INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$500 MILLION TO THE

THE
ARGENTINE REPUBLIC

SECOND INCLUSIVE GROWTH PROGRAMMATIC DEVELOPMENT POLICY FINANCING

June 11, 2019

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

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Argentina Republic

GOVERNMENT FISCAL YEAR
January 1 - December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of June 10, 2019)
Currency Unit: Argentinean peso (ARS)
US$ 1 = ARS 44.97

ABBREVIATIONS AND ACRONYMS

ADIF  Argentina’s Railway Infrastructure Administrator (Administrador de Infraestructuras Ferroviarias)
AFIP  Argentina’s Revenue Agency (Administración Federal de Ingresos Públicos)
AMBA  Metropolitan Area of Buenos Aires (Area Metropolitana de Buenos Aires)
ANSES National Social Security Administration (Administración Nacional de la Seguridad Social)
ARS  Argentine Peso
ARSAT Empresa Argentina de Soluciones Satelitales Sociedad Anónima
AUH  Universal Child Allowance (Asignación Universal por Hijo)
BCRA  Central Bank of the Argentine Republic (Banco Central de la República Argentina)
CAF  Development Bank of Latin America (Corporacion Andina de Fomento – Banco de Desarrollo de América Latina)
CET  Common External Tariff
CNRT  Argentina’s National Commission for Transport Regulation (Comisión Nacional de Regulación de Transporte)
CNV  Argentina’s National Securities Commission (Comisión Nacional de Valores)
CPF  Country Partnership Framework
CPI  Consumer Price Index
CUIT  Unique Tax Identification Code (Clave Única de Identificación Tributaria)
DPL  Development Policy Loan
DPF  Development Policy Financing
DPF2  Second Development Policy Financing
DSA  Debt Sustainability Analysis
EIA  Environmental Impact Assessment
FRR  Fiscal Responsibility Regimen
FoGaR Public Credit Guarantee Fund (Fondo de Garantías Argentino)
GDP  Gross Domestic Product
GRS  Grievance Redress Service
GVCs  Global Value Chains
IBRD  International Bank for Reconstruction and Development
IADB  Inter-American Development Bank
INDEC  National Statistics Agency (Instituto Nacional de Estadísticas y Censos)
IMF  International Monetary Fund
IT  Information technology  
LAC  Latin America and Caribbean  
MSMEs  Micro, Small and Medium Sized Enterprises  
MTI  Macroeconomic, Trade and Investment Unit  
MW  Megawatt  
NFPS  Non-Financial Public Sector  
NTM  Non-Tariff Measures  
OECD  Organisation for Economic Co-operation and Development  
OS  Social Security Health Insurers (Obras Sociales)  
PFM  Public Finance Management  
PSIA  Poverty and Social Impact Analysis  
PPP  Purchase Power Parity  
SAS  Simplified corporation (Sociedad por Acciones Simplificadas)  
SBA  Stand-By Arrangement  
SCD  Systematic Country Diagnostic  
SDR  Special Drawing Rights  
SEA  Strategic Environmental Assessment  
SGAysDS  Government Secretariat of Environment and Sustainable Development (Secretaría de Gobierno de Ambiente y Desarrollo Sustentable)  
SGR  Mutual Guarantee Company (Sociedades de Garantía Recíproc)  
SIDIF  Integrated Financial Information System (Sistema Integrado De Información Financiera)  
SME  Small- and Medium-sized Enterprises  
SOE  State-Owned Enterprises  
SRL  Limited Liability Company (Sociedad de Responsabilidad Limitada)  
ST  Social Tariff  
TSA  Treasury Single Account  
TST  Transit Social Tariff (Tarifa Social Federal de Transporte)  
U.S.  United States  
US$  United States Dollar  
UHC  Universal Health Coverage  
WB  World Bank  
WBG  World Bank Group

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

The overall operation was co-led by Stefano Curto (Senior Economist, Macroeconomic, Trade and Investment Unit, MTI) and Emily Sinnott (Program Leader, LCC7C). The operation was prepared under the guidance of Jorge Araujo (Practice Manager, MTI) and Marcello Estevao (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.

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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

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Programmatic</th>
<th>If programmatic, position in series</th>
</tr>
</thead>
<tbody>
<tr>
<td>P168713</td>
<td>Yes</td>
<td>2nd in a series of 2</td>
</tr>
</tbody>
</table>

#### Proposed Development Objective(s)

The Development Objectives of the operation are (i) strengthening the foundation for private sector led growth, and (ii) strengthening the social safety net and enhance fiscal equity

#### Organizations

- **Borrower:** ARGENTINE REPUBLIC
- **Implementing Agency:** MINISTERIO DE HACIENDA

#### PROJECT FINANCING DATA (US$, Millions)

<table>
<thead>
<tr>
<th>SUMMARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Financing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DETAILS</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Bank for Reconstruction and Development (IBRD)</td>
</tr>
</tbody>
</table>

#### INSTITUTIONAL DATA

**Climate Change and Disaster Screening**

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

**Overall Risk Rating**

- High
## Results

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Baseline</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of decisions taken by the new competition authority, encompassing: findings on anticompetitive conduct; technical opinions on policies, laws and rules; and markets inquiries (accumulated)</td>
<td>0 (2017)</td>
<td>25 (2020)</td>
</tr>
<tr>
<td>Share of intermediate and capital goods imports, by value, subject to reduced tariffs or automatic licenses</td>
<td>74 percent (2017)</td>
<td>84 percent (2020)</td>
</tr>
<tr>
<td>Share of commercial companies registered as simplified corporations (Sociedad por Acciones Simplificadas)</td>
<td>5 percent (2017)</td>
<td>50 percent (2020)</td>
</tr>
<tr>
<td>Number of issuers that have been authorized by the National Securities Commission (Comisión Nacional de Valores, CNV) for the frequent issuers program</td>
<td>0 (2017)</td>
<td>25 (2020)</td>
</tr>
<tr>
<td>Cumulative amount of installed renewable energy capacity of grid-connected distributed electricity</td>
<td>0 MW (2017)</td>
<td>50 MW (2020)</td>
</tr>
<tr>
<td>Number of integrity plans registered in the Government procurement platforms for goods, services, and public works</td>
<td>0 (2017)</td>
<td>80 (2020)</td>
</tr>
<tr>
<td>Share of economic subsidies as a percentage of Gross Domestic Product (GDP)</td>
<td>2.4 percent (2017)</td>
<td>1.5 percent (2020)</td>
</tr>
<tr>
<td>Share of sales tax (Ingresos Brutos) in total provincial own revenues</td>
<td>72 percent (2017)</td>
<td>68 percent (2020)</td>
</tr>
<tr>
<td>Number of holders who receive Universal Child Allowance (Asignación Universal por Hijo) benefit</td>
<td>2.1 million (2017)</td>
<td>2.3 million (2020)</td>
</tr>
<tr>
<td>Number of female holders who receive Universal Child Allowance (Asignación Universal por Hijo) benefit</td>
<td>2.0 million (2017)</td>
<td>2.2 million (2020)</td>
</tr>
<tr>
<td>Population mapped to a public health facility under the new Universal Health Care system</td>
<td>700 thousand (2018)</td>
<td>1.5 million (2020)</td>
</tr>
</tbody>
</table>
1. INTRODUCTION AND COUNTRY CONTEXT

1. The programmatic Development Policy Financing (DPF) series accompanies Argentina’s efforts to strengthen the economic recovery and the foundations for inclusive economic growth while the country undertakes macroeconomic stabilization. This Development Policy Financing operation (DPF2), in the amount of US$500 million, is the second in a series of two operations, which support 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 DPF series 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 economic situation has changed significantly since the DPF series was designed in June and July 2018. The Argentinean Peso depreciated by just over 50 percent between end-July and end-September 2018 (from 27 to 41 pesos per dollar). The sharp currency depreciation had a negative impact on inflation, economic activity and the projected path of the public debt-to-GDP ratio, hence, negatively impacting on debt sustainability. The Government moved swiftly to respond to the deteriorating outlook by accelerating the fiscal consolidation and redesigning the monetary policy framework with strict limits on the growth in the monetary base. The IMF’s first SBA review, discussed by the IMF Board on October 26, 2018, revised the program to incorporate the changes to the Government’s policy program and to frontload access to IMF resources, converting the program from precautionary to a drawing arrangement for budget support.

3. The initial impact of the strengthened October 2018 program was a stabilization in economic conditions with an improvement in financial conditions. The Government met all fiscal targets, cutting the Federal Government’s primary deficit from 3.8 percent in 2017 to 2.6 percent in 2018. The trade balance turned from a deficit to a surplus from October 2018 onwards. However, inflation has remained high and reached 55.8 percent year-on-year in April 2019. Argentine assets came under renewed pressure in March 2019, with heightened sovereign spreads, a volatile peso and extremely high reference interest rates. In response to this volatility, the Central Bank (Banco Central de la República Argentina, BCRA)—with the support of the IMF—took further measures to strengthen the monetary policy framework set in October 2018.

4. High inflation and the fall in economic activity have led to a rise in poverty. The latest official estimates for the last semester of 2018 show poverty to have increased to 32 percent, returning poverty to early 2016 levels. Extreme poverty has climbed to 6.7 percent representing an increase of almost 2 percentage points higher (500 thousand people fell into extreme poverty) compared to the second semester of 2017. Welfare losses have been mainly driven by high inflation, which has depressed real household incomes and private consumption. The IMF’s SBA was revised to accommodate higher social spending through an increase in the cap of the adjustor for social spending from 0.2 to 0.3 percent of GDP to help mitigate the impact on the poor.

5. In the current economic and political environment, the proposed DPF operation has gained in importance. Given the high inflation, it is key to use strengthened social safety nets to partly mitigate for

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1 Ministry of the Treasury
2 INDEC
the effects of high inflation on the vulnerable population in the short run. In this regard, the DPF has been strengthened to support the recent measures to protect the purchasing power of the universal social assistance programs for children and pregnant women (Asignación Universal por Hijo para Protección Social and Asignación por Embarazo para Protección Social) from high inflation and rises in utility tariffs. These benefits are efficiently administered, have reasonably wide coverage, and have been shown to improve socioeconomic outcomes in the target population. Given the importance of meeting fiscal targets though the reduction of inefficient and inequitable spending, the DPF supports the significant reduction of costly, regressive and untargeted gas and transport subsidies. The DPF also supports the implementation of the fiscal pact and fiscal responsibility law with the provinces with the aim of accompanying fiscal measures at the federal level with mutually reinforcing actions at the provincial level.

6. **In the current context, the proposed DPF operation is also important as it supports continued efforts to build the foundations for private-sector led medium-term growth.** Achieving higher growth and job creation in the private sector is critical for Argentina, particularly given that the fiscal consolidation is expected to continue in the medium term. The DPF series supports policy efforts to build the foundations for future private-sector growth through measures that enhance competition (including in key enabling service sectors), further decrease barriers to trade, reduce business costs, encourage capital markets development, and promote private investment in renewable energy. Strengthening the anti-corruption framework and creating a level playing field for enterprises has become even more crucial following the cuadernos (notebooks) corruption scandal.³

7. **The proposed DPF operation also supports several reform measures which strengthen adaptation to, and mitigation of, the impacts of climate change.** Some of the supported measures contribute to Argentina’s commitment to the Paris Agreement on climate change⁴ as they support a more efficient use of energy, especially by end-users. Prior actions that generate climate co-benefits include the support to: (i) open access to the system of railway cargo transport that would provide a more efficient rail freight services to replace the transport of cargo by trucks; (ii) increase electricity generation from renewable sources to promote a greener energy matrix; and (iii) decrease gas and transport subsidies to improve energy efficiency, while protecting the poor through social assistance comprising social tariffs and universal child allowances (Asignación Universal por Hijo, AUH).

8. **The programmatic DPF series builds on strong policy dialogue and close collaboration with the authorities across the supported policy areas.** 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 social protection. These analytical underpinnings have helped to identify measures to tackle the critical challenges of fostering growth in the medium term and strengthening the social safety net. This operation also fits with the policy priorities to promote private-sector led sustainable growth and shared prosperity identified in the 2018 Systematic Country Diagnostic.

9. **This operation is part of a package of coordinated financial assistance from international partners to support the Government’s progress to address the pressing macroeconomic challenges.** The Government of Argentina continues to implement a tight fiscal and monetary policy stance designed to restore market confidence and ensure macroeconomic stability as supported by the IMF’s SBA. The first review of the SBA increased the overall financing of the IMF from an initial precautionary loan amount of US$50 billion to full use of resources totaling US$56.6 billion, with a frontloading of disbursements of US$50.8 billion over 2018-2019. The World Bank joins the Andean Development Corporation—

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³ In August 2018, a large-scale corruption scandal was revealed by the media. The Argentine Justice Department is investigating alleged illicit cash payments made by companies for public works contracts during 2003-2015.

⁴ For Argentina’s Nationally Determined Contribution (NDC), see: https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Argentina%20First/Traducción%20NDC_Argentina.pdf
Development Bank of Latin America (Corporación Andina de Fomento, CAF) and the Inter-American Development Bank (IADB) in supporting the IMF’s economic stabilization program by providing budget support to the Government of Argentina. This DPF support is part of a coordinated international effort to support the stabilization program.

10. **This second operation in the DPF series has been prepared in a context of continued adherence to the IMF’s SBA, but the risks associated with the proposed operation remain high.** The Government has implemented a strengthened fiscal and monetary policy framework under the IMF SBA. However, renewed volatility in early March 2019 is partly attributed to concerns on the political risk associated with the upcoming election (first round presidential election in October 2019) and continued high inflation. While full adherence to the fiscal and monetary targets is paramount for a successful macroeconomic stabilization, macroeconomic risks remain high as weakening external demand, tightening of global financial conditions for emerging markets and/or a larger or prolonged than anticipated economic recession could affect market confidence. While there is a broad support 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.

11. **Political uncertainty ahead of the 2019 Presidential elections and potential social discontent due to the impact of the stabilization program, particularly from high inflation, add to these risks.** The current cash transfer programs built especially around child allowances have been an effective tool to reach those families in need. However, a quarter of Argentines are currently not covered by the program. Moreover, the benefit is a relatively small amount and equivalent to 70 percent of the extreme poverty line or 5 percent of the average wage per child, providing limited support to those vulnerable to falling back into poverty.

2. **MACROECONOMIC POLICY FRAMEWORK**

2.1. **RECENT ECONOMIC DEVELOPMENTS**

12. **The Government has strengthened the macroeconomic framework in response to the pressure on the peso and financial market developments in August 2018, but high inflation and renewed financial volatility pose risks.** The implementation of the new monetary policy framework under the First Review of the IMF SBA in October 2018 was accompanied by a period of relative stability when the Argentine Peso appreciated to as low as 35.5 ARS (Argentine Peso)/US$ and sovereign spreads decreased to below 700 basis points. However, an uptick in inflation figures early in 2019 and concerns on political risk due to upcoming presidential elections brought renewed pressure on the exchange rate and sovereign spreads, erasing much of the early 2019 gains by end-March 2019. The Argentine peso reached a new high of over 45 ARS per US$ in April, while EMBI spreads climbed over 900 basis points.

13. **The Central Bank responded to the renewed volatility with a stronger monetary stance and announced discrecional interventions in exchange rate also within the exchange rate non-intervention zone.** In mid-April 2019 the Central Bank extended the zero-growth in monetary base until November and froze the exchange-rate bands that determined the non-intervention zone (NIZ)—which previously depreciated at a 1.75 percent monthly rate—until December 2019. It also announced that it would no-longer purchase reserves and ease monetary policy if the exchange rate fell below the lower bound of the NIZ. The announcement did not temper financial volatility, and after two weeks the Central Bank stated that it would intervene in exchange rate markets if necessary, even within the NIZ. Exchange rate interventions (i.e. selling of international reserves) would not be sterilized, resulting in a tighter monetary
The policy shift was endorsed by the IMF and volatility in financial markets has decreased since the announcement, but the significant country risk premium persists.

14. **Inflation remains stubbornly high despite a restrictive monetary policy.** After a peak in September and October 2018 following the second round of exchange rate adjustments in late August 2018 (Figure 1), inflation stabilized at a high level, reaching 55.8 percent in April 2019 (Figure 2). The high persistence of inflation, despite the halting of Central Bank assistance to the Treasury and a very restrictive monetary stance, can be explained both by inflationary inertia generated by formal and informal indexation to past inflation, the full pass through of the peso depreciation and the frontloading of energy and transport tariff hikes to the first half of 2019. The depreciation of the peso since February fueled inflation expectations for 2019 further, which moved from 29 percent in January 2019 to 40 percent in April 2019. The reference interest rate, which had decreased from a peak of 73.5 percent in October 2018 to a low of 43.9 percent in February 2019, also increased substantially to 72.5 percent at end-March 2019 and remains at above 70 percent toward the end of May 2019.

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15. **High inflation in 2018 depressed real household incomes and reduced private consumption, which was the main driver of the recession together with the sizeable drought.** The spike in inflation reduced real wages by 11.4 percent for formal wage workers and by 13.5 percent for informal wage workers between December 2017 and December 2018 (Figure 10). The reduction of real wages negatively impacted private consumption, the largest component of GDP. Lower demand and heightened uncertainty brought private investment to a halt, further affecting economic activity. The export sector was held back by a severe drought that reduced agricultural production, with a direct impact of reducing economic activity by 1.3 percentage points of GDP. The actual impact of the drought goes beyond its direct effect through spillovers to other sectors and lower fiscal revenue from forgone export taxes. Economic activity contracted 2.5 percent in 2018 (Figure 5).

16. **The exchange rate adjustment and contraction in economic activity improved external accounts, despite the reduction in agricultural exports due to the drought.** The trade deficit, which had been widening in the months prior to the financial turmoil, has turned into a surplus since October 2018. The strong reduction of imports was the main driver behind the improvement, historically sensitive to the economic cycle and exchange rate swings. Imports suffered a fall of over 20 percent in the fourth quarter, bringing the overall decrease in imports in 2018 to 2 percent. On the other hand, exports grew 5 percent, despite the fall in agricultural exports, the main exporting sector of the country. However, despite the improvement on the trade balance (Figure 6), the current account deficit in 2018 remained high at 5.4 percent of GDP due to large interest payments.

**Figure 5. Contribution to GDP Growth (in percentage points)**

![GDP Growth Chart]

**Figure 6. Trade Balance (cumulative 12 month)**

![Trade Balance Chart]

Sources: INDEC and IMF projections April 2019 Staff Report. 
Note: Gray area indicates projection years.

Source: Argentina’s Ministry of Treasury.

17. **Fiscal targets were met in 2018, despite a fall in revenue collection due to the recession.** The Federal Government’s primary fiscal deficit was 2.6 percent of GDP in 2018, a significant improvement from the 3.8 percent in 2017 (Figure 7). Given the reduction in overall real revenues, fiscal consolidation was mainly explained by a strong reduction in primary spending, which fell by 7.3 percent in real terms. Public investment, a real cut in pension benefits (due to the implementation of the new benefit indexation formula) and a reduction of the wage bill (public wages grew below inflation) were the main drivers of the fiscal adjustment. To a lesser extent, the reduction in subsidies, with tariff increases offset by a weaker

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6 The General Government’s primary fiscal deficit was 2.2 percent of GDP in 2018. See Table 3.
peso, and tightening in non-automatic transfers to provinces and to State-Owned Enterprises (SOEs) also contributed to the fiscal adjustment.

18. **Subsidies have been more than halved—representing a substantial fiscal reform.** Fiscal spending on energy, gas and transport subsidies decreased from 4.9 percent of GDP in 2014 to 2.2 percent of GDP in 2018 (Figure 8). This arguably constitutes the most important structural reform in restructuring government spending and increases sector efficiency. On the sectoral side, the reform improved the incentives to invest in the energy sector, resulting in a 15 percent increase in electricity generation capacity, and a reduction in power outages for residential and commercial consumers. However, the realignment of public utility prices has faced growing social resistance, given the overall decline in real incomes, and has compounded the efforts to reduce inflation.

![Figure 7. Federal Government Primary Balance, 1994-2022 (In percent of GDP)](image)

**Figure 7. Federal Government Primary Balance, 1994-2022 (In percent of GDP)**

*Source: Argentina’s Ministry of Treasury.*

*Note: Gray area indicates projection years.*

![Figure 8. Economic Subsidies, 2005-2018 (In percent of GDP and total expenditures)](image)

**Figure 8. Economic Subsidies, 2005-2018 (In percent of GDP and total expenditures)**

*Source: Argentina’s Ministry of Treasury.*

19. **Credit to the private sector has been substantially affected by high real interest rates and adverse economic conditions.** Not only has demand for credit fallen given the high real interest rates, but the banks’ willingness to lend to the private sector has been reduced due to the abundance of high-yield BCRA paper (LELIQ). As a result, domestic peso-denominated credit to the private sector shrank, in real terms, by 18 percent (year on year) in December 2018.

20. **Bank profitability remains strong.** Given Argentina’s small banking sector featuring low complexity and high liquidity and equity coverage, macroprudential indicators remain strong. Solvency indicators are solid, with an aggregate leverage coefficient of 8.8 percent, above the minimum 3 percent recommended by the Basel Committee on Banking Supervision. Liquidity conditions, as reflected by a broad liquidity index, improved in 2018. The index, which measures reserve requirements and BCRA instruments as a share of total deposits, reached 57.5 percent in 2018, 2.8 percentage points higher than in 2017. Although non-performing loans (NPLs) increased from 1.9 percent in 2017 to 3.1 percent in 2018, they are at par with the regional average. Moreover, provisioning for NPLs is at high levels at 87 percent. Mortgage defaults remain at very low levels (0.3 percent) and the mortgage market is extremely limited.

