percent GDP) in 2019 increase vulnerabilities. Moreover, about a third of debt in pesos is indexed to the consumer price index (CPI), and thereby also tightly linked to exchange rate fluctuations. About a third of the total debt stock is subject to variable rates, and is hence exposed to interest rate increases.

16. **At the same time, the increase in the BCRA short term securities (LEBACs) has brought an additional source of vulnerability.** The BCRA issuances of short-term debt, LEBACs, almost doubled as a share of GDP between 2014 and 2017, reaching 11 percent of GDP in 2017 (Figure 7), most of which has a 28-day maturity. The BCRA had issued LEBACs to absorb the excess liquidity generated by its purchases of international reserves during the large inflows of external financing. Commercial banks are large holders of LEBACs, though their market share has decreased significantly in the last two years. More than half of the outstanding amount is currently held by non-bank investors, which hampers the BCRA's capacity to control peso liquidity via the reserve requirement.

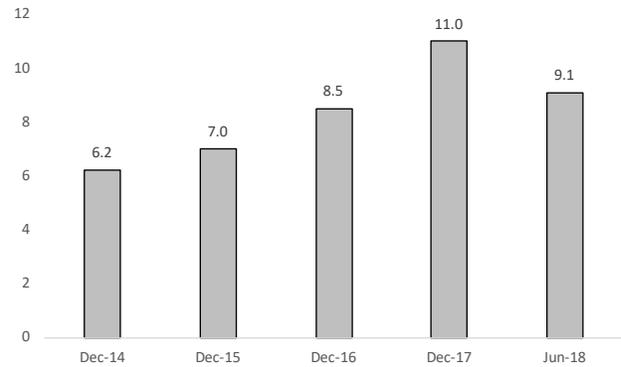


Figure 6. Argentina: Federal Government Public Debt, Percent of GDP



Sources: BCRA, Argentina’s Ministry of Treasury.

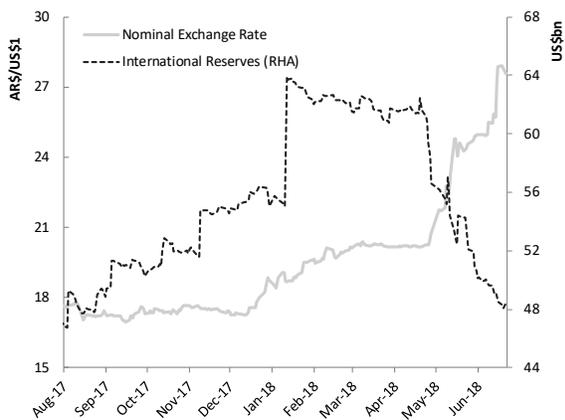
Figure 7. Argentina: BCRA Short-Term Debt (LEBACs), Percent of GDP



Sources: BCRA, Argentina’s Ministry of Treasury.

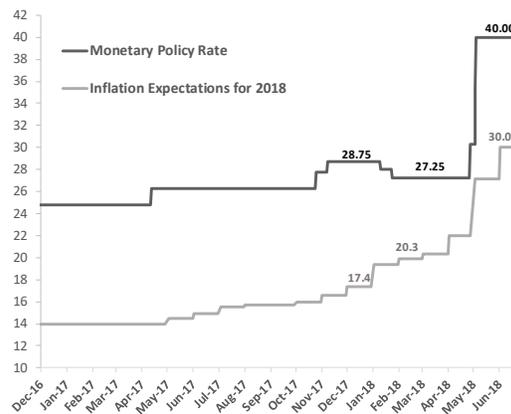
17. **The tightening of global financial conditions in the first part of 2018 brought to the fore Argentina’s underlying vulnerabilities.** Argentina’s financial markets came under sudden pressure in April 2018, with a large depreciation of the peso (Figure 8), increased concern on the roll-over of short-term Central Bank paper (LEBACs), and a rise in the sovereign risk premium. This was the result of several factors. A severe drought was expected to have an impact on agricultural production and exports. Global financial conditions tightened through an appreciation of the U.S. dollar and an upward shift in U.S. interest rates. This increased the incentives for foreign and domestic market actors to move out of short-term peso liabilities as the exchange rate depreciated. Exogenous factors interacted with the embedded vulnerabilities in Argentina’s policy path, including significant fiscal and external financing requirements, changing the market sentiment toward Argentina’s assets. As a result, there emerged a more generalized run on peso assets.

Figure 8. Exchange Rate and International Reserves, in AR\$/US\$ and US\$ Billion



Source: BCRA.

Figure 9. Monetary Policy Rate and Inflation Expectations, Percent



Source: BCRA.



18. **To ease pressures on the peso, several monetary and fiscal measures were announced in April/May.** Monetary policy rates were increased three times in the seven days before May 4, 2018—a 1275 basis points interest rate rise—raising the policy rate from 27.25 to 40 percent (Figure 9). The ceiling on the proportion of liquid net worth that banks can hold in foreign currency was reduced from 30 percent to 10 percent. The target for the 2018 primary deficit was revised from 3.2 to 2.7 percent of GDP and the Government reiterated its commitment to inflation targeting. However, with continued pressure on the peso and Argentine assets, the Government decided to seek the financial support of the IMF on May 8.

19. **The Government reached an agreement with the IMF for a SBA and committed to accelerate key reforms.** The agreement seeks to restore market confidence through a sound monetary and fiscal framework, while protecting the most vulnerable. The program supports strengthening Central Bank's independence and recapitalization to achieve its price stability objective, ceasing Central Bank financing of the Treasury and gradually repurchasing a large share of the non-marketable government securities held by the Central Bank. In addition, it intends to build up BCRA's international reserves to ease capital account pressures on the balance of payments. On the fiscal side, the Government intends to increase the pace of fiscal consolidation to reach a federal primary balance in 2020, with the aim of decreasing the country's financing needs and setting public debt on a sustainable path. The program includes revenue measures such as postponing the implementation of parts of the tax reform of December 2017 and maintaining the export tax rate on soy products at 25.5 percent. It also includes expenditure measures such as the continuing reductions of subsidies for energy and transportation, reducing capital expenditures, decreasing the wage bill through a hiring freeze and limiting the nominal growth of public wages, and reducing transfers to state-owned enterprises and the provinces.



Table 1. Key Macroeconomic Indicators

	2015	2016	2017	2018	2019	2020	2021
Real economy							
	Annual percentage change unless otherwise indicated						
GDP (BN nominal LCU)	5,955	8,189	10,558	13,240	16,068	18,746	21,227
GDP per capita (US\$)	14,764	12,578	14,089	11,864	12,255	12,457	12,793
Real GDP	2.7	-1.8	2.9	0.4	1.5	2.5	3.1
Contributions to GDP growth (in percentage points of GDP)							
Consumption	2.6	-0.7	2.6	-0.4	1.7	1.8	1.8
Government consumption	0.9	0.0	0.3	-0.3	-0.3	-0.2	-0.1
Gross fixed capital formation	0.7	-1.0	2.1	-0.3	-0.4	0.6	1.3
Total exports (Goods and Services)	-0.5	1.0	0.1	1.1	1.4	1.2	1.3
Total imports (Goods and Services)	-1.1	-1.4	-3.8	0.8	-0.5	-0.9	-1.1
Unemployment rate	...	8.5	8.4	8.5	8.6	8.4	8.2
GDP deflator	26.6	40.1	25.3	24.9	19.6	13.8	9.9
CPI (eop)	...	...	24.8	27.0	17.0	13.0	9.0
Fiscal accounts							
	Percent of GDP, unless otherwise indicated						
Total revenues	35.4	35.1	34.8	35.0	35.6	35.8	35.8
Total expenditures	41.2	41.4	41.2	40.1	39.4	38.7	38.5
General government balance	-5.8	-6.4	-6.5	-5.1	-3.8	-2.9	-2.7
Public and publicly guaranteed debt (PPG)	55.1	53.3	57.1	64.5	60.9	57.4	55.8
Selected monetary accounts							
	Annual percentage change unless otherwise indicated						
M2	34.9	31.7	21.8	24.6	21.3	18.0	14.5
Credit to private sector	35.7	31.2	51.3	34.9	24.7	20.7	17.3
Real credit to private sector	...	...	21.2	6.3	6.6	6.8	7.6
Interest rate	32.2	23.9	28.8	...	...	...	...
Balance of payments							
	Percent of GDP, unless otherwise indicated						
Current account balance	-2.7	-2.7	-4.8	-3.6	-3.2	-2.7	-2.2
Trade balance	-1	-0.7	-2.4	-1.5	-0.9	-1.1	-1.2
Exports of goods	8.8	10.5	9.2	11.9	12.4	12.2	12.1
Imports of goods	9.0	9.7	10.0	11.8	11.7	11.7	11.7
Foreign direct investment	1.7	0.3	1.7	0.9	0.9	0.9	1.2
Gross reserves (US\$ million; period average)	25,563	39,308	55,055	58,419	...	...	...
In months of next year's imports	5.0	4.1	4.6	7.5	...	...	...
As percentage of short-term external debt	43.0	83.0	...	...	...	...	...
External government debt	14.5	19.1	20.1	22.0	21.4	20.6	20.2
Terms of trade (percentage change)	-4.4	6.0	-2.7	4.0	-1.9	-3.0	-1.4
Exchange rate (LCU per US\$; period average)	9.3	14.8	16.6	...	...	...	...

Source: IMF

20. **The Government's program supported by the IMF's SBA puts emphasis on protecting society's most vulnerable.** After a period of recovery from 2004 followed by strong gains in poverty reduction from 2007 to 2011, poverty reduction slowed and stagnated over 2011-2016 (Figure 10). The slowdown reflects the fact that the rapid growth and poverty reduction in the first period came together with an unsustainable growth model that started to show its limits in the second period. Poverty again began to fall between 2016 and 2017, when official poverty fell by almost five percentage points, from 30.3 to 25.7 percent (Figure 11). A key factor behind this was the recovery in real wages and jobs in 2017, particularly in construction and services. Going forward if social outcomes worsen relative to the outlook that underpins the IMF program, there are contingency measures in place to provide resources to react to pressures on the social front. Social assistance spending is to be prioritized and protected in the budget, with the Federal Government putting a floor on safety net expenditures equal to 1.3 percent of GDP (or AR\$177 billion) in 2018, and at a level that ensures program coverage and the indexation of benefits thereafter over 2019-2020. In addition, the primary deficit could be adjusted upwards by 0.2 percent of



GDP (or AR\$30 billion) per year to allow for increased spending on high-impact social protection programs if the Government judges existing safety net benefits to be too low or enrollment is more than expected.

Figure 10. Poverty and Inequality in Urban Argentina, 2004-2017, 31 Main Cities

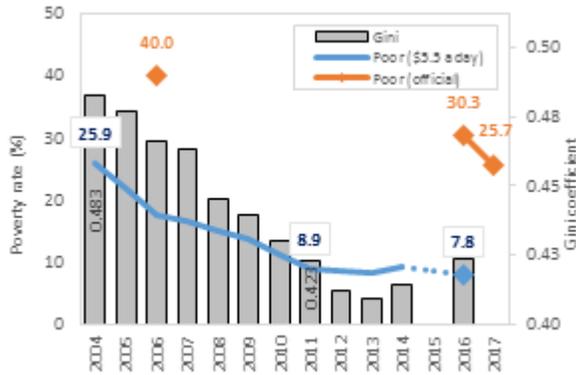
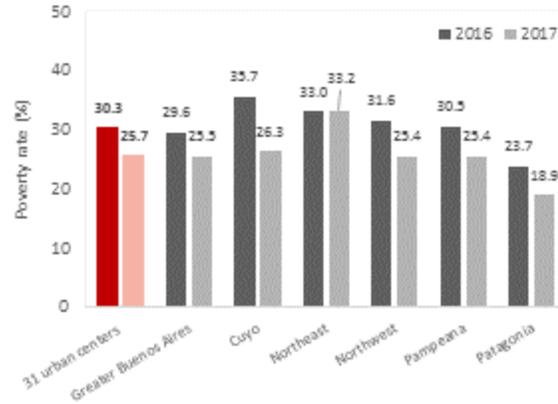


Figure 11. Urban Poverty Rate (official) by Region, 2016-2017, 31 Main Cities



Source: Based on EPHC (2nd semester). Due to comparability challenges, historical poverty rates are based on the US\$5.5 a day poverty lines (in 2011 PPP), which is closer to the current official extreme poverty line.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

21. **Economic growth is expected to slow down in 2018, due to the combination of the recent market disruption and the expected fiscal consolidation and tight monetary policy.** After growing at 2.9 percent in 2017, GDP growth is expected to decelerate to 0.4 percent in 2018. Private consumption will be the main driver of the slowdown, in response to the temporary effects of the peso depreciation on inflation and its impact on real wages. More restrictive fiscal and monetary policy stances are also expected to play a role in the slowdown, coupled with a sudden deceleration of private investment due to uncertainty, lower demand, and higher financing costs. Lower domestic demand will lead to slower imports, while a more depreciated real exchange rate should improve exports, leading to a positive contribution of net exports to growth in 2018.

22. **Growth is projected to rebound in 2019 and accelerate in the medium term, as domestic and external conditions improve.** A more stable macroeconomic environment in the context of the IMF program is expected to improve confidence. The stabilization of the peso and lowering of uncertainty should lead to a protracted recovery in real wages and consumption, as the economy transitions to a lower inflation environment. Private investment should gradually be crowded-in in 2019 as financial market conditions improve and investors regain confidence, partially offsetting the expected reduction in public investment. On the supply side, the agricultural sector—and the activities to which it has backward and forward linkages—are expected to bounce back from this year’s drought. In the baseline scenario, these developments should outweigh the contractionary effects of the fiscal consolidation. Overall, GDP is expected to expand by 1.4 percent in 2019, 2.5 percent in 2020, and 3.1 percent in 2021.

23. **Lower fiscal deficits and a weaker peso are expected to help the current account deficit narrow within the next three years.** The impact of the exchange rate depreciation and the rebound from the 2018 severe drought should help drive demand for Argentine exports, which are expected to grow by 6.8



percent in 2019, while import demand is expected to gradually recover and grow at 1.6 percent. The expected fiscal consolidation will reduce financing needs and dampen growth in interest payments, further improving the current account deficit, which is expected to narrow to 2.2 percent of GDP by 2021. Foreign direct investment is expected to finance over half of the current account deficit in 2021.

24. **While capital outflows and pressures on the currency under the baseline are expected to decline, Argentina will remain vulnerable to further external shocks.** Gross external financing needs are expected to gradually reduce from US\$139.7 billion in 2018 to US\$112.3 billion in 2021. However, Argentina's large external financing needs and the reliance of exports on primary commodities, make the country vulnerable to a deterioration in global market conditions. This became apparent in August 2018, when market pressures on the Turkish Lira spilled over to impact the Argentine peso.

Table 2. Balance of Payment Financing Requirements and Sources, US\$ Billion

	2018	2019	2020	2021
Gross external financing requirements	139.7	124.5	113.0	112.3
Current account deficit	19.9	18.6	16.7	14.6
Amortization and service of bonds and loans	115.0	89.2	69.6	56.1
Public sector	95.6	76.6	58.2	46.3
LEBACs	10.8	3.3	0.6	0.0
Private sector	8.6	9.3	10.8	9.7
Accumulation of international reserves	3.4	3.6	10.6	15.7
Other outflows	1.5	13.0	16.1	25.9
Available external financing	139.7	124.5	113.0	112.3
Net FDI inflows	4.9	5.2	5.5	7.7
Financing through bonds and loans	114.9	89.2	69.6	56.1
Public Sector	95.6	76.6	58.2	46.3
LEBACs	10.8	3.3	0.6	0.0
Private Sector	8.6	9.3	10.8	9.7
Other inflows (including errors and omissions)	19.9	30.0	37.9	48.6
IMF credit	15.0	...	...	...

Source: IMF

25. **Inflation is expected to decline in 2019 supported by a tight monetary policy stance and a more independent BCRA.** Interest rates are expected to remain high as long as inflation expectations diverge from the official targets. Inflation is expected to increase to around 27 percent in 2018, before converging to the new inflation targets of 17, 13 and 9 percent in 2019, 2020 and 2021, respectively. The immediate halt of the BCRA financing of the Treasury, which was expected to amount to 1.1 percent of GDP in 2018, and a plan to address the growing burden of LEBACs, should provide room for a more effective monetary policy. To lower BCRA's reliance on issuing LEBACs and reduce the stock to about 3.5 percent of GDP by end-May 2021, the Government is committed to gradually repurchasing at least US\$25 billion of non-marketable government securities held by the BCRA by 2021. By end-September 2019, the BCRA is committed to limit the sale of LEBACs, open market operations, and repos to local banks to encourage re-intermediation through the banking system and to enhance BCRA control over peso liquidity.

**Table 3. Key Fiscal Indicators, Percent of GDP, General Government**

	2015	2016	2017	2018	2019
<i>Overall balance</i>	-5.8	-6.4	-6.5	-5.1	-3.8
Primary balance	-4.4	-4.7	-4.2	-2.8	-1.3
<i>Total revenues (and grants)</i>	35.4	35.1	34.8	35.0	35.6
Tax revenues	32.9	32.5	31.9	31.9	32.5
Taxes on goods and services	10.6	10.4	10.7	10.7	10.8
Direct taxes	7.9	6.7	6.8	6.8	7.0
Social insurance contributions	8.9	8.7	8.7	8.7	8.9
Taxes on international trade	1.9	1.6	1.3	1.5	1.6
Other taxes	3.7	5.2	4.4	4.2	4.2
Non-tax revenues	2.5	2.6	2.8	3.1	3.1
Grants	0.0	0.0	0.0	0.0	0.0
<i>Expenditures</i>	41.2	41.4	41.2	40.1	39.4
Current expenditures	37.5	38.0	37.6	37.1	36.8
Wages and compensation	12.4	12.3	12.1	11.5	11.2
Goods and services	2.8	2.5	2.7	2.4	2.3
Interest payments	1.4	1.7	2.3	2.4	2.5
Current transfers	15.7	16.4	15.7	15.6	15.6
Pensions*	9.0	9.0	9.7	9.9	10.2
Social assistance	2.3	2.7	2.7	2.7	2.7
Other social transfers and subsidies	4.4	4.7	3.3	3.0	2.7
Capital expenditures	3.6	3.4	3.5	3.1	2.6
Capital investment	3.0	2.8	3.0	2.6	2.1
Capital transfers	0.6	0.6	0.5	0.5	0.5

Note: (*) Does not include pension expenditure from provinces. Pension expenditure at the Federal and provincial level was 11.1 percent of GDP in 2016.

Source: IMF

26. **The Government has committed to increase the pace of fiscal consolidation and to achieve a primary balance by 2020.** The primary deficit is expected to decrease both at the federal level, from 3.8 percent of GDP in 2017 to 1.3 percent in 2019, and at the provincial level, from 0.4 percent of GDP in 2017 to a primary balance in 2019. The consolidation trend is expected to continue going forward. The bulk of the adjustment at the federal level is expected to come from capital expenditures and the continued reduction of energy and transport subsidies. Another sizable portion of the adjustment is expected to come from a rationalization of the public wage bill, one of the major drivers of public expenditure in the last decade. Following the fiscal pact, provinces are expected to cap the increase of current expenditures to inflation. Social protection expenditures at the federal level are going to be ring-fenced via a social spending floor⁴ agreed as part of the IMF-supported program, and some well-targeted social assistance transfers might expand,⁵ if needed. Fiscal revenues are expected to increase due to the rise in economic

⁴ A program floor has been set for federal government spending on the social safety net, equivalent to 1.3 percent of GDP (or AR\$177 billion) in 2018 and at a level that safeguards program coverage for 2019-2020, while allowing benefits to rise according to the existing indexation formula.

⁵ If economic conditions worsen such that the Government judges either the benefits under the universal child allowance program to be insufficient or the level of enrollment becomes higher than expected, spending on this specific program can be increased by up to 0.2 percent of GDP (or AR\$30 billion) per calendar year.



activity and exports, and efficiency gains at the federal and provincial level. The planned reductions in tax rates will be postponed.

27. **The Debt Sustainability Analysis (DSA) indicates that both the public and the external debt remain sustainable under the baseline scenario.** In the baseline scenario, the planned fiscal consolidation effort should yield a declining federal public debt-to-GDP ratio after 2018. The peso depreciation in 2018 is expected to increase the public debt-to-GDP ratio to 65 percent. But implementation of the Government’s fiscal program would make public debt converge toward 53 percent of GDP by 2023. Gross financing needs will continue to be high over the medium term, but under the baseline scenario they are expected to remain below 15 percent of GDP, the high-risk threshold for emerging markets.

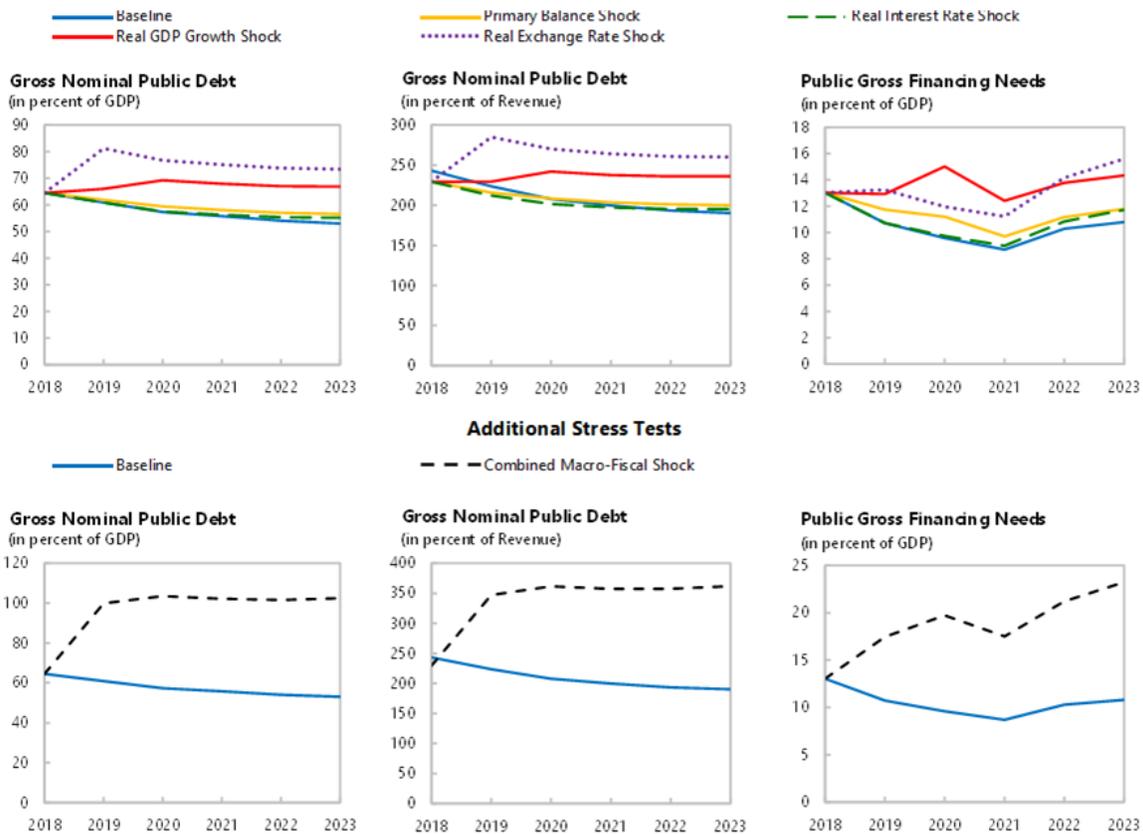
28. **However, there are risks to debt sustainability.** The standard DSA stress test (50 percent real depreciation with 0.25 pass-through) shows that debt could jump to 81 percent of GDP, above the high-risk threshold. Debt is also vulnerable to a growth shock (negative growth in 2019 and 2020), as the parameters of the stress test would take it to 70 percent of GDP. Given the relatively long maturity profile of debt, a shock to interest rates is not a major risk, although it is important to note that the debt considered in the DSA does not include BCRA debt, which is mostly short-term. Fiscal consolidation is critical to stabilizing the debt level. If the primary balance were to remain unchanged at its 2018 level (2.7 percent of GDP), debt would follow an upward trajectory, exceeding 70 percent of GDP by 2023. A “combined macro-fiscal” shock would cause debt to rise to nearly 103 percent of GDP and gross financing needs to 23 percent of GDP.⁶ In such a scenario, it may not be possible to finance this through market access. Moreover, increased risk perception following exchange-rate volatility, together with rising likelihood of continued rate hikes in the U.S., could also raise financing costs. These risks are, however, mitigated by the high share of federal government debt that is held by other public-sector entities and the relatively long maturity of dollar-denominated debt issued on international markets.⁷

⁶ This entails: (i) a negative shock to growth of one-standard deviation; (ii) a real depreciation of 50 percent, with a pass-through of 0.25 to inflation; and (iii) an interest rate shock of 200 basis points.

⁷ For further details on the DSA, see IMF (2018), *Argentina: Request for Stand-By Arrangement—Press Release and Staff Report*, July 2018, IMF Country Report No. 18/219.



**Figure 12. Debt Sustainability Analysis, Alternative scenarios: Federal Government
Macro-Fiscal Stress Tests**



Source: IMF.

29. **The baseline macroeconomic outlook has substantial downside risks.** There are inherent risks linked to the pace at which market confidence can be restored, especially in the context of a tightening of global financial conditions, which could lead to a deviation of the real exchange rate, economic growth, and fiscal adjustment paths from the baseline. Under this adverse scenario, as described in the IMF Staff Report for the Request for Stand-By Arrangement,⁸ the following outcomes could materialize: (i) lower rollover of Argentine debt by domestic and external investors; (ii) greater depreciation of the real and nominal exchange rates; (iii) higher paths for nominal and real interest rates; (iv) a larger contraction in output in 2018, a delay in recovery into 2020 and a lower rate of potential growth; and (v) a greater necessity to implement additional fiscal measures to stop the primary deficit from increasing. Somewhat lesser risks are posed by the potential for a deterioration in Argentina’s terms of trade (for example, due to a decline in soy prices), the impact of changes in trading partners’ tariff policies or weaker growth in neighboring economies. There are also risks related to the Government’s ability to implement the necessary adjustment. Despite measures to protect the poor from the costs of adjustment, political opposition to the program could still be substantial. In this context, deviations from the Government’s

⁸ See IMF (2018), *Argentina: Request for Stand-By Arrangement—Press Release and Staff Report*, July 2018, IMF Country Report No. 18/219. <http://www.imf.org/~media/Files/Publications/CR/2018/cr18219.ashx>



expected program could lead to a deterioration in market sentiment, limiting access to financial markets, and sparking a sell-off of Argentine assets as observed since April 2018.

30. **The social safety net system is well positioned to respond to a worse than expected social outturn, but could be strengthened to provide greater coverage and protection.** If earnings fall in real terms and employment creation slows, part of the gains in poverty reduction over 2004-2017 could be reversed. If this was to occur, the social safety net system covers a large share of the population through contributory and non-contributory family allowances, and pensions. About 60 percent of Argentines live in households with children and are either eligible for the contributory family allowance (35 percent of the population) or the non-contributory AUH benefit (25 percent of the population). Should a worker lose her formal job, the AUH automatically kicks in, providing to some (small) extent protection against loss of income. Simulations show that, in the event of a deeper economic slowdown, an expansion of the AUH could protect households from falling into extreme poverty (see Annex 4). Another 15 percent of households, who do not have children, benefit from pensions. Therefore, the Government can effectively reach three-quarters of households through the social protection system to potentially mitigate the impacts of a downturn. A quarter of the population live in households with no children or elderly, and are less protected from poverty in case of loss of income. Unemployment insurance provides some protection for those with formal wage employment (14.3 percent), but the benefit amount (around 11 percent of the average wage in the formal sector) and duration is limited. About 10 percent of the population, who are more likely to suffer from extreme poverty, is not reached by an automatic income transfer. Therefore, while the existing social safety net is an important tool to fight poverty, there is a need for it to be strengthened in terms of providing more complete coverage and adequate benefit size.

31. **The macroeconomic policy framework, anchored in the IMF program, is deemed adequate for the proposed operation.** The authorities have taken steps to stabilize the economy, including a faster pace of fiscal consolidation and disinflation, anchored in the SBA with the IMF (see Section 2.3). The macroeconomic stabilization program is expected to address external financing needs, and reduce external and internal imbalances. While macroeconomic risks remain high and require close monitoring, the macroeconomic framework, anchored in the IMF program, is considered adequate for the proposed operation.

