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Argentina: Country Assistance Strategy Progress Report

The Argentine economy made a significant and dramatic turn in a number of areas during the 1990s. The impressive growth rate of 4.8 percent and a successful battle in the control of hyperinflation provided Argentina a strong base for economic development in the 21st century. However, a combination of factors in 1991 and 2000 dampened the prospects for the country's continued high growth trend. These include the 3.4% decline of the GDP in 1999 followed by a drop of 0.5% in 2000 against the background of a hostile external environment in three successive years. The events that followed fueled the 2000 crisis of confidence on the country's ability to manage its risks. But Government's resolve to tackle the problem and the support of the international financial community, led by the IMF, has substantially improved the situation this year.

We, therefore, welcome the discussion of this progress report on the implementation of Argentina's Bank Group CAS. The review is candid on both the progress and setbacks during this 1½ years period of implementing this CAS. We concur with staff that despite these setbacks, especially as they relate to progress towards realizing Argentina's long-term development, the goals set out in the last CAS remain valid and the strategy appropriate, focusing on consolidating structural reforms, enhancing social development, strengthening social services and social safety nets and improving public sector capabilities. But more importantly, given the extensive nature of the consultations that led to its preparation, we believe that the last CAS will remain relevant to the major issues of the Argentine people.

We note the improved social indicators over the past ten years, including the drop in infant mortality rate from 25 deaths per 1,000 in 1991 to 18 deaths in 2000, and the impressive record on access to safe water increasing from 72% in 1991 to 83% in 1999. However, we remain concerned about the poverty level which has remained stubbornly higher in 1998 at 29% compared to 22% in 1994. What is more disturbing is the fact that Argentina's data on both urban and rural poverty has not been updated recently. The document merely speculates that poverty is likely to be higher in the rural areas and not likely to have improved in the past two years, even though it is clear that the poor have been affected most during the current economic downturn. Given this situation, we would be interested in knowing what rural programs, particularly in agriculture, are being targeted to the improvement of the poor in responding to the country's development challenge.
We are pleased to note that the centerpiece of the Bank’s program for Argentina in FY02 is the proposed PSAL of up to $900 million. Addressing the nature, coverage, equity and efficiency of social safety nets and other key social services, particularly in health, has rightly been viewed as one of the cornerstones of this program. We believe, however, that the proposed PSAL should give enough attention to growth-oriented policies in the economy. Given the country’s high vulnerability in terms of its debt service-to-export ratio, we believe that the prospects for a significant poverty and unemployment reduction without a meaningful growth are not very bright. One area in which the country can insulate itself against its external obligations and not adversely affect resource allocations for poverty reduction and other social sector activities is through the expansion of its narrow export base. We would urge the Bank to look more closely with the authorities on efforts to diversify Argentina’s export base.

The Bank’s portfolio performance in Argentina continues to be one of the best in the world, notwithstanding some of the structural problems. This is largely a result of increased diligence on the part of the Bank and Argentine authorities. In this regard, we commend efforts by OED to assess the rate at which projects in Argentina are meeting their development objectives. We are pleased to note the overall satisfactory rating of the projects. This provides some comfort for the Bank’s current exposure in the country. But equally significant in this OED review is that the lessons provided by such a review could be drawn upon to improve the Bank’s portfolio in a similar situation. In this regard, and given IFC’s exposure in Argentina, we wonder whether OEG has carried or is planning to carry out a similar review of its portfolio. Such an exercise could bring out important lessons for IFC and its smaller clients in other countries.

On general lending activities, we note with concern the implementation delays caused by the cumbersome procurement procedures in Argentina. Such delays carry, apart from anything else, an opportunity cost not only for Argentina but also for the Bank. The review also identifies the problem of counterpart funding, which may also be partly related to procedural issues. We would like to know form staff what efforts are being made to address this situation, particularly in the context of the harmonization exercise currently in progress with other multilateral institutions and some of our bilateral partners.

We welcome the Bank’s collaboration and the division of labor with other development partners, especially with the IMF and the IDB since this will only improve the effectiveness of international assistance in the country. The continued involvement of the Bank Group at the provincial level is also welcome. Building capacity at the provincial levels would enhance development effectiveness at the federal level. We, therefore, support the strong partnership between IBRD, IFC and MIGA in strengthening the country’s development agenda. The emphasis in IFC’s focus outlined in paragraph 48 is commendable. These activities clearly provide the necessary base on which MIGA can deliver its assistance. We would like to urge the Bank Group to replicate this pattern in other countries.

We support the lending volumes and the associated triggers, hoping that such triggers will be applied flexibly taking into consideration the country’s external vulnerability. We also agree
with the proposed mix of lending and non-lending instruments which remain basically the same as those in the original CAS. We would, however, like to see more emphasis on ESW on both urban and rural poverty.

Finally, we would like to express our strong support for the accompanying Provincial Reform Adjustment Loan which falls within the Bank’s comparative advantage and fits well in the Country Assistance Strategy for Argentina. We wish the Argentina authorities a successful implementation of their program. We would also like to commend staff for the good documents and their constructive dialogue with the authorities.