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7 BCRA
21. **The deterioration in economic conditions in 2018 has led to increased poverty levels and the continuing high inflation in the first months of 2019 is likely to result in further increases in poverty.** The latest official estimates from INDEC (National Statistics Agency), using the national poverty line, indicate that almost a third of Argentines living in the main metropolitan areas are poor—32 percent in the second semester of 2018—and 6.7 percent suffer from extreme poverty. Welfare gains made in 2016 and 2017 have been reversed with the poverty rate being 6.4 percentage points higher (1.8 million people fell into poverty) and the extreme poverty rate almost 2 percentage points higher (500 thousand people fell into extreme poverty) than in the second semester of 2017 (Figure 9). As a result, both poverty and extreme poverty rates have reached the highest levels since INDEC implemented its current methodology in 2016. Welfare losses are mainly driven by inflation. Between December 2017 and December 2018, the

### Table 1: Key Macroeconomic Indicators

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<tbody>
<tr>
<td><strong>Real economy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>GDP (BN nominal LCU)</td>
<td>5,955</td>
<td>8,189</td>
<td>10,556</td>
<td>14,567</td>
<td>20,175</td>
<td>25,458</td>
<td>31,107</td>
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<tr>
<td>GDP per capita (US$)</td>
<td>14,749</td>
<td>12,706</td>
<td>14,516</td>
<td>11,582</td>
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<tr>
<td>Real GDP</td>
<td>2.7</td>
<td>-2.1</td>
<td>2.7</td>
<td>-2.5</td>
<td>-1.2</td>
<td>2.2</td>
<td>3.2</td>
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<tr>
<td>Consumption</td>
<td>3.7</td>
<td>-0.8</td>
<td>4.0</td>
<td>-2.4</td>
<td>-2.3</td>
<td>6.6</td>
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<td>Government consumption</td>
<td>6.9</td>
<td>-0.5</td>
<td>2.7</td>
<td>-3.3</td>
<td>-6.4</td>
<td>1.7</td>
<td>0.3</td>
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<tr>
<td>Gross fixed capital formation</td>
<td>3.5</td>
<td>-5.8</td>
<td>12.2</td>
<td>-5.8</td>
<td>-14.5</td>
<td>-6.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Total exports (Goods and Services)</td>
<td>-2.8</td>
<td>5.3</td>
<td>1.7</td>
<td>0.0</td>
<td>9.5</td>
<td>3.5</td>
<td>6.0</td>
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<tr>
<td>Total imports (Goods and Services)</td>
<td>4.7</td>
<td>5.8</td>
<td>15.4</td>
<td>-5.1</td>
<td>-8.3</td>
<td>9.3</td>
<td>7.8</td>
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<td>Unemployment rate</td>
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<td>8.4</td>
<td>9.2</td>
<td>9.9</td>
<td>9.9</td>
<td>9.7</td>
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<td>GDP deflator</td>
<td>26.5</td>
<td>41.2</td>
<td>25.8</td>
<td>41.0</td>
<td>39.6</td>
<td>23.6</td>
<td>18.4</td>
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<tr>
<td>CPI (eop)</td>
<td>...</td>
<td>24.8</td>
<td>47.6</td>
<td>30.5</td>
<td>21.2</td>
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<td><strong>Fiscal accounts</strong></td>
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<td>33.8</td>
<td>34.8</td>
<td>35.3</td>
<td>34.9</td>
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<tr>
<td>Total expenditures</td>
<td>41.4</td>
<td>41.5</td>
<td>41.2</td>
<td>39.0</td>
<td>37.5</td>
<td>36.8</td>
<td>36.3</td>
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<tr>
<td>Current expenditure</td>
<td>37.7</td>
<td>38.1</td>
<td>37.6</td>
<td>35.4</td>
<td>34.3</td>
<td>33.6</td>
<td>33.0</td>
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<td>Capital expenditure</td>
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<td>3.4</td>
<td>3.5</td>
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<td>3.1</td>
<td>3.2</td>
<td>3.2</td>
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<tr>
<td>General government balance</td>
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<td>-6.6</td>
<td>-6.7</td>
<td>-5.2</td>
<td>-2.7</td>
<td>-1.5</td>
<td>-1.4</td>
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<tr>
<td>Public and publicly guaranteed debt (PPG)</td>
<td>52.6</td>
<td>53.1</td>
<td>57.1</td>
<td>86.3</td>
<td>75.9</td>
<td>69.0</td>
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<td><strong>Selected monetary accounts</strong></td>
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<td></td>
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<tr>
<td>Monetary Base</td>
<td>34.9</td>
<td>31.7</td>
<td>21.8</td>
<td>34.8</td>
<td>13.5</td>
<td>24.5</td>
<td>18.1</td>
</tr>
<tr>
<td>M2</td>
<td>28.2</td>
<td>30.4</td>
<td>25.8</td>
<td>22.5</td>
<td>2.1-18.4</td>
<td>43.1</td>
<td>36.1</td>
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<tr>
<td>Credit to private sector</td>
<td>35.6</td>
<td>31.0</td>
<td>51.3</td>
<td>36.7</td>
<td>15.8</td>
<td>24.9</td>
<td>33.0</td>
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<tr>
<td>Real credit to private sector</td>
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<td>-7.4</td>
<td>-11.2</td>
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<td>14.3</td>
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<tr>
<td>Interest rate</td>
<td>32.2</td>
<td>23.9</td>
<td>28.8</td>
<td>59.3</td>
<td>41.0</td>
<td>30.7</td>
<td>18.3</td>
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<tr>
<td><strong>Balance of payments</strong></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Current account balance</td>
<td>-2.7</td>
<td>-2.7</td>
<td>-4.9</td>
<td>-5.4</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-2.5</td>
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<tr>
<td>Trade balance in goods and services</td>
<td>-1.0</td>
<td>-0.7</td>
<td>-2.4</td>
<td>-2.0</td>
<td>1.4</td>
<td>0.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Exports of goods</td>
<td>8.8</td>
<td>10.4</td>
<td>9.1</td>
<td>11.9</td>
<td>14.6</td>
<td>14.3</td>
<td>13.9</td>
</tr>
<tr>
<td>Imports of goods</td>
<td>-9.0</td>
<td>-9.6</td>
<td>-10.0</td>
<td>-12.1</td>
<td>-12.0</td>
<td>-12.1</td>
<td>-12.1</td>
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<tr>
<td>Foreign direct investment</td>
<td>1.7</td>
<td>0.3</td>
<td>1.6</td>
<td>1.5</td>
<td>0.4</td>
<td>0.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Gross reserves (US$ bn; period average)</td>
<td>25.6</td>
<td>39.3</td>
<td>55.1</td>
<td>65.8</td>
<td>62.2</td>
<td>68.3</td>
<td>74.9</td>
</tr>
<tr>
<td>In months of next year’s imports</td>
<td>4.0</td>
<td>6.3</td>
<td>7.4</td>
<td>9.1</td>
<td>9.6</td>
<td>9.7</td>
<td>9.8</td>
</tr>
<tr>
<td>As percentage of short-term external debt</td>
<td>43.0</td>
<td>83.0</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>External government debt</td>
<td>20.3</td>
<td>19.4</td>
<td>21.5</td>
<td>34.1</td>
<td>34.0</td>
<td>33.2</td>
<td>32.3</td>
</tr>
<tr>
<td>Terms of trade (percentage change)</td>
<td>-4.4</td>
<td>6.0</td>
<td>-2.8</td>
<td>1.9</td>
<td>3.2</td>
<td>1.4</td>
<td>-0.1</td>
</tr>
<tr>
<td>Exchange rate (LCU per US$; period average)</td>
<td>9.3</td>
<td>14.8</td>
<td>16.6</td>
<td>28.1</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>

Source: IMF April 2019 Staff Report.
value of the food and non-food poverty baskets rose 52.9 percent.\(^8\) Real wages declined for both formal and informal workers, but the losses were larger among informal wage employees. Real wages fell around 11.4 percent for formal wage-workers between December 2017 and December 2018, whereas informal wage employees lost 13.5 percent in real terms (Figure 10).

Overall, employment fell slightly in 2018 due to a decline in registered (formal) employment. While the participation rate remained stable (at around 46.5 percent), unemployment showed an increase of 1.9 percentage points (from 7.2 to 9.1 percent on the fourth quarter of 2017 and 2018, respectively). Employment fell by 0.8 percentage points (from 43.0 to 42.2 percent on the fourth quarter of 2017 and 2018, respectively). In addition, the number of registered (formal) workers decreased by around 2 percent since December 2017, representing a fall of almost 236 thousand.\(^9\)

23. **Those that face the greatest risk of falling into poverty tend to live in households with young children, larger sized families and with younger household heads.** The proportion of people living in households with children aged 0 to 14 is estimated at 71.6 percent among the group at a higher risk of falling into poverty, compared to 56 percent among the population; the average age of the household head is 46.8 years compared with 52.1 years; and, the average family size is 5.4 compared to 4.4 on average in the population. Family allowances (both contributory and non-contributory) and pensions are effective in reaching a large proportion of families. The population considered at risk of falling into poverty that would not be eligible for universal child allowances (AUH) is estimated at about 2 percent of the total urban population.\(^{10}\)

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\(^8\) During the same period the Consumer Price Index (CPI) rose 47.6 percent, that is, 5.2 percentage points lower than the poverty line. This is in part due to the higher increase of prices of food items than other goods and services, and the fact that food items represent a higher share of the poverty basket than in the consumption basket used for the CPI.

\(^9\) Sistema Integrado Previsional Argentino (SIPA).

\(^{10}\) Estimations are based on household survey data from Encuesta Permanente de Hogares (EPH), representative of the 31 main urban areas.
24. **The real value of the AUH has been protected from inflation with two bonuses paid in September and December 2018.** The value of the benefit grew at a rate of 28.6 percent during 2018, slower than inflation in the poverty and extreme poverty baskets, with a potential erosion in the real value of the allowance of 16 percent since December 2017. This potential loss was more than compensated for by two bonuses paid in September (AR$1200) and December (AR$1500) 2018. At the same time, the number of AUH holders grew by 1.5 percent from December 2017 to December 2018, reaching 2.25 million holders.11 More recently, recognizing the importance of the AUH, the Government increased by 46 percent AUH benefits in March 2019 (front-loading the indexation formula, movilidad, for the entire year12). This measure, with an annual cost of AR$15 billion (approximately US$350 million), will be accommodated through the SBA program adjustor for social spending. Simulations show that the increase in 46 percent the current amount received per child- could mitigate the impact of adverse economic conditions. The expected effects of such increase could reduce the estimated poverty rate for 2019 in about 0.7 percentage points, and the extreme poverty rate in approximately 1.1 percentage points. Moreover, in the context of a series of measures to support consumption, the government expanded an existing program of reference prices for consumption goods (precios cuidados13), in place since 2014. The extension included 64 basic goods, including vegetable oil, flour, rice and milk.  

**Figure 11. Simulations of Poverty Rates with and without the increase of AUH benefit**  

Panel A. Extreme Poverty  
Panel B. Poverty  

Source: Staff estimations with data from 2017 Permanent Household Survey (Q1-Q3) and national poverty lines.  
Notes: Estimates for July-December 2018 differ from the official numbers released on the AUH benefit. Official national poverty and extreme poverty lines are used for the estimates; these are calculated based on regional basic consumption baskets. For reference the extreme poverty line for Greater Buenos Aires in December 2018 is 3,300 monthly pesos (approximately US$13.1 PPP 2011 per day) and the poverty line is 8,250 monthly pesos (approximately US$35.2 PPP 2011 per day)

2.2. **MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY**

25. **The effects of the recession will linger into 2019, but growth is expected to gradually resume if the stable macroeconomic environment persist.** An incipient bottoming-out of economic activity in the first quarter of 2019 is expected to be followed by a gradual recovery in the second quarter of 2019, driven by a high agricultural harvest after the 2018 drought that will spillover to other sectors. A stabilization of the exchange rate going forward is a key precondition for a recovery in real wages and consumption, which should sustain the momentum into the second half of the year, under the assumption of no major

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11 Based on ANSES.  
12 Contributory family allowances will continue to grow according to the benefit indexation formula.  
13 Precios Cuidados currently covers 543 items
shocks in international financial markets and absent negative domestic developments in the electoral season.\textsuperscript{14} However, the recovery in 2019 will be masked by a strong negative statistical carry-over from 2018 recession with an expected fall in GDP of 1.2 percent.\textsuperscript{15} Growth in the medium term should slowly accelerate, as the effect of the adjustment in relative prices, and improved macro financial conditions gradually crowd-in private investment and boost exports.

26. **Under the baseline scenario, a tight monetary policy stance and a stable exchange rate are expected to lower inflation.** Following the spike in 2018, and early 2019, inflation has begun to slowly decelerate in April although it remains high, as headline CPI grew by 3.4 percent (monthly), for a 55.8 percent annual inflation. However, high monthly inflation will continue in the first half of the year, as inflationary inertia persists. Freed from the burden of financing the Treasury, the Central Bank should continue to be able to conduct more independent monetary policy and its anti-inflationary stance. Protracted high real interest rates are expected to remain, with nominal interest rates decreasing further only if inflation expectations decrease.

| Source: IMF April 2019 Staff Report. |

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

<table>
<thead>
<tr>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross external financing requirements</td>
<td>134.7</td>
<td>117.3</td>
</tr>
<tr>
<td>Imports G&amp;S</td>
<td>77.5</td>
<td>84.2</td>
</tr>
<tr>
<td>Amortization and service of bonds and loans</td>
<td>49.6</td>
<td>44.2</td>
</tr>
<tr>
<td>Public sector</td>
<td>43.0</td>
<td>31.1</td>
</tr>
<tr>
<td>Private sector</td>
<td>6.6</td>
<td>13.2</td>
</tr>
<tr>
<td>Other outflows</td>
<td>7.5</td>
<td>-11.0</td>
</tr>
<tr>
<td>Available external financing</td>
<td>134.7</td>
<td>117.3</td>
</tr>
<tr>
<td>Exports G&amp;S</td>
<td>84.2</td>
<td>87.1</td>
</tr>
<tr>
<td>FDI</td>
<td>2.0</td>
<td>4.5</td>
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<tr>
<td>IFIs</td>
<td>26.4</td>
<td>6.9</td>
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<tr>
<td>IMF</td>
<td>22.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Financing through bonds and loans</td>
<td>18.9</td>
<td>24.9</td>
</tr>
<tr>
<td>Public Sector</td>
<td>14.4</td>
<td>17.3</td>
</tr>
<tr>
<td>Private Sector</td>
<td>4.5</td>
<td>7.6</td>
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<tr>
<td>Reserves Drawdown (- = accumulation)</td>
<td>3.3</td>
<td>-6.1</td>
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<tr>
<td>Gap</td>
<td>0.0</td>
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</tbody>
</table>

27. **Although pressures on the peso are expected to ease in the baseline, Argentina remains vulnerable to external shocks.** The current account deficit is expected to shrink by more than 3 percentage points of GDP in 2019 (to -2.0 percent of GDP) due to a normalization in agricultural output, a weaker real exchange rate, and stronger growth in Brazil. However, gross external financing needs are expected to remain high due to a recovery of imports and bullet debt repayments in 2021. Overall external financing needs are expected to reach an average of US$127 billion per year during 2019-2021. For 2019, they reach more than US$134 billion (over 30 percent of GDP). Debt service and amortizations are as high as US$49.6 billion. The support of the IMF together with improved exports performance assumed in the baseline are thus critical.

\textsuperscript{14} Presidential elections are taking place on October 2019, with primaries in August 2019.

\textsuperscript{15} Statistical carry-over effects refer to the negative effects that a recession at the end of a given year has on the overall annual growth in the next year.
Table 3. Key Fiscal Indicators, Percent of GDP, General Government

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Overall balance</td>
<td>-6.0</td>
<td>-6.6</td>
<td>-6.7</td>
<td>-5.2</td>
<td>-2.7</td>
<td>-1.5</td>
<td>-1.4</td>
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<tr>
<td>Primary balance</td>
<td>-4.4</td>
<td>-4.7</td>
<td>-4.2</td>
<td>-2.2</td>
<td>0.0</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Total revenues (and grants)</td>
<td>35.4</td>
<td>34.9</td>
<td>34.5</td>
<td>33.8</td>
<td>34.8</td>
<td>35.3</td>
<td>34.9</td>
</tr>
<tr>
<td>Tax revenues</td>
<td>32.9</td>
<td>32.4</td>
<td>31.7</td>
<td>30.6</td>
<td>31.4</td>
<td>32.4</td>
<td>32.1</td>
</tr>
<tr>
<td>Taxes on goods and services</td>
<td>14.5</td>
<td>14.3</td>
<td>14.7</td>
<td>14.6</td>
<td>14.9</td>
<td>15.0</td>
<td>15.1</td>
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<tr>
<td>Direct taxes</td>
<td>7.8</td>
<td>6.7</td>
<td>6.8</td>
<td>6.4</td>
<td>6.4</td>
<td>6.4</td>
<td>6.4</td>
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<tr>
<td>Social insurance contributions</td>
<td>8.9</td>
<td>8.6</td>
<td>8.7</td>
<td>7.9</td>
<td>7.7</td>
<td>7.7</td>
<td>7.9</td>
</tr>
<tr>
<td>Taxes on international trade</td>
<td>1.84</td>
<td>1.59</td>
<td>1.34</td>
<td>1.59</td>
<td>2.4</td>
<td>2.4</td>
<td>1.3</td>
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<tr>
<td>Other taxes</td>
<td>0.0</td>
<td>1.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.9</td>
<td>1.5</td>
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<tr>
<td>Non-tax revenues</td>
<td>2.5</td>
<td>2.5</td>
<td>2.7</td>
<td>3.3</td>
<td>3.4</td>
<td>3.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Grants</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Expenditures

|                        | 41.4  | 41.5  | 41.2  | 39.0  | 37.5  | 36.8  | 36.3  |
| Current expenditures   | 37.7  | 38.1  | 37.6  | 35.4  | 34.3  | 33.6  | 33.0  |
| Wages and compensation | 12.4  | 12.3  | 12.0  | 10.9  | 10.7  | 10.7  | 10.4  |
| Goods and services     | 2.8   | 2.5   | 2.6   | 2.5   | 2.3   | 2.2   | 2.1   |
| Interest payments      | 1.6   | 1.9   | 2.5   | 3.0   | 2.7   | 2.6   | 2.6   |
| Current transfers      | 20.9  | 21.4  | 20.5  | 19.1  | 18.6  | 18.1  | 17.9  |
| Pensions*              | 9.0   | 8.9   | 9.6   | 8.9   | 9.2   | 9.6   | 9.5   |
| Social assistance      | 2.7   | 2.7   | 2.6   | 2.6   | 2.7   | 2.7   | 2.7   |
| Other social transfers and subsidies | 9.2   | 9.8   | 8.3   | 7.6   | 6.8   | 5.8   | 5.6   |
| Capital expenditures   | 3.6   | 3.4   | 3.5   | 3.6   | 3.1   | 3.2   | 3.2   |
| Capital investment     | 3.0   | 2.8   | 3.0   | 3.1   | 2.6   | 2.8   | 2.8   |
| Capital transfers      | 0.6   | 0.6   | 0.5   | 0.5   | 0.5   | 0.4   | 0.4   |

Source: IMF April 2019 Staff Report.

28. The Government has committed to reach a zero-primary deficit in 2019 and a 1 percent of GDP surplus in 2020. Fiscal consolidation is expected to continue at the federal level going forward. The Federal Government is expected to strongly reduce its primary deficit from 2.6 percent of GDP in 2018 to zero in 2019—or with a slightly deficit of 0.3 percent of GDP if social adjustor under the IMF SBA program is utilized. Provinces will remain close to a primary balance, down from a 0.4 percent of GDP surplus in 2018.

29. The fiscal effort at the federal level is expected to be driven by a combination of discretionary expenditure reductions and higher inflation. On the expenditure side, higher-than-projected inflation in 2019 will reduce pension spending and wages as a share of GDP (by 0.75 percent of GDP, Table 3). Most of the discretionary adjustment will come from lower energy subsidies, a shift from federal government to provinces of intra-provincial transport subsidies and electricity social tariff (ST), and a cut in public investment and non-automatic transfer to provinces. Social protection expenditures at the federal level will continue to be ring-fenced via a social spending floor agreed as part of the IMF’s SBA, and the expansion of some well-targeted social assistance transfers will be accommodated through a larger program adjustor for social spending. On the revenue side, after three years of falling tax pressure, and

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16 The Social adjustor was increased from 0.2 percent of GDP to 0.3 percent of GDP during the Third Review of the IMF SBA in March 2019.
17 A program floor has been set for federal government spending on the social safety net, equivalent to 1.3 percent of GDP in 2019, while allowing benefits to rise according to the existing indexation formula.
18 Under the IMF SBA, if economic conditions were to worsen, initially spending for universal child allowance programs were allowed to increase by up to 0.2 percent of GDP (or ARS30 billion) per calendar year. The social spending adjustor was raised to 0.3 percent of GDP in March 2019.
despite some negative fiscal effect coming from the continuation of the late-2017 tax reform (tax cuts on payroll taxes) and the impact of weak economic activity on tax collection, a transitory increase in export taxes and the sale of public pension fund assets\(^\text{19}\) are expected to contribute to the fiscal effort in 2019. In the face of lower-than-anticipated revenue collection, the Government has also increased general import duties temporarily from 0.5 percent to 2.5 percent in 2019. The measure is set to expire in December 2019. In addition, as part of the negotiations with provinces, the Federal Government agreed to marginally increase Value Added Tax, Corporate Income Tax and Personal Income Tax bases (taxes that are shared with provinces), contributing positively to improve federal fiscal accounts.

30. **Despite its commitments on the fiscal front, the country remains vulnerable to debt rollover risks.** According to the latest IMF analysis (April 2018), the Federal Government is expected to raise more than US$83 billion in financial markets over 2020-2021, of which about US$26 billion is new issuances, while its 2019 financing needs (US$94 billion) are almost covered by the expected IMF disbursements and debt rollovers. Continued rollover of intra-public-sector financing is assumed, together with the capitalization of interest payments by the non-financial public sector. Private sector rollover is assumed to be 60 percent for 2019 with no international bond issuance expected until 2020. For 2020 and 2021, with reduced IMF financial support, Argentina will need to rely on new debt issuance of about US$4.2 billion and US$12 billion in foreign currency and US$7 billion and US$3 billion in pesos, respectively. In 2022, large repayments of US$23.5 billion are due under the current SBA.

| Source: IMF April 2019 Staff Report. |

### Table 4. Federal Government Gross Financing Needs and Sources, 2019-2021

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Needs</strong></td>
<td>94.5</td>
<td>65.2</td>
<td>74.4</td>
</tr>
<tr>
<td>Primary Deficit (with adjustors)</td>
<td>1.0</td>
<td>-4.9</td>
<td>-5.5</td>
</tr>
<tr>
<td>Plan Gas Payments</td>
<td>0.6</td>
<td>0.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Interest</td>
<td>21.2</td>
<td>21.3</td>
<td>23.2</td>
</tr>
<tr>
<td>Amortizations (excl short-term)</td>
<td>40.0</td>
<td>31.2</td>
<td>36.1</td>
</tr>
<tr>
<td>Amortization Short-term debt 1/</td>
<td>31.7</td>
<td>17.0</td>
<td>20.3</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td>94.5</td>
<td>65.2</td>
<td>74.4</td>
</tr>
<tr>
<td>Deposit drawdown (- = accumulation)</td>
<td>9.1</td>
<td>-2.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>IFIs (excl IMF)</td>
<td>3.5</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>IMF</td>
<td>22.8</td>
<td>3.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Public Sector 2/</td>
<td>30.7</td>
<td>20.1</td>
<td>27.3</td>
</tr>
<tr>
<td>Private Sector Issuances</td>
<td>28.3</td>
<td>40.6</td>
<td>42.6</td>
</tr>
<tr>
<td>Short-Term Debt 1/</td>
<td>22.7</td>
<td>17.0</td>
<td>20.3</td>
</tr>
<tr>
<td><strong>Gap</strong></td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

1/ Includes FX and ARS LETES and ARS LECAP/LECER

2/ Assumes that both financial and non-financial public sector roll over 100 percent of amortizations. In addition, non-financial public sector capitalizes interest.

31. **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 Federal Government’s debt is expected to decline to 76 percent of GDP in 2019, down from 86 percent of GDP in 2018, as a result of a projected real exchange rate appreciation. Furthermore, implementation of the Government’s fiscal during the Third Review of the SBA.

\(^\text{19}\) In late-2008, the Government nationalized private pension insurance companies (from 1994 to 2008, a private pillar managed by insurance companies complemented the public pay-as-you go pension system) for unification in a single public pay-as-you go pension system. Each insurance company’s asset fund was unified under the Fondo de Garantía de sustentabilidad (FGS), a fund now managed by the Federal Government. More than half of the fund is invested in public bonds, while the rest is divided between stocks and other financial instruments.
A program would make public debt converge toward 60 percent of GDP by 2023. Public gross financing needs will continue to be high over the medium term, with a peak of 15.5 percent of GDP in 2019.

However, there are high risks to debt sustainability. Debt is highly vulnerable to a real exchange rate depreciation: the standard DSA stress test (50 percent real depreciation with 0.25 pass-through) shows that debt could jump to 110 percent of GDP, above the high-risk threshold (Figure 11). 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 80 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 (-2.6 percent of GDP), debt would remain largely flat, at 83 percent of GDP by 2024. A “combined macro-fiscal” shock would cause debt to rise to over 150 percent of GDP and gross financing needs to 35 percent of GDP. In such a scenario, it would likely be difficult to finance this through market access. 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 U.S. dollar-denominated debt issued on international markets.

**Figure 12. Debt Sustainability Analysis, Alternative scenarios: Federal Government**

![Graph showing debt sustainability analysis](image)

*Source: IMF April 2019 Staff Report.*

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20 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.

21 For further details on the DSA, see IMF (2019), *Argentina: Third Review under the Stand-By Arrangement; Request for waivers of applicability of performance criteria; Financing Assurances review; and request for modification of performance criterion—Press Release and Staff Report, April 2019, IMF Country Report No. 19/99.*
33. **The baseline macroeconomic outlook has substantial downside risks.** If market confidence is eroded due to domestic factors (e.g. a larger than anticipated economic recession and/or policy slippages due to upcoming national elections in October) or a new round of global financial turmoil hits emerging markets, the country’s financing plan and debt sustainability may be again called into question by the markets, with a renewed pressure on Argentine assets and the exchange rate. On the domestic front, if fiscal consolidation has a higher-than-anticipated short-term impact on economic activity, broad political support for the economic stabilization program may be at risk not only because of the impact on the population, including an increase in poverty and reduction of incomes for the middle class, but also because of the loss of revenues from a shrinking base. This is important in the context of the need to maintain the political support during an election year. On the global conditions, tighter financial and financial turmoil in major emerging markets or, to a lesser extent, deteriorating terms of trade, the impact of changes in trading partners’ tariff policies, and weaker growth in neighboring economies also pose risks to the macroeconomic framework.

34. **The cash transfer system is an effective tool to reach those families in need but could be strengthened.** The AUH reaches a large share of the poor (almost 60 percent), but the amount of the benefit is relatively small (equivalent to 70 percent of the extreme poverty line or 5 percent of the average wage per child). For eligible families, this transfer provides a buffer for a deterioration in the labor market as it automatically covers workers who lose their formal job. To this end, the Government has taken measures to protect the value of AUH benefits from inflation in 2018 and has increased by 46 percent the benefit in March 2019. However, a quarter of Argentines are currently not covered by the program. Among them, moderate and extreme poverty rates are more than twice the national rates, and more than half of the poor and three-quarters of the extreme poor belong to the group who receive AUH. 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.

35. **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

36. **The IMF Board of Executive Directors approved a 36-month SBA in an amount equivalent to US$50 billion in June 2018, which was revised at the time of the First Review in October 2018.** The revised program increased the overall financing envelope from US$50 billion to US$56.3 billion, frontloading disbursements of close to US$19 billion from 2020-2021 to 2018-2019 to cover the financing needs in these two years. The revised baseline scenario assumed lower rollover by private creditors of debt coming due in 2018 and 2019, and a full recovery in rollover rates by 2020 as macroeconomic conditions stabilize. The package also included increases in the benefit amount for the main social safety net programs.