2.3. IMF RELATIONS

32. **On June 20, 2018, the IMF Board of Executive Directors approved a 36-month SBA in an amount equivalent to SDR 35.379 billion (or US\$50 billion equivalent).** The SBA aims to restore confidence, reverse the current run on Argentine assets, and guard against concerns that Argentina will be unable to meet its large external financing needs. It supports the authorities' policy plan based on a macroeconomic program that (i) lessens the federal financing needs and puts public debt on a firm downward trajectory, with a fiscal adjustment to ensure that the Federal Government reaches primary balance by 2020; (ii) protects society's most vulnerable, by strengthening the social safety net and protecting the level of social safety net spending; (iii) strengthens the credibility of the Central Bank's inflation targeting framework by increasing Central Bank independence and adopting a new path of disinflation to bring inflation to single digits by end-2021; and (iv) lessens the pressures on the balance of payments by building international reserves. The phasing would be front-loaded since the program seeks to address an actual balance of payments need in the early stages of the program due to the tightening



of external financing conditions. Thirty percent of the access (SDR 10,613.71 million) has been made available upon approval of the arrangement (with equal phasing thereafter). The authorities have drawn the first tranche, having used one-half of the domestic counterpart of Fund resources (SDR 5,306.855 million) for budgetary purposes. The Government has indicated that it intends to treat the remainder of the arrangement as precautionary. The DPF series complements the SBA by focusing on medium-term growth-enhancing reforms, by strengthening the safety net, and through enhanced social monitoring.

3. GOVERNMENT PROGRAM

33. **The DPF series is fully aligned with the Government’s macroeconomic stabilization program and the broader agenda of supporting economic growth.** After taking office in late 2015, the new Administration initiated a process of transforming the economy to confront a difficult legacy of macroeconomic and structural imbalances. The Government’s master plan, with eight objectives and over 100 priority initiatives, was aimed at reintegrating Argentina into the global economy and reinvigorating economic growth, strengthening consumer and investor confidence, and improving the well-being of citizens. The specific objectives included: macroeconomic stabilization through more efficient public spending and reducing inflation, curbing informality, and reducing tax evasion. Other pillars of the Plan include boosting productivity (*Acuerdo Productivo Nacional*) and upgrading infrastructure (*Desarrollo de Infraestructura*); sustainable human development; safety, security and fighting drug trafficking; institutional reforms; state modernization and integration into the global economy. Many of the priorities embedded in the Plan have been successfully implemented. In the first three years of the Administration, the Government eliminated foreign exchange controls and moved to a flexible exchange rate regime, put in place an inflation-targeting framework for monetary policy, initiated the process of realigning utility prices and reducing subsidies, and restored credibility of official statistics. The Government also initiated structural reforms to strengthen the competitiveness of the economy and remove distortions holding back private sector-led growth.

34. **The ongoing financial sector turmoil and increasing external and fiscal pressures have led the Government to modify its macroeconomic policies to restore market confidence.** The Government requested IMF support to restore market confidence through macroeconomic policies that lessen the Federal Government’s financing needs and bring down public debt in an accelerated manner. The Government is also committed to (i) reinforce the Central Bank’s autonomy and set a realistic path to bring down inflation to single digits by the end of 2021; (ii) allow a flexible exchange rate as a shock absorber while increasing international reserves; and (iii) lower the current account deficit and reduce external financing needs. This policy mix will be complemented with measures to protect Argentina’s most vulnerable from the burden of the policy recalibrations. The Government has also reinforced its commitment to transparency and integrity.

35. **The macroeconomic stabilization program of the Government will be accompanied by continued efforts to implement structural reforms, aimed at strengthening the foundations of private sector-led growth, while protecting the vulnerable.** Specifically, the Government will work toward improving conditions for the private sector to make Argentina more attractive for both foreign and domestic investors through removing bottlenecks and market distortions. In this context, actions aimed at improving business conditions, through lowering barriers to starting a new business and improving access to credit for companies, are among the priorities. In addition, the Government is pursuing reforms



to strengthen the anti-corruption framework and align it to the international best practice. A central tenet of the Government's program is to protect the poor and vulnerable from any adverse impacts of the needed reforms by ensuring that automatic, well-targeted cash transfer programs are adequately resourced, by continuing to improve the safety net and by strengthening social monitoring. The Government has also taken steps to put growth on a more environmentally sustainable path. The Ministry of Environment and Sustainable Development was created with the mandate to mainstream sustainability considerations. In 2016, Argentina became one of the first countries to ratify the Paris Agreement deal under the United Nations Framework Convention on climate Change, recognizing the impacts of climate change on its economy (particularly for the agriculture sector and urban areas through droughts and floods). One key step was the launch of the program on renewable energy with the objective to increase to 20 percent (from 1.8 percent) the renewable energy contribution to the energy mix by 2025.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

36. **The DPF 1 is the first in a series of two operations supporting reform measures to (i) strengthen the foundations for private sector-led growth, and (ii) strengthen the social safety net and enhance fiscal equity.** Stabilizing the economy and restoring investor confidence is a primary concern of the Government. The DPF series complements and reinforces these stabilization efforts by supporting measures that tackle distortions and level the playing field for private sector-led growth, which are important measures to help sustain and increase potential growth. Similarly, strengthening the social safety net system and enhancing fiscal equity are central to the operation to protect the most vulnerable and improve inclusion.

37. **To support private sector-led growth, the Government is addressing policy distortions that act as barriers to private sector-led growth.** Productivity growth in Argentina has been very low over recent decades in an economic setting marked by macroeconomic and policy volatility.^{9,10} There are multiple factors holding back growth and productivity, such as the large barriers to competition and trade, as well as the high costs of doing business. Argentina is the fourth most closed economy in the world and integration into global value chains (GVCs)—i.e. global trade in parts and components rather than end products—is low. Limited competition prevents the reallocation of resources efficiently and effectively across sectors.¹¹ Firms struggle with limited access to finance and the large costs of doing business¹² related in part to low quality transport and logistics services.¹³ Capital markets are severely

⁹ Since 1960, the contribution of TFP to growth has been erratic, decreasing in three of the last six decades for an average of zero growth, compared to a 0.6 percent average annual growth rate in OECD countries and new high-income countries (see Argentina SCD, 2018).

¹⁰ Argentina has spent roughly one-third of the years since 1950 in recession. This is more time in recession than any other country other than the Democratic Republic of the Congo (Argentina SCD, 2018).

¹¹ Investors rank Argentina 137th out of 138 countries in openness to domestic and foreign competition. World Economic Forum's *Global Competitiveness Index 2017/2018*.

¹² The country ranks 92nd out of 137 countries in the World Economic Forum's *Global Competitiveness Index*, and 117th out of 190 countries in the World Bank's *Doing Business Survey*.

¹³ Logistics costs in Argentina, at 27 percent of GDP, are the second highest in Latin-America and nearly three times higher than the average for OECD countries (see Fay, M., Andres, L. A., Fox, C., Narloch, U., and Slawson, M. 2017. *Rethinking Infrastructure in Latin America and the Caribbean: Spending Better to Achieve More*. Directions in Development. World Bank).



underdeveloped, leaving little opportunity for financial market intermediation and reflected in low investment: gross fixed capital formation was 15 percent of GDP in 2016, significantly below the average among upper-middle income countries (30 percent). Domestic credit to the private sector is extremely low at under 14 percent of GDP,¹⁴ and most firms must finance expansion through own profits.

38. Continuing to build an inclusive social safety net and enhancing fiscal equity are an essential element of the program. The DPF series supports measures that combine growth and equity considerations with fiscal sustainability aspects. Creating fiscal space for priority social protection spending, while better designing and targeting social protection programs are central to effectively mitigate the short-term impact on vulnerable population and build long-term economic resilience and fiscal sustainability. Part of this agenda involves addressing the fragmentation of the social protection and health systems to ensure effective and efficient access to most vulnerable while reducing overlaps and costs for managing agencies, hence acting as effective automatic stabilizers. Similarly, improved targeting of the social tariff while reducing untargeted subsidies, can achieve three important objectives: (i) reducing the regressivity of the current system by redirecting fiscal resources from the top rich deciles toward the poor and vulnerable; (ii) generating fiscal savings by reducing the cost of very inefficient, leaking and untargeted subsidies; and (iii) reducing overconsumption of fossil fuels and providing incentive for sectoral investment by using price signals in the appropriate way.

39. Given Argentina's federal system, it is also critical that actions at the federal level be accompanied by well-designed actions at the provincial level. In this context, a successful implementation of the legislation on federal-provinces relations can achieve four important objectives: (i) direct more fiscal resources where the majority of the country's population and the poor live by compensating for the progressive erosion of fiscal transfers to the Province of Buenos Aires; (ii) generate fiscal space for public investment through the implementation of fiscal rules to contain recurrent spending and public employment growth; (iii) reduce the highly distortive, regressive and procyclical sale taxes and increase reliance on property tax collection to support household demand and private sector growth; and (iv) avoid that fiscal imbalances are simply pushed down to lower levels of government.

40. This DPF series has been designed to adapt to changing socio-economic circumstances. The Government recognizes the uncertainties in the outlook and has identified additional spending on pre-specified, high-impact social assistance programs. If economic conditions were to worsen the Government is ready to increase spending by up to 0.2 percent of GDP (or AR\$30 billion) per calendar year on high-impact social protection programs, such as the universal child allowance program. Moreover, if social conditions were to deteriorate, the second DPF operation could support greater spending on the social safety net. In addition, the trigger actions for the second operation can be adjusted in case a more adverse economic situation requires further efforts to mitigate a worse than envisaged social outturn and deeper fiscal consolidation measures. Under such adverse scenario, the existing social programs might need to be complemented to reach vulnerable population groups who currently are not covered, especially unemployed and informal workers without children. Other policy measures, such as the implementation of universal health strategy, might also need to be looked at in the context of a worsening fiscal situation.

¹⁴ Private credit to GDP was under 14 percent in 2016 compared to the 44-45 percent average for the LAC region: this the lowest among the LAC-7 economies, among which Mexico and Peru are closest at 24 and 37 percent respectively—and Haiti's share is higher than Argentina's at 17.5 percent of GDP.



41. **Five principles guided the design of the DPF series.** First, the program is focused on policy actions that are priorities of the Government and where the World Bank has a comparative advantage in terms of existing analytical work and an established engagement to underpin policy dialogue with the authorities. Second, selected prior actions are expected to significantly strengthen the foundations for private sector-led growth or the social safety net, and contribute to a more inclusive fiscal policy, and therefore reinforcing the stabilization efforts by the Government. Third, the program complements the support of other development partners. Fourth, the design of the DPF series incorporates lessons learnt from earlier operations in Argentina as well as the World Bank’s global experience on budget support operations. Fifth, should economic conditions deteriorate more than is expected in the baseline, the program is designed with the flexibility to adjust to support a deeper than expected fiscal consolidation and the mitigation of adverse impacts on the most vulnerable.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

PILLAR 1: STRENGTHENING THE FOUNDATIONS FOR PRIVATE SECTOR-LED GROWTH

42. **Actions under Pillar 1 support the Government in strengthening the foundations for private sector-led growth.** The Pillar focuses on measures that promote competition, trade, firm entry, and access to finance. The supported reforms are aimed at reducing the barriers firms face due to the lack of competition in the economy, costly and restricted access to intermediate and capital imports, costly bureaucracy, limited access to credit, and limited transparency and accountability. Competition has become disproportionately restricted in Argentina and the lack of pro-competition regulation, particularly in enabling sectors, such as telecommunications and transport, holds back firm competitiveness. In addition, reforms are needed to decrease business costs by reducing the barriers to trade in capital and intermediate inputs, and the burden for firms of bureaucratic processes. Argentina’s extremely shallow capital markets restrict investment and do not allow sufficient capital to flow into the enterprise sector. Increased capital investment by firms and SMEs facilitated by deeper capital markets is needed to increase firm productivity, growth and employment. Finally, Argentina faces broad challenges related to corruption, with marked weaknesses compared to its peers in the region in the ethical behavior of businesses. Prior to the introduction of the Corporate Criminal Liability Law, when private enterprises engaged in corrupt practices, the authorities were not able to establish legal liability or impose sanctions on the private entities. As a party to the Organisation for Economic Co-operation and Development’s (OECD) Anti-Bribery Convention, this caused Argentina to be out of line with the common legal sanctions that are in place for companies engaging in corruption. Rectifying this legal gap is an important step in leveling the playing field for firms through the prevention of corrupt practices.

Fostering competition and access to efficient input goods and services

Prior action #1 DPF 1: The Borrower has enacted a new Competition Law to strengthen the legal framework for competition, as evidenced by Law No. 27,442.¹⁵

Indicative Trigger #1 DPF 2: The Borrower has deepened competition reforms by issuing legislation and regulations to implement the competition law and for pro-competition reforms in key input services sectors.

¹⁵ Dated May 9, 2018, published in the Official Gazette No. 33,870 of May 15, 2018.



43. **Rationale.** In Argentina, competition is limited in many markets. For example, prices of basic food products are almost 50 percent higher than in international peer countries, and some of these are sold in relatively concentrated markets. Competition policy is needed to prevent firms from exercising significant market power, and to induce firms to operate more efficiently. Worldwide, firms that engage in anti-competitive behavior, such as cartels, charge prices that are on average 49 percent above the competitive level.¹⁶ However, in Argentina, such firms are unlikely to be prosecuted, risk only relatively mild sanctions and no private damage actions. Key input services sectors also underperform due to lack of competition. Logistics costs in Argentina, at 27 percent of GDP, are the second highest in Latin America, and the country lags in infrastructure and quality of Internet services, ranking 55th of 79 countries in the 2018 Global Connectivity Index, despite high mobile phone penetration. Regulatory frameworks in these sectors do not ensure competitive outcomes. For example, competition in railway transport is limited because of outdated tariffs and lack of competition in the service-segment (no competitive or open access policy). In the telecommunications sector, larger networks face limited competitive pressure from equally or more efficient smaller networks. These smaller networks are hindered from competing effectively by being exposed to unfavorable interconnection conditions compared to larger players, barriers to accessing public infrastructure and limited availability of additional spectrum to deploy frontier technology for mobile services.

44. **Substance of the Prior Action.** In May 2018, a new Law on Competition was enacted to set up a comprehensive framework for competition policy with a new and independent competition authority (Prior Action). The new Law introduces a leniency program for cartel-agreements; raises sanctions for anti-competitive practices; introduces a more efficient merger control system; and enables parties affected by anti-competitive practices to initiate damages actions. This complements multiple additional efforts by the Government to strengthen competition. For example, bylaws for mobile telecommunication interconnection limit the ability of dominant operators to exercise monopoly power and provide regulatory predictability to market players. The Government now is preparing subsequent reforms that will deepen competition reforms and continue inducing contestability in key markets (Trigger). Putting in place secondary legislation and regulations to implement the new Competition Law is critical to set up the specialized competition antitrust divisions in courts and determine procedures for the leniency program, among others. In telecommunications, a bill introduced into the Congress by the Executive in April 2018 and under consideration in the Senate aims to promote competition and reassign spectrum previously reserved for the national telecom SOE (*Empresa Argentina de Soluciones Satelitales Sociedad Anónima*) to telecom operators on a competitive basis. In May 2018, the Executive further laid out its plan to operationalize the open access policy in cargo railway, and continued efforts are being made on other aspects of telecommunications and transport.

45. **Expected Results and Indicators.** The implementation of pro-competition reforms is expected to increase the ability of firms to compete on a level playing field, while being able to access more efficient input markets. The introduction of a leniency program has been shown to lead to an increase in the number of cartels investigated and punished by 60 percent and deterrence on the formation of cartels in the same proportion.¹⁷ Even just one cartel deterred or broken up can change the dynamics of an entire

¹⁶ See Connor, J. 2014. *Price-Fixing Overcharges: Revised 3rd Edition* (February 24, 2014).

¹⁷ See Miller, N. H. 2009. "Strategic leniency and cartel enforcement." *American Economic Review*, 99: 750-768. Klein (2010) based on data from 23 OECD countries shows that leniency policies were associated with a decrease in the industry-level price-



sector. Industries affected by collusive behavior record a 20 to 30 percentage points lower labor productivity growth.¹⁸ Tackling anti-competitive practices in few key markets can yield substantial cost-savings for firms and households, as prices can drop by up to one third after cartels are broken up.¹⁹ For each cartel broken up and sanctioned, others are deterred from forming in the first place. In telecommunications, pro-competition reforms will lower access charges, enable the expansion of efficient competitors and contribute to the overall sector plan to increase coverage and service quality and further boost e-commerce development. The open access policy in railway will allow to introduce competition in the services segment, starting with the first new railway concession to be launched this year, and is expected to deliver more efficient rail freight services, complementing the proposed rehabilitation and expansion of the currently underused railway network. Estimates presented suggest that reducing regulatory restrictiveness in key inputs sectors, such as telecommunications and transport, would translate into an additional 0.1 percent to 0.6 percent growth in annual GDP, with all else being equal.²⁰ The proposed result indicator is the number of anti-competitive practices resolved through sanctions or corrective measures by the new competition authority over 2018-2020.

- Baseline (2017): 0
- Target (2020): 8

Support a more competitive tradable sector by reducing import barriers to input goods

Prior action #2 DPF 1: The Borrower has issued measures to reduce tariff and non-tariff import barriers for intermediate and capital goods, as evidenced by the Borrower's Secretary of Commerce's No. Resolution 170/2018²¹ and the Borrower's National Executive Decree No. 117/2017.²²

Indicative Trigger #2 DPF 2: The Borrower has implemented measures to further reduce the import duties charged on selected intermediate and capital goods.

46. **Rationale.** Argentina's economy is particularly closed to trade with limited integration to global value chains (GVCs). The average import tariff was 13.6 percent in 2015, well above the level of comparator countries, such as Mexico, Peru, South Africa, Australia and Poland. Non-tariff measures (NTMs) further restrict trade flows: in 2015 the trade-weighted average tariff was 12 percent and the ad-valorem equivalent of all NTMs was estimated at 22 percent, meaning that tariff and non-tariff measures

cost margin by 3 to 5 percent Klein, G. J. 2010. "Cartel destabilization and leniency programs: Empirical evidence," ZEW Discussion Papers 10-107, *Zentrum für Europäische Wirtschaftsforschung / Center for European Economic Research*.

¹⁸ See Symeonidis, G. 2008. "The effect of competition on wages and productivity: evidence from the United Kingdom". *The Review of Economics and Statistics*, 90(1), 134-146.

¹⁹ In South Africa, 200,000 people stood to be lifted out of poverty by the price reductions after the elimination of only four cartels. See World Bank Group. 2016. *South Africa Economic Update, February 2016: Promoting Faster Growth and Poverty Alleviation through Competition*. World Bank, Pretoria.

<https://openknowledge.worldbank.org/handle/10986/23762>

²⁰ See World Bank. 2018. Summary Report, and Martinez Licetti, M.; Ito, M.; Goodwin, T. K.; and Signoret, J. E. 2018. *Strengthening Argentina's integration into the global economy: policy proposals for trade, investment, and competition*. International Development in Focus. Washington, D.C.: World Bank Group.

²¹ Dated March 27, 2018, published in the Official Gazette No. 33,841 of March 28, 2018.

²² Dated February 17, 2017, published in the Official Gazette No. 33,570 of February 20, 2017.



can increase trade costs on average by as much as 34 percent.²³ To address these challenges, the Government has implemented trade reforms, among them reducing export taxes and the gradual reduction of certain import tariffs and the elimination of non-automatic licenses. On the tariff front, Argentina applies the common external tariff (CET) as part of Mercosur, but it can set tariffs independently of the CET for tariff lines identified in the Mercosur schedule as information and telecommunication products and as capital goods. On the non-tariff front, while the highly restrictive and non-transparent licensing regime (*Declaración Jurada Anticipada de Importación*) has been substituted with the integrated import monitoring system (*Sistema Integral de Monitoreo de Importaciones*), several tariff lines remain subject to non-automatic licenses and can be further reduced. On export taxes, the Government eliminated them on most goods, except for soybean and soy products, and other products such as biodiesel and scrap metals. Export taxes on soy goods, a principal export, were reduced by 5 percentage points in early 2016, and decreased by 0.5 percentage points each month from January to June 2018 (Decree 1343/2016). They remain as high as 27 percent (as of June 2018) for soybeans. The Government increased biodiesel export taxes in May 2018 from 8 percent to 15 percent, with the stated aim of harmonizing biodiesel and soybean oil export taxes over time. As part of the package of measures to accelerate the path of fiscal consolidation, it was announced that there would be a delay in further reductions below maintaining the average export tax rate on soy products at 25.5 percent.

47. **Substance of the Prior Action.** This operation supports the Government's efforts to continue improving supply-side measures to boost the integration of the Argentinian economy into global markets. In March 2018, the list of products still subject to non-automatic licenses was reduced to 1,171 tariff lines (the Borrower's Secretary of Commerce's Resolution 170/2018). This is a significant reduction, relative to the over 1,593 tariff lines subject to non-automatic licenses at end-2017, which accounted for close to 24 percent of goods imports. The Ministry of Production emphasizes that further liberalization of licenses would first target intermediate inputs and capital goods to better insert enterprises into GVCs. In addition, another part of this policy was the elimination by the National Executive as of March 2017 of import duties for certain IT products (72 tariff lines related to goods such as computers out of a universe of about 400 IT tariff lines) where the country can set tariffs independently of the Mercosur CET (the Borrower's National Executive Decree 117/2017). Going forward, the Government plans to continue reducing import costs (Indicative Trigger) for further integration into GVCs and increased competitiveness of the economy, including the export sector.

48. **Expected Results and indicators.** This reform can be particularly beneficial for firms that import inputs as it has the potential to substantially reduce uncertainty and trade costs, increase efficiency, and boost firm competitiveness. Reducing the number of non-automatic licenses and tariff barriers as permitted under the Mercosur's common tariff regime to liberalize computers, machinery and equipment, and other inputs, would boost imports, exports, and real GDP, as estimated by a dynamic general equilibrium model.²⁴ The proposed result indicator is the share of intermediate and capital goods imports, by value, subject to reduced tariffs or automatic licenses.

- Baseline (2017): 74 percent
- Target (2020): 84 percent

²³ Licetti, Iooty, Goodwin, and Signoret (2018).

²⁴ For example, eliminating the remaining non-automatic import licenses would increase imports by 1.0 percent, exports by 1.2 percent, and real GDP by 0.08 percent, above baseline projections through 2020 (see Licetti et al., 2018).



Encourage entry and exit to facilitating formal entrepreneurship

Prior action #3 DPF 1: The Borrower has enacted legislation to reduce the complexity of business registration and create a national unified firm registry, as evidenced by Law No. 27,444, Law No. 27,349, the Borrower's Resolution No. 5/2017, the Borrower's Resolution No. 6/2017, and the Borrower's General Joint Resolution No. 4098E-2017.²⁵

Indicative Trigger #3 DPF 2: The Borrower has introduced a single window interface to integrate business registration and post-registration procedures.

49. **Rationale.** High regulatory barriers to business entry and growth, including business registration formalities, discourage entrepreneurship and contribute to an unlevel playing field, stifling competition and productivity. Argentina's regulatory environment is not conducive to the entry and establishment of new firms whether domestic or foreign-owned, one of the key constraints to Argentina's greater integration into the global economy. The business legalization process in Argentina is one of the most complex worldwide, requiring 13 procedures²⁶ compared to two in Canada and eight on average in Latin America. Product market regulation, including barriers to entrepreneurship and complexity of business registration, is 30 percent more restrictive in Argentina than the average across 19 LAC countries.²⁷ The complexity of business registration in Argentina can be attributed to the persistence of outdated requirements (and multitude of agencies involved) combined with a lack of integration, data-sharing and harmonization. To facilitate formal entrepreneurship, several countries have implemented corporate law reforms to introduce new company types (e.g. Colombia, Greece, Germany) with greater flexibility for incorporation and operation.

50. **Substance of Prior Action.** The Government passed a package of laws and pertinent resolutions facilitating new business formation by (i) streamlining procedures for existing legal types; (ii) introducing a new modern legal type; (iii) strengthening the legal framework to encourage the use of digital technology for company incorporation and record keeping; and (iv) creating a unified national company registry to improve the quality and management of data on commercial activity. This action has two phases. The first has a short-term objective to speed up registration procedures for standard limit liability companies. In July 2017, a fast-track procedure was put in place to set up a limited liability company in 24 hours (*Sociedad de Responsabilidad Limitada—en 24 horas* or SRL24), which aims to speed up incorporation procedures, including the name reservation, company incorporation, obtaining the Unique Tax Identification Code, and the publication in the official gazette.

²⁵ Chapter IV of Law No. 27,444, dated May 30, 2018, published in the Official Gazette No. 33,893, of June 18, 2018; Chapter II of Law No. 27,349, dated March 29, 2017, published in the Official Gazette No. 33,604 of April 12, 2017; the Borrower's Resolution 5/17, issued by the Borrower's General Justice Inspectorate (*Inspección General de Justicia*), dated July 10, 2017, published in the Official Gazette No. 33,663 of July 11, 2017; the Borrower's Resolution No. 6/2017, issued by the Borrower's General Justice Inspectorate (*Inspección General de Justicia*), dated July 26, 2017, published in the Official Gazette No. 33,675 of July 27, 2017; and the Borrower's General Joint Resolution No. 4098E-2017, issued jointly by the Borrower's General Inspectorate of Justice (*Inspección General de Justicia*) and the Borrower's Federal Administration of Public Revenue (*Administración Federal de Ingresos Públicos*) dated July 27, 2017, published in the Official Gazette No. 33,676 of July 28, 2017.

²⁶ World Bank. 2018. *Doing Business 2018: Reforming to Create Jobs*. Washington, DC: World Bank.

<https://openknowledge.worldbank.org/handle/10986/28608>

²⁷ OECD-World Bank Group Product Market Regulation Database for non-OECD Countries 2016, as of March 2018.



51. The second phase has a more medium-term scope, and started with the introduction of a new more flexible legal form and will move to integrating all registration and post-registration processes under a single window. Effective as of September 1, 2017, a new simplified corporation (*Sociedad por Acciones Simplificadas, SAS*) was introduced through a new Venture Capital Support Law (Law 27,349 of April 12, 2017) and pertinent resolutions. The SAS offers greater flexibility for entrepreneurs than a standard limited liability company, including a streamlined registration process if standard articles of associations are used, the option to incorporate electronically, use digital signatures and electronic company books, and the ability to engage in multiple unrelated activities.²⁸ Authorities expect that in a few years most firms will choose the legal form of the SAS due to these benefits.²⁹ Law 27,444 (of May 30, 2018), provided clear guidelines for managing electronic company books for all company types. It also created a unified national registry housed under the Ministry of Justice and Human Rights to centralize information on commercial activity from 24 commercial registries at the provincial level. Such a centralized depository of information will facilitate regional integration and harmonization across the country. It will also improve data quality on existing firms, agencies such as the revenue agency (*Administración Federal de Ingresos Públicos, AFIP*) could cross reference their database with the new national registry. AFIP could also improve current tax auditing procedures with electronic company books. Information will be encrypted and easily accessible in a cloud environment. Given that post-incorporation procedures contribute largely to complexity regardless of legal type, an electronic single window further reduces regulatory barriers to entry and facilitates data-sharing and enforcement among agencies. The plan is to introduce a single window for registration and post-registration procedures in early 2019 (Trigger DPF 2). The single window will be administered by a key agency in the registration process such as the Ministry of Justice and Human Rights will facilitate post-registration formalities. It is not likely to impact current labor or environmental/safety regulations, but rather it would facilitate compliance with registration formalities.

52. **Expected Results and Indicators.** The implementation of comprehensive business registration reforms is expected to lower bureaucratic barriers to entry and encourage formal registration of firms. It will also improve the quality and accessibility of data on registered firms. Economic literature and empirical evidence suggest that policies aimed at reducing regulatory barriers to entry can have positive effects on firm registrations, formal job creation, and productivity.³⁰ Cross-country research on the effect of entry barriers on productivity and output shows that higher entry costs significantly reduce output per worker and that they do so by lowering total factor productivity. An increase in entry costs by 80 percent of income per capita is estimated to decrease total factor productivity and output per worker by 22 percent and 29 percent, respectively.³¹ The Government's medium-term objective is to migrate most

²⁸ The multiple purpose provision offers much greater flexibility than in the case of the LLC where the so-called social object has to be determined and precise unless the indicated activities are related or complementary.

²⁹ According to the *Inspección General de Justicia* (IGJ), the number of new SAS created increased by 80 percent from 196 in September 2017 to 360 in May 2018, compared to 598 and 545 SRLs respectively (including ones using the fast-track procedure under SRL24)). The majority of companies in Argentina are incorporated in Buenos Aires.

³⁰ Research in Mexico (Bruhn, 2011; Bruhn 2013; Kaplan et al, 2011), Peru (Mullainathan and Schnabl, 2010), Colombia (Cárdenas and Rozo, 2009) and Portugal (Branstetter et al, 2010) documented an increase in business registration rates following business registration reforms.

³¹ Barseghyan, L. 2008. "Entry costs and cross-country differences in productivity and output," *Journal of Economic Growth*, June 2008, Volume 13, Issue 2, pp 145–167.



registrations from SRLs (including SRL 24) to SAS. The proposed indicator is the share of new commercial companies registered as simplified corporations (*Sociedad por Acciones Simplificadas, SAS*):

- Baseline (2017): 5 percent
- Target (2020): 50 percent

Deepening the financial sector

Prior action #4 DPF 1: The Borrower has enacted a Productive Financing Law that reforms the legal framework for capital markets and financing instruments in the enterprise sector to promote private investment, as evidenced by Law No. 27,440.³²

Indicative Trigger #4 DPF 2: The Borrower has implemented the legal framework for capital markets and for the public credit guarantee scheme for SMEs (*Fondo de Garantías Argentino, FoGAR*).