37. **The revised program was based on a strengthened set of monetary and fiscal policies, designed to restore market confidence and ensure macroeconomic stability.** The BCRA shifted from inflation targeting to a monetary base nominal anchor in October 2018, with nominal growth of the monetary base
set at zero percent per month until June 2019. The zero-growth in monetary base was later extended until November 2019 during the third review in March 2019. The BCRA is allowed to intervene in the foreign exchange in an unsterilized manner. The fiscal rebalancing process was brought forward one year (and therefore, the 2019 primary federal fiscal target was changed from -1.3 to zero percent of GDP). Social expenditures remain protected, and the adjustor for social spending was expanded from 0.2 to 0.3 percent of GDP (with a wider range of social programs) at the time of the third review.

3. GOVERNMENT PROGRAM

38. **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.

39. **The macroeconomic stabilization program of the Government is 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 is expected to continue the 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. In March 2019, President Macri announced an increase of 46 percent for the Government’s main social assistance program (AUH) to compensate for adverse economic conditions facing the most vulnerable in society. This measure will be accommodated by the 0.3 percent of GDP adjustor agreed with the IMF. The expected effects of such increase could reduce the estimated poverty rate for 2019 in about 0.7 percentage points, and the extreme poverty rate in approximately 1.1 percentage points. The Government has also taken steps to put growth on a more environmentally sustainable path. The Government Secretariat of Environment and Sustainable Development (*Secretaría de Gobierno de Ambiente y Desarrollo Sustentable, SGAyDS*) is mandated to mainstream sustainability considerations. In
2016, Argentina became one of the first countries to ratify the legally binding Paris Agreement 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 the renewable energy contribution to the energy mix from 1.8 to 20 percent by 2025.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

40. The DPF2 is the second 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. The DPF series complements the stabilization efforts supported by the IMF SBA 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 and enhancing fiscal equity are central to help mitigate the effects of the deteriorating macroeconomic conditions on the most vulnerable, particularly the high level of inflation, which is the main factor behind the increase in poverty.

41. In the current economic and political environment, the proposed DPF has gained importance. The focus areas of the DPF—the foundations for private sector-led growth and strengthening the social safety net—have become more important in the current circumstances. The focus on strengthening the anti-corruption framework in the corporate sector has become even more crucial following the 2018 cuadernos (notebooks) corruption scandal. Similarly, the impact on the poor and vulnerable is more substantial than originally envisaged due to the deteriorating economic conditions and high level of inflation. While addressing high inflation is paramount for the protection of the poor and the most vulnerable, it is also key to strengthen social safety nets to help mitigate the effects of high inflation on the vulnerable population during the stabilization program given the presence of inflationary inertia.

42. The DPF series supports the continuation of the Government’s effort to lay the foundation for eventual private sector recovery and growth through measures that reduce policy distortions that act as barriers to private sector activity. This includes actions to promote competition, reduce the costs of intermediate inputs/capital goods and the red tape associated with doing business, while encouraging private investment in infrastructure, including the exploitation of renewable energy. Productivity growth in Argentina has been very low over recent decades in an economic setting marked by macroeconomic and policy volatility.22,23 There are multiple factors holding back private sector activity and productivity, such as the large barriers to competition and trade, as well as the high costs of doing business. Argentina is also one of the most closed economies in the world with limited integration into global value chains (GVCs)—i.e. global trade in parts and components rather than end products. Limited competition prevents the reallocation of resources efficiently and effectively across sectors.24 Firms struggle with limited access

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22 Since 1960, the contribution of Total Factor Productivity 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).

23 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).

24 Investors rank Argentina 137th out of 138 countries in openness to domestic and foreign competition. World Economic Forum’s Global
to finance and the large costs of doing business related in part to low quality transport and logistics services. Capital markets are underdeveloped, leaving little opportunity for financial market intermediation and reflected in low investment: gross fixed capital formation was 14.8 percent of GDP in 2018, significantly below the average among upper-middle income countries (30 percent). Domestic credit to the private sector is extremely low at 15.1 percent of GDP, and most firms must finance expansion through own profits. Developing the country’s rich renewable energy resources by attracting private investment is not just important for growth, but for meeting the country’s ambitious climate change mitigation targets.

43. In a context of deteriorating economic conditions and high level of inflation, strengthening the efficiency, effectiveness and equity of fiscal policy are an essential element of the program. Creating fiscal space for priority spending to generate resource for growth and equity, while better reaching the poor with social protection programs and universal health coverage, is at the core of the World Bank’s support to help mitigate adverse economic impacts of shocks on vulnerable population in the short run and build economic resilience and fiscal sustainability in the long term. Part of this agenda involves moving away from costly and untargeted subsidies toward more effective instruments for social protection. In this regard, the DPF has been strengthened to supports the recent measures to protect the purchasing power of the benefits of the universal social assistance programs for children and pregnant women (“Asignación Universal por Hijo para Protección Social” and “Asignación por Embarazo para Protección Social”) from high inflation and rises in utility tariffs. This program is efficiently administered, has reasonably wide coverage, and has been shown to improve socioeconomic outcomes in the target population. Moreover, the reduction of such subsidies has a large positive impact on climate change because it reduces the price distortion and overconsumption. Part of this agenda also 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.

44. Given Argentina’s federal system, it is also critical in the current economic and political environment that actions at the federal level be accompanied by mutually reinforcing 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. This is particularly important as the Federal Government has transferred the regulatory authority and the financing responsibility to the Provinces for selected STs to improve its efficiency and effectiveness. In this context, the Federal Government and the provinces have

Notes:

25 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.
26 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).
27 Gross Fixed Capital Formation figure for 2018 refers to the four-quarters moving average up to Q3, 2018.
amended the fiscal pact\(^{28}\) to create fiscal space for provinces to accommodate these new expenditure responsibilities and maintain adherence to the fiscal responsibility law.

### 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

45. While the scope of the proposed operation remains unchanged since DPF 1, several areas have been strengthened to respond to the changed socio-economic environment. With respect to DPF1, out of the nine indicative triggers, eight have been converted into prior actions in DPF2. For five prior actions, the substance was unchanged, the language of the prior actions was simply adjusted to better capture their legal form. In two prior actions, the substance was strengthened (i.e., prior action #9 and #10 in DPF2 and indicative trigger #7 and #8 in DPF1). In one prior action, the pace of the agreement with provinces has been slower than expected (i.e., prior action #11 in DPF2 and indicative trigger 9 in DPF1). Finally, the indicative trigger #6 in DPF1 on improving the targeting of STs to protect the more vulnerable from subsidy decreases was replaced as the Federal Government has transferred the regulatory authority and the financing responsibility to the Provinces. Prior action #8 was therefore changed to directly support the removal of, transport and gas subsidies, which have remained under the responsibility of the Federal Government. Two prior actions were added, increasing the number of policy measures from nine to eleven: the new policy areas support the implementation of the open access system of railway cargo transport (prior action #2 for DPF2) and the latest in a series of actions taken to promote private investment in electricity generation from renewable sources (prior action #6 for DPF2).

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

46. 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, and the continued development of the renewable energy sector. 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. The implementation of pro-competition regulation, particularly in enabling sectors, such as telecommunications and railways, is critical to promoting firm competitiveness. In addition, the deepening of ongoing reforms to decrease business costs by reducing the barriers to trade in capital and intermediate inputs, and the burden for firms of bureaucratic processes are important for increasing firm-level productivity. While it will be necessary to achieve sustained macroeconomic stability to significantly increase capital investment by firms and Small-and-Medium-sized Enterprises (SMEs) and deepen capital markets, putting in place sufficient infrastructure for capital markets development and targeting available resources to mitigate the credit crunch for exporting SMEs is a step in the right direction. Continuing Government policy initiatives to crowd in private investment in the renewable energy sector builds on recent success—possibly the most important example where the Government has managed to bring in private investment in recent years. Given constrained public sector resources, private investment is critical to allow the country to fulfill its nationally-determined contribution (NDC) target under the Paris Agreement. Finally, Argentina has started a broad effort to tackle corruption, the challenge of which came to the fore with the *cuadernos* (notebook) scandal in August 2018, which involved evidence of fraud and corruption charges of public officials and a large number of private entrepreneurs regarding public works during previous administrations. Much of these

\(^{28}\) Law 27,469/2018
efforts have focused on centralizing and improving public procurement processes and oversight and strengthening the integrity framework for companies and public officials.

Fostering competition and access to efficient input goods and services

Prior action #1 DPF2: The Borrower has deepened competition reforms by issuing regulations to implement the Competition Law and for pro-competition reforms in telecommunications, as evidenced by (i) Decrees No. 48/2019 and 70/2019, which create the Undersecretariat of Internal Market Policies; (ii) Decree No. 972/2018, Joint Resolution No. 1/2019, Resolution No. 146/2019 and Resolution No. 84/2019, which prepare the contest to appoint the members of the new national competition authority; and (iii) Decree 58/2019, which allows the auction of at least twenty percent (20%) of certain frequencies of the spectrum currently held by ARSAT²⁹ for the provision of high-speed communication services³⁰.

47. Rationale. Competition is limited in many markets in Argentina. In this context, it is key to have a competition authority that actively enforces anti-cartel policy, implements effective merger control and competition advocacy. The Competition Law (No. 27,442), enacted in May 2018, helped to consolidate initial reform steps to improve the overall competition framework in Argentina by setting up a new and more independent competition authority, separating the investigation and ruling functions, increasing thresholds for merger notification, creating a leniency program for cartels, and strengthening the competition advocacy function of the authority. The Government is now working on putting in place secondary legislation and regulations to implement the new competition Law, including making the new competition authority fully operational to take up its duties, determining procedures for the leniency program, and issuing guidelines on abuse of dominance. In addition, measures are being taken to promote pro-competition reforms in telecommunications—a key enabling sector for private sector development—to increase contestability in these markets while generating efficiency gains for the whole economy.

48. Substance of the Prior Action. After enacting the Law No. 27,442 in May 2018, the Government has been deepening competition reforms on two main fronts: by preparing and issuing regulations to implement the Competition Law and promoting pro-competition reforms in the transport and telecommunication sectors. The regulation for the leniency program is expected to be adopted in 2019. The regulation is in draft and is subject to legal review by Ministry of production (Secretariat of Commerce) prior to being issued. In addition, in December 2018, the Government has additionally issued guidelines on competition law application to business and professional associations, and chambers of commerce. This is an important step to promote compliance with the competition law and prevent collusive behavior in the first place. Recent cartel detection has revealed that practices by associations can serve as a facilitating platform to engage in anti-competitive behavior, such as price-fixing or market-sharing. For example, in Salta, 15 clinics and their association were fined for fixing prices for their services between 2011 and 2013, and in Tucumán, three associations of pharmacies and pharmacists were fined for having

²⁹ Empresa Argentina de Soluciones Satelitales Sociedad Anónima
engaged in price-fixing activity. Moreover, the guidelines on abuse of dominance were issued in May 2019. The aim of the guidelines is to provide the general framework that will guide the Enforcement Authority of Law No. 27,442 on the analysis of possible cases of abuse of dominance in Argentina, which have been either notified or pursued ex-officio. Also, the Government has made some progress towards the constitution of the new National Competition Authority. The salary scale (of commissioners, president and directors) of the new authority was set out by Decree No. 972/2018. The call to select new staff for the new authority was officially launched in April 2019. It is estimated that the new authority will be fully constituted and will take up its duties in the second half of 2019. The new authority is expected to make final decisions on anticompetitive practices, interpretation of the competition law, and market enquiries and in this way prevent, identify and sanction anticompetitive business practices. In addition, the unit under the purview of Secretary of Commerce in charge of implementation of Chapter XIII of the Law No. 27,442, the Subsecretaria de Políticas de Mercado Interno, was created and is fully operational, as per Decree No. 48/2019 and Decree No. 70/2019.

49. As a complement, progress has been made on reforms to induce contestability in key service markets. In the telecommunications sector, the telecommunications bill (‘Ley Corta’), which introduces changes to increase contestability in the telecom sector by allowing mobile telecom companies to provide Direct-to-Home (DTH) television in the country, among others measures, was approved in the Senate in July 2018, but the final ratification by the Congress was not concluded yet. In this context, the Government has issued the Decree 58/2019 in January 2019 that allows the auction of at least 20 percent of certain frequencies spectrum—currently under ARSAT control, a state-owned company that administers the fiber optic network— for the provision of high-speed communication services. The Annex of this Decree sets out a total of five frequency blocks to be auctioned: two nationwide blocks and three regional blocks. This measure is expected to boost competition in a concentrated market while allowing the mobile operators to connect more people at faster speed.

50. Expected Results and Indicators. The deterrence or breaking up of just one cartel can change the dynamics of an entire sector. Reducing collusive behavior not only can boost labor productivity growth, but also can yield substantial cost-savings for firms and households due to the reduction in prices. 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. Estimates presented suggest that reducing regulatory restrictiveness in key inputs sectors, such as telecommunications and transport, would translate into an additional 0.1

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32 The Subsecretaria de Políticas de Mercado Interno is designed to play a crucial role in competition advocacy, being responsible for issuing technical opinions about the design of broader public policies carried out by the various ministries, sector regulators; participating in legislative discussions around draft legislation that may restrict competition; and preparing the Annual Competition report; and elaborating the competition indicators together with INDEC.
33 In addition, the bill extends the concept of broadcasting to ICT providers that distribute content through the Internet. Moreover, it encourages the shared use of infrastructure through agreements and establishes that the commercialization of channels must take place under equitable conditions.
34 Empresa Argentina de Soluciones Satelitales Sociedad Anónima.
35 The frequencies to be auctioned are the following: 738MHz-748MHz/793MHz-803MHz (nationwide); 1745MHz-1770MHz/2145MHz-2170MHz (nationwide); 1895MHz-1905MHz/1975MHz-1985MHz (Region I North); 1890MHz-1900MHz/1970MHz-1980MHz (Region II Buenos Aires Metropolitan Area); and 1880MHz-1890MHz/1960MHz-1970MHz (Region III South).
percent to 0.6 percent growth in annual GDP, all else being equal.\textsuperscript{38} The results indicator is defined as the number of decisions taken by the new competition authority, encompassing: findings on anticompetitive conduct; technical opinions on policies, laws and rules; and markets inquiries.\textsuperscript{39} By reaching the results indicator target, the new competition authority demonstrates it is fully operational and ready to exert its antitrust enforcement and competition advocacy mandates, including by sanctioning and deterring anticompetitive behavior. This is then expected to level the playing field for private-sector activity in the country. The results indicator is then the number of decisions taken by the new competition authority.

- Baseline (2017): 0
- Target (2020): 25

**Opening up the railways**

**Prior action #2 DPF2:** The Borrower has approved the normative framework for an open access management system of railway cargo transport, as evidenced by Decree No. 1027/2018\textsuperscript{40}, which ends the commercial exclusivity in the use of cargo railway lines.

51. **Rationale.** While freight rail transport represents today only 5 percent of the modal split, it has great potential in Argentina, particularly along bulk transport corridors. An increase in the share of freight transported by rail would contribute significantly to creating efficiency gains,\textsuperscript{41} lowering logistics costs and reducing negative externalities, such as polluting emissions, road crashes, and traffic jams. The freight railways sector has been declining for decades due to the deterioration of the network following years of underinvestment, with only US$2.7 billion of infrastructure and rolling stock investments between 2003 and 2015. Argentina has 28 thousand kilometers of railways, of which 18 thousand are currently under operation. Consequently, the transported freight declined from 24.9 to 19.1 million tons between 2007 and 2016 (-23 percent). Worst is the case of the Belgrano Cargas that transported 6.2 million tons in 2010 but only 2.6 million tons in 2016 (-58 percent) and had average speeds of 14 km/h and 1.5 derailments per day in 2016.

52. **Substance of the Prior Action.** In the transport sector, the Government has passed an important implementing decree to operationalize the open access system of railway cargo transport. Argentina’s open-access railways system will allow train operating companies, which take on the full commercial risk, run on railway infrastructure owned by the state railroad company ADIF (Administrador de Infraestructuras Ferroviarias) by purchasing access to particular railway lines. This will end the commercial exclusivity under the current vertical integration system, where a single railroad operating company (the concessionaire) holds commercial rights to the conceded segment of the railway network, handling not only infrastructure (its maintenance and rehabilitation, as well as traffic control), but also railway operations (train circulation, and incorporation and maintenance of locomotives and wagons). This system has allowed in the past decades vertically integrated operators to capture traffic and operate without intra-railway competition. The open access system Argentina is transitioning into will allow


\textsuperscript{39} Four types of decisions (Resoluciones) can be issued by the competition authority: decisions on mergers; findings on anticompetitive conduct; technical opinions on policies, laws and rules; and markets inquiries. For further details, see http://cndc.produccion.gob.ar/, under Dictamenes y Resoluciones.

\textsuperscript{40} Decree No. 1027/2018, dated November 7, 2018, published in the Official Gazette No. 33,992 of November 8, 2018.

\textsuperscript{41} Road transport is generally more expensive than rail transport for equivalent distances and volumes; a 2016 World Bank study estimated that trucking costs per ton-km are two to three times higher than costs for efficiently managed rail transport. Source: Argentina – Paraguay – Uruguay: Soybean logistics, World Bank, 2016.
distinct logistics service providers to use railroad infrastructure by paying a toll to the owner or operator of the railway line, increasing competition by breaking the monopoly over the operation of the same infrastructure under a principle of non-discrimination, with an expected increase in the freight railway market along the lines with high potential demand. Specifically, the Government has enacted bylaws to Law 27,132 in order to set in place the normative framework to implement the open access system of railway cargo transport, as evidenced by Decree 1027/2018. Annex I of Decree 1027/2018 sets out general principles of this modality, including equal access, cost-based access price determination and non-discrimination in the access and usage conditions to related infrastructure under state property. It also assigns institutional responsibilities for administration of infrastructure and slot assignments (Administrador de Infraestructuras Ferroviarias Sociedad del Estado, ADIF), operator registries (Argentina’s National Commission for Transport Regulation, Comisión Nacional de Regulación de Transporte, CNRT), registration of rolling stock (ADIF and CNRT) and conflict resolution (CNRT). The Decree recognizes the need to strengthen the CNRT to fulfill its future supervision and enforcement role. Even if the full implementation of the open access modality will commence only after the conclusion of all current concessions, the Decree allows for anticipated implementation in specific subsegments. The Decree further authorizes the Transport Ministry to renegotiate/amend concession contracts as needed to enable investments and upgrades in infrastructure and to prepare for the switch to an open access system. These changes are critical to start addressing the underperformance in the railway sectors and overall high logistics costs in Argentina.

53. Expected Results and Indicators. The implementation of an open access railway management system will allow competition to be introduced in the services segment and is expected to deliver more efficient rail freight services, complementing the proposed rehabilitation and expansion of the currently underused railway network. However, the full-fledged implementation of open access is contingent upon the completion of key investments in the network to allow for competitive access to infrastructure assets by several operators, as well as the passing of secondary legislation to define operating conditions, including inter alia: (i) network statement; (ii) capacity allocation; (iii) traffic control mechanisms; (iv) operators certification; (v) access charges; (vi) interoperability; and (vii) governance and institutions. The climate co-benefits expected from the modal shift from road cargo to railway cargo have been estimated and included in Argentina’s NDCs (with saving of over 5 billion liters of fuel by the year 2030, and over 11 billion by the year 2035; see “Análisis de políticas del sector para la revisión y actualización de las Contribuciones Nacionalmente Determinadas (NDC) presentadas por la República Argentina” Ministry of Transport, Argentina, 2018). The results indicator is the establishment of a Cargo Railway Operators’ Registry within Comisión Nacional de Regulación de Transporte (CNRT).

- Baseline (2017): No
- Target (2020): Yes

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42 According to the Ministry of Transport, the potential of the railways freight is 97.9 million tons in 2031, a 431 percent increase with respect to the 18.4 million of tons transported in 2015. This potential growth corresponds to an increase of 40 million tons of freight from the agroindustry, 19 million tons of freight from the construction industry and the new freight that would be transported by the Norpatagonico (Vaca Muerta) railway (minerals mainly).
Support a more competitive tradable sector by reducing import barriers to input goods

_Prior action #3 DPF2:_ The Borrower has implemented measures to further reduce the import duties charged on selected intermediate and capital goods, as evidenced by Decrees Nos. 973/2018 and 837/2018. 43

54. **Rationale.** Argentina’s economy is particularly closed to trade with limited integration to 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 can increase trade costs on average by as much as 34 percent. 44 To address these challenges, the Government has implemented trade reforms, among them reducing certain import tariffs and the elimination of non-automatic licenses.

55. On the tariff side, 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 technology (IT) 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 which can be further reduced. On export taxes, the Government had eliminated them on most goods, except for soybean and soy products and other products such as biodiesel, in December 2015 and early 2016. Starting in September 2018, as part of the package of measures to accelerate the path of fiscal consolidation, all exports are subject to a tax of 3 or 4 pesos (depending on the product) per dollar of exports, as a temporary measure, due to expire at end-2020. This is in addition to any other applicable export tax, for example of 18 percent for soy products or of 15 percent for biodiesel. In the face of lower-than-anticipated revenue collection, the Government has also increased general import duties temporarily from 0.5 percent to 2.5 percent in 2019. The measure is set to expire in December 2019.

56. **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 (deepening the measures supported by DPF1 to reduce tariff and non-tariff import barriers for intermediate and capital goods). In October 2018, import duties were set at zero for 182 tariffs lines identified as goods of IT and telecommunication in the tariff schedule (Decree No. 973/2018). This is an expansion of over 100 tariff lines of products liberalized via this Mercosur mechanism in 2017 (Decree No. 117/2017) and includes items such as computers, tablets, computer peripherals, and LED lamps. In addition, another part of this policy was the reduction of import duties to 2 percent (generally from an original duty rate of 14 percent) for a separate 326 tariff lines denoted as capital goods (BK) in the Mercosur tariff schedule, where the country can set tariffs different than the CET (Decree No. 837/2018). This is an expansion of 100 tariff lines of products liberalized via this mechanism in 2017 (Decree No. 1126/2017). These actions by the Government emphasize trade liberalization of intermediate inputs and capital goods to better insert enterprises into GVCs and increase the competitiveness of the economy, including the export sector. In May 2019, the Government implemented a moderate increase in the

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statistical fee applicable to imported goods of 2 percentage points, although the measure is transitory, and it includes a sunset clause for its expiration at the end of 2019 (Decree No. 332/2019). Going forward, the Government plans to continue reducing import costs for further integration into GVCs via free trade agreements and further reductions in the number of products that are subject to non-automatic licenses, relative to Secretary of Commerce’s Resolution No. 170/2018.

57. **Expected Results and Indicators.** The liberalization reforms 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. The results 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

**Encourage entry and exit to facilitating formal entrepreneurship**

**Prior action #4 DPF2:** The Borrower has expanded the capabilities of the single window interface to integrate business registration and post-integration procedures to the Provinces of Córdoba and Corrientes, as evidenced by: Joint Resolution 4264/2019 issued by AFIP (Argentina’s Public Revenue Agency, Administración General de Ingresos Públicos) and the Ministry of Finance of the Province of Córdoba; and Joint Resolution 4402/2019 issued by AFIP and the Ministry of Justice and Human Rights of the Province of Corrientes.

58. **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. Despite recent reforms, the business legalization process in Argentina is one of the most complex worldwide, requiring 11 procedures 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 on average across 19 Latin America and the Caribbean (LAC) countries. 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, and electronic platforms to facilitate registration and post registration processes.

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45 Decree 332/2019 (dated May 3, 2019) was followed by Decree 361/2019 (dated May 17, 2019) that eliminates the statistical duty for goods imported under temporary import programs and for imports of capital goods related to the production of hydrocarbons, with the particular tariff lines of such capital goods determined by the Ministry of Production and Labor and the Ministry of Finance.

46 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).

47 Joint Resolution 4264/2019 issued by AFIP (as defined in the Appendix) and the Ministry of Finance of the Province of Cordoba, dated June 15, 2018, and published in the Official Gazette No. 33,893 of June 18, 2018; and Joint Resolution 4402/2019 issued by AFIP and the Ministry of Justice and Human Rights of the Province of Corrientes, dated January 22, 2019, and published in the Official Gazette No. 34, 041 of January 24, 2019.

59. **Substance of the 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 phase has been implemented—the enacting of legislation to reduce the complexity of business registration and create a national unified firm registry (Prior Action #3 DPF1)—and had short-term scope to speed up registration procedures for standard limited liability companies. 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.

60. By 2018, only the City of Buenos Aires and the Province of Buenos Aires had the capability to process post-registration procedures in the electronic single window for Simplified Corporations (*Sociedad por Acciones Simplificadas*, SAS). The Federal government is committed to expand the implementation of the electronic single window to more provinces. To achieve this, AFIP through *Resoluciones Generales Conjuntas No. 4264/2018 and 4402/2019*, has expanded the issuance of a unique tax identification code (*Clave Única de Identificación Tributaria*, CUIT) using the online portal to register SASs in Cordoba and Corrientes Provinces. With these resolutions, the following procedures can be completed using the electronic single window in Cordoba and Corrientes: (i) Verify the availability and reserve the company name at the Office of Corporations (ii) Certify the partners' signatures and obtain a statement of transfer of funds from a notary public; (iii) Publish a notice of incorporation in the official paper (*Boletín Oficial de la República Argentina*); (iv) Pay the incorporation fee; (v) Register the company with the Public Registry of Commerce; (vi) Obtain a Fiscal Code (CUIT) for the company's legal representatives; and (vii) Register for VAT with AFIP. Implementing the new system in Cordoba, as the second most populous province, is particularly important as the next step for the rollout of the electronic single window.