53. **Rationale.** Argentina's capital markets' depth is well below regional and global comparators. Only 11 percent of small companies and 15 percent of medium-sized companies finance investments with bank credit, compared to a regional average of 25 and 28 percent, respectively. This significantly restricts financing activity in areas beyond outright bank credit and does not allow sufficient capital to flow into the enterprise sector and into emerging new industries. Incentives are needed for investments in long-term private saving instruments, jump-starting bond, stock and mortgage securities markets and providing opportunities for SMEs to gain access to financial markets, including through the issuance of marketable securities. Additional measures are required, such as equalizing tax treatments across instruments, easing the structuring of asset-backed securities to raise financing, and a host of regulatory modernization and simplification measures. Support such as credit guarantees are necessary to incentivize the banking sector to extend financing to micro, small and medium-sized enterprises (MSMEs) with insufficient collateral. Credit guarantee schemes are a widely-used instrument to help SMEs access financing. To fulfill their potential, they need to operate with adequate capital and a sound governance and operational framework. The current credit guarantee system, composed primarily of privately-owned mutual guarantee companies (*Sociedades de Garantía Recíproca, SGRs*), is sub-optimal. The volume of outstanding guarantees amounts to only 0.2 percent of GDP. Moreover, leverage is well below statutory limits (400 percent), while the number of SMEs served is less than 4 percent of SMEs. Finally, the system is characterized by high risk aversion and operational practices that may encourage moral hazard and limit effectiveness.

54. **Substance of the Prior Action.** The Productive Financing Law reforms the legal framework for capital markets and financing instruments in the enterprise sector by adding new market enabling features and modifies earlier laws on securities, SMEs, housing finance, mutual funds, taxes, and trusts, among others. The new law provides a reformed framework in several areas including improved regulation according to international standards in areas of transparency and governance, easing the participation of foreign investors in shareholder meetings, eliminating a past clause where the regulator could intervene in issuing firms' boards, and promoting integration of capital market exchanges and institutions across the country via the use of information technology (IT). Frequent issuers of securities will be able to receive an initial blanket authorization, especially for subsequent repeat issuances in order

³² Dated May 9, 2018, published in the Official Gazette No. 33,868 of May 11, 2018.



to take advantage of timely market opportunities. A framework for private placements (non-exchange listed) securities is to be rolled out for securities to be purchased by qualified institutional investors. This will allow the expansion of this market and broader issuance of, inter alia, project (infrastructure) bonds. The removal of tax disadvantages applied to capital gains in closed-end funds and trusts is needed to create a level playing field vis-à-vis ordinary mutual funds and other financial instruments. The acceptance of electronic invoicing by SMEs is a key step allowing SME invoice assets to be more easily tradable or used to back market-traded securities. Tax incentives are also provided to individuals investing in long-term saving instruments. The framework for the mortgage market is strengthened by facilitating the use of trusts and securitization of mortgage obligations into mortgage bonds, as well as launching the mortgage insurance industry. The Trigger for DPF 2 focuses on the steps necessary to implement critical parts of the new capital markets legal framework, namely the putting in place of procedures, regulations and listing requirements to facilitate market issuances and increase the range of available market securities. It also supports the implementation of a public credit guarantee scheme based on international best practices (*Fondo De Garantía Argentino*, FoGAR). This scheme has been set up on a pilot basis with an initial capital of 650 million pesos or US\$23 million, which it plans to leverage four times by providing partial, i.e. up to 80 percent, guarantees to financial institutions and partial counter-guarantees (i.e. reinsurance) to SGRs. It is expected to adopt a sound corporate governance structure, with an independent and professional board of directors. Additionally, it is expected to pursue an explicit objective of financial sustainability of its operations.

55. **Expected Results and Indicators:** Capital market reforms will allow for a more flexible, varied and versatile capital market providing much better potential for growth in assets and increased financing instruments for enterprises. This will be reflected in larger volumes of capital channeled via the capital markets (measured vis-à-vis GDP) and an increased number of financial instruments and mechanisms rolled out on the market (bonds, equities, investment funds, securitization instruments, and others). However, the impact of the new capital markets framework will take time to deliver results, and requires not only successful macroeconomic stabilization, but in addition a restoration of confidence among investors and deposit holders in the financial system, which has been lacking for over one and half decades. An indicator was selected that could reflect the impact of new regulations in the short-term. This is based on the implementation plan and targets of the National Securities Commission (*Comisión Nacional de Valores*). The target selected was the share of (all issuing) firms that issue securities that are using the streamlined pre-authorization process put in place for those firms that have multiple issuances:

- Baseline (2017): 0
- Target (2020): 59 percent

Strengthening transparency and anti-corruption

Prior action #5 DPF 1: The Borrower has enacted a Corporate Criminal Liability Law strengthening the anti-corruption framework and bringing the Borrower in line with international standards, as evidenced by Law No. 27,401.³³

Indicative Trigger #5 DPF 2: The Borrower has issued new regulations on ethics and integrity in the public administration to prevent and investigate corruption practices within the executive branch.

³³ Dated November 8, 2017, published in the Official Gazette No. 33,763 of December 1, 2017.



56. **Rationale.** Lack of transparency and weak accountability have been critical issues affecting Argentina’s development. The challenges related to corruption in Argentina are quite broad, they extend through all of the areas measured by the World Economic Forum’s Global Competitiveness Index taking in ethics, corruption and undue influence (for example judicial independence, diversion of public funds, public trust in politicians, irregular payments in public contracts, and favoritism in the decisions of government officials), and with notable weaknesses when compared to peers within the region in the areas of irregular payments in tax collection and ethical behavior of businesses. Although Argentina has had specific legislation in the areas of transparency and integrity in public sector management since the end of the 1990s,³⁴ results to date have been limited. The ability to enforce legislation has been constrained, in part, by the lack of credible entities, in the administrative jurisdiction, with the mandate, independence and capacity to monitor, detect, investigate and sanction unethical behaviors or corruption practices within the public administration. Similarly, when corruption practices involved private companies, authorities were unable to establish legal liabilities or impose sanctions to such entities as responsibilities were easily transferred to individual employees, thus resulting in impunity situations and the prevalence of corruption systems. Until 2017, Argentina was one of the few countries not to comply with several provisions of the United Nations Anti-Bribery Convention, including those related to corporate liabilities.³⁵

57. **Substance of the Prior Action.** The new Law on Corporate Criminal Liability (Law 27,401) strengthens the ability to prevent the involvement of private companies in corruption practices. It reflects international best practices and is aligned with OECD standards and principles as defined in the organization’s Convention on Combatting Bribery in International Business Transactions.³⁶ While the OECD Secretariat reviewed some of the drafts the Law before it went to Congress, the final, enacted Law is due to be reviewed by the OECD’s Working Group on Bribery in June 2019. The Law (i) establishes criminal liabilities to legal persons or corporations for specific corruption practices providing a clear description of criminal offences subject to penalties as well as applicable exemptions, and dictates the corresponding administrative penalties, remedies and fines; (ii) establishes the obligation for firms to strengthen their internal control systems and compliance frameworks through the development of corporate integrity plans and guidelines, and provides the incentives to comply with such provision by, for example, imposing them as a condition to bid for government contracts, or by making them a mitigating element to temper penalties when firms are found responsible of being involved on corruption practices; and (iii) amends parts of the criminal code modifying and reinforcing penalties for individuals involved in corruption practices on both the Government and firms’ sides. The Law was approved after broad consultation with private sector organizations,³⁷ which led to the adoption of a reasonable set of penalties—broadly in line with international standards—as well as acceptable procedures for their

³⁴ *Ley de Ética Pública en el Ejercicio de la Función Pública*, Law 25,188.

³⁵ United Nations Convention against Corruption (UNCAC), Article 26, available at: http://www.unodc.org/pdf/corruption/publications_unodc_convention-s.pdf.

³⁶ Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions, Section 2, available at: http://www.oecd.org/daf/anti-bribery/ConvCombatBribery_Spanish.pdf.

³⁷ Several chambers of different firms were consulted including, among others: *Cámara de Comercio de los Estados Unidos en Argentina*, *Cámara Argentina de la Construcción*, *Asociación de Bancos Argentinos (Adeba)*, *sociación de Bancos de la Argentina (A.B.A)*, *Instituto para el Desarrollo Empresarial de la Argentina (IDEA)*, *Asociación Argentina de Ética y Compliance*.



enforcement, and enjoyed of multi-partisan support in Congress, including the unanimous vote in the Senate, thus mitigating the risk for the new legislation to be contested or reverted in the future.³⁸

58. On the Government side, new regulations including an updated Law on public ethics and integrity (expected to be presented to Congress during the current legislative period) will strengthen the existing regulatory framework in the public administration by: (i) introducing aspects related to conflict of interest management for government officials and public servants; (ii) strengthening and expanding the existing asset and financial disclosure procedures and systems to also cover interest declarations for a larger number of public servants; and (iii) strengthening the Anti-corruption Office's ability and authority to prevent and investigate corruption practices within the public administration (Trigger DPF 2). The set of regulations that are being put in place complement other actions to foster transparency and accountability in the public administration, which includes the recent passage of an Access to Public Information Law and the creation of an Access to Information Agency.

59. **Expected Results and indicators.** The prior action is expected to strengthen the accountability framework and the ability to prevent and control corruption practices. The new Corporate Criminal Liability Law provides incentives for private companies to strengthen their internal control systems fostering self-regulation mechanisms. The new regulations on public ethics and integrity will deploy similar incentives on the Government side and will strengthen its ability to flag, detect and intervene over corruption practices increasing the risks for public officials to engage in such activities. Effective implementation of these new policies will be measured by the increased number of companies and firms that develop integrity plans. The indicator used to gauge progress is the Number of integrity plans registered in the Government procurement platforms for goods, services, and public works:

- Baseline (2017): 0
- Target (2020): 80

PILLAR 2: STRENGTHENING THE SOCIAL SAFETY NET AND ENHANCING FISCAL EQUITY

60. **Actions under Pillar 2 support reform measures that strengthen the social safety net and enhance fiscal equity to complement the fiscal consolidation that the Government is implementing.** Overall public expenditure grew substantially over 2006-2016, with the National Government accounting for over two-thirds of the rise. More than three-quarters of the increase in expenditure was driven by pensions, economic subsidies, and the public-sector wage bill, while capital expenditures remained flat. Creating fiscal space for priority spending, while better designing and targeting social protection programs and expanding universal health coverage are central to effectively mitigate adverse economic impacts of shocks on vulnerable population in the short run and build economic resilience and fiscal sustainability in

³⁸ At the time the law was discussed and approved by the Congress, the political coalition supporting the Executive Power 38 represented a minority in each chamber (35 percent in the Chamber of Deputies and 21 percent in the Senate). However, out of the 65 Senators present in the voting session (out of 72 total), the law was approved unanimously. In the Chamber of Deputies, it received 79 percent support: 144 votes approved the law, six were in opposition, and 31 abstained (were part of the session but did not take part in the vote).



the long term. Given Argentina's federal system, it is also critical that actions at the federal level be accompanied by well-designed actions at the provincial level.

Improving targeting and coverage of social tariffs as subsidies are reduced

Prior action #6 DPF 1: The Borrower has approved regulation to protect the most vulnerable while reducing transport subsidies, as evidenced by the Borrower's Resolution No. E-77/2018.³⁹

Indicative Trigger #6 DPF 2: The Borrower has revised the social tariffs system to better target the bottom four deciles of the income distribution.

61. **Rationale.** During the last decade, a wide range of subsidies were introduced to initially protect households from inflation and economic crisis but over time they have been key factors behind the growth of public expenditures. Subsidies rose substantially from 0.8 percent of GDP in 2005 to 4.9 percent in 2014 or almost a fifth of total expenditure at the federal level. As of end-2017, and with important efforts, energy and transport subsidies had been reduced to half under the new Government, accounting for 2.4 percent of GDP. However, a large part of the remaining subsidies is being received by the middle and upper classes. In addition, half of the subsidy in the case of electricity and natural gas go to non-residential consumers. The misalignment between tariffs and cost distorts incentives to investors in terms of investment and production decisions, and encourages an inefficient use of energy and emissions by users. At the same time although bus transport subsidies are progressive since people in the lower deciles use bus transportation more intensively, there has been little incentive to rationalize routes, invest in infrastructure and control operating costs.

62. In early 2016, a federal Social Tariffs (STs) scheme was established to mitigate the impact of future reductions of residential subsidies for electricity and network gas. In addition, targeting was improved by expanding the eligibility criteria to include the beneficiaries of three additional social programs, while the discount for the pre-existing Transit Social Tariff (TST) was increased from 40 to 55 percent of the full tariff. While the STs systems have proved fundamental to cushion the increases in the costs of energy and transport, there are still significant gaps in the coverage, targeting errors and challenges related to the institutional set up. A more efficient and effective ST scheme would help improve progressivity by protecting more the poor and vulnerable in the short- to medium-term, while generating fiscal savings by reducing the cost of very inefficient and untargeted subsidies. To this end, the institutional set up and design could be strengthened for the social tariff to fully achieve its stated objectives. Currently, the STs (including residential services and urban transport) are legislated through different regulatory agencies resolutions including provincial levels agencies which results in lack of consistency in eligibility criteria or methodology across sectors or regions. Regarding the design, large exclusion and inclusion errors remain as many vulnerable families are excluded from the current system of STs and the current eligibility criteria may include users who are not necessarily classified as vulnerable. For example, in the bottom 40 percent of the income distribution, only 57 percent of users qualify for the TST, mostly through student discounts, while a third of families on the richer half of the distribution qualify for TST.

63. **Substance of the prior action.** The Government has implemented an integrated tariff system for metropolitan transport while subsidies have been gradually decreased. Key features of this measure (DPF

³⁹ Dated January 30, 2018, issued by the Borrower's Ministry of Transport, published in the Official Gazette No. 33,803 of January 31, 2018.



1 Prior Action) is that it introduces a system that benefits more low-income families living in the outskirts of metropolitan regions, by introducing a multi-modal fare integration that allow more segmented trips with multimodal transfers. Going forward, the program will support a comprehensive revision of the overall STs system to better target the vulnerable (Indicative Trigger), as subsidy reduction continues in energy and transport.

64. **Expected Results.** The proposed measures will result in a consistent, equitable, and efficient social tariff scheme. The change in targeting aims to increase the coverage of STs among the Bottom 40 by consistently reducing inclusion and exclusion errors. Over the medium term, the proposed measures would provide incentives to the operators to invest and efficiently provide services and to the users to improve energy efficiency. The proposed result indicator is the share of beneficiaries of social programs⁴⁰ that have access to the STs:

- Baseline (2017): 22 percent
- Target (2020): 27 percent

Enhance fiscal responsibility at the provincial level and equity of intergovernmental transfers

Prior action #7 DPF 1: The Borrower has enacted legislation to enhance fiscal responsibility at the provincial level and improve equity in intergovernmental transfers, as evidenced by Laws No. 27,428 and 27,429.⁴¹

Indicative Trigger #7 DPF 2: The Borrower has issued secondary legislation to implement the Fiscal Pact with Provinces.

65. **Rationale.** The combination of the growing process of decentralization of spending responsibilities to the provinces with their limited tax capacity, has made federal transfers play a fundamental role in provincial public finance (vertical imbalance). Fiscal relations between the Federal Government and provinces have been anchored to the revenue-sharing system (so-called *coparticipación*), but many additional automatic and non-automatic transfers were created to complement provincial funding. As a result, the intergovernmental transfer system has increasingly become more complex and fragmented, weakening the original equalizing and efficiency objectives. The overall net result was a progressive erosion of resources directed towards the Province of Buenos Aires, where the largest share of the Argentinean population (39 percent) and the poor household live (35 percent). In addition, several provinces became highly dependent on the easy-to-collect and distortive sales tax (*Ingresos Brutos*), which is a cascade tax, levied on every stage of production, increasing prices, incentives to vertical integration, harming exports and creating market distortions. Finally, the rise of public employment over the last ten years has increased the rigidity of provincial public expenditure, limiting the margin of adjustment in the short term and the fiscal space for investment and other priority spending in the long term.

66. **Substance of the Prior Action.** The proposed Prior Action is an important step toward redirecting fiscal resources where most of the poor are, while leaving the level of the automatic fiscal transfers to

⁴⁰ Social programs include: AUH, retirees and pensioners, students, domestic service, war veterans, pregnancy allowances, Prog.R.Es.Ar fellowships, *Monotributo Social*, and *Hacemos Futuro*.

⁴¹ Both dated December 21, 2017, published in the Official Gazette No.33,782 of January 2, 2018.



other provinces unchanged. The Fiscal Pact commits provinces to gradually reduce highly distortive and regressive sales tax rates (*Ingresos Brutos*) by sector within the next 5 years, and compensate for the revenue shortfall with an increase of the progressive real estate tax. In this context, a newly established Federal Agency of Property Valuation will be in charge of assessing market values on properties across the country. In addition, the Fiscal Pact reinforces the Fiscal Responsibility Regime (FRR) at the provincial level, generating fiscal space for public investment by the implementation of fiscal rules to contain recurrent spending and public employment growth. Going forward, an effective implementation of the Fiscal Pact (DPF 2 Trigger) is necessary to ensure long lasting results of the reform, avoiding that fiscal imbalances are simply pushed down to lower levels of government, mounting large future contingent liabilities.

67. **Expected Results and Indicators.** The proposed prior action should result in a gradual shift of Argentina’s (sub-national) tax structure from very distortive and regressive composition toward a more efficient and progressive taxation. In addition, the FRR will help reduce procyclicality and create more space to run countercyclical fiscal policy and/or increase public investment in infrastructure, currently at very low levels. Over time, public transfers will be directed more toward development needs (equalization objective) and poverty (convergence objective). The proposed result indicator to measure the progress in the implementation is the share of the revenue of sales tax (*Ingresos Brutos*) in total own revenues of provinces, which is expected to decline below the 2017 baseline value:

- Baseline (2017): 72 percent
- Target (2020): 66 percent

Strengthen the social safety net system

Prior action #8 DPF 1: The Borrower has introduced a single window system at ANSES, to simplify and facilitate access to social benefits, social tariffs, health insurance, and other social programs, as evidenced by the Borrower’s National Executive Decree No. 339/2018.⁴²

Indicative Trigger #8 DPF 2: The Borrower has made a plan for the provision to allow for additional social assistance spending of up to 0.2 percent of GDP in case of the deterioration in economic conditions.⁴³

68. **Rationale.** Argentina has an important system of social protection programs, including contributory and non-contributory pensions and family allowances, unemployment insurance, youth employment programs, housing programs, social tariffs, and universal health insurance. The authorities have agreed with the IMF on setting a floor on federal spending on the social safety net, equivalent to 1.3 percent of GDP in 2018, to be channeled through the existing social safety net to minimize the effects of the adjustment on the most vulnerable.⁴⁴ However, the administration of these programs is fragmented.

⁴² Dated April 19, 2018, published in the Official Gazette No 33,855 of April 20, 2018.

⁴³ Specifically, on high quality social assistance programs targeted at the most vulnerable under *Asignaciones Universales para Protección Social*.

⁴⁴ The floor on existing social safety net spending covers a set of budgetary programs named *Asignaciones Familiares*. This includes the universal child allowance program (*Asignación Universal por Hijo*, AUH) and the allowance for pregnant mothers (*Asignación por Embarazo*) under the *Asignación Universal para Protección Social* programs, which are efficiently administered, have reasonably wide coverage, and have been shown to improve socioeconomic outcomes in the target population. In



ANSES (the National Social Security Administration) is responsible for most income transfers schemes at the federal level, but other programs are managed by the Ministries of Social Development, Education, Health, Energy, Transport, and Interior, through its independent territorial networks, as well as others under provincial or municipal jurisdiction. Access to some of these programs have been difficult, due to bureaucratic and time-consuming processes in multiple agencies, particularly in areas with lower coverage of different public agencies. This affects poor and vulnerable families, that not only are preventing from receiving benefits for which they are eligible, but also increases transaction costs for beneficiaries and managing agencies.

69. **Substance of the Prior Action.** A “Social Single Window” system was created on April 2018 to centralize in ANSES most processes related to social policies and act as a representative of other agencies, interacting with individuals on their behalf. The system is expected to first integrate procedures currently managed by the Ministry of Social Development (including enrollment in programs, certification of compliance and payments) and is expected to rapidly expand by including a tax registration system for low income self-employed workers (*monotributo social*), non-contributory pensions, social tariffs and the issuance of National IDs and Passports. The system would be also open for subnational (provincial and municipal), as well as other national programs, and will advance towards a fully integrated model.

70. The implementation of the social single window system is expected not only to have an important inclusion effect by facilitating access to government services to the most vulnerable population, but it is also critical to strengthen the social safety system by making it more flexible and able to adapt if economic conditions worsen. With that goal, the Government recognizes the uncertainties in the outlook and has committed to increase financing for pre-specified, high-impact social protection programs, namely for benefits under the Universal Allowances for Social Protection programs (*Asignación Universal para Protección Social*),⁴⁵ by as much of 0.2 percentage points of GDP (equivalent to approximately 30 percent of the current budget) or AR\$30 billion per calendar year.

71. **Expected Results and indicators.** The proposed prior action should result in expanded access of poor and vulnerable families in need of social support. The proposed results indicator here is the number of different programs that have been included in the Single Window system. An additional indicator, monitoring the number of individuals that use the system, would be included in DPF 2.

- Baseline (2017): 0
- Target (2020): 10

addition, the floor will protect social spending on contributory family allowances, including allowances to *monotributistas* which also are included under this budgetary program.

⁴⁵ They include the universal child allowance (*Asignación Universal por Hijo*), the pregnancy allowance (*Asignación por Embarazo*), and the education assistance (*Ayuda Escolar Annual*).



Effective Universal Health Coverage

Prior action #9 DPF 1: The Borrower has signed a separate framework agreement with fifteen (15) provinces to implement universal health coverage, as evidenced by the agreements signed by the Borrower, through its Minister of Health, with each of the following provinces in June of 2018: (a) Corrientes; (b) Jujuy; (c) La Pampa; (d) La Rioja; (e) Mendoza; (f) Misiones; (g) Salta; (h) San Juan; (i) Santiago del Estero; (j) Tierra del Fuego; (k) Tucumán; (l) Catamarca; (m) Chaco; (n) Córdoba; and (o) Entre Ríos.

Indicative Trigger #9 DPF 2: The Borrower has completed the implementation of universal health coverage by signing the framework agreement with the remaining provinces.

72. **Rationale.** Despite relatively high spending per person, health outcomes in Argentina are generally poor compared to its peers or even to countries with lower per-capita incomes. In addition, there are significant inequities and inefficiencies across provinces and subsystems. The Northeast and Northwest regions have the poorest health outcomes and the lowest rates of effective coverage for key services. In addition, individuals exclusively using the public health subsystem (mostly the poor) are less likely to receive noncommunicable disease (NCD) related screening services. These inefficiencies and inequities are due in part to the highly fragmented health system, both in terms of the management of resources and the lack of redistributive mechanisms across the different subsystems, as well as the lack of instruments for coordination across subsystems (public, social security and private) and across provinces.

73. To reduce the fragmentation in the system and improve the quality and efficiency of the services delivery, the Government launched in August 2016 a Universal Health Coverage (UHC) initiative⁴⁶ based on principles of integrated delivery systems, continuity of care, and the assignment of a primary care provider for everyone, and managed by the provincial health systems. This is a wide initiative, that includes multiple aspects of service delivery and a focus on primary and preventive health care, such as the creation of Family Health Teams, the provision of medications, and the adoption of Electronic Health History systems. In addition, the UHC strategy includes mechanisms to enable public health facilities to bill the contributory health insurance system (*Obras Sociales*) when their members use the public facilities, which aims at increasing revenues for the public sector. The UHC strategy would focus on interventions to enhance efficiency and obtain better health outcomes without increasing public funding. The cost of the initial investment in the improved systems underlying the UHC strategy is estimated at US\$15 to US\$50 million a year (0.002 percent to 0.008 percent of GDP) for the first three years; thereafter, savings are expected to accrue due to the reforms. Annex 5 contains a more detailed explanation of the fiscal implications of the health reform.

74. **Substance of the Prior Action.** As most health services in Argentina are delivered by provincial authorities, their commitment to the UHC strategy is critical to ensure a successful implementation. To this end, a framework agreement was approved by Resolution 1013/2018 and signed by fifteen provinces

⁴⁶ The World Bank is supporting the UHC initiative through an investment project, approved on May 18, 2018, which supports the implementation of some aspects of the strategy, by contributing to financing part of the capitation costs of the system and supporting institutional strengthening of the national and provincial ministries.



by June 30, 2018 to implement the strategic areas for UHC implementation as well as financial flow principles and conditions for participation in the program.

75. **Expected Results and Indicators.** The UHC strategy is expected to increase the effective and equitable coverage of key health services provided to the vulnerable population and increase the institutional capacity of the national and provincial ministries of health to implement mechanisms for an integrated delivery system. Efficiency gains would stem from measures to address various coordination problems, reducing avoidable hospital care through better screening and prevention, including measures such as: (i) referral networks for diagnosis, treatment and follow-up of complex conditions/diseases; and (ii) improved drug-tracking, to help ensure rational prescribing and use of drugs. Savings are also expected to be generated through the centralized procurement of pharmaceuticals. The proposed result indicator is the number of provinces actively implementing the new UHC system.

- Baseline: 0
- Target (2020): 20

Analytical Underpinnings

76. The DPF series supports measures where the World Bank has expertise and maintained an engagement with the Government through analytical work and technical assistance over 2016-2018. Each of the areas of focus is backed by specific technical work. The World Bank background work includes a Public Expenditure Review at the National Government level and for the Province of Buenos Aires; technical advisory work on capital markets development; a trade, competition and investment report that estimates the cost of lack of insertion in the global economy, comes up with a priority set of reforms in each area and shares relevant international experience; transparency, access to information and state modernization; and analysis of the distributional and poverty implications of reforms across a number of areas and on identifying the policy response to maximize opportunities/minimize exclusion from the impact of the Government’s reform agenda. In addition, the World Bank has been providing technical and financial assistance to Argentina over more than a decade in reforming its social safety net system and expanding effective coverage of health care for the vulnerable population which is not covered by the formal health insurance system.

Table 4: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Operation Pillar 1: Objective	
Prior action #1	Strengthening Argentina’s Integration in the global economy: Policy proposals for trade, competitiveness, and investment (2018). Systematic Country Diagnostic (2018).
Prior action #2	Strengthening Argentina’s Integration in the global economy: Policy proposals for trade, competitiveness, and investment (2018). Systematic Country Diagnostic (2018).
Prior action #3	Strengthening Argentina’s Integration in the global economy: Policy proposals for trade, competitiveness, and investment (2018). Doing



Prior Actions	Analytical Underpinnings
	Business (2018). Systematic Country Diagnostic (2018).
Prior action #4	Argentina’s Capital Market Assessment and Development Prospects; Argentina’s Infrastructure Capital Markets Report (2016, 2017). Systematic Country Diagnostic (2018).
Prior action #5	State of Transparency in Argentina, World Bank (2018). Systematic Country Diagnostic (2018).
Operation Pillar 2: Objective	
Prior action #6	Argentina Public Expenditure Review (2018); Argentina Policy Notes (2015). Systematic Country Diagnostic (2018).
Prior action #7	Argentina Public Expenditure Review (2018), Province of Buenos Aires Public Expenditure Review (2016). Systematic Country Diagnostic (2018) Fiscal Rules and Economic size in Latin America and the Caribbean (2018).
Prior action #8	Argentina Policy Notes (2015). Systematic Country Diagnostic (2018).
Prior action #9	Argentina: Toward Universal Health Coverage-Challenges and Opportunities” (2017); “Supporting Effective Universal Health Coverage in Argentina Project” (2018).

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WORLD BANK GROUP STRATEGY

77. **The Performance and Learning Review (PLR)⁴⁷ confirmed the broader focus areas for the engagement identified under the Country Partnership Strategy FY14-FY18 and, with the new Government in place, allowed a further strengthening of the collaboration between Argentina and the World Bank Group.** This meant the World Bank Group broadening both its financial support and policy dialogue in response to the shift in policy orientation introduced by the new Administration. In particular, the first Pillar, originally focused on sustaining employment at the firm and farm level, was widened to encompass long-term productivity growth and job creation, and fostering private investment and strengthening its enabling environment. The original Pillar II focused on direct assistance to the poor at the household level, but under the PLR was expanded to incorporate a specific urban approach toward poverty eradication, especially related to housing. Additionally, the strong priority assigned by the Government to transparency and improved governance set the stage for World Bank support of state modernization and innovation under a stand-alone project. The broader policy dialogue established with

⁴⁷ The Performance and Learning Review, dated January 13, 2017 (Report No. 110546-AR), for the Country Partnership Strategy FY14-FY18 for Argentina, discussed by the Executive Directors on September 9, 2014 (Report No. 81361-AR).



the Government translated into a substantial broadening of the analytical and advisory program in public procurement, improving the quality of and access to public services for citizens and businesses, as well as analysis of public expenditures. The overall engagement on private sector development has been informed by a 2018 report on the role of investment, trade and competition policies.

78. **The World Bank Group is developing a new Argentina Country Partnership Framework (CPF) FY19-FY22**, which is expected to build on the current Country Partnership Strategy and focus on achieving the twin goals of the World Bank Group—ending extreme poverty and boosting shared prosperity—through four interdependent focus areas closely linked to the priorities areas identified by the 2018 Argentina Systematic Country Diagnostic (SCD): putting the macroeconomic and fiscal fundamentals in place; improving competitiveness and productivity; fostering an inclusive economy; and strengthening environmental sustainability and harnessing natural capital for growth.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

79. **The Government has undertaken consultations on the main measures supported by the DPF.** Public deliberation and participation have been an effective—and legally mandated—mechanism to work on overcoming polarization, increase support for contested reforms, and mitigate adjustment costs. Consultations and participatory decision-making have been a feature of the Government's reform program supported by the DPF series:

- Competition and trade measures supported by the proposed operation are part of a broader reform program implemented by the Ministry of Production with the objective of strengthening the integration of the economy into global markets. The Government has created several consultation channels with the private sector to gather views and facilitate the articulation and implementation of such public policies. A key channel is *Mesas Productivas* (sector roundtables) that hold plenaries and establishes working groups with the private sector (four plenaries and 20 working groups during March to June 2018). Stakeholders in *Mesas Productivas* have included 37 business chambers and 12 trade unions. Further engagement includes discussions in different forums both at the federal and provincial levels.
- On subsidies, following their initial reduction in 2016, the Supreme Court ruled that the hike in gas prices had to be postponed until the Government organized public deliberations, as required by the constitution. The legal framework requires non-binding public hearings before any changes in tariff schemes. Since then, new tariff increases for both piped gas and electricity were preceded by public deliberations with active participation of civil society (the last took place on November 13-17, 2017). The opposition-controlled parliament passed a bill in May to freeze gas tariffs in real terms, which was vetoed by the president. Social tariff schemes are also discussed in these public deliberations.
- On the fiscal pact, the initiative addresses broad-based demands both from the private sector (for a reduction in distortive provincial taxes) and the public sector (increase automatic transfers to provinces from the Federal Government and compensate the erosion of fiscal transfers to the Province of Buenos Aires, without hurting the rest of the provinces). The Federal Government and the Provinces started the dialogue in May 2016, by signing a letter of intent as a prelude to what later was the Fiscal Pact and the Fiscal Responsibility Law (December 2017). Accordingly, four months after the Fiscal Pact was passed by the National Congress, the Pact has been legally endorsed by all the jurisdictions (with the exception of La Pampa and San Luis).



- The Corporate Criminal Liability Draft Bill was presented to the bi-cameral Congress following 13 months of broad public consultations, and parliamentary discussions. This included consultations with key private sector actors, including representative organizations of firms, key service and industrial sectors, the legal profession, and civil society organizations. During the deliberations in the Senate, changes were introduced in response to concerns on the applicable penalties and a provision that some parts of the Law could be applied retroactively, which was removed, and the Law went through a second vote in the Chamber of Deputies. The Law was approved in both Chambers with strong, multi-party support despite the fact that when the Law was discussed and approved by Congress, the political coalition supporting the Executive Power⁴⁸ represented a minority in each chamber.

80. **Collaboration with other Development Partners.** The operation is part of a package of coordinated financial assistance from international partners, including the IMF, IDB, and CAF. There is no overlap of the specific measures supported in the DPF series with the structural benchmarks in the IMF SBA, which focuses on the BCRA measures, the 2019 budget and budget/debt management policies. CAF is providing a budget support operation that is complementary to that of the World Bank given that it focuses on promoting capital market development and includes specific measures to support financing for micro enterprises and SMEs. The CAF capital market actions differ from those in this operation, except for the policy action on issuing regulations for frequent issuers, which is part of the capital markets' DPF 2 trigger. The DPF 2 trigger here also focuses on regulations for the use of private placement bonds and the implementation of the public credit guarantee scheme, which CAF does not include. The IDB budget support operation has a strong macroeconomic and fiscal focus, including measures related to: macroeconomic stability; strengthening the federal and subnational tax system, and the fiscal responsibility framework; reducing transaction costs for new and existing companies; and modernizing the institutional framework for the execution of investment projects, including for SOEs and PPPs. There are two areas in the IDB operation where there is partial overlap: the IDB operation also supports the simplification of procedures to start a business and broadly the Fiscal Pact but on different aspects, such as subsidies and public employment at the provincial level.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT⁴⁹

81. **The policy measures supported by this DPF series are expected to play a role in mitigating the short-term distributional impacts of the broader Government's reform program on the most vulnerable, while implementing structural reforms to reduce distortions and enhance potential growth.** As such, the overall reform package supported is expected to contribute to protecting the living standards of the poor, both directly through reforms to the social safety net, and indirectly through an improved and modernized institutional context and efficiency gains in the economy. Overall, the long-run benefits of these reforms depend on how well they are implemented and the way in which the Government

⁴⁸ *Cambiemos* is formed by a coalition of *Unión Cívica Radical*, *Pro*, and *Coalición Cívica*.

⁴⁹ Useful information to define parameters and assumptions to perform the quantitative analysis, as well as to organize the literature review, was gathered from previous evaluations by the World Bank and other multilateral organizations, and from academic research papers. Several World Bank Group Global Practices also provided valuable inputs for this assessment. See Annex 4 for further discussion.



mitigates any negative associated distributional and social consequences in the short term. The baseline scenario assumes positive growth in 2018 and beyond, a substantial reduction of inflation, and little impact on unemployment. A more adverse scenario where the economy contracts, unemployment increases and formal and informal wages contract would have much more wide-ranging effects and social impacts.

82. **The stabilization program is not expected to impact adversely on the middle class under the current baseline, which does not envisage an increase in formal sector unemployment or a protracted slowdown.** However, under a more adverse scenario, the middle class is likely to be hit negatively. There are two measures supported under the DPF series where there is a concern regarding adverse effects on the middle class. First, the reduction in transport and energy subsidies will impact on the better-off middle class who will have to pay increased tariff prices as they may not be covered by the measures supported by the DPF series which aims only at protecting the bottom 40 percent. Second, the removal of trade barriers in key intermediate input sectors may impact on a small share of middle-class employees. Here, the Government is putting in place temporary programs to mitigate the impact in the worst-hit sectors that may be affected by a reduction in trade barriers—albeit small programs as there has been a limited opening up of the most uncompetitive domestic tradeable sectors.

83. **By strengthening the foundations for private sector-led growth, the policy program under Pillar 1 is expected to bring positive distributional impacts and poverty reduction, although these would materialize in the medium term.** Specifically, the following impact are expected for each of the measures:

- Prior action #1 is expected to have a positive impact on the welfare for the bottom 40 in the medium term. Measures that support the strengthening of competition in domestic markets are expected to contribute to poverty reduction and welfare increases for the poorest four deciles of the income distribution, primarily through its effect on consumer savings due to lower prices.
- Prior action #2 is not expected to have an overall negative impact in the medium term, despite some potentially small short-term adverse effects to the bottom 40. The reduction of barriers to trade on intermediate and capital goods, including IT, is expected to boost competitiveness, improving the allocation of factors of production to sectors and firms leading to higher paying jobs, particularly among high-skilled workers, which result in positive welfare impact in the medium term. On the other hand, direct employment effects in the sectors facing elimination of import tariffs are estimated to be small, but negative. The Government put in place a program (*Programa de Transformación Productiva* or Program for Productive Transformation) in 2016 to mitigate these potential adverse impacts. It is designed to help companies become more competitive and to support workers that may need to be reconverted or trained to perform new tasks and for unemployed workers to re-enter the labor market. The program includes extended unemployment insurance, family assistance, and state facilitation of workers' re-integration into new companies. Savings generated in intermediate sectors are expected to be reflected, in productivity gains and lower prices of downstream products and services in the medium term.
- Prior action #3 is expected to have a positive impact on welfare in the medium term. Reducing market frictions such as costs of doing business is expected to contribute to improved welfare for the bottom 40 given that the supported measures should allow productive firms to grow and generate more and better jobs while at the same time, they do not imply a relaxation of labor or environmental standards.



- Prior action #4 is expected to have a positive impact on poverty reduction. Actions to improve financial instruments to firms are expected to increase productivity and employment growth among MSMEs—the largest employers among those in the bottom 40 percent of the income distribution.
- Prior action #5 is expected to have a positive welfare impact overall and among the bottom 40. Leveling the playing field for firms by fighting corrupt practices involving enterprises will facilitate higher investment, reduce the costs of doing business and bring benefits to the population at large, as well as to the poorer segments of the population.

84. **Policies supported under Pillar 2, are aimed at strengthening the social safety net and enhancing fiscal equity.** These measures are expected to increase the progressivity of fiscal policy and increase access to programs and services for the most vulnerable.

- Prior action #6 is expected to have a positive distributional impact as the measures softens the adverse effect on the purchasing power of vulnerable families following the reduction of subsidies. The introduction of an integrated tariff system for metropolitan transport is expected to balance subsidy reduction toward cost-recovery, while moving to a system that benefits more low-income families that live in the outskirts and tend to travel longer distances through various means (railways and buses) and make more transfers. However, further reduction of subsidies will increase the cost of basic services, impacting negatively on the purchasing power of the most vulnerable, particularly, if the targeting of social tariffs remains unchanged. Therefore, future measures (indicative trigger) to improve the social tariff system by increasing coordination across agencies and reduce targeting errors will be crucial and expected to help to shield the more vulnerable families from the impact of tariff increases.
- Prior action #7 is not expected to have an overall negative distributional impact. The net impact of the measures under the Fiscal Pact depends on the implementation of specific reforms that provinces will undertake. To the extent that they reduce the importance of regressive and distortive taxes (such as the sales tax-*Ingresos Brutos*) and increase direct taxes (such as on property), the welfare effect on the vulnerable can be expected to be positive as revenues will become more progressive. On the other hand, the introduction of a cap of recurrent expenditures could have adverse social impacts to the extent that it reduces the quality and availability of social services, and reduces public employment impacting negatively on low-income earners. At the same time, more fiscal resources for service delivery will be directed to the Province of Buenos Aires, where a large share of the country's poor live, while maintaining constant the level of resources for other provinces.
- Prior action #8 is expected to have a positive impact on poverty reduction. The use of a single window for processing social programs is expected to benefit the poor, as it increases access to key services and reduces the associated high transaction costs. In addition, having a future measure (indicative trigger) to allow for increased social spending if economic conditions worsen is crucial to protect the vulnerable from falling into poverty.
- Prior action #9 is expected to have a positive distributional impact. The implementation of the Universal Health Care (UHC) strategy is expected to increase effective access and quality of care for the poorest and most vulnerable population. The UHC focuses on preventive care services related to non-communicable diseases that tend to disproportionately affect the poorer in the



population. This primary health care centered model of service provision is expected help reduce the gender gaps in utilization of preventative services and related health outcomes.

5.2. ENVIRONMENTAL ASPECTS

85. **Some of the policy actions supported by this operation are expected to have significant positive environmental effects, with none of DPF-supported policies expected to generate significant adverse effect on Argentina’s environment, natural resources and forests.** Overall, Argentina has a robust legal framework for environmental impact assessment (EIA) related to policies and programs. Nevertheless, a recent Argentina Country Environmental Analysis⁵⁰ identified areas where the effectiveness of environmental management systems and enforcement could be strengthened. The Government is currently working on reforms related to the recommendations of the EIA. Legislative reforms are underway to strengthen enforcement of the “polluter pays” principle and to extend producer responsibility for waste management, starting from both producers and importers of materials and goods. The Government is leading a process of broad inter-institutional collaboration on a new law to establish the minimum requirements and standards for EIA at the national level to (i) define the national and provincial competencies to strengthen and homogenize the current systems at provincial level, including covering EIA of interjurisdictional projects; (ii) provide a single permit procedure to foster clarity and security for project proponents and financiers, and (iii) introduce a strategic environmental assessment to identify and manage environmental effects of policies and programs. Additionally, the Government is working with the OECD on the environmental dimensions related to accession, and the Ministry of Environment and Sustainable Development is leading, in close collaboration with relevant line ministries and other key stakeholders, including the private sector, a reform process that analyses and addresses gaps between the current systems and regulations and the relevant OECD requirements and standards.

86. **By supporting policy measures aimed at strengthening the foundations for private sector development, the reform program under Pillar 1 is expected to increase economic activity. Reducing market frictions such as costs of doing business does not imply a relaxation of environmental standards.** Prior action #1 (Competition Law) is not likely to generate significant environmental effects. There may be a potential for positive impacts through more efficient rail freight services contributing to reduce emissions of air pollutants and greenhouse gases. Prior Actions #2 (Reduction of Import Barriers) and #4 (Productive Financing Law) are likely to generate positive indirect environmental effects by reducing the costs for investment in higher quality and more efficient intermediate inputs and capital goods, such as computers and industrial machinery. However, as prior actions #2, #3, and #4 are expected to increase overall economic activity over time, including industrial and agricultural production, they may also generate negative indirect effects in environmental quality and management of natural resources where respective environmental regulations and standards and/or their enforcement present gaps. Prior Action #5 (Corporate Criminal Liability Law) is not likely to generate any type of significant environmental effects.

87. **Under Pillar 2 "Strengthening the social safety net and enhancing fiscal equity", by facilitating transport subsidies removal through the implementation of an integrated tariff system (Prior Action #6) is likely to generate significant positive environmental effects, particularly in terms of local air quality and reduced CO₂ emissions through more careful and efficient energy use.** Targeted assistance to the poor to compensate for energy tariff increases through the social tariff will prevent a potential negative

⁵⁰ World Bank Group. 2016. *Argentina Country Environmental Analysis*. World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/25775>.



effect of switching from gas to lower quality, higher emission residential fuels for heating and cooking. In addition, the gradual increase in tariffs is expected to send signals to firms and consumers for a more efficient and rationalized transportation system. For example, the decrease in transport subsidies should also incentivize bus operators to rationalize routes (and reduce operating costs). Prior Actions #7 (Fiscal Responsibility), #8 (Single Window for ANSES) and #9 (UHC) are not likely to generate any type of significant environmental effect.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

88. **The overall fiduciary risk to this operation arising from Argentina’s public financial management system (PFM), the use of budget resources, and its foreign exchange environment as controlled by the BCRA is moderate.** While there is limited analytical work available to carry out comprehensive risks assessment at this point, the World Bank can apply mitigating measures to contain fiduciary risks, should they arise during the Program implementation.

89. **Public Finance Management.** The analyses show that the foundations of PFM systems are well designed, supported by an adequate legal framework, human resources and technical skills. Recent reforms have introduced modern instruments and internationally recognized good practices. Nonetheless, this assessment is partial, as it does not include all PFM pillars. The most recent comprehensive assessment of Argentina’s PFM systems, the Country Financial Accountability Assessment from 2006/2007,⁵¹ is outdated. According to that report, the PFM performance was mixed, and the country’s PFM system and processes continued to operate below expectations. Reforms were needed to strengthen their capability to support sustainable economic growth, maintain aggregate fiscal discipline; foster the strategic allocation of resources and the efficient delivery of public goods and services.⁵²

90. **Budget credibility.** As per provisions of the Financial Management Law,⁵³ annual budgets are prepared and submitted to the Congress by September 15 each year. After Parliamentary approval, the annual budget law is published in the official gazette and publicly disclosed on the Ministry of the Treasury website. Starting in 2017, the monthly budget execution reports of the Non-Financial Public Sector⁵⁴ are available at the Ministry of the Treasury website, including budget execution, execution of the extra-budgetary funds, tax revenue sharing and other transfers to provinces, and Central Administration debt. Annual budget execution reports are prepared on a timely basis, as part of the Central Government financial statements. In 2018, the Government has taken further steps toward strengthening the credibility of the budget and increasing fiscal transparency by abolishing the Law from 2006 which gave the Executive the authority to change the functional classification of budget allocations approved by the Congress. Notwithstanding the progress, further reforms are needed to strengthen institutional framework for fiscal policy. Under the current SBA with the IMF, the authorities have committed to: (i) introduce a new mid-year fiscal report, starting in June 2019, that contains updated estimates of fiscal outturns and revised macroeconomic and fiscal projections for the medium-term; (ii) ensure adequate resources and staffing to the Federal Council of Fiscal Responsibility and the newly created Congressional

⁵¹ World Bank. 2008. *Argentina: Country Financial Accountability Assessment*. Washington, DC. <https://openknowledge.worldbank.org/handle/10986/8081>

⁵² This assessment is based on the review of 2014 IMF’s country evaluation for Argentina (*IMF Budget Institutions in G-20 Countries—Country Evaluations*. April 7, 2014) which focuses solely on budget institutions, and other publicly available pertinent reports, prepared by the Ministry of the Treasury and the Supreme Audit Institution.

⁵³ Argentina’s Financial Management Law is *Ley de Administración Financiera y de Control del Sector Público No. 24,156*.

⁵⁴ Argentina’s NFPS is comprised of the Central Government, the Federal Revenue Agency (AFIP), Social Security Institutions; State-Owned Enterprises (SOE) Fiduciary Funds and other Decentralized Entities.



Budget Office (*Oficina de Presupuesto del Congreso*), so that it can effectively evaluate budgetary and macroeconomic forecasts, provide independent costing to Congress of new policy initiatives; and assess the Government's fiscal plans, (iii) develop a fiscal risk analysis framework with regards to fiscal risks scenario analysis, a long-term fiscal sustainability analysis, and an analysis of contingent liabilities. The fiscal risk analysis will be included in the 2020 budget documents.

91. **Predictability and control in budget execution.** The Integrated Financial Information System (SIDIF) has been gradually upgraded and the current version, (e-SIDIF), is web-based, with an expanded scope to more than 100 entities. E-SIDIF (the electronic Integrated Financial Information System, *Sistema Integrado De Información Financiera*) continues to integrate budget accounting, including commitment controls and treasury functions and is also linked to the Debt Management and Information System (*Sistema de Gestión y Administración de la Deuda*). The Ministry of the Treasury (MH), which manages e-SIDIF, controls and verifies budget execution, which is decentralized to spending units. The Non-Financial Public Sector (NFPS) internal control system consists of a financial management and control system, embedded in the budget process, and of an ex-post internal audit carried out by the Internal Audit Unit of each ministry, under the technical oversight of a Central Internal Audit Agency reporting to the Presidency, the *Sindicatura General de la Nación*. Comprehensive financial statements for the Central Government, that include all financial assets and liabilities and collect those pertaining to other public entities under the Central Administration, including public enterprises, Fiduciary Funds and decentralized entities, are prepared by the Accountant General of the MH. However, the inventory of property, plant and equipment is not systematically updated in the e-SIDIF, thereby, affecting the accuracy of the financial statements. Besides, coverage of the annual financial statements should be expanded to include General Government and introduce recording of non-financial assets and contingent liabilities.

92. **External scrutiny of public expenditures.** Government financial statements are submitted to the Legislative on or before six months after the end of the fiscal year and are audited by the Supreme Audit Institution, *Auditoría General de la Nación* or AGN in Spanish. The audit report of the Government's financial statements for FY2015 was submitted to the legislature on March 22, 2017, i.e. within nine months of their receipt by the auditors; 2016 audited financial statements have not been submitted to the Parliament yet.

93. **Foreign exchange management.** In the absence of a current report,⁵⁵ the assessment is based on the review of the BCRA audited financial statements for the year 2016.⁵⁶ These are prepared in accordance with Argentine national accounting standards and published, as required by law and were also audited by the Supreme Audit Institution. An unqualified audit opinion was given by the auditors on the BCRA financial statements. However, since the World Bank was not able to review the management letter issued by the BCRA auditors, additional mitigating measures for fiduciary risk have been proposed for the loan. As part of its ongoing program, the IMF is carrying out a safeguards assessment of foreign exchange control environment in the BCRA of Argentina in late August and the report will be finalized in September 2018. The World Bank will request access to review the IMF safeguards assessment afterwards.

94. **Disbursement arrangements.** The World Bank will make the single loan disbursement to a dedicated account that forms part of the country's official foreign exchange reserves at the BCRA. The disbursement will be made upon the World Bank's assessment on satisfactory compliance of prior actions agreed and compliance with the adequacy of the Borrower's macroeconomic policy framework.

⁵⁵ The latest IMF safeguards assessment of foreign exchange control environment of the BCRA was performed in October 2004.

⁵⁶www.bcra.gov.ar/Pdfs/PublicacionesEstadisticas/e2016auditoriaexterna



Disbursement will not be linked to any specific purchases and no procurement requirements will be needed. Once the Loan is approved by the Board of Executive Directors and declared effective, the World Bank will disburse the proceeds of the Loan into a dedicated deposit account in U.S. dollars at the BCRA. Said foreign currency account is exclusively for disbursements from the World Bank loans accounts. Upon receipt of the loan, the Borrower will promptly account for the receipt of the loan in the country's budget management system, in an account used to finance budgeted expenditures. Transactions and balances will be fully incorporated into the Borrower's accounting records and financial statements *via* the integrated financial management system (e-SIDIF). If the proceeds of the Loan or any part thereof are used for ineligible purposes, as defined in the Loan Agreement, the World Bank will require the Borrower to promptly return such amount to the World Bank. The amount refunded shall be cancelled from the Loan.

95. **Auditing arrangements.** Through the Ministry of the Treasury (*Ministerio de Hacienda*) the Borrower will: (i) report, within 30 days from the date of receipt, the exact sum received into the account; (ii) ensure that all withdrawals from the dedicated account are for budgeted public expenditures, excepting military expenditures or other items on the World Bank's excluded expenditure list; and (iii) provide the World Bank with a written confirmation that the Argentine currency (AR\$.) equivalent of the Loan proceeds were credited to the Treasury Single Account (TSA) and that disbursements from that account were for budgeted public expenditures. The World Bank will request an audit of the dedicated account to be conducted following terms of reference and by an auditor acceptable to the World Bank.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

96. **The Ministry of the Treasury (*Ministerio de Hacienda*) will be the main coordinating agency for monitoring and evaluation among the five other participating ministries.** The prior actions detailed in this operation are the prime responsibility of the following ministries: Ministry of the Treasury, Ministry of Interior, Public Works and Housing, Ministry of Production, Ministry of Health, Ministry of Transport, Ministry of Energy, ANSES, and the Office of the Presidency of Cabinet of Ministers. The Ministry of the Treasury would be the coordinator with other ministries on monitoring of the results indicators, which are based on publicly available information. The World Bank will be monitoring the implementation of the DPF program through regular supervision missions and the preparation of the DPF 2. The World Bank will also collaborate with the Ministry of the Treasury on the monitoring the key indicators for the DPF.

97. **The program outcomes will be monitored through the measurement of the progress toward the achievement of results indicators included in the policy and results matrix (Annex 1).** This measurement seeks to assess progress toward the implementation of the policy and institutional measures supported by the proposed DPF series and will be evaluated following the disbursement of the DPF 1. The Ministry of the Treasury will have the responsibility of presenting the information related to the reform implementation and progress made toward results on time and in a format satisfactory to the World Bank.

98. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns.

99. **Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel** which determines whether harm occurred, or could occur, as a result of



World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

100. **The overall risk rating of this operation is assessed as high.** The major risks to the operation's ability to achieve its development objective include *macroeconomic risks, political and governance risks, as well as institutional capacity for implementation and sustainability risks*. In addition, challenges related to *sector strategies, stakeholders and social risks*, are considered substantial. *Technical design and fiduciary risks*⁵⁷ are considered moderate. The operation does not entail direct risks to the environment, while the indirect support, through the introduction of effective social tariffs, for the reforms of the energy and transport tariffs are expected to contribute to higher energy efficiency with positive impacts on the environment.⁵⁸ The high risks for this operation are anchored in the macroeconomic risks. If they were to materialize, they could trigger social discontent, strongly affecting the Government's ability to implement and sustain the reform efforts, and hence make the outcome of the development agenda less successful. A backsliding of the reform agenda could, in turn, increase the probability of a protracted contraction in the near term, endanger the macroeconomic framework and reduce the potential for a sustained economic recovery over the medium term. The Government recognizes the uncertainties in the outlook and has identified additional spending on pre-specified high-impact social assistance programs if the economic situation deteriorates. In addition, the DPF program is also designed to include flexibility for the second operation to adjust in case a more adverse economic situation requires deeper fiscal consolidation and further efforts to mitigate a worse social outturn than envisaged in the baseline economic outlook. Specific risks, along with mitigation measures are discussed below.

101. **Macroeconomic risks are high.** The macroeconomic scenario faces risks if the return of market confidence is delayed. Deviations from the program assumptions, in particular for the exchange rate, economic growth and fiscal adjustment paths, or the non-materialization of key policies would undermine the stabilization of the economy. Tighter global financial conditions, or, to a lesser extent, deteriorating terms of trade, the impact of changes in trading partners' tariff policies, financial turmoil in major emerging markets, or weaker growth in neighboring economies also pose risks to the macroeconomic framework. Under such a scenario, lower economic growth could require additional fiscal measures that would make pro-cyclical policies unavoidable. As shown in the debt sustainability analysis, gross financing needs are sizable and debt vulnerabilities are expected to continue to be high. Worse than expected external conditions and/or policy slippages in the envisaged Government's program may erode market confidence, leading to renewed pressures on Argentine assets and a more depreciated real exchange rate. This could pose serious debt sustainability risks, with the debt service burden rising in a context of already sizable gross financing needs, and potentially limited market access. These risks are mitigated by the financial and technical support from international partners, including from the World Bank and notably through the IMF's SBA and the associated targets. The support for the Government's economic

⁵⁷ For a detailed description of fiduciary arrangements, please see section 5.3

⁵⁸ For a detailed discussion about environmental aspects of the operation, please see Section 5.2 and Annex 4.



stabilization program aims to tackle longstanding internal and external vulnerabilities over the envisaged three-year program cycle

102. **Political and governance risks are considered high.** Sustaining broad political support for the economic stabilization program is critical to ensure its effective implementation. In the current context of the upcoming Presidential elections in October 2019, the risk of strong political pressures on the Government is high. Public discontent with reforms, amid mounting protests by the unions and the opposition, combined with strong polarization of the electorate, could undermine the support for the Government's agenda and lead to an inability to implement and sustain the needed fiscal and structural reform program, despite the Government maintaining its strong commitment. A stronger than anticipated adverse impact of the stabilization program on the middle class, given that mitigation measures are strongly focused on the poor and vulnerable, could also undermine the political support for the Government. The Government's ability to implement numerous important reforms in the first three years in administration (despite holding a minority seats in the Congress) is a key mitigating factor against these risks. Many fundamental reforms were approved and the Government has sought political and social consensus for its program. In addition, the targeted approach to sequencing key reforms, also embedded in the current program, helped to contain the political risks thus far. In addition, the Government's commitment to protect the most vulnerable contributes to lowering these risks.

103. **Institutional capacity for implementation and sustainability risks are high.** Enacting good laws is an important and necessary first step, but consistent implementation is required to translate legislation into implementation to bring about results. The implementation risks, which may arise from the lack of resources, capacity constraints, resistance from special interest groups, changes in reform directions due to upcoming elections or possible escalating social unrest, could hinder the effective implementation of the reforms to legal frameworks and undermine the impact of the operation. Moreover, successful implementation will require collaboration across agencies, as well as between federal and provincial governments, which may prove difficult. Similarly, institutional capacity risk is high given the large differences in capacity across agencies, provinces and municipalities. The lack of high quality monitoring systems based on readily available data might complicate the implementation of social sector reforms. The strong commitment of the Government to reforms, and coordinated support by the international community are key mitigating factors for institutional capacity for implementation risks. On the side of the World Bank, this includes a commitment to provide the Government with continued collaboration on design and implementation through a strong technical assistance program. Also, the design of the operation, as a programmatic series of two loans, helps to mitigate some of the sustainability risks related to this operation.