61. **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.\(^{49}\) 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.\(^{50}\) The Government’s medium-term objective is to migrate most registrations to SAS across all provinces. Hence, the indicator is a national target. The indicator is the share of commercial companies registered as SAS.\(^{51}\)

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

\(^{49}\) Research in Mexico (Bruhn, 2011; Bruhn 2013; Kaplan et al. 2011), Peru (Mullainathan and Schnabl, 2010), Colombia (Cárdenas and Razo, 2009) and Portugal (Branstetter et al. 2010) documented an increase in business registration rates following business registration reforms.


\(^{51}\) In 2017, less than 5 percent of companies in the City Buenos Aires (CABA) were registered as a SAS, by January 2019 this number jumped to 44.9 percent.
Deepening the financial sector

Prior action #5 DPF2: The CNV has strengthened the legal framework for capital markets by issuing resolutions to support frequent issuers, the financial trusts regime, and qualified investors, as evidenced by the following Resolutions issued by the CNV Nos. 746/18, 752/18, 753/2018, 738/2018 and 761/18; and the Borrower has strengthened its public credit guarantee scheme for small and medium enterprises (FoGAr), as evidenced by Decree No. 628/2018, and by Signed Minutes of the FoGAr Management Committee Nos. 233, and 234.\(^{53}\)

62. **Rationale.** Argentina’s capital markets are shallow compared to benchmark countries, and this hinders long-term finance in infrastructure, housing and financing for enterprises, including SMEs. In response, a Productive Financing Law was passed in May 2018 (prior action DPF#1) that reforms the legal framework for capital markets and financing instruments in the enterprise sector to promote private investment (*Ley de Financiamiento Productivo*, Law No. 27,440). This law reforms 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 frequent issuers, qualified issuers, transparency, governance, easing the participation of foreign investors in shareholder meetings. In order for this new law to be fully implemented, the CNV has been issuing a number of resolutions to put in place the market infrastructure.

63. **Low SME access to finance is a binding constraint to expanded private sector activity.**\(^{54}\) The transactional nature of the financial sector and the short maturity of bank balance sheets, affected by an unstable economic environment and weak depositor confidence, have resulted in a lack of financing for SMEs. Under the current financial volatility, the generally higher SME credit risk has been further elevated. SMEs are the most affected by economic volatility and access-to-finance constraints, despite playing a critical role in employment and growth. The Government has been active to address collateral related constraints for SMEs, by supporting the establishment of the national credit guarantee scheme in 2018 FoGAr, designed to provide reinsurance to privately-owned mutual guarantee companies (*Sociedades de Garantía Recíproca*, SGRs), and partial credit guarantees to banks. As of March 2019, with capital of AR$1000 million, FoGAr has granted guarantees in the amount of AR$100 million, mostly to SGRs.

64. **Substance of the Prior Action.** The CNV has been making good progress in the implementation of the legal framework for the new capital markets law. As of the end of March 2019, a total of 28 resolutions have been issued by the CNV. Of these resolutions, those that lower issuer placement barriers and those that strengthen fiduciary relationships help address the more pressing barriers to capital market growth. The frequent issuers resolution (RGCRGN746-18) simplifies and accelerates issuance by issuers that uses these instruments often. This change lowers transaction costs and eliminate existing hurdles for those already active in the market. Financial trusts are important in Argentina as they offer a higher degree of credit-risk protection and therefore form the basis of several structured finance

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\(^{54}\) Access to finance is listed by 62 percent of SMEs as either a moderate, major or very severe obstacle to expanded firm growth in the 2017 Enterprise Survey.
instruments for infrastructure, housing and other complex financial instruments. The three resolutions related to trusts (RGCRGN753-18, RGCRGN752-18, RGCRGN738-18), enhance the legal and fiduciary characteristics related to this type of entity so that underlying financing within a trust is more efficient. The qualified investor resolution (RGCRGN761-18) helps to differentiate specialized securities issuance markets for qualified investors compared to the general public as it provides more flexibility to issue higher risk specialized securities, such as private placement bonds, infrastructure bonds, private equity funds, with simplified documentation requirements for qualified investors. Looking ahead, the CNV will need to continue the implementation of the capital market law through the issuance of other resolutions including the tax treatment of new instruments and securities and the resolutions for funds that could facilitate retirement savings.

65. FoGar’s initial capital of 650 million pesos was raised to 1 billion pesos in December 2018 (US$23 million), and there are plans for capitalization of an additional 1 billion pesos. In the model contract with banks (adopted as an annex to Act 233), FoGar adopts good practice principles, including only partial coverage of loans, timely payment of guarantees to the banks in cases of default, and an efficient and automated process of claims processing. SGRs have also been enhanced by recent regulations that raise the allowable leverage of SGRs and through the creation of Obligaciones Negociables (ON), which are tradeable debt certificates to provide an opportunity for SMEs to gain more access to financial markets, along with electronic invoicing, through the issuance of marketable securities.

66. **Expected Results and Indicators.** The initial result indicator was the share of firms that issue securities that are using the streamlined multiple issuance pre-authorization. This was changed because it is not directly reflected in one or a number of new resolutions that have been issued. The new results indicator is a direct expected output of the strengthened legal framework for the new capital market law. The new results indicator is the number of issuers that have been authorized by the CNV for the frequent issuers program.

- Baseline (2017): 0
- Target (2020): 25

**Greening the energy matrix**

_Prior action #6 DPF2_: The Borrower has deepened reforms to promote electricity generation from renewable sources by issuing regulations to allow individual small-scale electricity consumers to produce renewable energy and sell back excess production to the electricity grid, as evidenced by Decree 986/2018 and Resolution 314/2018 issued by the Borrower’s Government Secretariat of Energy.

67. **Rationale of the Prior Action.** Despite its wealth of renewable energy resources, Argentina’s energy matrix mainly depends on fossil fuels. By 2015, only 10 percent of total energy consumption

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56 Although hydroelectricity accounts for more than one-third of the energy mix, Argentina only uses 20 percent of its hydro generation potential, estimated at 45 GW. Wind resources are world-class, especially in the Patagonia Region, with at least 6 GW that could be developed in the medium-term. Solar resources are abundant, particularly in the northwestern region.
originated from non-conventional renewable sources, a level which is much lower than most countries in the region.

68. The Government has put in place the needed primary and secondary legislation to foster the development of renewable energy. The 2015 Law 27,191 on the use of renewable sources in electricity generation, passed with wide political support, set mandatory renewable targets of 8 percent of overall electricity consumption by the end of 2017,\textsuperscript{57} and 20 percent by 2025—requiring 10,000MW of renewable power generation to be added to the grid by 2025. The law included several incentives for renewable energy and inter alia created the Fund for the Development of Renewable Energy (\textit{Fondo para el Desarrollo de Energias Renovables}; FODER) to facilitate the financing for renewable projects. Given the low availability of public investment resources, it is critical that private sector investment is brought in to develop the renewable energy sector and expand generation capacity. One key initiative was the launch in 2016 of the RenovAR program, that awarded more than 4000MW through three successive rounds of tenders for investors in renewable energy programs over the last two years.\textsuperscript{58} The initiative has been successful in attracting investors and stands out as an example of crowding-in private sector investment to develop infrastructure in Argentina in recent years. Complementary to Law 27,191, and further to Presidential Decree 986/2018, targeting large-scale renewable-energy generation, the Congress approved Law 27,424 on “distributed electricity generation” in December 2017. It is aligned with the country’s NDC target of 300MW of distributed generation to be installed before 2030 for small-scale consumers. The Law allows individual small-scale electricity consumers to produce renewable energy at their premises and sell back excess production to the electricity grid. This legislation targets a wide variety of clean-energy SMEs (for the manufacturing of components and for installation of systems) and users, including residential electricity users in the country.\textsuperscript{59}

69. Substance of the Prior Action. The supported prior action represents another policy step to promote electricity generation from renewable sources. Law 27,424 represents the harmonization of provincial level regulation at the federal level. The regulation sets a target of 1,000 MW of distributed generation to be installed by 2030. Considering that 40 percent of national electricity consumption is accounted for by residential use, this can potentially unlock a large potential toward greening the energy matrix, through the shift to renewable energy for self-consumption at a residential level, but also through the sale back of excess renewable energy production to the electricity grid. These regulations aim at creating an enabling environment for small-scale electricity users to become electricity producers from renewable sources, by setting clear rules and responsibilities for future development. The law provides the technical requirements that user-generators must fulfill to generate electrical energy for self-consumption and to inject surpluses into the distribution network, defines the categories of user-generators, and the basis of a net billing mechanism. This type of mechanism is quite common, although it poses challenges in terms of efficiency and equity. The main challenges include the presence of cross-subsidies from poor consumers to rich ones and the distortion of the tariff rate coming from carrying over production credits which has the effect of shifting cost allocations among consumers. The presence of cross subsidies is because renewable electricity that is self-consumed is currently exempt from grid costs and other system charges. The Government of Argentina, through the Energy Secretariat, is working with the provincial regulatory agencies to ensure these necessary regulatory changes are implemented in time to avoid such adverse impact in terms of efficiency and equity. Some of the possible measures include moving towards peak capacity-based ‘demand tariffs,’ which represent a more efficient, cost-reflective

\textsuperscript{57} The renewable energy 2017 target was met due to RenovAr and other ongoing initiatives

\textsuperscript{58} To support the program, the World Bank provided two guarantees for a combined US$730 million to backstop critical aspects of payment guarantees by the GoA for subprojects awarded under the program.

\textsuperscript{59} All residential users represent 40 percent of the total electricity demand.
and equitable pricing structure and would reduce the distortionary impact on the electricity tariffs. In addition, the expected take up of solar is likely to be limited over the medium term and targets particular users, such as hotels and the common areas of apartment buildings.

70. **Expected Results and Indicators.** The renewable energy market for small-scale users could include up to several million residential electricity users in the country, where all residential users represent 40 percent of the total electricity demand. However, it is expected that the uptake from individual users will start slowly, as there are still various constraints (technical, financial)\(^{60}\) to adopt new technologies for renewable energy generation for residential level users. In the short-term, it is expected that the installed capacity could generate about 50 MW of grid-connected distributed electricity. This would represent 0.2 percent of the maximum power capacity, and estimated emissions reductions would be 0.04 million tons of CO2 per year. The proposed result indicator is the cumulative amount of installed renewable energy capacity of grid-connected distributed electricity\(^{61}\).

- Baseline (2017): 0 MW
- Target (2020): 50 MW

**Strengthening transparency and anti-corruption**

**Prior action #7 DPF2:** The Borrower has issued regulations on ethics and integrity in the public administration to prevent and investigate corruption practices within its executive branch of government, as evidenced by Decrees Nos. 1117/2018, 1169/2018, 258/2019; and Resolution 27/2018\(^{62}\) issued by the Borrower’s Anti-corruption Office within its Ministry of Justice and Human Rights.

71. **Rationale.** Limited efforts to promote transparency and strengthen accountability is affecting Argentina’s development path. The challenges related to corruption are quite broad and stand out compared to regional peer and Organization for Economic Co-operation and Development (OECD) countries, notably in the areas of irregular payments in public contracts, favoritism in the decisions of government officials and ethical behavior of businesses. Procurement practices vary across public entities while the lack of analytical capabilities and the tools required has limited the identification of efficiency gains. Similarly, the ability to enforce integrity legislation has been constrained by the lack of credible entities, with the mandate, independence and capacity to monitor, detect, investigate and sanction unethical behaviors or corruption practices within the public administration as well as among private companies. 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. The ongoing investigations related to the *cuadernos* scandals testify to the magnitude of the problem, calling for urgent actions to curb corruption.

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\(^{60}\) On the technical side, there is still uncertainty about how many of the distribution utilities will be able to manage the “double flow of electricity” and at what penetration levels. This will require investments in control mechanisms and development of procedures for the new type of operations by the utilities. On the financial side, the costs of the technology as well as the low electricity tariffs still represents a bottleneck for users to invest in RE technologies.

\(^{61}\) This is small-scale, renewable grid-connected electricity generation capacity, in MW, under the distributed generation program.

\(^{62}\) Decree 1117/2018 dated December 7, 2018, and published in the Official Gazette No. 34,012 of December 10, 2018; Decree 1169/2018 dated December 21, 2018, and published in the Official Gazette No. 34,022 of December 26, 2018; Decree 258/2019 dated April 10, 2019, and published in the Official Gazette No. 34,093 of April 11, 2019; and Resolution 27/2018 issued by the Borrower’s Anti-corruption Office within its Ministry of Justice and Human Rights on October 1, 2018 and published in the Official Gazette No. 33,968 of October 4, 2018.
72. Over the past years, Argentina has made important strides in strengthening accountability and anti-corruption efforts. New or overhauled laws have been passed or are being discussed in the areas of corporate criminal liability, access to information, ethics and integrity, plea bargain and asset recovery. As part of these efforts, the Government is carrying out the implementation across the whole national administration of an electronic filing system and two centralized full transactional e-procurement systems. These initiatives, together with the implementation of anti-corruption risk based-warning systems in core infrastructure sectors with large public works contracts, have the potential to make a significant contribution to reduce the risk of corruption, while promoting efficiency gains in the use of public resources and contributing to the creation of a more favorable business climate.

73. **Substance of the Prior Action.** A new Public Ethics Law was submitted to Congress by the Executive in early March 2018; however, its enactment is unlikely to occur prior to the upcoming elections. Despite this delay, progress has been made on other areas related to ethics and integrity, specifically: (i) updates to the civil works e-procurement system (Contrat.ar) to track information about integrity plans and allow verification of the existence of such plans before the signing of a public contract (ii) new guidelines for companies to develop Integrity Plans, published in the Resolution 27/2018 from the Ministry of Justice in October; (iii) an entire restructuring of the procurement framework for goods, services and public works, through two Decrees in December 2018 (Decree 1117/18 and Decree 1169/18), and (iv) the launch of the National Anticorruption Plan 2019-2023 (Decree 258/19) on April 11, 2019.

74. **Expected Results and Indicators.** The Corporate Criminal Liability Law provides incentives for private companies to strengthen their internal control systems fostering self-regulation mechanisms. The recent developments related to the Cuadernos affair (with over 100 businessmen and public officials currently under investigation) also signal the importance of a firm resolution to investigate and sanction illegal practices, thereby raising the opportunity costs for corruption. 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 is the number of integrity plans registered in the Government procurement platforms for goods, services, and public works. At present, the government has overachieved the target for 2020 with 160 providers having declared they have developed integrity plans. However, the actual content of these self-reported integrity plans is not subject to any external review. To tackle this problem, the Government is making efforts to improve the content of the affidavit to enable the system capturing more granular information on the plans, while keeping their self-reported nature. The new format is designed to promote better compliance with the guidelines published by the Anticorruption Office.

- Baseline (2017): 0


64 Specifically, the new Public Procurement framework centralizes both the procurement of goods, services and public works and the management of the registry of national suppliers under the office of the Chief of Cabinet (Jefatura) (Decree 1117/18) and names the Oficina Nacional de Contrataciones (ONC) within Jefatura as an Undersecretariat and the Governing Body (órgano rector) for all public procurement. (Decree 1169/18). A new institutional and regulatory set up has been defined, including: (a) updated rules for transparency and accountability in civil works public procurement; (b) an updated civil works vendor system with clear and transparent rules; and (c) unified standard bidding documents for all public procurement.

65 The National Anticorruption Plan 2019-2023 (Decree 258/19, April 11, 2019) includes more than 250 anticorruption and integrity policies from different areas of the Executive, including modernization, transport, public works, customs, housing, education, and inputs from public consultations with civil society organizations. In addition, it establishes the creation of a monitoring committee (Consejo Asesor) with participation from the civil society, private sector and academia.
PILLAR 2: STRENGTHENING THE SOCIAL SAFETY NET AND ENHANCING FISCAL EQUITY

75. Actions under Pillar 2 support reform measures that strengthen the social protection and fiscal equity to complement the fiscal consolidation that the Government is implementing. Poverty and extreme poverty increased in 2018, and further rises are expected in 2019 given the decline in economic activity and continued high inflation. With the recent deterioration of economic and social conditions, strengthening social safety nets while creating the fiscal space to generate resources for growth and equity has gained importance. In this regard, the DPF has been strengthened to support the recent measures to protect the purchasing power of the universal social assistance programs for children and pregnant women (Asignación Universal por Hijo para Protección Social and Asignación por Embarazo para Protección Social) from high inflation and rises in utility tariffs. These benefits are efficiently administered, have reasonably wide coverage, and have been shown to improve socioeconomic outcomes in the target population. Given the importance of meeting fiscal targets though the reduction of inefficient and inequitable spending, the DPF supports the significant reduction of costly, regressive and untargeted gas and transport subsidies. The DPF also supports the implementation of the fiscal pact and fiscal responsibility law with the provinces with the aim of accompanying fiscal measures at the federal level with mutually reinforcing actions at the provincial level, which help provinces generate resources for public investment and reduce the highly distortive, regressive and procyclical sale taxes that are so harmful for private sector growth, while following the compliance with fiscal reasonability law.

Protecting the poor while reducing costly, untargeted and regressive subsidies

Prior action #8 DPF2: The Borrower has further reduced subsidies for transport and gas, as evidenced by Resolutions Nos 777/2018, 1113/2018 and 16/2019 issued by the Borrower’s Ministry of Transport, and Resolution Nos. 257/2018 and 265/2018 issued by ENARGAS.

76. Rationale. During the last decade, 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-2018, and with important efforts, energy and transport subsidies had been reduced to half under the new Government, accounting for 2.2 percent of GDP.

- In terms of gas, the Government has begun a process of realignment to cost recovery of gas tariffs, which were heavily subsidized. As a result, the Urban Gas Tariff (as measured by Metrogas CABA - R2 2) has substantially increased over the past few years, bringing the level of tariff in 2018 to 20 times the 2015 level. The government has also taken actions to move toward a more competitive

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66 Resolution 777/2018 issued by the Borrower’s Ministry of Transport on August 30, 2018, and published in the Official Gazette No. 33,944 of August 31, 2018; Resolution 1113/2018 issued by the Borrower’s Ministry of Transport on December 19, 2018, and published in the Official Gazette No. 34,021 of December 21, 2018; Resolution No. 16/2019 issued by the Borrower’s Ministry of Transport on January 10, 2019, and published in the Official Gazette No. 34,032 of January 10, 2019; Resolution No. 257/2018 issued by ENARGAS (as defined in the Appendix) on September 24, 2018, and published in the Official Gazette No. 33,963 of September 27, 2018; and Resolution No. 265/2018 issued by ENARGAS on September 27, 2018 and published in the Official Gazette No. 33,964 of September 28, 2018.

67 In 2016 the gas regulator, ENARGAS, set up an integrated tariff review plan for transport and distribution companies to realign gas prices to the LNG import gas price. This scheme was implemented until April 2018, when tariffs have changed in accordance to license price cap indexation mechanism.

68 In terms of moving towards a more competitive market which will bring about efficiency and eventually price decreases for consumer, in November 2018, the government allowed thermal power plants to procure their own fuel, rather than being obliged to purchase it from Cammesa. Two auctions for gas power plants were carried out for interruptible volumes last year and this year. Finally, in February 2019, the
market which will bring about efficiency and eventually price decreases for consumers. Finally, a new Carbon Tax\(^69\) ("Impuesto al dióxido de carbono") was adopted at the end of 2017 in line with OECD best practice.

- In the case of transport, the Government has started switching from supply-side subsidies— which generates perverse incentives that have negatively affected the efficiency of operations and led to unnecessary real cost increases—to demand-side subsidies through STs. Alongside this process, in early 2018, the Government implemented an integrated fare system for public transport in the Metropolitan Area of Buenos Aires (Área Metropolitana de Buenos Aires, AMBA), benefiting proportionally more the most vulnerable users and allowing a shift towards more energy-efficient modes of public transportation with a higher incidence of the metro and suburban railways in detriment of the bus services. Lastly, the alignment of incentives through the delegation of the operating subsidies has already led to the rationalization of bus services and the enhancement of the technical capacity of some provinces.

77. Substance of the Prior Action. Several significant price increases\(^70\) have been implemented, bring gas and transport tariffs closer to cost recovery, in tandem with specific measures implemented to protect the poor from the impact of price increases. In a context of a substantially increased tariff, the ST has been used as the key mechanism to protect vulnerable consumers. In the case of natural gas, to mitigate the impact of such tariff increase on the poor, the Federal Government retained under its jurisdiction, the gas ST (which is equivalent to an estimated average of 35 percent of the overall tariff) and the bottled natural gas plan ("plan hogar"). In addition, to further mitigate the impact of the price increases during the winter peak demand, the Government has also announced more general and untargeted measures at the beginning of 2019. Such measures include: (i) the plan to increase gas prices for consumers in stages: 10 percent in April, 9.1 percent in May and 7.5 percent in June and (ii) a discount of 20 percent of the gas bill during winter.\(^71\) In the case of transport, the Federal Government continued with further fare increases in all modes of public transport four times in 2018, and in January, February, March 2019. Alongside this process, Government increased the ST discount from 40 percent to 55 percent from the full fare and incorporated 1 million additional ST beneficiaries reaching 2.3 million beneficiaries in December 2018 in AMBA. Similarly, the National Government has maintained the responsibilities related to the financing of the STs and integrated tariff system for public transport while transferring the operating subsidies to the provinces to better align incentives. This is evidenced by Resolution 1113/18 which aims at maintaining the existing circuits for the social and integrated tariffs given to protect the most vulnerable groups and should thus be shielded by the National Government. Moreover, the Government has transferred the regulatory authority and the financing responsibility for electricity and local transport to provinces\(^72\) and created the fiscal space for provinces to accommodate these new expenditure responsibilities and

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\(^69\) Rate of US$10/tCO2e for fossil fuels, (excluding natural gas, LPG, jet fuel bunkers).

\(^70\) Gas: Resolutions del ENERGAS 257/2018, 265/2018 y 266/2018 (increase of October); Resolutions del ENERGAS 280 a 290/2018; Resolution del ENERGAS 292/2018 (rectify 280 a 285 y 287 to address errors of formula of tariffs revaluation).

\(^71\) Between May and September, when the consumption can be up to 6 times the annual average will include. The difference will be charged later in the summer months, starting in December, when consumption is significantly lower

\(^72\) In the particular case of the Province of Buenos Aires (where more than 50 percent of the poor population reside, as measured by INDEC), the World Bank is preparing a project that would support the provincial government to finance the electricity social tariff and to improve the identification strategy and the use of information (when available) to make the current electricity targeting scheme more efficient and effective.
maintain adherence to the fiscal responsibility law\textsuperscript{73} (see prior action #9). Moreover, the purchasing power of the beneficiaries under the social transfer programs has been protected (see prior action #10).

78. **Expected Results and Indicators.** The proposed measures will help reduce costly, regressive, and untargeted subsidies while protecting the poor and the most vulnerable. Over the medium term, the proposed measures would provide incentives to the operators to invest and enhance the quality of service delivery and to the users to reduce wasteful consumption and improve energy efficiency. By helping align energy prices with market values these reforms will also contribute to lower carbon emission and support the government's climate change mitigation objectives under the NDC. The reforms in the transport sector are expected to introduce further efficiency gains and climate benefits into the responsibility for financing public transit (and subsidies). By decentralizing and delegating the operating subsidies to subnational governments, there is an alignment of incentives from an economic and financial perspective that leads to a rationalization of their transport systems, a better control of the operators and the introduction of the notions of compactness and efficiency into urban planning. Aligning incentives, rationalizing resources and achieving a modal shift while protecting the most vulnerable, promote an inclusive pathway towards a more efficient and less polluting transportation system. The proposed result indicator is the share of economic subsidies as a percentage of GDP.\textsuperscript{74}

- Baseline (2017): 2.4 percent
- Target (2020): 1.5 percent

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

\begin{tabular}{|l|}
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**Prior Action #9 DPF2:** The Borrower has issued legislation that entitles the Federal Council for Fiscal Responsibility (FCFR\textsuperscript{75}) to issue complementary norms to implement the fiscal responsibility regime with its Provinces, as evidenced by Chapter X of Law 27,467;\textsuperscript{76} and a decree that creates the Federal Agency of Property Valuation to align the value of real estate properties for tax purposes to market values, as evidenced by Decree 938/2018.\textsuperscript{77}
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79. **Rationale.** The framework governing the fiscal relations between the Federal Government and provinces has overtime produced (i) 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), (ii) a tendency to fiscal procyclicality and overspend particularly in public wages and other current expenditure, (iii) limited fiscal space for investment and (iv) a dependence on the easy-to-collect, distortive and regressive sales tax (Ingresos Brutos) at the provincial level. The Fiscal Pact with Provinces and Fiscal Responsibility Regime (FRR), supported under DPF1, reflected a consensus on the need to normalize fiscal relationships between the federal government and the provinces, promote fiscal responsibility at the subnational level, and gradually move away from Ingresos Brutos as a source of revenue within the next five years towards the more progressive property tax. The decision to increase expenditure responsibilities at the provincial level at the end of 2018 has required a revision of the Fiscal Pact to be consistent with the FRR. The Fiscal Pact Addenda, reflected in Law 27,469/2018, allows provinces to accommodate these new expenditure responsibilities and maintain adherence to the fiscal

\textsuperscript{73} Law 27,469/2018

\textsuperscript{74} The proposed indicator captures aggregate current and capital economic subsidies as published by ASAP (Asociación Argentina de Presupuesto) for the December Report of Budget Execution for the Federal Public Administration.

\textsuperscript{75} Consejo Federal de Responsabilidad Fiscal.

\textsuperscript{76} Chapter X of Law 27,467 dated November 15, 2018 and published in the Official Gazette No. 34,008 of December 4, 2018.

responsibility law. It suspends the implementation of some reductions in taxes to create fiscal space but reaffirms the commitment to the reduction in Ingresos Brutos.

80. **Substance of the Prior Action.** The effective implementation of the Fiscal Pact with Provinces and the FFR is a necessary step to enhance fiscal responsibility at the provincial level. In this context, the issuance of the Chapter X of the budget law 27,467/2018 entitles the Fiscal Responsibility Federal Council (FRFC) to issue norms and regulations to help monitor and implement the FRR at the provincial level. Moreover, the effective implementation of the Fiscal Pact with Provinces sets the basis for a sounder, more progressive and less distortive tax system at the provincial level and increase equity in intergovernmental transfers. In this regard, Decree 938/2018 that creates a Federal Agency of Property Valuation (Organismo Nacional de Valuaciones de Inmuebles), in charge of assessing market values on properties across the country, is a necessary step to help provinces shift towards real estate taxes and away from distortive and regressive Ingresos Brutos. Currently, the tax value of real estate properties is on average only 15 percent, and as low as 5 percent, of market value.

81. **Expected Results and Indicators.** The proposed prior action should result in a gradual shift of Argentina’s (sub-national) tax structure from a very distortive and regressive composition towards a more efficient and progressive taxation. In addition, the FRR will help reduce fiscal procyclicality and create more space for a countercyclical fiscal policy and/or increase public investment in infrastructure, currently at very low levels. Over time, fiscal resources would be more aligned to development needs (equalization objective) and poverty (convergence objective). The proposed result indicator to measure the progress in the implementation is the share of the consolidated 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): 68 percent

**Strengthen the social safety net system**

**Prior action #10 DPF 2:** The Borrower has taken measures to protect the purchasing power of social benefits of its social assistance programs for children and pregnant women ("Asignación Universal por Hijo para Protección Social" and "Asignación por Embarazo para Protección Social") from high inflation and reduction of subsidies, as evidenced by Decree No. 186/2019.78

82. **Rationale.** While 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 201879, the Government recognized the uncertainties in the outlook and committed to increase financing for pre-specified, high-impact social protection programs80 by as much of 0.2 percentage points of GDP if economic conditions were to deteriorate more than what was envisioned. The AUH and the pregnancy allowance (Asignación por Embarazo, AE) are efficiently administered, have reasonably wide coverage, and have been shown to improve socioeconomic outcomes in the target population.

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79 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. In addition, the floor will protect social spending on contributory family allowances, including allowances to monofamily contributaries which are also included under this budgetary program.
80 They include the universal child allowance (Asignación Universal por Hijo), the pregnancy allowance (Asignación por Embarazo), and the education assistance (Ayuda Escolar Anual).
83. **Substance of the Prior Action.** The annual price increase in the consumption basket for those in the lower deciles of the income distribution was 52.9 percent by the end of 2018, which had the potential to erode significantly the purchasing power in real terms of the benefits under the social programs, as its nominal value grew at a rate of 28.6 percent during 2018. In this context, the government, through Decrees 812/2018 and 1069/2018, took temporary measures to protect the purchasing power of social benefits of AUH program and AE with two extra lump-sum payments in September and December 2018, of ARS1200 and ARS1500 per child. These extra payments, which amounted to around ARS12.4 billion, a 17 percent increase with respect to the 2018 budget and close to 0.1 percent of GDP, have protected the benefits in real terms from the inflation and increase in tariffs in 2018. Recognizing the importance of the AUH, the government also increased AUH benefits by 46 percent starting in March 2019 (front-loading the indexation formula *movilidad* for the entire year).\(^\text{81}\) This measure, with an annual cost of ARS15 billion, will be accommodated through the 0.3 percent of GDP adjustor of social spending to the zero primary deficit target for 2019. It complements the measures supported by the WB-financed Children and Youth Protection Project, which aims at expanding the coverage of the Family Allowances programs and improve their transparency. The number of AUH holders grew by 1.5 percent from December 2017 to December 2018, reaching 2.25 million holders.\(^\text{82}\)

84. **Expected Results and indicators.** The proposed prior action is expected to contain the increase of poverty and mitigate the impact from high inflation and subsidies reduction. The expected effects of such increase could reduce the estimated poverty rate for 2019 in about 0.7 percentage points, and the extreme poverty rate in approximately 1.1 percentage points. The proposed result indicator is the number of AUH holders, and the number of female AUH holders. They receive their benefit through the single window.

**Number of holders who receive Universal Child Allowance (Asignación Universal por Hijo) benefits:**
- Baseline (2017): 2.1 million
- Target (2020): 2.3 million

**Number of female holders who receive Universal Child Allowance (Asignación Universal por Hijo) benefits:**
- Baseline (2017): 2.0 million
- Target (2020): 2.2 million

**Effective Universal Health Coverage**

*Prior action #11 DPF2:* The Borrower has signed a separate framework agreement with an additional six (6) Provinces and the Autonomous City of Buenos Aires (“CABA”) to implement universal health coverage, as evidenced by the agreements signed by the Borrower, through its Ministry of Health and Social Development, with: (a) CABA, and the Provinces of Buenos Aires, Río Negro, Neuquén, and Santa Cruz, on August 10, 2018; (b) Chubut, on December 21, 2018; and (c) and San Luis, on March 29, 2019.

85. **Rationale.** Existing inequities and inefficiencies of service delivery and health outcomes across provinces and subsystems are due in part to the highly fragmented nature of the health system, both in

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\(^{81}\) Contributory family allowances will continue to grow according to the benefit indexation formula.

\(^{82}\) Based on ANSES.
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. 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) initiative 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. The UHC strategy 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.

86. **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 by June 30, 2018 to implement the strategic areas for UHC implementation as well as principles and conditions for participation in the program. Since then, six additional provinces (Buenos Aires, Chubut, Neuquén, Rio Negro, Santa Cruz and San Luis) and the Autonomous City of Buenos Aires (“CABA”) have signed the UHC agreement, bringing total participating provinces to 21 and CABA. The remaining Provinces—Santa Fe and Formosa—currently are not in the process of signing the agreement.

87. **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 challenges, 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 population mapped to a public health facility under the new UHC system.

- Baseline (2018): 700 thousand
- Target (2020): 1.5 million

**Analytical Underpinnings**

88. 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 2016-2019. 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

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83 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.

84 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.

85 Eligible population is that with exclusive public coverage equal to 16,381,853
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 two decades 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.

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

89. Support for the Government’s reform program though DPFs has a central place in the WBG’s Argentina Country Partnership Framework (CPF) for FY19-FY22, which was discussed by the Board on April 25, 2019. The objectives selected for the CPF are closely linked to the priorities identified in the recent Argentina Systematic Country Diagnostic (SCD), which analyses key constraints to inclusive and sustainable growth and poverty reduction and suggests ways to address them. The objectives also reflect the fact that Argentina’s Gross National Income per capita is above the Graduation Discussion Income, and the WBG’s role to support the country’s graduation path from IBRD. With this in view, the Country Partnership Framework’s focus areas are: (i) supporting Argentina in securing access to long-term private financing on a sustainable basis; (ii) addressing key institutional constraints for better governance and service delivery; and (iii) supporting Argentina to implement its climate-related Nationally Determined Contributions (NDCs). For IBRD, given the country’s overall fiscal situation, the current DPF is a corner piece to support the ongoing structural reform program, complementing the IMF SBA, focused on institutional gaps for private sector development, better public service delivery and social protection during the economic stabilization program and beyond.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

90. 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:

- Private sector development measures—including business environment, trade, competition—supported by the proposed operation are part of a broader reform program, organized under the umbrella program Argentina Exporta led by the Ministry of Production and Labor with the objective of strengthening Argentina’s integration into the global economy. The program rests on two broad components: (i) articulation of current programs, and (ii) structured public-private dialogue to elicit information on barriers, improve public-private coordination at the federal and provincial level, create private sector capabilities, and change the dynamics of dialogue and alignment between the public and private sectors. Roundtables (Mesas) hold plenaries and establish working groups with the private sector at the horizontal (Mesa Exportadora), industry and regional level to get inputs on reforms. Through this strategy, the government seeks to better articulate ongoing policy reform efforts and improve their impact in the context of tight fiscal conditions.

- 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, each tariff increase on energy and transport has been preceded by public deliberations with active participation of civil society. ST schemes are also discussed in these public deliberations.

- On the fiscal pact, the initiative that addressed 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) was passed into law on 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 (except for La Pampa and San Luis). An addendum was signed in 2018 to accommodate for new expenditure responsibilities within the fiscal responsibility law. It also suspended the implementation of some tax reductions but reaffirmed the commitment to the reduction in the most distortive one, Ingresos Brutos.

- Following the effectiveness of the Corporate Criminal Liability Law, which was approved after 13 months of broad public consultations, with strong multi-party support, the Anticorruption Office issued guidelines for private sector firms to comply with the production of Integrity Plans by private firms bidding in public tenders. The provision of these Integrity Plans became all the more important in the public arena given the notebooks scandal (cuadernos) regarding public works. In addition, there were consultations across the government and civil society groups on the area related to the Executive proposed new Public Ethics Law and the cross-sectoral National Anticorruption Plan 2019-2023 issued in April 2019. From August to December 2018, an online public consultation process (https://consultapublica.argentina.gov.ar/plan-anticorrupcion) was set up to provide inputs on the National Anticorruption Plan itself and specifically on three topics: (i) transparency and open government; (ii) integrity and prevention; and (iii) investigation and sanctions. The platform received about 25 proposals from citizens and civil society organizations representatives in a non-binding way. The Plan also establishes a monitoring committee (Consejo Asesor) with participation from the civil society, the private sector and academia and defines a transparent and open mechanisms for public reporting through the Open Government Initiative. Both directives plan for broad consultations for the monitoring during implementation of the 250 policies that are included in the Plan.

91. **Collaboration with other Development Partners.** The operation is part of a package of coordinated financial assistance from international partners, including the IMF, IADB, and CAF. There is no overlap of the specific measures supported in the DPF series with the structural benchmarks in the IMF SBA, except for the social safety net where the DPF is linked to IMF provisions that allow for increased spending to protect the vulnerable if needed. CAF provided in 2018 a budget support operation that was complementary to that of the WB given that it focused on promoting capital market development and included specific measures to support financing for micro enterprises and SMEs—the CAF capital market actions differed from those by the DPF series. The IADB budget support operation in 2018 had a strong macroeconomic and fiscal focus. The IADB has two budget support operations planned for the first half of 2019: one focused on strengthening the digital agenda, which supports the regulatory framework put in place for competition, including for ICTs, in 2018, and another supporting transparency and integrity reforms due go to the IADB Board in June 2019. The latter has complementary measures to the integrity/anticorruption prior action supported by the DPF2.

5. **OTHER DESIGN AND APPRAISAL ISSUES**

5.1. **POVERTY AND SOCIAL IMPACT**

92. The policy measures supported by this DPF series are expected to play a role in supporting the Government’s program to protect the most vulnerable against the adverse effect of the macroeconomic conditions and implement 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 strengthening the social safety net, and indirectly through reducing distortions and constraints to inclusive and sustainable growth. In the short-run, however, poverty is likely to continue an increasing trend. Social protection measures, while mitigating the rate of increase in poverty and the level of extreme poverty, will not be sufficient to fully mute the impact. The long-run benefits of these reforms depend on how well they are implemented, and the efforts made by the Government to mitigate the short-term effects of deteriorating economic conditions.

93. **The decline in real income, mainly due to inflation, has negatively impacted across the whole income distribution, with substantial adverse effects on the middle class.** There are two measures supported under the DPF series where there is a concern regarding the adverse effects on the middle class. First, the reduction in transport and energy subsidies will have an impact on the better-off middle class who pay increased tariffs but are not covered by social assistance programs and are ineligible for ST. The indexation of pensions through the implemented formula (*Movilidad*) has a positive and significant impact on those at the middle of the income distribution in the short term and has been important in maintaining the real value of pensions in the context of high inflation. Pensions make up an important share of household income for those at the middle of the income: Pensions represent 17.3, 26.8, 22.4 and 23.1 percent of the total household income in deciles 5, 6, 7 and 8, respectively. Other mechanisms that could have some impact on the middle class are measures that support employment. The removal of trade barriers in key intermediate input sectors may impact on a small share of middle-class employees. In this context, 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. Some of the potentially affected formal workers have access to unemployment insurance. However, only 10 percent of the unemployed receive unemployment insurance, the duration is limited, and only those that have been legally fired are eligible for the benefit while the majority of the unemployed resigned. Instruments to protect the informal are: *Seguro de capacitacion y empleo, Hacemos futuro*, and certain programs for *Cooperativas*.

94. **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 expected to have positive impact on welfare in the medium term. To the extent that costs of freight for domestic demand goods decrease, the welfare impact would have particular positive effects on the poor.

- Prior action #3 is not expected to have an overall negative impact in the medium term, despite some potentially but 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. 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. 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 by supporting 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.

- Prior action #4 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 #5 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 Micro, Small and Medium-Sized Enterprises (MSMEs)—the largest employers among those in the bottom 40 percent of the income distribution.

- Prior action #6 is not expected to have a significant positive or negative impact on poverty. It is expected that the targeted smaller-scale producers are not among those in the bottom 40 percent of the income distribution. There is potential for a regressive impact if small-scale production reaches a substantial level over the longer-term and raise the overall price or if mitigating measures are not put in place.

- Prior action #7 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.

95. **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 in a sustainable manner and increase access to programs and services for the most vulnerable.

- Prior action #8 taken by itself is expected to impact negatively on the purchasing power of the most vulnerable. However, the reduction of subsidies is part of a broader effort to reduce subsidies leakages while protecting the poor through the implementation of targeted STs by the Provinces. Therefore, measures at the provincial level to improve the ST 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. Moreover, the protection of AUH from inflation and subsidies reduction would offset the impact of subsidies on inflation, which is the main driver of the increase in poverty in the current economic context.

- Prior action #9 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. In this regard, the creation of the Federal Agency of Property Valuation (Organismo Nacional de Valuaciones de Inmuebles), is a fundamental step to provide real estate valuations across the country to be used by provinces to increase progressive property tax collection and creating the space for reducing the distortionary and regressive Ingresos Brutos.

- Prior action #10 is expected to have a positive impact on poverty reduction. Increased social spending if economic conditions worsen is crucial to protect the vulnerable from falling into poverty. Simulations suggest that the additional social spending allocated to an increase benefit of
AUH would substantially mitigate the impacts of negative economic conditions over 2019 and recovering a downward trend in the rate of poverty and extreme poverty.

- Prior action #11 is expected to have a positive distributional impact. The implementation of the 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

96. 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 legal framework for environmental impact assessment (EIA) whose solidity varies between provinces. A recent Argentina Country Environmental Analysis\(^87\) identified areas where the effectiveness of environmental management systems and enforcement could be strengthened. The Government is working on several legal and regulatory reforms as part of the commitments assumed on the 2030 Agenda for Sustainable Development and to address gaps with the OECD requirements and standards. The SG AyDS/Government leads a comprehensive strategy to strengthen EIA and other policies related to conservation of biological diversity. Technical guides on EIA in different sectors and on strategic environmental assessment (SEA) to identify and manage environmental effects of policies and programs were published in February 2019. A broad inter-institutional collaboration is on-going 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 SEA. Further legislative reforms underway address e.g. strengthening enforcement of the “polluter pays” principle by extending producer responsibility for waste management, including importers of materials and goods.

97. Some of the supported measures help with Argentina’s contribution to the Paris Agreement on climate change\(^88\) as they support a more efficient use of energy, especially by end-users. Prior actions that generate climate co-benefits include the support to (i) open access to the system of railway cargo transport that would provide a more efficient rail freight services to replace the transport of cargo by trucks; (ii) increase electricity generation from renewable sources to promote a greener energy matrix; and (iii) decrease gas and transport to improve energy efficiency, while protecting the poor through social assistance (STs and AUH).

98. 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. Prior action #2 (open access railways) can have positive impacts through more efficient rail freight services


\(^{88}\) For Argentina’s Nationally Determined Contribution (NDC), see: https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Argentina%20First/Traducción%20NDC_Argentina.pdf
contributing to reduce emissions of air pollutants and greenhouse gases. Prior Actions #3 (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 #3, #4, and #5 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. To assess the prevailing gaps with the OECD requirements and standards, the Federal Government and OECD have initiated the first Environmental Performance Review of Argentina to be carried out in 2019-2020 in collaboration with relevant sectors and national and international institutions. Prior action #6 (Greening the Energy Matrix) is expected to contribute directly to fighting climate change by supporting the move to renewable energy generation. Prior Action #7 (Anti-corruption) is not likely to generate any type of significant environmental effects.

99. Under Pillar 2 "Strengthening the social safety net and enhancing fiscal equity", reduction of subsidies in electricity, transport and gas (Prior Action #8) 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 related tariff increases through STs at the provincial level will prevent potential negative effects like 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). Other prior actions are not likely to generate any type of significant environmental effect.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

100. 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 Central Bank is moderate. While there is limited analytical work available to carry out a comprehensive risk assessment at this point, the Bank can apply mitigating measures to contain fiduciary risks, should they arise during the Program implementation.

101. Public Finance Management. The analysis shows 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 (CFAA) from 2006/2007⁸⁹, 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 are 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.⁹⁰ Bearing this in mind, the Government of Argentina and the Bank have agreed on the need for

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⁹⁰ 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 focus solely on budget institutions, and other publicly available pertinent reports, prepared by the Ministry of the Treasury and the Supreme Audit Institution.
an updated, diagnostic on the performance at the federal (national) level of Argentina’s PFM systems, processes and institutions. This is being carried out in 2019 and is applying the 2016 Public Expenditure and Financial Accountability (PEFA) assessment methodology. The PEFA review will also provide an up-to-date analytical underpinning of the National Government’s PFM systems to inform the Bank’s policy-based lending operations.

102. **Budget credibility.** As per provisions of the Financial Management Law, 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’s (MH) website. Starting in 2017, the monthly budget execution reports of Non-Financial Public Sector are available at the MH’s 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 (FCFR) and the newly created CBO (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, and (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.

103. **Predictability and control in budget execution.** The Integrated Financial Information System (Sistema Integrado De Información Financiera, 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 continues to integrate budget accounting, including commitment controls and treasury functions and is also linked to the Debt Management and Information System (SIGADE). The Ministry of the Treasury (MH), which manages e-SIDIF, controls and verifies budget execution, which is decentralized to spending units. 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 (IAU) of each ministry, under the technical oversight of a central internal audit agency reporting to the Presidency, the Sindicatura General de la Nacion (SIGEN). 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.

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91 (P170369) AR Public Financial Management (PFM) Performance Assessment
92 Argentina FM Law in Spanish means Ley de Administración Financiera y de Control del Sector Público No. 24156
93 Argentina 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.
104. **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 (SAI), Auditoría General de la Nación or AGN in Spanish. The audit report of the Government’s financial statements for FY2016 was submitted to the legislature on August 22, 2018, i.e. within fourteen months of their receipt by the auditors. Central government financial statements for 2017 were timely submitted to the SAI on July 3, 2018; nevertheless, the 2017 audited financial statements have not been submitted to the Parliament yet. Submission of 2018 Government financial statements to the Legislature will be due on June 30, 2019.

105. **Foreign exchange management.** Based on the review of available evidence, the foreign exchange control environment in the Central Bank of Argentina to support this operation is assessed as Moderate.

106. **Disbursement arrangements.** The Bank will make the single loan disbursement to an account that forms part of the country’s official foreign exchange reserves at the Argentina Central Bank. The disbursement will be made upon the Bank’s assessment on satisfactory compliance with prior actions agreed and compliance with the adequacy of the Borrower’s macroeconomic policy framework. 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, the Bank will disburse the proceeds of the Loan into a U.S. dollars account at the Central Bank. 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. The Bank loan proceeds to be used for peso denominated obligations will be routed from the Central Bank to a state-owned commercial bank, Banco de la Nación Argentina that serves as the government's banker holding the Treasury Single Account (TSA or CUT in Spanish) from which budgetary expenditures are paid. 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 Bank will require the Borrower to promptly return such amount to the Bank. The amount refunded shall be cancelled from the Loan.

107. **Auditing arrangements.** As with the previous policy-based lending operation, the Borrower through the MH will: report, within 30 days from the date of receipt, the exact sum received into the Central Bank account; and provide the Bank with a written confirmation that the AR$ equivalent of the Loan proceeds were credited to the TSA and that withdrawals from that account were for budgeted public expenditures excepting military expenditures or other items on the Bank’s excluded expenditure list. The Bank will reserve the right to request an audit of the deposit account in the Central Bank should the need arise.

### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

108. 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 and Labor, Ministry of Health and Social Development, Ministry of Transport, ANSES (National Social Security Administration, Administración Nacional de la Seguridad Social), and the Office of the Head of Cabinet of Ministers. The Ministry of the Treasury would be the coordinator with other ministries on monitoring of the results indicators, which

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94 P167889 - Argentina First Inclusive Growth Programmatic DPF. Loan No. 8904-AR Approved on November 1, 2018.
are based on publicly available information. The World Bank will be monitoring the implementation of the DPF program through regular supervision missions. The World Bank will also collaborate with the Ministry of the Treasury on the monitoring of the key indicators for the DPF.

109. **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. 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.

110. **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. 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](http://www.worldbank.org/GRS). For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

6. **SUMMARY OF RISKS AND MITIGATION**

111. **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, as well as political and governance risks, 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 are considered moderate. The operation does not entail direct risks to the environment, while a number of prior actions are expected to contribute to higher energy efficiency with positive impacts on the environment. 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.

112. **Macroeconomic risks are high.** There are large downside risks to the macroeconomic outlook. If market confidence is eroded due to domestic factors or a new round of global financial turmoil hits emerging markets, renewed pressures on Argentine assets and the exchange rate could substantially affects the country’s financing capacity and debt sustainability. As shown in the debt sustainability analysis, gross financing needs are sizable and debt vulnerabilities are expected to continue to be high. On the domestic front, if there is a deeper-than-anticipated recession or an inability to bring down inflation, political support for the economic stabilization program could further weaken. A deterioration of the economic situation would undermine the authorities’ commitment and ability to implement the necessary economic stabilization measures, particularly in the run-up to the October Presidential

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95 For a detailed description of fiduciary arrangements, please see section 5.3.
96 For a detailed discussion about environmental aspects of the operation, please see Section 5.2 and Annex 4.
elections. On external conditions, a further tightening of 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. 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 country’s economic stabilization program aims to tackle longstanding internal and external vulnerabilities over the envisaged three-year program cycle. A steadfast execution of the Government’s macroeconomic stabilization policy plans and clear communication with financial markets and the general public will mitigate these risks. It also will be important for the Government to strengthen insurance against market uncertainties through the extension of debt maturities and rebuilding of cash buffers.

113. 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, combined with strong polarization of the electorate, could undermine the support for the reform agenda going forward and lead to an inability to sustain the needed fiscal and structural reform program. The Government’s ability to implement numerous important reforms in the first three years of the administration (despite holding a minority seats in the Congress) is a key mitigating factor against the risk or policy reversal. 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 helped to contain the political risks thus far. In addition, the Government’s commitment to protect the most vulnerable contributes to lowering these risks.

114. 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 support 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.

115. Social and stakeholder risks are substantial. 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.97 Yet, given the low level of the benefit these

97 The universal family allowance and the lowest category of the contributory family allowance per child is equivalent to 5 percent of the average
programs, 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 or increase in inflation without increasing significantly benefit levels. In this context, the recent Government’s measures supported by this operation are important to maintain the purchasing power of the benefits of well-targeted social protection programs in real terms. Moreover, the WB is supporting the expansion in coverage of AUH program and is preparing an operation to support the Province of Buenos Aires (the largest province where more than 50 percent of the poor population reside) in implementing STs at the provincial level. Finally, the WB is engaged in enhanced monitoring of social conditions with the aim of identifying and supporting the Government in combating any adverse developments rapidly.