104. **Social and stakeholder risks are significant.** Reducing the negative impacts of the stabilization program, while protecting the vulnerable and poor, is one of the cornerstones of the Government program and provides a key mitigation measure for social and stakeholder risks. Existing social programs—notably the AUH—are expected to automatically expand, cushioning the impact of the economic adjustment on those who fall into poverty or lose jobs.⁵⁹ Yet, given the low level of the benefit this instrument, combined with the limited coverage and benefit amount of the unemployment insurance, these might not be sufficient to compensate for a sharp worsening in labor market conditions without

⁵⁹ The universal family allowance and the lowest category of the contributory family allowance per child is equivalent to 5 percent of the average formal wage, while the unemployment insurance benefit is equivalent to 11 percent. It is estimated that 14 percent of the extreme poor live in households headed by informal workers with no children, and thus do not have access to family allowances (contributory or non-contributory) or pensions.



increasing significantly benefit levels. In this sense, the Government’s macroeconomic stabilization program agreed with the IMF includes a potential adjustment upwards to the primary balance target to allow for increased social spending in case social conditions deteriorate: spending on well-targeted social protection programs can increase by up to AR\$13.5 billion in 2018 and by the equivalent of 0.2 percent of GDP (or AR\$30 billion) on annual basis starting in 2019.⁶⁰ The World Bank seeks to contribute to reducing these risks through the additional investment financing for the AUH, presented to the Board together with this operation, that will help the Government scale-up reach and introduce administrative reforms that will make the safety net more inclusive and effective.

105. However, a deeper macroeconomic slowdown than in the baseline scenario would have more negative welfare effects and social impacts in the short run, impacting both the political landscape and macroeconomic performance. To mitigate the risks for the vulnerable and poor of the reform program, the DPF program includes measures aimed at strengthening the social safety net. This is complemented by a proposed World Bank operation to provide additional financing to the AUH program to support coverage expansion and lower administrative hurdles for access. The aim behind this support is to improve access and targeting, but in addition, if social conditions were to deteriorate, the social safety net system would be better able to respond. Also, the second DPF operation could provide further support for greater spending on the social safety net, if conditions were to worsen. Finally, the World Bank is committed to enhanced monitoring of social conditions with the aim of ensuring any adverse developments are counteracted rapidly.

Table 5: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● High
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● High
6. Fiduciary	● Moderate
7. Environment and Social	● Substantial
8. Stakeholders	● Substantial
9. Other	
Overall	● High

⁶⁰ The IMF’s SBA also establishes room for a further adjustment upwards of capital expenditures from the budgeted amount by the excess in expenditures financed by external project loans from International Financial Institutions or bilateral partners by the amount of 30,000 million pesos in 2018, and 0.2 percent of GDP thereafter.





ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
Pillar 1--- STRENGTHENING THE FOUNDATIONS FOR PRIVATE SECTOR-LED GROWTH				
Prior action #1: The Borrower has enacted a new Competition Law to strengthen the legal framework for competition, as evidenced by Law No. 27,442. ⁶¹	(Indicative) Trigger #1: The Borrower has deepened competition reforms by issuing legislation and regulations to implement the competition law and for pro-competition reforms in key input services sectors.	Results Indicator #1: Number of anti-competitive practices resolved through sanctions or corrective measures by the new competition authority (accumulated):	0 (2017)	8 (2020)
Prior action #2: The Borrower has issued measures to reduce tariff and non-tariff import barriers for intermediate and capital goods, as evidenced by the Borrower’s Secretary of Commerce’s Resolution No. 170/2018 ⁶² and the Borrower’s National Executive Decree No. 117/2017. ⁶³	(Indicative) Trigger #2: The Borrower has implemented measures to further reduce the import duties charged on selected intermediate and capital goods.	Results Indicator #2: Share of intermediate and capital goods imports, by value, subject to reduced tariffs or automatic licenses:	74 percent (2017)	84 percent (2020)
Prior action #3: The Borrower has enacted legislation to reduce the complexity of business registration and create a national unified firm registry, as evidenced by Law No. 27,444, Law No. 27,349, the Borrower’s Resolution No. 5/2017, the Borrower’s Resolution No. 6/2017, and the Borrower’s	(Indicative) Trigger #3: The Borrower has introduced a single window interface to integrate business registration and post-registration procedures.	Results Indicator #3: Share of commercial companies registered as simplified corporations (<i>Sociedad por Acciones Simplificadas, SAS</i>):	5 percent (2017))	50 percent (2020)

⁶¹ Dated May 9, 2018, published in the Official Gazette No. 33,870 of May 15, 2018.

⁶² Dated March 27, 2018, published in the Official Gazette No. 33,841 of March 28, 2018.

⁶³ Dated February 17, 2017, published in the Official Gazette No. 33,570 of February 20, 2017.



Prior actions and Triggers		Results		
General Joint Resolution No. 4098E-2017. ⁶⁴				
Prior action #4: The Borrower has enacted a Productive Financing Law that reforms the legal framework for capital markets and financing instruments in the enterprise sector to promote private investment, as evidenced by Law No. 27,440. ⁶⁵	(Indicative) Trigger #4: The Borrower has implemented the legal framework for capital markets and for the public credit guarantee scheme for SMEs (<i>Fondo de Garantías Argentino</i> , FoGAR).	Results Indicator 4: Share of firms that issue securities that are using the streamlined multiple issuance pre-authorization:	0 percent (2017))	59 percent (2020)
Prior action #5: The Borrower has enacted a Corporate Criminal Liability Law strengthening the anti-corruption framework and bringing the Borrower in line with international standards, as evidenced by Law No. 27,401. ⁶⁶	(Indicative) Trigger #5: The Borrower has issued new regulations on ethics and integrity in the public administration to prevent and investigate corruption practices within the executive branch.	Results Indicator #5: Number of integrity plans registered in the Government procurement platforms for goods, services, and public works:	0 (2017)	80 (2020)
Pillar 2---STRENGTHENING THE SOCIAL SAFETY NET AND ENHANCING FISCAL EQUITY				
Prior action #6: The Borrower has approved a regulation to protect the most vulnerable while reducing transport subsidies, as evidenced in Resolution No. E-77/2018. ⁶⁷	(Indicative) Trigger #6: The Borrower has revised the social tariffs system to better target the bottom four deciles of the income distribution	Results Indicator #6: Share of beneficiaries of social programs that receive social tariffs:	22 percent (2017)	27 percent (2020)
Prior action #7: The Borrower has enacted	(Indicative) Trigger #7: The Borrower has issued	Results Indicator #7: Share of	72 percent	66 percent

⁶⁴ Chapter IV of Law No. 27,444, dated May 30, 2018, published in the Official Gazette No. 33,893, of June 18, 2018; Chapter II of Law No. 27,349, dated March 29, 2017, published in the Official Gazette No. 33,604 of April 12, 2017; the Borrower’s Resolution 5/17, issued by the Borrower’s General Justice Inspectorate (*Inspección General de Justicia*), dated July 10, 2017, published in the Official Gazette No. 33,663 of July 11, 2017; the Borrower’s Resolution No. 6/2017, issued by the Borrower’s General Justice Inspectorate (*Inspección General de Justicia*), dated July 26, 2017, published in the Official Gazette No. 33,675 of July 27, 2017; and the Borrower’s General Joint Resolution No. 4098E-2017, issued jointly by the Borrower’s General Inspectorate of Justice (*Inspección General de Justicia*) and the Borrower’s Federal Administration of Public Revenue (*Administración Federal de Ingresos Públicos*) dated July 27, 2017, published in the Official Gazette No. 33,676 of July 28, 2017

⁶⁵ Dated May 9, 2018, published in the Official Gazette No. 33,868 of May 11, 2018.

⁶⁶ Dated November 8, 2017, published in the Official Gazette No. 33,763 of December 1, 2017.

⁶⁷ Dated January 30, 2018, issued by the Borrower’s Ministry of Transport, published in the Official Gazette No. 33803 of January 31, 2018



Prior actions and Triggers		Results		
legislation to enhance fiscal responsibility at the provincial level and improve equity in intergovernmental transfers, as evidenced by Laws No. 27,428 and 27,429. ⁶⁸	secondary legislation to implement the Fiscal Pact with Provinces.	sales tax (<i>Ingresos Brutos</i>) in total provincial own revenues:	(2017)	(2020)
Prior action #8: The Borrower has introduced a single window system at ANSES, to simplify and facilitate access to social benefits, social tariffs, health insurance, and other social programs, as evidenced by the Borrower’s National Executive Decree No. 339/2018. ⁶⁹	(Indicative) Trigger #8: The Borrower has made provisions to allow for additional social assistance spending of up to 0.2 percent of GDP in case of the deterioration in economic conditions. ⁷⁰	Results Indicator #8: Number of social programs included in the Single Window system:	0 (2017)	10 (2020)
Prior action #9: The Borrower has signed a separate framework agreement with fifteen (15) provinces to implement universal health coverage, as evidenced by the agreements signed by the Borrower, through its Minister of Health, with each of the following provinces in June of 2018: (a) Corrientes; (b) Jujuy; (c) La Pampa; (d) La Rioja; (e) Mendoza; (f) Misiones; (g) Salta; (h) San Juan; (i) Santiago del Estero; (j) Tierra del Fuego; (k) Tucumán; (l) Catamarca; (m) Chaco; (n) Córdoba; and (o) Entre Ríos.	(Indicative) Trigger #9: The Borrower has completed the implementation of universal health coverage by signing the framework agreement with the remaining provinces.	Results Indicator #9: Number of provinces actively implementing the new UHC system:	0 (2017)	20 (2020)

⁶⁸ Both dated December 21, 2017, published in the Official Gazette No. 33,782 of January 2, 2018.

⁶⁹ Dated April 19, 2018, published in the Official Gazette No. 33,855 of April 20, 2018.

⁷⁰ Specifically, on high quality social assistance programs under “*Asignaciones Universales para Protección Social*.”



ANNEX 2: FUND RELATIONS ANNEX

International Monetary Fund
Washington, D.C. 20431 USA
Press Release No. 18/245

IMF Executive Board Approves US\$50 Billion Stand-By Arrangement for Argentina
June 20, 2018

The Executive Board of the International Monetary Fund (IMF) today approved a three-year Stand-By Arrangement (SBA) for Argentina amounting to US\$50 billion (equivalent to SDR 35.379 billion, or about 1,110 percent of Argentina's quota in the IMF).

The Board's decision allows the authorities to make an immediate purchase of US\$15 billion (equivalent to SDR 10,614 billion, or 333 percent of Argentina's quota). One half of this amount (US\$7.5 billion) will be used for budget support. The remaining amount of IMF financial support (US\$35 billion) will be made available over the duration of the arrangement, subject to quarterly reviews by the Executive Board. The authorities have indicated that they intend to draw on the first tranche of the arrangement but subsequently treat the remainder of the arrangement as precautionary.

The Argentine authorities' economic plan backed by the SBA aims to strengthen the country's economy by restoring market confidence via a consistent macroeconomic program that lessens financing needs, puts Argentina's public debt on a firm downward trajectory, and strengthens the plan to reduce inflation by setting more realistic inflation targets and reinforcing the independence of the central bank. Importantly, the plan includes steps to protect society's most vulnerable by maintaining social spending and, if social conditions were to deteriorate, by providing room for greater spending on Argentina's social safety net.

Following the Executive Board discussion of Argentina's economic plan, Ms. Christine Lagarde, Managing Director and Chair, summarized the Board's findings:

"For the past 2½ years, Argentina has been engaged in a systemic transformation of its economy, including deep changes to foreign exchange markets, subsidies, and taxation, as well as improvements to their official statistics. Nonetheless, a recent shift in market sentiment and an ill-fated confluence of factors have placed Argentina under significant balance of payments pressures. Amid these challenging circumstances, the Government has requested IMF support in implementing its own policy plans.

"The authorities' intended policies seek to address longstanding vulnerabilities, ensure that debt remains sustainable, reduce inflation, and foster growth and job creation, while reducing poverty.

"Given the large fiscal deficits over the past several years, the Government's economic program is anchored on the goal of achieving federal government primary balance by 2020. This will be key to restoring market confidence. Improving the budgetary process and providing this medium-term anchor for fiscal policy will help to entrench these gains.



“The authorities also aim to rebuild the credibility of the inflation targeting framework, including by strengthening central bank independence and ending direct and indirect central bank financing of the government. These efforts are expected to bring inflation to single digits by end-2021.

“The authorities are committed to a floating, market-determined exchange rate. They intend to limit foreign exchange intervention to periods of significant volatility and market dysfunction, and to rebuild reserve buffers.

“The program places considerable emphasis on maintaining social cohesion, encouraging gender equality, and protecting society’s most vulnerable. The authorities, at the highest level, are strongly committed to these principles. The most vulnerable population will be assisted by well-designed government support programs that will be prioritized within the program targets. The Government has also prioritized gender equity to realize the potential and benefits from Argentine women fully participating, on equal footing, in the economy.

“The Argentine Government has demonstrated its strong ownership of the program, which is custom-tailored for the situation faced by the people of Argentina. There are evident risks to the program but steadfast implementation of the policy plans will allow the country to fully capitalize on its economic potential, and to ensure that all Argentines are included in the country’s future prosperity.”

ANNEX

Recent economic developments

Argentina’s financial markets came under sudden pressure in April as the result of a confluence of factors. A severe drought led to a sharp decline in agricultural production and export revenue, world energy prices increased, and global financial conditions tightened through an appreciation of the U.S. dollar and an upward shift in U.S. interest rates. These changes interacted with vulnerabilities that Argentina’s policy path had embedded, including significant fiscal and external financing requirements. These economic forces manifested themselves principally in the form of pressure on the Argentine peso, market anxiety about the roll-over of short-term central bank paper, and an increase in Argentina’s sovereign risk premium.

Program summary

The IMF-support economic plan aims to strengthen the Argentine economy by focusing on four key pillars:

- **Restore market confidence.** The government has committed to a clear macroeconomic program that lessens federal financing needs and puts public debt on a firm downward trajectory. This will help create a clear path to strong, sustained, and equitable growth and robust job creation. Anchoring this effort is a fiscal adjustment that ensures that the federal government reaches primary balance by 2020, with a significant up-front adjustment to secure a primary deficit of 1.3 percent of GDP in 2019.
- **Protect society’s most vulnerable.** Steps will be taken to strengthen the social safety net, including through a redesign of assistance programs (which are often overlapping, yet still result in gaps in coverage) and through measures to increase female labor force participation (by eliminating the second-earner tax penalty and providing working families with assistance with childcare). The level of social spending will be protected under the program. Also, if needed, additional spending on pre-identified, high-quality, means-tested social assistance projects will be accommodated. The authorities’ goal is to continue to reduce poverty rates throughout the course of the arrangement even if there were to be a slower-than-expected economic rebound.



- **Strengthen the credibility of the central bank’s inflation targeting framework.** The government has pledged to provide the central bank with the institutional and operational independence and autonomy that is needed to achieve effectively inflation objectives. In addition, the central bank has adopted a new credible path of disinflation to bring inflation to single digits by the end of the three-year SBA period. Plans are also being developed to ensure the central bank has a healthy balance sheet and full financial autonomy. The plan also foresees steps to diminish the BCRA’s vulnerability from a short-term peso denominated debt (LEBACs).
- **Progressively lessen the strains on the balance of payments.** This would involve rebuilding international reserves and reducing Argentina’s vulnerability to pressures on the capital account.

Table 1. Argentina: Selected Economic and Financial Indicators

				Proj.					
	2015	2016	2017	2018	2019	2020	2021	2022	2023
<i>(Annual percentage changes unless otherwise indicated)</i>									
National income, prices, and labor markets									
GDP at constant prices	2.7	-1.8	2.9	0.4	1.5	2.5	3.1	3.1	3.2
Domestic demand	4.2	-1.3	6.3	-1.4	0.5	2.0	2.7	2.8	3.0
Consumption	4.2	-0.8	3.3	-0.9	1.6	1.9	1.9	1.6	1.7
Private	3.7	-1.0	3.6	-0.6	2.3	2.5	2.4	1.9	2.0
Public	6.9	0.3	2.0	-2.2	-2.0	-1.6	-0.9	-0.4	-0.3
Investment	3.5	-4.9	11.3	-1.2	-2.1	3.0	6.8	8.3	8.3
Private	4.4	-5.3	11.0	1.9	2.5	4.0	7.1	8.0	6.8
Public	3.9	-4.7	13.5	-12.0	-19.1	-1.6	5.3	9.8	15.9
Exports	-2.8	5.3	0.4	5.6	6.8	5.4	5.6	5.8	5.5
Imports	4.7	5.7	14.7	-2.7	1.6	3.1	3.8	4.1	4.2
Change in inventories and stat. disc.	0.2	0.2	1.6	-0.5	-0.5	0.0	0.0	0.0	0.0
Nominal GDP (bn Argentine pesos)	5,955	8,189	10,558	13,240	16,068	18,746	21,227	23,191	25,135
Output gap (percent)	1.1	-1.8	-1.5	-2.9	-3.7	-3.3	-2.5	-1.8	-1.3
CPI inflation (eop, y/y % change)	...	...	24.8	27.0	17.0	13.0	9.0	5.0	5.0
GDP deflator (y/y % change)	26.6	40.1	25.3	24.9	19.6	13.8	9.9	5.9	5.1
Unemployment rate (%)	...	8.5	8.4	8.5	8.6	8.4	8.2	8.0	7.8
<i>(Percent of GDP unless otherwise indicated)</i>									



External sector

Exports f.o.b. (goods, bn US\$)	56.8	57.9	58.4	66.4	71.6	75.3	80.1	84.9	89.6
Imports f.o.b. (goods, bn US\$)	57.6	53.5	64.0	65.7	67.7	72.2	77.4	82.1	86.8
Trade balance (goods bn US\$)	-0.8	4.4	-5.5	0.7	4.0	3.1	2.7	2.8	2.8
Trade balance (goods)	-0.1	0.8	-0.9	0.1	0.7	0.5	0.4	0.4	0.4
Terms of trade (% change)	-4.4	6.0	-2.7	4.0	-1.9	-3.0	-1.4	-0.3	-0.1
Total external debt	27.9	34.2	37.0	51.3	52.6	52.0	50.8	50.0	49.2

Savings-Investment balance

Gross domestic investment	15.6	14.6	14.8	15.1	14.8	14.9	15.5	16.4	17.2
Private	11.9	11.2	11.3	12.1	12.2	12.4	12.9	13.6	14.1
Public	3.6	3.4	3.5	3.1	2.6	2.5	2.6	2.7	3.1
Gross national savings	12.8	12.0	10.0	11.6	11.6	12.2	13.3	14.3	15.1
Private	18.6	18.3	16.5	16.7	15.4	15.1	16.0	16.9	17.5
Public	-2.1	-2.9	-3.0	-2.1	-1.2	-0.4	-0.1	0.1	0.7
Current account balance	-2.7	-2.7	-4.8	-3.6	-3.2	-2.7	-2.2	-2.1	-2.1

Public sector 1/

Primary balance	-4.4	-4.7	-4.2	-2.8	-1.3	0.2	0.8	1.2	1.3
<i>of which</i> : Federal government	-3.8	-4.2	-3.8	-2.7	-1.3	0.0	0.5	0.9	1.2
<i>memo</i> : Structural federal primary balance 2/	-4.2	-4.5	-3.7	-2.1	-0.6	0.6	0.9	1.2	1.4
Overall balance	-5.8	-6.4	-6.5	-5.1	-3.8	-2.9	-2.7	-2.6	-2.4
<i>of which</i> : Federal government	-5.1	-5.8	-6.0	-5.0	-3.7	-3.0	-2.9	-2.7	-2.3
Revenues	35.4	35.1	34.8	35.0	35.6	35.8	35.8	35.5	35.2
Primary expenditure 3/	39.8	39.8	39.0	37.8	36.9	35.6	34.9	34.3	34.0
Total public debt (federal)	55.1	53.3	57.1	64.5	60.9	57.4	55.8	54.1	53.0

Money and credit

Monetary base (eop, y/y % change)	34.9	31.7	21.8	25.9	21.3	18.0	14.5	14.2	13.8
M2 (% change)	28.2	30.4	25.8	22.5	25.3	18.6	14.5	14.2	13.8
Credit to the private sector (eop, y/y % change)	35.7	31.2	51.3	34.9	21.9	18.0	23.8	16.9	16.2



Credit to the private sector real (eop, y/y % change)	...	...	21.2	6.2	4.2	4.4	13.6	11.3	10.6
Interest rate (eop) 4/	32.2	23.9	28.8	37.2	22.5	15.8	11.0	10.0	9.7
Real interest rate (eop), 12-m ahead y/y inflation 4/	...	...	9.7	17.2	8.4	6.2	5.7	4.8	4.5
Real interest rate (eop), 1-m ahead m/m inflation 4/	...	...	7.4	14.2	6.6	4.5	4.5	4.7	4.4

Memorandum items

Gross international reserves (bn US\$)	25.6	39.3	55.1	65.4	69.0	79.7	88.4	96.0	103.8
Net international reserves, (bn US\$) 5/	-1.5	10.3	27.9	29.7	33.4	44.0	54.6	69.8	83.2
Change in REER (eop, % change)	5.3	-3.4	5.4	-18.1	3.9	0.7	0.1	0.0	0.0

Sources: Ministerio de Hacienda y Finanzas Públicas, Banco Central de la República Argentina (BCRA), and Fund staff estimates.

1/ The primary balance excludes profit transfers from the central bank of Argentina. Interest expenditure is net of property income from the social security fund before 2016.

2/ Percent of potential GDP.

3/ Includes transfers to municipalities, but excludes municipal spending.

4/ Average of all LEBAC maturities before 2017 and midpoint of the repo corridor starting in 2017; ex ante real rates.

5/ Assumes that entire first tranche would remain deposited at the BCRA. Projections and program targets will be adjusted accordingly upon changes.



ANNEX 3: LETTER OF DEVELOPMENT POLICY

"2018 - AÑO DEL CENTENARIO DE LA REFORMA UNIVERSITARIA"



Ministerio de Hacienda

NOTA MH N° 4

BUENOS AIRES, 13 AGO. 2018

SEÑOR PRESIDENTE:

Tengo el agrado de dirigirme a usted con relación al Primer Préstamo Programático para Política de Desarrollo de Crecimiento Inclusivo, programa que se realizaría bajo la modalidad de un Préstamo Programático de Apoyo a Políticas de Desarrollo con el Banco Internacional de Reconstrucción y Fomento (BIRF).

En este sentido, se desea informar que las prioridades de las políticas públicas incluidas en el Presupuesto de la Administración Pública Nacional de nuestro país para el Ejercicio 2018 responden a los lineamientos del Plan de Gobierno sostenido por el proyecto político que conduce la acción del Estado Nacional desde el inicio del actual período presidencial en diciembre de 2015.

Una vez finalizado el proceso de normalización y transición, el Gobierno de la República Argentina comenzó a trabajar sobre sus planes de largo plazo y a identificar objetivos e iniciativas prioritarias, agrupadas en ocho (8) objetivos, a saber: I. Estabilidad Macroeconómica, II. Acuerdo Productivo Nacional, III. Desarrollo de Infraestructura, IV. Desarrollo Humano Sustentable, V. Combate al Narcotráfico y Mejora de la Seguridad, VI. Fortalecimiento Institucional, VII. Modernización del Estado, VIII. Inserción Inteligente al Mundo. Se trata de una tarea minuciosa a fin de avanzar en cada uno de los proyectos y los programas que servirán para contribuir al desarrollo de la economía, promover el desarrollo humano y social y fortalecer las instituciones de la vida pública del país.

A pesar de los avances en los objetivos de gobierno citados, el país sigue expuesto a los vaivenes financieros globales, razón por la cual se negoció un "Stand-By Arrangement" (SBA) con el Fondo Monetario Internacional (FMI) a fin de evitar las turbulencias financieras que comenzaron en abril de 2018, traducidas en una depreciación del peso y aumento en el riesgo país.

En este contexto, el Gobierno Nacional recurrió preventivamente al Fondo Monetario Internacional (FMI) para limitar la volatilidad cambiaria y despejar las dudas respecto de la capacidad para cubrir las necesidades de financiamiento en el mediano plazo. El "Stand-By Arrangement" (SBA) acordado apunta a reforzar la estrategia para avanzar hacia una consolidación

IF-2018-39032518-APN-DGD#MHA

MH
página 1 de 4



Ministerio de Hacienda

fiscal gradual y dotar al Banco central de la República Argentina (BCRA) de independencia para cumplir sus objetivos inflacionarios.

Desde esta perspectiva, se considera relevante contar con un programa de apoyo del Banco Internacional de Reconstrucción y Fomento (BIRF) que consiste en la implementación de una operación de crédito basada en políticas de desarrollo que respalden el eje transversal de los lineamientos públicos actuales que complementen el programa acordado con el Fondo Monetario Internacional (FMI).

En particular, dicha operación de crédito permitirá continuar impulsando el fortalecimiento de políticas de desarrollo centradas alrededor de dos (2) pilares claves para la concreción de los objetivos prioritarios: I) Fortalecer las bases para el crecimiento liderado por el sector privado y II) Reforzar las redes de seguridad social y mejorar la equidad fiscal. Los mencionados pilares han de contener acciones previas, que servirán como justificación de la operación de crédito y acciones indicativas y de resultados previstos, en el marco de una matriz consensuada por todas las partes involucradas.

I) Fortalecer las bases para el crecimiento liderado por el Sector Privado:

En cuanto al pilar I), el Gobierno de Nacional considera que el crecimiento y el aumento de la inversión privada son fundamentales para mejorar los niveles de vida del país. Para ello es necesario contar con una serie de políticas públicas que remuevan las distorsiones que conspiran contra el desarrollo del sector privado, promoviendo mejoras de productividad que generen trabajo genuino y eleven el nivel de vida general de la población.

Las políticas impulsadas bajo este pilar abordan diversos aspectos que conspiran contra el desarrollo del sector privado y limitan el potencial competitivo de la economía. Por un lado, las medidas apuntan a promover la competencia, restringida por exceso de regulaciones que elevan los costos de hacer negocios y por la falta de un marco legal pro-competitivo moderno que incentive y premie la productividad y la innovación. Cabe señalar, que nuestro país cuenta con una Ley de Competencia en línea con estándares internacionales, que dota de mayor autonomía a la autoridad competitiva y pretende avanzar en su implementación en el corto plazo. Además, se ha aprobado legislación para reducir la complejidad de registrar una firma y para crear un registro de firmas unificado. Por otro lado, las políticas impulsadas pretenden facilitar el acceso a insumos intermedios y de capital claves mediante la reducción de barreras arancelarias y no-arancelarias. El Gobierno Nacional ha avanzado en esta dirección pero pretende continuar disminuyendo aranceles de importación a insumos intermedios y de capital. Adicionalmente, las políticas buscan ampliar las



IF-2018-39032518-APN-DGD#MHA

M A

página 2 de 4



Ministerio de Hacienda

oportunidades financieras de las firmas en el país que hoy sufren de un mercado de capitales acotado. Esto restringe las inversiones productivas y limita el flujo de capitales hacia las firmas y sectores más dinámicos de la economía, restringiendo su capacidad de crecimiento y generación de empleo. En esta línea se promulgó la Ley de Financiamiento Productivo y se pretende avanzar en su implementación, entre otras medidas. Finalmente, un aspecto clave dentro de esta agenda se refiere a la necesidad de enfrentar los desafíos derivados de la corrupción corporativa, que muestra mayor prevalencia en la República Argentina que en otros países de la región y por ello se pretende mejorar el marco institucional para fortalecer el régimen anticorrupción, incluyendo la Ley de Responsabilidad Penal Empresaria, en línea con la Organización para la Cooperación y el Desarrollo Económico (OCDE).

II) Reforzar las redes de seguridad social y mejorar la equidad fiscal.

Otro sector de vital importancia para la gestión actual de gobierno es el pilar II) que se encuentra focalizado en una política fiscal compartida de forma equitativa y de manera sustentable que complementará los esfuerzos de consolidación del gasto público nacional y protege a los más vulnerables.

En el marco de su estrategia de consolidación fiscal el Gobierno Nacional se compromete a sostener el gasto prioritario, incluyendo la asistencia social a la población más vulnerable destinando, en caso de ser necesario, recursos adicionales al financiamiento de programas de asistencia que sean más efectivos. En este sentido, se han de destinar adicionalmente hasta un cero coma dos por ciento (0,2 %) del Producto Interno Bruto (PIB) a los programas de Asignación Universal por Hijo, por Embarazo, o Ayuda Escolar Anual en el caso de que empeoren las situaciones económicas o que el nivel de beneficios se considere ineficiente. La intención de proteger a los sectores de población más vulnerable queda en evidencia en la implementación de un esquema de tarifa social conjuntamente con la reducción de subsidios a la energía y al transporte. Paralelamente, se pretende mejorar la focalización de la tarifa social para alcanzar a las familias en los primeros cuatro (4) deciles de distribución del ingreso, además de simplificar el acceso a beneficios sociales en una ventanilla única que agiliza los procesos y minimiza la exclusión de la población objetivo.

Bajo un sistema federal, una política fiscal más eficiente y equitativa requiere acciones a nivel nacional y provincial y para ello se trabaja conjuntamente con los gobiernos provinciales en la implementación de un esquema de responsabilidad fiscal provincial que complemente los esfuerzos nacionales en términos de eficiencia y equidad. Este esquema también incluye medidas destinadas a la reducción gradual de impuestos provinciales distorsivos en favor de

IF-2018-39032518-APN-DGD#MHA


página 3 de 4



Ministerio de Hacienda

impuestos directos más equitativos. Finalmente, el Gobierno Nacional se compromete a continuar coordinando con las provincias la implementación de la Cobertura Universal de Salud.