Table 7. Summary Risk Ratings

<table>
<thead>
<tr>
<th>Risk Categories</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Political and Governance</td>
<td>High</td>
</tr>
<tr>
<td>2. Macroeconomic</td>
<td>High</td>
</tr>
<tr>
<td>3. Sector Strategies and Policies</td>
<td>Substantial</td>
</tr>
<tr>
<td>4. Technical Design of Project or Program</td>
<td>Moderate</td>
</tr>
<tr>
<td>5. Institutional Capacity for Implementation and Sustainability</td>
<td>High</td>
</tr>
<tr>
<td>6. Fiduciary</td>
<td>Moderate</td>
</tr>
<tr>
<td>7. Environment and Social</td>
<td>Substantial</td>
</tr>
<tr>
<td>8. Stakeholders</td>
<td>Substantial</td>
</tr>
<tr>
<td>9. Other</td>
<td></td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td>High</td>
</tr>
</tbody>
</table>

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. 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

<table>
<thead>
<tr>
<th>Prior actions and Triggers</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prior Actions under DPF 1</strong></td>
<td><strong>Prior Actions under DPF2</strong></td>
</tr>
<tr>
<td><strong>Pillar 1--- STRENGTHENING THE FOUNDATIONS FOR PRIVATE SECTOR-LED GROWTH</strong></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td>Prior action #1: The Borrower has deepened competition reforms by issuing regulations to implement the Competition Law and for pro-competition reforms in telecommunications, as evidenced by (i) Decrees No. 48/2019 and 70/2019, which create the Undersecretariats of Internal Market Policies; (ii) Decree No. 972/2018, Joint Resolution No. 1/2019, Resolution No. 146/2019 and Resolution No. 84/2019, which prepare the contest to appoint the members of the new national competition authority; and (iii) Decree 58/2019, which allows the auction of at least twenty percent (20%) of certain frequencies of the spectrum currently held by ARSAT for the provision of high-speed communication services.</td>
</tr>
<tr>
<td></td>
<td>Prior action #2: The Borrower has approved the normative framework for an open access management system of railway cargo transport, as evidenced by Decree No. 1027/2018, which</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Prior Actions under DPF 1</th>
<th>Prior Actions under DPF2</th>
<th>Indicator Name</th>
<th>Baseline</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>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(^{102}) and the Borrower’s National Executive Decree No. 117/2017.(^{103})</td>
<td>Ends the commercial exclusivity in the use of cargo railway lines.</td>
<td>Results Indicator #3: Share of intermediate and capital goods imports, by value, subject to reduced tariffs or automatic licenses:</td>
<td>74 percent (2017)</td>
<td>84 percent (2020)</td>
</tr>
<tr>
<td>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.(^{105})</td>
<td>Prior action #4: The Borrower has expanded the capabilities of the single window interface to integrate business registration and post-integration procedures to the Provinces of Córdoba and Corrientes, as evidenced by: Joint Resolution 4264/2019 issued by AFIP and the Ministry of Finance of the Province of Córdoba; and Joint Resolution 4402/2019 issued by AFIP and the Ministry of Justice and Human Rights of the Province of Corrientes.(^{106})</td>
<td>Results Indicator #4: Share of commercial companies registered as simplified corporations (SAS):</td>
<td>5 percent (2017))</td>
<td>50 percent (2020)</td>
</tr>
</tbody>
</table>

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\(^{106}\) Joint Resolution 4264/2019 issued by AFIP (as defined in the Appendix) and the Ministry of Finance of the Province of Córdoba, dated June 15, 2018, and published in the Official Gazette No. 33,893 of June 18, 2018; and Joint Resolution 4402/2019 issued by AFIP and the Ministry of Justice and Human Rights of the Province of Corrientes, dated January 22, 2019, and published in the Official Gazette No. 34, 041 of January 24, 2019.
<table>
<thead>
<tr>
<th>Prior Actions under DPF 1</th>
<th>Prior Actions under DPF2</th>
<th>Indicator Name</th>
<th>Baseline</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>Prior action #5: The CNV has strengthened the legal framework for capital markets by issuing resolutions to support frequent issuers, the financial trusts regime, and qualified investors, as evidenced by the following Resolutions issued by the CNV Nos. 746/18, 752/18, 753/2018, 738/2018 and 761/18; and the Borrower has strengthened its public credit guarantee scheme for small and medium enterprises (FoGAr), as evidenced by Decree No. 628/2018, and by Signed Minutes of the FoGAr Management Committee Nos. 233, and 234.</td>
<td>Results Indicator #5: Number of issuers that have been authorized by the CNV for the frequent issuers program:</td>
<td>0 (2017)</td>
<td>25 (2020)</td>
</tr>
<tr>
<td></td>
<td>Prior action #6: The Borrower has deepened reforms to promote electricity generation from renewable sources by issuing regulations to allow individual small-scale electricity consumers to produce renewable energy and sell back excess production to the electricity grid, as evidenced by Decree 986/2018 and Resolution 314/2018 issued by the Borrower’s Government Secretariat of Energy.</td>
<td>Results Indicator #6: Cumulative amount of installed renewable energy capacity of grid-connected distributed electricity:</td>
<td>0 MW (2017)</td>
<td>50 MW (2020)</td>
</tr>
</tbody>
</table>

109 Decree No. 628/2018 of July 6, 2018, published in the Official Gazette No. 33,907 of July 10, 2018; Signed Minutes of the FoGAr Management Committee No. 233, dated December 21, 2018; and Signed Minutes of the FoGAr Management Committee No. 234, dated December 27, 2018.
### Prior Actions under DPF 1

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.\(^{111}\)

Prior Action #7: The Borrower has issued regulations on ethics and integrity in the public administration to prevent and investigate corruption practices within its executive branch of government, as evidenced by Decrees Nos. 1117/2018, 1169/2018, 258/2019; and Resolution 27/2018\(^{112}\) issued by the Borrower’s Anti-corruption Office within its Ministry of Justice and Human Rights.

### Results Indicator #7: Number of integrity plans registered in the Government procurement platforms for goods, services, and public works:

<table>
<thead>
<tr>
<th>Baseline</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 (2017)</td>
<td>80 (2020)</td>
</tr>
</tbody>
</table>

### 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.\(^{113}\)

### Pillar 2—STRENGTHENING THE SOCIAL SAFETY NET AND ENHANCING FISCAL EQUITY

Prior action #8: The Borrower has further reduced subsidies for transport and gas, as evidenced by Resolutions Nos 777/2018, 1113/2018 and 16/2019 issued by the Borrower’s Ministry of Transport, and Resolution Nos. 257/2018 and 265/2018,\(^{114}\) issued by ENARGAS.

### Results Indicator #8: Share of economic subsidies as a percentage of GDP:

<table>
<thead>
<tr>
<th>Baseline</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.4 percent (2017)</td>
<td>1.5 percent (2020)</td>
</tr>
</tbody>
</table>

Prior action #7: The Borrower has enacted legislation to enhance fiscal responsibility at the provincial level and improve equity in

Prior Action #9. The Borrower has issued legislation that entitles the Federal Council for

### Results Indicator #9: Share of sales tax (Ingresos Brutos) in total provincial own revenues:

<table>
<thead>
<tr>
<th>Baseline</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>72 percent (2017)</td>
<td>68 percent (2020)</td>
</tr>
</tbody>
</table>

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\(^{112}\) Decree 1117/2018 dated December 7, 2018, and published in the Official Gazette No. 34,012 of December 10, 2018; Decree 1169/2018 dated December 21, 2018, and published in the Official Gazette No. 34,093 of April 11, 2019; and Resolution 27/2018 issued by the Borrower’s Anti-corruption Office within its Ministry of Justice and Human Rights on October 1, 2018 and published in the Official Gazette No. 33,968 of October 4, 2018.


\(^{114}\) Resolution 777/2018 issued by the Borrower’s Ministry of Transport on August 30, 2018, and published in the Official Gazette No. 33,944 of August 31, 2018; Resolution 1113/2018 issued by the Borrower’s Ministry of Transport on December 19, 2018, and published in the Official Gazette No. 34,021 of December 21, 2018; Resolution No. 16/2019 issued by the Borrower’s Ministry of Transport on January 10, 2019, and published in the Official Gazette No. 34,032 of January 10, 2019; Resolution No. 257/2018 issued by ENARGAS (as defined in the Appendix) on September 24, 2018, and published in the Official Gazette No. 33,963 of September 27, 2018; and Resolution No. 265/2018 issued by ENARGAS on September 27, 2018 and published in the Official Gazette No. 33,964 of September 28, 2018.
<table>
<thead>
<tr>
<th>Prior Actions under DPF 1</th>
<th>Prior Actions under DPF2</th>
<th>Indicator Name</th>
<th>Baseline</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>intergovernmental transfers, as evidenced by Laws No. 27,428 and 27,429.(^{115})</td>
<td>Fiscal Responsibility (FCFR(^{116})) to issue complementary norms to implement the fiscal responsibility regime with its Provinces, as evidenced by Chapter X of Law 27,467;(^{117}) and a decree that creates the Federal Agency of Property Valuation to align the value of real estate properties for tax purposes to market values, as evidenced by Decree 938/2018.(^{118})</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior action #8: The Borrower has introduced a single window system at ANSES, to simplify and facilitate access to social benefits, STs, health insurance, and other social programs, as evidenced by the Borrower’s National Executive Decree No. 339/2018.(^{119})</td>
<td>Prior Action #10. The Borrower has taken measures to protect the purchasing power of social benefits of its social assistance programs for children and pregnant women (&quot;Asignación Universal por Hijo para Protección Social&quot; and &quot;Asignación por Embarazo para Protección Social&quot;) from high inflation and reduction of subsidies, as evidenced by Decree No. 186/2019.(^{120})</td>
<td>Results Indicator #10: Number of holders who receive Asignación Universal por Hijo:</td>
<td>2.1 million (2017)</td>
<td>2.3 million (2020)</td>
</tr>
<tr>
<td>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</td>
<td>Prior Action #11: The Borrower has signed a separate framework agreement with an additional six (6) Provinces and the Autonomous City of Buenos Aires (&quot;CABA&quot;) to implement universal health coverage, as evidenced by the agreements signed by the Borrower, through its Ministry of Health and Social Development, with:</td>
<td>Results Indicator #11: Population(^{121}) mapped to a public health facility under the new UHC system:</td>
<td>700 thousand (2018)</td>
<td>1.5 million (2020)</td>
</tr>
</tbody>
</table>

\(^{116}\) Consejo Federal de Responsabilidad Fiscal.  
\(^{117}\) Chapter X of Law 27,467 dated November 15, 2018 and published in the Official Gazette No. 34,008 of December 4, 2018.  
\(^{120}\) Decree No. 186/2019 dated March 12, 2019 and published in the Official Gazette No. 34,073 of March 13, 2019.  
\(^{121}\) Eligible population is the population with an exclusive public coverage and it is equal to 16,381,853 people.
### Prior Actions under DPF 1
- 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.

### Prior Actions under DPF 2
- (a) CABA, and the Provinces of Buenos Aires, Río Negro, Neuquén, and Santa Cruz, on August 10, 2018; (b) Chubut, on December 21, 2018; and (c) and San Luis, on March 29, 2019.
IMF Executive Board Completes Third Review Under Argentina’s Stand-By Arrangement, Approves US$10.8 Billion Disbursement

April 5, 2019

The Executive Board of the International Monetary Fund (IMF) completed today the third review of Argentina’s economic performance under the 36-month Stand-By Arrangement (SBA) that was approved on June 20, 2018. The completion of the review allows the authorities to draw the equivalent of SDR 7.8 billion (about US$10.8 billion), bringing total purchases since June 2018 to SDR 28.01371 billion (about US$38.9 billion).

Following the Executive Board discussion of Argentina’s economic plan, Ms. Christine Lagarde, the IMF’s Managing Director stated:

“The authorities’ policies that underly the Fund-supported arrangement are bearing fruit. The high fiscal and current account deficits - two major vulnerabilities that led to the financial crisis last year - are falling. Economic activity contracted in 2018 but there are signs that the recession has bottomed out, and a gradual recovery is expected to take hold in the coming quarters. Inflation however remains high with inflation expectations rising and inflation inertia proving difficult to break.

“The Argentine government demonstrated its resolve to put the public debt-to-GDP ratio on a sustainable path by reducing the 2018 primary deficit below the program target. However, in light of weaker-than expected tax revenues in the first half of the year, continued prudence in the execution of spending plans and further steps to strengthen revenues, will be key to bring the 2019 fiscal position to a primary balance. Further effort is needed to improve the medium-term fiscal framework and debt management.

“After a few months of relative stability, financial volatility has picked up in recent weeks, as global financial conditions have become less favorable and as inflation outcomes have disappointed. The BCRA reacted to these developments by recalibrating its monetary policy, maintaining zero growth in the monetary base until the end of the year. A new central bank charter has been sent to Congress and, if passed into law, will strengthen the credibility of monetary policy.
“Protecting the most vulnerable from the impact of the recession and from high inflation remains a key priority. The authorities have taken a series of actions to improve the coverage of the social safety net and to provide greater resources to the poor. Continued work will be needed to address the remaining gaps in coverage of the social safety net and to make social programs more effective in reducing poverty.

“Favorable market conditions have allowed the government to fully rollover maturing debt over the past few months. The interest rate paid on that debt has fallen and the authorities are deepening their efforts to extend maturities on newly-issued debt. The authorities are also implementing policies to develop domestic currency debt markets.

“Supply-side reforms are essential in achieving strong, sustainable, and equitable growth and to raise living standards for Argentina’s population. Priorities include further efforts to designing a less distortionary tax system, encouraging greater competition in domestic product markets, removing barriers to trade and foreign investment, strengthening governance and confronting corruption, and fostering gender equity.

“The success of the authorities’ policy plans relies on its continued steadfast implementation. This will require the building of broad-based support for policies that will lessen economic vulnerabilities, raise Argentina’s growth potential, and foster market confidence.”
Buenos Aires, 04/06/2019

Asunto: Carta de Política - Primer Préstamo Programático para Política de Desarrollo de Crecimiento Inclusivo - Etapa II

Señor Presidente,

Tengo el agrado de dirigirme a usted en relación a la Carta de Política Primer Préstamo Programático para Política de Desarrollo de Crecimiento Inclusivo - Etapa II a financiarse con el Banco Internacional de Reconstrucción y Fomento – BIRF.

El Gobierno de la República Argentina trabajó sobre sus planes de largo plazo e identificó los objetivos e iniciativas prioritarias, estableciendo 100 prioridades las que fueron agrupadas en ocho objetivos de Gobierno: 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 para 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 argentina.

En línea con los objetivos de política mencionados precedentemente, en octubre de 2017, el Poder Ejecutivo Nacional presentó las Propuestas para Promover un Acuerdo Nacional sobre un Conjunto de Políticas, las cuales se sintetizaron en tres ejes, que se encuentran relacionados con el programa:

1º - Reforma fiscal: consensos básicos para lograr equilibrio fiscal en todos los niveles de Gobierno.

2º - Generación de empleo: generación de políticas para fomentar la creación de empleo privado formal.

3º - Calidad Institucional: fortalecimiento de la República y la calidad institucional, con reformas en la justicia, en el sistema electoral e iniciar un camino de transparencia, a través de la modernización del Estado, que sea abierto, intgro, transparente, moderno y democrático.
A pesar de los avances en los objetivos de Gobierno citados, el país fue expuesto a los vaivenes financieros globales y a un cambio en la confianza de los inversores en Abril de 2018. En este contexto, el Gobierno Nacional recurrió al Fondo Monetario Internacional (FMI) para limitar la volatilidad cambiaria y despejar las dudas respecto de su capacidad para cubrir las necesidades de financiamiento en el mediano plazo.

La situación económica cambió durante los primeros meses del programa y el Gobierno se movió rápidamente para responder al deterioro de las perspectivas acelerando la consolidación fiscal y rediseñando el marco de la política monetaria. Al mismo tiempo, tomó medidas para proteger a los pobres y más vulnerables del impacto de la inflación y la recesión de la actividad económica, y continuó el proceso de reducción de las distorsiones que conspiran contra el desarrollo del sector privado, promoviendo mejoras de productividad que genere un crecimiento más inclusivo y sustentable en el largo plazo.

En este sentido, se desea informar que las prioridades de las políticas públicas incluidas en el Mensaje del Proyecto de Ley de Presupuesto de la Administración Pública Nacional de nuestro país para el Ejercicio 2019, están en línea con las medidas apoyadas en el Préstamo Programático:

“El equilibrio fiscal nos permitirá seguir construyendo un entorno que incentive la inversión ya que un Estado más solvente en lo fiscal hace a la economía más previsible, reduciendo la incertidumbre. El Estado debe ser también cada vez más eficiente para ayudar a que el sector privado pueda desarrollar su potencial. Dado el tamaño de nuestra economía, nuestra estrategia de crecimiento debe basarse en integrarnos al mundo y ser cada vez más competitivos. Esto permitirá que volvamos a ser parte de las cadenas globales de valor y que producir en nuestro país vuelva a ser atractivo. La estrategia de aislarnos del mundo, apoyándonos sólo en un mercado interno protegido nos ha llevado a décadas de estancamiento relativo.

La reducción del gasto se hace protegiendo a los sectores más vulnerables. Estamos bajando el gasto primario total pero subiendo el gasto focalizado en los sectores de menores recursos. En 2018 el gasto en jubilaciones y pensiones contributivas y asignaciones familiares (incluyendo ALH) será 0,9 p.p. de PBI superior al de 2015. En 2019 este gasto aumentará 0,2 p.p. del PBI (llegando a ser 10,1% del PBI), mientras que el resto del gasto primario caerá en 1,6 p.p. del PBI. En esta línea, el acuerdo alcanzado con el FMI fue innovador: cuenta con una salvaguarda para incrementar el gasto social en caso de que las condiciones sociales lo requieran.”
En este contexto, las áreas apoyadas por el Préstamo Programático para Políticas de Desarrollo de Crecimiento Inclusivo del Banco Internacional de Reconstrucción y Fomento (BIRF) han ganado importancia, conservando el propósito del programa el cual consiste en apoyar políticas públicas clave para el crecimiento con equidad, a través de dos pilares: 1) fortalecer las bases para el crecimiento liderado por el Sector Privado y 2) reforzar las redes de seguridad social y mejorar la equidad fiscal.

En este sentido, el programa apoya las medidas recientes para proteger el poder adquisitivo de los programas de asistencia social Asignación Universal por Hijo para Protección Social y Asignación por Embarazo para Protección Social contra la alta inflación y los incrementos en las tarifas de servicios públicos. Dada la importancia de cumplir con los objetivos fiscales a través de la reducción del gasto ineficiente e inequitativo, el programa apoya la reducción significativa de los subsidios al gas y al transporte que son regresivos, mal enfocados y también costosos en términos fiscales y del medio ambiente. El programa también apoya la implementación del pacto fiscal y la ley de responsabilidad fiscal con las provincias con el objetivo de acompañar las medidas fiscales a nivel federal con acciones de refuerzo mutuo a nivel provincial.

El programa respalda los esfuerzos de políticas para estimular el crecimiento del sector privado a través de medidas que mejoran la competencia, incluso en sectores de servicios habilitadores clave, como la telecomunicación y carga ferroviaria, disminuyen aún más las barreras al comercio, reducen los costos comerciales, fomentan el desarrollo de los mercados de capital y promueven la inversión privada en energía renovable. El enfoque en fortalecer el marco anticorrupción y crear un campo de juego nivelado para las empresas se ha vuelto aún más crucial.

En el área de mejora de la competencia, y con el objetivo de continuar fortaleciendo el desarrollo del sector privado, el Gobierno de Argentina ha introducido reformas en el sector de servicios de transporte y logística, promoviendo condiciones de libre accesibilidad a la red nacional ferroviaria de cargas, con base en los principios de objetividad, transparencia y no discriminación. Como parte de esta reforma, iniciada con la Ley 26.352 y ratificada y profundizada por la Ley 27.132, que establecen que el sistema abandona la integración vertical y pasa a desempeñarse bajo un modelo de gestión de Open Access (Acceso Abierto) sin exclusividad comercial, el Decreto 1027 del 7 de noviembre de 2018 avanza en la definición de los principios bajo los cuales se implementará el acceso abierto. Como próximos pasos, el Gobierno de Argentina continuará definiendo las condiciones de implementación de esta
reforma, en particular: (i) declaración de la red; (ii) procedimientos para adjudicación de capacidad; (iii) gestión de control de tráfico; (iv) registro y habilitación de operadores; (v) regulación de cánones por el uso de la infraestructura; (vi) normas técnicas para la interoperabilidad; y (vii) marco de gobernanza e instituciones.

Asimismo, el programa se encuentra en correspondencia con lo estipulado por el Gobierno Nacional en el Memorándum de Políticas Económicas y Financieras (MPEF), el cual describe los objetivos económicos y las políticas del Gobierno de Argentina para 2018 y hacia adelante, en el marco del acuerdo con el FMI donde se destaca el compromiso del Gobierno Argentino en la protección “por completo a los sectores más vulnerables de nuestra población” y la necesidad de robustecer la política fiscal. Ambos ejes coincidentes con el presente programa.

Los préstamos de apoyo al programa serán por hasta DÓLARES ESTADOUNIDENSES MIL MILLONES (US$ 1.000.000.000) a ser financiados en su totalidad por el Banco Internacional de Reconstrucción y Fomento (BIRF) y se compone de dos etapas de DÓLARES ESTADOUNIDENSES QUINIENTOS MILLONES (US$ 500.000.000) cada una.

La primera etapa corresponde al préstamo BIRF 8904-AR por un monto total de DÓLARES ESTADOUNIDENSES QUINIENTOS MILLONES (US$ 500.000.000), la cual fue desembolsada en su totalidad en diciembre de 2018. La segunda etapa del programa, será por hasta de DÓLARES ESTADOUNIDENSES QUINIENTOS MILLONES (US$ 500.000.000) financiados íntegramente por el BIRF. El programa no posee contrapartida local.

El Organismo Ejecutor será el MINISTERIO DE HACIENDA, a través de Dirección de Programas y Proyectos Especiales con Enfoque Sectorial Amplio (DPPEESA) dependiente de la Subsecretaría de Relaciones Financieras Internacionales (SSRFI) de la Secretaría de Hacienda.

Con el antecedente satisfactorio de la primera operación y en pos de profundizar lo que refiere a las políticas, el Gobierno de la República Argentina considera necesario contar con el apoyo del Banco Mundial para una segunda etapa del Primer Préstamo Programático para Política de Desarrollo de Crecimiento Inclusivo.

Finalmente, es importante recalcar el firme compromiso del Gobierno con el programa de reforma empezando desde el 2015, consolidando en particular las medidas institucionales en las áreas apoyadas en este Préstamo Programático de Apoyo a Políticas de Desarrollo. Creemos que consolidar estas medidas permitirá mitigar el impacto social de la coyuntura.
económica actual, una pronta recuperación económica y promocionar el desarrollo económico del país en largo plazo.

A través de esta Carta de Política, el Gobierno de la REPÚBLICA ARGENTINA se compromete a implementar las acciones descritas en la Matriz de Políticas acordada con el Banco.

Saludo a Usted muy atentamente.

NICOLÁS DUJOVNE
Ministro de Hacienda

AL SEÑOR PRESIDENTE DEL
GRUPO BANCO MUNDIAL
DAVID R. MALPASS

S / D
Translation

Buenos Aires, of 2019

Subject: Policy Letter - First Inclusive Growth Programmatic Development Policy
Finance - Stage II

Mr. President,

I am pleased to address you regarding the Letter of Development Policy First Programmatic Loan Support for Development Policies – Stage II, to be financed by the International Bank for Reconstruction and Development (IBRD).

The Government of the Argentine Republic worked on its long-term plans and identified its priority objectives and initiatives, establishing 100 priorities that were grouped into eight Government objectives: I. Macroeconomic Stability, II. National Productive Agreement, III. Infrastructure Development, IV. Sustainable Human Development, V. Fight against Drug Trafficking and Improvement of Security, VI. Institutional Strengthening, VII. Modernization of the State, VIII. Intelligent Insertion to the World. It is a meticulous task to advance in each of the projects and programs that will serve to contribute to the development of the economy, promote human and social development and strengthen the institutions of public life in Argentina.

In line with the aforementioned policy objectives, in October 2017, the National Executive Branch presented the Proposals to Promote a National Agreement on a Set of Policies, which were synthesized in three axes, which are related to the program:

1º- Fiscal Reform: basic consensus to achieve fiscal balance at all levels of government.

2º- Employment creation: implement policies to encourage the creation of formal private employment.

3º - Institutional Quality: strengthening of the Republic and its institutional quality, with reforms in the Judicial power and in the electoral system, and to initiate a path of transparency through the modernization of the State, so that it is open, integral, transparent, modern and democratic.

Despite the progress made in the abovementioned Government objectives, the country was exposed to global financial turmoil and a change in investor confidence in April 2018. In this context, the National Government turned to the International Monetary Fund (IMF) to limit exchange volatility and clear doubts about its ability to cover financing needs in the medium term.
The economic situation changed during the first months of the program and the Government moved quickly to respond to deteriorating prospects by accelerating fiscal consolidation and redesigning the monetary policy framework. At the same time, it took measures to protect the poor and most vulnerable from the impact of inflation and the economic activity contraction, while continuing the process of removing distortions that conspire against the private sector development, promoting improvements in productivity that generate more inclusive and sustainable growth in the long term.