La operación de crédito será implementada a través de dos (2) desembolsos de quinientos millones de dólares estadounidenses (U\$S 500.000.000) cada uno (1), luego de ser verificado el cumplimiento de las condiciones acordadas con el Banco durante la Misión de Identificación llevada a cabo en junio de 2018. Al efecto, el Ejecutor del Programa será el Ministerio de Hacienda a través de la Dirección de Programas y Proyectos Especiales con Enfoque Sectorial Amplio.

El apoyo del Banco Internacional de Reconstrucción y Fomento (BIRF) permitirá consolidar y profundizar las medidas institucionales para promocionar el desarrollo económico del país y, en este sentido, el Gobierno de la República Argentina, por medio del Ministerio de Hacienda, solicita al Presidente del mismo llevar a cabo las medidas pertinentes para la pronta aprobación de una primera operación de Financiamiento de Políticas de Desarrollo (DPF 1), la primera de una serie de dos (2) operaciones, por el monto de quinientos millones de dólares estadounidenses (U\$S 500.000.000) con el objetivo de financiar el Crédito para Políticas de Desarrollo (DPF) en nuestro país.

Saludo a usted muy atentamente

NICOLÁS DUJOVNE
Ministro de Hacienda

AL SEÑOR PRESIDENTE
GRUPO BANCO MUNDIAL
D. Jim YONG KIM
S / D

IF-2018-39032518-APN-DGD#MHA

página 4 de 4



República Argentina - Poder Ejecutivo Nacional
2018 - Año del Centenario de la Reforma Universitaria

Hoja Adicional de Firmas
Informe gráfico

Número: IF-2018-39032518-APN-DGD#MHA

CIUDAD DE BUENOS AIRES

Lunes 13 de Agosto de 2018

Referencia: Primer Préstamo Programático para Política de Desarrollo de Crecimiento Inclusivo

El documento fue importado por el sistema GEDO con un total de 4 pagina/s.

Digitally signed by GESTION DOCUMENTAL ELECTRONICA - GDE
DN: cn=GESTION DOCUMENTAL ELECTRONICA - GDE, o=AR, ou=MINISTERIO DE MODERNIZACION,
ou=SECRETARIA DE MODERNIZACION ADMINISTRATIVA, serialNumber=CLET 32715117964
Date: 2018.08.13 15:27:28 -0200

Claudia Ledesma
Asistente administrativo
Dirección de Gestión Documental
Ministerio de Hacienda

Digitally signed by GESTION DOCUMENTAL ELECTRONICA -
GDE
DN: cn=GESTION DOCUMENTAL ELECTRONICA - GDE, o=AR,
ou=MINISTERIO DE MODERNIZACION, ou=SECRETARIA DE
MODERNIZACION ADMINISTRATIVA, serialNumber=CLET
32715117964
Date: 2018.08.13 15:27:27 -0200



Translation

BUENOS AIRES, August 13, 2018

PRESIDENT OF THE WORLD BANK GROUP

Dr. Jim YONG KIM

MR. PRESIDENT:

I have the honor to refer to the First Programmatic Development Policy Loan for Inclusive Growth that is to be implemented within the framework of an INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD) Programmatic Loan to Support Development Policies.

In this regard, I am pleased to advise that the public policy priorities included in our country's 2018 National Public Administration Budget are consistent with the guidelines set forth in the Government Plan. Indeed, the policy agenda that underpins this plan has been the driving force for NATIONAL STATE actions since the start of the current presidential period in December 2015.

Once the normalization and transition process had been finalized, the Government of the ARGENTINE REPUBLIC began to work on its long-term plans and to identify its objectives and priority initiatives grouped into the following eight (8) goals: I. Macroeconomic Stability; II. National Productive Agreement; III. Infrastructure Development; IV. Sustainable Human Development; V. Fight against Drug Trafficking, and Improved Security; VI. Institutional Strengthening; VII. State Modernization; and, VIII. Intelligent integration into the Global Community. Each of these projects and programs will be implemented with meticulous attention to detail to ensure that they help advance economic development, promote human and social development, and strengthen public institutions in Argentina.

While there has been progress in relation to the government objectives referred to above, the country remains exposed to global financial volatility. This is why a Stand-By Arrangement (SBA) was negotiated with the INTERNATIONAL MONETARY FUND (IMF) as a safeguard against the financial turmoil that emerged in April 2018 and that led to the depreciation of the peso and to a deterioration in the country's risk rating.



It was against this backdrop that the Government took preventive measures to approach the INTERNATIONAL MONETARY FUND (IMF) to limit exchange rate volatility and dispel doubts about the country's capacity to cover its medium-term financial needs. The aim of the Stand-By Arrangement is to strengthen the strategy for the promotion of gradual fiscal consolidation and to grant the CENTRAL BANK OF THE ARGENTINE REPUBLIC independence to meet its inflation targets.

With this in view, we believe that an INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD) support program is now appropriate. Such a program would involve the implementation of lending operations based on development policies that support the current cross-cutting public policy guidelines and that complement the program agreed with the INTERNATIONAL MONETARY FUND (IMF).

Specifically, the IBRD loans will facilitate the continued strengthening of the development policies that focus on the following TWO (2) key pillars for the attainment of the priority goals: I) Strengthening the foundations for private sector-led growth; and II) Strengthening the social safety net and enhancing fiscal equity. A number of prior actions will be defined for these pillars and will be set forth in a matrix to be agreed by consensus of all parties. These actions will be used as benchmarks to justify the disbursement of loans and to establish the indicative targets and expected outcomes.

I) Strengthening the foundations for private sector-led growth

In relation to Pillar I), the National Government believes that the growth and acceleration of private investment are essential elements for improving standards of living in the country. This will require the implementation of public policy initiatives that remove the distortions that constrain private sector development, promoting productivity gains capable of generating genuine employment and raising the general standard of living of the population.

The policies targeted under this Pillar address different factors that hamper private sector development and limit the competitive potential of the economy. On one side, the measures aim to promote competition. Currently, competition is constrained by excessive regulations that raise the cost of doing business and by the absence of a modern pro-competition legal framework that rewards productivity and innovation. It should be noted that the country has a Competition Law in place that is in line with international standards. It grants greater autonomy to the competition authority and the intention is to move ahead with its implementation in the short run. In addition, legislation has been adopted to



reduce the difficulty of registering a business and to create a unified business register. On the other side, the policies seek to facilitate access to key intermediate and capital inputs by reducing tariff and non-tariff barriers. The National Government has made progress in this area, but intends to continue reducing import tariffs on intermediate and capital inputs. In addition, the policies also aim to expand the opportunities for financing available to Argentinian companies in the current context of a tight capital market that restricts productive investment and inhibits capital flows to the most dynamic companies and sectors of the economy. This diminishes their capacity to grow and generate employment. It was with this in view that the Productive Financing Law was promulgated and the intention is to move ahead with its implementation, among other measures. Finally, the need to tackle the challenges associated with corporate corruption is a key element of this agenda. This phenomenon is more prevalent in the ARGENTINE REPUBLIC than in other countries of the region, hence the efforts being made to improve the institutional framework for strengthening the anti-corruption regime, including the Law on Corporate Criminal Liability, in line with the Organization for Economic Cooperation and Development (OECD).

II) Strengthening the social safety net and enhancing fiscal equity

Pillar II) is another vitally important sector for the present administration. It focuses on a fiscal policy that is shared equitably and sustainably, and that complements efforts to consolidate national public expenditure and protect the most vulnerable.

In the framework of its fiscal consolidation strategy, the National Government is committed to maintaining priority expenditure, including social assistance to the most vulnerable population, by earmarking, where necessary, additional financial resources for the more effective assistance programs. In this regard, where there is a decline in economic situation or where the level of benefits is considered ineffective, an additional allocation of up to ZERO POINT TWO PERCENT (0.2%) of GROSS DOMESTIC PRODUCT(GDP) is to be made to the programs related to Universal Child Allowance, Universal Pregnancy Allowance and Annual School Support. The implementation of a social tariff scheme while reducing subsidies on energy and transport attest to the intention of the Government to protect the most vulnerable sectors of the population. At the same time, efforts are being made to improve the targeting of the social tariff to reach families in the first FOUR (4) deciles of income distribution as well as to simplify access to social benefits by implementing a single window to streamline the various process steps and minimize exclusion of the target population.

In a federal system, actions must be taken at both the national and provincial levels to bring about



a more efficient and equitable fiscal policy. It is for this reason that work is being carried out in tandem with provincial governments to implement a provincial fiscal responsibility scheme that complements efforts at the national level in terms of both efficiency and equity. This scheme also includes measures to bring about the gradual reduction of distortionary provincial taxes and to replace them with more equitable direct taxes. Finally, the National Government is committed to continued coordination with the provinces on the implementation of Universal Health Coverage.

The lending operation will be implemented through TWO (2) disbursements of FIVE HUNDRED MILLION UNITED STATES DOLLARS (US\$500,000,000.00), each of which will be made after it has been verified that the conditions agreed with the Bank during the Identification Mission carried out in June 2018 have been met. The Ministry of the Treasury, through its Department of Special Programs and Projects with Sector-Wide Approach, will be the Program Executing Agency.

The support of the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD) will help consolidate and deepen the institutional measures for promoting the country's economic development. Against this backdrop, the Government of the Argentine Republic, through its Ministry of the Treasury, requests that the IBRD President take the necessary actions for the early approval of an initial Development Policy Financing loan (DPF 1), the first of two loans, in the amount of FIVE HUNDRED MILLION UNITED STATES DOLLARS (US\$500,000,000.00), to finance the Development Policy Loan in our country.

Yours sincerely,

Nicolas Dujovne
Minister of the Treasury

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS⁷¹

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: STRENGTHENING THE FOUNDATIONS FOR PRIVATE SECTOR-LED GROWTH		
Prior action #1. Competition	No, this prior action is not likely to generate significant environmental effects. However, apart from investment and productivity growth, competition through nondiscriminatory access to essential facilities and non-distorted market conditions might also prompt compliance with environmental regulations and standards.	Yes, this prior action is expected to have a positive effect on poverty reduction in the medium term, primarily through its effect on consumer savings due to lower prices.
Prior action #2. Import barriers	<p>Yes, this prior action is likely to generate positive indirect environmental effects due to availability of higher quality and lower-priced imported inputs that will lower production costs and increase productivity, efficiency and the competitiveness of firms based in Argentina. However, increased imports also pose a risk of significant negative indirect effects in environmental quality and management of natural resources where respective regulations and standards and/or their enforcement present gaps.</p> <p>To address this risk, the Government is processing advanced laws and regulations to apply Extended Producer Responsibility (EPR) to address waste management in an integrated manner, starting from those who import different materials and products. The first norm of this type was the Law 27,279 on Minimum Requirements for Environmental Protection for the</p>	Yes, the prior action is expected to have adverse (though small) short-term effects, due to the reallocation of workers. On the other hand, in the medium term, the reduction of trade barriers is expected to boost competitiveness, improving the allocation of factors of production to sectors and firms leading to higher paying jobs, particularly among high-skilled workers, resulting in positive welfare impact. The Government's program to help mitigate the adverse effects (<i>Programa de Transformacion Productiva</i>) and ease the transition, though its impact is yet to be determined.

⁷¹ Prepared by the Poverty and Equity Global Practice, with contributions from the Environment, FCI and MTI teams.



Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
	<p>Management of Empty Phytosanitary Containers that was sanctioned in September 2017 and regulated in February 2018. A general Law on Minimum Requirements for the Environmental Management of Packaging and another for Environmental Protection on Waste Management through Extended Producer Responsibility are currently under final review within the Ministry of Environment and Sustainable Development (MAyDS).</p>	
<p>Prior action #3. Business registration</p>	<p>Yes, this prior action is likely to generate significant environmental effects, if simplifying business registration leads to an expansion in enterprise activity. There could be significant negative effects due to the increase in economic activity given that the Government is still working on (i) establishing a proper system to collect and manage environment data for example on material flows and policies on resource productivity and sustainable materials management, and (ii) strengthening and homogenizing EIA and permitting that are currently conducted at the subnational level. Current EIA systems need strengthening particularly in assessing alternatives, public participation and elaborating mitigation measures. MAyDS has started a process of broad interinstitutional collaboration that includes Federal Council of Environment (COFEMA), the Federal Council of Environment on a new Law to establish the minimum requirements and standards for environmental impact assessment (EIA) at the national level to (i) define the national and provincial competencies to strengthen and homogenize the current systems at provincial level, including covering EIA of</p>	<p>No, actions to each business registration for limited liability companies are not expected to have short term impacts on poverty and inequality. In the long run, to the extent that these measures help firm growth, that leads to increased employment among low-skilled workers, the impacts on poverty reduction could be positive.</p>



Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
	<p>interjurisdictional projects; (ii) provide a single permit procedure to foster clarity and security for project proponents and financiers, and (iii) introduce a strategic environmental assessment to identify and manage environmental effects of policies and programs. Timely processing of this Law and the respective regulations is crucial for both strengthening environmental protection through efficient EIA systems and harmonizing the minimum requirements for environmental risk management of productive activities.</p>	
<p>Prior action #4. Capital markets</p>	<p>Yes, this prior action is likely to generate significant environmental effects, if financing options for productive investments by firms and SMEs rises and increases overall economic activity. Improved financing instruments in the enterprise sector are expected to have a positive environmental effect on one hand, through boosting investment in modern productive equipment and thus cleaning of industry and improving environmental quality. On the other hand, significant negative environmental effects could also ensue if the potential adverse impacts of a rise in economic activity are not managed appropriately. This risk is mitigated by continued Government actions to strengthen environmental management (see above).</p>	<p>Yes, increased capital investment by firms and SMEs is expected to increase productivity and employment growth in the short to medium term due to enhanced financing options to upgrade technology. Given that SMEs are large employers among the bottom 40, the distributional impact of the measure is expected to be positive. In addition, the impact on gender equality would also be positive, since they tend to be better represented among SMEs, primary beneficiaries of the measure.</p>
<p>Prior action #5. Corruption</p>	<p>No, this prior action is not likely to generate any type of significant environmental effect.</p>	<p>Yes, a reduction of corruption is expected to increase the effectiveness of government actions as well as facilitating higher investment, reducing the costs of doing business and bringing benefits to the population at large, as well as to the poor segments of the population.</p>

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 2: STRENGTHENING THE SOCIAL SAFETY NET AND ENHANCING FISCAL EQUITY		
Prior action #6. Social tariffs	Yes, this prior action is likely to generate significant positive environmental effects in terms of local air quality and reduced CO ₂ emissions through more careful and efficient energy use. Additionally, targeted assistance to the poor to compensate for energy tariff increases through the social tariff will prevent a potential negative effect of switching from gas to lower quality, higher emission residential fuels for heating and cooking.	Yes, the introduction of the integrated fare system for urban transportation will help mitigate the impact of the reduction of subsidies on the purchasing power of the more vulnerable families as they will benefit proportionally more from this new tariff system. This is because less well-off families tend to live in the outskirts and take more modes of transport throughout the day. In addition, the integrated fare system may also help users save time, as it lowers the costs of combining different means of transport for a given route. As a consequence, the measure is also expected to increase the progressivity of the subsidies.
Prior action #7. Fiscal Pact	No, this prior action is not likely to generate any type of significant environmental effect.	Yes, the Fiscal Pact includes a number of reforms which are expected to have positive poverty and social impacts, but are difficult to quantify. Increased fiscal resources for the Province of Buenos Aires, where a large share of the poor live, could potentially be beneficial. On the other hand, the cap of recurrent expenditure could have negative social impacts, depending on the measures that will be put in place to achieve the goal, in terms of prioritizing social spending and infrastructure investment over other. The increased reliance on more progressive taxes (such as to property, against sales taxes) is expected to have a positive welfare effect, as it increases the progressivity of revenues.
Prior action #8. Single Window	No, this prior action is not likely to generate any type of significant environmental effect.	Yes, the introduction of the Single Window is expected to have a positive social effect by increasing access to and reducing transaction costs of social programs targeted to the most vulnerable.
Prior action #9. Universal health coverage	No, this prior action is not likely to generate any type of significant environmental effect.	Yes, the universal health coverage strategy is expected to increase effective access and quality of care for the poorest and most vulnerable population, having a positive social effect.



1. **The PSIA was developed according to World Bank guidelines and designed to provide an analysis of the potential poverty and social impacts of the policy actions outlined in the DPF series.** The present PSIA outlines the expected impacts from a gender-informed, social and distributional perspective. The assessment is meant to provide a robust analysis of the policy actions included in this operation.
2. **The policy measures supported under this DPF series are expected to play an important role to mitigate the adverse short-term distributional impacts of the stabilization program, while implementing structural reforms to reduce distortions and enhance the potential for private sector-led growth.** The policy program under Pillar 1, aimed at strengthening competition and reducing market frictions, is expected to bring positive distributional impacts, although these would mainly materialize in the medium term. Pillar 2 supports measures that are expected to increase government efficiency and the progressivity of spending, while protecting the most vulnerable. At the same time, it emphasizes strengthening of the social safety net, which has a key role in mitigating the negative impacts of the downturn in the short-run, but also in ensuring longer-term benefits from improved social protection and health systems.
3. **The PSIA is informed by quantitative analyses of the specific policies supported by this operation, together with a literature review of previous studies relevant to the prior actions for DPF 1.** Useful information to define parameters and assumptions to perform the quantitative analysis, as well as to organize the literature review, was gathered from previous evaluations by the World Bank and other multilateral organizations, and from academic research papers. Several World Bank Group Global Practices also provided valuable inputs for this assessment

Expected individual impacts of prior actions under the two pillars are summarized below:

Pillar 1: Strengthening the foundations for private-sector led growth

Prior Action 1: The Borrower has enacted a new Competition Law to strengthen the legal framework for competition, as evidenced by Law No. 27,442.⁷²

4. **Strengthening competition is expected to contribute, in the medium term, to poverty reduction and welfare increases for the population in the bottom 40 percent of the income distribution.** Having the right mechanisms to sanction, eliminate and deter anticompetitive behavior can generate substantial consumer savings, particularly for the poor, who are typically the most affected by it. Households on the lower end of the income distribution suffer relatively greater welfare losses from lack of competition since they consume more homogeneous goods, have less opportunities to substitute consumption, and have less access to alternative markets.
5. **Beyond the known effects on growth and productivity, inducing more competition could have important effects on poverty reduction.** The intensity of competition can affect households through their role in markets as consumers, producers and employees.⁷³ In particular, lack of competition in basic staples tends to hurt lower income households relatively more than higher income households since they tend to consume more of such basic staples. In addition, collusive behavior is more likely to occur in products that

⁷² Dated May 9, 2018, published in the Official Gazette No. 33,870 of May 15, 2018.

⁷³ For a summary of relevant empirical literature, see Begazo Gomez, T.P., S. Nyman. 2016. "Competition and Poverty. View point"; note no. 350. Washington, D.C.: World Bank Group.



the poor consume relatively more of since these products tend to be more homogenous and characterized by a lower price elasticity of demand (both factors which can facilitate collusion).⁷⁴ At the same time, competition policy reforms also affect household wellbeing through their impact on employment and productivity. Both theoretical models and empirical work tend to suggest that a lack of competition in product markets stifles employment in the long term and/or on aggregate. The basic intuition is that less intense competition raises prices above the marginal cost, reducing the output demanded by consumers and, therefore, reducing the labor demanded by producers. An increase in prices also reduces real wages, which can reduce the supply of labor.⁷⁵ Anticompetitive regulation and behavior can also harm low-income producers, for example by raising the cost of inputs. This is particularly the case when a lack of competition raises the price of agricultural inputs such as fertilizers, seeds and transport services.

6. There is worldwide evidence of the negative distributional effects arising from a lack of competition as well as the positive outcomes associated with promoting competition as a mechanism for poverty alleviation.⁷⁶ In the case of Mexico, Urzua (2013) presents evidence that welfare losses due to the exercise of monopoly power are not only significant, but are also larger—in relative terms—for the poor, estimating that market power exerted by companies on key goods imposed welfare losses on poor household 20 percent higher than the losses for the highest income households.⁷⁷ Similarly, Creedy and Dixon (1998) find that the welfare loss associated with monopoly power for 14 commodity groups in Australia is higher for low-income households than for high-income households. In particular, the loss is 46 percent higher for the lowest decile than for the highest.⁷⁸ Argent and Begazo (2015) find that in the case of Kenya, market reforms in the sugar and maize markets would increase the disposable income of consumers, especially the poorest, even after taking into account the dual role of households as producers and consumers of maize. They find that allowing sugar and maize prices to fall by 20 percent through the relaxation of trade barriers that shield the domestic sugar industry from competition and limiting government interventions that distort prices would lead to welfare gains for all income deciles, leading to a 1.5 percent fall in poverty in the case of sugar and 1.8 percent in the case of maize, with relatively higher gains for the poorest population.⁷⁹

7. The effects on welfare, especially among households at the bottom of the income distribution, are expected to take place through the price reduction mechanism. An analytical exercise for the case of Armenia suggests that strengthening competition in the markets for bananas and flour would reduce prices and—especially in the case of flour—benefit the poorest households. In the case of Mexico, more competition in the corn flour market would benefit the poorest, while the benefits of competition in the mobile communication sector would be more evenly spread. Estimates for Mexico suggest that competition

⁷⁴ See Purfield, C. M., M. Hanusch, Y. Algu, T. Begazo Gomez, M. Martinez Licetti, S. Nyman. 2016. *South Africa economic update: promoting faster growth and poverty alleviation through competition*. South Africa economic update; issue no. 8. Washington, D.C.: World Bank Group.

⁷⁵ See World Bank Group; World Bank; Organization for Economic Co-operation and Development. 2017. *A Step Ahead: Competition Policy for Shared Prosperity and Inclusive Growth*. Trade and Development. Washington, DC: World Bank.

⁷⁶ See World Bank Group; World Bank; Organization for Economic Co-operation and Development. 2017. *A Step Ahead: Competition Policy for Shared Prosperity and Inclusive Growth*. Trade and Development. Washington, DC: World Bank.

⁷⁷ Urzúa, C. M. 2013. "Distributive and regional effects of monopoly power." *Economía Mexicana NUEVA EPOCA*, 22(2): 279–295

⁷⁸ Creedy, J., and R. Dixon. 1998. "The Relative Burden of Monopoly on Households with Different Incomes." *Economica* 65 (258): 285–93.

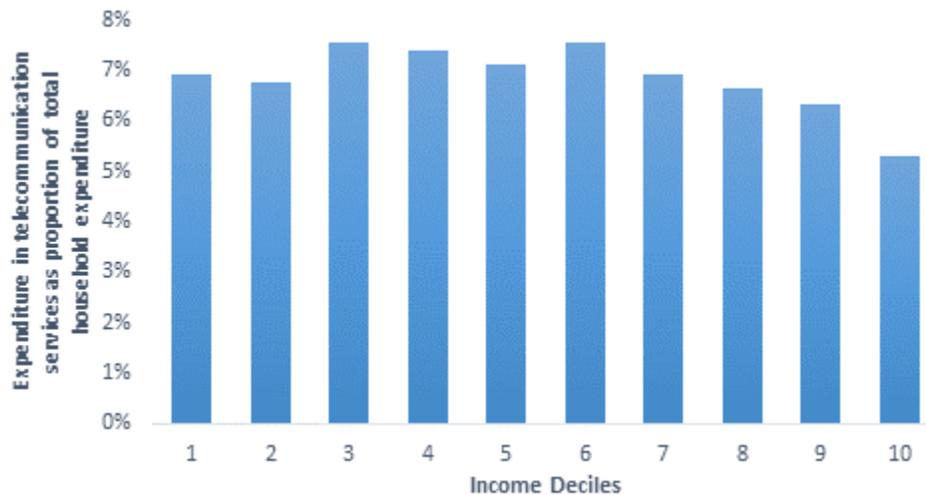
⁷⁹ Argent, J. and T. Begazo. 2015. "Competition in Kenyan markets and its impact on income and poverty: a case study on sugar and maize." World Bank Policy Research Working Paper 7179.



would induce a combined reduction in poverty of 1.27 percentage points and inequality (Gini coefficient) would fall by 0.49 points.⁸⁰

8. **In Argentina, increased competition in telecommunications services is expected to have a positive impact on the welfare of the bottom six deciles of the population, especially through price reductions in cable and satellite services.** The average expenditure in telecommunication services as proportion of total household expenditure was around 7 percent for the seven first deciles of income in 2012—the most recent year with available data (Figure A 1). These data also show that within expenditure in telecommunications, the categories that represent a higher proportion of household expenditure for the bottom 40 percent of the population are cable or satellite, card for cellphone and fixed cellphone subscription.⁸¹ The results of a simulation exercise show a lower bound of 0.04 of a percentage point decrease in poverty (corresponding to approximately 10,000 people) due to increased competition in the telecommunications sector lowering the price of these services.⁸²

Figure A 1. Proportion of Total Household Expenditure on Telecommunication Services, By Income Decile



Source: World Bank estimates based on 2012 Household Income and Expenditure Survey (EnGHO).

9. **Setting up a new competition authority with greater independence and powers to detect and deter price-fixing cartels will be better able to protect the poor from anti-competitive overcharging.** The introduction of leniency programs has been shown to be associated with an increase in the number of cartels investigated and punished by around 60 percent and deterrence on the formation of cartels in the same proportion.⁸³ Such cartel agreements charge on average 49 percent higher prices.⁸⁴ Additional sector-

⁸⁰ Abdelkrim A., S. Olivieri, C. Rodriguez Castelan and E. A. Malasquez Carbonel. 2017. "WELCOM: WELfare and COMpetition Stata Package", World Bank. <http://dasp.ecn.ulaval.ca/webwel/welcom.html>

⁸¹ Estimates based on the 2012 Household Income and Expenditure Survey (EnGHO), INDEC.

⁸² Based on methodology and tool by Abdelkrim A., et al. (2017) *ibidem*, and using the 2012 Household Income and Expenditure Survey (EnGHO). Note that this methodology assumes effects on poverty focusing exclusively on a price mechanism.

⁸³ See Miller, N. H. 2009. "Strategic leniency and cartel enforcement". *American Economic Review*, 99: 750-768. Klein (2010) based on data from 23 OECD countries shows that leniency policies were associated with a decrease in the industry-level price-cost margin by 3 to 5 percent. Klein, G. J. 2010. "Cartel destabilization and leniency programs: Empirical evidence," ZEW Discussion Papers 10-107, Zentrum für Europäische Wirtschaftsforschung/Center for European Economic Research.

⁸⁴ Statistics based on the worldwide most comprehensive database of cartel overcharges (See Connor, J. 2014. *Price-Fixing*



specific measures, e.g. in telecommunications, have the potential to increase coverage of critical connectivity services for the bottom 40 percent.

10. **Recent empirical evidence shows that competition law enforcement is an important complement to traditional poverty reduction programs such as conditional cash transfers to the poor.** Tackling anticompetitive behavior—especially in the food and basic goods sectors—is key in preventing public transfers to the poor from leaking into anti-competitive profits, given the significant proportion of cash transfers that tends to be spent in these sectors.⁸⁵ In the case of the Dominican Republic, evidence shows that entry of new grocery stores into a defined market leads to significant reduction in prices (without change in quality) of products consumed by beneficiaries of governmental cash transfers.⁸⁶ In South Africa, the reduction in overall poverty across household goods from tackling only four cartels on staple food products was 0.40 percentage points, equivalent to around 202,000 individuals—representing a significantly larger impact compared to the direct effect of cash transfer programs in the country.⁸⁷

Prior Action 2: The Borrower has issued measures to reduce tariff and non-tariff import barriers for intermediate and capital goods, as evidenced by the Borrower’s Secretary of Commerce’s Resolution No. 170/2018⁸⁸ and the Borrower’s National Executive Decree No. 117/2017.⁸⁹

11. **The availability of higher quality and lower priced imported inputs will lead to lower production costs and higher efficiency of firms that operate in Argentina.** This process is expected to boost firm competitiveness and productivity growth, generating more and better paid jobs as these firms are expected to increase demand for highly skilled workers (or to allow workers to learn while working and be deployed to higher-value-added tasks). By the same token, removal of export taxes is expected to increase not only the volume of exports but also the export market share of Argentine products, triggering a virtuous cycle of new investment, jobs and GDP expansion.

12. **The reduction of barriers to trade on intermediate goods, including IT, is expected to boost competitiveness, improving allocation of factors of production to sectors and firms with positive welfare outcomes in the medium term.** The majority of non-automatic import licenses and import duties eliminated by the measures supported in this operation correspond to capital or intermediate goods. Most of these goods are in the sectors of machinery and electronic equipment; base metals; textiles; and wood and paper. The expected impact would come chiefly from shifts in the cost structure for downstream firms in the economy.⁹⁰

Overcharges: Revised 3rd Edition (February 24, 2014).