Therefore, we wish to inform you that the public policy priorities included in the Budget bill message of Argentina National Public Administration for Fiscal Year 2019 are in line with the measures supported by the Programmatic Loan:

"The fiscal balance will allow us to continue building an environment that promotes investment as a more solvent public sector makes the economy more predictable, reducing uncertainty. The State must also be increasingly efficient in helping the private sector to develop its potential. Given the size of our economy, our growth strategy must be based on integrating ourselves into the world and becoming more competitive. This will allow us to be part of the global value chains and turn attractive again the decision to produce in our country. The strategy of isolating ourselves from the world, relying only on a protected internal market, has led us to decades of relative stagnation.

The reduction of spending is done while protecting the most vulnerable sectors. We are lowering the total primary public expenditure but raising the spending focused on the sectors with lower resources. In 2018, the expenditure on contributory and non-contributory pensions and family allowances (including AUH) was 0.9 percentage points (p.p.) of GDP higher than that of 2015. In 2019 this expenditure will increase 0.2 p.p. of GDP (reaching 10.1 percent of GDP), while the rest of primary expenditure will fall by 1.6 p.p. of GDP. In this line, the agreement reached with the IMF was innovative: it has a safeguard to increase social spending in case social conditions require it."

In this context, the areas supported by the Programmatic Development Policy Loan of the International Bank for Reconstruction and Development (IBRD) have gained importance, preserving the purpose of the program which is to support key public policies for growth with equity, through two pillars: I) strengthen the foundations for private-sector-led growth and II) strengthen social safety nets and enhance fiscal equity.

In this sense, the program supports recent measures to protect the purchasing power of social
assistance programs Universal Child Allowances for Social Protection (AUH) and Pregnancy Allowance for Social Protection from high inflation and increases in public utility tariffs. Given the importance of meeting fiscal objectives through the reduction of inefficient and inequitable spending, the program supports the significant reduction of subsidies to gas and transportation that are regressive, poorly focused and also costly in fiscal and environmental terms. The program also supports the implementation of the Fiscal Pact and Fiscal Responsibility Law with the provinces aiming to complement fiscal measures at the federal level with parallel reinforcement actions at the provincial level.

The program supports policy efforts to stimulate private sector growth through measures that improve competition, including key enabling service sectors, such as telecommunication and rail freight, further reduce trade barriers, diminish trade costs, encourage the development of capital markets and promote private investment in renewable energy. The focus on strengthening the anti-corruption framework and creating a level playing field for businesses has become even more crucial.

In the area of competition improvement, and with the aim to continue to strengthen the development of the private sector, the Government of Argentina has introduced reforms in the transport and logistics services sector, promoting conditions of free accessibility to the national rail network, based on the principles of objectivity, transparency and non-discrimination. As part of this reform, initiated with Law 26,352 ratified and deepened by Law 27,132, which establish that the system abandons vertical integration and starts to operate under a management model of Open Access without commercial exclusivity, the Decree 1027 of November 7, 2018 further defines the principles under which open access will be implemented. As next steps, the Government of Argentina will continue to define the conditions for implementation of this reform, in particular: (i) declaration of the network; (ii) procedures for allocating capacity; (iii) traffic control management; (iv) registration and authorization of operators; (v) regulation of fees for the use of infrastructure; (vi) technical standards for interoperability; and (vii) governance framework and institutions.

Likewise, the program is in correspondence with the stipulated by the National Government in the Memorandum of Economic and Financial Policies (MEFP), which describes the economic objectives and policies of the Government of Argentina for 2018 onwards, within the framework of the agreement with the IMF which highlights the commitment of the Argentine Government in the “full protection of the most vulnerable sectors of our population” and the need to strengthen fiscal policy. Both pillars in line with the present program.
Loans in support of the program will be for up to US DOLLARS BILLION (US $ 1,000,000,000) to be fully financed by the International Bank for Reconstruction and Development (IBRD). It consists of two stages of US DOLLARS FIVE HUNDRED MILLION (US $ 500,000,000) each.

The first stage corresponds to the IBRD loan 8904-AR for a total amount of US DOLLARS FIVE HUNDRED MILLION (US $ 500,000,000), which was fully disbursed in December 2018. The second stage of the program will be for up to DOLLARS US $ FIVE MILLION (US $ 500,000,000) to be fully financed by the IBRD. The program has no local counterpart.

The Executing Agency will be the MINISTRY OF FINANCE, through the Directorate of Programs and Special Projects with Broad Sector Approach (DPPEESA), under the Secretariat of International Financial Relations (SSRFI) of the Ministry of Finance.

With the satisfactory track record of the first operation and in order to deepen what it refers to the policies, the Government of the Argentine Republic considers it necessary to have the support of the World Bank for a second phase of the First Inclusive Growth Programmatic Development Policy Loan.

Finally, it is important to emphasize the Government's firm commitment to the reform program that begun in 2015, consolidating in particular the institutional measures in the areas supported by this Programmatic Development Policy Loan. We believe that consolidating these measures will mitigate the social impact of the current economic situation, a quick economic recovery and promote the long-term economic development of the country.

Through this Policy Letter, the Government of the ARGENTINE REPUBLIC commits to implement the actions described in the Policy Matrix agreed upon with the Bank.

Yours sincerely,

Nicolas Dujovne
Minister of the Treasury
## ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

<table>
<thead>
<tr>
<th>Prior Actions</th>
<th>Significant positive or negative environment effects</th>
<th>Significant poverty, social or distributional effects positive or negative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operation Pillar 1: STRENGTHENING THE FOUNDATIONS FOR PRIVATE SECTOR-LED GROWTH</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior action #1. Competition</td>
<td>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.</td>
<td>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.</td>
</tr>
<tr>
<td>Prior action #2 Cargo rail</td>
<td>Yes, this prior action is expected to generate positive environmental effects.</td>
<td>Yes, in the medium term, this prior action is expected to have positive effects on welfare. Effects on poverty reduction would come from cost reduction of freight for domestic demand goods.</td>
</tr>
<tr>
<td>Prior action #3. Import barriers</td>
<td>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. To address this risk, the Government is processing advanced laws and regulations e.g. to apply Extended Producer Responsibility (EPR) to address waste management in an integrated manner,</td>
<td>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.</td>
</tr>
<tr>
<td>Prior Actions</td>
<td>Significant positive or negative environment effects</td>
<td>Significant poverty, social or distributional effects positive or negative</td>
</tr>
<tr>
<td>---------------</td>
<td>------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>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 Management of Empty Phytosanitary Containers that was sanctioned in September 2017 and regulated in February 2018. A general Law on Minimum Requirements for Environmental Protection on Waste Management through Extended Producer Responsibility is expected to be presented for Congress approval during the first semester of 2019. To comply with the Minamata Convention on Mercury, Resolution 75/19 was approved in February 2019 to prohibit the manufacture, import and export of the products with added mercury in 2020.</td>
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</tbody>
</table>

**Prior action #4. Business registration**

No, this prior action is not likely to generate significant environmental effects. However, if simplifying business registration leads to an expansion in enterprise activity, it may also generate negative indirect effects in environmental quality and management of natural resources where respective regulations and standards and/or their enforcement present gaps. To address prevailing gaps, the Government needs to (i) establish a proper system to collect and manage environment data e.g. on material flows and policies on resource productivity and sustainable materials management, and (ii) strengthen and homogenize 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.

No, actions to each business registration for SRL 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.
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>SGAyDS is leading a comprehensive strategy and a process of broad interinstitutional collaboration that includes Federal Council of Environment (COFEMA), the Federal Council of Environment to establish a new Law on 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. 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.</td>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Prior action #5. Capital markets/Public credit guarantee scheme</td>
<td>Similar to Prior Action #3, this prior action is not likely to generate significant environmental effects, but financing options for productive investments by firms and SMEs is expected to rise and increase overall economic activity that again requires solid environmental management to be sustainable. 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</td>
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### Prior Actions

<table>
<thead>
<tr>
<th>Prior Actions</th>
<th>Significant positive or negative environment effects</th>
<th>Significant poverty, social or distributional effects positive or negative</th>
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<td>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).</td>
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<tr>
<td>Prior action #6. Renewable energy</td>
<td>Yes, this prior action is likely to generate significant positive environmental effects in terms of reduced CO₂ emissions through increased share of renewable sources in the matrix of electricity generation. The reform will gradually help establish the renewable energy market for small-scale users, which has huge potential where all residential users represent 40 percent of the total electricity demand. Achieving the 2020 target of 50 MW generation of grid-connected distributed electricity from renewable sources would result in an estimated reduction in emissions of 0.04 million-ton CO₂ per year compared to oil-based to solar-based electricity production.</td>
<td>At the scale of current implementation, this prior action is not likely to generate social or distributional effects. At a larger scale, pricing design and institutional factors may bring indirect distributional implications of this prior action that are not favorable to poor households.</td>
</tr>
<tr>
<td>Prior action #7. Corruption</td>
<td>No, this prior action is not likely to generate any type of significant environmental effect.</td>
<td>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.</td>
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### Operation Pillar 2: STRENGTHENING THE SOCIAL SAFETY NET AND ENHANCING FISCAL EQUITY

<p>| Prior action #8. Subsidies | Yes, this prior action is likely to generate significant positive environmental effects in terms of local air quality and reduced CO₂ emissions through more careful and efficient energy use. Additionally, | Yes, this prior action taken by itself is expected to impact negatively on the purchasing power of the most vulnerable. However, the reduction of subsidies is part of a broader effort to reduce subsidies leakages while protecting the poor |</p>
<table>
<thead>
<tr>
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<tr>
<td>targeted assistance to the poor to compensate e.g. for energy tariff increases through STs at provincial level will prevent potential negative effects like switching from gas to lower quality, higher emission residential fuels for heating and cooking.</td>
<td>through the implementation of targeted STs by the Provinces. In this context the WB is preparing an operation to support the Buenos Aires province (where more than 50 percent of the poor in the country reside). Moreover, measures to protect the purchasing power of the beneficiaries under the social transfer programs have been implemented through policy as evidenced by prior action 10.</td>
<td></td>
</tr>
<tr>
<td>Prior action #9. Fiscal Pact</td>
<td>No, this prior action is not likely to generate any type of significant environmental effect.</td>
<td>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. 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. Reform efforts to bring assessment of the property tax base closer to market values are expected to have significant positive impacts on revenue generation without adverse consequences in terms of the tax burden faced by the poor.</td>
</tr>
<tr>
<td>Prior action #10. Protecting the value of social benefits (AUH)</td>
<td>No, this prior action is not likely to generate any type of significant environmental effect.</td>
<td>Yes, is expected to have a positive impact mitigating poverty increases. The additional social spending allocated to an increase benefit of AUH would substantially mitigate the impacts of negative economic conditions over 2019, especially among the extreme poor.</td>
</tr>
<tr>
<td>Prior action #11. Universal health coverage</td>
<td>No, this prior action is not likely to generate any type of significant environmental effect.</td>
<td>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.</td>
</tr>
</tbody>
</table>
1. The Poverty and Social Impact Analysis (PSIA) is being 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 in supporting Government’s program to protect the most vulnerable against the adverse effect of the macroeconomic conditions and implement 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’s 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. For prior actions that remained unchanged, this PSIA summarizes the main expected distributive effects and refers to the detailed analysis performed for the first DPF.

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

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

**Prior Action 1 DPF2:** The Borrower has deepened competition reforms by issuing regulations to implement the Competition Law and for pro-competition reforms in telecommunications, as evidenced by (i) Decrees No. 48/2019 and 70/2019, which create the Undersecretariat of Internal Market Policies; (ii) Decree No. 972/2018, Joint Resolution No. 1/2019, Resolution No. 146/2019 and Resolution No. 84/2019, which prepare the contest to appoint the members of the new national competition authority; and (iii) Decree 58/2019, which allows the auction of at least twenty percent (20%) of certain frequencies of the spectrum currently held by ARSAT for the provision of high-speed communication services\(^\text{122}\).

4. This prior action is a continuation and deepening of the efforts to strengthen competition that are 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. Beyond the known effects on growth

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and productivity, inducing more competition could have important effects on poverty reduction. 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.

5. **Increasing compliance with the competition law and preventing collusive behavior is expected to positively affect welfare via the price reduction mechanism, especially among households at the bottom of the income distribution.** 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.\(^{123}\) The PSIA Annex for DPF1 summarizes the relevant literature and shows that in Argentina.

6. **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 empirical exercise for Mexico shows that impact of competition will depend on a combination of factors, including market structure, price elasticities and consumption patterns. More competition in the corn flour and mobile phone markets would reduce poverty and inequality. Estimates using WELCOM suggest that moving into perfect competition in the markets for corn flour and mobile communications would induce a combined reduction in poverty of 1.27 percentage points.\(^{124}\) Because the consumption share of corn is higher among low-income households, gains from competition would disproportionately benefit the poor. The results of the exercise in Mexico show that relative benefits of competition in the mobile market would be almost uniform across the distribution because household have lower price elasticity for mobile phones, and expenditure shares are similar across the income distribution.

7. **In Argentina, increased competition in telecommunications services -including mobile telephone- are 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 A1). 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.\(^{125}\) 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.\(^{126}\)

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125 Estimations based on the 2012 Household Income and Expenditure Survey (EnGHo), INDEC.
126 Based on the methodology and tool of Abdelkrim (2017) and using the 2012 Household Income and Expenditure Survey (EnGHo). Note that this methodology assumes effects on poverty focusing exclusively on a price mechanism.
Prior Action 2: The Borrower has approved the normative framework for an open access management system of railway cargo transport, as evidenced by Decree No. 1027/2018\textsuperscript{127}, which ends the commercial exclusivity in the use of cargo railway lines.

8. Creating competition for cargo transport is expected to lower costs and increase quality of service. Empirical evidence for Argentina is limited as no recent estimates of elasticities are available and most analyses date back to the privatization process during the late 1990s.\textsuperscript{128} However, the relevant theoretical literature shows that potential for competitive entry tends to increase social welfare.\textsuperscript{129} Conceptually, creating competition for cargo transport will have effects, first, within the railroad industry, and second, on the inter-modal freight transport competition. Both within railroad-industry and inter-modal freight transport will imply forward and backward linkages.

9. Within the railroad industry, to the extent that regulation credibly provides competitive access to the network, it must have a positive welfare effect through lowering costs. This will be the case particularly for freight of grains and goods that make an important share of consumption for those in the bottom 40 percent of the income distribution, when the reduction of costs translates in lower prices to the consumers. Additionally, the potential reduction in transport costs could provide infra-marginal producers with access to bigger markets. This could translate in benefits in output and employment.


10. From the perspective of inter-modal transport competition, depending on the scale of cost reduction, some producers may shift to the use of railway instead of trucks. This will have the equivalent forward market effect of a reduction in prices, while improving fuel efficiency for the transportation of high-weight long distance freight.

Prior Action 3: The Borrower has implemented measures to further reduce the import duties charged on selected intermediate and capital goods, as evidenced by Decrees Nos. 973/2018 and 837/2018.  

11. Further reduction of trade barriers is expected to positively impact competitiveness in the medium term, improving the allocation of factors of production to sectors and firms. The expected impact would come chiefly from shifts in the cost structure for downstream firms in the economy. 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. Adverse (though small) short-term effects on registered employment are likely, due to the reallocation of workers. On the other hand, leading to higher paying jobs, particularly among high-skilled workers, resulting in positive welfare impact. 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. 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).

13. 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.


133 Estimations based on EPH 2017 Q1.
Prior Action 4: The Borrower has expanded the capabilities of the single window interface to integrate business registration and post-integration procedures to the Provinces of Córdoba and Corrientes, as evidenced by: Joint Resolution 4264/2019 issued by AFIP and the Ministry of Finance of the Province of Cordoba; and Joint Resolution 4402/2019 issued by AFIP and the Ministry of Justice and Human Rights of the Province of Corrientes.\textsuperscript{134}

14. Fast track procedures for SRLs 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 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. The PSIA Annex for DPF1 summarizes the relevant literature showing that 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.

Prior Action 5: The CNV has strengthened the legal framework for capital markets by issuing resolutions to support frequent issuers, the financial trusts regime, and qualified investors, as evidenced by the following Resolutions issued by the CNV Nos. 746/18, 752/18, 753/2018, 738/2018 and 761/18;\textsuperscript{135} and the Borrower has strengthened FoGAr, as evidenced by Decree No. 628/2018, and by Signed Minutes of the FoGAr Management Committee Nos. 233, and 234.\textsuperscript{136}

15. 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.

16. 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.

17. 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

\textsuperscript{134}Joint Resolution 4264/2019 issued by AFIP (as defined in the Appendix) and the Ministry of Finance of the Province of Cordoba, dated June 15, 2018, and published in the Official Gazette No. 33,893 of June 18, 2018; and Joint Resolution 4402/2019 issued by AFIP and the Ministry of Justice and Human Rights of the Province of Corrientes, dated January 22, 2019, and published in the Official Gazette No. 34, 041 of January 24, 2019.

\textsuperscript{135}Resolution No. 746/18 dated June 22, 2018, and published in the Official Gazette No. 33,898 of June 26, 2018; Resolution No. 752/18 dated July 16, 2018, and published in the Official Gazette No. 33,913 of July 18, 2018; Resolution No. 753/2018 dated July 20, 2018, and published in the Official Gazette No. 33,917 of July 24, 2018; Resolution 738/2018 dated May 24, 2018, and published in the Official Gazette No. 33,879 of May 29, 2018; and Resolution No. 761/18 dated September 6, 2018, and published in the Official Gazette No. 33,950 of September 10, 2018.

\textsuperscript{136}Decree No. 628/2018 of July 6, 2018, published in the Official Gazette No. 33,907 of July 10, 2018; Signed Minutes of the FoGAr Management Committee No. 233, dated December 21, 2018; and Signed Minutes of the FoGAr Management Committee No. 234, dated December 27, 2018.
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.\textsuperscript{137}

**Prior Action 6:** The Borrower has deepened reforms to promote electricity generation from renewable sources by issuing regulations to allow individual small-scale electricity consumers to produce renewable energy and sell back excess production to the electricity grid, as evidenced by Decree 986/2018 and Resolution 314/2018\textsuperscript{138} issued by the Borrower’s Government Secretariat of Energy.

18. **Direct benefits of this prior action are unlikely to reach the poor, because of the presence of several barriers to the adoption of solar photovoltaic (PV).** Although the direct effects of net billing tend to be positive, the benefits to consumers who are also producing renewables from reduction in the utility bills tend to be biased towards the wealthier households. Low-income customers typically don’t have enough savings to pay cash or down payments for solar PV; In the case of Argentina, the net billing regulation has included restrictions to the capacity that can be installed, to the maximum capacity of the installation, or 2MW (whichever is lower).\textsuperscript{139} The regulation also requires authorization from the distribution utilities to certify that proposed installations fulfil regulatory requirements and to inspect if the installed equipment is reliable in order to participate in net billing. Because low-income households have a limited ability to assume the costs of a solar system and often live in multifamily rental property, they often have no incentive or ability to invest in the long-term benefits of a solar power for that property.

19. **Pricing design and institutional factors need to be carefully considered when scaling-up the program as they may have distributional implications that are not favorable to poor households.** As a program is scaled-up it needs to consider that for customers of solar energy, higher fixed charges have the effect of lowering the value of solar power and energy efficiency, making it a less attractive investment. In addition to rate design, there are other policy and program barriers, for example public agencies have limited budgets for subsidizing solar installations. Also, from a policy perspective, there is a need to address perverse incentives for incumbent utilities to delay/pose obstacles to competitors offering distributed generation (DG). Policies such as net billing create new business opportunities but also may hurt the poor indirectly as consequence of subsequent price increases from the distribution companies. Unless there are specific regulations in place, the impact on the utility is negative and is reflected in a loss, due to the fact that renewable electricity that is self-consumed is currently exempted from grid costs and other system charges. On the one hand, this may be understandable as such electricity remains within the customer’s premises rather than affecting network. On the other hand, unless the generated electricity is self-consumed during peak hours, the utility costs will increase. In fact, the latter are driven by the peak capacity (i.e. the maximum amount of electricity installed that distribution grids need to deal with) and not by the variations in the distributed volumes of electricity.

20. **The available empirical evidence is limited but it suggests that the indirect impact of surcharges coming from the distribution utilities’ attempt to recover network cost, which are generally passed through directly to consumers, could as the scheme expands—substantially beyond the current base—**

\textsuperscript{137} 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.


\textsuperscript{139} https://www.argentina.gob.ar/energia/generacion-distribuida/que-es-la-generacion-distribuida/preguntas-frecuentes#7
be negative for the poor. If small-scale electricity generation by consumers increases hugely and the practice of increasing network tariffs is followed, the result would be cross subsidies that are regressive and penalize the poor households. This would be particularly the case if there are high volumetric tariffs. As the system develops and such a problem starts to arise, there are a number of different regulatory arrangements that could be considered to mitigate such adverse impacts, including moving towards peak capacity-based ‘demand tariffs’ which represent a more efficient, cost-reflective and equitable pricing structure and would reduce the distortionary impact on the electricity tariffs. The Government of Argentina, through the Energy Secretariat, is working with the provincial regulatory agencies to ensure these necessary regulatory changes are implemented in time to avoid such adverse impact on the poor.

21. Several mitigation strategies can be considered to ensure that solar can become an affordable energy option for the poor. The poor are generally excluded due to the upfront cost of installing individual rooftop PV deployment. Mitigation strategies include the development of scaled up solar community as well as additional regulation to help the poor to afford the initial upfront capital cost. The Government of Argentina, through the Energy Secretariat, is moving towards this direction, by creating a specific fund that aims to reduce the capital cost of installations (initially only for SMEs) and allowing for community solar installation.

Prior Action 7: The Borrower has issued regulations on ethics and integrity in the public administration to prevent and investigate corruption practices within its executive branch of government, as evidenced by Decrees Nos. 1117/2018, 1169/2018, 258/2019; and Resolution 27/2018 issued by the Borrower’s Anti-corruption Office within its Ministry of Justice and Human Rights.

22. Strengthening of anti-corruption measures is expected to increase the effectiveness of government actions as well as facilitate higher investment. In the medium term, the implementation of regulation to reduce corruption practices will reduce the costs of doing business and bring benefits to the population at large, as well as to the poor segments of the population. The relevant literature summarized in the PSIA Annex of DPF1 shows that corruption is costlier for small and medium firms. Empirical studies have consistently demonstrated that the poor pay the highest cost of corruption. 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.

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

Prior Action 8: The Borrower has further reduced subsidies for transport and gas, as evidenced by Resolutions Nos 777/2018, 1113/2018 and 16/2019 issued by the Borrower’s Ministry of Transport, and

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140 Decree 1117/2018 dated December 7, 2018, and published in the Official Gazette No. 34,012 of December 10, 2018; Decree 1169/2018 dated December 21, 2018, and published in the Official Gazette No. 34,022 of December 26, 2018; Decree 258/2019 dated April 10, 2019, and published in the Official Gazette No. 34,093 of April 11, 2019; and Resolution 27/2018 issued by the Borrower’s Anti-corruption Office within its Ministry of Justice and Human Rights on October 1, 2018 and published in the Official Gazette No. 33,968 of October 4, 2018.


142 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.
Resolution Nos. 257/2018 and 265/2018\textsuperscript{143} issued by ENARGAS.

23. **Lower subsidies will improve the redistributive impact of fiscal policy, however further reduction of subsidies could have an impact among the most vulnerable despite a scheme of ST in place.**\textsuperscript{144} Under the assumption that a ST scheme is in place (with the parameters of 2018), a full elimination of subsidies would imply that the budget spent on these services could increase up to 50 percent more for vulnerable households, unless families reduce their level of consumption of utilities and urban transportation.\textsuperscript{145}

24. **Subsidies to residential services of electricity and gas have been highly regressive, as the benefits are concentrated in better-off families who tend to consume higher quantities of energy.** The gradual reduction of these subsidies, while keeping the ST in place,\textsuperscript{146} will make the system less pro-rich (Figure A2). Under the assumption that the social tariff scheme stays as is throughout the phase-out of subsidies, it is estimated that the proportion of subsidies going to the bottom 40 percent of the distribution would increase from 19 to 34 percent in the case of network gas.

25. **However, household spending on gas would increase significantly, becoming a more important share of total household incomes, particularly for those in the lowest decile.** The elimination of subsidies other than ST could increase the average share of expenditure on gas from 0.7 percent to 2.9, assuming household consumption remains unchanged. This increase disproportionately falls on households in the first decile, who would spend close to 7 percent of income in gas (Figure A3). This negative impact is expected to be mitigated by strengthening the social protection system, as detailed in Pillar 2.

26. **The ST scheme for residential network gas set up at the time of the reduction of subsidies was successful in reaching a large share of vulnerable families in record time.**\textsuperscript{147} By using a combination of existing administrative records to reach households, 96 percent of beneficiaries were automatically enrolled in the program. By the end of 2016, 2.1 million families were enrolled in the ST for residential network gas.\textsuperscript{148}

27. **In addition, subsidies to bottled gas for users without access to the gas distribution network were also biased to the poorest.** Since many low-income households across the country do not have

\textsuperscript{143} Resolution 777/2018 issued by the Borrower’s Ministry of Transport on August 30, 2018, and published in the Official Gazette No. 33,944 of August 31, 2018; Resolution 1113/2018 issued by the Borrower’s Ministry of Transport on December 19, 2018, and published in the Official Gazette No. 34,021 of December 21, 2018; Resolution No. 16/2019 issued by the Borrower’s Ministry of Transport on January 10, 2019, and published in the Official Gazette No. 34,032 of January 10, 2019; Resolution No. 257/2018 issued by ENARGAS (as defined in the Appendix) on September 24, 2018, and published in the Official Gazette No. 33,963 of September 27, 2018; and Resolution No. 265/2018 issued by ENARGAS on September 27, 2018 and published in the Official Gazette No. 33,964 of September 28, 2018.