⁸⁵ Urzua, C. 2013. “Distributive and Regional Effects of Monopoly Power.” *Economia Mexicana NUEVA EPOCA* 22 (2): 279–95; and World Bank, 2017. *A Step Ahead: Competition Policy for Shared Prosperity and Inclusive Growth*. Washington, DC: World Bank.

⁸⁶ Busso, M., and S. Galiani. 2014. “The Causal Effect of Competition on Prices and Quality: Evidence from a Field Experiment.” NBER Working Paper 20054, National Bureau of Economic Research, Cambridge, MA.

⁸⁷ Purfield, C. M., M. Hanusch, Y. Algu, T. Begazo Gomez, M. Martinez Licetti, S. Nyman. 2016. South Africa economic update: promoting faster growth and poverty alleviation through competition. South Africa economic update; issue no. 8. Washington, D.C.: World Bank Group.

⁸⁸ Dated March 27, 2018, published in the Official Gazette No. 33,841 of March 28, 2018.

⁸⁹ Dated February 17, 2017, published in the Official Gazette No. 33,570 on February 20, 2018.

⁹⁰ Licetti, M., M. Iootty, T. Goodwin, and J. Signoret. 2018. *Strengthening Argentina’s Integration into the Global Economy*. International Development in Focus. Washington, DC: World Bank.



13. **In terms of employment, the expected effects of elimination of the import duties on IT goods are expected to be small and contained.** The set of IT goods for which import duties have been eliminated fall in the broad sector of computers, electronics and other machinery and electric equipment employing less than 1 percent of the total employment in Argentina.⁹¹ Approximately 74 percent of workers in this broad sector attained secondary education or less and the informality rate within the sector is among the lowest in the country (around 11 percent). Participation of young workers is higher in this sector than in others (12.6 percent of workers in the sector are 15 to 30 years old).⁹²

14. **In the short run, adverse effects on registered employment may affect primarily workers in smaller firms.**⁹³ The broad sector of machinery and equipment employs approximate 70,000 registered workers (1.1 percent of the total employment in Argentina). The most vulnerable may be those positions in small firms; 40 percent of the registered employment in this sector is in firms with less than 50 workers. Employment in the base metals sector tends to be more concentrated in larger firms, unlike the textiles, wood and paper sector. For instance, in the wood sector 64 percent of the registered employment is in firms with less than 50 workers.⁹⁴

15. **To partially mitigate the adverse impact, in 2016 the Government put in place a program (*Programa de Transformación Productiva* or Program for Productive Transformation).** The goal of the program is to help companies become more competitive and to support workers that may need to be reconverted or trained to perform new tasks and for unemployed workers to re-enter the labor market. The program includes extended unemployment insurance, family assistance, and state facilitation of workers' re-integration into new companies. Savings generated in intermediate sectors are expected to be reflected, in productivity gains and lower prices of downstream products and services in the medium term.

Prior Action 3: The Borrower has enacted legislation to reduce the complexity of business registration and create a national unified firm registry, as evidenced by Law No. 27,444, Law No. 27,349, the Borrower's Resolution No. 5/2017, the Borrower's Resolution No. 6/2017, and the Borrower's General Joint Resolution No. 4098E-2017.⁹⁵

16. **Fast track procedures for limited liability companies are not expected to have short-term impacts on poverty and inequality, but in the long run, the impacts could be positive.** Business registration reforms together with other measures improving the business environment are expected to allow productive firms

⁹¹ Estimates from EPH 2017 Q1 and *Observatorio de Empleo y Dinámica Empresarial, Ministerio del Trabajo, Empleo y Seguridad Social*: <http://www.trabajo.gob.ar/estadisticas/oede/estadisticasnacionales.asp>

⁹² Estimates based on EPH 2017 Q1.

⁹³ See for instance, Rodriguez-Clare, A. and M. Yu. 2017. "All-Around Trade Liberalization and Firm-Level Employment: Theory and Evidence from China", *University of California Berkeley*.

⁹⁴ *Observatorio de Empleo y Dinámica Empresarial, Ministerio del Trabajo, Empleo y Seguridad Social*: <http://www.trabajo.gob.ar/estadisticas/oede/estadisticasnacionales.asp>

⁹⁵ Chapter IV of Law No. 27,444, dated May 30, 2018, published in the Official Gazette No. 33,893, of June 18, 2018; Chapter II of Law No. 27,349, dated March 29, 2017, published in the Official Gazette No. 33,604 of April 12, 2017; the Borrower's Resolution 5/17, issued by the Borrower's General Justice Inspectorate (*Inspección General de Justicia*), dated July 10, 2017, published in the Official Gazette No. 33,663 of July 11, 2017; the Borrower's Resolution No. 6/2017, issued by the Borrower's General Justice Inspectorate (*Inspección General de Justicia*), dated July 26, 2017, published in the Official Gazette No. 33,675 of July 27, 2017; and the Borrower's General Joint Resolution No. 4098E-2017, issued jointly by the Borrower's General Inspectorate of Justice (*Inspección General de Justicia*) and the Borrower's Federal Administration of Public Revenue (*Administración Federal de Ingresos Públicos*) dated July 27, 2017, published in the Official Gazette No. 33,676 of July 28, 2017.



to grow, potentially generating more and better paid jobs. Moreover, to the extent that additional firms could lead to a more competitive market, this could also lead to lower prices that would benefit those at the bottom of the distribution. To the extent that firm growth leads to direct and indirect jobs for low skilled workers, this could lead to positive poverty and social impacts. Similarly, Bruhn (2008) finds that a business registration reform increased the number of registered businesses by 5 percent, while employment in eligible industries went up by 2.8 percent, and people who were previously unemployed or out of the labor force were more likely to work as wage earners after the reform. Moreover, the results imply that the competition from new entrants lowered prices by 0.6 percent and decreased the income of incumbent businesses by 3.2 percent.⁹⁶

Prior Action 4: The Borrower has enacted a Productive Financing Law that reforms the legal framework for capital markets and financing instruments in the enterprise sector to promote private investment, as evidenced by Law No.27,440.⁹⁷

17. **In the short to medium term the increased capital investment by firms and SMEs facilitated by a broader capital market is expected to increase productivity and employment growth by improving access to finance.** The partial credit guarantee program—while limited—is expected to have a positive impact on financial inclusion and bringing in more financing to MSMEs which will raise living standards of micro and family owned small businesses and help reduce the poverty level through increase access to credit.

18. **Supporting SMEs economic activity and outcomes could have an impact on almost half of the private sector workers in Argentina.** Approximately 16 percent of the employed in the country work in firms of one person, while 21 percent work in firms with 2 to 5 employees, 24 percent work in firms with 6 to 40 employees, and only 25 percent work in firms with more than 40 employees.

19. **At the same time, the impact on gender equality would be positive as women are better represented in ownership and management among small firms.** Women are underrepresented in ownership and management, however they tend to participate more as owners and top managers of small firms: In Argentina, 10 percent of small firms have a female top manager, while the value is 5 and 7 percent for medium and large firms, respectively. In terms of ownership, 9 percent of small firms have majority female ownership, but this percentage is only 6 and 3 among medium and large firms.⁹⁸

Prior Action 5: The Borrower has enacted a Corporate Criminal Liability Law strengthening the anti-corruption framework and bringing the Borrower in line with international standards, as evidenced by Law No. 27,401.⁹⁹

20. **A reduction of corruption is expected to increase the effectiveness of government actions as well as facilitate higher investment, reduce the costs of doing business and bring benefits to the population at large, as well as to the poor segments of the population.** Businesses and individuals pay an estimated

⁹⁶ Bruhn, Miriam. 2008. "License to Sell: The effect of business registration reform on entrepreneurial activity in Mexico". *World Bank Policy Research Working Paper* No. 4538.

⁹⁷ Dated May 9, 2018, published in the Official Gazette No. 33,868 of May 11, 2018.

⁹⁸ World Bank 2017. *Enterprise Survey 2017*. Small firms are considered those with 1 to 19 employees; medium firms are those with 20 to 99 employees, and large firms are those with more than 100 employees.

⁹⁹ Dated November 8, 2017, published in the Official Gazette No. 33,763 of December 1, 2017.



US\$1.5 trillion in bribes each year globally.¹⁰⁰ Empirical studies have consistently demonstrated that the poor pay the highest cost of corruption.¹⁰¹ At the company level, corruption raises costs, introduces vulnerability to extortion and undermines fair competition.¹⁰² Corruption is costlier for small and medium firms: In Argentina, the percent of firms experiencing at least one bribe payment request is estimated at 14 percent among small firms, 4 percent among medium firms and 3 percent among large firms.¹⁰³

Pillar 2: Strengthening the social safety net and enhancing fiscal equity

Prior Action 6: The Borrower has approved a regulation to protect the most vulnerable while reducing transport subsidies, as evidenced by the Borrower's Resolution No. E-77/2018.¹⁰⁴

21. **The average tariff of the bus transit system in the Metropolitan Area of Buenos Aires (AMBA) only covered 40 percent of the costs in the beginning of 2017, and the bus subsidy amounted to 0.45 percent of GDP.**¹⁰⁵ Although subsidies for the bus system were reduced in 2016, user charges only covered about one-fifth of the system's costs in early 2016, substantially lower than that of many major Latin American cities at the beginning of 2017 (Figure A 2).¹⁰⁶ Increasing AMBA's bus tariffs to the cost-recovery level would decrease the bus subsidy to 0.13 percent of GDP. That would require a more than doubling of all current user charges, except for users that qualify for the Transit ST (TST). It would also represent a 300 percent tariff increase since February 2016.

22. **Transport subsidies have shown higher progressivity since people in the lower deciles use public transportation more intensively, but important targeting errors of the social tariff system remain.** As subsidies are gradually eliminated, transport subsidies are expected to become more pro-poor, although they would still benefit the better-off segments (Figure A 3). This is largely because the intensity of use of the urban transport system decreases with income but, at the same time, the current Transit Social Tariff (TST) scheme has low and relatively homogenous coverage across deciles of the income distribution (Figure A 4).¹⁰⁷ Users that qualify for the TST pay only 45 percent of the regular tariff, a large discount on the already

¹⁰⁰ IMF. 2016. "Corruption: Costs and Mitigation Strategies" *IMF Staff Discussion Notes*, May 2016 SDN/16/05).

¹⁰¹ For a summary see Shahe Emran, M. A. Islam and F. Shilpi. 2018. "Distributional Effects of Corruption When Enforcement is Biased: Theory and Evidence from Bribery in Schools in Bangladesh" (February 17, 2018). Available at SSRN: <https://ssrn.com/abstract=3125495>

¹⁰² Chene, M. and R. Hodess. 2014. "The Impact of Corruption on Growth and Inequality", Anticorruption Help-Desk, Transparency International.

¹⁰³ "Enterprise Survey 2017". Small firms are considered those with 1 to 19 employees; medium firms are those with 20 to 99 employees, and large firms are those with more than 100 employees.

¹⁰⁴ Dated January 30, 2018, issued by the Borrower's Ministry of Transport, published in the Official Gazette No. 33803 of January 31, 2018.

¹⁰⁵ The incidence work presented in this section is largely based on Veza, E., & Puig, J. 2016. *Incidencia distributiva de los subsidios para el Transporte Público en el AMBA basada en micro-simulaciones – El caso del subsidio a la tarifa de colectivos*, and World Bank 2018, *Argentina: Selected topics in Public Expenditure Review*.

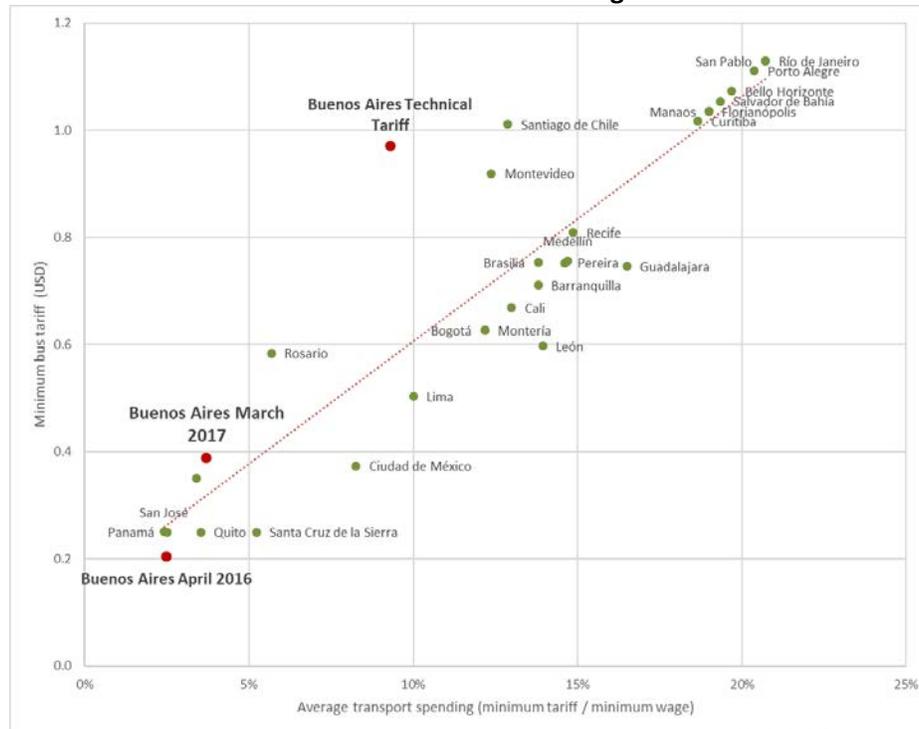
¹⁰⁶ Bus operators are compensated through direct transfers from the government that are tied to the number of workers, size of the fleet, and distance of routes.

¹⁰⁷ The Transit Social Tariff was implemented in 2013-14, to improve targeting of the urban transport subsidy, and take advantage of the SUBE transit smartcard (*Sistema Unico de Boleto Electrónico*), which integrated the means of payment of all metropolitan transport systems and was introduced in 2010 with the support of the World Bank. The aim was to start moving away from supply-side subsidies (for the most part, neutral or regressive), to demand-side subsidies focusing on vulnerable population (beneficiaries of social programs, domestic employees, war veterans, among others), focusing on improving the welfare of the poorest, integrating access to transport into wider poverty alleviation efforts.



low tariffs. In the bottom 40 percent of the income distribution, only 57 percent of users qualify for the TST, mostly through student discounts, while some of the categories of beneficiaries are more likely to belong to the richer half of the distribution. A large part of the most vulnerable that do not have access to the current social tariff system are working-aged individuals, that do not qualify for social programs but still have incomes below the one needed to cover basic needs.

Figure A 2: Minimum Bus Tariffs Across Cities in Latin America (Current US\$), By Average Spending Relative to Minimum Wage



Source: CAF (2015) *Observatorio de Movilidad Urbana*.

23. **Eliminating completely the subsidy to urban transportation could potentially represent a large cost for families in the bottom decile of the income distribution.** Bus users will cover an average of 80 percent of the system’s costs if all subsidies other than the TST and for students are eliminated.¹⁰⁸ Yet, it is estimated under the scheme prior to the changes proposed in the regulation E-77/2018, the complete elimination of the subsidy (while maintaining the TST and students’ discounts), would mean that the poorest segments of the population would double their share of spending on bus transport (Figure A 5).

¹⁰⁸ Eighty-six percent of people taking trips in AMBA when using buses (Veza and Puig, 2016, Ibidem).



Figure A 3: Distribution of Bus Subsidies in AMBA, By Per Capita Household Income Decile, Under Different Tariff Structures

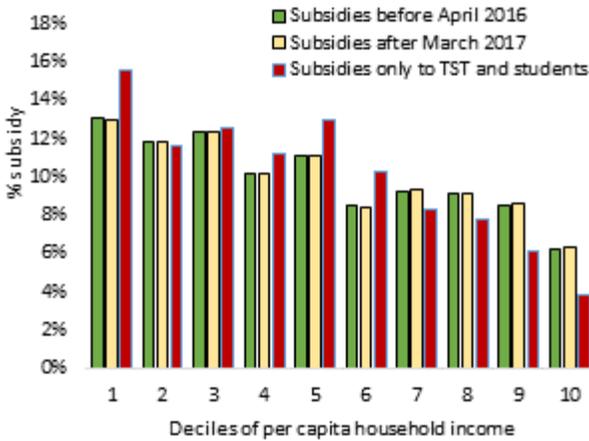
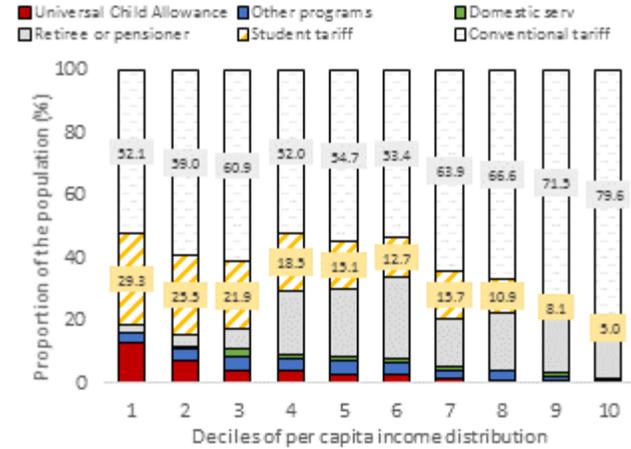
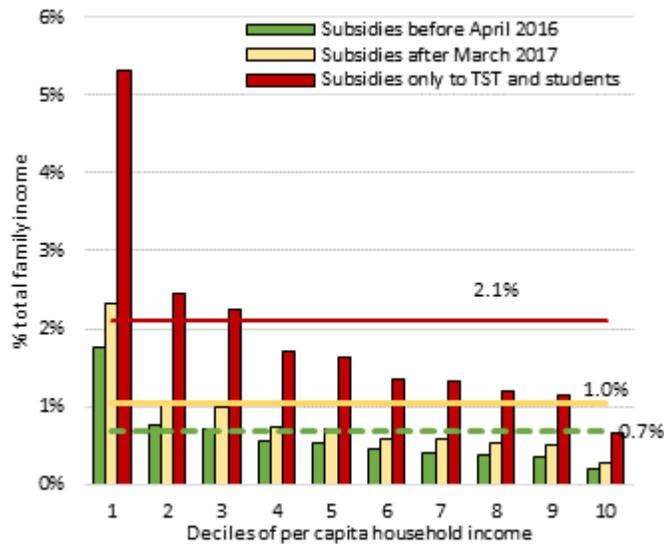


Figure A 4: Proportion of Families That Qualify for the Transit Social Tariff, By Per Capita Household Income Decile



Source: World Bank estimates based on Household Survey (2016) and Ministry of Transport. Estimates based on urban transport tariff structure prior to the change proposed by the Regulation E-77/2018.

Figure A 5: Bus Spending in AMBA, By Per Capita Household Income Decile, As A Share of Total Family Income, Under Different Tariff Structures



Source: World Bank estimates based on Household Survey and Ministry of Transport.

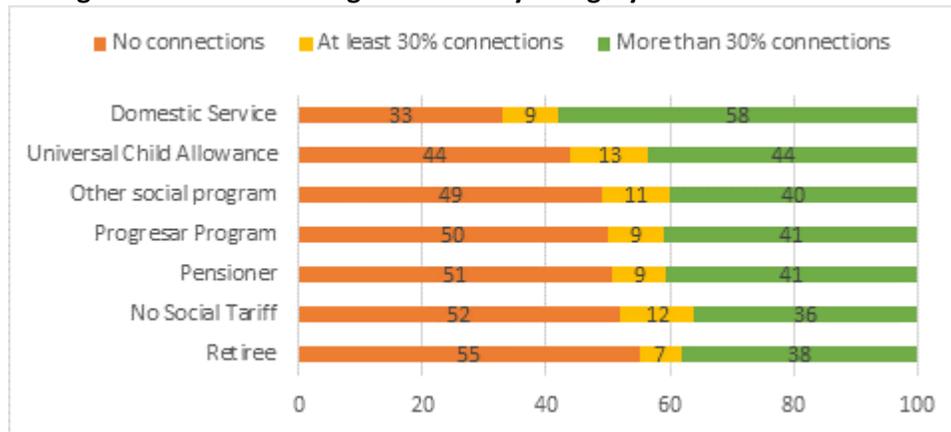
24. The measure supported by the program (regulation E-77/2018), implemented since February 1, 2018, introduces an integrated fare system for urban transport that will help mitigate the impact of further reduction of subsidies for the less well-off. The multi-modal fare integration scheme, using the SUBE smartcard, provides users discounted fares for trips within multimodal transfers, including across buses and railways, with a maximum of five connections. By reducing the costs of multimodality, it encourages



passengers to use the most effective combination of means of transport for their desired trip, as seen in other cities such as Medellin, London, Madrid or Barcelona. Prior to the introduction of the integrated system, 43 percent of users made at least one connection per day.¹⁰⁹

25. **It is expected that the introduction of the integrated fare system would benefit more vulnerable households, increasing the progressivity of the subsidies.** First, the less well-off families tend to live in the outskirts of metropolitan regions, farther away from their jobs, spend more time travelling and take more modes of transport (combining railways and buses). Domestic workers and AUH beneficiaries are more likely to make connections per day, with 67 and 55 percent of them, respectively, making at least one connection per day (Figure A 6). In addition, poorer individuals use more intensively transport systems that are slower (such as buses) relative to other more expensive, faster means (such as, metro). Thus, it is expected that the integration of tariffs would help users to save time. Finally, since women—particularly those with children—are more likely than men to take shorter, lower speed trips (for instance, to fetch children at school), the integrated tariff system potentially will have a stronger positive impact on women.¹¹⁰

Figure A 6. Share of Integrated Uses by Category of Transit Social Tariff



Source: Reproduced from *Ministerio de Transporte* (2017), *ibidem*. Estimates are based on SUBE records for November 15, 2017.

Prior Action 7: The Borrower has enacted legislation to enhance fiscal responsibility at the provincial level and improve equity in intergovernmental transfers, as evidenced by Laws No. 27,428 and 27,429.¹¹¹

26. **The Fiscal Pact includes a number of reforms which are expected to have positive poverty and social impacts, but that are difficult to quantify.** First, more fiscal resources will be directed to the Province of Buenos Aires, where most of the poor live, while maintaining the level of resources toward other provinces. Second, the gradual elimination of the sales tax (*Ingresos Brutos*) is expected to reduce

¹⁰⁹ While the multimodal tariff systems in these cities present differences among each other and with the implemented in Argentina, they all include some integration of tariffs across transport means. See *Ministerio de Transporte, Argentina 2017, Análisis Técnico de la Tarifa Integrada AMBA*. Estimates based on SUBE records for November 15, 2017.

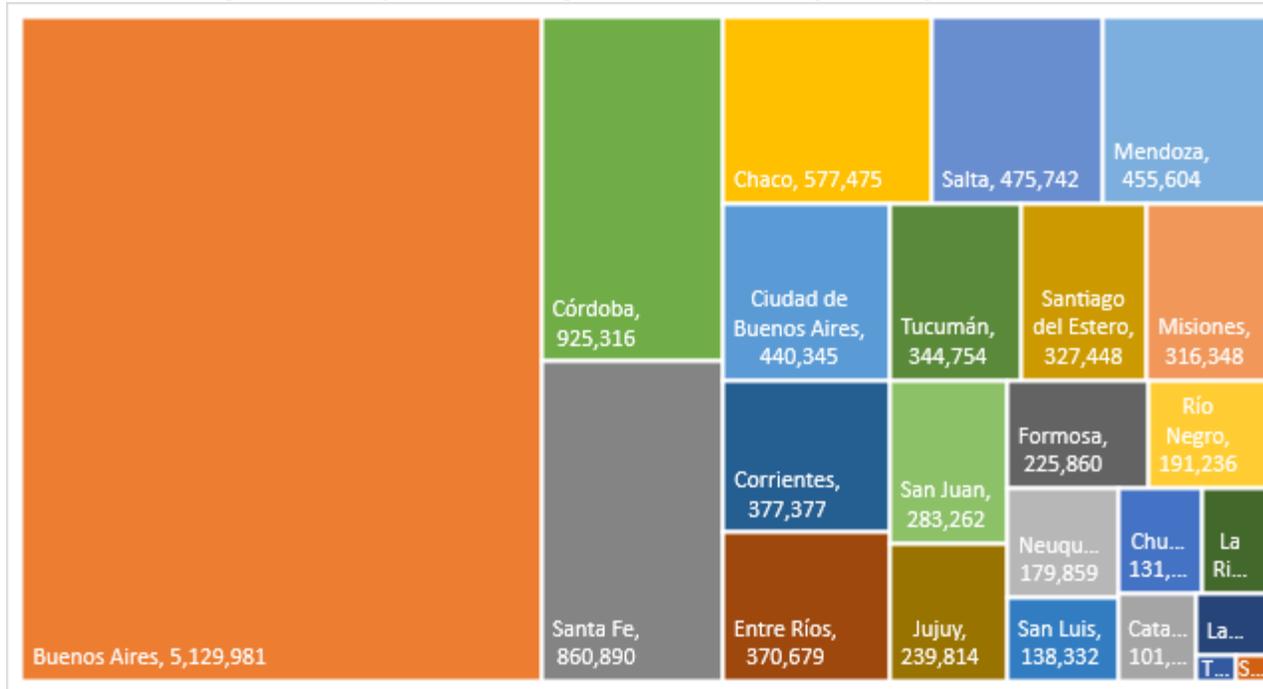
¹¹⁰ Peralta Quiros, Mehndiratta and Ochoa. 2014. “Gender, Travel and Job access: evidence from Buenos Aires”, World Bank, with estimates based on 2009 ENMODO Expanded Survey.

¹¹¹ Both dated December 21, 2017, published in the Official Gazette No. 33,782 of January 2, 2018.



distortions for the private sector, especially in tradable sectors, increasing competitiveness and creating new jobs. Third, the increased reliance on the property tax should also shift the burden of taxation from the most vulnerable to the richest share of the population. Moreover, to the extent that sales taxes are typically regressive, while property taxes are typically progressive, these changes should improve the redistributive impact of taxes.

Figure A 7. Population Living Under the Poverty Line, By Province



Source: World Bank estimates with data from 2014 *Encuesta Anual de Hogares Urbanos*, Population projections based on the National Census 2010 and INDEC (2016).

27. **A high relative contribution of indirect taxes reduces the progressivity of the tax system.** In Latin America, around 2010, the share of taxes on sales on total tax revenue was around 40 percent, whereas it was less than 30 percent in advanced economies.¹¹² Meanwhile, high-income sectors reap the vast majority of benefits from income tax expenditures associated with exemptions and special treatments. Consequently, tax systems in Latin America generally have a negligible impact on the distribution of income, in stark contrast with developed countries, where redistributive effects are much more significant.

28. **In Argentina, the bulk of provincial tax collection has come from sales taxes; to the extent that these tend to be passed to the final consumer, they affect distributive equity.**¹¹³ Assuming that, for the tradable sector, two thirds of the tax in borne by workers and one third by the employers; and, the total incidence falls on consumers for the non-tradable sector, a study shows that sales taxes are regressive when

¹¹² Martorano, B. 2018. "Taxation and Inequality in Developing Countries: Lessons of the recent Experience of Latin America," *Journal of International Development*, 30, pp 256-273. Also, Amarante V., and Jiménez, J. P. (2016). *Distribución del ingreso e imposición a las altas rentas en América Latina. Cuadernos de Economía*, 35(67), 39-73.

¹¹³ See for instance, Fernandez Felices, Guardarucci and Puig. 2016. "Incidencia distributiva del sistema tributario argentino," *Estudios Economicos*, vol. 33(67): pages 23-45.



households are ordered according to per capita income. If households are ordered by per capita consumption, the incidence is proportional along the distribution (Figure A 8). In the case of the property tax (*impuesto inmobiliario*), the incidence is clearly progressive under both per capita income and per capita consumption (Figure A 9).

Figure A 8. Tax Burden by Decile, Sales Taxes

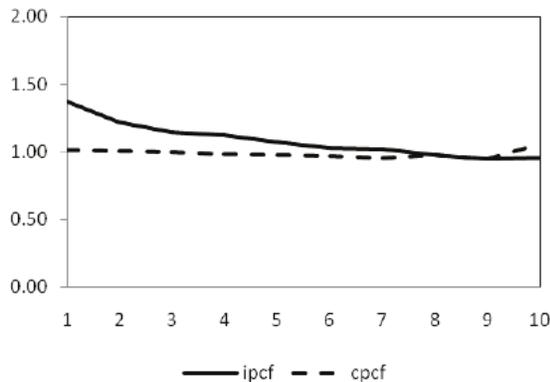
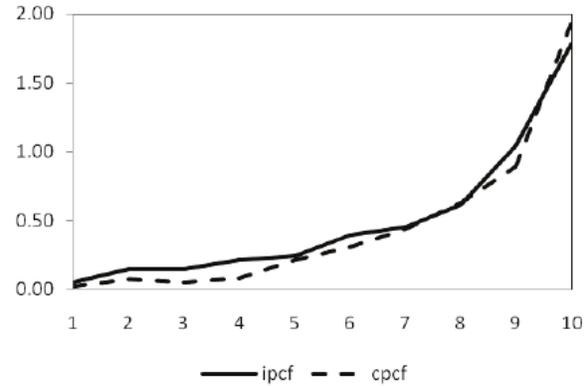


Figure A 9. Tax Burden by Decile, Immovable Property Tax



Source: Reproduced from Fernandez Felices, Guardarucci and Puig (2016). "Incidencia distributiva del sistema tributario argentino," *Estudios Economicos*, vol. 33(67): pages 23-45.