\textsuperscript{144} This section is based on PER 2018 and has been updated. The present analysis considers only the direct distributional effect of tariff increases on household. A more complete analysis should include the indirect effect of this tariff increases to non-residential consumers through the potential impact on prices for goods and services that people consumed.

\textsuperscript{145} The analysis included in this version assumes a null elasticity of price to quantities consumed in both electricity and gas. This assumption is supported by the observation that while prices have increased, the aggregate quantity demanded by residence has not declined. Yet, for the scenario with full elimination of subsidies, this assumption might be too strong. The final version of the document will include robustness analysis with alternative price elasticities.

\textsuperscript{146} The Social Tariff scheme was introduced in early 2016 to protect the poor and vulnerable from the upcoming tariff increases. Beneficiaries pay a reduced tariff, proportional to the price paid by non-beneficiaries.

\textsuperscript{147} To be eligible for social tariffs the following inclusion and exclusion criteria apply. The inclusion criteria are: (i) beneficiaries of social programs, (ii) beneficiaries of unemployment insurance; (iii) domestic workers; (iv) formal worker or retiree earning less than two minimum wages (the minimum wage is around US$570 per month); (v) disable; (vi) electrodependent. In addition, there are three exclusion criteria related to asset ownership: (i) having a less than ten-year-old car, (ii) owning more than one property; (iii) owning luxury aircraft or boats.

\textsuperscript{148} Another 2.9 million families, who do not have access to network gas, receive a monetary transfer aimed at partially cover the cost of bottled gas (Programa Hogar). This program was already in place by the time subsidies were removed. Eligibility is based on vulnerability criteria.
access to the natural gas network, the government continued to subsidize the price of gas bottles through its *Programa Hogar* in 2016. By 2017, 2.8 million of families were enrolled in this program. Among beneficiaries, 22.3 percent of them were households receiving AUH. Thus, AUH users reached its highest share among ST beneficiaries in bottled gas in comparison to their share in network gas, electricity and transport services.

**Figure A2. Distribution of residential subsidies to network gas, by quintiles of per capita household income. Greater Buenos Aires**

**Figure A3. Monthly expenses as percentage of household income for network gas, by per capita household income quintile. Greater Buenos Aires only**

*Source*: Own estimates based on 2016 Permanent Household Survey, 2011/12 Income and Expenditure Survey, and administrative records for the eligibility of Social Tariff. Quintiles are of the distribution of households.

28. **Since 2016, the ST was applied to the transport system in the AMBA to protect vulnerable sectors from increases in transport tariffs.** 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. The average discount for the eligible population ranged between 40 and 55 percent of the fee. The benefit is directed to groups of population based on certain sociodemographic characteristics, for example pensioners, retirees, Malvinas was veterans, domestic workers and beneficiaries of social programs such as AUH, Asignación por embarazo, Becas Prog.R.Es.Ar, Hacemos Futuro, Monotributo social and Pensiones no contributivas. In, 2018, approximately 20 percent of the public transport users benefitted from the social tariff.

29. **Transport subsidies have shown higher progressivity since people in the lower deciles use public transportation more intensively, but there are targeting errors of the ST.** As subsidies are gradually eliminated, transport subsidies are expected to become more pro-poor, although they would still benefit

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150 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.
the better-off segments (Figure A4 and Figure A5). This is largely because the intensity of use of the urban transport system decreases with income but, at the same time, the current transport social tariff (Tarifa Social Federal de Transporte, TST) scheme has low and relatively homogenous coverage across deciles of the income distribution.\(^\text{151}\) Users that qualify for the TST pay only 45 percent of the regular tariff, a large discount on the already 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 ST 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 A4: Distribution of Bus Subsidies in AMBA, By Per Capita Household Income Decile, Under Different Tariff Structures

Figure A5: Proportion of Families That Qualify for the Transit Social Tariff, By Per Capita Household Income Quintile

30. The application of a new system integrating the different means of public transport in AMBA under the multimodal Integrated Tariff scheme (IT) implied additional savings for commuters with TST who use a combination of transport. The applicable discount is automatic over a 2 hours period in which the commuter is allowed to use up to 5 transport combinations. For the first segment, the totality of the fee is condoned; for the second segment is 50 percent, and for the third is 75 percent. The share of commuters who used a combination of transport is higher among those with TST, 70 percent against 58 percent those without TST. The implementation of IT allowed to soften the impact of tariff increases -in place in early 2018- on commuters in the lowest income deciles (Figure A6). Indeed, the share of transport expenditures in household incomes decreased from 0.7 to 0.8 percentage points for commuters with and without TST respectively, in the poorest quintile.

\(^{151}\) 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.
31. **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 are eliminated. 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), would mean that the poorest segments of the population would double their share of spending on bus transport.

32. **The challenge for the Social Tarif system, currently for gas and transport under the responsibility of federal government and for electricity under responsibility of provincial governments, is to close targeting errors for the benefit to reach the more vulnerable.** Although the scheme is relatively pro-poor, with higher coverage on lower-income households than on higher-income households, there are significant exclusion errors in the first deciles -more than a third of the poor are excluded- and large inclusion errors in medium and high deciles. Targeting challenges are fundamentally related to the following three aspects: (i) the inclusion and exclusion criteria do not allow the identification of all vulnerable families, largely because the identification is based on the characteristics of the owner of the service while some eligibility criteria might fall on other members of the family; (ii) the income related parameters set might exclude poor households and include non-poor ones; (iii) outdated service holder registries may results in additional inclusion and exclusion errors.

Prior Action 9: The Borrower has issued legislation that entitles the Federal Council for Fiscal Responsibility (FCFR) to issue complementary norms to implement the fiscal responsibility regime with its Provinces, as evidenced by Chapter X of Law 27,467; and a decree that creates the Federal Agency of Property Valuation to align the value of real estate properties for tax purposes to market values, as evidenced by Decree 938/2018.

33. **The reforms included in the Fiscal Pact are expected to have positive poverty and social impacts, although these are difficult to quantify.** General positive effects of the measures included in the Fiscal Pact with Provinces are expected based on three main arguments: First, more fiscal resources will be

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152 86 percent of trips in AMBA where using buses (Vezza and Puig, 2016, Ibidem).
153 Consejo Federal de Responsabilidad Fiscal.
154 Chapter X of Law 27,467 dated November 15, 2018 and published in the Official Gazette No. 34,008 of December 4, 2018.
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 is expected to reduce 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.

34. Reform efforts to bring assessment of the property tax base closer to market values are expected to have significant positive impacts on revenue generation without adverse consequences in terms of the tax burden faced by the poor. Evidence from reform in Bangalore and Pune in India shows that structural reforms that improve the link of tax assessments to market rental or capital values have the potential to significantly increase aggregate tax revenues. 156 Lall and Deichman (2006) in fact find empirical evidence supporting the theoretical arguments of the property tax being a benefit tax: in Pune, India the use of market values also plays a role in reducing the tax burden in areas with poor services and amenities. Findings in the literature are usually specific to the studied cases, however the underlying effects problems that reform efforts seek to address are representative of most local governments. The property tax is an important local revenue source in many countries but is frequently underused as a financial source for local expenditures. Administrative, regulatory and technical gaps as well as strong political interest often limit expansion of the tax base. Improved performance of property tax legislation in Latin American countries has been related to improvements in the cadaster, property valuation and tax enforcement. 157 Improving valuation is expected to help strengthening sustainability of the overall Pacto Fiscal.

35. Increased reliance on the property tax should also shift the burden of taxation from the most vulnerable to the richest share of the population. To the extent that sales taxes are typically regressive, while property taxes are typically progressive, these changes should improve the redistributive impact of taxes.

36. 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 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 10: The Borrower has taken measures to protect the purchasing power of social benefits of its social assistance programs for children and pregnant women (“Asignación Universal por Hijo para Protección Social” and “Asignación por Embarazo para Protección Social”) from high inflation and reduction of subsidies, as evidenced by Decree No. 186/2019. 158

37. Simulations find that allocating an additional 0.2 percent of GDP to an increase in the AUH benefit could substantially mitigate the impacts of the economic downturn for the households at the

157 De Cesare, C.M. 2012 “Improving the Performance of the property Tax in Latin America.” Lincoln Institute of Land Policy
bottom of the distribution. 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, 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.

38. According to the most recent official estimates, 32 percent of urban Argentines are poor and 6.7 percent are extreme poor, representing 8.93 million and 1.87 million of people, respectively. This increase in the poverty rate confirms the reversal of trend witnessed in the first semester of last year and the acceleration in its growth. Compared with the same period of 2017, the poverty rate is 6.4 percentage points higher (1.8 million people fell into poverty) and extreme poverty rate increased 1.9 percentage points (500 thousand people fell into extreme poverty).

39. The increase in poverty is being driven mostly by the impact of inflation on real wages and incomes, which impacts more adversely the poor in the population, and only to a lesser extent, due to job losses. The value of the poverty food and non-food basket rose 52.9 percent between December 2017 and December 2018. Household incomes lost considerable purchasing power as they grew at a much slower pace than the cost of the poverty consumption basket. The estimates show that real household income per adult equivalent fell by about 9.6 percent in the third quarter and 16 percent in the fourth quarter, with the lower deciles suffering a larger loss in the latter period. Job losses were muted with unemployment climbing from 8.3 to 9.0 percent.

40. An erosion of real labor incomes is the main driver behind the fall in average household incomes (per equivalent adult) across all the deciles of the income distribution, but for the poorest decile the fall in male employment had a similar impact in lowering incomes. Recently released household survey data confirms that male labor income was the biggest driver of the overall fall in household real incomes (per equivalent adult) between the third quarter of 2017 and the same period in 2018. Declining female labor income also has contributed to the fall in overall household incomes, but with a lower contribution. Other sources of income, such as pensions, lost value in real terms also adding to the income loss (Figure A7). In terms of labor participation, while the male employment rate in the lower deciles had a negative contribution to the mean per equivalent adult household income, female employment had the opposite effect, suggesting that secondary members of the household are entering the labor market to counteract the reduction in household income.

159 The Consumer Price Index (CPI) rose by 47.6 percent during the same period—5.2 percentage points lower than the poverty line. This is because the consumption basket used for the CPI differs from that used for poverty line, with the former being representative of the average person and the latter relevant for the poor.

160 The latest available data from INDEC shows that among the poorest three deciles, the average nominal income between the third quarter of 2017 and of 2018 increased by 19.9, 18.8 and 22.1 percent respectively, while for the distribution as a whole it grew by on average 24.2 percent.
41. **Within non-labor incomes, the real value of the AUH, declined throughout the year, although the two bonuses paid in September and December 2018 compensated fully for this decline.** The nominal value of the benefit grew by 28.6 percent during 2018, more slowly than the increased cost of the poverty and extreme poverty baskets. As a result, the real value of the allowance fell by 16 percent over December 2017 to December 2018. This loss was more than compensated by the bonuses paid in September (1200 pesos) and December (1500 pesos).

42. **Observed increases in prices during the first trimester of 2019 suggest further increases in poverty are to be expected before stabilizing for the second part of the year.** Estimates of the poverty rate for 2019 are calculated using a “nowcast” method. Household income trends were estimated based on the observed mean household income growth rate by decile (published in April 2019), and an autoregressive model based on past quarterly data (see Annex for a description of the methodology used). Projections show that the payments of one-time Bonos in September and December 2018 helped containing extreme poverty at the end of 2018 and beginning of 2019 (Figure A8).

43. **The universal family allowance (AUH) program is an effective tool on which to concentrate resources to combat the rise in poverty.** Simulations show that an additional 0.2 percent of GDP allocated to AUH-equivalent to increasing in 46 percent the current amount received per child- could significantly mitigate the impact of adverse economic conditions. The expected effects of such increase could reduce the estimated poverty rate for 2019 in about 0.7 percentage points, and the extreme poverty rate in approximately 1.1 percentage points (Figure A8).
Figure A8. Simulations of Poverty Rates with and without potential increase of AUH benefit

Panel A. Extreme Poverty

Panel B. Poverty

Source: Staff estimations with data from 2017 Permanent Household Survey (Q1-Q3) and national poverty lines.
Notes: Estimates for Jul-Dec 2018 differ from the official numbers released in AUH benefit. Official national poverty and extreme poverty lines are used for the estimates, these are calculated based on regional basic consumption baskets. For reference the extreme poverty line for GBA in December 2018 is 3,300 monthly pesos (approximately $55.2 PPP 2011 per day) and the poverty line is 8,250 monthly pesos (approximately $131.1 PPP 2011 per day)
44. **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 A9). 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 A9. Distribution of Individuals by Household Composition](image)

Source: Staff estimations with data from 2017 Permanent Household Survey (second semester).

45. **Those that face the greatest risk of falling into poverty tend to live in households with young children, larger sized families and with younger household heads.** The proportion of people living in households with children aged 0 to 14 is estimated at 71.6 percent among the group at a higher risk of falling into poverty, compared to 56 percent among the population; the average age of the household head is 46.8 years compared with 52.1 years; and, the average family size is 5.4 compared to 4.4 on average in the population.

46. **The population considered at risk of falling into poverty that would not be eligible for AUH is estimated at about 2 percent of the total urban population.** The population in deciles 3, 4 and 5 of the per capita household income (more vulnerable to falling into poverty or already poor) living in households

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161 Estimates are based on household survey data from Encuesta Permanente de Hogares (EPH), representative of the 31 main urban areas.
with no children ages 0 to 18, and no elderly (ages 65 and more) represents around 3.6 percent of the total urban population. When looking at the sources of income, those not qualifying for AUH benefit who do not have sources of formal income represent approximately 2.2 percent of the total urban population. For this group, possible choices of policy instruments are SUMAR, *Hacemos Futuro* and *Programa Jóvenes*.

**Prior Action 11**: The Borrower has signed a separate framework agreement with an additional six (6) Provinces and the Autonomous City of Buenos Aires (“CABA”) to implement universal health coverage, as evidenced by the agreements signed by the Borrower, through its Ministry of Health and Social Development, with: (a) CABA, and the Provinces of Buenos Aires, Río Negro, Neuquén, and Santa Cruz, on August 10, 2018; (b) Chubut, on December 21, 2018; and (c) San Luis, on March 29, 2019.

47. **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 non-communicable diseases-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.

48. **Protecting health, education and other basic services will involve monitoring and engaging with the provinces, which are responsible for their delivery.** Given that the federal level spending on health (*Atención Pública de la Salud*) makes up about 8 percent of overall public health spending, protecting the delivery of essential services will necessitate a focus at the provincial level. The decentralization of health services at the subnational level constrains the federal government’s influence to ensure timely and adequate provision. The recommendation would be to agree on a framework for monitoring the provision of essential services at the provincial level, including the collection of the necessary data, to gather further evidence of the impact of provincial budget cuts.

49. **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 health insurance (including: *obras sociales*, *prepaga*, *mutual*), and thus rely exclusively on the public health system (Figure A10). Coverage gaps are also reflected in terms of spatial distribution: Nowadays, there are significant inequities across regions of the country in terms of health outcomes and effective coverage for key services. Coverage gaps are higher in the northern regions, where screening for NDCs tend to be the lowest.

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Figure A10. Share of Population Not Covered by Private Health Insurance (Obras Sociales, OS)

By poverty condition

By deciles of per capita household income

Source: Staff estimations with data from 2017 Permanent Household Survey (second semester)

50. Finally, UHC program can help close gender gaps in health care utilization and, eventually, burden of diseases. As described in the PSIA Annex of DPF1, 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 Non-communicable diseases 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.
## ANNEX 5: COMPARISON OF DPF 2 TRIGGERS AND PRIOR ACTIONS

<table>
<thead>
<tr>
<th>Prior actions and Triggers</th>
<th>Prior Actions under DPF2</th>
<th>Notes:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(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.</td>
<td>Prior Action #1: The Borrower has deepened competition reforms by issuing regulations to implement the Competition Law and for pro-competition reforms in telecommunications, as evidenced by (i) Decrees No. 48/2019 and 70/2019, which create the Undersecretariat of Internal Market Policies; (ii) Decree No. 972/2018, Joint Resolution No. 1/2019, Resolution No. 146/2019 and Resolution No. 84/2019, which prepare the contest to appoint the members of the new national competition authority; and (iii) Decree 58/2019, which allows the auction of at least twenty percent (20%) of certain frequencies of the spectrum currently held by ARSAT for the provision of high-speed communication services.163</td>
<td>Unchanged.</td>
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</table>

| New | Prior Action #2: The Borrower has approved the normative framework for an open access management system of railway cargo transport, as evidenced by Decree No. 1027/2018,164 which ends the commercial exclusivity in the use of cargo railway lines. | Added. |

| (Indicative) Trigger #2: The Borrower has implemented measures to further reduce the import duties charged on selected intermediate and capital goods. | Prior Action #3: The Borrower has implemented measures to further reduce the import duties charged on selected intermediate and capital goods, as evidenced by Decrees Nos. 973/2018 and 837/2018.165 | Unchanged. |

| (Indicative) Trigger #3: The Borrower has introduced a single window | Prior Action #4: The Borrower has expanded the capabilities of the single window | Unchanged. |

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<table>
<thead>
<tr>
<th>Prior actions and Triggers</th>
<th>Prior actions and Triggers</th>
<th>Unchanged/refined. Language to clarify the PA.</th>
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</thead>
<tbody>
<tr>
<td>Interface to integrate business registration and post-registration procedures.</td>
<td>Interface to integrate business registration and post-integration procedures to the Provinces of Córdoba and Corrientes, as evidenced by: Joint Resolution 4264/2019 issued by AFIP and the Ministry of Finance of the Province of Cordoba; and Joint Resolution 4402/2019 issued by AFIP and the Ministry of Justice and Human Rights of the Province of Corrientes. 166</td>
<td></td>
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<tr>
<td>(Indicative) Trigger #4: The Borrower has implemented the legal framework for capital markets and for the FoGAr.</td>
<td>Prior Action #5: The CNV has strengthened the legal framework for capital markets by issuing resolutions to support frequent issuers, the financial trusts regime, and qualified investors, as evidenced by the following Resolutions issued by the CNV Nos. 746/18, 752/18, 753/2018, 738/2018 and 761/18; and the Borrower has strengthened its public credit guarantee scheme for small and medium enterprises (FoGAr), as evidenced by Decree No. 628/2018, and by Signed Minutes of the FoGAr Management Committee Nos. 233, and 234. 168</td>
<td></td>
</tr>
<tr>
<td>New.</td>
<td>Prior Action #6: The Borrower has deepened reforms to promote electricity generation from renewable sources by issuing regulations to allow individual small-scale electricity consumers to produce renewable energy and sell back excess production to the electricity grid, as evidenced by Decree 986/2018 and Resolution 314/2018 issued by the Borrower’s Government Secretariat of Energy.</td>
<td>Added.</td>
</tr>
<tr>
<td>(Indicative) Trigger #5: The Borrower has issued new Prior Action #7: The Borrower has issued regulations on ethics and integrity in the</td>
<td></td>
<td>Unchanged/refined. Completed.</td>
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</tbody>
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166 Joint Resolution 4264/2019 issued by AFIP (as defined in the Appendix) and the Ministry of Finance of the Province of Cordoba, dated June 15, 2018, and published in the Official Gazette No. 33,893 of June 18, 2018; and Joint Resolution 4402/2019 issued by AFIP and the Ministry of Justice and Human Rights of the Province of Corrientes, dated January 22, 2019, and published in the Official Gazette No. 34, 041 of January 24, 2019.


168 Decree No. 628/2018 of July 6, 2018, published in the Official Gazette No. 33,907 of July 10, 2018; Signed Minutes of the FoGAr Management Committee No. 233, dated December 21, 2018; and Signed Minutes of the FoGAr Management Committee No. 234, dated December 27, 2018.

<table>
<thead>
<tr>
<th>Prior actions and Triggers</th>
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<tbody>
<tr>
<td>regulations on ethics and integrity in the public administration to prevent and investigate corruption practices within the executive branch.</td>
<td>public administration to prevent and investigate corruption practices within its executive branch of government, as evidenced by Decrees Nos. 1117/2018, 1169/2018, 258/2019; and Resolution 27/2018\textsuperscript{170} issued by the Borrower’s Anti-corruption Office within its Ministry of Justice and Human Rights.</td>
</tr>
<tr>
<td>(Indicative) Trigger #6: The Borrower has revised the STs system to better target the bottom four deciles of the income distribution.</td>
<td>Prior Action #8: The Borrower has further reduced subsidies for transport and gas, as evidenced by Resolutions Nos 777/2018, 1113/2018 and 16/2019 issued by the Borrower’s Ministry of Transport, and Resolution Nos. 257/2018 and 265/2018\textsuperscript{171} issued by ENARGAS.</td>
</tr>
<tr>
<td>(Indicative) Trigger #7: The Borrower has issued secondary legislation to implement the Fiscal Pact with Provinces.</td>
<td>Replaced. The Government has transferred the regulatory authority and the financing responsibility from the federal Government to the Provinces for selected social tariffs and fiscal space for provinces to implement the regulatory changes. The prior action focus on the subsidy reduction and ST under the Federal Government responsibility.</td>
</tr>
<tr>
<td>Prior Action #9. The Borrower has issued legislation that entitles the Federal Council for Fiscal Responsibility (FCFR\textsuperscript{172}) to issue complementary norms to implement the fiscal responsibility regime with its Provinces, as evidenced by Chapter X of Law 27,467\textsuperscript{173} and a decree that creates the Federal Agency of Property Valuation to align the value of real estate properties for tax purposes to market values, as evidenced by Decree</td>
<td></td>
</tr>
<tr>
<td>Changed/Strengthened. The Prior action was adjusted to include creation of the Federal Agency of Property Valuation (Organismo Nacional de Valuaciones de Inmuebles)</td>
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\textsuperscript{170} Decree 1117/2018 dated December 7, 2018, and published in the Official Gazette No. 34,012 of December 10, 2018; Decree 1169/2018 dated December 21, 2018, and published in the Official Gazette No. 34,022 of December 26, 2018; Decree 258/2019 dated April 10, 2019, and published in the Official Gazette No. 34,093 of April 11, 2019; and Resolution 27/2018 issued by the Borrower’s Anti-corruption Office within its Ministry of Justice and Human Rights on October 1, 2018 and published in the Official Gazette No. 33,968 of October 4, 2018.

\textsuperscript{171} Resolution 777/2018 issued by the Borrower’s Ministry of Transport on August 30, 2018, and published in the Official Gazette No. 33,944 of August 31, 2018; Resolution 1113/2018 issued by the Borrower’s Ministry of Transport on December 19, 2018, and published in the Official Gazette No. 34,021 of December 21, 2018; Resolution No. 16/2019 issued by the Borrower’s Ministry of Transport on January 10, 2019, and published in the Official Gazette No. 34,032 of January 10, 2019; Resolution No. 257/2018 issued by ENARGAS (as defined in the Appendix) on September 24, 2018, and published in the Official Gazette No. 33,963 of September 27, 2018; and Resolution No. 265/2018 issued by ENARGAS on September 27, 2018 and published in the Official Gazette No. 33,964 of September 28, 2018.

\textsuperscript{172} Consejo Federal de Responsabilidad Fiscal.

\textsuperscript{173} Chapter X of Law 27,467 dated November 15, 2018 and published in the Official Gazette No. 34,008 of December 4, 2018.
<table>
<thead>
<tr>
<th>Prior actions and Triggers</th>
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<tbody>
<tr>
<td>(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.</td>
<td>Prior Action #10. The Borrower has taken measures to protect the purchasing power of social benefits of its social assistance programs for children and pregnant women (&quot;Asignación Universal por Hijo para Protección Social&quot; and &quot;Asignación por Embarazo para Protección Social&quot;) from high inflation and reduction of subsidies, as evidenced by Decree No. 186/2019.</td>
</tr>
<tr>
<td>(Indicative) Trigger #9: The Borrower has completed the implementation of universal health coverage by signing the framework agreement with the remaining provinces.</td>
<td>Prior Action #11: The Borrower has signed a separate framework agreement with an additional six (6) Provinces and the Autonomous City of Buenos Aires (&quot;CABA&quot;) to implement universal health coverage, as evidenced by the agreements signed by the Borrower, through its Ministry of Health and Social Development, with: (a) CABA, and the Provinces of Buenos Aires, Río Negro, Neuquén, and Santa Cruz, on August 10, 2018; (b) Chubut, on December 21, 2018; and (c) and San Luis, on March 29, 2019.</td>
</tr>
</tbody>
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175 Specifically, on high quality social assistance programs under “Asignaciones Universales para Protección Social.”