29. **Although general distributional effects of the measures under this prior action are expected to be positive, the introduction of a cap on recurrent expenditure could have negative social impacts.** The cap on recurrent expenditure and public employment growth, both being part of the Fiscal Pact, will help achieve fiscal space to increase capital expenditure and should directly improve social infrastructure (water, sanitation, sewer, roads, gas connection, etc.). However, it could have an adverse impact on public service delivery, in areas such as education and health, which are important for poverty reduction.

Prior Action 8: The Borrower has introduced a single window system at ANSES, to simplify and facilitate access to social benefits, social tariffs, health insurance, and other social programs, as evidenced by the Borrower's National Executive Decree No. 339/2018.¹¹⁴

30. **One-stop shops for social protection have been used across the world, as a way of increasing access to services and improving government efficiency.** Single-window services began in the 1970s and 1980s in OECD countries (such as Australia, or various in Europe) and were then expanded to developing countries in the 2000s (such as Chile, Brazil, South Africa, Indonesia), to provide "all possible services" in one place, at one visit, and thus reducing costs of accessing as well as increasing public services efficiency.¹¹⁵

¹¹⁴ Dated April 19, 2018 and published in the Official Gazette No. 33,855 of April 20, 2018.

¹¹⁵ Ebken, C. 2017. "Single Window Services in Social Protection: Rationale and Design Features in Developing Country Contexts." *Discussion Papers on Social Protection*, Deutsche Gesellschaft für Internationale Zusammenarbeit.



Evidence from India, for instance, shows that single-window services are effective at increasing awareness of the services provided and the number of application submitted.¹¹⁶

31. **The introduction of a Single Window is expected to improve the conditions of the most vulnerable by increasing access to social programs and national identification documents.** Currently, access to many of Argentina’s social programs requires the potential beneficiaries to process their applications and changes through multiple offices of different agencies (Ministry of Social Development, Social Security Office–ANSES, Ministry of Labor, urban transport, civil registry). The reform is expected to ease access to social programs, reduce transaction costs, and improve the targeting and administration of benefits, thus improving the welfare of the poorest and most vulnerable population, and. As more programs come under the umbrella of the single window, the benefits can be expected to increase.

Prior Action 9: The Borrower has signed a separate framework agreement with fifteen (15) provinces to implement universal health coverage, as evidenced by the agreements signed by the Borrower, through its Minister of Health, with each of the following provinces in June of 2018: (a) Corrientes; (b) Jujuy; (c) La Pampa; (d) La Rioja; (e) Mendoza; (f) Misiones; (g) Salta; (h) San Juan; (i) Santiago del Estero; (j) Tierra del Fuego; (k) Tucumán; (l) Catamarca; (m) Chaco; (n) Córdoba; and (o) Entre Ríos.

32. **The UHC strategy is expected to increase effective access and quality of care for the poorest and most vulnerable population.** The fragmentation of the health system has created large inequities and inefficiencies across provinces and for the poorer and more vulnerable. The UHC emphasis on increasing access to quality NCD-related services for those currently not covered by the system, through an improved model of care, will help close the coverage gaps across groups. Ultimately, in the long run, increasing the years of healthy life for the population is expected to positively impact on wellbeing, economic productivity and the earnings of the population. Beyond direct positive benefits in terms of improved health outcomes, the expansion of coverage of basic services to the general population is also expected to lead to cost savings at the hospital level from reduced avoidable admissions, which would release resources (financial and human) that could be allocated to cover other health-related demands.

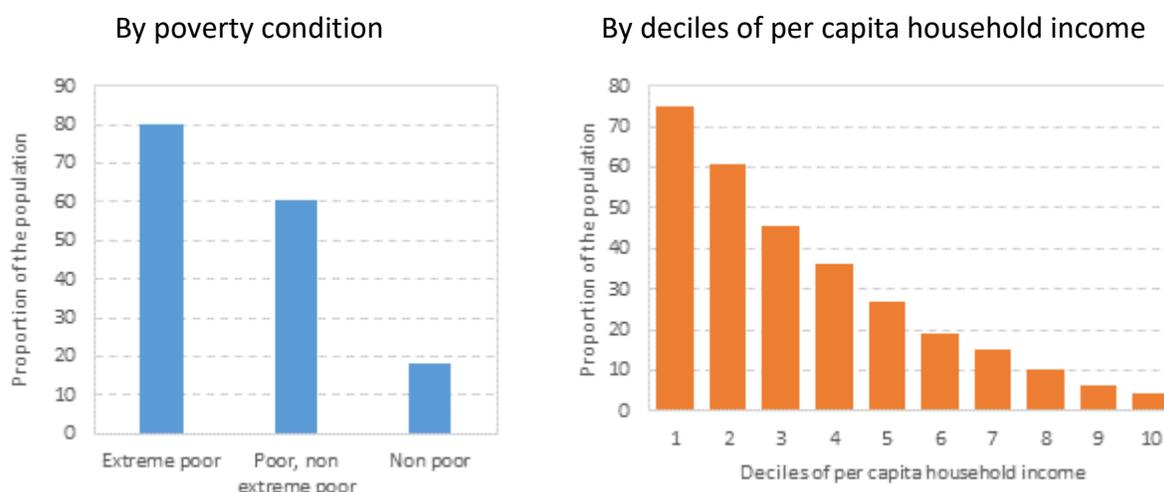
33. **Potential beneficiaries of the UHC are predominantly poor and vulnerable.** Three-quarters of the extreme poor, and more than half of the moderately poor (non-extreme poor) do not have access to private or cooperative health insurance (including: *obras sociales, prepaga, mutual*), and thus rely exclusively on the public health system (Figure A 10). Coverage gaps are also reflected in terms of spatial distribution: While reduced over the past ten years, significant inequities remain across regions of the country in terms of health outcomes and effective coverage for key services (Table A 2).¹¹⁷ Coverage gaps are higher in the northern regions, where screening for NDCs tend to be the lowest.

¹¹⁶ Berg, E., D. Rajasekhar, R. Manjula. 2014. “Pushing Welfare: Encouraging Awareness and Uptake of Social Benefits in South India,” working paper.

¹¹⁷ World Bank, 2018. *Supporting Effective Universal Health Coverage in Argentina* (P163345), Project Appraisal Document.



Figure A 10. Share of Population Not Covered by Private Health Insurance or *Obras Sociales*



Source: World Bank estimates with data from 2017 Permanent Household Survey (second semester)

Table A 2. Proportion of People Receiving NDC Screening, By Region, 2013

	Total	Gran Buenos Aires and Pampeana	NOA Region	NEA Region	Patagonia Region	Cuyo Region
High blood pressure control test in population 18 years and older	82.4	83.6	76.8	77.9	80.6	84.2
High cholesterol control test in men aged 35 and older and women aged 45 and older	77.5	79.4	69.3	69.7	77.3	77.3
High blood glucose control test in population aged 18 and above	76.8	78.8	69.6	65.7	75.9	80.7
Women aged 50-70 receiving a mammography	65.6	70	47.6	47.2	64	61.9
Women aged 25-65 receiving cervical cancer screening	71.6	74.5	58.2	62.8	72.9	70.2
Population aged 50-75 receiving colon cancer screening	24.5	26.9	13.7	19.2	22.5	20.3

Source: World Bank, 2018. *Supporting Effective Universal Health Coverage in Argentina*, Project Appraisal Document. Based on the 2013 National Risk Factors Survey, Ministry of Health.

34. **Finally, the UHC program can help close gender gaps in health care utilization and, eventually, burden of diseases.** Beyond men having less health care coverage than women (28 vis-à-vis 32 percent), recent evidence shows that, in addition, they are less likely to visit health facilities for preventative care and

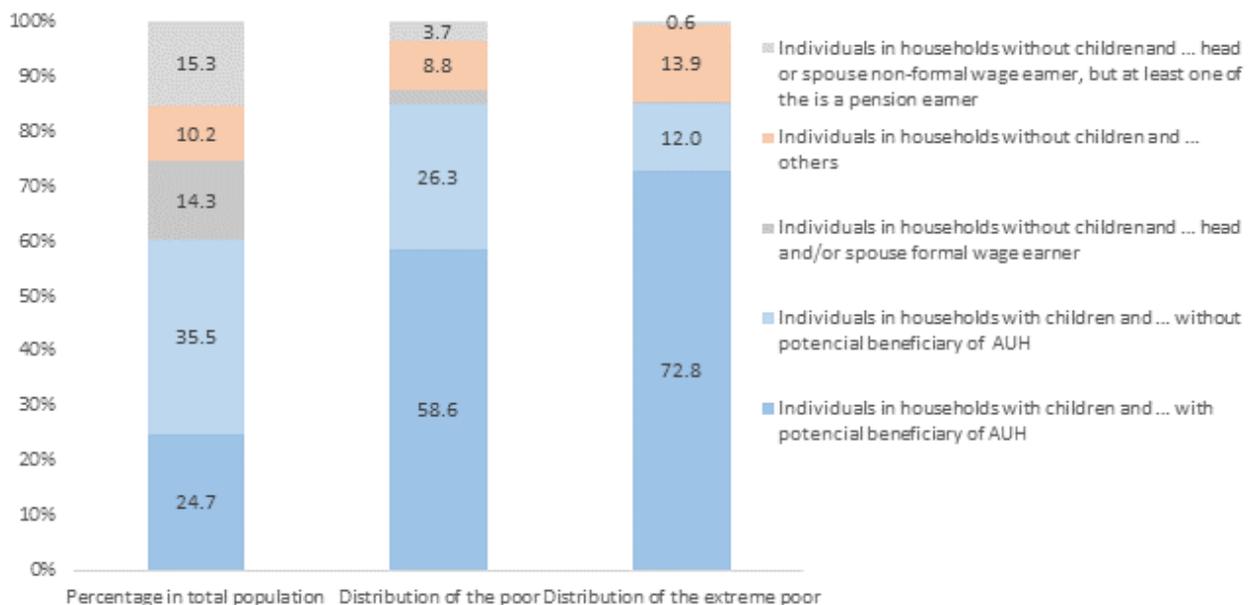


more likely to suffer from some NCDs, such as hypertension.¹¹⁸ The UHC is based on the idea that primary care providers will be encouraged to actively seek new persons in their catchment area for regular checkups, screenings, and treatments. This model of care is expected to have stronger positive impact on utilization by men, increasing screening of NCDs and thus reduce the gender gap on burden of disease. In addition, improving continuity of care, is expected to have a stronger effect on women with conditions such as diabetes, where the burden is higher. The UHC also plays an important emphasis on cervical and breast cancer screening, fostering early diagnosis and integrated health care within the public health system, which will help close the socioeconomic gradient among women.

Characterization of families according to household composition and income transfers policies

35. **Family allowances (both contributory and non-contributory) and pensions are effective in reaching a large proportion of families.** About 60 percent of Argentines live in households with children and are either eligible for the contributory family allowance (35 percent of the population) or the non-contributory AUH benefit (25 percent of the population) (Figure A 11). Another 15 percent of households, who do not have children, have a retiree or pensioner as one of the heads of households. In this sense, the Government has an effective tool to reach three-quarters of families through the social security system that can potentially be used to mitigate the impacts of a downturn (lower wages) via a temporary adjustment of the benefits received by the low-income earners. In addition, the continuum of the AUH and contributory family allowances, imply that were a worker to lose her formal job, the AUH will automatically become active, softening to some (small) extent, the loss of income, with no additional fiscal cost other than the loss of revenue.

Figure A 11. Distribution of Individuals by Household Composition



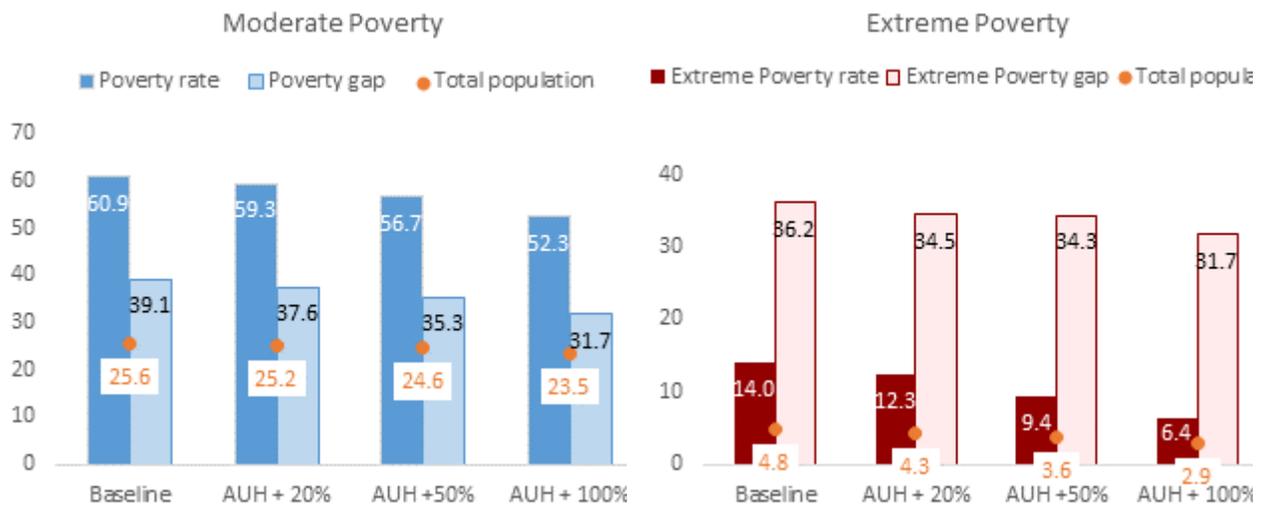
Source: World Bank estimates with data from 2017 Permanent Household Survey (second semester).

¹¹⁸ *Ibidem*.



36. Simulations find that an expansion in the AUH and/or an increase in benefit amounts could substantially mitigate the impacts of an economic deceleration or a recession. A quarter of Argentines live in households with children and where none of the parents have a formal employment, and are thus eligible to receive the AUH. Among them, moderate and extreme poverty rates are more than twice the national average (Figures A 13 and A 14), and thus, more than half of the poor and three-quarters of the extreme poor belong to this group. While the transfer amount is not sufficient to lift many out of poverty, the program does represent an effective instrument to reach almost two-third of the poor, was there a need to quickly reach them in the phase of an economic downturn. Simulations show that an expansion of the AUH could mitigate this impact, effectively reducing the impact and protecting households from falling into poverty (Figure A 12).

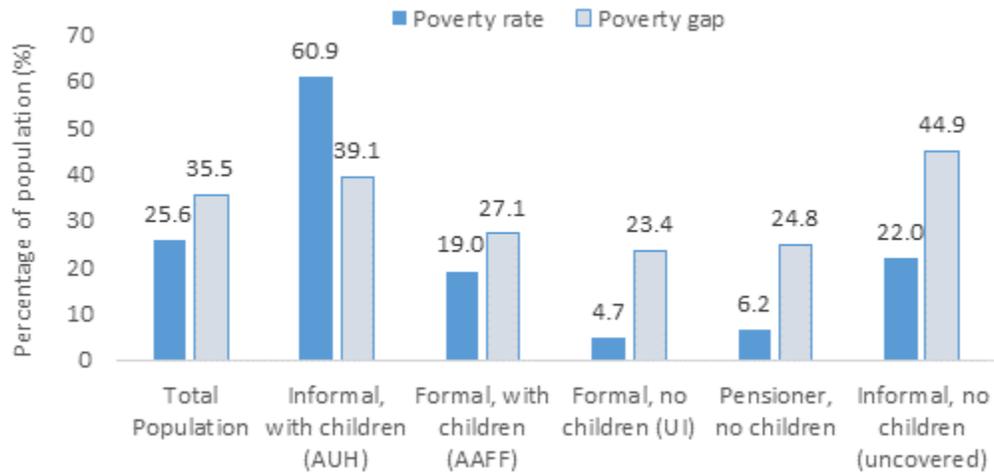
Figure A 12. Simulations of Poverty Rates Among Potential Beneficiary Families (Informal Households with Children) Under Alternative AUH Responses



Source: World Bank estimates with data from 2017 Permanent Household Survey (second semester) and national poverty lines. AUH benefit is equivalent to ARS \$1,412 per child per month (in Sept-Dec 2017 values). For reference, extreme poverty line for an adult equivalent in GBA is ARS \$2118, which is close to the US\$5.5 per person per day line for upper-middle income countries, and moderate line is ARS \$5219 per adult equivalent per month. Details of simulations can be found at the end of this Annex.

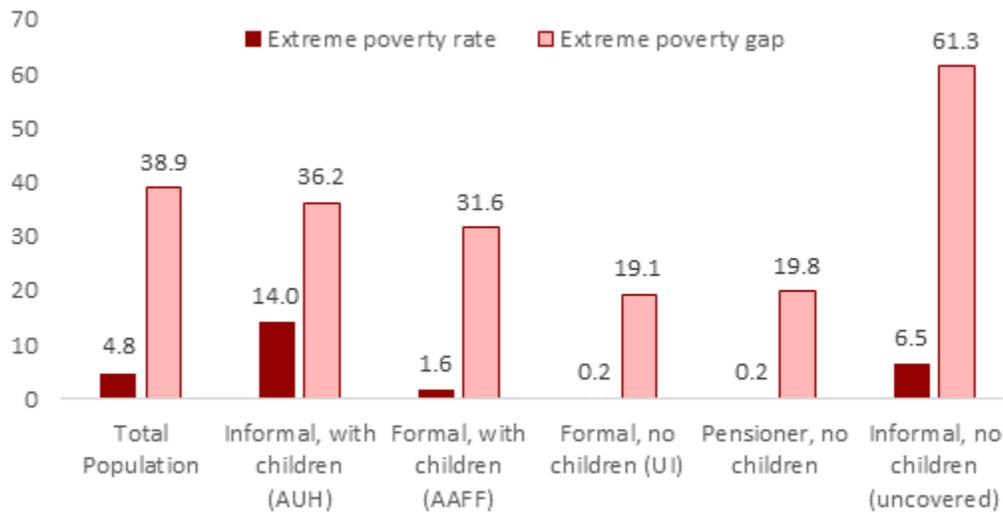
37. Yet, a quarter of Argentines live in households for which social benefits are less effective instruments for reaching them. These are households where there are no children, and where the head or spouses are either formal or informal workers. For those with formal wage employment (14.3 percent), the impact of job loss can be lessened through unemployment insurance, if the worker was fired from her position. The benefit amount is limited (around 11 percent of the average wage in the formal sector, Figure A 15), and lasts for three months to up to a year, depending on the number of years worked in the formal system. After this period, the worker and her family would join the ranks of the 10 percent that are not currently reached by an automatic income transfer. Among them, they are more likely to be extremely poor than other groups and have incomes that, on average, are less than half of what is needed to cover a basic food basket (the extreme poverty line) (Figure A 14). For this group, alternative mechanisms would have to be adjusted or created.

Figure A 13. Moderate Poverty Rates, By Household Composition



Source: World Bank estimates with data from 2017 Permanent Household Survey (second semester).

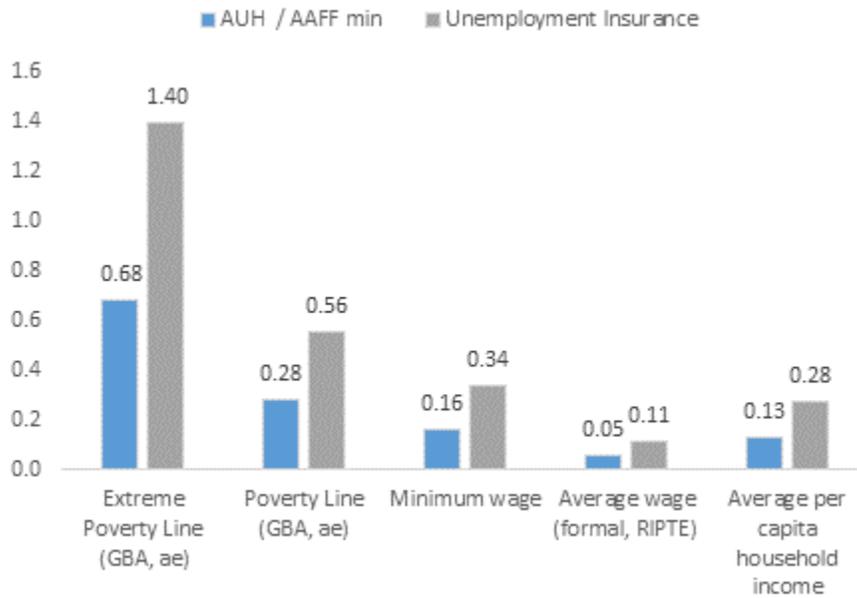
Figure A 14. Extreme Poverty Rates, By Household Composition



Source: World Bank estimates with data from 2017 Permanent Household Survey (second semester).



Figure A 15. Benefit Transfer Amount, Relative to Relevant Income Levels



Source: World Bank estimates with data from 2017 Permanent Household Survey (second semester).



ANNEX 5: FISCAL IMPACT OF ARGENTINA'S UNIVERSAL HEALTH COVERAGE (UHC) STRATEGY

- 1. The net fiscal impact of implementing the UHC Strategy over the medium term is positive due to savings from efficiency gains and additional revenues for the public sector.** Under conservative assumptions, costs would exceed savings by US\$15 million to US\$50 million a year (0.002 percent to 0.008 percent of GDP) for the first three years. However, savings would exceed costs by US\$130 million to US\$225 million a year (0.02 percent to 0.035 percent of GDP), thereafter.
- 2. Argentina's health expenditure per person—public and private—is relatively high for a middle-income country, and all residents have free access to health care.** But health spending is inefficient; health outcomes are poor compared to other countries with similar or even lower per-capita incomes. Outcomes are especially bad for those in the informal sector, mainly the poor, who have limited access to health insurance and rely exclusively on the public subsystem (public health facilities).
- 3. Based on detailed analysis and consultations, the present Government has embarked on a new UHC Strategy aiming to increase access to health care of adequate quality and with a primary care focus, especially within the public subsystem.** It was recognized that while all residents already had access to free health care through the public subsystem, the care provided was often not of adequate quality. The strategy would focus on interventions to enhance efficiency and obtain better health outcomes from the same or less amount of public funding. Given the fiscal situation of the country, it was considered unlikely that there would be increases in public funding for the health sector in the foreseeable future.
- 4. The strategy would address the inherent fragmentation in the country's health sector, which is a major source of inefficiency.** This fragmentation stems from the existence of different subsystems and programs within the health sector, each with a different entity in charge—a problem that is exacerbated by the highly federal nature of the country. The Federal Government has limited control over the provincial ministries of health, including limited mechanisms for enforcing common standards in service definitions, clinical guidelines and protocols, models of care and information systems. Without common standards, establishing integrated information systems (information systems that are interoperable) is impossible.
- 5. The strategy would focus on efforts to strengthen the public subsystem through a model of care based on principles of integrated delivery systems (IDS) and continuity of care, with a strong emphasis on primary and preventative care.** The literature shows that large gains in impact and efficiency can be attained by developing and implementing an appropriate IDS-based model of care, where several providers including a main primary care provider work together in an integrated, coordinated manner to provide care for an individual. This would mean, among others, establishing a common approach towards protocols, clinical guidelines, standards etc. as well as integrated information systems. Patient information would be shared across health providers, hence reducing the current tendency to repeat procedures or to over-prescribe drugs due to lack of information by each provider of testing/treatments that took place under previous providers. This sharing of information would also facilitate earlier and proper diagnosis, hence reducing the incidence of complicated cases requiring costly hospitalizations and treatments.
- 6. In addition, large efficiency gains would stem from measures to address various other coordination problems, and to reinforce centralized procurement of pharmaceuticals.** The former would include measures supporting: (i) referral networks for diagnosis, treatment and follow-up of complex



conditions/diseases; and (ii) improved drug-tracking, to help ensure rational prescribing and use of drugs. As for centralized drug procurement, experience shows that this can generate large cost savings.

7. **The focus on primary and preventive health care—including through family health teams (which have had a large positive impact on health care in Brazil for instance)—would contribute to a reduction mortality and morbidity, thereby also reducing hospital admissions and treatment costs.** In Argentina, as in many countries, large segments of the population hardly visit health facilities for preventative health services such as screening for cancer, diabetes, heart disease and other non-communicable diseases. The result is that these diseases often reach advanced stages before detection, leading to much higher rates of mortality and morbidity, and much higher treatment costs, than if they had been detected and addressed earlier. An approach focused on primary and preventative care would emphasize preventative actions on the part of the population to reduce the incidence of these diseases in the first place.

8. **In addition, the Strategy would enhance the capacity of public health service providers to bill the *Obras Sociales* (OSs) for services they provide to OS members, hence substantially enhancing inflows of revenues for the public sector.** The OSs, part of the social security system in Argentina, are health insurance entities that provide coverage to formal labor market workers, and their dependents. They are funded mainly through payroll taxes from formal sector workers. Currently, OS members often use health services provided by public service providers; in theory, these providers can then bill the OSs for these services, as in the case of private providers in the OS networks. In practice, many of the public service providers do not bill for these services—or bill inadequately—because they lack the billing systems and capacity required to carry out the billing. This capacity (and the required billing systems) would be strengthened under the UHC strategy.

9. **The strategy would more than pay for itself, with savings, due to efficiency gains and greater revenue inflows into the public sector, well exceeding costs over time.** Table A 3 presents estimates of the costs and savings that would be generated by the UHC strategy under conservative assumptions. This assumes that the strategy is implemented by all provinces. These estimates do not include all cost savings generated from several key actions under the Strategy, such as measures to address coordination failures, establish common standards, support integration of information systems and enhance continuity of care.

10. **In case there is a greater fall in output than expected—leading to larger job losses than in the base case scenario simulated above—the fiscal strain on the public subsystem would rise substantially, whether or not the UHC Strategy is implemented. Implementation of the Strategy would still lead to substantial cost savings, well in excess of the costs of implementation.** The above base-case estimates were derived under the assumption that changes to the size of the formal labor market due to the current economic situation are not large. For illustration, an alternative scenario was simulated, where there is a severe recession leading to a large loss of employment in the formal sector, corresponding to 4 million plan members losing OS coverage.¹¹⁹ These people would then become part of the population exclusively using the public subsystem.

11. Under this scenario, the costs of implementation are estimated to rise to around US\$120 million annually in the first three years, and US\$180 million per year, thereafter. Cost recovery by public providers from OSs would fall—due to the reduced number of OS members—to between US\$82 million and US\$102 million a year. As for savings from centralized pharmaceuticals procurement and reduced avoidable care due to better screening etc. (in the public subsystem), these cost savings could increase under this

¹¹⁹ Currently, there are on average 0.5 family members per contributing OS member.



scenario due to the UHC Strategy, since the number of users of the public subsystem would rise. However, these savings have been more conservatively estimated to remain stable as presented in Table A 3. Under these assumptions, costs would exceed savings by US\$58 million to US\$88 million a year for the first three years. Savings would exceed costs by US\$92 million to US\$182 million annually, thereafter.

Table A 3. Annual Costs and Savings Related to the UHC Strategy, Millions of US\$

A. Cost of Needed Interventions	Estimated Costs
Costs of interventions under UHC Strategy (implementing model of care based on principles of IDS and continuity of care, common standards and definitions of services, integration of information systems, strengthening primary and preventative care through family health teams, reinforcing centralized pharmaceuticals procurement, addressing coordination problems, improving billing capacity of public providers)	US\$160 million per year for first 3 years US\$100 million per year thereafter
B. Estimated Savings, Increased Revenues [Does Not Include Some Types of Cost Savings Which Are Difficult to Estimate]	Estimated savings/increased revenues
Savings from Reinforcing Centralized Pharmaceuticals Procurement	US\$10-20 million per year
Cost Recovery by Public Providers for Services Delivered to OS members	US\$100-125 million per year
Reduced avoidable hospital care through better screening, prevention and the use of clinical guidelines	US\$120-180 million per year (to materialize after around 3 years)
C. Net Savings (B – A)	-US\$15 to -US\$50 million (costs are greater than the savings) per year for first 3 years US\$130 to US\$225 million (savings are greater than costs) per year thereafter

Notes: (i) The above figures were calculated under the assumption that all provinces adopt the UHC strategy.
(ii) The implementation of family health teams would not require additional personnel to be hired; rather, this implies a reorganization of existing personnel (and some training, mostly at initial stages) to form the teams. In addition, no new health centers would be created; the focus would be on improvements in the existing structure.
(iii) The present value of the net savings generated would be between US\$1.8 billion and US\$2.8 billion over fifteen years, using a discount rate of 5 percent.